FEDERAL STUDENT ASSISTANCE: FUNDING OPTIONS FOR FISCAL YEAR 1980

STAFF DRAFT ANALYSIS

JULY 1979

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PREFACE

In the hiatus between passage of the Middle Income Student Assistance Act of 1978 and reauthorization of the Higher Education Act in 1980, the Congress has an opportunity to take a closer look at federal support for students in postsecondary education. This paper examines how much the federal government spends on student assistance and who benefits. It analyzes various options that are available for reducing federal funding or altering programs for fiscal year 1980.

The study was undertaken upon request of the Senate Budget Committee. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analysis of budget issues, it contains no recommendations.

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SUMMARY

For fiscal year 1980 the Congress faces significant choices about the level and pattern of federal support for students in postsecondary education. These choices depend largely on assessments of the importance of two goals:

- enhancing equality of educational opportunity by removing financial barriers that prevent lower-income persons from attending college; and

- reducing the financial burden of attending college for middle-income students.

While these goals are not mutually exclusive, budget changes affecting one are likely to influence the other in unintended ways. For example, last year's passage of the Middle-Income Student Assistance Act (MISA) greatly increased the commitment to reducing the burden of college costs for students from middle-income families; but in doing so, it also limited the availability of funds for enhancing equality of educational opportunity.

FUNDING FOR FISCAL YEAR 1979 AND THE EFFECT OF THE MIDDLE-INCOME STUDENT ASSISTANCE ACT

Between fiscal years 1978 and 1979, federal funding for postsecondary students has increased approximately 16 percent, from \$9.8 billion to \$11.3 billion. This increase resulted principally from passage of the Middle-Income Student Assistance Act (MISA) in 1978, which along with increases in appropriations led to an increase in funding of nearly 30 percent (from \$3.8 billion to \$4.9 billion) for the major student assistance programs within the Office of Education. The two major program changes resulting from MISA were an extension in eligibility for Basic Educational Opportunity Grants (BEOGs) to students from middle-income families, and changes in the Guaranteed Student Loan Program (GSL) that made all students eligible for in-school interest-free loans.

Basic Educational Opportunity Grants. The expansion of the BEOG program raised its costs by $1.2 billion to a total of $2.8 billion and increased the number of recipients by 1.1 million students to a total of 2.9 million. Although most of the incremental increase in benefits will accrue to students from middle-income families, a portion will go to students from lower-income families because maximum grant levels were also increased, and because the expected contribution from the income of independent students, most of whom have lower incomes, was reduced.

Guaranteed Student Loans. Because of MISA, more student loans will be available to students from higher-income backgrounds, but fewer loans may be available to students from lower-income families. MISA extended eligibility for in-school interest-free Guaranteed Student Loans to all students, thus incorporating an additional 3 million upper-income students, and increasing the potential demand for loans by 30 percent. But lenders control the supply of loan capital, and their incentives to make loan capital available to students are not necessarily tied to the factors affecting loan demand. Although lending is expected to increase from fiscal year 1978 to 1979, the supply of loans is expected to fall short of the higher demand resulting from the larger eligible population. Moreover, a substantial share of the available loans is likely to be distributed to newly eligible students from higher-income families, because private lenders consider them better risks. As a result, fewer loans may be available to students from lower-income families. This distributional problem may be further exacerbated if lenders reduce the supply of loans in response to declines in the special allowance payments they receive on GSLs. The special allowance rate paid to lenders as an inducement to participate in the program will diminish by the end of fiscal year 1979, while private interest rates are expected to remain high.

OPTIONS FOR FISCAL YEAR 1980

Three basic budget options exist for fiscal year 1980:

- Programs could be maintained at their current levels;
- Funding could be reduced;
- Programs and funding could be changed in minor ways to accomplish specific objectives.

Maintaining the Current Level of Services

Maintaining the current level of services for postsecondary student assistance in fiscal year 1980 would require $11.7 billion, an increase of 3.1 percent over 1979. This policy, however, would not necessarily maintain the previous level or distribution of benefits from the various student assistance programs.

In two programs, the Basic Educational Opportunity Grants program and the Guaranteed Student Loan program, fewer students would actually receive benefits if current policies were continued. In the Basic Grants Program approximately 100,000 fewer middle-income students would receive awards because improved family financial conditions in fiscal year 1980 would increase the expected contribution from their families, eliminating the students' eligibility for grants. In addition, other basic grants recipients (except the most needy with no discretionary family income) would receive slightly smaller average awards, as the expected contributions from family resources increase. In the GSL program, fewer loans might be available in fiscal year 1980 because total lending might decline at the end of fiscal year 1979. The reduction in supply would occur at the peak period of student borrowing. Not only would fewer loans be available, but a shift in lending patterns from lower-income students to higher-income students would probably lead to an even more severe decrease in the amount of resources available to those students with greatest financial need.

Budget Reductions

Two unique aspects of the BEOG program make it a logical avenue for possible budget reductions. First, the program contains a scheduled reduction formula that minimizes the impact of lower funding on needy students. Second, the BEOG program has no statutory minimum funding level that would require legislative action to overcome. Carrying out a reduction according to the scheduled formula would reduce BEOG program costs by approximately $400 million in fiscal year 1980 (see Summary Table 1). For three-quarters of the recipients, awards would be below the 1979 level. No student would be made ineligible, however, and the decrease in assistance would be proportionally less for students with greater financial need.

SUMMARY TABLE 1. DISTRIBUTION OF RECIPIENTS AND BENEFITS UNDER SEVERAL OPTIONS FOR THE BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, BY FAMILY INCOME CLASS: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF CURRENT DOLLARS

Options	$0-$14,999	$15,000-$24,000	$25,000 and Over	Total
Current Policy				
Recipients	1,458	968	388	2,814
Benefits	1,810	783	204	2,797
Scheduled Reduction				
Recipients	1,458	968	388	2,814
Benefits	1,703	574	125	2,402
Asset Exclusion Increased to $100,000				
Recipients	1,499	1,110	527	3,136
Benefits	1,802	882	265	2,949
Income Contribution Reduced for Independents with Dependents				
Recipients	1,539	1,331	483	3,353
Benefits	1,955	1,062	252	3,269
Total Contribution Equal for All Families Regardless of Number of Children in School				
Recipients	1,468	1,028	737	3,233
Benefits	1,831	901	452	3,184

Possible Program Changes

Some student assistance programs are flexible enough to allow incremental changes without new authorizing legislation. Several such changes to the BEOG program are possible:

- o Lowering the expected contribution to educational expenses from family assets;
- o Lowering the expected contribution to educational expenses from the income of students who themselves have dependents to support; or
- o Lowering the expected contribution to educational expenses from families with more than one child in college.

Each of these options would at least partially remedy what some people believe to be inequities in the current program, but each would also increase the costs.

Lowering the expected contribution from family assets would simplify the process of applying for a basic grant and would eliminate much of the disincentive that currently exists for families to set aside money for education. Raising the asset exclusion from $25,000 to $100,000, for example, would extend benefits to an additional 320,000 students, most from families with incomes above $15,000, and would cost $150 million.

Lowering the expected contribution from the income of students who themselves have dependents to support would benefit adult students, particularly single parents. If the incomes of students with dependent children of their own were assessed at the same rate as incomes of families with dependent students, an additional 540,000 students would receive benefits and the cost of the program would increase by $470 million, with nearly two-thirds of the increased benefits going to middle-income students.

Lowering the expected contribution from families with more than one child in college would reduce the burden for families that have children spaced closely together. One possible change would be not to expect families with more than one child in college to contribute more than families with only one child enrolled. This option would increase by approximately 15 percent the number of recipients, and would cost approximately $400 million. It would help middle-income families the most because these families are more likely to have two children in college at the same time.

The Guaranteed Student Loan program is less flexible than many of the other student assistance programs; virtually any change would require new or amended legislation. One option that would increase the availability of student loans would be to remove or raise the current 5 percent ceiling on special allowance payments to lenders during the summer of 1979. This would enable student loans to compete favorably with other alternatives that have become more attractive to lenders. The costs associated with this option would depend on the increase in loan volume and on the level of interest rates.

Removing entirely the 5 percent ceiling on special allowance payments could increase GSL program costs by $80 million (see Summary Table 2). More than half of this amount, however, would have no effect on increasing the availability of student loans, because it would be paid for loans in lenders' portfolios during the second quarter of 1979, which is now over. As an alternative, the ceiling could be lifted only for payments in the first quarter of fiscal year 1980; this would cost less than $40 million and would assure lenders that they would receive the higher special allowance on all loans they currently are making. Even with this option, however, most of the special allowance

SUMMARY TABLE 2. COST OF REMOVING THE CEILING ON SPECIAL ALLOWANCE PAYMENTS TO GSL LENDERS: IN MILLIONS OF DOLLARS

Option	Cost
Removing Entirely the 5 Percent Ceiling	80
Removing the Ceiling Only for Payments in the First Quarter of Fiscal Year 1980	40
Removing the Ceiling Only for Special Allowance Payments on Newly Originated Loans	5 - 10

payments would be for loans already in lenders' portfolios; only a small portion of the costs would result from new loans. Another option would be to remove the ceiling only for special allowance payments on new loans, thus focusing directly on the problem of new loan origination. While this might increase the volume of new loans, it could have the unintended effect of dissuading lenders from participating in the GSL program since the additional paperwork involved in distinguisihing between old and new loans might outweigh the higher yield from increased special allowance payments.

CHAPTER I. INTRODUCTION

Three factors underlie decisions regarding federal support for postsecondary students in fiscal year 1980. First, the federal role in postsecondary education was altered in 1978 with passage of the Middle-Income Student Assistance Act (MISA). Second, because federal postsecondary education programs will be reviewed during reauthorization of the Higher Education Act next year, substantial program changes are unlikely during the fiscal year 1980 funding debate. And finally, since considerable effort is being devoted to limiting the level of federal spending in fiscal year 1980, further expansion of federal funding for postsecondary students is unlikely. This paper addresses the fiscal year 1980 options available to the Congress for funding student support in this restricted context.

Chapter II describes current federal funding policies and examines the impact that the passage of the Middle-Income Student Assistance Act of 1978 will have on fiscal year 1980 funding decisions. The MISA Act increased the level of federal assistance for middle-income students, departing from earlier patterns of federal funding that emphasized equality of educational opportunity through assistance to lower-income students.

Chapter III examines budget options for fiscal year 1980, analyzing their impact on the two goals of achieving equality of educational opportunity and reducing the burden of college costs on middle-income students and their families. Because fiscal year 1980 may be an austere year, a number of strategies for reducing federal expenditures are included. No major program changes are considered as options for fiscal year 1980, because it is assumed that any major revision will be deferred until next year. Likewise, other important federal goals in postsecondary education, such as preserving a financially sound and diverse educational system or providing a highly trained labor supply in specific areas of shortage, are not addressed in this paper because they are likely to be considered during next year's review of the Higher Education Act. Although the act expires at the end of fiscal year 1979, it will most likely be extended through fiscal year 1980.

CHAPTER II. CURRENT FUNDING POLICIES IN POSTSECONDARY STUDENT ASSISTANCE: THE EFFECTS OF MAINTAINING CURRENT POLICY LEVELS IN FISCAL YEAR 1980

SOURCES OF FEDERAL AID FOR POSTSECONDARY EDUCATION

Federal aid for postsecondary students comes from three major sources:

- The Office of Education within the Department of Health, Education, and Welfare, which administers student assistance programs authorized by the Higher Education Act of 1965 as amended in 1972 and 1976;

- Other agencies that provide educational benefits, such as veterans' readjustment benefits and social security student benefits; and

- Subsidies in the form of reduced tax liabilities.

Programs Administered by the Office of Education

The major student assistance programs administered by the Office of Education include:

- Basic Educational Opportunity Grants (BEOGs), established in 1972 to provide financial assistance to undergraduate students who are enrolled at least half-time in college or postsecondary vocational/technical schools. The grant amount is based on a student's assessed financial need. As currently authorized, the maximum grant is $1,800 or up to 50 percent of educational costs, whichever is lower.

- Supplemental Educational Opportunity Grants (SEOGs), established in 1965 as Educational Opportunity Grants to provide assistance to undergraduate college students enrolled at least half-time in degree programs. Eligibility is based on financial need as assessed by the institutional financial aid officer. The maximum grant is $1,500, and the institution must match each grant equally with other forms of student financial aid. The Middle-Income Student Assistance Act of 1978 (MISA) requires that this program receive annual appropriations of at least $370 million after fiscal year 1979, before any funding can be provided for the BEOG program.

- College Work-Study (CWS), initiated in 1965 to give part-time employment to students enrolled at least half-time in a participating college or postsecondary vocational/technical school. Eligibility is based on financial need as assessed by the institution's financial aid officer. The federal government pays up to 80 percent of the costs, with the institution providing the rest. MISA requires that this program must receive annual appropriations of at least $500 million before any funding can be provided for the BEOG program.

- Guaranteed Student Loans (GSLs), established in 1965, to subsidize student loans from private lenders. An undergraduate is allowed to apply for up to $2,500 per year, though the total outstanding debt may not exceed $7,500. A graduate student may borrow up to $5,000 per year, but no more than $15,000 in total. All students enrolled at least half-time are eligible. The federal government pays interest charges while a student is in school and for up to a year afterward; interest of 7 percent is charged to the borrower thereafter. MISA extended this in-school interest-free feature to all students. Before MISA, only students from families with adjusted incomes under $25,000 were eligible for this subsidy. Loans are insured against default by the government, which also pays a special allowance of up to 5 percent to lenders on all loans outstanding.

- National Direct Student Loans (NDSLs), established in 1958 under the National Defense Education Act, to provide low-interest federal loans to students. Eligibility is based on financial need. The participating institution determines the size of the loan, but the total debt cannot exceed $5,000 for an undergraduate or $10,000 for a graduate student. The loan is interest-free to the borrower while in school, but accrues interest at 3 percent afterward. This program must receive annual appropriations of at least $286 million before any funding can be provided for the BEOG program.

- State Student Incentive Grants (SSIGs), established in 1972, to encourage state assistance to full-time undergraduate students. Eligibility is based on financial need as determined by the states. The federal government reimburses the states for 50 percent of the amount of these grants, which can range up to $1,500 per academic year.

Forward Funding Under the Higher Education Act. Most major programs under the Higher Education Act are forward-funded; that is, the money appropriated in one fiscal year is for use in the following academic or fiscal year. This procedure enables students, institutions, and state and local governments to know a year in advance how much will be available for their use during the following fiscal year. The chief exception is the Guaranteed Student Loan Program, which is current-funded--funds are spent in the fiscal year for which they are appropriated. 1/

Programs Administered by Other Agencies

Significant amounts of financial assistance are provided by veterans' benefits and social security entitlements. 2/

- Veterans' Readjustment Benefits. The Veterans' Readjustment Benefits program, which now provides virtually all veterans' educational benefits, was enacted in 1966. It provides up to 45 months of benefits to veterans who served in the armed forces prior to 1977. 3/ The monthly

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1/ Within this paper, all references to fiscal years will refer to the year in which the funds are being provided, not the year in which they will be spent. For example, for the forward-funded programs, references to fiscal year 1980 will mean funding in fiscal year 1980 to be spent in fiscal year 1981, which corresponds to academic year 1980-1981.

2/ A number of other federal agencies and departments also provide training and educational funds, generally to accomplish specific manpower objectives in areas of critical need. These programs are not analyzed in this paper.

3/ A new veterans' program has been created for persons entering the service after December 1976. Those wishing to participate in this program must contribute toward their future education while in the service. Their contribution are doubled by federal funds.

stipend varies according to the size of the student veteran's family and whether the veteran is a full- or part-time student; it does not reflect need or varying institutional costs. The benefit is available to all veterans, but extends no more than ten years after discharge from active service. 4/

- Social Security Benefits for Students. Dependents of disabled, deceased, or retired workers who are full-time college students under the age of 22 are entitled to social security benefits. The amount of assistance depends upon the category of eligibility of the student's family. 5/

Subsidies in the Form of Reduced Tax Liabilities

Postsecondary students and their families also receive financial aid in the form of reduced tax liabilities: a $1,000 personal exemption to taxpayers with student dependents; the exclusion of fellowships, scholarships, veterans' benefits, and social security student benefits from taxable income; and the deduction from taxable income of gifts and bequests to educational institutions. 6/

CURRENT FEDERAL FUNDING FOR POSTSECONDARY STUDENT ASSISTANCE

The magnitude and scope of federal involvement in postsecondary student assistance have changed considerably in the

4/ For a full discussion of the issues concerning Veterans' Educational Benefits and options for changing those benefits see the CBO Background Paper Veterans' Educational Benefits: Issues Concerning the GI Bill (October 1978).

5/ For a full discussion of social security educational benefits and options for changing those benefits see the CBO Background Paper Social Security Benefits for Students (May 1977).

6/ These reduced tax liabilities are called tax expenditures, since they represent revenue losses that are equivalent to direct payments by the federal government. They result from tax law provisions that provide special or selective tax relief.

last year. As Table 1 shows, overall funding (including tax expenditures) in fiscal year 1979 is $11.3 billion, as compared to $9.8 billion in 1978--an absolute increase of 15.9 percent, but an increase in real terms of 5.4 percent.

TABLE 1. FEDERAL FUNDING AND TAX EXPENDITURES FOR POSTSECONDARY STUDENTS IN FISCAL YEARS 1978 AND 1979, AND AMOUNTS NEEDED IN FISCAL YEAR 1980 TO MAINTAIN THE SAME LEVEL OF SERVICE: IN MILLIONS OF CURRENT DOLLARS

	1978	1979	1980
Office of Education			
Student Assistance	3,774	4,908 a/	5,222
Other Educational Benefits			
Social Security	1,367	1,539	1,701
Veterans	2,329 b/	2,244 c/	1,909
Tax Expenditures	2,297	2,632	2,843
Total	9,767	11,323	11,675

SOURCES: Executive Office of the President, The Budget of the United States Government, Fiscal Year 1980; U.S. Department of Health, Education, and Welfare, Social Security Administration; and CBO.

a/ Includes anticipated supplemental appropriation of $243 million for Guaranteed Student Loan Program.

b/ Assumes that $636 million is carried over from fiscal year 1977 for veterans in postsecondary education, reducing program costs by an equal amount in fiscal year 1978.

c/ Assumes that $343 million of an anticipated supplemental appropriation of $377 million for VA Education Benefits will go to students in postsecondary education.

The most significant increase has been concentrated in the programs funded by the Office of Education. Funding for these programs increased from $3.8 billion in fiscal year 1978 to $4.9 billion in 1979, mainly from program changes enacted in the

Middle-Income Student Assistance Act of 1978 (MISA). These changes will result primarily in increased benefits for middle-income students. Funding for social security student benefits and veterans' educational benefits is projected to grow more slowly, increasing 2.4 percent in fiscal year 1979 (a decline of 7 percent in real terms). In the veterans' program, a large amount of unobligated funds were carried forward from 1977, lowering the new level of funding required in fiscal year 1978. Therefore, the level of benefits from these programs actually will decline more precipitously than reflected in the funding levels.

To maintain the same level of services, $11.7 billion in funding will be needed in fiscal year 1980. Although this represents an absolute increase of 3.1 percent over 1979, it is 5.5 percent less in 1979 dollars. Maintaining current policy overall will require less funding, in real terms, because of reduced costs for the Basic Educational Opportunity Grants program and because fewer veterans will receive benefits. It will require virtually the same level of funding as provided in 1978, after adjusting for the impact of inflation.

COSTS AND EFFECTS OF MAINTAINING SERVICE LEVELS FOR MAJOR STUDENT ASSISTANCE PROGRAMS

The major student assistance programs will provide more benefits for more students in 1979 than in the previous year. Benefits will increase by 39 percent and the number of beneficiaries by 31 percent (see Table 2). If current policies are maintained in 1980, benefits will increase by another 2 percent although the number of students is expected to decline by 3 percent.

Maintaining the Current Level of Services for the Basic Educational Opportunity Grants Program

Benefits provided by the BEOG program and the pattern of awards among students have changed substantially as a result of the Middle-Income Student Assistance Act of 1978 and changes in appropriations. In fiscal year 1979 (academic year 1979-1980) the program will address the goals both of enhancing equality of educational opportunity and of reducing the burden of college costs on middle-income students. The size of awards to all BEOG

TABLE 2. BENEFITS AND RECIPIENTS OF FEDERAL STUDENT ASSISTANCE, FISCAL YEARS 1978-1980: BENEFITS IN MILLIONS OF DOLLARS AND RECIPIENTS IN THOUSANDS

Programs a/	1978	1979	1980
Basic Educational Opportunity Grants			
Benefits	1,600	2,802	2,793
Recipients	1,800	2,916	2,814
Supplemental Educational Opportunity Grants			
Benefits	270	340	365
Recipients	463	573	573
State Student Incentive Grants			
Benefits	64	77	82
Recipients	255	307	307
College Work-Study Program			
Benefits	435	550	590
Recipients	796	990	990
Guaranteed Student Loans			
Benefits (New Loans)	1,854	2,250	2,250
Recipients	1,025	1,126	1,052
National Direct Student Loans			
Benefits (New Loans)	533	604	646
Recipients	874	914	914
Total			
Benefits	4,756	6,623	6,726
Recipients	5,213	6,826	6,650

SOURCES: U.S. Department of Health, Education, and Welfare, Office of Education; CBO.

NOTE: Benefits do not necessarily equal funding requirements. In the BEOG program, benefits do not include administrative costs or exclude funds available from previous years.

(continued)

TABLE 2. Continued

In the loan programs, benefits include the amount of capital available for new loans and do not reflect the costs associated with interest subsidies and defaults on previous loans.

a/ All except the GSL program are forward-funded, that is, funds provided in fiscal year 1980 are used in academic year 1980-1981. Projections for fiscal year 1980 assume that the fiscal year 1979 level of services will be maintained in each program.

recipients will increase, and many more students, principally from middle-income families, will be eligible to receive grants. Benefits will increase by $1.2 billion (75 percent), and the number of grants will increase by 1.1 million (62 percent). 7/ (See Table 3.)

If current program parameters are maintained for fiscal year 1980 and the program is fully funded, costs will remain virtually unchanged at $2.8 billion. 8/

7/ This analysis assumes full funding of the BEOG program, incorporating all the conditions of MISA in fiscal year 1979 costs. The appendix discusses questions surrounding funding of the BEOG program for fiscal year 1979, including how excess appropriations from previous years can be used, whether changes resulting from MISA that affect self-supporting students can be included in fiscal year 1979, and why CBO and the Administration differ on estimates of the costs of the BEOG program.

8/ The BEOG program, although not an entitlement program because it is subject to annual appropriations, shares one important characteristic with entitlement programs: costs of the program depend on how many students participate. Many factors affect the number and size of awards. Two key parameters--the maximum grant and the assessment rate on discretionary income--are set by legislation at $1,800 and 10.5 percent respectively.

TABLE 3. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF RECIPIENTS AND BENEFITS BY FISCAL YEARS: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF CURRENT DOLLARS

Income Class a/	Fiscal Year 1978 Academic Year 1978-1979		Fiscal Year 1979 b/ Academic Year 1979-1980		Fiscal Year 1980 Academic Year 1980-1981	
	Distribution of Grants	Percent Distribution	Distribution of Grants	Percent Distribution	Distribution of Grants	Percent Distribution
$0-$14,999						
Recipients	1,314	73.0	1,429	49.0	1,458	51.8
Benefits	1,256	78.5	1,712	61.1	1,810	64.7
Average Award	956	—	1,198	—	1,241	—
$15,000-$24,999						
Recipients	486	27.0	1,225	42.0	968	34.4
Benefits	344	21.5	969	34.6	783	28.0
Average Award	708	—	791	—	809	—
$25,000 and Over						
Recipients	0	0	262	9.0	388	13.8
Benefits	0	0	121	4.3	204	7.3
Average Award	0	—	462	—	526	—
Total						
Recipients	1,800	100.0	2,916	100.0	2,814	100.0
Benefits	1,600 c/	100.0	2,802 c/	100.0	2,797 c/	100.0
Average Award	859	—	961	—	994	—

NOTE: All income distributions for the BEOG program have been derived from a computer model developed jointly by CBO and the Office of Education.

a/ Family incomes have been adjusted to 1979 dollars. For fiscal year 1978 (academic year 1978-1979) the reported incomes were for calendar year 1977 incomes, and for fiscal year 1979 the reported incomes were for calendar year 1978 incomes. In both these years, the incomes were inflated to 1979 equivalent levels. For fiscal year 1980 the reported family income will be for calendar year 1979, so no adjustment was necessary.

b/ Includes an anticipated carryover of $242 million in funding from fiscal year 1978 appropriated funds.

c/ Does not include administration costs of $25 million in fiscal year 1978 or $40 million in fiscal years 1979 and 1980.

The Effect of the Revised BEOG Program in Fiscal Year 1979. Prior to fiscal year 1979, the program was designed primarily to reduce financial barriers--that is, to make it possible for low- and moderate-income students to attend college. In academic year 1978-1979, for example, nearly three-quarters of the recipients were from families with incomes under $15,000 (see Table 3). The MISA Act expanded the BEOG program to include middle-income students. Consequently, in academic year 1979-1980 only one-half of the recipients will be from families with incomes under $15,000. In absolute numbers, however, a slightly larger number of lower- and moderate-income students will be served.

Not only will more students receive basic grants in fiscal year 1979, but most recipients will also receive larger awards than they did previously. By decreasing the expected contribution from discretionary family income, the act increases awards for most students. 9/ Full funding has increased the maximum grant level from $1,600 in fiscal year 1978 to the maximum authorized amount of $1,800. Average awards for students from families with incomes below $15,000 will rise approximately $240 (a 25 percent increase) between fiscal year 1978 and fiscal year 1979. For students who were already receiving the maximum of $1,600 in fiscal year 1978, the increase in benefits can be no more than $200, or 12.5 percent. Students from families with incomes above $15,000 will receive slightly larger awards, on average. Changes in the average award, however, are somewhat misleading for this group of recipients. Many of these students received no award in the past, thus the increase in the average award underrepresents the increase for individual recipients.

These increased benefits will result in a lower net price of college for aided students. All recipients will receive awards

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9/ Prior to MISA, families were expected to contribute 20 percent of the first $5,000 of discretionary income to a child's educational expenses and 30 percent of all discretionary income greater than $5,000; MISA reduced the assessment to a flat rate of 10.5 percent on all discretionary income.

The act also increases appreciably, from $1,100 to $3,400, the income offset for single self-supporting students. A more thorough discussion of the effects of MISA is provided in the Appendix.

in fiscal year 1979 that are greater, in real terms, than those they would have been eligible for in fiscal year 1978. The percentage of family income needed to finance a college education will decrease for all basic grant recipients. The largest decrease will occur for middle-income students, whether they attend public or private institutions (see Table 4).

TABLE 4. PERCENTAGES OF FAMILY INCOME REQUIRED TO PAY FOR COLLEGE EDUCATION (COSTS MINUS BASIC GRANT AWARD), FOR HYPOTHETICAL STUDENTS IN FISCAL YEARS 1978, 1979, AND 1980

Family Income (1979 dollars)	Type of Institution	1978 (percent)	1979 (percent)	1980 (percent)
$7,500	Public	18	17	17
	Private	51	49	50
$12,500	Public	12	10	10
	Private	37	33	34
$18,500	Public	14	9	9
	Private	31	25	25
$22,500	Public	12	8	9
	Private	26	22	22

NOTE: Each case assumes a family of four with one child in college and family assets below the level excluded from consideration. Hypothetical cases are useful for illustrating general effects, but they can be misleading because income is only one of a number of key variables in determining the eligibility index. Therefore, no hypothetical case should be considered representative.

The increase in basic grants, however, could conceivably be offset by other factors affecting the net price of college for students and their families, such as a larger increase in college costs than currently anticipated, or a redistribution of other forms of student assistance. Reductions in other forms of financial aid to offset increases in basic grants are unlikely;

however, funding for other federal student assistance programs has been increased, and requirements for establishing financial need have been relaxed.

Maintaining Current Policy for the BEOG Program in Fiscal Year 1980. If the parameters of the BEOG program for fiscal year 1979 are retained in fiscal year 1980, fewer students will receive basic grants and most students receiving awards will receive slightly smaller amounts. The overall decline in the number of recipients will occur only because of a decline in the number of students from families that presently have incomes above $15,000. Approximately 100,000 fewer of these middle-income students will receive awards if program parameters remain unchanged. This is because family incomes are expected to increase more rapidly than college costs between fiscal year 1979 and fiscal year 1980; consequently, families will be expected to contribute a larger amount from their discretionary income in 1980 than in 1979, and for some the increased contribution will make the student no longer eligible for a grant. 10/ Most of the remaining recipients, except the most needy who will remain eligible for a maximum grant and those students attending low-cost institutions who have received lower awards in the past, will receive smaller awards in fiscal year 1980.

Despite the anticipated decline in the number of awards and in the size of awards, families of most students will not face a greater burden in fiscal year 1980 than in 1979. After deducting basic grants, college costs will represent virtually the same percentage of family income for most students (see Table 4). For students from lower- and moderate-income families attending private institutions, the percentage may increase slightly, although it will still remain below the 1978 level.

10/ Applicants for BEOG awards for academic year 1980-1981 will report calendar year 1979 incomes on their application forms. Family income is expected to increase by 9.7 percent in calendar year 1979, whereas the Consumer Price Index, which is used to determine the family living allowance that is subtracted from family income in calculating discretionary income, is expected to increase 10.4 percent. College costs are expected to rise 6.4 percent in academic year 1980-1981.

Maintaining the Current Level of Services for the Guaranteed Student Loan Program (GSL)

If current policy is maintained in the Guaranteed Student Loan program, overall program costs will not change significantly although access to interest-free loans is likely to shift perceptibly away from students with the greatest financial need. MISA has made all students eligible for an interest-free in-school subsidy on student loans, thus increasing the eligible pool of such borrowers by approximately 3 million, or 30 percent. 11/ But the amount of loan capital available is limited by the willingness of private lending institutions to participate in the GSL program. Consequently, a shift in the distribution of loan funds is likely to occur, with students from high-income families receiving more assistance and students from lower-income families receiving less.

Federal Funding Required to Maintain the Current Level of Services in the GSL Program. Costs of the GSL program have increased rapidly in the last few years, although they are expected to level off in fiscal year 1979. While it is not an entitlement program, it is a mandatory one--that is, the federal government must purchase all defaulted loans and pay all interest subsidies to lenders. The GSL program has received $727 million in funding for fiscal year 1979, although the Administration estimates that a supplemental appropriation of $243 million will be necessary to meet the increasing demand for loans and to cover higher costs for special allowances resulting from an unanticipated increase in interest rates. In total, the GSL program will cost the federal government $1.0 billion in fiscal year 1979, an increase of 46 percent over 1978. As Table 5 shows, nearly 70 percent of the costs of the program are accounted for by the in-school interest subsidy and special allowance payments, and slightly more than 25 percent by defaulted or retired loans that must be purchased by the federal government.

11/ Prior to fiscal year 1979, all students were eligible to borrow under the GSL program, but those with adjusted family incomes under $25,000 received the loans interest-free for the period in which they were enrolled in school and for one year afterward. Adjusted family income is equivalent to family taxable income; $25,000 in adjusted family income is thus roughly equivalent to an adjusted gross income of $31,000.

TABLE 5. COSTS OF THE GUARANTEED STUDENT LOAN PROGAM, FISCAL YEARS 1978-1980: IN MILLIONS OF DOLLARS

	1978	1979	1980
Expenses			
Subsidies a/	443	709	750
Default and Bankruptcy Claims	233	254	280
Death and Disability Claims	6	5	7
Administrative Costs	11	22	24
Advances	24	46	—
Total Expenses	717	1,036	1,061
Funds Available			
Funds from Previous Years	236	30	0
Default Collections	31	49	71
Funds Appropriated	480	714	—
Total Funds Available	747	793	71
Needed New Budget Authority	-30	243	990

SOURCES: Executive Office of the President, The Budget of the United States Government, Fiscal Year 1980; and CBO.

a/ Subsidies include interest on guaranteed loans and special allowances on guaranteed loans.

Effects of Maintaining Current Policy on Participation in the GSL Program. In fiscal year 1979, the GSL program is expected to provide 1.1 million loans, an increase of 10 percent over 1978. Loan funds available to students are expected to increase from $1.9 billion to $2.3 billion, an increase of 21 percent 12/ During the first six months of fiscal year 1979, 30 percent more loans were made than during the first six months of 1978, and the dollar volume of loans increased 39 percent. But evidence from previous years suggests that lending will taper off in the latter half of 1979, and reports from April and May (the seventh and eighth months of the fiscal year) indicate that the rate of increase in the first six months will not be sustained throughout the year. The supply of new loans is expected to decline from 1,126,000 in fiscal year 1979 to 1,052,000 in 1980, a 6.6 percent reduction, even though the amount of capital available should remain relatively constant at $2.3 billion. Three factors contribute to these estimates of GSL costs and loan availability: (1) the availability of capital for student loans; (2) the borrowing behavior of students; and (3) the management of the program.

(1) Capital availability. Most of the capital provided for the GSL program comes from private lenders, although some states have established their own lending agencies. The amount of private lending to students during fiscal year 1979 will depend on three conditions: the status of the economy, the characteristics of eligible borrowers, and the administration of the GSL program.

First, the availability of student loan capital from private lenders is perhaps most critically affected by the status of the nation's economy. When interest rates are high, a cap on the special allowance paid to lenders makes other lending alternatives more attractive; consequently, private lenders invest less in student loans. The special allowance payment to lenders, which is based on the value of 91-day Treasury bills, cannot total more than 5 percent for any four consecutive quarters. 13/ The 5 percent limit was reached in the third quarter

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12/ Loan capital is expected to increase more rapidly than participation because average loans will be larger as a result of inflation.

13/ As an inducement to participate in the program, private lenders receive a quarterly special allowance payment from the federal government on all student loans in their portfolio in addition to the regular 7 percent interest and the federal guarantee against default.

of 1979. 14/ Thus, GSLs are not expected to maintain their competitive position in the capital market with its present high interest rates. Special allowance payment rates will become less attractive to lenders in the summer and fall of 1979, which correspond to the peak periods for student borrowing. As a result, fewer loans may be available at the period of highest demand.

Second, the availability of loans from private lenders is affected by the characteristics of the would-be borrowers. Students now becoming eligible will be considered better risks because they are from higher-income families. 15/ Enlarging the eligible pool of borrowers without increasing the aggregate level of lending could conceivably squeeze out many lower- and moderate-income students. On the other hand, the increase in eligibility could result in an increase in lending activity. Lenders who have been heavily involved in the GSL program in the past will be more likely to continue lending to lower- and moderate-income students while providing additional capital for higher-income, lower-risk student borrowers.

14/ Special allowance payments are made quarterly and are computed by (1) determining the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter, (2) subtracting 3.5 percent from that average, (3) rounding the average upward to the nearest one-eighth of one percent, and (4) dividing the result by four. The special allowance cannot exceed 5 percent for any twelve-month period. For fiscal year 1979, the estimated quarterly yield rates are 1.03, 1.41, 1.56, and 1.59 depressed to 1.00 for a total special allowance rate of 5.00 percent. For fiscal year 1980 the estimated quarterly yield rates are 1.47 depressed to 1.03, 1.25, 1.22 and 1.25 for a total special allowance rate of 4.25 percent. Although special allowance payments will be reduced by the cap in the fourth quarter of fiscal year 1979 and the first quarter of fiscal year 1980, these payments are for obligations accrued in the third and fourth quarters of fiscal year 1979, respectively.

15/ GSLP Loan Estimation Model--Volume Three--Claims Characteristics by the U.S. Office of Education, Office of Planning, Budgeting, and Evaluation (September 1974) shows that student borrowers from lower-income families are more likely to default on their loans than are other students.

Third, the way in which the GSL program is administered could affect the participation of private lenders in the program. The law requires private lenders to make a good-faith effort to collect on delinquent loans before turning them over to the federal government as defaulted loans. Because some lenders have been lax in this, the Office of Education has demanded that lenders be more diligent in their collection efforts. The effect, however, will be to increase administrative costs for some lenders, thus discouraging participation in the GSL program.

To offset the vagaries of the loan market, about one-half of the states have established state lending agencies or special relationships with private lenders to help eligible students secure loans. Some states, like the federal government, are facing budgetary constraints and will have difficulty maintaining this form of student assistance. On the other hand, 15 states use revenue bonds to support state student loans because they can borrow through bonds at a much lower rate than they receive for the student loans--giving them a sizable profit on the arbitrage. Even though the Office of Education is encouraging all states to establish lending agencies, few additional states have indicated they are willing to ensure universal accessibility to guaranteed student loans.

(2) Borrowing behavior of students. The willingness of students to go into debt, and their knowledge of the program, also affect the costs of the GSL program. The Middle-Income Student Assistance Act, by extending interest subsidies to all students, offers an attractive investment opportunity to those who have no need for loans. By borrowing through the GSL program and investing the proceeds at current interest rates, an entering student can earn a substantial sum--possibly more than $2,000 --by the time the loan is due for repayment. As students from upper-income families become aware of this opportunity, the demand for loans is likely to increase appreciably.

(3) Management of the program. In addition to the two changes in program management already discussed (encouraging states to establish lending agencies and demanding that private lenders pursue the statutory requirement of "due diligence" in collecting loans), the Office of Education also has increased its own commitment to collect on defaulted student loans. Preliminary results indicate considerable success in this. In fiscal year 1978 alone, the cumulative number of defaulted loans on

which repayment had begun increased from 24,000 accounts to 45,000. In the first six months of 1979 the cumulative figure rose to more than 90,000. The budget impact of reducing the default rate will not be large, however, because only a small portion of each defaulted loan is collected each year. Collections in fiscal year 1978, for example, increased by only $6.2 million, reducing the overall cost of the program by less than one percent.

<u>The Effect of Maintaining the GSL Program on Achieving Federal Goals</u>. Whether the GSL program will help both lower-income and middle-income students depends on how lending institutions respond to the expanded eligibility under present financial conditions. Three possible outcomes can be envisioned:

(1) Lenders could continue to serve students from lower- and moderate-income families and not meet fully the demand for loans from newly eligible students from higher-income families;

(2) Lenders could increase loan availability to meet the demand for loans from all eligible students; or

(3) Lenders could shift from lending to students from lower- and moderate-income families to lending to students from higher-income families.

(1) The first outcome would maintain the federal commitment to promoting equality of educational opportunity and would assist to some extent in reducing the burden of college costs for middle-income students. In fiscal year 1979, 1,126,000 loans are expected to be made through the GSL program--an increase of 100,000 over 1978. This means that service to lower- and moderate-income borrowers could be maintained while 100,000 additional loans could be provided to newly eligible higher-income students. Yet this would provide loans to only 3 percent of the newly eligible students from families with adjusted family incomes above $25,000. Three percent participation is far below the likely demand for loans from these newly eligible students, and therefore this outcome is unlikely.

(2) If lenders are to increase loan availability to meet the demand for loans from all eligible students, 462,000 additional loans will have to be made available. This assumes that newly eligible students will apply in the same proportion as those

previously eligible. In total, $3.1 billion in loan capital would be needed to provide the 1,532,000 loans, increasing federal costs $100 million above what is currently anticipated. An increase of this magnitude, requiring 38 percent more capital than in 1978, is unlikely; the ceiling on special allowance payments presents too great a disincentive for lenders.

(3) If lenders shift from lending to students from lower- and moderate-income families to lending to students from higher-income families, fewer resources will be devoted to enhancing equality of educational opportunity, and more will be directed to reducing the burden of college costs. Students with little or no financial need may be given preference over those with significant financial need. If participation is equally distributed among students from families of varying incomes, the projected total of 1,126,000 loans will suffice for only 10 percent of the eligible population. As a result, approximately 240,000 fewer loans will be available in fiscal year 1979 to students from families with incomes under $25,000 than were available in 1978.

The shift in the distribution of loans might be even greater than depicted above. From the lenders' standpoint, students from higher-income families are the most attractive borrowers. They are less likely to default on loans, which reduces paperwork and administrative expense. Higher-income families are also more likely to have established banking relationships that facilitate students' access to loans. Thus, in a market where demand exceeds supply, private lenders may be expected to favor loans to students from higher-income families.

The redistribution of loan resources may continue into fiscal year 1980 because the special allowance subsidy will be constrained during the first quarter when student borrowing is high. As a result, the supply of loans may actually decrease. At the same time, the demand for loans is likely to increase for two reasons. First, academic year 1979-1980 (corresponding to fiscal year 1980 in the funding of the GSL program) will be the first full year in which all students are eligible for in-school interest subsidies. Second, the Office of Education is preparing to advertise the benefits extensively, on college campuses and elsewhere. If banks provide $2.3 billion in student loan capital during fiscal year 1980, the same amount as in 1979, but average loans are larger to adjust for increased college costs, 74,000 fewer loans will be available--a decrease of 6.6 percent. Much of the decrease will be likely to occur in loans to lower-income students. Thus, the changes in the GSL program may tend to reduce the burden of college costs for middle-income students, but at the expense of the federal commitment to equality of educational opportunity.

Any redistribution of benefits is unlikely to have much effect on the enrollment decisions of students from higher-income families. But some lower-income students who lose this source of financial assistance may have to attend less expensive institutions or forego college altogether.

As a caveat, it is important to mention that the redistribution of benefits is likely to occur only where money for student loans is constrained. In some sections of the country, actions of state lending agencies or the federal government ensure that sufficient money will be available for all students requesting loans. Furthermore, the redistribution of loans most likely will be a temporary phenomenon. After the first quarter of fiscal year 1980, interest rates should begin to decrease and GSLs should regain their competitive position in the capital market. Under these more favorable conditions the supply of loans will come much closer to meeting the demand of students from families of all income levels.

Maintaining the Current Level of Services for Other Student Assistance Programs Under the Auspices of the Office of Education 16/

Recent Congressional actions have increased funding for both the SEOG and the College Work-Study programs by 26 percent. For fiscal year 1979, funding was increased to $340 million in the SEOG program and $550 million for College Work-Study. The SSIG program, though not included in MISA, received $77 million in 1979, an increase of 20 percent over 1978. Funding for the NDSL program increased very slightly to $329 million.

For the SEOG, CWS, and SSIG programs, the 1979 level and distribution of services can be maintained in fiscal year 1980 by

16/ The programs include Supplemental Educational Opportunity Grants (SEOG), State Student Incentive Grants (SSIG), College Work-Study (CWS), and National Direct Student Loans (NDSL).

adjusting present funding for inflation. This would require funding levels in fiscal year 1980 of $365 million for the SEOG programs, 17/ $590 million for CWS, and $82 million for the SSIG program. In the NDSL program, inflating the prior year's funding level does not necessarily assure that the level of services will be maintained. NDSLs are provided through individual revolving loan accounts at each of the participating institutions, and thus the amount of federal contribution needed to maintain the same level of services depends upon how much is repaid in aggregate to the institutional NDSL accounts. Given the likely level of repayments, federal funding of $359 million would be needed in fiscal year 1980 to provide the same number of loans as in 1979 and to adjust the average loan amount for inflation.

It is difficult to predict how these funding levels will affect participation in the programs or the distribution of benefits. Participation in both the SEOG and CWS programs is projected to increase by 24 percent, to 573,000 grants and 990,000 jobs respectively. In the NDSL program, 1979 funding will provide the same number of awards and nominal award levels as in fiscal year 1978. If past patterns persist, 83 percent of the recipients of SEOGs and 61 percent of the College Work-Study recipients will be from families with incomes below $15,000. (See Table 6.)

But the pattern of distributing these funds may change. A larger portion may go to students from families with incomes above $15,000. One reason is that there has been a distinct trend over the last few years to distributing a larger portion of campus-based aid to students from middle-income families. Second, the recent increases in assistance were clearly designed under the Middle-Income Student Assistance Act to increase the level of assistance to middle-income students. Third, the BEOG program's revised formula for assessing financial need increases significantly the level of assessed need among middle-income students, making a larger proportion eligible to receive SEOGs, Work-Study jobs, and NDSLs. On the other hand, the increased assistance to middle-income students through the BEOG program may

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17/ Although a funding level of $365 million for the SEOG program in fiscal year 1980 would assure the same level of services provided in 1979, it would be below the minimum funding level of $370 million mandated by the MISA Act. Congress would have to waive the mandated minimum.

TABLE 6. ESTIMATED PERCENTAGE DISTRIBUTION OF RECIPIENTS AND BENEFITS FOR SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS AND COLLEGE WORK-STUDY JOBS, FISCAL YEARS 1979 AND 1980 (ACADEMIC YEARS 1979-1980 AND 1980-1981)

Family Income (1979 dollars)	Percent Distribution SEOG	Percent Distribution CWS
$0-$14,999		
Receipients	83	61
Benefits	80	60
$15,000-$24,999		
Recipients	11	26
Benefits	11	25
$25,000 and Over		
Recipients	6	13
Benefits	9	15

NOTE: Figures derived by projecting distribution from fiscal operations reports (preliminary data) for academic year 1976-1977.

reduce the reliance of these students on campus based student assistance. The final distribution of benefits in the three campus-based programs will depend on the actions of the campus financial aid offices that control the funds. In the SSIG program, the distribution of funds is generally controlled by the states.

The increases in funding, particularly in fiscal year 1979, may even exceed what the programs will spend. The CWS program, for example, requires that the federal contribution be matched in part by institutional funds; some institutions may be unable or unwilling to increase their commitment by 26 percent in one year. 18/ When funding for the program has been increased significantly in the past, institutions have required at least a year to create enough new work-study jobs to absorb the total increase in funding. If the same lag occurs in fiscal

18/ Federal funds cannot provide more than 80 percent of an institution's total funding for CWS.

year 1979, a surplus of up to $40 million may be available to provide awards in future years. 19/

A further possibility is that the large increase in funding available through the BEOG program for middle-income students, together with the projected improvement in the financial condition of all but the lowest-income families, may reduce the aggregate level of need so that fewer funds will be necessary from programs like CWS and SEOGs. 20/

19/ Although the Office of Education can obligate 1979 appropriations in both 1979 and 1980, the institutions would probably not be able to spend the entire surplus from 1979 in 1980.

20/ This possible inverse relation between costs of the BEOG program and those of the CWS and SEOG programs assumes that the concept of financial need is kept relatively constant from year to year. The MISA Act, however, has altered significantly the needs formula used for the Basic Grants program, in effect making middle-income students appear to have much higher levels of financial need than in the past. If institutions choose to use the Basic Grants need criteria for distributing SEOGs, more funding will be needed to meet the upward reestimate of financial need, and expenditures for the SEOG program could expand appreciably.

CHAPTER III. OPTIONS FOR FISCAL YEAR 1980--INCREMENTAL CHANGES IN EXISTING PROGRAMS

No major changes are foreseen in the fiscal year 1980 budget for postsecondary education. Two types of proposals are likely to affect the funding debate: (1) changes in funding designed explicitly to reduce the federal budget; and (2) changes in program policies designed to alter slightly the way in which various programs work.

BUDGET REDUCTION STRATEGIES FOR FISCAL YEAR 1980

Obviously, reductions could be made in appropriations for most student aid programs. Reduced funding for these programs would affect different groups of recipients in different ways.

Budget Reduction Strategies for the Basic Grants Program

Two budget reduction strategies for the Basic Grants program may be considered by the Congress:

(1) Fully implementing the scheduled reduction formula--an option that would reduce program costs by $400 million. Coincidently, this corresponds both to the reduced level of funding for BEOGs included in the first concurrent resolution mark-up of the Senate Budget Committee and to the Administration's request for funding for the BEOG program. 1/

(2) Reducing funding to the level included in the first concurrent resolution mark-up of the House Budget Committee--an option that would reduce program costs by $200 million.

Strategy I: Fully implementing the scheduled reduction formula--reducing costs by $400 million. The BEOG program has a

1/ The Administration has estimated that full funding of the BEOG program will cost $2.4 billion, whereas CBO estimates that it will cost $2.8 billion. A full discussion of why these estimates differ is included in the Appendix.

scheduled reduction formula designed to redistribute funding if the program is not fully funded. Fully implementing this scheduled reduction formula would reduce the level of benefits from $2.8 billion to $2.4 billion, a 14 percent reduction.

The scheduled reduction formula would reduce the level of most awards but would not reduce the number of basic grants because the reduction schedule assures that all eligible students receive some portion of their awards. Specifically, the scheduled reduction formula, as revised by the Middle-Income Student Assistance Act, provides that:

- All students eligible for entitlements exceeding $1,600 would receive the full amount of the entitlement,

- All students eligible for entitlement exceeding $1,200 but not greater than $1,600 would receive 90 percent of the entitlement;

- All students eligible for entitlements exceeding $1,000 but not greater than $1,200 would receive 75 percent of the entitlement;

- All students eligible for entitlements exceeding $800 but not greater than $1,000 would receive 70 percent of the entitlement;

- All students eligible for entitlements exceeding $600 but not greater than $800 would receive 65 percent of the entitlement; and

- All students eligible for $600 or less would receive 50 percent of the entitlement.

The full scheduled reduction would lower awards for approximately three-quarters of all recipients; only students with the greatest amount of assessed financial need would receive their full entitlement. As shown in Table 7, average awards for students from families with incomes under $15,000 would decline approximately $70 (6 percent). Average awards for students from families with incomes above $15,000 would decline approximately $200 (29 percent). For an individual, however, a reduced level of funding often has an effect different than reflected in the

TABLE 7. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF RECIPIENTS AND BENEFITS FOR FISCAL YEAR 1980 IF PROGRAM IS FULLY FUNDED OR IF SCHEDULED REDUCTION FORMULA IS APPLIED: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF DOLLARS, AVERAGE AWARD IN CURRENT DOLLARS

	Full Funding		Scheduled Reduction	
Family Income (1979 dollars)	Distribution of Grants	Percent Distribution	Distribution of Grants	Percent Distribution
$0-$14,999				
Recipients	1,458	52	1,458	52
Benefits	1,810	65	1,703	71
Average Award	1,241	—	1,168	—
$15,000-$24,999				
Recipients	968	34	968	34
Benefits	783	28	574	24
Average Award	809	—	558	—
$25,000 and Over				
Recipients	388	14	388	14
Benefits	204	7	125	5
Average Award	526	—	322	—
Total				
Recipients	2,814	100	2,814	100
Benefits	2,797	100	2,402	100
Average Award	994	—	854	—

aggregate. As illustrated in Table 8, the scheduled reduction formula typically reduces the awards of students with family incomes below $12,500 less than it reduces awards for students with family incomes above $12,500.

Although award levels for all but the most needy students would fall below fiscal year 1979 levels, they would remain greater than awards in 1978. In almost all cases the percent of income needed to meet college costs minus basic grants would increase slightly (1 to 2 percent) from 1979 to 1980, but would remain 1 to 6 percent below the percent required in 1978 (see

TABLE 8. ENTITLEMENTS AND AWARDS FOR HYPOTHETICAL STUDENTS FROM FAMILIES OF VARYING INCOME LEVELS, FISCAL YEARS 1978-1980

Family Income (1979 dollars)	Fiscal Year 1978 Academic Year 1978-1979	Fiscal Year 1979 Academic Year 1979-1980	Fiscal Year 1980 Academic Year 1980-1981	
			Full Funding	Scheduled Reduction
$7,500				
Entitlement a/	$1,800	$1,800	$1,800	$1,800
Award	$1,600	$1,800	$1,800	$1,800
$12,500				
Entitlement	$ 977	$1,401	$1,358	$1,358
Award	$ 847	$1,401	$1,358	$1,216
$18,500				
Entitlement	$ 0	$ 941	$ 858	$ 858
Award	$ 0	$ 941	$ 858	$ 601
$22,500				
Entitlement	$ 0	$ 651	$ 544	$ 544
Award	$ 0	$ 651	$ 544	$ 272
$27,500				
Entitlement	$ 0	$ 267	$ 0	$ 0
Award	$ 0	$ 267	$ 0	$ 0

NOTE: Each case assumes a family of four with one child in college and family assets below the level excluded from consideration ($17,000 in fiscal year 1978, $25,000 in fiscal years 1979 and 1980). No hypothetical case should be considered representative of all families in its category.

a/ An entitlement is the amount a student is eligible for if the BEOG program is fully funded.

Table 4). Taking the impact of inflation into account, this reduction would still ensure that all but the most needy students received more in fiscal year 1980 than in 1978, though clearly the awards would be less in real terms than the 1979 award levels. For those students with the maximum level of need, an $1,800 award in 1980 is about equivalent to a $1,600 award in 1978, when adjusted for inflation.

This reduction, resulting from the full implementation of the scheduled reduction formula, is the largest that could be sustained in the BEOG program without also reducing awards for the most needy students. Any greater reduction would lead to a proportional reduction of all awards below the scheduled reduction. Any reduction less than $400 million in the BEOG program would lead to a less significant decline in all awards except those at the maximum.

Strategy II: Reducing funding for the BEOG program to $2.6 billion--the level included in the first concurrent resolution mark-up of the House Budget Committee. This would have essentially the same kind of impact as the first strategy, but the changes would not be as large. As in strategy I, no fewer students would receive benefits. Approximately 75 percent of the recipients would receive reduced awards, but the reductions would be half those in Strategy I.

Either of the reduced funding strategies for the BEOG program would primarily affect middle-income students, for whom the assistance reduces the burden of college costs but is not absolutely necessary to enable them to attend college. Reduced funding might mean that some would choose to attend less expensive institutions; alternatively, they might turn to other sources of funds, such as GSLs or campus-based programs.

Budget Reduction Strategy for the Supplemental Educational Opportunity Grants Program

To implement any level of reduced funding for the SEOG program in fiscal year 1980, the Congress would have to waive the minimum funding requirement of $370 million for SEOGs. Nevertheless, the significant increase in funding for middle-income students in other programs suggests that the SEOG program could be reduced in size with little effect on achieving federal goals. Two possible budget reduction strategies are:

- o Fund the program at the fiscal year 1979 level of $340 million as proposed by the Administration.
- o Reduce funding to $320 million, which would maintain the level of services provided in fiscal year 1978.

Strategy I: Funding the program at the fiscal year 1979 level of $340 million. This strategy, which has been proposed by the Administration, would reduce funding for the SEOG program $25 million below current policy estimates. Reducing the level of funding means either that fewer students would receive supplemental grants or that the size of the awards would have to be reduced, at least in real dollar terms. If award sizes were increased to keep pace with inflation, 534,000 students would be able to receive SEOGs, a reduction of 39,000 (17 percent) from fiscal year 1979. On the other hand, if the number of SEOG awards and the size of the nominal average award were kept the same, the real value of each award would decrease by 7 percent because of inflation.

The consequences of reducing the budget for the SEOG program cannot be precisely estimated. College financial aid offices control the disbursement of SEOG funds, and there is no way to predict how they would respond to program cuts. Given the significant influx of aid from other sources, perhaps their most likely response would be to reduce the number of SEOG awards going to middle-income students and increase the size of awards to lower-income students who have received smaller increases under other programs.

Strategy II: Reducing funding to $320 million, maintaining the level of services provided in fiscal year 1978. This strategy would reduce funding for the SEOG programs to $45 million below current policy estimates. It could provide 463,000 awards averaging $691 each. This would be the same number of awards given in fiscal year 1978, while the average amount of $691 would be the 1980 equivalent of the 1978 average award of $583, adjusted for inflation.

As with strategy I, however, there is no assurance that financial aid officers would return to the 1978 pattern of distributing SEOG funds after having considerably more funds in 1979 to distribute to middle-income students.

Budget Reduction Strategy for the College Work-Study Program

The use of funds for the College Work-Study program in fiscal year 1979 will determine what effect reduced funding would have in 1980. It is possible that funding for the program could be reduced while maintaining 1979 levels of participation. As discussed earlier, the program is unlikely to spend the entire \$550 million appropriated for 1979 because of the time required to increase the number of awards from 796,000 in 1978 to 990,000 in 1979. If, as estimated earlier, only \$510 million is spent in 1979, this would provide jobs for 920,000 students averaging \$610 in total earnings (including federal and institutional contributions). One way to reduce costs of the program in fiscal year 1980 would be to maintain the same level of jobs, rather than providing funding for 990,000 jobs. Assuming that average earnings increased to \$665 to keep pace with inflation, 920,000 jobs would require federal funding of \$556 million. But with the addition of \$40 million left over from 1979, only \$516 million would be needed in new budget authority for fiscal year 1980.

Funding for 1981 and subsequent years would have to be appreciably above that of 1980 to maintain the same level of services.

Budget Reduction Strategy for the National Direct Student Loan Program

The Administration estimates that only \$235 million would be needed in fiscal year 1980 (a reduction of 29 percent) to maintain lending under the National Direct Student Loan program at about the same level as in 1979. The Administration believes that the savings can be achieved by providing incentives to institutional lenders to increase collections on defaulted loans and from tightened controls on institutions with particularly poor repayment records.

The funding level proposed by the Administration, however, may not be large enough to maintain the level of participation anticipated in the President's budget. First, it is not likely that collections in 1980 will increase by \$95 million as anticipated by the Administration, an increase of 30 percent over the expected collections of \$317 million in 1979. 2/ Second, the

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2/ Collections are expected to increase by only \$27 million, from 1978 to 1979, although institutions already are being encouraged and assisted in their efforts to improve collections.

Administration has assumed that the average loan in fiscal year 1980 will remain at the projected 1979 level of $710; yet this is the same average award level assumed in 1978. If, in fact, the average loan remains at the 1978 level, it will be worth approximately 20 percent less in real terms. If institutions increase the average loan level to compensate for inflation, the number of loans available from the current and proposed level of funding will be 831,000 in 1979 and 762,000 in 1980, rather than the 908,000 projected by the Administration.

While it thus seems unlikely that the current level of services could be maintained with only $235 million as proposed by the Administration, the same number of awards and average money award unadjusted for inflation could probably be maintained with a funding level of $300 million, approximately nine percent less than the 1979 level.

Budget Reduction Strategy for the State Student Incentive Grants Program

Reduced funding for the State Student Incentive Grant program in fiscal year 1980 would not significantly reduce the amount of student aid available. Most of the states involved in this 50/50 federal-state matching program have been funding their grant programs significantly above the matching level. The federal contribution was $64 million in fiscal year 1978, while the states provided a total of $764 million. The relatively low level of federal funding for SSIGs offers little incentive to states to increase their own commitment. By the same token, a reduction in federal funding would be unlikely to act as a disincentive to most states. For example, a reduction in federal funding for SSIGs in 1980 to the 1979 level of $64 million would reduce federal expenditures $13 million. If state expenditures were reduced an equivalent amount, the combined decline would be 3 percent.

STRATEGIES FOR CHANGING PROGRAMS TO ACCOMPLISH SPECIFIC OBJECTIVES

Options for Changing the Basic Grants Program

Certain aspects of the Basic Grants program can be altered by changing the regulations rather than by legislation. These include the treatment of family assets, the treatment of income for independent students with dependents, and the way in which the family contribution schedule is determined.

Changing the Treatment of Assets The treatment of family assets in determining financial need for Basic Grants raises a number of problems. Currently, the formula for determining the expected family contribution to college expenses excludes the first $25,000 in family assets. Because there is virtually no way to validate asset information, reported family assets may be unreliable. The method also imposes a de facto penalty on families that accumulate assets in preparation for college.

One alternative would be to increase the asset value excluded from consideration in determining a family's expected contribution. Increasing it to a relatively high level (e.g., $100,000) would accomplish most of the benefits of eliminating assets, while still ensuring that students from well-to-do families with low reported incomes would not be eligible. 3/ Students could simply be asked to indicate whether their family assets exceeded the specified limit, and validation could be required wherever there was reason to believe students had underrepresented their families' asset wealth. This change would cost an additional $150 million, and would bring an additional 320,000 recipients into the program, most of whom would be from middle-income families with incomes above $15,000 (see Table 9). Many current recipients also would receive larger awards because their expected family contribution levels would decline.

Changing the Treatment of Income for Self-Supporting (Independent) Students. The expected contribution from family income varies appreciably, depending on whether the student is a child, a parent, or a spouse. If the student is a dependent child, the family is expected to contribute 10.5 percent of its discretionary income. The contribution rises to 40 percent if the student is the head of the household and a parent. A student who is married but has no children is expected to contribute 50 percent of discretionary income toward educational expenses.

3/ Eliminating assets from consideration altogether would not be possible without new authorizing legislation; the law mandates that one of "the basic criteria to be followed in promulgating regulations with respect to expected family contributions" must be "the amount of the assets of the student and those of the student's family."

TABLE 9. DISTRIBUTION OF RECIPIENTS AND BENEFITS UNDER SEVERAL OPTIONS FOR THE BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, BY FAMILY INCOME CLASS: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF DOLALRS, AVERAGE AWARDS IN DOLLARS

	Alternative 1 a/		Alternative 2 b/		Alternative 3 c/	
	Distribution of Grants	Percent Distribution	Distribution of Grants	Percent Distribution	Distribution of Grants	Percent Distribution
$0-$14,999						
Recipients	1,499	48	1,539	46	1,468	45
Benefits	1,802	61	1,955	60	1,831	58
Average Award	1,202		1,270		1,247	
$15,000-$24,999						
Recipients	1,110	35	1,331	40	1,028	32
Benefits	882	30	1,062	32	901	28
Average Award	795		798		876	
$25,000 and Over						
Recipients	527	17	483	14	737	23
Benefits	265	09	252	8	452	14
Average Award	503		522		613	
Total						
Recipients	3,136	100	3,353	100	3,233	100
Benefits	2,949	100	3,269	100	3,184	100
Average Award	940		975		985	

a/ Alternative 1: Increase from $25,000 to $100,000 the amount of assets excluded from consideration.

b/ Alternative 2: Treat the income of self-supporting students with dependents in the same manner that income for families with dependent students is treated.

c/ Alternative 3: Don't expect families with more than one child in college to contribute a greater total amount from family income than families with only one child in school.

Some have suggested that it would be more equitable to treat the income of all family units alike, as was done for assets under the MISA Act. In particular, they would reduce the expected contribution from the income of families in which the student is responsible for the support of dependent children. Advocates feel that this change would make it easier for older students, particularly married women and single parents, to attend college or vocational training. Equating the treatment of income for these students with the treatment of income for families in which the student is a dependent child would lower the expected contribution from discretionary income to 10.5 percent. The costs of making this change would be approximately $470 million. An additional 540,000 self-supporting students with dependent children would receive benefits. Nearly two-thirds of the increased benefits would go to students with family incomes greater than $15,000.

Changing the Family Contribution Schedule. Another option would address the higher burden faced by many families with more than one child in college. Currently, a family with two children in college is expected to contribute 40 percent more than a family with one child in college. A family with three children is expected to contribute 50 percent more and a family with four children in college must contribute 60 percent more. One alternative would be to expect the same total contribution from a family no matter how many children it has in college. This would increase the number of recipients by approximately 15 percent, and would increase costs approximately $400 million. It would help middle-income families the most because these families are most likely to have two or more children in college at the same time.

Options for Changing the Guaranteed Student Loan Program

To ensure that student loan funds do not diminish, the Congress could remove or raise the 5 percent ceiling on special allowance payments to private lenders. More specifically, Congress could:

- Totally remove the 5 percent cap;
- Temporarily remove the 5 percent cap;
- Remove the cap only on new loans; or
- Raise the cap to 6 percent.

Totally Remove the 5 Percent Cap. Letting the special allowance rate increase along with the Treasury bill rate, unrestrained by any ceiling, could increase costs to the federal government by as much as $80 million during the last quarter of fiscal year 1979 and the first quarter of 1980. The increase in federal payments would stem from (1) the increase in the special allowance rate, and (2) a resulting increase in the amount of new loan capital available to students. Most of the increase in payments would be made on loans already in lenders' portfolios; less than 10 percent of the payments would accrue to new loans resulting solely from lifting the cap. None of the increased payments in the fourth quarter of fiscal year 1979 would have any effect on loan availability because the lending period during which these payments were being accrued (the third quarter of 1979) is over. It is estimated that approximately one-half of the increase in payments would have no effect on increasing student loan availability.

Temporarily Remove the 5 Percent Cap. Eliminating the cap only for payments in the first quarter of fiscal year 1980 would most likely prevent any further short-term decline in lender participation in the GSL program and would reduce federal costs to less than $40 million. The likely increase in lender participation would be comparable to what would be achieved by totally eliminating the cap.

Remove the Cap Only on New Loans. One of the least costly options for the federal government would be to remove the special allowance cap only on new loans; that is, on loans not already in lenders' portfolios. This option would cost less than $10 million and could have the same affect on enticing lenders to provide more student loans as removing the cap on all special allowance payments. On the other hand, this option could have an opposite and unintended affect, seriously disrupting lender participation in the program. The additional paperwork and administrative cost associated with distinguishing between new loans and old loans could dissuade some lenders from continuing to participate in the program.

Raise the Cap to 6 Percent. Raising the cap to 6 percent would increase special allowance payments by almost the same amount as would removing the cap totally, with virtually the same impact. Under current economic projections, the special allowance rate would bump up against a 6 percent ceiling in the fourth quarter of fiscal year 1979; the rate would be depressed so slightly, however (0.03 percent on an annualized basis), that lenders would probably not be deterred from making loans.

APPENDIX

APPENDIX. THE IMPACT OF THE MIDDLE-INCOME STUDENT ASSISTANCE ACT ON THE COSTS AND DISTRIBUTION OF BENEFITS FOR STUDENT ASSISTANCE

The Middle-Income Student Assistance Act altered the Basic Educational Opportunity Grants program in four ways:

- It reduced the amount families are expected to contribute from family income to the education of their children.
- It increased the living allowance for single independent students.
- It reduced the amount that independent students with dependents are expected to contribute from their accumulated assets.
- It altered the formula for distributing funds in the event that the program is not funded at the full authorization level.

The most significant change in the BEOG program between fiscal year 1978 and fiscal year 1979 reduces the amount that families are expected to contribute to a child's education. Prior to MISA, families were expected to contribute 20 percent of the first $5,000 of discretionary income and 30 percent of such income in excess of $5,000. 1/ MISA lowered the assessment rate to 10.5 percent of all discretionary income, thus reducing appreciably the expected contribution to college costs from middle-income families with children in college. 2/ This change has virtually no impact on students from lower-income families because their families have little or no discretionary

1/ Discretionary income is defined as all income above a subsistence allowance for family living expenses. For a family of four the living allowance in 1979 dollars is $6,672.

2/ Prior to MISA the assessment rate on discretionary income was not set by law, but was regulated by the Commissioner of Education.

income. The change in the contribution rate will increase program participation by 1.1 million middle-income students and will cost an additional $0.9 billion (see Table A-1).

MISA also increased the living allowance for single independent students from $1,200 per year to $3,450, raising the maximum income a single independent student can have and still be eligible for a grant from approximately $3,350 to $6,050--a change that benefits many single independent students who have very low incomes. Under full funding, this increases the costs of the program by $77 million and adds 13,000 new recipients. In addition, MISA reduced the assessment rate on assets of independent students with dependents from 33 percent to 5 percent, making the treatment of their assets equivalent to the treatment of family assets for dependent students. This change increases benefits by $42 million and adds an additional 50,000 recipients (see Table A-1).

Finally, MISA altered the scheduled reduction formula for less than full funding to ensure that students with the greatest need receive the full $1,800 award, even if appropriations are not sufficient to fully fund the program. 3/ This revision of the formula will have no impact in fiscal year 1979, however, because sufficient funds are available for that year. 4/

3/ The revised scheduled reduction formula in MISA provides the full amount of any entitlement exceeding $1,600; 90 percent of any entitlement exceeding $1,200 but not exceeding $1,600; 75 percent of any entitlement exceeding $1,000 but not exceeding $1,200; 70 percent of any entitlement exceeding $800 but not exceeding $1,000; 65 percent of any entitlement exceeding $600 but not exceeding $800; and 50 percent of any entitlement not exceeding $600. Previously, the reduction formula was the same for all entitlements less than $1,000, but all grantees with entitlements above $1,000 received only 75 percent of the entitlement.

4/ Neither of the revisions in the BEOG program for independent students was included in the funds appropriated for fiscal year 1979. There are sufficient funds remaining from fiscal year 1978, however, to cover the increased costs attributable to these two changes in treatment of independent students in 1979.

TABLE A-1. THE FUNDING IMPACT OF RECENT CHANGES IN THE BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM: IN THOUSANDS OF RECIPIENTS AND MILLIONS OF DOLLARS

Effect of Extending Fiscal Year 1978 Policy	
Recipients	1,735
Benefits	$1,666
Incremental Effect of the Middle-Income Student Assistance Act from:	
Increasing the Living Allowance for Single Independent Students a/	
Recipients	13
Benefits	$ 77
Reducing the Assessment Rate on Assets of Independent Students with Dependents a/	
Recipients	50
Benefits	$ 42
Reducing the Assessment Rate on Discretionary Family Income b/	
Recipients	1,118
Benefits	$ 914
Incremental Effect of Increasing the Effective Maximum Award from $1,600 to $1,800	
Recipients	0
Benefits	$ 143
Total Cost and Number of Recipients for Fiscal Year 1979	
Recipients	2,916
Benefits	$2,842

a/ Assumes an effective maximum award of $1,800.

b/ Assumes an effective maximum award of $1,800, and the increased living allowance for single independents.

The Impact of Fiscal Year 1979 Appropriations. Full funding of the BEOG program in fiscal year 1979 will require \$2.84 billion. The \$2.6 billion currently appropriated will not, by itself, suffice to fully fund the program, but there may be an estimated \$526 million left from 1978 that could be carried over into 1979. With the carryover, the level of funding would be large enough to implement MISA in its entirety. The Higher Education Act, however, prohibits the carryover of funds from one year to another if the amount is in excess of 15 percent of the program costs for that year; since \$526 million is 32 percent of the 1978 costs of the program, a question arises as to whether any or all of the amount can be carried forward. 5/

Differences Between CBO Estimates and the President's Request

The Administration is requesting that Congress provide a \$2.4 billion budget for the Basic Grants program in fiscal year 1980, while CBO estimates that the program would cost \$2.8 billion.

The CBO and Administration estimates differ for two reasons. First, the Administration is predicting a much larger reduction in participation because of the elimination of fraud and abuse. A vigorous computer audit, initiated in fiscal year 1978, more than doubled the rate of rejections for applications. The Administration has assumed that this rejection rate will continue in fiscal years 1979 and 1980. CBO's estimate, however, assumes that only a portion of the rejections in 1978 were cheaters, and that many of the rejected applicants were financially eligible but failed the computer audit because of technical inconsistencies. This assumption is based on anecdotal reports from financial aid offices, students, HEW officials, and the media. It is also based on a GAO report that estimated the levels of fraud and abuse to be much lower than the level assumed by the Administration. As problems with the computer auditing

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5/ The law states: "If, at the end of a fiscal year, the funds available for making payments under this subpart exceed the amount necessary to make the payments required under this subpart to eligible students by more than 15 per centum, then all of such funds shall remain available for making such payments but payments may be made under this division only with respect to entitlements for that fiscal year."

procedure are eliminated, fewer financially eligible students should be rejected in the future. Consequently, CBO estimates that the 1978 rejection rate will not be sustained in 1979 and 1980.

Second, the cost estimates differ because CBO and the Administration currently use different estimating techniques. In the past CBO and the Administration used the same computer model to estimate BEOG program costs; only economic assumptions about increases in the cost of living and in family incomes differed. But it became apparent that the model was not projecting costs accurately. For fiscal year 1977 the model projected the number of applicants quite accurately but overestimated award levels by approximately 10 percent. For fiscal year 1978 it projected one-quarter too many recipients and one-third too many benefits. Two aspects of the model may account for its unreliability. First, the income data used are derived from the October series of the Census Population Survey (CPS), in which income is underestimated or underreported by 16 to 18 percent. Second, family financial data in the model are simulated from previous years' information, and as eligibility for BEOGs is extended upward to larger numbers of previously ineligible middle-income students, applicant data from earlier years become less representative of the eligible population. An additional bias arises from the probability that students who apply for aid will have greater financial need than nonapplicants; thus, using applicant data from previous years to represent cohorts of new eligible middle-income students will tend to overestimate their financial need.

To project BEOG program costs for fiscal years 1979 and 1980 the Administration and the CBO have taken different approaches to correct for the inaccuracies of the model. These differing approaches result in quite different estimates. The Administration has reestimated costs by lowering the participation rate (from 87 percent to 66 percent) that is put into the model. Simply reducing participation, however, does not adequately address either the problems inherent in the model, or the likely effect of the Middle-Income Student Assistance Act on participation in the program. To account for these factors, CBO has projected costs for fiscal years 1979 and 1980 based on the following assumptions about behavior in the program.

For fiscal year 1979, the eligible population has been separated into two groups--those eligible prior to MISA and those made eligible by MISA. In the first step, a ratio of 0.74 recipients to projected eligible students has been estimated from the model for students who were eligible prior to MISA. This assumes that the overzealous computer audit will be corrected in future years, so that the future pool of recipients will include those who were rejected during fiscal year 1978 but should not have been.

But only previously eligible populations would be expected to participate at the 0.74 rate. The new subpopulation of students made eligible by MISA are assumed to participate at a lesser rate. There are no good data suggesting the magnitude of these conditions on participation, so the assumption has been made that they participate at about 80 percent of the rate of other students. This translates into a 0.60 recipient to projected eligibles ratio. These students are expected to participate at a lower rate because: (1) they are less familiar with the programs and (2) they have less financial need, so the smaller grants they receive are marginally less critical to financing their education.

Given these assumptions, CBO estimates that there will be 2,039,000 recipients from the pre-MISA subpopulation receiving, on average, awards of $1,063, and that there will be 877,000 new recipients made eligible by MISA receiving average awards of $724. In total, including approximately $40 million for administration of the program, the BEOG program is estimated to cost $2.84 billion in fiscal year 1979.

This estimate is subject to a considerable margin of error. For one thing, it assumes that 60 percent of the new post-MISA eligible population will be recipients. A difference of 1 percentage point would translate into 14,600 recipients or $10.6 million. For another thing, the award levels projected from the model are assumed to be accurate, although data from fiscal years 1977 and 1978 show that the model overestimated awards for those years. If it continues to do so in 1979, the estimate could be as much as 10.8 percent too high, overestimating awards by $280 million.

The assumptions used for fiscal year 1980 are similar to those for 1979. Students eligible for basic grants prior to MISA are assumed to participate at a rate equivalent to a 0.74 ratio of recipients to projected applicants, for a subpopulation of 2,039,000 recipients. Treatment of students made eligible through MISA, however, is different than that for fiscal year 1979. A 0.68 ratio of recipients to projected eligibles is assumed, based on increasing awareness of the program among these students, and this results in 775,000 recipients from the post-MISA subpopulation.

From the model, average benefits for pre-MISA recipients are estimated to be $1,094. Those for post-MISA recipients are estimated to be $726. Total program costs for fiscal year 1980, including approximately $40 million in administrative expenses, are estimated at $2.83 billion.

As was the case for fiscal year 1979, the underlying assumptions can have a significant effect on the budget estimate. For example, a 1 percentage point change in the assumed percent of post-MISA projected eligibles receiving grants would change the number of recipients by 12,300 and program costs by $8.9 million. Again, the possible overestimation of average awards by the model could amount to as much as $280 million.

To obtain more accurate estimates of the costs and offsets of the BEOG program, CBO has been working to develop a computer model that will not have the problems inherent in the existing one. Although that model has not been completed, preliminary data suggest that the CBO estimates for fiscal year 1979 and 1980 are likely to be more accurate than those of the Administration.