Discussion of Hinrichs' Paper: *How Much Can Families Afford to Pay for College?*
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Let's be honest. The system of paying for college in the United States is unbelievably complicated. Prospective students are forced to make college-going decisions with limited and potentially incorrect information. College officials have difficulty communicating to prospective students how much they can expect to pay. And policy makers, whose views determine the public's role in the system, often express views that indicate they don't really understand it. All of this occurs in a context of considerable dismay regarding the rising cost of college.

This paper attempts to shed some light on the issue, focusing specifically on college affordability. What are students expected to pay? How does that compare to the amount they are asked to pay? How has that changed over time? How does affordability differ for different groups of students? And are there tweaks to the system that may make it more equitable? In the present environment, all of these are interesting and relevant questions.

This paper does a nice job of documenting what we know within the structure of our current financial aid system. The first part of the analysis (following a substantive review of related past research) focuses on how much students and their families can afford to pay for college. The focus rests on dependent students whose parents would be expected to help them pay for college. The author carefully explains the process determining how this amount is calculated.

He makes one point that cannot be stressed enough. There is no definitive method of translating a family's financial resources into a figure indicating how much that family can afford to pay for college. The process is, by nature, arbitrary. Nonetheless, a financial aid system needs such a figure to guide aid determination. In the United States, FAFSA is that system and the

“Expected Family Contribution” (EFC - recently renamed the “Student Aid Index,” or SAI) is the result. In theory, that amount represents how much the family can “afford” to pay.

This analysis reports a series of statistics regarding the EFC, including its trend over time for students with different family incomes, in different race/ethnicity categories, and parental education. In general, EFC has risen over time, particularly for higher-income students, white students, and students of more-educated parents. The author indicates that none of this is related to changes in the financial aid system, which was largely stable over the period of the analysis. Although not highlighted, the real culprit is the trend in income and wealth inequality (Stone, et al., 2020; Horowitz, Igielnik, and Kochhar, 2020). As those at the tops of those distributions pull away from others, their EFC will rise. They can afford to pay more for college. That is how the system is supposed to work.

The true gauge of affordability, though, is how the amount students are expected to pay for college relates to what it actually costs them. The next section of the paper addresses that issue. I’ll be honest. A pet peeve of mine is the use of the measure, cost of attendance, as an indicator of the amount that institutions charge. The author references my research on this point (Levine, 2024). The cost of attendance (COA) is a figure that the federal government requires institutions to report. It includes the full cost of tuition, food and housing, books and supplies, travel, and other living expenses. But most students, including those from high-income/wealth families, pay less than the full COA.

The problem is that there needs to be an upper bound representing the most a student could pay at an institution to determine how much financial assistance the student needs to help them pay to attend. This concept is labeled *financial need*. If the COA were a reasonable measure

of that upper bound, then measuring financial need as COA – EFC would be appropriate. Since so few students pay the COA, it is not.

The problem is that there is no alternative, easily available measure of that upper bound. The author has no choice other than to rely on COA in his analysis. But as I have shown, the gap between COA and the actual upper bound on what students pay has been growing over time. That calls into question the results of any analysis that calculates financial need based on COA. This analysis has that problem. It is the best the author can do, but it is a caveat that the reader should fully incorporate in interpreting those results.

The final part of the analysis transitions from how the financial system is designed to think about how it should be designed. In particular, the author focuses on the sensitivity of college pricing by race and ethnicity as a function of different "tax rates" on income and wealth. The author does a nice job of explaining what he means by these tax rates. As income and wealth rise, the amount of financial aid potentially available falls. It could lead to greater college costs and that is akin to a tax.

Along with changing tax rates, he also considers the impact of changing what forms of wealth "count." In the current system, housing wealth and retirement savings are not measures of wealth that are used to determine how much a student can afford to pay. The parents of two students can have the same income, but one may have greater levels of wealth in these forms. They would have the same EFC, though, despite the difference in their financial resources. This creates an inequity in the system.

It is difficult to avoid creating inequities in designing systems like this, but in this case, it creates a systematic inequity by race and ethnicity. Since white households hold considerably more wealth in these (and other) forms than Black and Hispanic households, paying for college

is harder for these under-represented groups. Aside from varying tax rates, the author examines how college costs would change by race/ethnicity if these forms of assets were simply included in the calculation of wealth that is taxed.

Perhaps not surprisingly, the results indicate that a large tax change in the tax rate on wealth or the inclusion/exclusion of entire categories of wealth (i.e. home equity and retirement savings) have a substantive effect for white families on the calculation of how much students can afford to pay – the EFC. These families are the ones that hold the largest amount of wealth. For instance, counting home equity and retirement savings alone, with no change in tax rates, would increase the EFC of white families by $13,000, on average. On the other hand, a revenue neutral change that counted these assets, but lowered tax-rates on income so that the average EFC across the entire population remained constant, would have little impact on the EFC that white families would face.

Black families, though, would see meaningful reductions in their EFC from such a revenue-neutral change. For them, including home equity and retirement savings in the current system would only increase their EFC by around $2,000, on average, because their holdings of these assets are more limited. On the hand, lowering their tax rates to generate revenue neutrality across the population would reduce their EFC by over $1,000 relative to the current system.

Yet these results represent averages by race and ethnicity. But the distribution of income and assets matters a lot in calculations like these. The biggest impact of such a policy change would occur among middle- to upper-middle-income families. Lower-income families typically have low levels of assets as well, so they always face a low EFC. Higher-income families would face large changes in their EFC by such policy changes, but they largely won't matter because they are unlikely to be eligible for financial aid anyway. In my coauthored past work (Levine and

Ritter, 2024), we show that families with incomes in the $75,000 to $125,000 range and those in the $125,000 to $200,000 range are the ones who are most affected by the failure to count these forms of wealth.

My guess is that if the author's simulations were narrowed to this segment of the income distribution, the impact on EFC would likely be larger. It's also likely to be the case that such an analysis is hampered by the small sample size of students by race/ethnicity and family income to conduct such an analysis in the available data. That said, I think it is important to keep in mind that in evaluating the magnitude of the simulated impacts, they are likely to be potentially considerably larger for the relevant slice of the population.

One of the underlying messages of this paper is the extent to which it emphasizes a serious weakness of our financial aid system. Even when a skilled economist applies his tools to the best available data, it is difficult to assess the affordability of our higher education system. Imagine how hard it must be for the students and the families themselves. If there is no other takeaway from this paper, it is the fact that we need far greater transparency in how colleges set and communicate their prices.

References

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