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# A Quick Way to Cut College Costs

By STEVE COHEN MARCH 20, 2014

COLLEGE admission notifications have begun to arrive. With every thrilling acceptance comes something far less welcome: the heart-stopping reality of what it all costs.

Tuition has risen almost 1,200 percent in the last 35 years, and the sticker price for many four-year private colleges and out-of-state public universities exceeds \$250,000. Even at state universities, the average four-year cost for residents is more than \$80,000 for tuition, room, board and expenses. But every college offers need-based financial aid, right? Well, sort of.

A college aid package can be made up of three elements: grants (sometimes called scholarships), loans and work-study programs. The biggest single source of aid is the federal government — but in the form of loans (\$68 billion, 37 percent of all aid, in 2013). About 5 percent of aid comes from states and a large part from the college's own resources. Much of the college's contribution comes in the form of a discount from the school's already inflated tuition, which, with a straight face, administrators call a grant.

When colleges compute their aid packages, they start with a student's expected family contribution — that is, what the government expects a family to be able to contribute, not what the family expects. The E.F.C. is calculated by the federal government based on data submitted by the family on the Fafsa form (the Free Application for Federal Student Aid, which is mandatory if the student wants any sort of financial aid, even work-study jobs in the school cafeteria). The Fafsa's complexity rivals that of a tax return, but it is less user friendly.

Weeks after submitting their Fafsa to the federal Department of Education, families are told what their expected contribution is. The formula itself is set by

Congress. For most middle-class families, the number is shocking because it has little basis in real-life economics.

Consider a family of four, earning \$100,000 in income and having \$50,000 in savings. The E.F.C. says that this family will contribute \$17,375 each year to a child's college expenses. A \$100,000 income translates into take-home pay of about \$6,311 monthly. An E.F.C. of \$17,375 means the family must contribute about \$1,500 a month — every month for four years. But cutting family expenses by 25 percent every month is unrealistic.

Alternatively, the family could use its savings. But that would deplete their \$50,000 before the start of the child's senior year, leaving nothing for the proverbial rainy day, or for the second child's education.

Financial advisers familiar with the peculiarities of the college aid world say there isn't much they can do to help once families receive their E.F.C. As Ian Welham, the founder of Complete College Planning Solutions, told me, "When families see their E.F.C. number for the first time, most parents ask, 'Is this for four years?' I have to tell them, 'No, that's just for one year.' I also have to explain that the E.F.C. is the minimum a family is going to pay. In many cases, they're asked to pay considerably more."

When colleges craft a student's financial aid package, the school deducts the E.F.C. from the sticker-price tuition, room, board and expenses to establish a family's need. It then allocates federal money the child is eligible for, and only last does it dip into its own resources, if the school has money available.

Private colleges have more flexibility. Because some of the wealthiest schools, like Princeton, have basically eliminated loans entirely from their packages for middle-class families, it can be less costly to attend a private college with a higher sticker price than a state university with lower tuition. State schools have smaller endowments and less money for financial aid.

But what about the huge federal scholarship programs Congress regularly trumpets? Most are not available to middle-class families; only federally subsidized loans are. And at 3.86 percent subsidized interest rates — plus loan origination fees — federal education loans are available on less attractive terms than car loans.

The largest and best-known scholarship program is the \$34 billion Pell Grant. But 95 percent of all Pell Grants go to families earning under \$58,875 annually. For the 5 percent of middle-class families who do get Pell grants, the average award is \$2,500.

Congress has done little to help middle-class families. Seventy-one percent of college students graduated last year with an average of \$29,400 in debt. Estimates suggest that parents have taken on almost as much.

Meanwhile, lobbying expenditures by colleges, universities and higher-education organizations have totaled more than a half-billion dollars over the past five years — the eighth highest special-interest category attempting to influence Congress.

I'm not suggesting that students and their parents shouldn't contribute. But burdening students with huge loans and parents with depleted savings is a bad policy that is driven, in part, by unrealistic E.F.C.s.

"The E.F.C. gives colleges 'plausible deniability,'" said Scott Farber, president of A-List Education, a tutoring and education consulting company. "It allows them to say, 'We didn't set these family contribution figures; the government did.' That artificially high E.F.C. is essentially creating an artificial price support for colleges."

Since Congress controls the E.F.C. formula, it makes sense for political leaders who are serious about controlling college costs and student debt to start by making the E.F.C. more realistic. But tinkering with the E.F.C. formula won't be sufficient because there are so many problems with it. For example, it doesn't take into consideration geographic differences in cost-of-living, or the lack of liquidity in one's home.

So let's get serious instead. Congress and the president should drastically cut the E.F.C. — by around 75 percent, to reflect the fact that since 1980 tuition has risen at nearly five times the rate of the Consumer Price Index. Doing so would force colleges to construct financial aid packages without the artificial price supports of inflated contribution numbers — and make paying for college less agonizing.

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