

# Issues in Higher Education: Student Aid and Student Debt



By Jennifer A. Delaney

## Illinois' Monetary Award Program (MAP) for Need-Based Financial Aid



College affordability is an issue of major concern for students and families. One tool in making college more affordable is need-based student grant aid. Need-based aid is awarded to students on the basis of financial need. Grant aid is money that can be used for college but does not need to be paid back. Historically, state need-based aid has been the largest area of state investment in student financial aid. In 2011-12, Illinois awarded approximately \$411.7 million in need-based aid, which represents 95.2 percent of the state's total investment in undergraduate student financial aid. Illinois is one of just eight states that provide 70

percent of all need-based undergraduate grant aid in the U.S. In fact, Illinois offered 6 percent of the total nationwide state investment in need-based grant aid in 2011-12.<sup>1</sup>

The Monetary Award Program (MAP) is the primary undergraduate need-based grant aid program in Illinois. MAP grants can be used by Illinois residents at any approved Illinois college or university. Students are able to apply for MAP grants starting in January each year by completing the Free Application for Federal Student Aid (FAFSA).<sup>2</sup> Every year a maximum MAP award is set and award amounts vary depending on a student's financial circumstances and the price of tuition at a student's school. The 2013-14 MAP maximum award amount is \$4,968.<sup>3</sup>

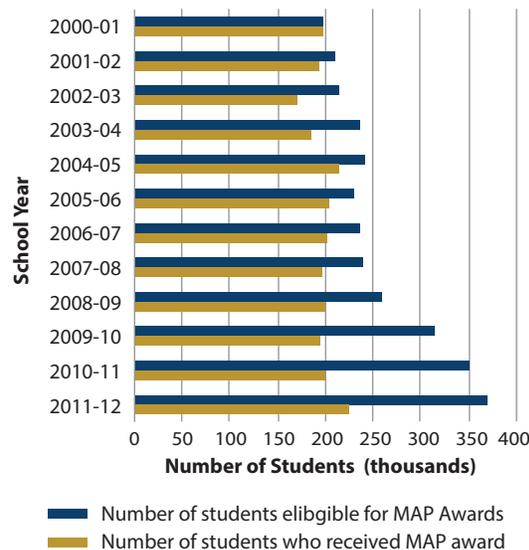
MAP grants are processed on a first-come, first-served basis until the funds are exhausted, so some qualified students are invariably left out. The date when MAP funds are exhausted varies each year and in 2013-14, the suspension date was March 2, 2013.<sup>4</sup> Because the suspension date is set whenever funds run out, not based on student need, not all eligible students have equal odds of being denied aid. This is a particular hardship for students who are not informed about the early suspension date or who decide to enroll in college close to the start of the fall semester. The Illinois Student Assistance Commission (ISAC), which administers MAP reports that all of

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Figure 1  
Number of Students Eligible and Number of Students Who Received MAP Awards, 2000 – 2012

An increasing number of students have become eligible for MAP awards since 2000. However, as eligibility has increased, so has the number of students who are turned away. By 2011-2012, almost 370,000 students were eligible, but almost 40 percent of those eligible students did not receive an award.



Source: 2012 ISAC Databook

<sup>1</sup> National Association of State Student Grant Aid Programs. "43<sup>rd</sup> Annual Survey Report on State-Sponsored Student Financial Aid: 2011-2012 Academic Year" <http://www.nassgap.org/viewrepository.aspx?categoryID=3#>

<sup>2</sup> More information on the FAFSA can be found at: <http://www.fafsa.ed.gov/>

<sup>3</sup> More information on MAP awards can be found at: <http://www.isac.org/students/during-college/types-of-financial-aid/grants/monetary-award-program.html> (updated March 4, 2013).

<sup>4</sup> ISAC website: <http://www.isac.org/students/during-college/types-of-financial-aid/grants/monetary-award-program.html> (updated March 4, 2013).

the 197,889 students who were eligible for MAP received a grant in 2000-01. In the 2011-12 award year, 369,674 students were eligible for MAP. However, 145,365 of them, or 39 percent, were left out.<sup>5</sup>

Prior research has shown that receipt of a MAP grant can positively affect the odds that students enroll in college and their post-secondary outcomes. Low-income students who qualified for and received a MAP grant in 2003-04 were significantly more likely to enroll in college, and more likely to enroll in a four-year college, compared to non-recipients. The amount of the MAP grant also affects the length of time that students are enrolled in college.<sup>6</sup> Likewise, the 2012 statewide Monetary Award Program Task Force, which was created by the Illinois General Assembly's Joint Resolution 69, found that the MAP program is very successful, a good value for the state, and recommended no major changes to the program.<sup>7</sup>

MAP grants have been instrumental in making college affordable and providing access to college in Illinois for decades. However, increased funding is needed for the program so that it can help to maintain college access for today's students as it has for generations of Illinoisans in the past.

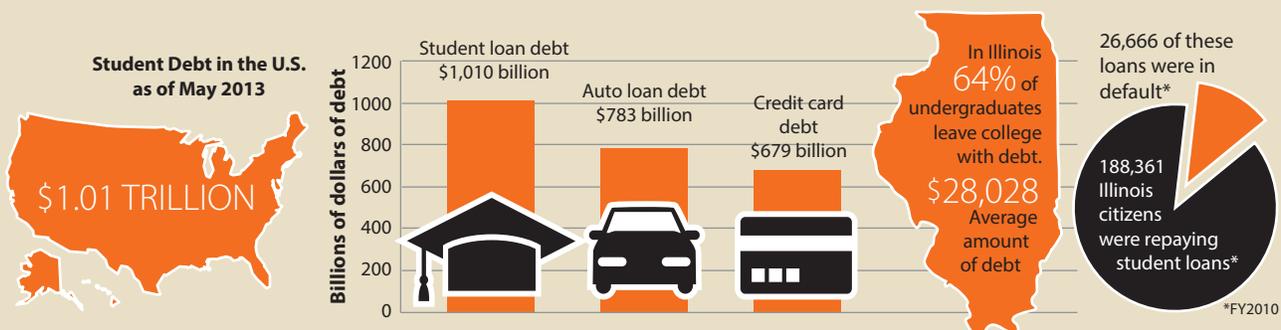
## Student Debt

In 2013, student loan debt topped \$1 trillion dollars nationally.<sup>8</sup> Student loan debt has grown larger than automobile and credit card debt and is now eclipsed only by home mortgage debt.<sup>9</sup> Sixty-four percent of Illinois undergraduates in the class of 2012 graduated from college with debt, owing \$28,028, on average. As compared to other states, Illinois ranked 13th in the percentage of students from the class of

2012 who left college in debt and 15th in average amount owed.<sup>10</sup>

Statewide, 188,361 Illinoisans were repaying student loans in fiscal year 2010. Unfortunately, some of these borrowers faced difficulties and 26,666 Illinoisans were in default, or no longer paying back their student loans. According to the U.S. Department of Education, Illinois has a 14.1 percent three-year cohort default rate, which indicates the number of borrowers statewide who go into default within three years of entering repayment on their student loans. The national cohort default rate was 14.7 percent in FY 2010.<sup>11</sup>

One approach to helping more Illinois borrowers manage their student loan debt is to encourage greater participation in loan repayment plans that are calibrated to borrowers' income levels. The vast majority of student loans today are offered through the federal Direct Loan program.<sup>12</sup> Currently when borrowers enter repayment, they are enrolled in the standard repayment plan, in which they pay a fixed amount each month (of at least \$50) for up to 10 years. This plan works well for many borrowers. However, for others, especially those who are not able to find employment immediately, this plan can be burdensome. There are alternatives to the standard repayment plan, including three plans for Direct Loans that set repayment levels based on the borrower's income – the income-contingent, the income-based, and the pay-as-you-earn repayment plans.<sup>13</sup> While each borrower will need to decide which of these plans is best for them, all of these alternatives share the benefit of never unduly burdening borrowers with student loan repayments. It is likely that fewer borrowers would get into trouble with their student loans, or default on their loans,



Sources: Consumer Financial Protection Bureau; Federal Reserve Bank of St. Louis; Project on Student Debt; US Department of Education



BEN WOLOSZYN PHOTOGRAPHY, UI IMAGE DATABASE

if their monthly payments are manageable. Calibrating repayment plans to income levels is one way of ensuring this happens. While these alternative repayment programs are available to all federal Direct Loan borrowers, students need to opt-in and historically they have been under-used.

Calibrating higher education payments to income levels is a core idea in a recent proposal in Oregon to create a “pay forward, pay back” program. Similar policy proposals are being considered in other states such as New Jersey, Ohio, Pennsylvania, Vermont, and Washington. All of these states are concerned about college affordability and see addressing student loan debt as being central to policy proposals in this area. Other nations, such as Australia, England, Ethiopia, Hungary, Namibia, New Zealand, South Korea and Thailand, have used income-based repayment systems to keep students’ share of college prices manageable for many years.<sup>14</sup> Regardless of whether Illinois also develops a “pay forward, pay back” program, more should be done to help borrowers manage student debt. One tactic is to have both the state and higher education institutions in Illinois work to encourage more individuals to take advantage of student debt repayment plans that are calibrated to income levels when these options are beneficial for borrowers.

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- <sup>5</sup> ISAC 2012 Data Book: <https://www.isac.org/dotAsset/14943d2b-302a-4e9c-a555-53ccd12eacc7.pdf>
- <sup>6</sup> Feeney, Mary K. and Heroff, John, (July 13, 2010). “The Effects of Need-Based Aid on College Enrollment and Success among Low-Income Students.” <http://ssrn.com/abstract=1639596>
- <sup>7</sup> The Monetary Award Program Task Force Report (2012) is available on-line at: <http://www.isac.org/about-isac/monetary-award-program-MAP-task-force/index.html>
- <sup>8</sup> Chopra, R. (July 17, 2013). “Student Debt Swells, Federal Loans Now Top a Trillion” Consumer Financial Protection Bureau. <http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/>
- <sup>9</sup> Dai, E. (2013). “Student Loan Delinquencies Surge” Federal Reserve Bank of St. Louis. <http://www.stlouisfed.org/publications/itv/articles/?id=2348>
- <sup>10</sup> Project on Student Debt. (2013). “Student Debt and the Class of 2012” <http://projectonstudentdebt.org/files/pub/classof2012.pdf>
- <sup>11</sup> U.S. Department of Education. (July 28, 2013). “Three-year Official Cohort Default Rates for Schools” <http://www2.ed.gov/offices/OSFAP/defaultmanagement/2010staterates3yr.pdf>
- <sup>12</sup> More information about Federal Direct Loans can be found at: <https://studentloans.gov/myDirectLoan/index.action>
- <sup>13</sup> More information about Direct Loan repayment plans can be found at: <http://www.direct.ed.gov/RepayCalc/dlindex2.html>
- <sup>14</sup> Chapman, B. & Nicholls, J. (2013). “Higher Education Contribution Scheme (HECS)” [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2307733](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2307733)