

24 January 2013



The Fiscal Cliff & Higher Education

Student Opinion on the Impact to Financial Aid

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Introduction

The Fiscal Cliff has been a source of major concern all throughout the United States. Many citizens stood and still stand to be affected by the legislation that could have passed. This report is meant to relate the Fiscal Cliff to students of higher education. It starts with an explanation catered to the Student population to explain how the Fiscal Cliff came about, what it is, how it has been resolved and what remains to be done. It then follows with an explanation of how Higher Education will be affected in The Sequester. Lastly, this report serves as a medium of the student voice on The Fiscal Cliff and The Sequester through a survey of over 1,000 students.

Study Methodology

The survey was conducted through a third party ensuring unbiased results and a targeted survey pool of college students. Of the 1,096 students who completely filled out the survey, 49.91% were male and 50.09% were female. Of the college students, the household income broke down into 33.49% earned \$0-\$24,999, 18.85% earned \$25,000-\$49,999, 23.6% earned \$50,000-\$99,999, 10.98% earned \$100,000-\$149,999 and 13.08% earned over \$150,000. In terms of geography, students were well spread across the United States with no one of the 9 sectors having more than 19% representation within the pool.

Some questions were supplemented with unbiased background data to ensure the most objective answer possible. For instance, in the question asking students which other programs should be cut instead of Federal financial aid, each program area was supplemented with information as to the current budget of each program and what percentage stands to be cut in The Sequester.

Background on the Fiscal Cliff and The Sequester

The Fiscal Cliff

Over the years, especially with the government spending required for the recent wars as well as the continuation of the Bush Era tax cuts, the United States Federal Deficit has been rising. The deficit has been growing since 2002—it surpassed the \$1 trillion mark in 2009 and has stayed there ever since.ⁱ

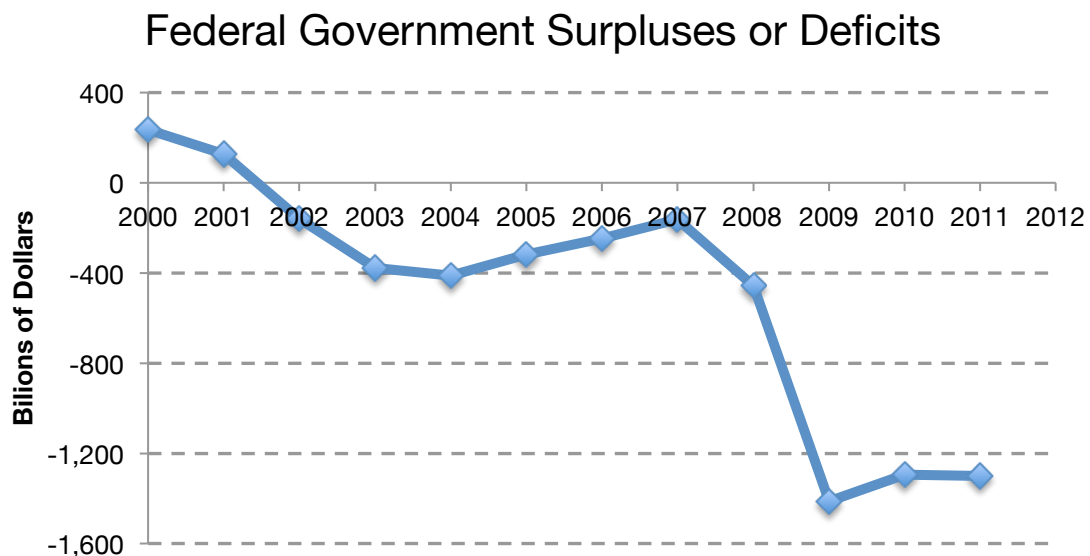


Fig. 1 Federal government surplus or deficit in billions of dollars from 2000-2011

The Fiscal Cliff originated in the latest bill to reduce the growing deficit: The Budget Control Act of 2011. The Budget Control Act allowed the debt ceiling to increase by \$900 Billion to answer the 2011 United States debt-ceiling crisis.ⁱⁱ This was a great concern because the United States was already facing a severe budget deficit. Expanding the spending capabilities, while necessary for the debt-ceiling crisis, only exacerbated the debt and deficit issue.

Thus, a series of actions were taken to reduce the already extensive deficit and to make up for the temporary increase in the debt limitⁱⁱⁱ:

- Spending was to be reduced more than the increase in the debt limit.
 - \$917 billion in spending cuts over 10 years
- The Joint Select Committee on Deficit Reduction, also known as “The Super Committee” was given the task of recommending an additional \$1.5 trillion cut in the deficit.
- **The Ultimatum:** If Congress did not deliver a bill that planned cuts of at least \$1.2 trillion over the next 10 years, they could raise the debt ceiling by

\$1.2 trillion at the cost of automatic cuts across the board, also known as “sequestrations” as of January 2, 2013.

There was a general standstill between the Democrats and the Republicans about where the cuts could be made—about who should pay for to fix the budget deficit. Republicans strongly wanted cuts to what are known as the Entitlement programs, federally funded programs that are meant to provide aid to the disadvantaged: Medicare, Medicaid, Welfare, Social Security, etc. On the other side, Democrats strongly wanted greater tax rates; particularly tax increases for the higher tax brackets, or on the wealthiest classes in society. Needless to say, both sides disagreed and were unable to compromise with one another on an acceptable agreement.

As January 2, 2013 loomed closer with no bipartisan agreement as to how to reduce the deficit or cut spending, it seemed more and more likely that the sequestration would occur, effectively cutting the deficit in half for 2013. The Congressional Budget Office (CBO) estimated a sharp decrease in the deficit would create a mild recession in 2013 and increase unemployment rates.

Now known formally as “The Sequester”, the automatic spending cuts, also known as sequestration, were delayed for two months until March 1, 2013, to allow for more negotiations on reducing the Federal deficit. The Sequester, as an extension of the Fiscal Cliff, is once again taking center stage.

The Sequester

As the sequestration drew nearer in January, the Office of Management and Budget (OMB), ultimately the department that would be in charge of delivering the Sequestrations, produced a document estimating the cuts. The Budget Control Act outlined specifics as to how \$1.2 trillion Sequester would occur^{iv}:

- It would occur over the next 9 years
- Cuts would be split 50-50 amongst Defense and Non-Defense spending
- Not all programs would be cut—as part of the original deal some programs would be exempt or had a cap at what percent could be cut.
- Discretionary expenses would be cut 8.2% and mandatory spending would be cut at 7.6%.

The OMB calculated an overall \$109.33 billion dollar reduction would be necessary each year over the next 9 fiscal years. For instance, the following cuts would begin in fiscal year 2013 and continue for the next 9 years:

Sequestration Cuts for FY13 (Billions of Dollars)

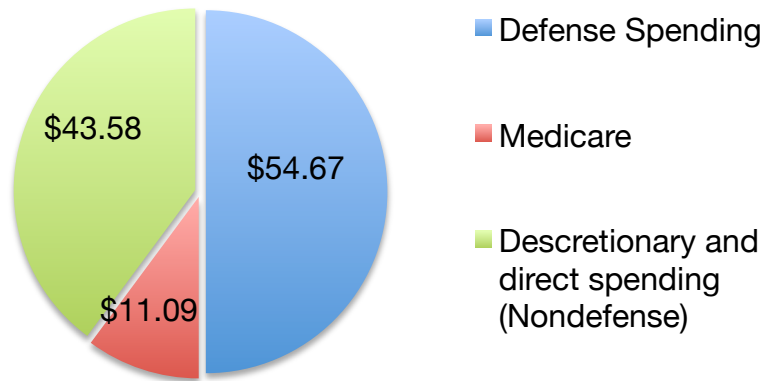


Fig. 2 Sequestration Cuts for Fiscal Year 13

The OMB separated the sequestrable budget accounts and applied the sequester cut to demonstrate how much would be cut from each program. The departments that stand to be heavily affected in absolute numbers, along with their sequestrable amounts as calculated by the OMB are as follows:

| Department | Sequester Amount (Millions) |
|---|--------------------------------|
| Department of Agriculture | \$2,992 |
| Department of Commerce | \$913 |
| Department of Education | \$4,021 |
| Department of Energy | \$2,438 |
| Department of Health and Human Services | \$18,261 |
| Department of Homeland Security | \$4,068 |
| Department of Housing and Urban Development | \$3,622 |
| Department of the Interior | \$1,320 |
| Department of Justice | \$2,515 |
| Department of Labor | \$2,245 |
| Department of State | \$2,594 |
| Department of Transportation | \$2,161 |
| Total | \$47,150 |

Table 1. List of Departments and Sequester amount (Millions of Dollars)

The Potential Impact of The Sequester to Higher Education

This section takes an initial look at how The Sequestration will affect the Department of Education, and further focuses on how students in Higher Education specifically will be affected.

Cuts to Department of Education

According to the OMB, the Department of Education overall could expect cuts of \$4.021 Billion.

| Department of Education Office | Sequester Amount (Millions) |
|---|-----------------------------|
| Departmental Management | \$49.94 |
| Institute of Education Sciences | \$48.71 |
| Office of Elementary and Secondary Education | \$1801.05 |
| Office of English Language Acquisition | \$60.02 |
| Office of Federal Student Aid | \$255.62 |
| Office of Innovation and Improvement | \$125.30 |
| Office of Postsecondary Education | \$206.78 |
| Office of Special Education and Rehabilitative Services | \$1331.65 |
| Office of Vocational and Adult Education | \$142.43 |
| Total | \$4,021.50 |

Table 2. Department of Education Offices and Sequestration amount

While all cuts to Education are noted and funding to each of these programs is valuable, this study focused on cuts to programs that provide funding or direct program support to students. By direct program support, it means funding to offices that fund programs meant to provide resources and interaction groups for students to achieve higher education—not funding for school improvement, or programs for elementary children.

Effects to Direct Efforts for College Access

Of the offices in the Department of Education, this would include the Office of Federal Student Aid as well as the Office of Postsecondary Education.

Within the Office of Federal Student Aid, only the Student Financial Assistance Category consists of programs that directly affect students. In this case, some students will lose federal funding that allows them to go to school. The majority of the projected \$140 million in cuts consists of cuts to Federal Work Study Program as well as the Supplemental Education Opportunity Grant (SEOG).^v

The majority of the cuts in the Office of Postsecondary Education will occur in the Higher Education Programs. The stated goal for these programs is to increase college access for low income and disadvantaged students. This is accomplished through a variety of programs and grants to states. The programs that provide direct support through program

| Program | Description | Sequester Amount (Millions) | Fewer Students Receiving Aid |
|--|--|-----------------------------|------------------------------|
| Federal Work Study | Student Financial Aid | \$76.2 | 51,577 |
| Supplemental Education Opportunity Grants (SEOG) | Student Financial Aid | \$57.3 | 110,543 |
| TRIO Programs | College Access Programs for Disadvantaged Students | \$66.0 | 61,000 |
| Gear Up | College Prep Education for Disadvantaged Students | \$24.0 | 57,000 |
| Total | | \$223.47 | 280,120 |

Table 3. Programs for College Access and Sequestration Details

TRIO Programs help both secondary students on their way to college as well as students in college. They particularly provide a community and resources for students with a disadvantaged background. They help students choose their path, career and help them understand the expectations of college as well as providing support for students once they enter college.

Gear Up programs provide services for middle school and high school students to help them prepare for college academically. They also can provide scholarships for students to aid them in pursuing their college career.

Overall Sequester cuts directly affecting students' access to higher education can be divided into Direct Student Funding and Funding for Higher Education Student Support Programs. Ultimately, 280,000 students stand to lose \$223 million dollars in the sequestration. 162,120 students will lose \$133.4 million in direct funding for their education and another 118,000 students will lose out on \$90 million of student support programs.

Student Opinion on the Sequester and Financial Aid

The media, through political and higher education experts, has provided many opinions on The Sequester and the threat of another Fiscal Cliff. NerdScholar wanted to hear student's opinions, and created a survey to access student views on the potential impact to their financial aid.

A survey titled "The Fiscal Cliff and Federal Student Aid" was given to a pool of college students using a second party survey source. Over 1,000 students completed and submitted their answers. The questions asked students to assess their own financial aid situation and how it could be affected by the Sequester as well as their general opinion of The Sequester. The findings are below.

Students Receiving Federal Financial Aid

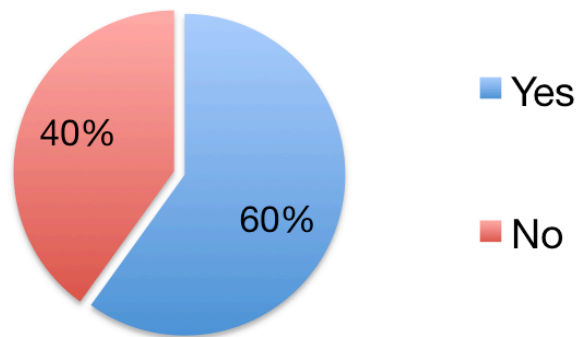


Fig. 3 Percentage breakdown of students receiving Financial Aid

Concern over the Impact to Financial Aid and Higher Education

We asked students receiving Financial Aid how they were feeling about the impact of "The Sequester" spending cuts to their own financial aid. 85% reported feeling concern—45.36% were concerned that it would impact their financial aid, while 40.94% admitted to being concerned but unfamiliar with the topic.

How students receiving financial aid feel about The Sequester's possible impact to their financial aid

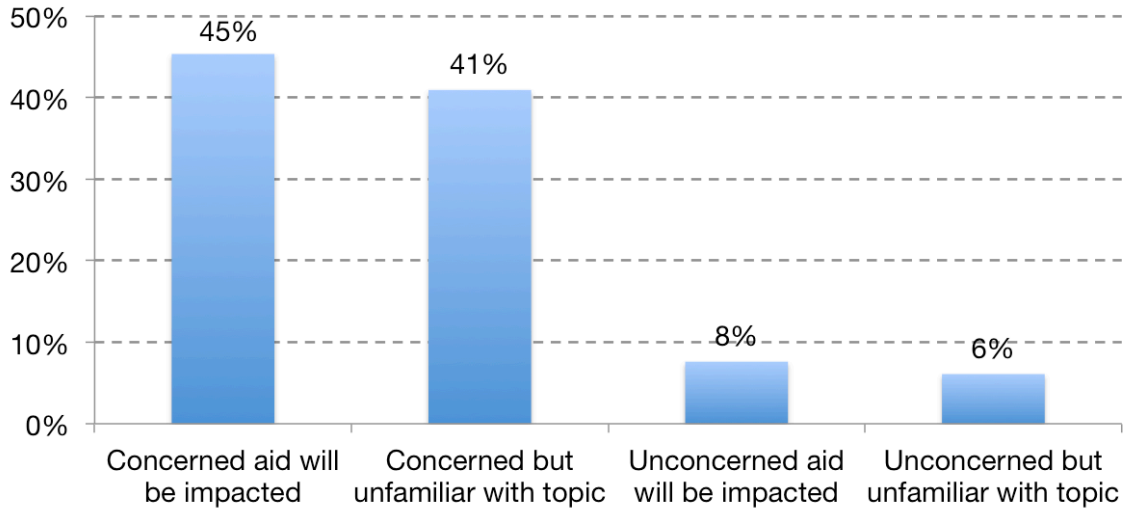


Figure 4. How students feel about The Sequester's impact to their financial aid

Students not receiving Financial Aid were asked a similar question, except it pertained to the overall impact The Sequester could have on Higher Education. Of the 439 students not receiving aid, 69% were concerned with the impacts these spending cuts could have on Higher Education and Federally funded programs for disadvantaged students.

How students not receiving financial aid feel about The Sequester's possible impact to higher education

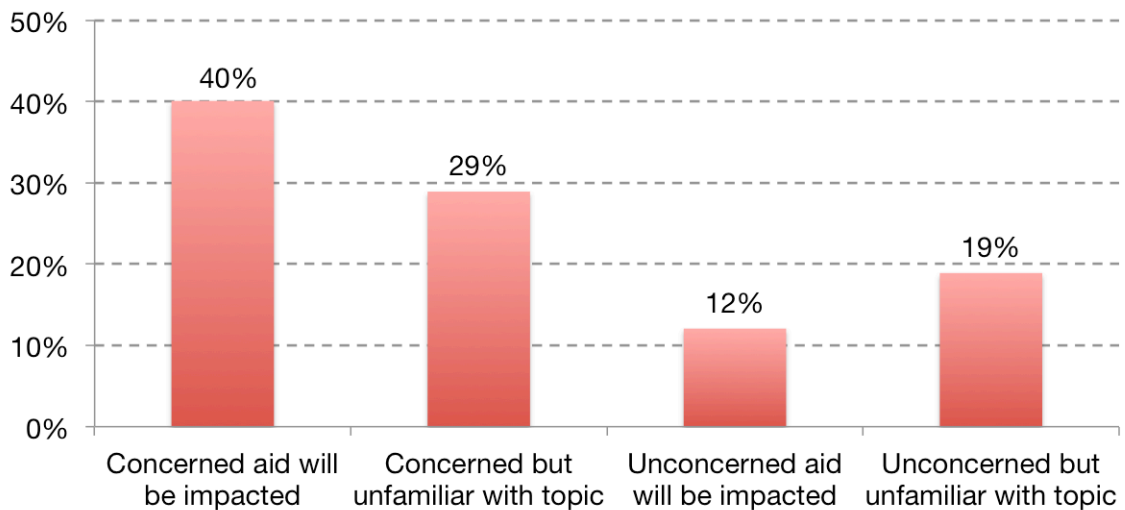


Figure 5. How students feel about The Sequester's impact to higher education

Making Up the Cuts

When the 657 students receiving financial aid were asked what the primary method would be to make up the money lost if their financial aid, the option “Delay or drop out of school” came in first at 25.11% and “Request more private student loans” landed a close second at 24.51%.

How students would make up for cuts to their Financial Aid

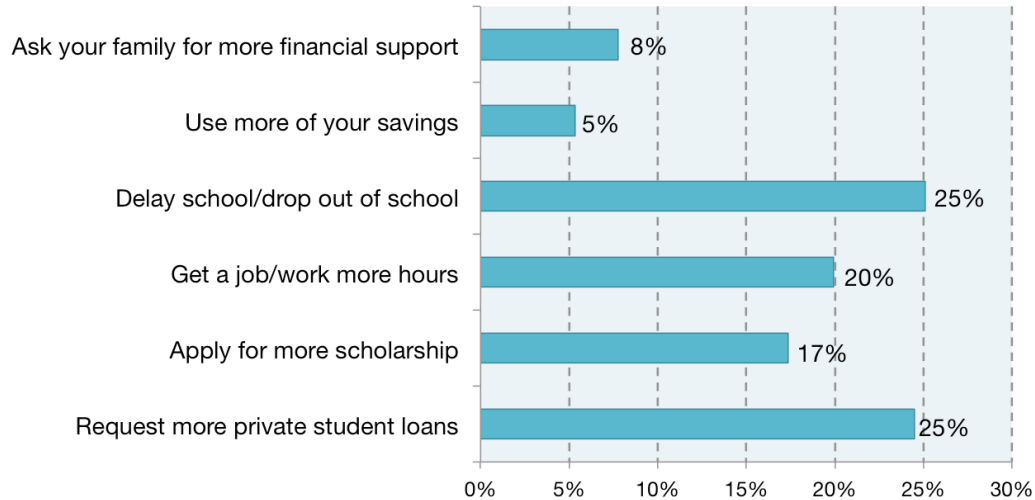


Figure 6. How students would primarily make up for cuts to their financial aid

All 1,096 students were asked on their opinion on the government’s ability to come to a resolution to avoid Federal Financial Aid cuts. 46% of the students believed that the government would not come to a resolution in March.

Student's opinion on the Government's ability to resolve the budget

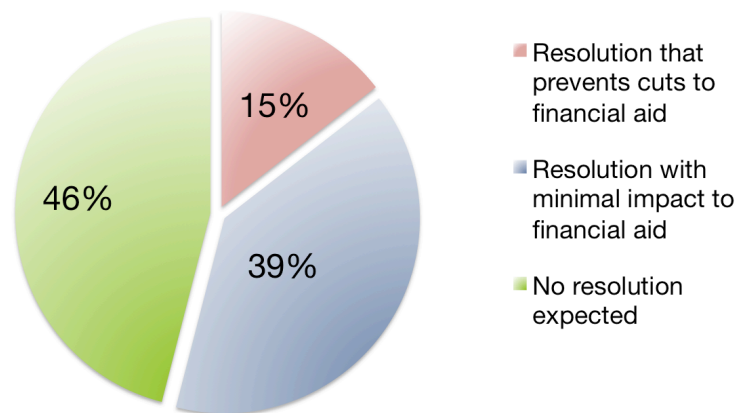


Figure 7. Student’s opinion on the Government’s ability to resolve the budget

Given a choice of other key programs to cut that could offset the cuts to Federal funding to Higher Education and Financial Student Aid in particular, the majority chose to cut the Defense budget further rather than have Financial Aid cuts. The second most popular answer was to not decrease Financial Aid rather than cut any of the key non-defense programs mentioned.

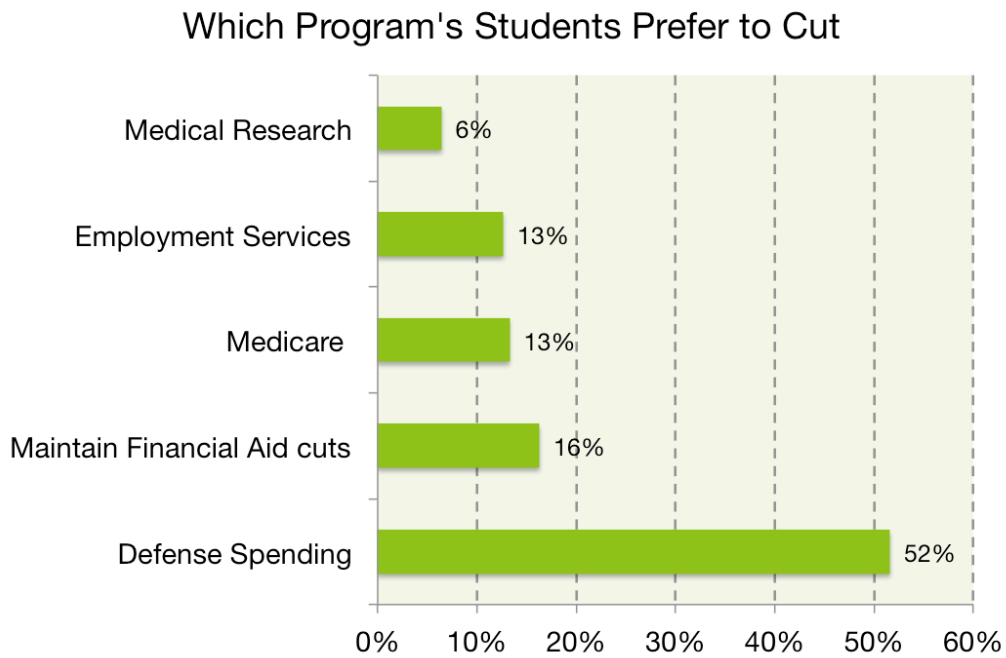


Figure 8. Program's Budgets Students would prefer to see further reduced

Looking Forward

Education is a key building block for future generations. In particular, many studies have shown that higher education leads to higher employment and overall greater financial security. It is important to preserve this opportunity for all classes by supporting government-funded programs that aid access to higher education. Although spending cuts and deficit reduction are an immediate priority of the government, it is of utmost importance that long-term priorities, such as the investment in our youth not be forgotten.

When students were asked how they thought the government could best help students of higher education, a majority of backed efforts to decrease the cost of tuition.

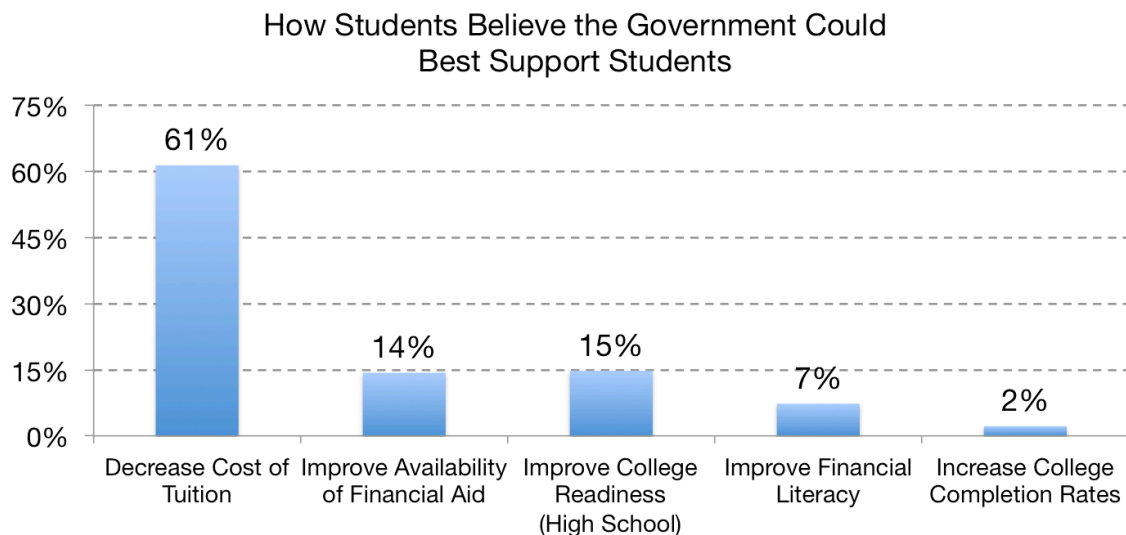


Figure 9. How students believe the government could help students of higher education

President Obama has stated as part of his 2020 goal to have America as the country with the highest college graduation rate. To obtain these goals, he has emphasized college accessibility, of which Financial Aid plays a tremendous role. It is clear students are concerned about their financial aid with the approach of the Fiscal Cliff. The upcoming Sequestration will be a good test of the government's ability to protect college accessibility on the road to achieving its Higher Education goals for 2020.

References

ⁱ Office of Management and Budget. Table 15.6 “Total Government Surpluses or Deficits (-) in Absolute Amounts and as Percentages of GDP: 1948-2011”, <<http://www.whitehouse.gov/omb/budget/Historicals>>.

ⁱⁱ National Association of Student Financial Aid Administrators. “Budget Control Act of 2011”, <http://www.nasfaa.org/Advocacy/Debt-Ceiling/Budget_Control_Act_of_2011.aspx>.

ⁱⁱⁱ Scott Rigell, 2nd Congressional District of Virginia. “Summary of the Budget Control Act of 2011”, <http://rigell.house.gov/uploadedfiles/summary_of_the_budget_control_act_of_2011.pdf>.

^{iv} Office of Management and Budget. “OMG Report Pursuant to the Sequestration Transparency Act of 2012”, <http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf>.

^v Senator Tom Harkin. “Under Threat: Sequestration’s Impact on Nondefense Jobs and Services”, <<http://www.harkin.senate.gov/documents/pdf/500ff3554f9ba.pdf>>.