

RETHINKING STUDENT AID REPORT

SUMMARY OF RECOMMENDATIONS

I. Simplify the federal student aid system

- **Eliminate the current application form for federal student aid. Obtain all needed financial information from the IRS.**
 - Families receiving means-tested public benefits would be eligible for maximum Pell Grants without using IRS data.
- **Base Pell Grant awards on family size and adjusted gross income and link the maximum Pell Grant annually to increases in the Consumer Price Index.**
 - Use this information to create a lookup table and tell parents every year what Pell Grant amount their children could expect based on current circumstances if they were enrolled in college.
- **Combine all education tax credits and deductions into a single tax credit and allow the credit to be applied to non-tuition expenses as well as tuition and fees.**

II. Improve the federal loan process

- **Eliminate the distinction between subsidized and unsubsidized loans and redirect loan subsidies toward assisting students in repayment. Financial information will no longer be necessary to determine eligibility for federal student loans.**
 - Expand and strengthen the income-based repayment program for student loans, basing the distribution of loan subsidy dollars primarily on post-schooling financial circumstances.
- **Make the loan award system more flexible and better oriented to student needs and economic realities.**
 - Link the maximum amount students can borrow through the Stafford Loan program to the federal poverty level for individuals, allowing it to rise with inflation. Part-time students would face a prorated loan maximum.
 - Replace the 10-year-mortgage-style repayment plan with a graduated repayment plan as the standard option, so payments will rise over time along with the incomes of most borrowers.
 - Maintain a strong parent loan program with interest rates low enough to discourage families from resorting to private student loans.

III. Develop a federal savings program for low-income families

- **Create accounts for the children of tax filers and participants in federal means-tested income support programs whose children would be eligible for Pell Grants if they were of college age.**
 - Make account deposits proportional to the Pell Grants for which children would be eligible.
 - Permit funds to earn tax-free interest analogous to the tax treatment of existing federal 529 programs that provide savings incentives to higher income families.
 - Allow use of these funds only for postsecondary education and not for any other purpose.
 - Permit access to these funds for individuals even if they postpone their education well into adulthood.

IV. Reward states and institutions that support student success

- **Create incentives for institutions through the development of campus-based funds that encourage retention and completion for low- and moderate-income students.**
- **Allow institutions wide discretion in how best to use these funds to encourage student success, so that they may provide mentoring, academic support, emergency funds or other services in addition to need-based aid. Require a portion of the funds to support student employment.**
 - Begin by introducing pilot programs based on this framework in a few states or institutions to test the program's effectiveness and improve its operational efficiency.
- **Complement this program with a strengthened program of matching grants for state grant aid, with the match declining as the recipient's family income increases.**
 - States should be rewarded for awarding aid solely on the basis of financial information made available through the IRS, rather than requiring students to complete additional forms.