

# Approaching the dilemma from both sides:

PROMISE credits for young  
students and creating an environment  
conducive to controlling costs

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## Executive summary

Any solution to the college affordability problem must involve reductions in the cost of producing quality higher education as well as increased and better-targeted subsidies for students with high levels of economic need. There is no magic bullet, and no single approach will provide the full solution. This essay makes an innovative proposal for increasing the effectiveness of federal subsidies to college students and discusses a fundamental but often ignored aspect of reining in costs on college campuses.

Under the program of PROMISE credits for low-income students, the federal government will award credits annually, beginning in the seventh grade, to students who are eligible for free and reduced-price school lunch programs or who are on Temporary Assistance for Needy Families (TANF). The credits will accumulate, accruing interest, and will be available only for the financing of postsecondary education expenses. The PROMISE program will provide early assurance for low-income students that adequate funds will be available to allow them to continue education after high school. It will also allow subsidies to be based on family income levels over the long term, rather than on just a snapshot of financial circumstances from the year preceding college enrollment.

Improved communication about financial issues among the various constituencies participating in the shared governance process on college and university campuses will create an environment more conducive to controlling costs. The widespread perception of conflict between the fundamental academic mission and the bottom line must be altered if strategies to rein in costs are to be implemented successfully. For example, facilitating the completion of a bachelor's degree in three years would allow the faculty to preserve academic integrity yet make college more affordable for students. But the success of this type of program requires all constituencies on campus to accept the reality that the ongoing viability of higher education institutions depends on integrating the educational mission with realistic financial considerations.

## Introduction

The college cost dilemma will be solved only with efforts on both the supply side and the demand side of the higher education market. Slowing the spiraling published tuition levels is critical, but costs of attendance will always be too high to make college accessible to students from low-income families without innovative and generous programs of grant aid. In other words, any solution to the college affordability problem must involve reductions in the cost of quality higher education as well as increased and better-targeted subsidies for students with high levels of economic need. There is no magic bullet, and no single

approach will provide the full solution. This essay makes an innovative proposal for increasing the effectiveness of federal subsidies to college students and discusses a fundamental but often ignored aspect of reining in costs on college campuses.

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Improved communication about financial issues among the various constituencies participating in the shared governance process on college and university campuses will create an environment more conducive to controlling costs. The widespread perception of conflict between the fundamental academic mission and the bottom line must be altered if strategies to rein in costs are to be successful. For example, facilitating the completion of bachelor's degrees in three calendar years could benefit students significantly, but acceptance of this type of innovative program on campus requires successful integration of academic and financial priorities.

### Subsidies for students: PROMISE credits

Low-income students face multiple barriers to access and success in higher education. There is no doubt that elementary and secondary education experiences, as well as family support and expectations, create gaps between young people from different backgrounds that cannot be closed by college funding. More attention to the interaction between finances and preparation for college could reduce educational inequities that may be resistant either to simple increases in existing student grant programs or to moderations in tuition and fee levels. A successful approach to the student aid problem must incorporate an early commitment to students, assuring them that the funds will be available if and when they are academically prepared for college.

Although some existing programs are based on the concept of early commitment of grant funds, these programs are not well developed, and no comprehensive effort in this direction has been undertaken on a national level. The first widespread discussion of this approach came in 1981, when Eugene Lang promised a class of sixth-graders in Harlem that

their college tuition would be paid. The I Have a Dream Foundation (IHAD), which now operates in 27 states, probably best represents the most common image of early commitment programs. The promise is simple: Students who complete high school and meet the requirements of the program will receive funding for their college tuition. Unfortunately, the promise is not always a formal, written agreement. Moreover, only a small percentage of the eligible young people in the nation have access to programs such as IHAD.

The state program most consistent with the model of early targeting, academic support, and assurance of financial aid for low-income students is Indiana's Twenty-first Century Scholars program. Students eligible for the reduced-price school lunch program enroll during their eighth-grade year, although financial aid estimates are not provided until the junior year of high school. These estimates, based on family financial information, take the form of general eligibility letters rather than specific guaranteed awards.

The federal government has made some attempts to move toward early-intervention programs—for example, with Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) and previously with National Early Intervention Scholarship and Partnership Programs (NEISP). GEAR UP provides matching funds to states and educational consortia. However, no consistent model for these programs exists, and they certainly cannot be characterized as a coherent national effort to assure every middle school student in the United States that adequate funds for college will be available to him or her.

Unfortunately, the most reliable early guarantee of college funding may be found in the relatively new state merit-based grant programs, which, unlike most need-based state grant programs, generally function as entitlements. The programs, modeled after and epitomized by the Georgia Hope Scholarship

program, are not targeted at—and often do not even reach—students at risk for college access. However, their effectiveness in removing financial concerns for students confident of their eligibility provides a lesson in successful approaches to changing the way young people think about their college options.

The best program would target low-income students, motivating them to complete a college-preparatory curriculum and removing doubt about whether higher education will be within financial reach. At the same time, the program must be designed carefully to ensure fiscal manageability. Making promises of funding years in advance, given the volatility of family circumstances and the uncertainty of long-term public budget projections, is one major concern with early commitment programs.

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The PROMISE credits proposed here combine the effective targeting of the Pell grant program, the early intervention of programs such as I Have a Dream, and the clear commitment of the burgeoning state entitlement-based grant programs, along with President George W. Bush's goal of an "ownership society."

The summary provided here is not prescriptive; some of the specific details could be modified without diminishing the program's effectiveness. For ease of description, not all options are specified. For example, beginning the program in the seventh grade is not absolutely necessary. The program might work even if it began as late as ninth grade, and beginning in fifth grade probably would be an improvement. The critical idea is that the program begins early enough to involve students before they make academic

choices that significantly diminish their future educational prospects.

Beginning in the seventh grade, students whose families are eligible for free and reduced lunches or who are on TANF receive annual PROMISE credits. These federal funds are credited to a personal education savings account. The funds are available to the student to finance postsecondary education, regardless of changes in family circumstances over time. Each year, eligibility for additional credits is determined anew. New accounts are opened for students who become eligible for the first time because of diminished family resources. Students whose family circumstances improve, making them ineligible for federal income support programs, do not receive new credits but do maintain ownership of their existing accounts.

The accounts actually need not be funded in advance. This approach has the advantage of postponing the impact on the federal budget. Moreover, the absence of advance funding eliminates the need to return unused funds to the treasury. Nonetheless, students must receive annual notices of the status of their PROMISE credit accounts.

To make the amount of funding available to students at the time of high school graduation more dependent on recent financial circumstances than on circumstances four or five years earlier, the amount of the basic credit should increase each year. For example, an opening credit of \$500 might be made to a PROMISE account for each eligible student at the beginning of the seventh-grade year. Assuming a 5 percent interest rate, this \$500 will have grown to \$670 six years later, when the

student has graduated from high school and is ready to begin college. If the student remains eligible on the basis of parental resources and eligibility for federal means-tested income support programs, an additional \$1,000 will be credited to the PROMISE account at the beginning of the eighth grade. That \$1,000 will grow to \$1,276 in five years. A student who has received credits in each of these two years but receives no further credits because of improved family financial circumstances will graduate from high school with \$1,946 (\$670 + \$1,276 = \$1,946) in a PROMISE account. A student who remains eligible for the maximum PROMISE contribution every year will graduate from high school with a total of \$16,516 in the account. This example, illustrated in Table 1, provides the fully funded student with an amount approximately equal to four years of the current maximum Pell grant at the time of high school graduation.

Tables 2 and 3 illustrate alternative credit patterns. In Table 2, the annual credit is the same each year: \$2,000. This approach has the advantage of simplicity. Table 3 provides an example of a credit pattern that would allow fully funded students to graduate from high school with funds approximately equal to four years of

current average tuition and fees at a public four-year college or university.

PROMISE funds can be withdrawn only for qualifying postsecondary education expenses. These expenses include tuition, fees and qualifying living costs at accredited postsecondary institutions. It is critical that the funds be applicable to room and board costs. Commuter costs also must be included because those expenses account for the largest share of the cost of attendance at two-year public colleges, where many holders of PROMISE accounts will enroll. Students who do not enroll in college immediately after high school retain access to their accounts until they reach the age of 30.<sup>1</sup>

### PROMISE account credits and growth

The PROMISE program is targeted at traditional-aged students because it involves early financial commitments to middle school students. However, it makes funds available to nontraditional students as long as they enroll in postsecondary education before their accounts expire. Although some may argue that the funds should be available at any age people choose

**Table 1: Generating current maximum Pell award levels**

Year	Credit	End 7th	End 8th	End 9th	End 10th	End 11th	End 12th
Begin 7th	\$ 500	\$ 525	\$ 551	\$ 579	\$ 608	\$ 638	\$ 670
Begin 8th	\$ 1,000	\$ 1,000	\$ 1,050	\$ 1,103	\$ 1,158	\$ 1,216	\$ 1,276
Begin 9th	\$ 1,500		\$ 1,500	\$ 1,575	\$ 1,654	\$ 1,736	\$ 1,823
Begin 10th	\$ 2,000			\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315
Begin 11th	\$ 2,500				\$ 2,500	\$ 2,625	\$ 2,756
Begin 12th	\$ 3,500					\$ 3,500	\$ 3,675
Begin college	\$ 4,000						\$ 4,000
<b>Total</b>							<b>\$ 16,516</b>

*Note: Totals reflect a 5 percent interest rate growth.*

<sup>1</sup> The age at which the account expires is one of the aspects of the program that could easily be modified without altering its fundamental nature.

**Table 2: Single annual deposit amount**

Year	Credit	End 7th	End 8th	End 9th	End 10th	End 11th	End 12th
Begin 7th	\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315	\$ 2,431	\$ 2,553	\$ 2,680
Begin 8th	\$ 2,000	\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315	\$ 2,431	\$ 2,553
Begin 9th	\$ 2,000		\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315	\$ 2,431
Begin 10th	\$ 2,000			\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315
Begin 11th	\$ 2,000				\$ 2,000	\$ 2,100	\$ 2,205
Begin 12th	\$ 2,000					\$ 2,000	\$ 2,100
Begin college	\$ 2,000						\$ 2,000
<b>Total</b>							<b>\$ 16,284</b>

Note: Totals reflect a 5 percent interest rate growth.

**Table 3: Generating the full price of four years of tuition and fees at a public four-year college**

Year	Credit	End 7th	End 8th	End 9th	End 10th	End 11th	End 12th
Begin 7th	\$ 2,000	\$ 2,100	\$ 2,205	\$ 2,315	\$ 2,431	\$ 2,553	\$ 2,680
Begin 8th	\$ 2,500	\$ 2,500	\$ 2,625	\$ 2,756	\$ 2,894	\$ 3,039	\$ 2,553
Begin 9th	\$ 3,000		\$ 3,000	\$ 3,150	\$ 3,308	\$ 3,473	\$ 2,431
Begin 10th	\$ 3,500			\$ 3,500	\$ 3,675	\$ 3,859	\$ 2,315
Begin 11th	\$ 4,000				\$ 4,000	\$ 4,200	\$ 2,205
Begin 12th	\$ 4,500					\$ 4,500	\$ 2,100
Begin college	\$ 5,000						\$ 5,000
<b>Total</b>							<b>\$ 27,704</b>

Note: Totals reflect a 5 percent interest rate growth.

to use them, equity and efficiency dictate a time limit. After individuals have been in the labor force for a number of years, the income levels of their families of origin become less reliable measures of financial constraints. In addition, providing an incentive to enroll in postsecondary education sooner rather than later is sensible. Younger students have a better chance than adult students of completing their degrees in a timely manner and participating in the labor force as college graduates for a period of time that ensures a healthy rate of return.

A potential problem with the program design described here is the “cliff effect.” It is important that

eligibility for PROMISE be simple and that students and their parents not be required to complete detailed financial statements each year. For this reason, eligibility for other federal programs is an appealing criterion. However, this system makes it difficult, or even impossible, to have different levels of annual PROMISE credits for different students. Moreover, the small size of the annual credits, particularly in the early years, would likely make differentiating between recipients inefficient. On the other hand, students whose family income may have been only a few dollars too high to qualify for other federal subsidies over their entire secondary school career should not lose out on the entire subsidy. Therefore, the Pell grant

program, which provides graduated funding levels based on more detailed financial information, would remain vital to the student aid system.

The integration of the Pell grant program with the PROMISE program raises the question of how the federal needs analysis methodology would treat the credits accumulated in the PROMISE account. On one hand, students without PROMISE credits reasonably could be said to deserve larger Pell grants than those with similar current financial circumstances who have the benefit of these accounts. On the other hand, the existence of the accounts signifies long-term financial hardship. One of the shortcomings of the current need analysis methodology is that it cannot measure long-term financial capacity and is forced to rely on one year of financial data as a proxy for capacity to pay.

The most reasonable approach to this quandary is to treat the PROMISE credits as a parental asset in assessing Pell grant need. In other words, the impact would be similar to that of a 529 college savings plan or any other assets parents might have accumulated to help finance their children's college educations. Students with PROMISE accounts are students whose parents do not have adequate resources to contribute to these tax-preferred accounts. It is only equitable that the government makes such contributions to compensate for this difference.

PROMISE credits are designed to encourage academic achievement and preparation for college. However, attaching any specific academic criteria to receipt of the annual credits would violate the essence of the program. Admission to college is the reward

for academic achievement. PROMISE funds are the insurance policy that prevents financial constraints from rendering that reward meaningless for low-income students.

The funds that have been credited to PROMISE accounts belong to the student and cannot be subject to future appropriations. However, the risk of subjecting the overall program to the vicissitudes of the Congressional budget process leads to the notion of operating the PROMISE program through the tax code rather than through the expenditure side of the federal budget. Essentially, PROMISE could provide advance notice of a refundable tax credit that would become available in a future year, when educational costs are incurred. The credit would be determined through the parents but would be assigned to individual students, who would receive annual statements of their accrued PROMISE credits.

The PROMISE approach to subsidizing students is consistent with President Bush's concept of the ownership society. These accounts provide students whose parents are unable to help them finance higher education with a stake in the future. The federal government now subsidizes more affluent parents to encourage them to set aside funds for their children's higher education. PROMISE credits are parallel to funds that middle- and upper-income parents are able to set aside; each young person deserves a transfer from the previous generation.

This reasoning leads to an obvious source of funding for PROMISE credits. Reinstatement of the estate tax would allow funding to come only from taxpayers who have already had the opportunity to provide generously

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for their own progeny. The benefit of financial bequests from one generation to the next would be shared by those whose circumstances of birth too often exclude them from the opportunities generated by the transmission of wealth.

## Facilitating cost reduction on campus

Providing increased subsidies for low-income students to enroll in college is clearly a prerequisite to increasing college access. However, if the spiral in tuition levels is not moderated, these subsidies will be chasing a moving target, and the gap between ability to pay and cost of attendance will continue to grow for low- and moderate-income students. Innovative approaches are also needed on the supply side.

Implementing even straightforward steps—such as purchasing consortia or sharing facilities and faculty across institutions—is a struggle on many campuses. More innovative measures designed to reduce costs and/or supplement institutional revenues are likely to meet even stronger resistance from faculty members who are committed to preserving the traditional approach of focusing on academic opportunities with minimal attention to financial constraints.

The conflicting perspectives and priorities of various campus constituencies require attention. Implementing innovative cost-control strategies requires that all campus constituencies increasingly accept the notion that the ongoing viability of higher education institutions depends on integrating the educational mission with realistic financial considerations. Gaining this acceptance requires understanding that resistance to innovations designed to cut costs is not necessarily based on either a sense of entitlement or a lack of concern for students and affordability. Rather, it often

results from a strong sense of responsibility for the core mission of the institution.

An example from another arena may be helpful. It is easy to imagine that medical professionals in a public hospital might be ambivalent about a for-profit company taking over their hospital. Although they might welcome the infusion of funds, they would likely be concerned that the quest for profits would overtake sensitive, quality patient care as the top priority. Similarly, faculty members are concerned that a focus on the bottom line might deflect attention from the intellectual and academic values to which they are committed. Only open dialogue, clear information about constraints and trade-offs and respect for this protective attitude toward existing programs and procedures can foster the acceptance of cost-cutting innovations.

The decision-making process on typical college campuses is quite different from that of most businesses. The tradition of shared governance—among governing boards, administration, faculty and, often, students—is deeply entrenched. Faculty members tend to view themselves as responsible for accomplishing the educational mission of the institution

rather than as employees subject to directives from above. Engaging faculty in decisions about institutional priorities, curricular design and personnel matters can help create an intellectual and educational community that maximizes the contributions of all its members. Successful shared governance does not require that

all priorities be shared or that consensus be reached on all decisions. It does require that everyone be open to thinking in new ways and to engaging with the language and the values of others.

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To understand and successfully manage enrollments, tuition and fees, compensation and other aspects of institutional revenues and expenditures, financial administrators must think in terms of concepts such as the demand for their services, the incremental cost of new programs and the price sensitivity of potential “customers.” The tendency to use this language creates one of the barriers to successful campus conversations about limiting costs. Many college faculty members see the use of for-profit business terminology in the academy as disrespectful of the academic mission.

Individuals more immersed in the concrete world of finance are likely to interpret this reaction as irrational and unrealistic. These different perceptions characterize an environment of conflict, rather than a setting conducive to cooperation in meeting challenging shared goals. More open communication about the ways in which people in different roles and with different kinds of training think and talk about decisions and priorities can diminish the barriers.

One constructive measure for reducing the cost to students is the development of programs that allow students to earn a four-year degree in three years. Although attention generally is focused on the price of a year of study, in reality, one of the factors making college more expensive for students is the increasing difficulty of graduating in four years, especially at public colleges and universities where course availability is particularly limited. Facilitating early graduation would not reduce the number of credit hours for which students must pay. However, summer sessions are generally less expensive, both for institutions and for students, than standard academic terms. Moreover, foregone earnings constitute a significant portion of the cost of education for students. Allowing them to enter the labor force earlier—with a

four-year degree in hand—can significantly affect the true cost of the degree.

A proposal for an accelerated program of this sort on a typical campus would likely generate two separate conversations. The financial side of the community would focus on the dollars and cents, primarily from the perspective of the institution. The extent to which the program would increase applications and the potential for diminishing demands on the financial

aid budget would also be central issues. Faculty, however, would likely be concerned only with the academic integrity of this innovation. If the administration pointed out the cost savings involved, faculty might well counter that this justification is inconsistent with institutional values.

The accelerated degree program would have a much better chance

of success if everyone on campus viewed the cost problem as an issue affecting students’ educational opportunities rather than simply as an institutional finance question. Moreover, if presented with adequate information about existing financial constraints and with outlines of the options and trade-offs available, faculty would likely welcome the opportunity to take responsibility for developing a three-year program that safeguards the academic experience.

Another advantage of the three-year option is that, unlike many reasonable approaches such as sharing of facilities and outsourcing, it does not necessarily involve layoffs. Given the magnitude of compensation as a percentage of total costs in higher education institutions, many cost-cutting measures are likely to involve job losses. Although these events are not uncommon in most of the economy, these steps are difficult on college campuses—and not only because of a sense of privilege or entitlement. Rather, a sense of community and shared responsibility makes them

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less common. The solution is not avoiding all layoffs; it is in narrowing the communication chasm on campus, planning in a manner sensitive to the mission of the institution and operating with respect to the priorities of the community.

A variety of concrete steps can be taken to improve the quality of campus conversations about financial constraints. Adequate information, open discussion of the trade-offs involved and attention to the role of language are important. The details of the appropriate processes will differ on different campuses, but in all cases, the focus must be on listening, respecting differences and acknowledging both fundamental shared goals and values and differing priorities. Educating faculty not directly involved in institutional finance about the economic environment in which the campus operates and about the applicability of basic economic concepts to campus circumstances is vital. Similarly, financial administrators and governing boards must understand the fundamental differences between educational institutions and other types of firms and act accordingly. Concerns on campus that the basic mission of the institution will be hindered by attempts to transfer for-profit efficiency measures to the academy must be addressed.

Projects designed to improve communication on campus about financial issues and cost constraints may not appear to belong on an itemized, quantified list of cost-saving measures. However, they are a prerequisite to the innovative approaches designed to curb growing costs of higher education without unduly sacrificing quality.

## Conclusion

This essay outlines two concepts. The first is PROMISE accounts to improve access to postsecondary education for low-income students. The second is an approach to more effective communication on college and university campuses—communication that is vital in controlling institutional costs with minimal impact on

educational opportunity. Accelerating the time required to earn a bachelor's degree is one possible way to bridge those goals.

The concepts discussed here will not solve all of the problems of access and affordability in higher education. Other changes in the way all of the partners in higher education financing operate are certainly necessary. One approach that straddles the supply and demand sides of the market is the idea of federal subsidies for institutions that enroll and graduate low-income students. This policy is likely to encourage institutions to direct more of their own aid dollars to low-income students; it also provides an additional source of revenue to institutions to meet the higher costs commonly associated with educating students from less privileged backgrounds. Integrated approaches of this sort, designed with incentive effects in mind, will remain critical, no matter how much progress we make in improving access and affordability in higher education.

The approaches discussed here are directed at some of the barriers to college access and affordability that have not received adequate attention in policy discussions. PROMISE accounts combine necessary dollar subsidies targeted at low-income students with early commitments of financial assistance, an improved approach to determining the appropriate allocation of subsidies across students by relying on long-term income patterns and a sense of ownership and opportunity among students who cannot view access to college as their right under current practices.

Subsidies for students will never be adequate if college prices are not held in check. However, cost-saving measures and sanctions against excessive tuition increases will not solve the problem in the absence of collaborative efforts on college campuses to restrain the cost spiral without sacrificing the fundamental mission of providing the highest-quality educational experiences for students. ■