

Testimony of Dr. Waded Cruzado before the Senate Finance Committee, July 25, 2012

Mr. Chairman and Members of the Committee, I am Waded Cruzado, President of Montana State University. Thank you for the opportunity to appear before the committee today to discuss federal financial aid and tax policy as it relates to higher education, a topic that affects millions of students and their families.

Montana State University is one of more than 100 land-grant colleges and universities created by the Morrill Act of 1862, a brave piece of legislation that promised the average American an opportunity at a higher education that would help him or her prosper and become a more engaged member of our society.

The Morrill Act was signed by President Abraham Lincoln in the midst of this nation's greatest trial, the Civil War. This year is the act's 150th anniversary. In those years, more than 20 million Americans have earned degrees and given America one of the most highly educated workforces in the world, helping to ensure our prosperity and the strength of our democracy.

More than 14,000 students attend Montana State University's flagship campus in Bozeman. Many of our students are the first in their family to attend college. These students pursue a wide range of studies from agriculture and natural resources, to arts and humanities, to education, to engineering and the sciences.

Our most cherished asset and strength are the students who choose to attend MSU. Unfortunately, we see that it is becoming increasingly difficult for students and their families to pay for college. In my remarks today, I want to emphasize two points:

- 1) Students are taking on far more debt.
- 2) The tax code can play a vital role in assisting students and their families with the cost of higher education.

Current challenges/Scope of problem:

Federal financial aid and tax codes related to higher education are vital to students and their families:

- In 2009, 12.8 million students received Title IV aid and approximately 18 million tax filers claimed a higher education tax benefit for current expenses, according to the GAO report, "Improved Tax Information Could Help Families Pay for College."
- Between 2006-7 and 2010-11, the percentage of first-time, full-time undergraduates receiving financial aid increased from 75% to 85% at all four-year colleges, according to the Department of Education report, "Condition of Education, 2012," released in May.
- Based on national data, we can assume that thousands of Montana State students and their families are utilizing at least some of the tax deductions and exemptions available.

There is evidence students are assuming more cost and borrowing more:

- Parents reduced their spending on college, both in terms of current income (4%) and savings (22%), according to the recent Sallie Mae and Ipsos report, "How America Pays for College 2012."
- This is a change from two years ago when parents reached "deeply" into their pocketbooks. The report surmises that such a level of commitment was unsustainable.

- The report also notes that scholarship awards were down and attributes this to the economy, constraints on endowments and tighter budgets.
- To compensate, students assumed more costs on their own and borrowed more.

Financial aid for higher education comes in packages:

- Students and their families rely on several types of aid, including: federal grants, federal loans, work-study, and some type of institutional aid.
- The best known form of federal aid is the Pell Grant, which is based on need. Federal loans are widely available and must be repaid, but offer interest rates dramatically lower than the private market.
- Additionally, there are federal “campus-based” aid programs, as well as state programs, private and institutional awards.
- For a student from a low-income family or family with a limited family contribution, a package of aid is usually required to finance a college education.

Complex – if not bewildering – paperwork accompanies applications for federal financial aid:

- A first-time student – and his or her parents – must master a form known as FAFSA, which can be intimidating, as well as the tax code and the 1098T form.
- Some students or their parents will have to understand something of the tax code even when they have no tax liability if they want to access a program such as the American Opportunity Credit (AOC) which has a “refundability” provision.
- Even tax accountants find the tax credits and deductions for higher education confusing.
- The situation is further complicated by the fact that these different programs were passed at various times, are somewhat “stove piped” in their implementation and operation, and carry assorted terms and conditions.
- For example, some may cover tuition and fees, while others may allow for housing or other expenses. Furthermore, how a student “stacks” aid may affect the amount they ultimately qualify for.
- For a student confronting all the options, especially for the first time, the situation can be challenging, if not bewildering.

Montana students taking on more debt, more reliant on federal aid:

To describe the situation at Montana State University, let me start with two data points: FAFSA applications and Pell Grant awards. FAFSA stands for Free Application for Federal Student Aid and is the key form students and their families use to access federal student aid. The number of FAFSA forms received by MSU has grown 43 percent in just three years (from 2008-2009 to 2011-2012) and that tremendous growth rate shows no signs of slowing down.

When students and their families use the FAFSA form, those students with the greatest financial need qualify for Pell Grants. As such, Pell Grants are a good indicator of the financial stress students and their families face. The number of students receiving Pell Grants has jumped 65.6 percent in just three years (from 2008-09 to 2011-2012). Currently, 33 percent of all our undergrads are receiving Pell Grants, which means 33 percent of our entire undergrad student body was deemed to have the greatest

financial need under the FAFSA form. These grants are particularly important for our Native American, non-traditional (25+ and older) and Hispanic students, with 66 to 67 percent of these groups receiving Pell Grants – that’s twice the utilization of the student body as a whole.

Another trend corresponding to the recession is the amount of debt students have when they graduate. From 1999-2007 the average amount of debt Montana State University students graduated with remained relatively flat at between \$17,000 and \$18,000.

Once we entered the recession, that debt grew dramatically – by 35.7 percent – so that now 66 percent of our graduates are leaving with an average debt of \$25,682.

Anecdotally, I am meeting more parents who are sending their children to college while still trying to pay off their own college debts. Recent data from the New York Federal Reserve indicates this is a real, national trend.

Overall, a dramatic decline in the finances of students and their families has forced them to borrow more.

Recommendations:

Continue, or increase, federal financial aid:

There is no way a large portion of our students could afford to attend college without federal financial aid. Additionally, there is a compelling national interest in providing assistance for students to attend college: Studies suggest that the U.S. is projected to produce 3 million fewer college graduates than needed in the next decade.

Simplify the tax code as it relates to higher education expenses:

The tax code can play a vital role in assisting students and their families with the cost of higher education, but its complexity discourages many from using it to full advantage. Even tax accountants find it difficult to navigate all the rules. For example, the tax code currently assists students across a broad range of incomes – from the “refundability” component of the American Opportunity Credit (AOC); through the Lifetime Learning Credit; deductions for tuition and fees; exclusion of scholarships, grants and tuition reductions from income; exclusion of employer-provided educational assistance; and student loan interest deductions.

Clarify and coordinate the various federal aid programs so that students and their parents fully understand their options and utilize the available resources to their best advantage:

The current collection of federal aid programs – while well-meaning – is difficult to understand and navigate. This derives from the split jurisdiction between the Department of Education and Department of Treasury and the individuality of the programs themselves.

Continue support for deductions for college savings plans:

Such deductions offer an important incentive for students and families to plan ahead and save for college. Saving for college gives students and families more financial flexibility and helps them avoid indebtedness.

Closing:

In closing, I would like to emphasize – again – that students and their families are struggling more than ever with the cost of education and that the tax code can play an important role in assisting them. The number one obstacle to students and their families taking full advantage of federal financial aid and tax benefits is the complexity in understanding and applying for these programs and tax advantages.

Thank you for your work on the tax code as it applies to higher education. Please know I am committed to assisting you in any way I can. Providing the opportunity for our nation's citizens to attend and succeed in college is important to the future economic prosperity of our nation and the strength of our democracy.

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