Defining Affordability in Higher Education

What does it mean for college to be affordable?

Currently no agreed-upon definition exists — creating a definition of affordability can guide higher education policy.

“Affordability” depends on your perspective:

- **For families:** Affordability takes into account income, other financial resources, family needs, educational goals, and other obligations.
- **For the state:** Affordability must be an objective measure, and consider return on investment.

How should we define affordability?

- For families, affordability can be defined as the ability to purchase needed/appropriate education and have sufficient resources to enjoy at least the minimum consumption of other essential goods and services.
- For the state, affordability can be measured by the share of individuals who can afford higher education; weighted by completion rates.

Affordability can measured at three points in time:

1. Affordability at entry into college – Does the student have adequate resources to pay college costs in the first semester? And every following semester?
2. Affordability during the lifetime of the student – Does the student receive benefits equal to or exceeding the net cost of college?
3. Affordability during loan repayment – Does the student achieve adequate post-college income to repay loans in a reasonable time frame at a reasonable interest rate?

Affordability Measure #1: Affordability at entry

Key Question: Does the student have the required level of resources to pay the cost of attendance at college entry?

Cost of Attendance (COA) | **Grants + Work + Family Contribution + Loans**

COA > Resources: College is not affordable for the student

COA < Resources: State may not be efficient in using its limited resources

Affordability is achieved when:

- The typical family can afford 50%+ of statewide educational options available to them.
- The typical family can afford 50%+ of local educational options available to them.

Affordability at entry requires the state to determine: What is a reasonable financial contribution from students and their families?

What is reasonable to expect families (parents, spouses) to contribute?

- 10% of disposable income each year for 10 years if saving for college
- 25% of disposable income each year for 4 years if not saving for college

How many hours should we expect students to work?

- The recommended number of hours is 600 (12 hours per week for 50 weeks)

How much should we expect students to borrow?

- None — is there a no-loan option for students?
- Minimal borrowing — what is the borrowing required to cover COA?
- Maximum fed borrowing — what percentage of students have to borrow the maximum to have 100% of COA covered?

Affordability Measure #2: Lifetime affordability (return on investment)

Key Question: Does the student/family's investment in college pay off?

- If affordability at entry is achieved, then a positive return on investment is more likely

Net Cost > Net Earnings: Negative ROI / Programs must evaluate further subsidies or program viability

Net Cost < Net Earnings: Positive ROI / Earnings — not further state subsidies — should incent students to enroll

Affordability Measure #3: Affordability of repayment

Key Question: What percent of post-college income is required to fully pay off the student's cumulative debt within 5-10 years? If the percent of income is too high: students risk default

- If affordability at entry is achieved, a manageable debt burden is more likely

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