The Wealth Gap: Is Higher Education Helping?

Opinion Snapshot

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The year 2020 has been met globally with fear and caution as the COVID-19 pandemic has reshaped our daily life and prompted feelings of financial uncertainty. But, even before COVID, during what was characterized by President Trump as the “greatest economy in the history of our country,” there existed a very real and deep wealth gap between America’s richest and poorest citizens.[1] The wealth of a family or individual is simply defined as the value of their assets (home, retirement accounts, savings accounts), less any outstanding debt (mortgage, student loan, credit card debt.) According to the Pew Research Center, this wealth gap in the United States is sharper than the gap in income and growing more rapidly. As of 2016, upper income families had 7.4 times the wealth of middle-income families and 75 times as much as lower income families; these numbers are up from 3.4 and 28 in 1983.[2]

The wealth gap is an ongoing problem that not only severely restricts the financial security of lower income households, but is also “bad news for everyone” from an economic growth perspective. So, this is not just a moral issue, but an economic one.[3]

Higher education is the United States is both a way to positively address the wealth gap, and a further cause of it. According to Georgetown University’s Center on Education and the Workforce, a Bachelor’s Degree is worth $2.8 million on average over a lifetime, and a person with a Bachelor’s Degree earns 31% more than someone with an Associate’s Degree and 84% more than someone with only a high school diploma.[4] These numbers could certainly lead you to conclude that providing broad access to a college education is an important part of addressing the wealth gap.

Sapere Aude Consortium, Inc. was formed to serve college students interested in financial services, and whose internships were negatively impacted by COVID. The three founders’ goal is to provide a forum for students to research and learn about critical issues impacting the wealth and investment management industries. The authors listed above were asked to express their own ideas in this Opinion Snapshot, whether or not the founders or other industry professionals agreed with their opinions or proposals. This Opinion Snapshot is offered in that spirit – to hear the views of some of the next generation of professionals to enter the wealth and investment industries. Neither Sapere Aude Consortium, the founders, nor any of the authors received any financial support from any firm or person with any interest, financial or otherwise, in this article. Neither the founders, nor the authors are currently affiliated with any organization mentioned in this article.

Then there is the other side of the wealth gap ledger. Given the demand for college education, the increase in its cost and the access to federally guaranteed student loans, students have taken on more and more debt. Sitting at almost $1.6 trillion, student loan debt hinders low income individuals and prolongs financial instability. Student loan debt is now second only to mortgage debt in the total consumer debt held, more than both credit cards and auto loans.[5] It's easy to conclude that this amount of student loan debt has a negative impact on the wealth gap by potentially delaying actions that increase wealth, such homeownership and saving for retirement. What makes it especially pernicious, is that people take out student debt to narrow the wealth gap, but it then ends up making it worse.

After a brief review of the wealth gap in the United States, we will look at student loan debt with an eye toward both the short- and long-term solutions to the issue. The more immediate short-term solutions address the current $1.6 trillion of debt through proposed publicly policy changes, as well as some enhancements to employee benefit programs. While this approach simply treats the symptom rather than investigating the main source of the problem, any reduction of student debt assists individuals in reaching financial stability, thus minimizing the wealth gap.

Beyond the short-term proposals, we will ask the question:

How do we prevent this from happening again?

We believe that the only way to do this is illuminate the cost of higher education in the United States. To tackle this issue, we will identify and ask questions about the rising costs of higher education for both public and private universities, as well as the sources of funds available to mitigate these costs, including endowments and public budget expenditures.

COVID-19 has also not only worsened the wealth gap, it also has led to further questioning of the cost of higher education, given that many colleges have kept tuition prices steady despite transitioning to predominantly online classes.[6] We also found that featured campus amenities and programs may lure in students, but distract from a college's main purpose: accessibility to quality education. Further, the difference in price paid by students in the United States, compared with students from other countries, allowed us to better understand exactly what drives the cost.

We will consider the current structure of endowments, including taxation, and analyze annual endowment spending by schools. In pushing for greater transparency of the Cost of Attendance (COA), we hope universities and attending students can assess the pricing strategy. Creating a utilization policy for tuition and endowment funds, we want to encourage an increase in the amount of financial aid available to students in need. By focusing on cost and alternative sources of funds to offset that cost, we believe we can reduce the amount of student loan debt that restrains lower income students from advancing their financial security. This is a crucial step to help reduce the wealth gap.

Summary:

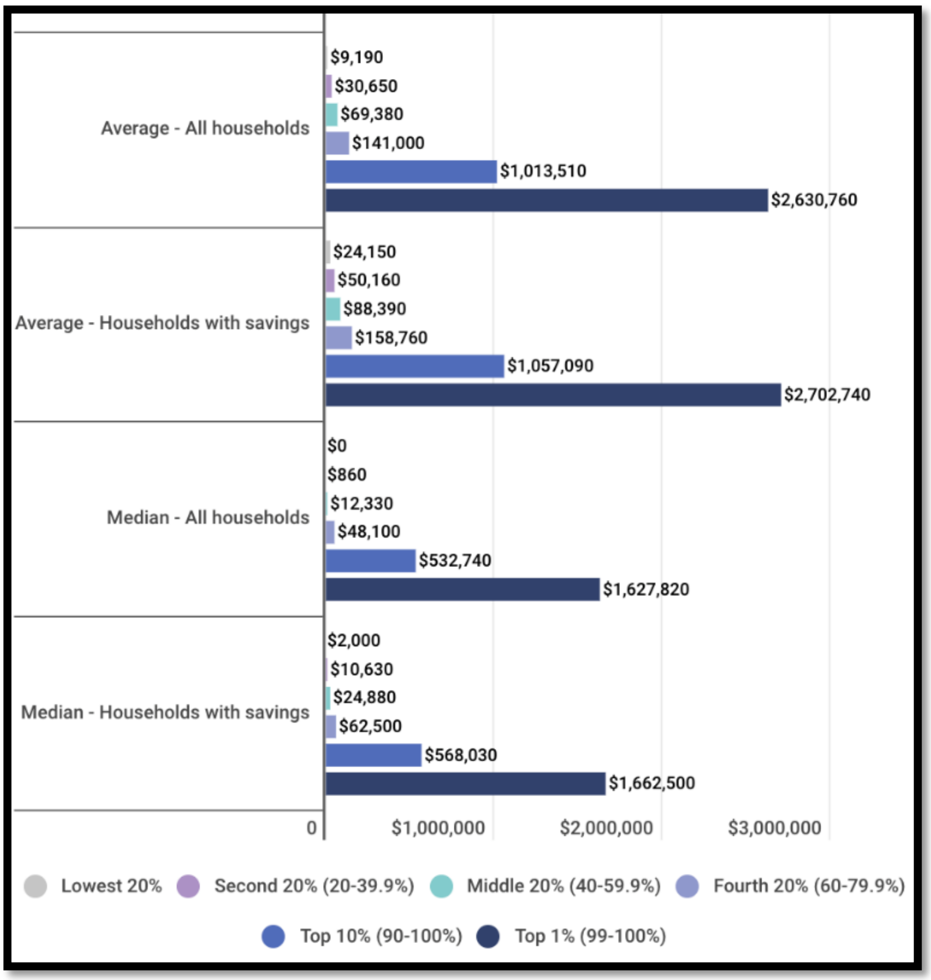
- *The wealth gap is real, getting worse, and impacts more than just the people without wealth, it impacts the entire economy.*
- *Higher education is among the most reliable way to address the wealth gap, but lack of affordability limits access for many.*
- *Student loans were historically a way for lower and middle income people to address access, but over the last decades, the amount of debt has ballooned, making the wealth gap worse.*
- *We need to explore short-term solutions to addressing the current amount of student loan debt, including forgiveness, refinancing, as well as employer-based and bankruptcy solutions.*
- *We also need to address The Real Problem, and provide access to Higher Education without excessive student loan debt, by lowering Cost of Attendance, increasing financial aid, increasing support for public education, and changing the way we deliver Higher Education.*

The Wealth Gap

The financial wealth gap refers to the growing divide between affluent households and, essentially, everyone else. As the share of wealth held by middle class families declines, the wealth gap between upper income and middle and lower income families continues to rise.[7] As the "top 1%" holds much of the nation's wealth, lower income households face greater adversity in both keeping up with current payments and saving for future costs, such as education and retirement. The gap contributes to both social and economic hardship for the lower income individual, and even elicits tension between individuals as they experience vastly disparate ways of life. Data shows that the three richest men in the United States collectively hold the same wealth as the entire bottom 50% of the population combined, demonstrating the intense concentration of wealth.[8]

Savings rates are a good indicator of the wealth gap, as statistics show the large sums of money held in the accounts of the wealthy. The median household has only about $11,700 saved. When split up by income level, we can see the share held by the top 1% (see Exhibit 1.)[9] Households with low savings often struggle to buy houses, retire comfortably, and pay for education. In 2018, one-fourth of adults reported that they had no savings allocated towards retirement.[10]

Exhibit 1: Average Median Savings Levels by Income[11]



Source: Horymski, Chris. "How Much Does the Average American Have in Savings?" Magnify Money, LendingTree, 21 Oct. 2019, www.magnifymoney.com/blog/news/average-american-savings.

The Wealth Gap Impacts Everyone

It is sometimes easy to think that the only people impacted by the wealth gap are those on the wrong side of it. As important as addressing this inequality is from a moral standpoint, its impact is much broader. As Barron's cover story on June 18th stated, "Why the Widening Wealth Gap is Bad News for Everyone."[12] From the deep divides that bring the political instability that we are all experiencing now, to the more extreme legislative solutions that result from that instability, wealth inequality is at the core of our country's collective anxiety right now. And, many economists and portfolio managers believe that persistent wealth inequality will stagnate economic growth, as you are limiting the ability to spend of the bottom 90% of the population – over 300 million people. Abby Joseph Cohen, the legendary investment strategist at Goldman Sachs, said that "Economic history clearly shows that the strongest, most durable periods of economic expansion in most countries occur when the middle class expands." According to Christopher Smart, chief global strategist for the Barings Investment Institute, "Inequality is the defining feature of our economy today. That has implications on the kinds of companies and investments that will and won't do well."[13]

The Role of Higher Education in Wealth Inequality

Higher education poses a large threat to middle and lower income groups. This sounds incongruent, but the reason for this threat is that higher education is an important part of addressing wealth inequality, but is largely unaffordable to the groups that need it the most. That is, unaffordable without taking on large amounts of student loan debt that exacerbates wealth inequality.

According to CNBC, "Adults with a Bachelor's degree or higher are significantly more likely to be doing at least okay financially (87%) than those with a high school degree or less (64%)."[14] Given this, students from low income households, often people of color, seek to take out student loans if they cannot secure full financial aid or grants. In solving some of the various problems associated with student loan debt, we can create equal opportunity for students of all financial situations. Student loan debt causes further financial hardship. For example, data shows that over 80% of people between the ages of 22 to 35 report that educational loans have restricted them from buying their first home.[15]

In 2020, the $1.6 trillion in student loan debt leads to an average of $32,732 per borrower, with an average monthly loan payment if $393. The staggering statistic is that the total amount of student loan debt in 2006 was $481 billion – growing in less than 15 years to the $1.6 trillion outstanding in 2020. And, the largest amount of student loan debt outstanding ($575 billion) is owed by borrowers between the ages of 35 and 49 – more than a decade into their working years.[16]

There are numerous articles which include more statistics underlying the student loan debt crisis. We think it is pretty clear the impact student loan debt is having on borrowers; particularly, those in the bottom half of wealth accumulation. It inhibits many from having an emergency fund, from saving for a home, getting married, having children, and saving for retirement. Of particular note, the inability to save for retirement early in your career is challenging because compounding is such an important part achieving your savings goals. If you are not saving early, you lose the impact of compounding. If two people save the same amount for retirement each month, but one starts at 25, and the other at 35, the early saver will end with nearly twice the amount of the later saver.[17]

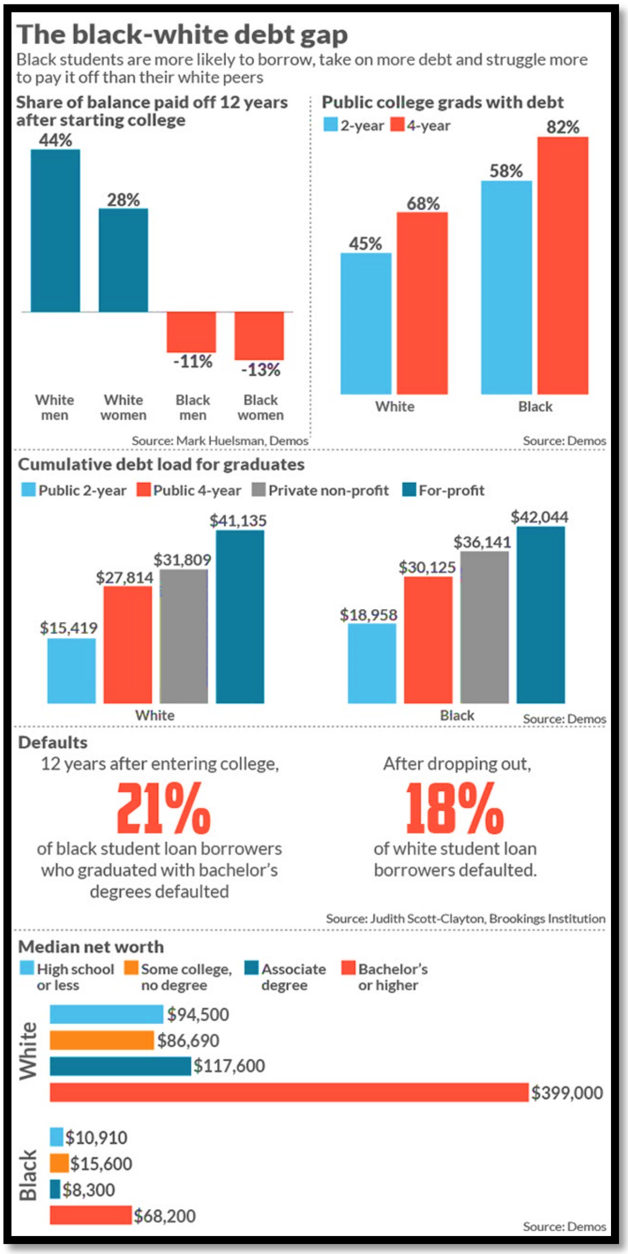
The bottom line:

Student loan debt at these levels makes wealth inequality worse – even though it is supposed to be a tool to make it better.

Racial Impact

Further, like many elements of our society, student loan debt also has racial disparities and these disparities exacerbate racial wealth inequality. Student loan debt is often dependent on family income, so we can compare the median net worth of a family to the share of debt among different races. While discrepancies of debt amounts exist among all races, the largest gap is presented between Black and White Americans (see Exhibit 2.) In addressing the volume of student loan debt, we can reduce the wealth discrepancies between racial groups in an attempt to promote a truly equal society.

Exhibit 2: Racial Student Loan Debt Gap[18]



Source: Berman, Jillian. "All the Ways Student Debt Exacerbates Racial Inequality — 'It's like Landing in Quick Sand.'" MarketWatch, 27 July 2019, www.marketwatch.com/story/all-the-ways-student-debt-is-exacerbating-racial-inequality-its-like-landing-in-quick-sand-one-black-student-says-2019-07-18.

What Do We Do About It?

The real question:

Is it student loan debt that is making wealth inequality worse, or is it the cost of education?

Solutions must be looked at from both a short-term and long-term basis. Short-term, what do we do with the $1.6 trillion of student debt that is choking many lower income individuals, including many people of color? Long-term, how do we prevent this from happening again by addressing the accessibility and skyrocketing cost of higher education?

Short-Term: The current $1.6 Trillion of Student Loan Debt

There are many proposals to reduce the burden of the $1.6 trillion of student loan debt, with a range of price tags and with different entities funding the cost.

This section addresses the potential short-term actions that would assist in minimizing the weight of student loan debt resting on America's shoulders. The enormous sum of debt accumulated gives rise to the concept of full, partial, or "earned" forgiveness – or debt cancellation. With interest rates at record lows, many solutions center around the public or private refinancing of this debt to reduce the payments. There are also creative employer-based solutions, which facilitate loan repayment in exchange for an employment commitment. Legislative solutions are included in the CARES Act, and they temporarily encourage these employer solutions – but, this could be made permanent. There are also State programs, which encourage graduates to relocate to a jurisdiction in exchange for help with student loan payments. Finally, there are policy proposals that provide greater flexibility to borrowers under our Bankruptcy Code.

Some combination of these programs would reduce the student loan debt as much as possible until the underlying cause of the increasing cost of higher education is solved.

Forgiveness: Cancel the Debt?

The existing federal "forgiveness" program, the Public Service Loan Forgiveness Program (PSLF) forgives the remaining balance on your direct loans after you have made 120 qualifying payments under a qualifying repayment plan while working full-time for a qualifying employer – federal, state, local, or tribal government or not-for-profit organization. Essentially, the forgiveness of a student loan in exchange for public or non-profit employment.[19] Passed in 2007, under President George W. Bush, the program is designed to help members of the United States Armed Forces, police officers, firefighters, first responders, prosecutors, public defenders, and other public servants.[20]

But, as you can probably predict, given the three uses of the word "qualifying," as of May 31, 2020, 91% of 202,094 applications for the PSLF got denied. About 71% of applications were rejected because applicants had ineligible types of loans, missed 120 months payment requirement, or did not have qualifying employment, and about 24% were rejected because they were missing the required information. This leaves only 3,697 applications processed, yet only 2,429 unique borrowers collectively received $163.8 million in student loan forgiveness. Unfortunately, that is only 1.5% among 155,642 unique applicants for the PSLF. Even worse is that those fortunate borrowers only count for 0.03% among 44.7 million United States' borrowers with student loan debt, and the forgiven amount is only 0.01% of the United States' total student loan debt of $1.6 trillion. With the continued overall increase in student loan debt, and this extremely low forgiveness rate, the current United States' forgiveness program is not making much of an impact and would need intense revision to cut down the total debt more efficiently.[21]

There has been much analysis and many proposals concerning student loan debt forgiveness. During the Democratic Party presidential primary, Senator Bernie Sanders and Senator Elizabeth Warren both offered progressive forgiveness plans to cancel all or a large portion of student loan debt. The cost of their plans was up to $1.6 trillion, something that draws objections from many.[22] More recently, Senator Warren joined with Minority Leader Schumer in calling for the President to immediately cancel $50,000 of student loan debt for millions of borrowers as a result of COVID.[23]

President-elect Joe Biden has proposed a moderately progressive plan that provides that any borrower who earns less than $25,000 per year would not have to make any student loan payments. Everyone else would only be required to pay 5% of their discretionary income (income minus taxes and essential expenses) after the first $25,000. It is important to note that President-elect Biden is not proposing that a significant amount of $1.6 trillion be forgiven and, instead, is focusing on making the payments more manageable.[24] President Donald Trump's budget proposal is less progressive with respect to forgiveness of student loan debt. In fact, he and Secretary DeVos have proposed to end the PSLF referred to above, for philosophical (we should not favor one type of pursuit over another) and budgetary reasons.[25] The President has, however, supported forgiveness programs focused on undergraduate debt through income-driven payment plans – albeit at a higher percentage of income (12.5%) than President-elect Biden's proposal.[26] It is also important to say that the President has suspended all federal student loan repayments and the accrual of interest through December 31, 2020, as a result of COVID.[27]

A large portion of the $1.6 trillion in student loan debt is held by people in upper income groups, and those with graduate degrees. Those with graduate degrees, who represent just 14% of the adult population, owe 56% of the debt, with the 3% holding doctoral degrees owing 20%.[28] Considering this breakdown of student loan debt, any forgiveness plan would have a greater impact on wealth inequality per dollar spent by providing more segmented income-based forgiveness, rather than having the same plan for any borrower who earns more than $25,000. For instance, Senator Warren's plan did not provide benefits for anyone who earns more than $250,000, and President-elect Biden's plan has an income limit of $125,000.[29] By focusing student loan forgiveness to lower income borrowers, we can isolate the dollars spent on improving the current state of wealth inequality.

In short, given the size and scale of current student loan debt, some sort of forgiveness or "reset" is likely needed. And, the current federal forgiveness program is not effective. Given the demographics of student loan debt and the cost, there is no easy way to construct a forgiveness program. But, without a significant and effective forgiveness program in place, is it likely that an entire generation of people will continue to negatively impact their ability to buy a home or save for retirement, exacerbating wealth inequality. Therefore, despite these challenges, we encourage reinvigorating PSLF and enacting a segmented, income-based forgiveness program that addresses those most impacted by student loan debt.

Refinancing

In today's "pandemic-driven" low interest rate environment, it seems to be the perfect time to implement refinancing as a short-term solution to student loan debt. Proposals have been made for the federal government to take the lead in driving the refinancing of federal student loans. In addition, the private sector, especially with its online companies such as *SoFi, earnest and credible,* is extremely active in seeking to entice student borrowers to refinance their student debt privately. There are limitations on who can refinance privately – you need to be employed with a certain credit score – and there are reasons not to refinance federally guaranteed students loans privately – like, utilizing income based repayment programs, or what if there is a federal forgiveness program in the next administration?

Senator Warren re-introduced in 2019 a bill to facilitate federal refinancing of student loan debt, which is an intuitively attractive policy option. In her bill, at that time, undergraduates would be able to refinance at approximately 3.7%, which would provide savings to a majority of borrowers.[30] As stated previously, there are a variety of student loans, and the terms are complex, so refinancing is not as straightforward as financing your home mortgage or consolidating your credit card debt. But, in today's rate environment, with the 10-year treasury note yield below 1% (less than half of average 2019 yield), and the 30-year below 2% (over 100 bps less than the average 2019 yield), one would think it could be even less than in Senator Warren's bill and could make a big difference. There have been concerns expressed that facilitating this type of refinancing is regressive and that it will tend to benefit higher income people with large balances.[31] But, given the market limitations on private refinancing, it should be a policy solution to explore.

It is difficult for borrowers to be on top of multiple student loans or to refinance loans. For instance, financial technology firms, such as *SoFi* provide services that help with consolidation and refinance options. *SoFi* provides easier and cheaper online services, which makes it more accessible than traditional financial services. Another benefit provided by *SoFi* is that it consolidates both public and private student loans, an uncommon practice. About 7.71% of total student loans, amounting to about $123.14 billion, are private.[32] As the public student loan forgiveness only covers federal loans, private loans are more difficult to repay. Thus, *SoFi's* option to refinance both public and private loans is beneficial to those who have multiple lenders.

Employer Programs

According to American Student Assistance, a 2017 survey shows that 86% of young workers between the ages of 22 and 33 will commit to their employers for five years if they are promised to receive student loan repayment benefits.[33] By understanding that the problem of student debt is common among young workers, some companies have been attracting employees by providing student loan repayment benefits. Some examples of leading employers are Fidelity, PwC, Penguin Random House, Estee Lauder and Hulu. This relatively uncommon monetary benefit ranges between $1,200 and $6,000 annually for up to six years depending on the company.[34] This benefit helps human resource managers recruit and retain talented young employees. Likewise, the offering also increases employees' work motivation as they are not burdened by large financial concerns.

In Fidelity's student loan debt report from December 2018, the multinational corporation announced that more than 8,900 employees participated in their Step Ahead Student Loan Assistance Program. This resulted in savings of $22.5 million in both principal and interest. Fidelity saved its employees, on average, about four years on the term of their loans. By March 2019, PricewaterhouseCoopers contributed nearly $25 million toward eliminating employees' student loan debt since the program began in 2016.[35]

However, not all companies can afford this benefit. So far, such programs have been mostly offered by big corporations whereas small startup firms cannot bear the financial burden. Fortunately, the employer participation rate doubled from 4% in 2018 to 8% in 2019. This is impressive progress compared to 1% increase over the three year long period from 2015 to 2018.[36]

CARES Act: Enhancing Employer Programs

In March of 2020, Congress passed the CARES Act in response to the coronavirus. As the United States' unemployment rate peaked at 14.7%, the Act extended the scope of educational assistance plans to include employer repayments of student loans to lessen the weight of student loan debt. This expansion allows employers to contribute up to $5,250 annually to their employees' student loans – tax free to both the employer and employee – until the end of December 2020.[37] This provision should persist even after the pandemic, especially considering the IMF's prediction for a slow economic recovery going into 2021.[38] The federal tax incentive will further encourage employers to take part in reducing the wealth gap and allow employers to enhance their employee's financial wellness, recruitment process, and retention offerings with pre-tax student loan repayments.

The value of an enhanced employer program is very clear. Say, the program contributed $3,600 per year (well below the maximum), or $300 per month, on a 10-year student loan of $37,172 at an interest rate of 4.29%. The Education Loan Finance's (ELFI) student loan employer contribution impact calculator estimates that the $300 monthly contribution will reduce the employee's payment time by almost five years, ultimately saving $27,012.

Exhibit 3: The Estimated Student Loan Employer Contribution Impact[39]

†All calculations are estimates based upon the employee loan details and employer contribution information provided and assume a fixed interest rate and corresponding APR. Monthly payments for loans with a variable interest rate are subject to change. Calculations also assume that the borrower makes full, on-time payments throughout the life of the loan. In addition, to any employer contribution. Actual savings will vary based upon a number of factors.

Source: "The CARES Act and Employer Student Loan Contributions." Education Loan Finance, 17 Apr. 2020, **www.elfi.com/cares-act-employer-student-loan-contributions/**.

Case Study 1: Abbott's Freedom 2 Save

Abbott Laboratories offers a unique student loan employee benefit. Abbott's Freedom 2 Save program allows both full-time and part-time employees to earn an equivalent amount to the company's traditional 5% match deposited into their 401(k). These employees must qualify for the company's 401(k) and spend 2% of their eligible income toward student loan debts. Under this program, employees can receive a match without contributing their own money into 401(k).[40]

Since its launch in June 2018, more than 1,000 employees, including existing and newly hired workers, joined the benefit and expect to shorten the payment period by three years on average and save hundreds of thousands of dollars in interest. The company predicts if workers participate in the program for 10 years with a starting salary of $70,000, they will save about $54,000 into their retirement plan without any of their own contribution.[41] *Currently, Abbott is the only company with this unique employee benefit structure as they have a private letter ruling from the IRS. Most social programs to defeat student loan debt directly target the debt. Rather, this program supports another form of financial security to lessen the student loan burden.*

State Programs

States can also provide programs to reduce the student loan debt burden of their residents. Since 2007, Maine has been offering both refundable and non-refundable tax credits to borrowers who attended college and now work in Maine. The program covers up to around $4,000 per year and so far more than 9,000 borrowers received $17 million worth in tax credits through this program.[42] Currently, Maine has the oldest population in the United States and is one of the states with the least amount of student loan debt with 179,100 borrowers, collectively owing $5.8 billion.[43] Maine's Educational Opportunity Tax Credit encourages younger people to move to the State, a goal that can extend to other states, especially states that have similar amounts of outstanding student loan debt and have a relatively good fiscal standing. According to Truth in Accounting, 10-states (Alaska, North Dakota, Wyoming, Utah, Idaho, Tennessee, South Dakota, Nebraska, Oregon, and Iowa) have tax surpluses on average of $14,380 per taxpayer and up to $74,200.[44] These states collectively have 2.8 million borrowers with $97 billion dollars of student loan debt.[45] By participating in cutting down student loan debt, states are investing for a better economy and society in the future.

Bankruptcy Flexibility

A unique characteristic of federally guaranteed student loan debt is that it is more difficult to discharge the debt if the borrower files for personal bankruptcy. This is a complex issue and the legal analysis is beyond the scope of this paper, but it is an issue that continues to be raised as a legal and policy solution to today's student loan crisis.[46] Senators Maggie Hassan and Jean Shaheen, both of New Hampshire, are the most recent Senators to propose legislation to make it easier to discharge student loan debt in bankruptcy. The Student Borrower Bankruptcy Relief Act of 2019 would eliminate the section of the bankruptcy code that makes private and federal student loans non-dischargeable, allowing these loans to be treated like nearly all other forms of consumer debt.[47]

The Real Problem

The issue of student loan debt in the United States is rooted in the broken financial structure of our higher education system. The bottom line is that higher education is simply not affordable to most Americans. But, because people believe they need a college degree to break out of the wealth gap, they seek ways to make it work – hence student loan debt. The Cost of Attendance – or COA – includes tuition, room, board and fees – and varies widely among differing schools, from two year public colleges, to four year public colleges, to four year private colleges, to those colleges who consider themselves "elite" schools. The COA for one year of a two year public college in 2019 to 2020 was about $13,000; a four year state college was about $22,000 (in-state) and $38,000 (out-of-state); a four year private college was about $50,000; and the "elite" schools – you know who they are – exceeded $70,000 per year.[48] And, the COA has not been static. From 1989 to 2016, COA has increased almost eight times faster than wages.[49]

Let's compare this cost to how much money most families in the United States earn in one year. In 2018, median family income in the United States was $74,600.[50] One thing to note is that this amount is pre-tax, with the after-tax median income coming to about $60,000, without taking into account state income taxes.[51] The COA is primarily "after-tax" – making it very clear how difficult it is to afford college. And, probably no need to point out that the COA ranges from 22% of after-tax median income for a two year public college, to almost 37% for a public four year college, to 83% for a private four year school, to finally 117% for one of those "elite" schools. And, that's for one child. How is this supposed to provide access to higher education as a way of narrowing the wealth gap?

We recognize that the way families pay the COA is complex, so simply looking at the COA and median, after-tax, income is not a determinant of whether a family can afford to send their child to college. Approximately 63% of all students receive some form of grant-in-aid, with an average grant amount of $7,400, with work-study of $2,400 and loans of $7,600.[52] And, it is obviously even more complicated than that. At private four year non-profit colleges, approximately 79% of students receive some grant-in-aid, with an average grant of about $15,000 and total aid of approximately $22,000.[53]

But, just on price vs. available income, higher education is not affordable to most – especially those at or below median income, where education is such a critical tool to address the wealth gap. And, figuring out how to pay is not straight-forward and what each family ends up paying is very opaque. What is very obvious – is that, for many, the easiest way to pay the largest amount of the COA is with a federally guaranteed student loan. That's how we got into this $1.6 trillion mess.

This paper will not dive into the complexities of how families specifically finance college education. What we want to do is look at this from the top down – in simple terms – and hopefully raise some questions that will make us think about how we prevent being in the same position we are now, with the unpleasant array of short-term solutions we outlined. Therefore, we want to call attention to the rising cost of higher education that is the underlying cause of widespread financial burden.

We will divide this section up into three, hopefully, logical sections that address this math problem. First, what are the opportunities to reduce the COA? Second, what are some of the top-down ways to think about increasing the amount of grants provided to students. Third, is to look at public education – in the United States provided mainly by State and some municipal governments. We can look at these schools compared with how other countries fund their higher education. It is our hope that future generations will have an increased awareness of unnecessary costs and focus on promoting equal opportunity to quality education.

In the current economy and job market, rightly or wrongly, a college education has become a cornerstone to finding a fulfilling and well-paying entry-level job. College attendance has grown at an exponential rate in the last decades.[54] The Common Application and other online application platforms have allowed students from all over the world to submit applications. But, as we said, this growth is matched by an even larger increase in the cost to attend these schools. Even if we take the harsh medicine laid out in the short-term solutions, unless we solve this fundamental mismatch, we will simply find ourselves back in the same place a decade from now.

Lower the COA

To the average person, it would seem that colleges, unlike other businesses, have increased expenses almost at will. We wonder whether the availability of federally guaranteed student loans has fueled the increase in COA?[55] We think it's a fair question to ask whether colleges – especially state and non-profit colleges – have a responsibility to reduce the cost of attending? Can they do a better job of controlling costs? Should colleges be held accountable for a portion of the student loan debt used to pay their increasing COA, to have some "skin in the game," for graduating a student ready to take the next step?

Cost of Instruction

Many reports state that the rise in COA is not going towards the cost of instruction, specifically, professors' salaries. Salary is dependent on subject matter, state as well as type and level of the institution. The average full professor's salary is around $104,820. A professor of bachelor's studies typically makes around $92,000 at a public school and $109,000 at a private independent school. According to a 2019 to 2020 report from the American Association of University Professors (AAUP), average salaries for full-time faculty have increased less than 2.5percent (and .1% after adjusting for inflation).[56] This is a small percentage relative to the yearly increase in COA, indicating that not much of the COA increases are going directly into educational instruction.

According to Richard Vedder, director of the Center for College Affordability and Productivity, the percentage of university budgets used for instruction has fallen over the past 50 years.[57] A typical university in 1970 would have allocated 40% directly for instruction, mostly professor salaries," he said. "Nowadays, it's more like 30%." This decline in money for teachers and classes, in addition to state funding cuts, may help explain why the number of part-time faculty members has increased over time, to about 51% of total faculty in 2018 from 30% in 1975, according to research compiled by the American Association of University Professors. And, in 2018, that number has remained at 52%.[58] With more part-time faculty members, universities can pay out lower wages and benefits, saving money for non-instructional full-time roles and a smaller group of tenured faculty, whom they can try to attract with higher salaries.[59]

The AAUP's report now includes more information on adjunct professors. Although the per course payment for adjuncts varies widely, the numbers are very low compared with full-time professors. The average rate at a public two-year college was $2,263 per section, and $4,620 at private doctoral institutions. In addition, most of these adjuncts do not receive retirement or medical benefits.[60]

If we zoom out and ask why tuition has gone up 25% to 30% over the last ten years, the answer is clearly not increases in the cost of instruction.

Administration

There is much talk about the bloat in administration being a culprit in the increase in COA. And, there is some support in that statement, as in the past 40 years, the growth rate in the number of administrative staff has been five times that of professors. But, much of that seems to be definitional, in terms of who is an "administrator", as opposed to providing academic support.[61] This is clearly a place to keep an eye on in terms of the overall COA. But, in terms of absolute impact, according to research by Demos, increased spending on administration accounts for only between 5% and 6% of tuition increases.[62]

Competing for Students: Marketing and Advertising

As colleges and universities receive larger pools of applicants, the competition for enrollment becomes increasingly difficult. This has led to marketing costs increasing dramatically. For example, paid advertising by United States colleges and universities reached an all-time high of a $1.65 billion in 2016. This represents an increase of 18.5% over 2015 expenditures and an increase of 22% since 2013, despite declines in advertising by the troubled for-profit educational sector.[63] Brookings published a report earlier this year which seemed to contradict these findings, stating that much of these expenses have been driven by "for-profit" colleges.[64] But, what is clear is that schools do focus on their selectivity ranking – what percentage of students are admitted – and marketing is an important part of increasing the number of applicants and applications.[65] So, reconciling the cost of this competition for applicants and students is important, and we ask whether student tuition and fees should be used to pay for these marketing costs at non-profit and public institutions?

Competing with Amenities: Food, Dorms, and Sports

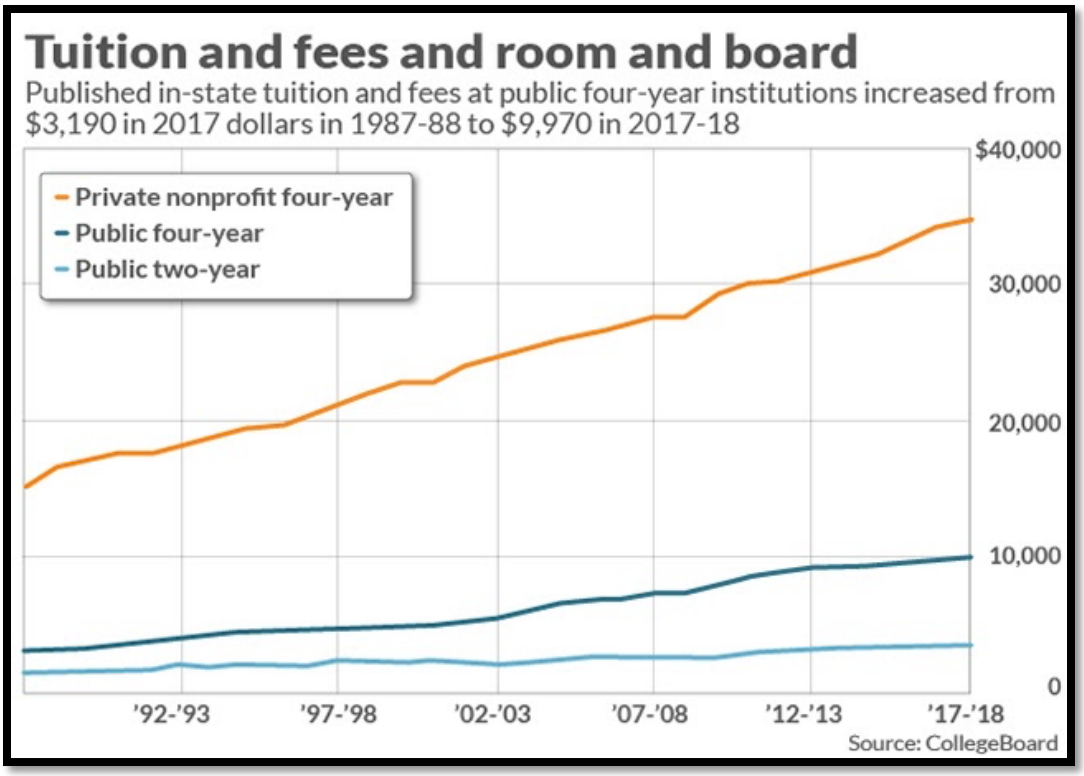
In addition to marketing, to remain competitive, colleges believe that have to spend more on amenities, such as upscale dormitories, fitness centers, fancy food, sports facilities and athletics. Much has been written about this as a cause of the increase in COA at public and private colleges and universities. As Senator Warren said in 2015, "Some colleges have doubled down in a competition for students that involves fancy dorms, high-end student centers, climbing walls and lazy rivers — paying for those amenities with still higher tuition and fees."[66] We think that there are two issues. First, should public and non-profit colleges be limited in how much revenue is spent on these campus amenities rather than on instruction and financial aid to attract students of various financial backgrounds? Second, independent of the first issue, has spending on amenities materially impacted the COA at these schools?

We believe that the point of college should be to receive an education to better prepare you for life. However, not all prospective students judge schools based on the same criteria, putting colleges in a tough position. According to a study by Jacob, McCall and Stange, most students value consumption amenities, but only high performing students seem to value academic quality when searching for a college.[67] So, spending money on amenities may be necessary to attract enough students to fill their classes. These colleges may not be able to afford to shift spending to financial aid and make their numbers work from a business perspective.

This competition is reflected in the prices of room and board, which have increased at rates similar to tuition throughout the years. The average college charges about $4,500 for a dining contract, and many require them of students, especially during their first year. As a comparison, the United States Bureau of Labor Statistics tells us that the average person spends, on average, $3,989 on food. And, the cost of a dining contract has, on average, increased by 47% in the last decade, which shows us that schools are investing more money in this auxiliary expense.[68]

Similarly, the overall cost of room and board has increased. The annual cost at public universities is $8,887 per year while the average cost at private universities is $10,089.[69] According to an Urban Institute study in 2017, after being relatively flat from 1964 to 1980, the cost of room and board has since increased well beyond the cost of inflation at every segment of colleges and universities.[70]

Exhibit 4: College Tuition and Room and Board Fees Over Time[71]



Source: Berman, Jillian. “Here's What It Would Take to Make College Tuition-Free.” MarketWatch, MarketWatch, 19 Nov. 2018, www.marketwatch.com/story/heres-what-it-would-take-to-make-college-tuition-free-2018-10-05.

As for the second issue, how has this spending impacted COA, it is less clear. As we just stated, the cost of room and board has increased almost as quickly as tuition, and certainly above the inflation rate. This is some indication how spending on amenities has impacted the COA for students, and therefore college affordability. The Urban Institute study stated that room charges are more of a culprit than board, as they showed that the cost difference between an off-campus apartment and a campus dorm room decreased from 29% in 2004 to 7% in 2014. Ultimately, they argue that the increase in room and board fees has negatively impacted affordability.[72] However, there is less evidence that spending on many of these amenities has increased tuition. The Demos study referred to previously estimates that the increased borrowing that has funded new construction at colleges only represents about 5% of the tuition increases.[73]

Transparency

As reputation and status are crucial to the American college application and admissions processes, universities are constantly trying to maintain them. To uncover the true cost of education aside from amenities, institutions should publish more of an itemized breakdown of tuition. This will force families to analyze exactly what the money is going into. In publishing the statistics on financial aid, compared to instruction, administration and marketing, the financial aid funding will be made more transparent. Rather than blindly accepting that $2,000+ annual tuition increase, transparency may cause students and their families to reconsider what they are paying for.

Schools should be required to more transparently report the breakdown of their tuition for professor salaries, tenured professors, building and facilities, dormitories, athletic programs, food, financial aid and general operating expenses. As seen on exhibit 5, college tuition, along with room and board fees, has risen significantly over the years. We see the largest increase in cost for private non-profit schools. One should also be able to consider the amount of money allocated to professors' salaries to analyze a college's commitment to the quality of education.

If a policy was created to encourage universities to report their annual costs in this way, we would be able to make a more considered decision on the tax benefits that are provided to non-profit schools. In addition, this level of transparency would facilitate policy changes whereby subsidized aid would be limited to only the cost of instruction and basic living expenses, as was once proposed by former Senator Tom Harkin of Iowa.[74]

Increase and Improve Financial Aid

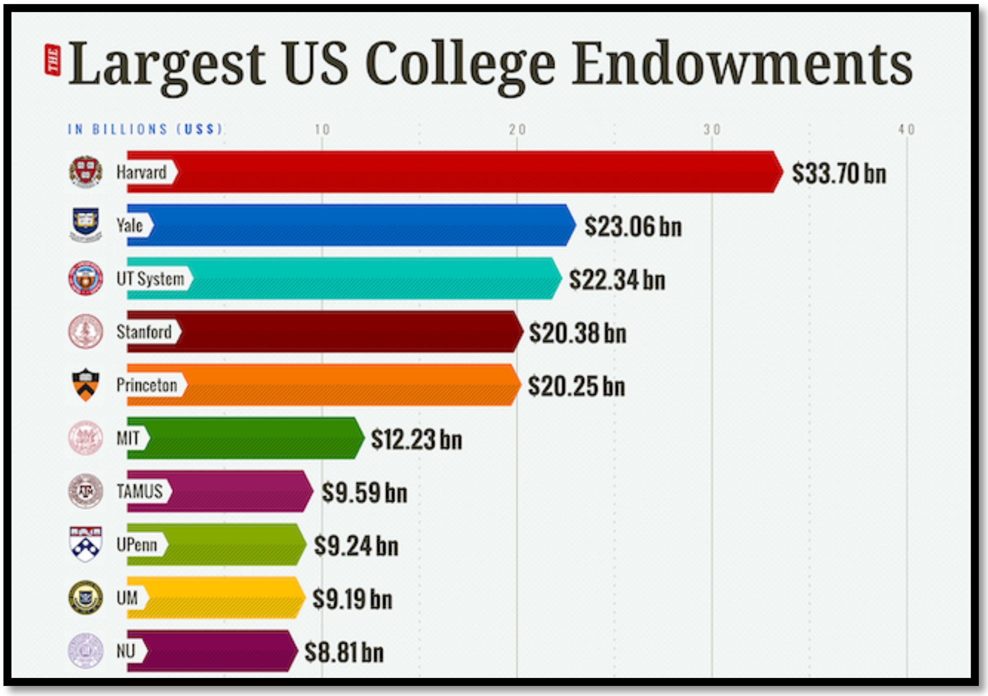
Even if the COA of colleges and universities can be reduced or the rate of increase at least moderated, you still have an affordability and access issue. As we discussed, a student's net Cost of Attendance now incorporates financial aid packages that include grants, work-study and loans, with the heaviest component being federally guaranteed loans. To lower that net cost without ballooning student loans once again, the financial aid packages need to shift towards grants, and away from loans. The key is to find additional sources of grant-in-aid, some of which we will raise here. In addition, we should also seek to improve the student loans that are part of the package, by placing some financial responsibility on the colleges and universities, giving them some "skin-in-the-game."

Endowments as Greater Source of Grant Funding

At the end of 2017, value of endowments at American colleges totaled $598 billion.[75] Of this amount, 50% is held by just 23 colleges and universities, the top ten of which you see below.[76]

The colleges we attend have raised tuition consistently each year, and we question why their large endowments could not cover more of the increasing costs? Mainly, we wondered exactly what college endowments are used for? The effects of pandemic have raised additional questions as students look for assistance.[77] In this section, we look at utilization policy for the annual spending of endowments, tax policy that encourages increased financial aid and promotes transparency of institutions to unveil the true cost of higher education.

Exhibit 5: 10 Colleges / Universities with the Largest Endowments[78]



Source: College Tuition and Fees vs Overall Inflation. (2014, May 20). Retrieved August 04, 2020, from https://inflationdata.com/articles/charts/college-tuition-fees-inflation/.

First, we should explain the breakdown of a typical endowment. Endowments for schools, mainly private, allow institutions to have flexibility and provide a level of financial stability looking into the future. Typically, they are used to support teaching, financial aid, and general campus activities. On average, 49% of total endowment withdrawals go toward student scholarships and financial aid programs. Another 16% of endowment spending goes toward supporting academic programs, 10% supports faculty positions and 7% supports campus operations.[79] Large portions of endowments are, however, reserved for specific use as donors designate their gift to improve specific buildings or programs.

Unlike many foundations, there is no legal requirement that endowments spend a specific portion of their principal each year, or what they spend it on. However, most endowments are managed using self-imposed spending rules that limit overall spending – usually to approximately 5% of the principal annually – and set other guidelines for the specific segments of the endowment where the generous donations have come with strings attached.[80] Since these designated donations often pay for infrastructure, institutions must still figure out how to fund ongoing operation and maintenance.

One other important point to make is that endowments for non-profit and state colleges enjoy significant tax benefits. Contributions made to an endowment by donors are deductible for the donors, and the assets of the endowments grow free of taxes.[81] In 2017, as part of the Tax Cut and Jobs Act, Congress imposed a 1.4% excise tax on a small group of endowments with a high per student amount of assets (over $500,000, with some qualifications). Relatively, this tax will not raise a lot to money ($220 million a year) but was strongly opposed by colleges and universities because it may be a precursor to further taxation of endowments.[82]

We ask if a solution would be for wealthy colleges to tap into their large endowments to increase financial aid and ultimately reduce the need for student loans? This brings up several questions:

Should schools increase the spending rate of their endowments to increase financial aid to address this immediate issue of access and affordability?

Should schools reallocate more of their current endowment spending towards financial aid?

And, a third question would be, should United States' tax policy encourage this behavior?

For example, Princeton University has one of the largest per-student endowment of all colleges in the country with a total principal of $26 billion, or about $3.2 million for each of their 8,200 students. Princeton's normal 5% spending rate would generate about $158,000 per student.[83] In 2020, due to COVID, the school increased the spending rate to 6%, but said that it was not sustainable. But, within the spending rate over the last years, the school decided to provide more financial aid, allowing them to increase the number of attending low-income students. The Ivy school was able to increase the amount of Pell Grant students from 7% to 22%. This increase exhibits the improvement of economic diversity.[84]

Pell Grant:

- *A Pell Grant is a form of financial aid that does not require a repayment.*
- *This tool allows students to attend colleges they otherwise would not be able to afford. Unlike merit-based scholarships, the funding is based solely on financial need.*
- *For the year 2020 to 2021, the maximum federal Pell Grand is $6,345.00. This amount is partially based on the cost of tuition at one's specific university.[85]*
- *The government typically spends over $25 billion to support low income students, the enormous national student loan debt proves this is not enough.*
- *A 2017 report states that the grant covered just 29% of the average cost of tuition and fees at most public colleges.[86]*

Yet, many colleges, without the resources of Princeton, have to restrict the amount of Pell Grant students they accept given that they rely on tuition to handle the upkeep of the university. This practice is called "need-aware" or "need-sensitive" admissions.[87]

Utilization of Endowment Funds: Tax Incentives

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) suggests a benchmark for non-profit colleges stating that it is "imprudent for an institution to spend more than 7% of its endowment in a year".[88] While in many cases around 50% of endowment withdrawals are made in support of financial needs, the funding is often not enough to assist low income students with paying tuition. Given the current standing of student loan debt, we believe colleges should increase annual spending to allow for additional financial aid. Further, rather than improving already solid infrastructure or investing in superfluous programs, administrations should target the greater good when distributing funds from their endowments.

Currently, all non-profit colleges and universities are essentially exempt from paying taxes. This means they pay no official property taxes (although many make "payment in lieu of taxes") and no corporate income or capital gains taxes. The over $500 billion in endowment assets are invested without concern for taxes, given their public purpose.[89] And, in fiscal year 2019, these colleges and universities raised an additional $49.6 billion in donations, mostly given tax free by their donors.[90]

The questions are as follows:

Should non-profit colleges and universities be provided additional tax incentives – maybe a better word is penalties – to increase access to lower income students by increasing grant-in-aid?

Should these institutions be required to pay tax on their endowment earnings unless they provide this access?[91]

Should colleges be required to spend a specific portion of their endowment assets to provide access to low income students, such as those receiving Pell Grants?[92]

Should endowment assets used for purposes other than instruction or access be segregated and taxed as though a for-profit entity held those assets?

For example, monies spent on some of those fancy new amenities, such as food courts, athletic stadiums and fancy dorms, as we discussed earlier. Certainly, a controversial and complex subject – but, again it goes back to the bigger question – what is the responsibility of colleges and universities for this $1.6 trillion mess, and what are they going to do about it?

The 1.4% "Endowment" Tax is not a Solution

The endowment tax passed in 2017 is not a solution to the access issue, as only 23 schools have over $500,000 of endowment funds per student to be required to pay the 1.4%.[93] But, what if, instead, all schools that did not spend a certain portion of their endowment each year to instruction and financial aid – their public purpose – have to pay the flat corporate tax rate of 21%? Or, the individual standard capital gains tax, 37% for short-term, and 20% for long-term investments? We ask the question:

Why should such financially fit institutions — often with endowments totaling amounts similar to what companies like Amazon, Facebook, and Coca-Cola have in cash — not have some standard amount they must spend on their public purpose, access to instruction – in exchange for their tax benefit?

However, even this small "endowment tax" has been met with much controversy. Some argue that top schools would then have more limited funding to award financial aid and engage in research. Harvard notes that the tax may impede their investment in financial aid.[94] As the largest university endowment investment fund in the world, the institution may forfeit roughly $50 million to the federal government annually.[95] While it does not benefit the public to reduce financial aid, we must consider what the government achieves with this current tax policy. Perhaps, if the government provides specific use targets for endowment funds, or allow larger endowments to reallocate this money into less wealthy universities, it can balance out educational standards allowing more students to get a quality education.

Case Study 2: Vassar vs. Bowdoin – Malcolm Gladwell, Food Critic

In 2016, author Malcolm Gladwell, on his podcast Revisionist History, stirred up a hornets' nest when he compared and contrasted two elite colleges, Vassar and Bowdoin, with respect to their admission of Pell Grant students, as well as their food service.[96] Mr. Gladwell used the fact that Bowdoin's food service was ranked very highly, and Vassar admitted more Pell Grant students, as evidence that Bowdoin was prioritizing food over access to low income students. Of course, it became about the food - and whether that was causing the disparity in Pell Grant students. Food was not the reason Vassar admitted more Pell Grant students than Bowdoin, but it was his way to get people to listen and pay attention to the issue of access at elite schools. Bowdoin was not particularly happy about being singled out.[97]

What we take away from this podcast and the reaction to it from Bowdoin, is the sensitivity of the issue to the colleges, and the accountability of all colleges, not just Bowdoin, to fulfill their public purpose. We believe that all non-profit and public colleges need to justify their generous tax benefits by providing access to their institution to lower income students. Bowdoin argued vociferously that it did so, and that Pell Grants are only one measure of their efforts. That is all well and good and we do not seek to comment on their argument with Mr. Gladwell. Our point is that there needs to be some, more objective, standard of measurement across all colleges, on what is expected of them in terms of access, in exchange for the public benefits they receive. So, more power to Bowdoin, if they can meet objective standards that are set, and still "consistently [be] recognized for having the best college food."[98]

Do "Merit" Grants Detract from Access?

Data shows that many schools give as much as 90% of incoming students merit scholarships.[99] Merit can be based on grades, achievements or athletic ability.[100] However, this system is flawed, as all too often the students who need financial aid are not able to receive the grant amount needed. This is, in part, because many institutions have been giving out small merit scholarships of $1,000 to $3,000 for good standardized test scores. While students should be rewarded for their academic achievements, this tactic is likely used to lure students into more expensive schools that they cannot truly afford. These merit rewards are often given to students that can already afford to attend the school, consequentially leaving less money to give to students who need the financial aid to attend.[101] Many students who receive these grants claim them through test scores, and some are questioning whether it is fair to award these scholarships given the controversy about SAT and ACT scores?[102]

Reform FAFSA

FAFSA, Free Application for Federal Student Aid, allows students to submit a request to determine their eligibility for financial aid through the federal government. While this may seem like a productive system, the application process is notorious for being long and complicated as it involves confusing directions and over 100 questions. People often don't understand how to complete it, which further restricts students of low family income from receiving aid.[103] The FAFSA process needs to be overhauled and simplified to allow easier access for these students to receive assistance.

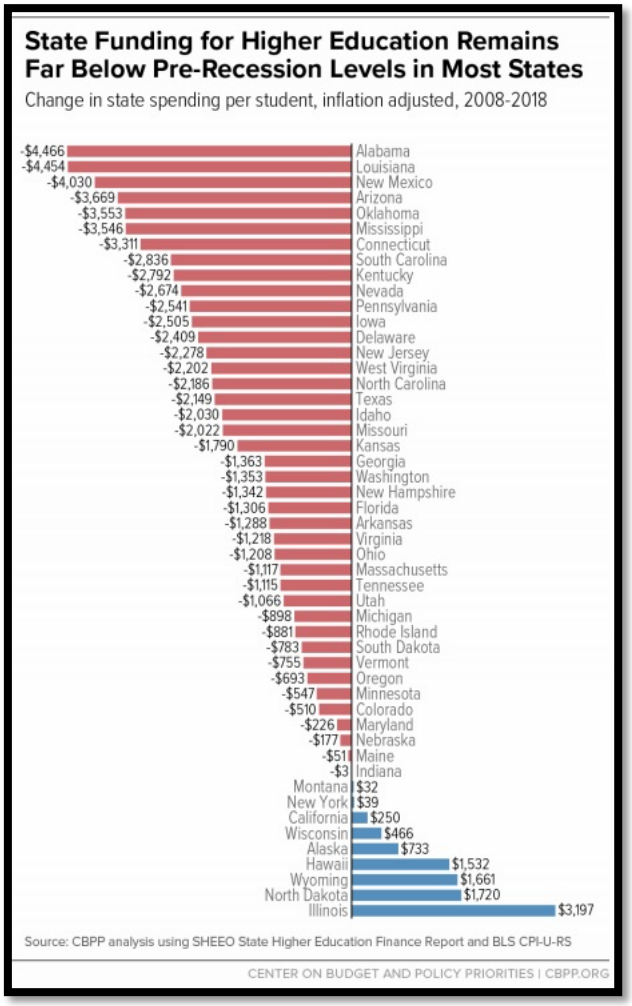
Another flaw in the FAFSA system is that it does not provide families with the full amount needed to sustain their lifestyle. For example, the government expects a family that makes $35,000 per year to be able to pay $2,600 per year for college.[104] At $35,000 of total income, money is already tight, and it is asking too much of lower income families to pay 7.5% of their income for one year of college — and that does not take into account extra expenses such as the cost of travel and books.

Public Higher Education

It was not very long ago that tuition for public higher education was essentially "free", meaning that tuition was zero, or close to zero. It was not until the 1980's that California began to charge tuition in meaningful amounts to attend their state college and university system.[105] And, California was not the only state with "free" tuition. So, what happened between then and now?

It's pretty straightforward – there are many more students, and states have reduced per student aid to state colleges and universities.[106] This has led to a significant increase in the tuition and COA for state colleges and universities. In the September 17, 2020 edition of U.S. News and World Reports, it was reported that over past 20 years, the average tuition and fees at private National Universities have jumped 144%. But, out-of-state tuition and fees at public National Universities have risen more, at 165%. And, the greatest increase: in-state tuition and fees at public National Universities have increased 212%.[107] They emphasized the cause of this increase: between school years 2008 to 2018, after adjusting for inflation: 41 states spent less per student; on average, states spent $1,220, or 13%, less per student; and per-student funding fell by more than 30% in six states: Alabama, Arizona, Louisiana, Mississippi, Oklahoma, and Pennsylvania. This directly led to increases in tuition at state colleges and universities, just when access for people who needed higher education the most was increasing.[108] The Demos study we cited earlier stated: "we estimate that declining state support is responsible for 79% of increased tuition at research institutions and 78% at master's and bachelor's universities."[109]

Exhibit 5: State Funding for Higher Education[110]



Source: "State Funding for Higher Education Remains Far Below Pre-Recession Levels in Most States." *Center on Budget and Policy Priorities*, 11 Oct. 2017, **www.cbpp.org/state-funding-for-higher-education-remains-far-below-pre-recession-levels-in-most-states**.

United States Colleges vs. Rest of the World

While the American college experience includes auxiliary amenities and focuses on the campus culture, international higher education is committed to making college accessible for all. Germany and Australia will be used as examples for comparison. Compared to the average student loan debt for the United States, both Germany and Australia have much lower averages, at $2,400 and $22,000 respectively.[111] Why do these countries have lower student debt?

In Germany, the state covers most tuition costs for public colleges and universities. In fact, the average cost of college for German citizens is only about $2,200.[112] To compare Germany to the United States we must consider the rapid decline in state aid for public colleges throughout the past 25 to 30 years. As the government reduces this funding, institutions rely more heavily on out of state students who often pay full tuition. Thus, German schools differ in both their approach to education - often excluding on-campus residence, amenities and extracurricular programs - and their financing through government aid. In Australia, there is a three-tiered cost-sharing system in place depending on the type of undergraduate study to help alleviate study loan debt.[113] This provides an incentive for students to study in areas of economic demand, with the reward of lower student debt.

Both of these programs could be implemented to help alleviate student loan debt, but both German and Australian universities differ from American counterparts. This is partially due to a cultural divide. Since many German students tend to stay local to attend school, many universities offer minimal housing and dining options. In many ways, this helps lower the cost since schools are not spending money building and renovating residence halls or dining halls. Therefore, the international college experience may be a more financially responsible business model that will allow lower income students to attend college.

Proposals for “Free” College

There are many proposals for “free” college and a lot of objections. What we have to remember, however, is that proposing “free” college is simply going back to most public higher education before 1980. The funding of public higher education before this time was somewhat different than it is today – tuition was more heavily subsidized by direct expenditures from state budgets.[114] Over the last decades, as more students from various income levels have pursued a degree, states (in the aggregate) have reduced the direct per student expenditure to higher education, instead relying on increases in tuition and fees paid by students to fund these expenses.[115]

There is a difference between “debt-free” and “free” college. Debt-free proposals establish government assistance when the cost of attendance does not match the expected family contribution.[116] Democratic senators introduced the “Debt-Free College Act” that aims to cover the cost of public colleges, circumventing the reliance on student loans. Currently, many states have various versions of such plans titling them as “promise” programs. An increase in Pell Grant distribution has complemented the increase of college enrollment throughout history but still, the funding is not nearly enough.[117]

Some states have instituted programs to provide tuition and other assistance to students. Many of these programs require applicants to have financial need and maintain academic performance. While most pertain to community colleges, some assist those pursuing a four year degree. For example, California Promise waives tuition for students who seek financial aid at in-state community colleges and public universities; however, it only covers one academic year. Delaware’s SEED program, “Student Excellence Equals Degree,” covers tuition after other aid is subtracted from the total cost of tuition. Students that receive assistance must maintain a 2.5 cumulative grade point average. While these specific programs along with others provide aid, they are not a holistic solution to the financial burden of higher education for all qualified individuals.[118]

President-elect Biden has proposed a plan to reduce the cost of higher education for lower and middle income students, thereby reducing the burden of student loan debt. To highlight a few key components of his plan:

- Make public colleges and universities tuition-free for all families with incomes below $125,000.
- Double the maximum value of Pell grants to support low income and middle class individuals
- Reduce undergraduate federal student loan payments by over 50% by increasing income-based repayment programs

An analysis by the Georgetown University Center found the policy would pay for itself within 10 years."[119] This initiative, along with others, must seek to rebuild the "backbone" of the United States – the middle class. President-elect Biden also acknowledges the educational opportunities presented by low-endowment private colleges. He plans to create a grant fund for these institutions given the crucial work they offer to help rural communities.[120]

The Future of Education after COVID

Even if United States' colleges cannot shift their spending toward making college accessible, the COVID-19 pandemic has already begun to change the face of education. Many colleges have decided to offer almost all their classes through some form of remote learning. By removing the physical aspect of college, the traditional United States college experience will be forever changed as access to quality education will now be more readily available. University leaders should use this forced online learning experiment to test future higher education models. We may see that the fully online learning model has added benefits given that students are often able to learn at their own pace and from any location. The hybrid model may even be more appealing as certain aspects of learning require hands-on experience.[121] By changing how students receive their education, physical amenities will not be as necessary to be competitive. Many students no longer reside on their college campuses. While these living arrangements can grant great social opportunities and promote inclusion within the community, the high price tag may need further evaluation. Perhaps we should embrace the future of higher education. A Forbes article notes: "These disruptive trends have the potential to lower costs for students, increase the value of degrees by improving workforce alignment, and address issues of equity and access."[122] The COVID-19 pandemic may be the catalyst to reduce the cost of education in the United States for future generations.

Conclusion

Higher education and an appropriate amount of student loan debt have been ways to address wealth inequality in the past. But, the skyrocketing cost of higher education, plus the ease of access to federally guaranteed student loans, have both caused further wealth inequality. This has led to both short and long-term issues that must be solved now.

First, we need to address the current level of student loan debt through a combination of forgiveness, refinancing, and creative employer and public sector solutions. We must address the level of student loan payments owed by lower-income cohorts, or their chance to address their own wealth inequality will be minimized. And, second, we must prevent this from ever happening again, by reducing the cost of higher education and making the funding of these costs more equitable. We must create tax incentives for colleges to dedicate endowment money to the public good, and not put them towards amenities such as sports facilities and expensive dorms and dining facilities. Also, the government must step up, as in other countries, to provide a greater share of the cost of higher education.

The bottom line - this is not just about the people who are on the wrong side of the wealth divide, although the American dream of providing a better life for your family is what we are supposed to be seeking. This is also about the growth of our economy, which will be stifled by the pervasive wealth inequality that currently exists and will only get worse if we do not address the issues related to student debt and the cost of higher education.

Author's Note

This Opinion Snapshot began as an examination of wealth inequality and student loan debt in the United States. However, the deeper we looked at all of the causal issues, the tougher it was the limit the scope of the paper. We kept coming back to the fact that even if all student loan debt is forgiven, what would prevent this from happening again? So, we decided to also look at the cost and financing of higher education - or, as we call it - The Real Problem. This relatively short Opinion Snapshot cannot possibly cover all of these issues in great depth, as they are all very complex, nuanced and controversial. There are many papers from serious organizations on all sides of the issues, that go into great depth, and we have cited many here. What we hope to do is different - which is to raise issues and ask questions from our generation's perspective. We seek to make us think differently about the intersection of wealth inequality, student loan debt and higher education - and raise important questions that hopefully we can begin to address together as we begin this new era in our country.

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