**Financial Literacy and Education Commission Public Meeting**
**October 23, 2013**
**U.S. Department of the Treasury – Cash Room**

**Higher Education Decision-Making**

Webcast available at:
http://treas.yorkcast.com/webcast/Viewer/?peid=f492e27bcacc4f64b8b0d8aa0d5b468f1d

## Executive Summary

**Treasury Acting Deputy Secretary Mary Miller** opened the meeting by noting that the theme of the meeting advances the Financial Literacy and Education Commission's "Starting Early" focus.

**Treasury Secretary Jacob Lew** stressed the importance of college education for upward economic mobility, while also noting that the costs of a college education have never been greater. Reviewing recent student loan reforms, he stressed the need to help students make smart financial decisions.

**Education Secretary Arne Duncan** spoke of the department's plans to develop a college rating system. The system will address what he termed a major flaw in the current system of federal financial aid: basing $150 billion in financial aid solely on inputs rather than outcomes.

Students, he said, "need to understand the costs of higher education and make responsible decisions about the programs they choose and the debt they take on." And once they enter college, students face an array of financial decisions beyond managing student loans. Students also must navigate campus-based marketing for bank debit cards, credit cards, and prepaid cards.

**Consumer Financial Protection Bureau Director Richard Cordray** said that students need to understand the costs of higher education and make responsible decisions about the programs they choose and the debt they take on. He reviewed CFPB initiatives to assist students, parents and guidance counselors, including a standardized financial aid shopping sheet, which allows students to compare one college offer directly with another.

The meeting heard from six experts on two panels. Deputy Assistant Secretary for Consumer Policy at Treasury Melissa Koide explained that hosting the invited speakers does not imply that the Commission or any of the participating agencies endorse their organizations or products.

**Panel One. "Understanding the Costs and Benefits of Going to College: Improving information for student loan borrowers."** Three expert panelists advocated the following:

- **Provide labor market information.** Students should have a picture of future earnings returns based on college major and projections of future labor flows.

- **Improve the timeliness and availability of information on financial aid.** Based on tax filings, the government should determine and proactively notify individuals of their eligibility for Pell grants. Changes to the FAFSA process and timing should be made to allow prospective students to learn the real costs of college while they are deciding where to apply, rather than afterward. The benefits of FAFSA's tax data retrieval tool should be extended to low-income families who do not have enough income to file the 1040 tax form. And same data retrieval tool should be tied to another online program called FAFSA4caster.

- **Reach out to local communities.** The government should provide information, training and toolkits to students, families and local community organizations on how to use online college-decision tools.

**Panel 2: Student Resources – Tools for Students: Helping students understand their choices and options**

Picking up an earlier theme, panelists noted that students entering college face a host of financial decisions beyond managing student loans. And when it comes to paying bills, student loans are often come last – after paying rent, credit card bills, interest on car loans, and other expenses. Panelists discussed these techniques to assist college students:

- **Using education technology to promote students' "holistic financial health."** An executive of EverFi described the company's efforts to advance "preventive financial education" through customizable online programs, personalized action plans and campus financial risk analysis.

- **CFPB's Paying for College**. This suite of online tools assists young people and their families in making important financial decisions related to going to college.

- **Speaking to students in their language.** Though the government offers numerous repayment options on student debt, borrowers find the system too complicated to navigate without help, according to an executive of American Student Assistance. The non-profit organization seeks to speak to students in their language, using peer blogs, social media, video, web communities, financial tools, campus events – an even a horror movie with a financial message.

## Opening Remarks

**Acting Deputy Secretary Mary Miller of the U.S. Department of the Treasury** opened the meeting by recalling the decision taken by the Financial Literacy and Education Commission a year ago to focus its collective efforts to increase financial capabilities related to starting early. Those efforts will help young people gain the knowledge and tools they need to make informed financial decisions at key moments in their lives – such as planning for higher education.

**Secretary Jacob Lew, U.S. Department of the Treasury, Chair of the Commission**

Treasury Secretary Lew stressed the importance of college education for upward economic mobility, while also noting that the costs of a college education have never been greater.

"Getting a higher education—whether it is a technical certificate or a four-year degree—is critical in today's economy," Sec. Lew stated. Too many young people are missing out on a college education, however, simply because they cannot afford it. Reviewing recent student loan reforms, he stressed the need to help students make smart financial decisions.

"We want young people to be better informed," he said, "so they can manage their expenses, save for the future, and achieve their financial and personal goals."

**Secretary Arne Duncan, U.S. Department of Education**

Sec. Duncan began by taking note of two contradictions prevailing in higher education: first, the contradiction between the importance of a college education and the expense; and second, the contradiction between the quality of higher education in America – which Sec. Duncan called the best in the world – and the inefficiency of the college marketplace. For example, some students cannot afford to go to college, while others have chosen schools or specialties for the wrong reasons.

Sec. Duncan went on to discuss the Administration's plans to establish a college rating system. While the government provides $150 billion a year in college grants and loans, it bases its financial aid solely on inputs rather than outcomes. That makes for a flawed system, which the planned ratings system aims to address. Sec. Duncan articulated three values that will be built into the rating system: increased access (such as percentage of students receiving Pell grants and numbers of first-generation college students); affordability (such as average tuition, scholarships and loan debt); and outcomes (such as graduation and transfer rates, graduate job placements and earnings, and loan repayments). The Department of Education has set goals of making recommendations to the President on the ratings system by next fall and actually beginning to tie aid to outcomes in 2018.

**Consumer Financial Protection Bureau Director Richard Cordray**

Director Cordray remarked that we have the opportunity to develop a coordinated policy framework to help young people make the right financial decisions.

"Students need to know before they owe," Director Cordray stated, voicing the "Know before You Owe" theme developed by CFPB. "They need to understand the costs of higher education and make responsible decisions about the programs they choose and the debt they take on."

And once they enter college, students face an array of financial decisions beyond managing student loans. Students also must navigate campus-based marketing for bank debit cards, credit cards, and prepaid cards.

Director Cordray reviewed several programs that the CFPB has developed to assist students, parents and guidance counselors. A standardized financial aid shopping sheet, for instance, lays out in simple terms the total cost of college (including tuition, fees, and other expenses) and lists options for obtaining grants and loans. The financial aid shopping sheet – which 1,600 colleges have adopted – enables prospective students to compare one college offer directly with another.

CFPB issued recommendations earlier this year on youth financial education. The agency advocates integrating financial education into school curriculums from kindergarten through twelfth grade. Parents also must be engaged in their children's financial education. Praising the effectiveness of experiential learning, Director Cordray recalled attending a FLEC field hearing last month in Madison, Wisconsin, where one student related that his experience in a school bank account program not only helped him manage his finances, but also has led him to study finance in college.

## Panel 1: Understanding the Costs and Benefits of Going to College: Improving information for student loan borrowers

***Moderator: Melissa Koide, Deputy Assistant Secretary for Consumer Policy, U.S. Department of the Treasury***

***Panelists:***

- ***Jeff Strohl, Research Director, Georgetown University Center on Education and the Workforce***
- ***Pauline Abernathy, Vice President, The Institute for College Access and Success***
- ***David Bergeron, Vice President, Postsecondary Education, Center for American Progress***

**Dr. Strohl** stressed the need to bring labor market information to students. Students should have a picture of future earnings returns broken down according to various college majors. Moreover, that information should incorporate projections to account for countercyclical labor flows. Otherwise, students who select majors based on current demand may find that the demand has shifted by the time they graduate. Teasing out information from available data, however, requires analysts to overcome numerous research challenges.

**Ms. Abernathy** offered four policy recommendations. Her first recommendation took aim at the impact of the high cost of a college education, which deters some prospective students from going to college. Some students fail to distinguish between the sticker and net price of a college education. And some fail to apply for Pell Grants even though they would be eligible for them.

Therefore, she recommended that, once Americans file their taxes, the federal government determine which ones would qualify for Pell grants and proactively notify them of their eligibility.

Second, Ms. Abernathy drew attention to a timing disconnect, in which students are applying to college before they know how much financial aid they will be eligible to receive. Though they are applying to colleges today to meet application deadlines, students must wait until next year to apply for federal student aid through the FAFSA (Free Application for Federal Student Aid). The FAFSA allows applicants to upload their IRS data – but only after they file their taxes for the current year. Thus today's college applicants must wait until next spring – two weeks after their tax filing, to be precise – to upload their 2012 tax data into the FAFSA.

She recommended that the FAFSA accept applicants' tax filings from the previous year rather than the current year. The FAFSA could then use that data to project the amount of federal aid available for each applicant. Thus, prospective students would learn the real costs of college on a timely basis.

"Those with the lowest incomes have the greatest barriers in filling out the FAFSA," Ms. Abernathy maintained, moving on to her third recommendation. The FAFSA's tax data retrieval tool only works with 1040 filings – thus excluding low-income families who do not have enough income to file the 1040 form. They are denied the benefits of the data retrieval tool, which makes the FAFSA easier to use while reducing filing errors. To solve this problem, she urged that the IRS data retrieval tool to incorporate data from W-2 forms in addition to 1040 filings.

Ms. Abernathy's fourth recommendation focused on another online tool called FAFSA4caster, which high school juniors and others can use before actually applying for college. This Department of Education online tool gives personalized estimates of the amount of federal student aid to which a person is eligible. Unlike the FAFSA, however, the FAFSA4caster does not permit applicants to automatically upload their IRS data. Therefore, she recommended connecting the FAFSA4caster with the FAFSA's tax data retrieval tool to obtain an applicant's relevant tax data. She also suggested that the FAFSA4caster allow users to specify the colleges they are interested in, so that the program could provide personalized estimates of likely costs at those particular colleges.

**David Bergeron** stressed the need to provide more information to students and their families on the economic outcomes of college decisions before taking on student debt. Otherwise, he asserted, people will make wrong choices, such as choosing a college based on a free booklet picked up at the grocery store or a pop-up ad on Facebook.

Bergeron, a former acting assistant secretary for postsecondary education at the U.S. Department of Education, emphasized the need to get information to students, families and local community organizations as they grapple with difficult decisions of college education. Decrying a dearth of such information, he urged the federal government to get the information to local communities. He also urged the government to develop toolkits and provide training to show how to use online tools.

Finally, he spoke of the need for iterative process to learn what students need and use. Recalling the Department of Education's development of the College Scorecard, as well as research conducted by the Center for American Progress, he said we must recognize that any programs will fall short of perfection.

**Discussion:**
In the ensuing discussion with FLEC members, Camille Busette, Assistant Director, Office of Financial Education, Consumer Financial Protection Bureau, commented that, as students prepare for careers, they must also build in flexibility to adjust to the dynamism of the American economy. Employees can expect to retrain several times in their working years to adapt to the changing demands of a dynamic economy.

Susan Shockey, National Program Leader in Family and Consumer Economics at the Department of Agriculture, repeated a concern heard among community development organizations in small towns: higher education will lead local youth to move elsewhere, causing home communities in rural areas to lose their workers.

"We need to build bridges back to the community," Mr. Bergeron replied. Simply posting information on a website is not enough. Ms. Abernathy recommended promoting information on Income-Based Repayment (IBR) of student loans, which would enable individuals to move back to their home communities. She noted that the SBA highlights the IBR program to potential entrepreneurs whose student debt would otherwise keep them from starting their own business.

David Soo of the Department of Education asked how to get the information out to communities, and Ms. Koide asked who was doing so currently. Both Mr. Bergeron and Ms. Abernathy replied that the federal government must do so, since the private sector was not doing so adequately. The two panelists urged the government to use multiple channels, such as the Department of Agriculture's ties to community development and education services.

Mr. Bergeron recalled past concerns that subjective values would inevitably inject themselves into any attempt to design college scorecards to compare different universities. Therefore, he and colleagues had believed that government should defer to private-sector businesses, which could develop competing products based on different value sets. Nonetheless, he said that now he believes that the government itself must develop comparison analytics.

Ms. Abernathy agreed, arguing that the public would be more likely to trust the government as an unbiased source of information. To address the concern of government-imposed values, she advocated interactive online tools that would enable students to define their own priorities before receiving customized guidance based on those priorities.

Ms. Koide asked who is aggregating data and performing analytics on it. Dr. Strohl replied that states are aggregating data at their level, but no one is doing so at the national level.

## Panel 2: Student Resources – Tools for Students: Helping students understand their choices and options

*Moderator: Camille Busette, Assistant Director, Office of Financial Education, Consumer Financial Protection Bureau*

*Panelists:*

- *Justin Beck, Senior Vice President, Higher Education, EverFi*
- *Michael Pierce, Policy Analyst, Office for Students, Consumer Financial Protection Bureau*
- *Paul Combe, President and CEO, American Student Assistance / SALT*

**Justin Beck** described the work of EverFi, a for-profit education technology company that reaches 5.8 million students at 5,500 at K-12 schools, colleges and universities across the country. Embracing what it calls preventive financial education and "holistic financial health," EverFi provides an online, customizable financial literacy program that produces personalized action plans. The company also offers campus financial risk analysis based on the data collected on its platform, which can provide, for example, information comparing students to their peers.

**Michael Pierce** reviewed the CFPB's Paying for College suite of online tools, which assist young people and their families in making important financial decisions related to going to college. Resources include a financial aid shopping sheet and an online tool that allow students to compare financial aid packages.

He noted that students entering college face a host of financial decisions beyond managing student loans. These decisions include where to open a bank account, how to avoid incurring unexpected fees, whether to accept debit and credit cards, and how to manage such financial products.

**Paul Combe** observed that, while the government offers numerous repayment options on student debt, borrowers find the system too complicated to navigate without help. Overwhelmed by the choices, some students end up paralyzed and just bury their heads in the sand, falsely hope that the loan will go away.

Combe described his non-profit organization's efforts to help student borrowers manage the loan repayment process. American Student Assistance works with nearly 250 colleges and universities nationwide and reaches out to over 3 million in-school students and recent alumni through an online and phone counseling program called SALT. The program claims to speak to students in their language, using peer blogs, social media, video, web communities, financial tools and campus events. And in an attempt to engage students, ASA designed a campaign based on an eight-minute horror movie called "Face the Red," in which the dreaded red smoke turns out to be a metaphor for student loan debt.

"A horror movie to increase financial empowerment may seem like an unusual choice," Mr. Combe acknowledged, "but if we don't start talking to students in their language and try to tap into their interests to engage them, we will have little chance of making meaningful impacts."

**Discussion:**

The ensuing discussion raised the question of the effectiveness of online technology in providing students with financial education. Noting that students seem more comfortable using apps, Mr. Beck said there is evidence of short-term gains, but no answers yet on long-term gains. Mr. Combe reiterated the need to follow students over the long term.

Max Schmeiser of the Federal Reserve Board asked panelists about the financial risks students face in addition to student debt. Mr. Beck observed that some students enter college with a high risk tolerance, characterized by lax attitudes toward overdraft fees, willingness to sign up for unnecessary credit cards, and so on.

Mr. Combe noted that student loans were the last thing that students pay – after rent, credit card bills, interest on car loans, and other expenses of daily living. Therefore, he said, helping students manage college loans means dealing with credit card debt and other financial challenges beyond the loans themselves.

Noting the value of employer engagement, Mr. Pierce described the resources the CFPB has developed to encourage public sector employers to provide information about debt forgiveness resources.

Ms. Koide asked how to engage younger students before they reach college age. Mr. Beck emphasized the importance of bringing financial education into the home, by encouraging family conversations about financial topics.

Camille Busette raised a question discussed at the earlier Wisconsin public hearing: how to reach populations that are unaware of the websites of the panelists' organizations. Panelists said they try to get the word out through a variety of channels, from Facebook ads to public service announcements, from support for the Martin Luther King Jr. public library in Washington, D.C., to partnerships with banks and other "accelerators" in local communities.

## Concluding Remarks

Ms. Koide concluded the meeting by reiterating the need to prepare students, regardless of background, to make decisions about where to go to school, what to study, how to finance their education and how to manage their loans. It is imperative, she maintained, that the Federal Government pay attention to different strategies, partnerships and programs. She thanked the panelists and the Commission for thinking hard about how to help families and young people get off to the right start in making those big financial decisions.