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The Looming Fiscal Cliffs

You've possibly heard about the "fiscal cliff" in Washington, a term used by the media and "inside the Beltway folks" to talk about what will happen in January 2013 if Congress does not take action. What you may not have heard about is the fiscal cliff for students. If Congress does not act, the cost of attending college will increase by about $5000, per student, per year, starting with the 2013-14 academic year, for many low and middle income families – and that's before taking into account any increases in tuition, fees and other costs of attendance.

While many economists predict that the US economy will tip into recession if Congress does not address the fiscal cliff, the impact of the "student fiscal cliff" could be more devastating in the longer run, as millions of Americans are no longer able to afford college, leaving employers without enough qualified college graduates to fill the jobs of the 21st century

First, let's look at the big picture, the components of the fiscal cliff:

- The income tax cuts enacted in 2001 and 2003, and extended in 2010, will expire, causing income tax rates to rise for most taxpayers
- The "payroll tax holiday" in which Social Security taxes are reduced by 2% will end, effectively reducing take home pay by $1000 annually for an employee earning $50,000 per year
- "Sequestration" kicks in, meaning that most federal government spending will be cut, across the board, by 7.6 to 8.4% for many Education programs and up to 10% or more for other federal programs. Pell Grants are exempt from sequestration, but most other higher education programs are affected.
- Many tax benefits expire at the end of 2012, including the American Opportunity Tax Credit and Lifetime Learning Credit for college costs, as well as the Alternative Minimum Tax (AMT) patch, which prevents the "bracket-creep" that would cause millions of middle class Americans to be subject to this tax.
- Much like the AMT patch needs to be renewed annually, Medicare requires an annual "Doc fix" in which reimbursement rates to doctors are adjusted to ensure that most/all doctors are willing to accept patients insured by Medicare.
- The United States Treasury will hit the debt ceiling, most likely in early 2013, meaning that no more Treasury debt may be issued until authorized by Congress, once again raising the specter of the United States defaulting on its debt (remember how much the markets liked that in July-August 2011?).

If Congress does not act on the above items, the annual federal deficit will be reduced by an estimated $560 billion, but many economists believe the impact of reduced federal and consumer spending will result in a recession with potentially two million jobs lost. If you want more information on this fiscal cliff, try your favorite search engine to read more. I want to draw your attention to the coming "fiscal cliff" in higher education, which won't kick in until the next academic year, but its impact, if the issues are not resolved, will potentially be devastating for students and will bleed through to affect higher education institutions.

Here are some of the components of the coming higher education fiscal cliff:

<u>Federal Fiscal Year 2013 Sequestration</u>
Due to the manner in which higher education programs are funded, sequestration and other budget cuts will not be felt until the 2013-14 academic year, but let's look at some programs where funding will be cut:

- Supplemental Education Opportunity Grants (SEOG) – federal funding for these grants will decrease by about $57 million, which could result in about 110,000 students losing their SEOG grants or well over 1 million students seeing their grant amounts cut.
- College Work-Study (CWS) – funding for this vital program will be cut by about $76 million; colleges will have to decide whether to cut over 50,000 students out of the program or cut wages and/or hours for up to 680,000 students.
- Stafford and PLUS loans – origination fees will increase by about 0.076% on subsidized Stafford loans and by over 0.3% for unsubsidized Stafford loans and all PLUS loans to parents and graduate students. Because these fees are deducted from loan proceeds, borrowers will have to borrow more to cover their college expenses.

<u>Subsidized Stafford Interest Rates</u>
After a fiercely contested but quickly resolved battle, Congress agreed to extend the current 3.4% interest rate on subsidized Stafford loans for another year, covering the 2012-13 academic year. Under current law, these rates are now scheduled to double to 6.8% for new loans disbursed on or after July 1, 2013. As we all know from the debate on this matter in the late spring, that rate increase will cost students an average of $1000 more per loan, or about $4000 for a four-year undergraduate education.

<u>Tax Credits</u>
The American Opportunity Tax Credit, worth up to $2500 per student per year, and the Lifetime Learning Credit, worth up to $2000 per tax return per year, both expire effective December 31, 2012, meaning that these tax credits will not be available for educational expenses incurred in 2013 without further action by Congress.

Pell Grants

While the Pell Grant program is fully funded for the 2013-14 academic year and is exempt from sequestration for FFY13, there is a projected $6 to $9 billion shortfall for the following academic year, at which time Pell will be subject to sequestration (if sequestration is still in effect).

Summary

The cumulative impact of the sequestration cuts to SEOG and CWS, along with the increases in federal loan origination fees and the subsidized Stafford interest rates, and the expiration of the tax credits means that for many students – and their parents - it will cost about $5000 more next year than in prior years to go to college – and that's before taking into account any increases in tuition, fees and other costs of attendance. And then in the 2014-15 academic year, we get to worry about the additional impact of the Pell Grant funding shortfall (and some other higher education programs expire, but let's just worry about 2013-14 for now).

The impact of this student fiscal cliff, however, won't be limited to students. A significant decline in students attending college because they can't afford an additional $5,000 per year means that economies in college towns will take a hit with fewer students spending the money that supports local businesses, and maybe colleges will need to cut back on employees to manage their budgets, so there's a significant multiplier effect (remember that phrase from your economics class?). And fewer college students means fewer college graduates to fill the 21st century jobs that require degrees in science, technology, engineering, math, health care, and other disciplines. Did you know that the Bureau of Labor Statistics has consistently reported over 3 million jobs remain unfilled in the United States because employers cannot identify qualified applicants? Reducing the qualified applicant pool even more could tempt employers to look overseas for qualified employees and we know that's not good for the domestic economy.

That, in a nutshell, is the student fiscal cliff we are looking at for next year unless Congress acts soon.