

## A POSITION STATEMENT

### **The Future of Graduate Education Is the Future of America: A Call to Action**

One of the key conclusions of the recently issued National Academy of Science report on *Research Universities and the Future of America* is that graduate education is critical to the country's strength and prosperity. The authors of this landmark study recognized that our collective failure to see graduate education as a national priority is threatening the capacity for America to develop the talent required to meet national needs and to compete in the global economy. Rarely does the country have a better opportunity to reverse a dangerous trend than it does today, as we consider debates over the student loan interest rates in Washington, D.C. Policymakers must take this opportunity to put America back on the right track by restoring graduate students to the same status as undergraduate students, affording these groups the same benefits when borrowing money from the federal government to pursue an advanced education.

#### **Recent actions have disproportionately disadvantaged graduate students**

Historically, the interest rate for subsidized and unsubsidized student loans has been the same, whether fixed or variable. For PLUS loans, even with a higher interest rate and cap, the difference has been closer to 1.5%. Graduate students have long been a good investment since they are more likely to pay off their student loans and have had much lower default rates. For this reason, the Congressional Budget Office (CBO) scores any increase in the borrowing limits for PLUS loans as a "money saver."

Actions over the past two years have changed the student loan landscape for graduate students and created doubts about their ability to pursue a graduate education. As of July 2012, graduate students no longer qualify for the in-school interest subsidies, a policy that makes them eligible only for unsubsidized loans and Grad PLUS loans, each with an interest rate higher than the 3.4% rate of subsidized loans. The savings that were generated from this policy change went to support a one-year extension of the 3.4% interest rate on subsidized loans and to sustain the \$5,550 maximum Pell Grant award. Graduate students are not eligible for either.

CBO has also estimated that the savings to the Federal government from PLUS loans is 64 cents for every dollar loaned. For unsubsidized loans the savings is 40 cents and for subsidized loans it is 14 cents. From these numbers it is clear that the federal government is making a profit off of federal loans to graduate students and using the savings to pay for a lower interest rate on subsidized loans and sustain the escalating cost of the Pell Grant program.

The Pell program is critical to addressing clear inequities in opportunity in America and for building a rich pool of domestic talent to attend graduate schools in the future. It must be funded. But this strategy of borrowing from Peter to pay Paul will simply diminish opportunity for both Peter and Paul going forward. The graduate debt burden is especially heavy on students from underrepresented populations.

### **Graduate student debt is growing, particularly among underrepresented students**

Many graduate students carry the burden of accumulated debt in order to pursue their degrees. According to data drawn from the 2007-08 National Postsecondary Student Aid Study (NPSAS:08), 73% of master's recipients had an average cumulative undergraduate and graduate debt of \$41,000, while 67% of those who received doctoral degrees had an average cumulative debt of \$60,000. Among whites, 70% of master's recipients had cumulative debt averaging \$38,000, and 72% of doctoral recipients had cumulative debt averaging \$60,000. Among African-Americans, 87% of master's recipients and 85% of doctoral recipients had cumulative debts averaging \$52,000 and \$68,000, respectively. Additionally, among Hispanics, 82% of master's recipients had cumulative debt averaging \$46,000.

However, it is worth noting that new debt acquired exclusively in graduate school is substantial as well. NPSAS data also show that underrepresented minority groups, the groups that should be a growing percentage of domestic students, carry a higher level of debt than their majority counterparts. Among all students, 46% of master's students and 39% of doctoral students incurred graduate debt during the 2007-08 academic year. Among white students, 41% of master's and 38% of doctoral students incurred debt, while these numbers for African-American students were 68% and 62% and for Hispanic students 58% and 41%, respectively. In part, this is because minority students are more likely to be enrolled in fields where student are typically entirely self-funded. This includes fields such as public administration, social and behavioral sciences, and education.

But borrowing is beginning to grow in STEM fields as well. In the past it was fair to assume that STEM students were able to secure full support through a combination of assistantships, fellowships, and employer aid. However, analysis of data drawn from the same data source show that for master's and doctoral students in some STEM fields of study, loans are becoming an increasing part of the aid they need for graduate study. And as more data become available they are likely to show that minority students again are shouldering a heavier burden.

### **Where we stand now in the debate**

The current debate in Congress over how to address immediate concerns about skyrocketing student debt provides an opportunity to build a pipeline of domestic talent in America and to sustain the country's capacity to secure its future through a robust system of graduate education. And yet as Congress considers a variety of proposals to address the matter of student debt, the disparity in graduate student treatment

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\* Reliable data for Hispanic doctoral graduates are unavailable

continues. All but one of the market-based interest rate proposals widens the gap between the interest rates for subsidized and unsubsidized Stafford loans and PLUS loans, as well as the caps for each.

Similarly, the proposals to extend the current 3.4% rate do not address the inequities already being experienced and could result in even greater disparities for graduate students as sources of funding are sought to pay for the extension. Sequestration has also resulted in higher fees on loans for graduate students.

The elimination of the Grad PLUS program has been proposed as one of the further cuts that could be made to meet additional sequestration targets. Eliminating the Grad PLUS program means that not only would graduate students continue to pay higher interest rates on federal loans, they would have to take out more costly private, direct-to-consumer loans.

### **Not just belt-tightening**

Graduate students must borrow to attend school. The rate of borrowing is highest for students from underrepresented populations and in those fields where underrepresented populations are most heavily enrolled. But borrowing also happens across the board and students increasingly, even in STEM fields where historically institutional support has been stronger, now find borrowing is an essential component of attending graduate school. If we want American students to pursue graduate education we need to recognize graduate education as part of the educational pipeline in America.

### **Income-Based Loan Repayment is not the answer**

Income based repayment (IBR) should not be considered the default option for all students when it comes to paying student loans. It certainly is not a justification for policies that will increase the discrepancy between undergraduate and graduate loan interest rates. IBR was established as a safety net for students who are taking on greater debt and facing a poor economy with fewer job options upon graduation. IBR provides for lower monthly payments over a longer period of time than the standard 10-year repayment plan.

With the IBR plan, however, the total amount that the student repays increases as does the unpaid principal and interest that will be forgiven, which under federal tax law is treated as one-time, taxable income. This tax provision substantially reduces the value of loan forgiveness, especially if the borrower is unable to pay the full tax liability in one year. For graduate students paying higher interest rates to begin with, this burden becomes even more significant over time. An example from the New America Foundation's "Safety Net or Windfall?" report illustrates the tax burden nicely: "If the amount forgiven is \$20,000, under IBR the borrower would have to pay \$5,000 in additional income taxes that year. Borrowers who receive loan forgiveness would likely have to pay state income taxes on the amount as well. What that means in a state with a flat 7 percent income tax, is that same borrower would owe a combined \$6,400 in state and federal income taxes."

### **Declining graduate student enrollment**

Between the fall of 2010 and 2011, first-time graduate enrollment fell 1.7%. This was the second consecutive decrease in such enrollment since the fall of 2003. This decline was not only in fields one would expect such as education, but also in engineering and other STEM fields. In the past international students could be counted on to fill the gap, but preliminary estimates from a CGS survey of international student applications for the fall of 2013 indicate that the numbers from key countries are trending down. For example, applications from China, which in the past has accounted for 29% of international graduate students at U.S. institutions, appear to be down 5% for fall 2013 following double-digit increases for the past several years. Given the global competition for graduate students it is essential that we find ways to not only reverse the declines in US graduate enrollment but significantly accelerate the flow of domestic students into our graduate programs. And in doing this we know from earlier research that financing is a strong factor in graduate student success. In a recent study of doctoral program completion, 80% of the respondents in an exit survey indicated that financial support was a key factor in their ability to complete the degree.

### **If the future of America is the future of graduate education, we must act now**

The declining trend in US student enrollment in graduate programs suggests that America's potential graduate students are already seeing advanced study as beyond their reach. The present situation is not sustainable if our nation is to meet the needs for a diverse workforce and a global knowledge economy. The good news is that we have an opportunity to address this challenge today. Any fix to address the student loan interest rate dilemma and growing student debt cannot be made only with an undergraduate student focus. It must equalize treatment of graduate students, in terms of interest rates, whether fixed or market-based, and the caps on maximum rates that can be charged.