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New Math for College Costs; We're seeing more 'sorting' by income and class in American education. The average private college is trolling for students who can pay; [U.S. Edition Edition]

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Abstract (Summary)

So much for the money. The raging debate in student-aid circles today is whether money is the worst of the barriers facing the poor. "No," says James Heckman, a professor at the University of Chicago and a winner of the Nobel Prize in economics. Among well-prepared students, he finds that the poor enroll at almost the same rate as the rich. For those who can't raise enough for tuition, targeted grants would be ideal.

Full Text (810 words)

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Reporter Associate: Temma Ehrenfeld

Higher education just got more expensive. Under the new federal budget, interest rates will rise on student loans. Many lenders will start charging students higher fees, as well. College costs are up anywhere from 6 to 7 percent, depending on the type of school. Small, additional federal grants are planned this year for some of the neediest

students. But Pell Grants--the government's basic aid program for the poor--haven't risen since 2003.

As a result of cost constraints, we're seeing more "sorting" by income and class in American education. The average private college is trolling for students who can pay. Students in well-to-do families are switching in larger numbers to public universities, perhaps because their parents haven't saved enough for education and retirement, too. The quality publics are also enrolling more out-of-staters (who pay higher tuitions), leaving fewer spots for the in-state poor. The poor are shifting to two-year community colleges.

There's good news: despite the cost, enrollment by students with modest incomes has grown significantly since 1982, says economist Sandy Baum, senior policy analyst for the College Board. Nevertheless, the attendance gap is huge, between high-school graduates with money and those without. More than cost may be at work. But taking cost first, here's what's up for the next school year:

Pell Grants for low-income students. Starting July 1, something more will be added: up to \$750 extra for those who complete a "rigorous" high-school curriculum; up to \$1,300 for second-year Pell students who earn a 3.0 average, and up to \$4,000 for juniors and seniors, if they major in math, science, technology, engineering or certain foreign languages and keep their 3.0. The Feds are scrambling to write the program's rules. No one knows how many students will qualify.

Government-backed student loans. Today's variable rates are changing to fixed rates for new loans. Starting July 1, borrowers will pay 6.8 percent, up from 5.3 percent today. Existing student loans will still bear variable rates, which could rise even higher. New PLUS loans for parents will rise to 8.5 percent (up from 6.1 percent). For the first time, they'll be open to graduate students, too.

Students will be allowed to borrow a little more--\$3,500 for freshmen (up \$875 from last year), \$4,500 for sophomores (up \$1,000) and \$12,500 a year for graduate students (up \$2,000). More than 60 percent of four-year undergraduates fund their diplomas with debt. At the median, they leave school with \$15,500 in student loans at four-year public institutions, and more than \$19,000 at private schools. Big borrowers and low earners struggle with their debt. But there's no discernable evidence that repayment is causing most students to put off marriage, home buying or living independently, the American Council on Education reports.

The new budget phases out some of the fat subsidies that the government grants to lenders for administering student loans. As a result, at least some of the lenders who previously offered no-fee loans will start charging borrowers 1 percent of the loan upfront.

Debt consolidation. Students with several student loans can convert them into a single debt with a fixed interest rate. You'll pay the weighted average of the loans you consolidate, and rates rise July 1. If you're eligible, consolidate now, says attorney John Dean of the Consumer Bankers Association. Loans are available directly from the government (loanconsolidation@ed.gov) or from private lenders.

529 college-savings plans. There are two types of plans--a "prepaid," which gives you credits toward future college tuition, and a plan that offers mutual funds for college investing. Because of a quirk in the law, using a prepaid cost parents a lot of student aid. Starting July 1, however, both plans will be on equal footing, with aid only modestly affected. In another switch, 529 investment plans held in a child's name will get the same favorable treatment, in the federal-aid calculation, as plans held in a parent's name. Private colleges, however, may set different rules for granting their own institutional aid, says Joseph Hurley of Savingforcollege.com.

So much for the money. The raging debate in student-aid circles today is whether money is the worst of the barriers facing the poor. "No," says James Heckman, a professor at the University of Chicago and a winner of the Nobel Prize in economics. Among well-prepared students, he finds that the poor enroll at almost the same rate as the rich. For those who can't raise enough for tuition, targeted grants would be ideal. But to prepare and motivate larger numbers of poor kids, the most effective "college prep" may be enrichment courses for infants and toddlers. The research is proving it, Heckman says. Schools (and testing) play only a minor role in raising test scores. Stimulating tots produces more successful and smart adults.

Congress isn't much interested in his findings, but governors are, Heckman says. Student aid for babies? Why not?

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