

7-1-1973

College Costs vs. Middle Incomes - A Proposal

William P. Schaefer

Follow this and additional works at: <https://ir.library.louisville.edu/jsfa>

Recommended Citation

Schaefer, William P. (1973) "College Costs vs. Middle Incomes - A Proposal," *Journal of Student Financial Aid*: Vol. 3 : Iss. 2 , Article 5.
Available at: <https://ir.library.louisville.edu/jsfa/vol3/iss2/5>

This Issue Article is brought to you for free and open access by ThinkIR: The University of Louisville's Institutional Repository. It has been accepted for inclusion in *Journal of Student Financial Aid* by an authorized administrator of ThinkIR: The University of Louisville's Institutional Repository. For more information, please contact thinkir@louisville.edu.

COLLEGE COSTS vs. MIDDLE INCOMES —

A PROPOSAL

William P. Schaefer

Amid the highly visible — and publicized — surgings of student unrest in the late 1960's, there was another unrest which went almost unnoticed. This unrest had its roots in the inflation of the past decade, and the even greater inflation in the cost of higher education to the consumer of that higher education: the student. The first college people who saw this unrest were Admissions officers and Financial Aid officers. In their dealings with the financial problems of both prospective and current students, they were introduced to the problem early. Now, Financial Aid officers in different kinds of colleges have different sets of problems. In many instances the problem is a lack of enough money to go around, and the Financial Aid Office acts simply to ration the available funds amongst the numerous applicants. This is a sad circumstance but one which can be cured only by decreasing college costs — a most unlikely alternative these days — or by increasing the funds available for financial assistance (primarily from government sources). While this lack of ability to meet financial need may well be the most important problem facing the financial aid community today, I am not going to consider it further here. My concern is with colleges where financial aid is available to deserving students and where Financial Aid officers have been disbursing this aid in accordance with the principles of the College Scholarship Service (abbreviated CSS from here on). It is in this group of colleges — and within a specific subset of their clientele — that the unrest we sensed in the late 60's has become a revolution in the early 70's.



Dr. Schaefer is Registrar and Assistant Director of Admissions at California Institute of Technology in Pasadena. In addition to his activities in admissions and financial aid, he is a Senior Research Fellow in Chemistry.

The Changing Viewpoint

I have noticed in the past five years or so that there have been more and more parents telling me that I am asking them to contribute an awful lot of money to their child's education. Without being able to document it, I can recall hearing similar stories from Financial Aid officers at other schools all around the country. In the last two years, however, some of these parents have begun to refuse to contribute the amounts of money the CSS system has expected them to furnish for educational costs. Their children have either left school or been forced to borrow totally unrealistic amounts — \$2500 or \$3000 a year — in order to remain in school. Even more significant is the fact that the word is out around the nation that middle-income families are not being given sufficient financial aid for their children to be able to afford high-cost private colleges. We never see nor talk to these families; their children simply are not applying to schools that they would have been eager to enter five or ten years ago. The statistics at Caltech indicate that our applicant pool is down by 8% to 10% in the middle income group, but other schools around the country have reported drops of up to 40% in this area. Middle-income families have traditionally sent the largest fraction of students to private colleges and their flight from these colleges is cause for great concern on our part (see the article by Robert P. Huff in the *College Board Review*, Winter 1972-73, entitled "Need Assessment of Upper-Middle-Income Families — Are They Being Excluded?"). I am concerned with why the families which have traditionally sent large numbers of their children to private schools are now refusing to pay the costs and with possible solutions to the problem. Let us first look at the reasons behind this revolution.

Factors Contributing to the "Revolution"

I can identify three things which bear on the problem. First is a general national situation which should be mentioned even though we cannot do anything about it. The unemployment picture throughout the United States in the past several years among highly educated people (even those who received technical training) has made it evident that a college degree is no longer a meal ticket. Families who did not value education for its own sake but who were convinced that it was worthwhile as an investment are now no longer seeing the investment as a wise one. They are probably willing to have their children go to college, but they are surely unwilling to sacrifice to make it possible for them to attend. The children themselves — particularly those with no firm career goals — are less inclined to spend thousands of dollars a year finding themselves when the same thing can be done for peanuts at a local junior college. These changing attitudes act to make the other problems that I will describe now even more severe.

At the same time that the perceived value of higher education was declining, the actual cost to the student was climbing spectacularly. Each private school has its own tuition history that could be used to justify the word "spectacularly"; the example of Caltech should be sufficient. In 1960-61, tuition for the full school year was \$1275 and total expenses were estimated as \$2315. Ten years later, tuition had nearly doubled to \$2385 and the yearly

budget was \$3800. Now, only two years later, these same figures are \$2760 and \$4710. In terms of simple inflation, overall expenses climbed by 6.5 percent per year in the decade of the 60's, and this rate has increased to 8 percent per year since 1970! These percentages are larger than the general inflation in our economy during this same period: education is not the only sector to show this kind of behavior, but it is a highly visible one and, unlike medical care, it represents an expense that most people can pay or not, as they choose.

And third, while cost has been going up and (perhaps) value has been going down, the financial aid office has been handing out larger and larger sums of money. But for some combination of reasons, the increased amount of financial aid has not wooed the same students as before, nor has it even wooed them in the same numbers. The system we have been using to allocate these funds has just not worked right, and the reason I know it has not worked right is because many of the people who are applying for aid do not feel they are being given fair treatment and they have told us so, either in person or by just not considering private education. Let us review the mechanics of the CSS system we are using to see what we are working with, and perhaps to recognize a means of improving our treatment of these people.

The Present System

The basic principle of the CSS need analysis system is that the family contribution to the cost of education depends on the ability of the family to pay. In particular, any contribution from the family greater than what would be required to maintain the student at home depends strongly on the amount of "discretionary income" the family has available. At a certain income level — the poverty level — the system expects no contribution at all from the family to the cost of education. At a somewhat higher level — the moderate income level — the system expects that the family has enough money available to maintain all of its members in good health, and the contribution to the student's education is equal to the maintenance level for that person. Above the moderate level, income is considered to be increasingly available to meet the cost of education. In order to implement this philosophy, then, the CSS has had to define in terms of dollars the poverty level, the moderate level of income, and what amount of money a family ordinarily spends on the maintenance of one of its members. Above the moderate level it has also had to define specifically what the words "increasingly available" mean. I accept wholeheartedly these principles; it is the details of the definitions which I believe need examination and change.

The income levels that correspond to poverty and to a moderate standard of living are now defined in terms of the cost of living by the Bureau of Labor Statistics (BLS). These income levels vary with the size of the family and they represent a realistic measure of what is required to feed, clothe, and house a family in the United States. CSS accepts the Bureau of Labor Statistics figures for these income levels and then applies to any income above the moderate level an increasingly progressive taxing formula in order to determine the contribution that a family should be able to make from its income. When a family applies for scholarship assistance to a school op-

erating under the CSS, he files an income statement (PCS) with the College Scholarship Service. This is analyzed and the results of the computations sent to the Financial Aid Office at the college. The Financial Aid officer is always empowered to deviate from the figures suggested by this computation, but in the interests of equity among his scholarship and financial aid recipients, most officers do not make substantial changes in the CSS figures. The problem, then, is to find ways to make it feasible within the system for families from all income levels to consider sending their children to private colleges, in the face of ever-increasing costs. There should be real choices available between public and private education for most students, and at the moment there aren't.

Possible Solutions For Improving The System

What are the kind of solutions we should look for? How can we retain the proven rationale of the CSS need analysis system and yet serve the dual functions of rationing limited funds on the one hand, and disbursing funds equitably on the other, so as to provide equal access to higher education across the entire economic spectrum? I see three areas of potential help. The first of these was the subject of intense discussion at a recent meeting in Chicago of eighty-four members of the CSS. CSS held this invitational meeting to allow dissatisfied users of their system an opportunity to discuss the impact of the 1972-73 CSS tables of expectation on middle-income and upper-middle-income families. By an overwhelming majority, the participants at this conference voted to reject the 1972-73 CSS tables and to use instead the less harsh tables provided for 1971-72, updated for inflation. This action is highly significant in pointing up the general level of concern in the financial aid community for this problem. It is not, of course, a solution, but only an interim measure which gives us time to diagnose the problem and perform the required surgery on the diseased system.

The second area where we can see help coming was presented to the people at that conference by James Bowman. In a long and thoughtful paper, Bowman proposed that for many middle-income families, it is not really a question of the family's ability to pay, but rather a question of where they will find the cash. He sees the CSS expectations from middle-class families as reasonable, but recognizes a major cash-flow problem for these families. The solution he suggests is imaginative and deserves consideration. Basically, Bowman states that, of the contribution expected from a family from its discretionary income, only about 45 percent should be expected in cash. This means a college should attempt to provide long-term loans to the parents to make up the remaining 55 percent of their contribution from discretionary income (i.e., any contribution in excess of the maintenance level, which is \$1050 this year). If the loan funds are available, this approach could provide access to private education for many who cannot now consider it. I have not included this feature in my proposals for two reasons:

- 1) I don't know where the money to make these loans will come from, and
- 2) I want to make it easy to compare the results of my suggestions with the past CSS data.

The third area where I believe we can find some help for the families I am concerned with is in a redefinition of the CSS system itself. You remember that the CSS has used Bureau of Labor Statistics figures to set the "moderate income level". Income above this level is considered to be increasingly available for educational expenses. The "moderate income level" is determined for each family size, considering what an average family of that size will have to spend for food, clothing, shelter, and transportation. The moderate income level is supposed to insure health and a modicum of comfort, and indeed it probably does. In general, however, a great many families who are willing to spend money on higher education for their children have chosen for themselves a rather higher "moderate level" of living than that defined by the Bureau of Labor Statistics. In fact it is this higher standard of living that has made their children candidates for higher education in the first place: they have been raised in surroundings where the values of education are appreciated. These families include in their own "moderate level" such things as books, concerts, travel, games, science toys, and so on — the kinds of stimuli that encourage inquisitiveness and exploration, that develop their children into potentially good college students. And these things cost lots of money in our society. If we use the present CSS system, we wind up asking for so much money from middle-income families that, to furnish such a contribution, they would be forced to lower their standard of living to the BLS standard. Such a reduction is unthinkable to these families and they are telling us that.

Another way of making this same point is to note that, as the total income level of a family increases, the moderate standard of living necessarily increases, too. This is not to say that it costs more to earn more; what an approach like this does is to acknowledge the fact that if you earn more, you spend for the necessities at a different level and different things become necessities. Thus I want to propose a fundamental change in the philosophy of the CSS need analysis system to recognize the economic facts of life for middle and upper-middle income families who prepare their children for college. This change is to define the moderate level of income not as a fixed dollar amount, but on a sliding scale as a function of total income. I also want to submit a new version of the "tax table" for discretionary income and to suggest certain minor changes in the current tables. These latter two suggestions are more than details, but they do not represent any great departure from present practice; the first suggestion is a real change and, I believe, a much-needed one.

Having made this suggestion in general terms I am now faced with the same problem the CSS had: defining the "moderate level of income" in concrete terms. I want to make it clear that the details of this definition are separate from the concept of a sliding scale for the moderate income level. I am *guessing* at what the definition should be and, if another definition can be shown to be better, I would welcome it. However, I think I *know* that the moderate level is higher for a family with \$20,000 income than it is for a family with \$12,000; so the idea of the increasing scale is always valid. My

definition starts with the BLS moderate level of income as shown in Table 1. Then I state that, for each \$1000 increase in income above this figure, the moderate level increases by \$200. I have prepared Table 2 to show this in detail.

TABLE 1

<i>Number of Dependent Children</i>	<i>Effective Moderate-income levels *</i>	<i>Income after Federal Tax</i>
1		\$ 7,960
2		9,370
3		10,770
4		11,990
5		12,740
6		13,490
7		14,050
8		14,520

* copied from page 5-3, Manual for Financial Aid Officers, 1971 Revision.

TABLE 2

Moderate income levels as a function of income for different sized families.

<u>Income</u>	<u>Number of Children</u>							
	1	2	3	4	5	6	7	8
\$ 7,000	7960							
8,000	8010							
9,000	8210	9370						
10,000	8410	9500	10770					
11,000	8610	9700	10820	11990				
12,000	8810	9900	11020	11990	12740			
13,000	9010	10100	11220	12190	12810	13490		
14,000	9210	10300	11420	12390	13010	13590	14050	14520
15,000	9410	10500	11620	12590	13210	13790	14240	14620
16,000	9610	10700	11820	12790	13410	13990	14440	14820
17,000	9810	10900	12020	12990	13610	14190	14640	15020
18,000	10010	11100	12220	13190	13810	14390	14840	15220
19,000	10210	11300	12420	13390	14010	14590	15040	15420
20,000	10410	11500	12620	13590	14210	14790	15240	15620
21,000	10610	11700	12820	13790	14410	14990	15440	15820
22,000	10810	11900	13020	13990	14610	15190	15640	16020
23,000	11010	12100	13220	14190	14810	15390	15840	16220
24,000	11210	12300	13420	14390	15010	15590	16040	16420
25,000	11410	12500	13620	14590	15210	15790	16240	16620
26,000	11610	12700	13820	14790	15410	15990	16440	16820
27,000	11810	12900	14020	14990	15610	16190	16640	17020
28,000	12010	13100	14220	15190	15810	16390	16840	17220
29,000	12210	13300	14420	15390	16010	16590	17040	17420
30,000	12410	13500	14620	15590	16210	16790	17240	17620
31,000	12610	13700	14820	15790	16410	16990	17440	17820
32,000	12810	13900	15020	15990	16610	17190	17640	18020
33,000	13010	14100	15220	16190	16810	17390	17840	18220
34,000	13210	14300	15420	16390	17010	17590	18040	18420
35,000	13410	14500	15620	16590	17210	17790	18240	18620
36,000	13610	14700	15820	16790	17410	17990	18440	18820
37,000	13810	14900	16020	16990	17610	18190	18640	19020
38,000	14010	15100	16220	17190	17810	18390	18840	19220
39,000	14210	15300	16420	17390	18010	18590	19040	19420
40,000	14410	15500	16620	17590	18210	18790	19240	19620

The next step in constructing my version of CSS Table E — the expected parental contribution table — is to fix the "tax rates" for discretionary income, that is, the income above the moderate level. Table 3a gives the rates as used by CSS during the 1971-72 processing year, and to be used by many schools this year. You will note that the maximum rate is 55 percent, applied to discretionary income above \$5,000. This rate seems too low if we are to extend our computations to parental contributions of \$15,000 or so — as we must to be useful in all situations. (Imagine if you will the father of six, making \$35,000 per year, who has four children scattered among the Ivy League colleges and whose twin daughters announce they want separate large weddings in the same year . . .). In fact, if you extend the tax rate table to make it more progressive you can ease it a bit at the start and still end up with reasonable contributions being expected from the higher income levels. I have done this, going up to discretionary income levels of \$14,000, where my expected contribution is 119%. The fact that 20% of each \$1000 is not counted in discretionary income makes possible a tax rate greater than 100%; 125% would amount to expecting all of any additional discretionary income to be used for educational expenses. The proposed rates are given in Table 3b.

TABLE 3

Expected Contributions
from Discretionary
Income

DISCRETIONARY INCOME	a. <u>CSS 1970-71</u>		b. <u>Suggested</u>	
		25% of discretionary income		25% of all over \$1000
Not over \$1000				
\$ 1000-2000	\$ 250 + 29%	of all over \$1000	\$ 250 + 27%	of all over \$1000
2000-3000	540 + 34%	" " " 2000	520 + 30%	" " " 2000
3000-4000	880 + 40%	" " " 3000	820 + 34%	" " " 3000
4000-5000	1280 + 47%	" " " 4000	1160 + 39%	" " " 4000
5000-6000	1750 + 55%	" " " 5000	1550 + 45%	" " " 5000
6000-7000	2300 + 55%	" " " 6000	2000 + 51%	" " " 6000
7000-8000	2850 + 55%	" " " 7000	2510 + 58%	" " " 7000
8000-9000	3400 + 55%	" " " 8000	3090 + 65%	" " " 8000
9000-10,000	3950 + 55%	" " " 9000	3740 + 73%	" " " 9000
10,000-11,000	4500 + 55%	" " " 10,000	4470 + 81%	" " " 10,000
11,000-12,000	5050 + 55%	" " " 11,000	5280 + 90%	" " " 11,000
12,000-13,000	5600 + 55%	" " " 12,000	6180 + 99%	" " " 12,000
13,000-14,000	6150 + 55%	" " " 13,000	7170 + 109%	" " " 13,000
14,000 or more	6700 + 55%	" " " 14,000	8260 + 119%	" " " 14,000

I have prepared two figures which should help in understanding what the effect of changing tax rates in this manner will be. Figure 1 shows what one accomplishes by including more and more terms in the table — that is, by going to higher and higher tax rates at larger incomes. Figure 2

FIGURE 1

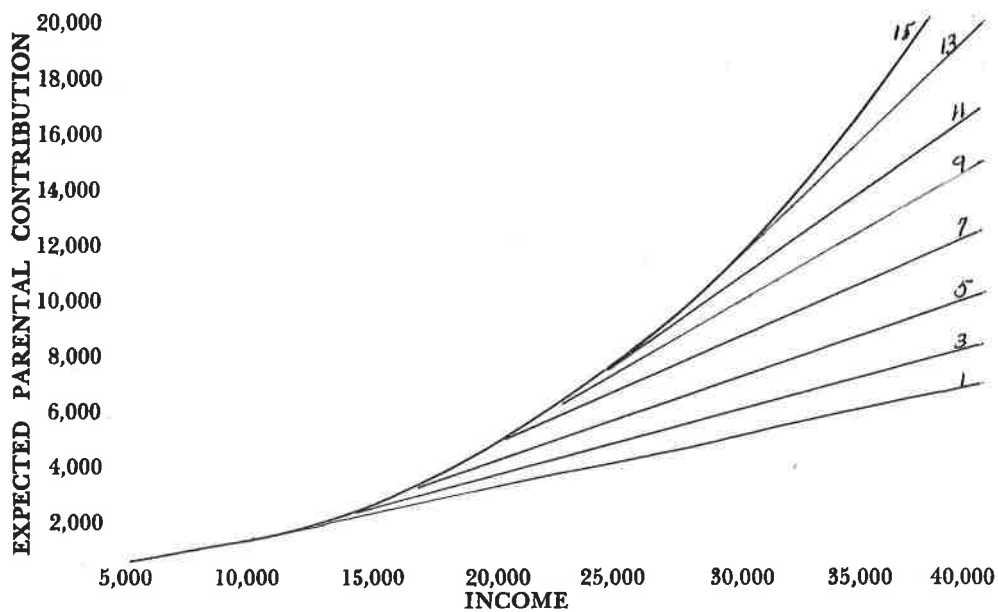


Figure 1. The effect of including more and more terms in the taxation formula. The numbers indicate the number of terms from Table 3b included in the computation.

FIGURE 2

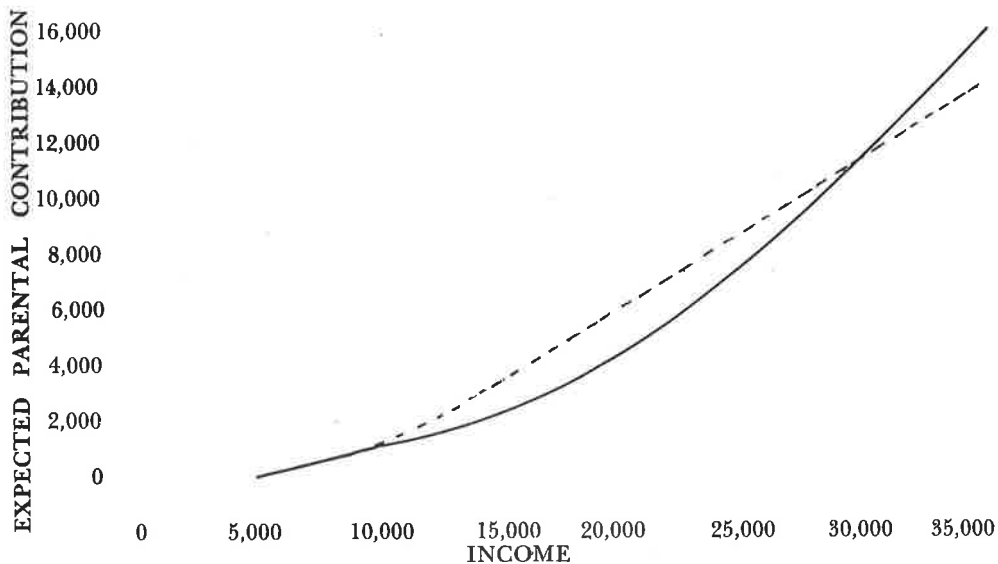


Figure 2. A comparison of the curves of expected parental contribution under the 1961 CSS system and the proposed system. ----- = 1971 CSS, _____ = proposed.

compares the expectation curves based on the two formulas given in Table 3. Please note that in the middle income area — \$12,000 to \$22,000 incomes — the effect of the new tax formula is to lessen substantially the expectation from the family. Above this level, the suggested formula rapidly approaches and then overtakes the old, so that even higher contributions than are now expected will result. The details of this suggestion, I think, are subject to negotiation and change; I believe the principle of starting slowly and going to very high final tax rates is a sound one, however, and we should adopt it.

The last detail to enter in the construction of my new tables is to alter slightly — to lower — the expected contributions from 1, 2, and 3 child families in the \$0 — \$1500 range. The reasons for this, and the largest changes, are shown in Figure 3. There is no reason for the rates of contribution to be larger below the moderate income level than above, and I have made the indicated changes.

FIGURE 3

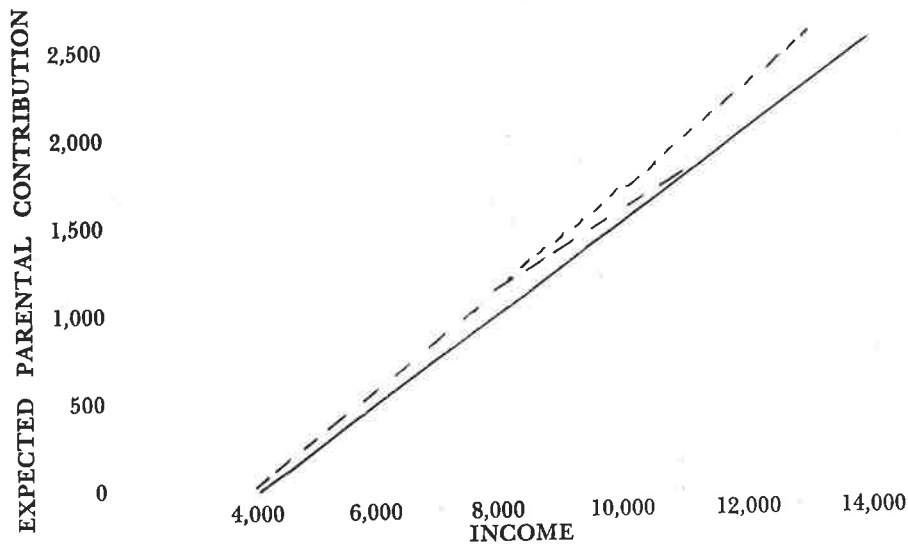


Figure 3. The expected contribution curves for a one-child family for incomes below \$14,000 showing the 1971 CSS curve and the proposed curve. = 1971 CSS; - - - - = 1971 CSS merging to new tax tables; _____ = proposed curve.

Using the BLS poverty level figures and initial moderate income level figures, then, and increasing the moderate level as income increases, I can construct a table of expected parental contribution with the suggested new tax rates. This is Table 4, and is comparable to Table E in the Manual for Financial Aid Officers. I feel that this represents a reasonable effort to reflect both ability to pay and willingness to pay for college educations at present-day (1973) income levels and prices. My numbers are subject to adjustment for inflation on the basis of new BLS statistics on a year-to-year basis, just as the present CSS tables can be updated. For any who prefer graphs to tables of numbers, I have also drawn out the curves of expected contribution and they are shown in Figure 4.

TABLE 4
Expected Parental
Contribution

Net Effective Income	Number of Children							
	1	2	3	4	5	6	7	8
7000	640	410	170					
8000	900	620	400	210	110	20		
9000	1150	860	620	420	310	210	150	100
10,000	1420	1100	850	630	510	400	330	270
11,000	1690	1350	1060	840	710	590	510	440
12,000	1930	1600	1290	1040	910	780	690	610
13,000	2210	1840	1510	1250	1100	970	870	780
14,000	2520	2110	1740	1460	1300	1150	1050	950
15,000	2870	2410	2000	1690	1510	1360	1240	1150
16,000	3250	2740	2280	1940	1750	1570	1450	1350
17,000	3670	3100	2590	2210	2000	1810	1680	1560
18,000	4130	3510	2950	2530	2280	2080	1920	1800
19,000	4650	3970	3350	2870	2600	2370	2200	2070
20,000	5220	4470	3700	3260	2960	2690	2510	2360
21,000	5840	5010	4260	3680	3350	3060	2850	2680
22,000	6500	5600	4780	4150	3790	3460	3230	3040
23,000	7220	6250	5360	4670	4260	3910	3650	3450
24,000	8010	6960	5990	5240	4780	4410	4120	3900
25,000	8863	7730	6670	5850	5370	4940	4630	4390
26,000	9770	8550	7410	6520	6000	5530	5200	4920
27,000	10730	9430	8200	7240	6680	6180	5810	5510
28,000	11680	10380	9070	8030	7420	6880	6470	6150
29,000	12630	11330	10000	8880	8210	7640	7190	6850
30,000	13580	12290	10950	9800	9080	8450	7980	7610
31,000	14530	13240	11900	10750	10010	9320	8830	8420
32,000	15490	14190	12860	11700	10960	10270	9740	9290
33,000	16440	15140	13810	12650	11920	11230	10690	10240
34,000	17390	16090	14760	13610	12870	12180	11640	11190
35,000	18340	17050	15710	14560	13820	13130	12590	12140
36,000	19290	18000	16660	15510	14770	14080	13550	13090
37,000	20250	18950	17620	16460	15720	15030	14500	14050
38,000	21200	19900	18570	17410	16680	15990	15450	15000
39,000	22150	20850	19520	18370	17630	16940	16400	15950
40,000	23100	21810	20470	19320	18580	17890	17350	16900

FIGURE 4

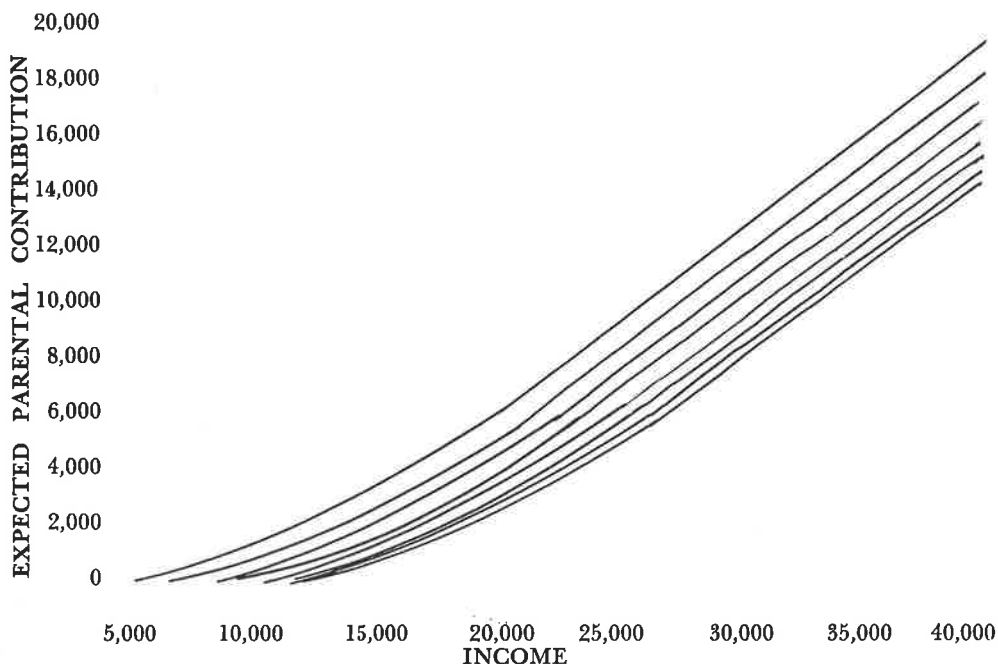


Figure 4. The new curves of expected parental contribution (Table 4). The top curve is for a one-child family, the lowest curve for an eight-child family.

Summary

Here then is the most crucial feature of my proposal: that the CSS redefine its moderate income level to vary with income. The second important change is to rewrite the tax tables for discretionary income. I think schools could couple any resulting changes in the tables of expectation with an effort to secure long-term loan funds with which to implement a proposal such as James Bowman's. A combination of these approaches will make it possible for private colleges to set their fees at sensible levels and still be able to attract students from all kinds of economic backgrounds. And the students themselves may even be able to finish four years of undergraduate education without having a chilling debt hanging over their future. For us to find ways to make these things possible is worthy of our best efforts.