



*A Union of Professionals*  
**AFT Higher Education**

# On the Backs of Students and Families

**Disinvestment in Higher Education  
and the Student Loan Debt Crisis**





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### **Our Mission**

The **American Federation of Teachers** is a union of professionals that champions fairness; democracy; economic opportunity; and high-quality public education, healthcare and public services for our students, their families and our communities. We are committed to advancing these principles through community engagement, organizing, collective bargaining and political activism, and especially through the work our members do.

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# Executive Summary

The United States faces the challenge of dealing with a massive and growing educational debt burden, with more than \$1 trillion in debt being carried by 37 million people with educational loans. The challenges posed are not only economic—with billions of dollars going toward servicing debt instead of being used to purchase homes, start families or simply have a night on the town—but are moral as well. The promise of higher education, which has historically been a vehicle for social mobility and, in these times, is considered necessary for a decent job, is becoming out of reach for those facing economic hardship and, increasingly, for members of the middle class. Today, many students face a stark choice: go to college and acquire a mountain of debt that will come due right after graduation, or forgo college altogether. Moreover, this choice is most common among those who stand to gain the most from higher education: the economically disadvantaged and people of color.

This is a challenge that must be addressed. However, the problem of massive educational debt cannot be solved without confronting the other challenges that beset our system of higher education. At the forefront of these problems, as detailed in this report, is the massive and ongoing disinvestment from public higher education that is happening in the vast majority of states. This continued withdrawal of state financial support:

- Drives tuition cost increases, and hence educational debt, without necessarily improving quality;
- Decreases the amount of resources necessary to help students gain access to, persist in and complete their college education, compounding the difficulties imposed by various accountability regimes;
- Decreases the amount of need-based aid available for the neediest students, as institutions steer scarce resources toward students who will help pad a school's measured outcomes;
- Increases the search for ways to deliver higher education on the cheap with technological fixes of dubious educational value; and
- Provides fertile ground for exploitative for-profit education providers who prey on those who are unable to access public higher education.

There is a path forward, one that can be pursued by students, faculty and staff, and community members working together on the principles of: treating higher education as a public good, embracing and expanding the diversity within the institutions and among the people in higher education, recognizing the important role government can play in making sure a college education remains affordable and accessible, and committing to providing the resources necessary for students to achieve their educational goals. Based on these principles, this report makes recommendations for policies that will:

- Relieve the debt burden for current borrowers;
- Promote debt-free higher education for current and future students;

- Enhance state funding for public higher education;
- Prioritize academic needs in the budgets of colleges and universities; and
- Eliminate the fraud and abuse that allow borrowers to become trapped in debt.

Undoubtedly, this is an ambitious agenda; it will require *all* advocates for high-quality higher education to work together in order to make progress. This is a call for a movement to achieve these goals. They *must* be achieved if our nation is to have a prosperous economy, a healthy democracy and a just society.

# On the Backs of Students and Families

As young graduates and former students struggle to find work, their student-loan obligations are increasingly falling to the family members who agreed to back the debt in the event of default. Bankruptcy lawyers report that a growing number of student-loan co-signers, especially grandparents, are trying to get rid of the loan obligations using bankruptcy, hopeful that they'll find a sympathetic judge or a lender who's voluntarily willing to lower payments.

“Soured Student Loans Bankrupt Parents, Grandparents”  
*Wall Street Journal*, October 29, 2012

Galen Walter, a pharmacist, has put three sons through college. All told, the family racked up roughly \$150,000 in loans. ... Mr. Walter is 65. His wife is already collecting Social Security. “I could have retired a couple years ago,” he says, “but with these loans, I can't afford to stop.”

“The Parent Loan Trap”  
*Chronicle of Higher Education*, October 12, 2012

Making the problem worse is that students are taking their debt totals into an uncertain job market, potentially casting a pall over their financial futures and threatening to create a generation locked into “a metaphorical debtors' prison,” said William Brewer of Raleigh, N.C., president of the National Association of Consumer Bankruptcy Attorneys. In some regards, Brewer compares it to the sub-prime mortgage crisis of 2006-2008, saying some private lenders have aggressively marketed student loans to use them as backing for securities traded on capital markets. ... As they emerge from college and start families and start making major purchases, he said, the young have traditionally been a major driver of economic growth, but debt-laden students have a much harder time fulfilling that role.

“Student Loans Threaten a Generation with ‘Debtors’ Prison,’ Some Say”  
*PressConnects*, October 26, 2012

Gregory McNeil, 49, is living out his days at a veterans home in Grand Rapids, Michigan. His room is so cramped he can barely fit his twin bed, dresser, and the computer desk he had to sneak in because it was against regulations. His only income comes from the Social Security disability payments he began receiving last year after undergoing quadruple-bypass heart surgery. These payments go directly to the veterans home, which then gives him \$100 a month for his expenses. McNeil fears that if he leaves the home, the government will seize a portion of his Social Security to pay off the federal student loan he defaulted on two decades ago. “This veterans home may become my financial prison,” he says. “And this is no way to live.”

“Getting Rid of the College Loan Repo Man”  
*Washington Monthly*, September/October 2012

## Introduction

These are the stories of America's students and families. They come from all walks of life, all ages and across a range of life circumstances. While each has his or her own unique story, a common theme serves as the glue for this narrative: for far too many Americans, higher education is no longer affordable. We are a nation rich in opportunities yet saddled with mountains of debt, preventing us from realizing our full potential. Yes, the most egregious stories are those that make the headlines, but the reality is that today, too many of our students begin their post-educational lives already underwater. Yet without higher education, Americans are faced with a selection of low-wage jobs and high rates of unemployment.

Historically, public higher education has been regarded as one of our society's greatest public goods, and past investments in its infrastructure have reflected this view. However, the commitment of federal and state financial support for public higher education during the past several decades has demonstrated a shift toward viewing higher education as a private benefit accruing to the individual. While postsecondary education is now seen as more important than ever, leading to record enrollments, funding for federal student assistance has failed to keep pace with rising costs. State and local governments have decreased their levels of investment in public colleges and universities to the point where state funding accounts for only 10 percent or less of many public universities' budgets. Community colleges, which serve nearly half of all college students, are experiencing the most dramatic cuts. Government disinvestment has resulted in higher tuitions, which, as the preceding stories indicate, have left students assuming unreasonable levels of debt in order to attend college and have prevented many others from enrolling or persisting in and completing their studies. Moreover, many are not able to achieve the hallmarks of a middle-class life, as they delay home ownership, put off having a family and find themselves unable to save for financial emergencies.

This same disinvestment has also led to radical changes in the academic workforce. Colleges are increasingly relying on contingent faculty to do the bulk of undergraduate teaching. Contingent faculty—who now comprise more than 70 percent of the instructional corps—are every bit as committed to the education of their students and the mission of their institutions as their tenure-track colleagues, yet they receive a fraction of the compensation, few of the employee benefits, and entirely too little respect for doing the same work. Disinvestment has left a majority of college educators without the professional supports they need to provide the highest-quality education to their students.

The AFT believes that continued disinvestment in public higher education is having disastrous consequences for our nation, and that these consequences will be particularly disastrous for low-income students and people of color. In order to ensure economic and social prosperity and justice, we must address the problems afflicting higher education and develop solutions that promote increased government investment and temper the skyrocketing cost of postsecondary education.

## The Growing Importance of Higher Education

Postsecondary education is essential to building a stable and rewarding career and achieving economic security in the United States. While unemployment for those

with new bachelor's degrees is 8.9 percent in today's tough economy, consider the alternative: Those with only a high school diploma are coping with an unemployment rate of 22.9 percent, and high school dropouts face a staggering rate of 31.5 percent.<sup>1</sup> Compare those figures with the data for people who have secured employment and lifetime earnings: In 1999, bachelor's degree holders earned an average \$2.9 million, 75 percent more than high school graduates. In 2010, the census found that the difference in lifetime earnings between the two groups grew to 84 percent.<sup>2</sup> A large-scale economic benefit includes an increased tax base; workers with postsecondary education are more likely to draw higher wages and pay more in federal and local taxes.<sup>3</sup>

The social and civic benefits of a college education are also well-documented. College graduates tend to be healthier and put fewer demands on social service and safety net programs. They also have higher rates of volunteerism and civic participation. It is clear that college not only provides knowledge and skills that are important economically for both individuals and their communities, but it also plays a foundational role in developing the educated and engaged citizenry that is essential in a healthy democratic society.<sup>4</sup>

College enrollments have soared, thanks to the importance of attending college, as well as the necessity created by the recent economic downturn for many workers to return to college or for potential workers to opt for more education before entering the workforce (In 2009, more than 806,000 certificates were awarded.<sup>5</sup>). According to the U.S. Department of Education, "between 1999 and 2009, enrollment increased 38 percent, from 14.8 million to 20.4 million."<sup>6</sup> Thirty-eight percent of undergraduates in 2009 were over 25 years old; one-quarter of them were over 30.<sup>7</sup> And in 2010, just over 70 percent of graduating high school students enrolled in college, the highest college-going rate on record going back to 1959.<sup>8</sup>

The increased enrollments should be good news; by 2025, the United States should have educated 20 million more college degree and certificate holders in order to ensure our economic stability and status as a global competitor. However, despite the increase in college enrollments, college completion rates are stagnant,<sup>9</sup> leading to widespread concern about the United States' ability to remain competitive in today's global knowledge economy. If the United States stays on course with current college completion rates, we will graduate only 8 million more college degree and certificate holders between 2012 and 2025. Anthony Carnevale, an economist with the Georgetown Center on Education and the Workforce, contends that this number falls short by 12 million.<sup>10</sup>

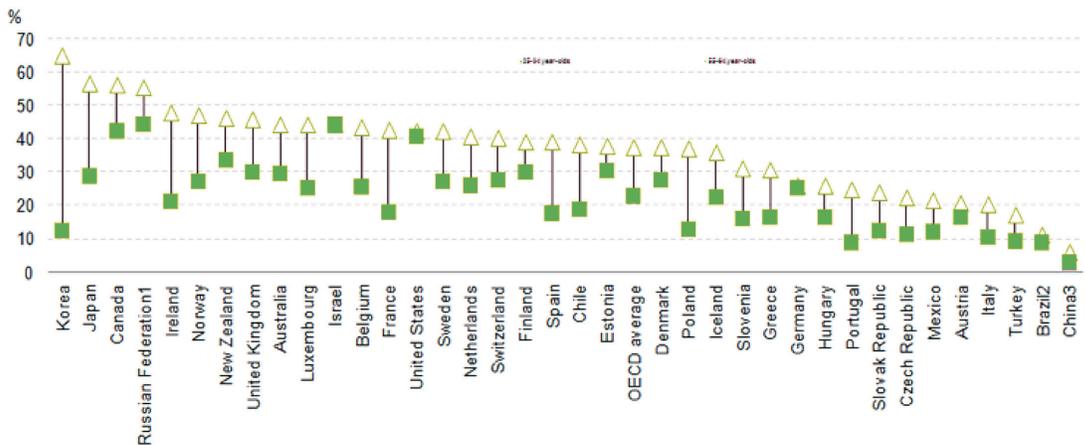
When the stagnation in college completion rates is viewed through the prism of the radical demographic changes the United States is undergoing, the challenges move beyond questions of economic competitiveness and encompass fundamental questions about civil rights and racial justice. According to Demos, in 1990, 71.7 percent of young adults were white, 13.5 percent were African-American and 11.6 percent were Hispanic. By 2010, Hispanics accounted for 20.1 percent of the young adult population; African-Americans, 12.3 percent; and whites, 57.2 percent.<sup>11</sup> That's a 93.3 percent increase for Hispanic young adults from 1990 to 2010; by 2050, the U.S. Hispanic population will make up 29 percent of the overall U.S. population, compared with 14 percent overall in 2005.<sup>12</sup> This is especially significant because Hispanic students tend to have greater financial need, face more obstacles to college completion because

they are often first in their families to go to college, and are less prepared academically thanks to inequities in the K-12 system.<sup>13</sup> The inability or unwillingness to address the reasons that students—especially students of color—fail to attend, persist in and complete college not only hampers the nation’s global competitiveness, but it serves to reinforce the *de facto* segregation of a large and growing number of people in the United States.

Mindful of these challenges the nation faces, President Obama set an ambitious goal at the start of his administration to set the United States on a course to increase the percentage of Americans with a college degree or certificate to 60 percent by the year 2020, once again positioning the United States as the nation with the highest proportion of college graduates in the world. While the United States was fifth in the world in 2010 for its percentage of all 25- to 64-year-olds with some higher education attainment (42 percent, as indicated by the orange squares in Chart A1.1), it is clear that our work will be cut out for us to achieve top status again by 2020, when you consider that we have fallen to 14th in the world for our percentage of 25- to 34-year-olds who have attained some higher education (as indicated by the white triangles in Chart A1.1).<sup>14</sup>

**Chart A1.1 Population that has attained tertiary education (2010)**

Percentage, by age group



1. Year of reference 2002.  
 2. Year of reference 2009.  
 3. Year of reference 2000.  
 Countries are ranked in descending order of the percentage of 25-34 year-olds who have attained tertiary education.  
 Source: OECD, Table A1.3a. See Annex 3 for notes ([www.oecd.org/edu/eag2012](http://www.oecd.org/edu/eag2012)).  
 Statlink

This discussion has not only been taking place at the federal level; states are also moving away from emphasizing access to college and jumping on the college-completion bandwagon, following the leads of major philanthropic organizations.<sup>15</sup> Performance-funding mechanisms that hinge a percentage of state higher education appropriations on how well institutions increase their graduation rates have increased in popularity, driven in part by organizations like the National Governors Association and Complete College America—in spite of the fact that research

examining state performance-funding plans suggests they have little or no effect on improving college completion rates.<sup>16</sup> Performance funding has currently been implemented in 12 states, and another four are making the transition to performance funding. It has been proposed in 19 other states.<sup>17</sup>

While most states that have tested performance-funding plans have made small portions of their state higher education appropriations contingent on graduation rates (3-5 percent, typically), Nevada is forging ahead with an extreme plan that would allocate 100 percent of the state's base annual budget for higher education depending on the number of completed credits—meaning, money now allocated based on how many students enroll would instead be distributed in response to how many complete their classes.<sup>18</sup> This plan asks Nevada's state institutions to make significant increases in college completion while not offering more funds to implement best practices that could help them toward this goal—in fact, Nevada has severely cut its higher education budget over the past few years, and tuition has increased considerably, resulting in an 8.2 percent drop in enrollments just last year.<sup>19</sup>

The focus on completion in federal and state policy has spurred a tremendous rush by experts, policymakers, foundations and think tanks to shift from a focus on college access to developing strategies for increasing college completion rates. Foundations, including the Lumina Foundation and the Bill & Melinda Gates Foundation, are pouring tremendous amounts of money into college completion initiatives that emphasize holding institutions accountable for achieving measurable outputs—such as high graduation rates and standardized test scores—and for developing various curriculum frameworks in order to achieve greater student success. In response, public institutions, in an attempt to avoid further government interventions, have begun instituting accountability systems that emphasize learning outcomes and other high-quality assessment mechanisms.

Frequently absent from these strategies and proposals is a discussion of the inputs necessary to achieve positive outcomes—which had been the primary focus in the past but lately has been dismissed as not focused enough on student success. But without considering inputs, we lack a cogent discussion about the investment required to actually support the success of a larger proportion of graduates who have the skills necessary to secure good-paying jobs. We are presented with untried and unevaluated—but flashy (and often tech-heavy)—fixes to increase completions that do nothing to address the underlying systemic problems that prevent students from attaining their academic goals.

In fact, a systemic understanding of what improves college completions would recognize that the issues of college access and completion are not discrete problems, but are intimately connected. College student persistence and retention are also big pieces of this same puzzle, but are often left out of policy discussions solely focused on completion. While completion is an important end goal to work toward, we cannot get there without acknowledging the fact that we lose the vast majority of non-completers within the first year of college. Students have been clear about the supports they need to succeed: They need better financial aid assistance through grants and scholarships, as well as better financial counseling, more informative and accessible counseling and advising, more accessible faculty (a largely contingent faculty workforce undermines this), smaller class sizes and more course offerings, a culture of encouraging students

to seek guidance and help, and better orientation programs.<sup>20</sup> Institutions that have the best student outcomes are the ones that can devote adequate resources to consistently examining student retention data and coming up with coordinated efforts, including the aforementioned supports, to enhance student persistence.

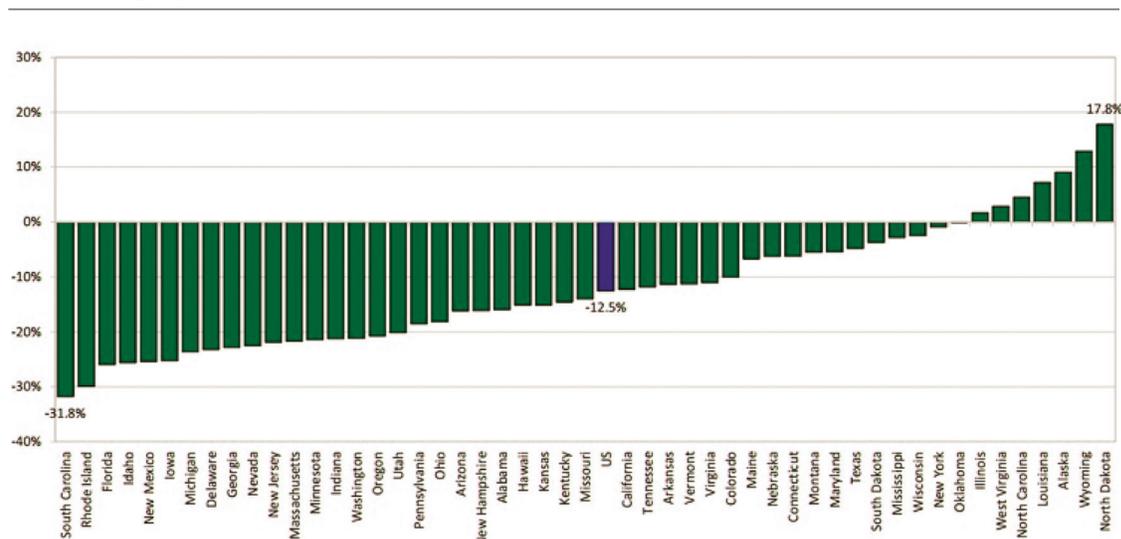
For example, students’ interactions with faculty during the first year of college can have a positive impact on persistence—many scholars who have written on the topic of student success, including Kokkelenberg, Dillon and Christy,<sup>21</sup> have found that having small classes for first-year students and using full-time faculty to teach introductory first-year courses have had positive effects. Beck and Davidson<sup>22</sup> promote early warning programs designed to identify students at risk of dropping out, as this can be an effective tool in improving persistence and graduation rates. Initiatives aimed at improving developmental coursework, first-year orientation programs, and strengthened advising practices are also frequently cited as best practices in improving student persistence.<sup>23</sup> These programs are costly and require a substantial institutional commitment to putting them in place, constant monitoring for improvement, and providing adequate faculty and staff to carry them out. However, facing the twin pressures of demands to deliver on measurable outcomes and institutional budgets shaped by austerity, higher education institutions are increasingly seeking the quick “magic bullet” that will increase completions without a major reinvestment in instructional services.

### The Lack of Investment in Public Higher Education

Despite the clear importance of postsecondary education, and the apparent recognition of that fact by policymakers who are rushing to find ways to increase the proportion of Americans who hold degrees and/or certificates, investment in public higher education, which serves the majority of the college-going population, has not followed suit, particularly at the state level.

**Figure 1. Educational Appropriations per FTE**

Percent Change by State, Fiscal 2006–2011



*Note:* Dollars adjusted by 2011 HECA, Cost of Living Adjustment, and Enrollment Mix Index.

*Source:* State Higher Education Executive Officers

According to the annual State Higher Education Finance report for fiscal year 2011, “educational appropriations per FTE [full-time equivalent student] (defined to include state and local support for general higher education operations) fell to \$6,532 in 2010, a 25-year low in inflation-adjusted terms, and fell further to \$6,290 in 2011.”<sup>24</sup> According to Demos, “while state spending on higher education increased by \$10.5 billion in absolute terms from 1990 to 2010, in relative terms, state funding for higher education declined. Real funding per public full-time equivalent student dropped by 26.1 percent from 1990-1991 to 2009-2010.”<sup>25</sup> It is, of course, important to be able to quantify in dollars the cuts being made in higher education, but it’s also important to keep in mind what these vanishing dollars represent: a reduction in the academic support staff, the services and programs they provide, and the support for instructional staff that is necessary for students to succeed. While it is not uncommon for states to cut higher education during tough economic times, when state legislators are more willing to pit social services against each other instead of finding ways to generate the revenues necessary to maintain vital public services, the length of time for recovery from these cuts has been greater for each successive downturn. Evidence suggests that, unlike in the past, recovery from the deep cuts being felt today could be impossible, given projected enrollment levels for the next decade and the change in legislative priorities that is shifting the cost burden onto the backs of students and families.<sup>26</sup>

As a result of this structural disinvestment, tuition and fees are going up. According to the College Board’s *Trends in College Pricing 2012*, over the decade from 2002-03 to 2012-13, published tuition and fees for in-state students at public four-year colleges and universities increased at an inflation-adjusted average rate of 5.2 percent per year. This rate of increase compares with 3.2 percent per year in the 1990s. Also during 2002-03 to 2012-13, published in-state tuition and fees at public two-year colleges increased at an inflation-adjusted average rate of 3.9 percent per year. This rate of increase compares with 1.6 percent per year in the 1990s. Published in-state tuition and fees at public four-year institutions average \$8,655 in 2012-13, 4.8 percent higher than in 2011-12. Published tuition and fees at public two-year colleges average \$3,131 in 2012-13, 5.8 percent higher than in 2011-12.<sup>27</sup>

The challenges of enrollment growth and state budget cuts have been most clearly felt by community colleges, which now serve the largest number of higher education students in the United States and often serve the students with the most need. According to the Delta Cost Project, “the immediate effect of the recession was most evident at public community colleges. Spending per student fell in 2009, fueled by a combination of enrollment growth and revenue losses. As a result, community colleges fell further behind other institutions—public, non-profit, and for-profit—in their ability to serve growing populations of students with resources adequate to ensure access, attainment, and quality.”<sup>28</sup> This problem is further compounded by the fact that community colleges not only are having a very difficult time serving growing numbers of students, but also are turning away hundreds of thousands,<sup>29</sup> denying access to education and training that so many desperately need in today’s economy.

### The Institutional Response

Not only are tuitions going up, but institutions are prioritizing scarce resources to attract revenues that will make up for funding shortfalls—a practice that is not always

in the best interest of students. Marketing strategies to attract out-of-state students who will pay higher tuitions is one commonly used tactic. Colorado Mesa University's out-of-state student population comprised only 5 percent of the total student body in 2007, but when state support began dwindling thanks to the recession and the state's restrictive tax policy, the university president began aggressively recruiting out-of-state students who pay 50-60 percent more in tuition. Now these students account for 12 percent of the student body and contribute additional revenue of \$3 million to \$5 million annually. The university president hopes to increase the number of these students to 25 percent of the student body in five years,<sup>30</sup> which will undoubtedly reduce access to affordable public higher education for Colorado residents.

Recently, we have seen more public colleges establish differential tuition policies. According to a recent survey by the Cornell Higher Education Research Institute, 143 out of 571 public institutions that offer at least bachelor's degrees were found to now have differential tuition policies, which charge more for certain programs—most commonly business, engineering and nursing. The percentage of public institutions with differential tuition in 2010-11 was highest, at 41 percent, at the doctoral institutions.<sup>31</sup> Recent research suggests that differential tuition is causing a decrease in enrollments in engineering and business programs, and that it has a greater proportionate impact on women and minorities.<sup>32</sup> Devoting more institutional resources to attract private money, such as grants and endowments, is another tactic used to make up for funding shortfalls.

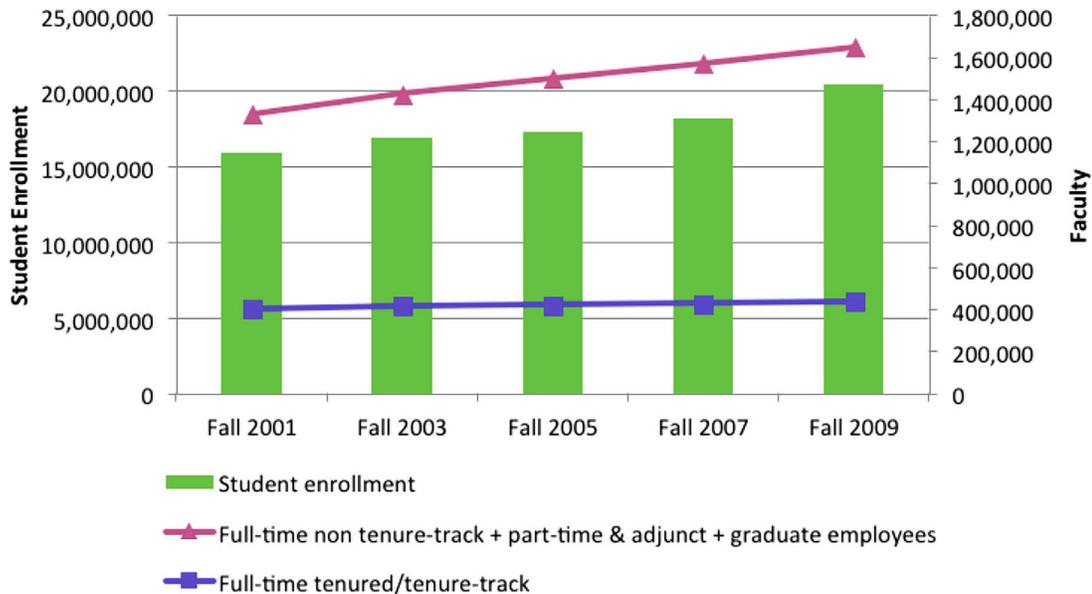
Institutions are also rationing instructional resources in ways that make it harder for students to complete their degrees in a timely fashion. A 2007 report published by the Population Studies Center at the Institute for Social Research at the University of Michigan made the following observation:

That aggregate increases in time to degree are not tied directly to changes in characteristics of students suggests the underlying rate at which students complete college studies may be impeded by limited availability of courses and institutional resources more generally at public colleges as well as increased difficulties faced by individuals in financing full-time collegiate study. While given the nature of the phenomena we are studying it has not been possible for us to estimate a series of unassailable regressions identifying the impact of resources on graduation rates or time to degree, the evidence that we have put together points strongly towards declines in the resources, both monetary and non-monetary, available to students at public colleges and universities playing a central role in explaining the decrease in completion rates and the increased time it is taking college students within the U.S. to obtain BA degrees. That increases in time to degree are concentrated among students attending public colleges and universities outside the most selective few suggests a need for more attention to how these institutions adjust to budget constraints and student demand and to how students at these colleges finance higher education.<sup>33</sup>

This study examined differences in completion between college cohorts in the 1970s and 1990s. Given the trends in higher education disinvestment since then, as well as the precarious economic situation, it would hardly be surprising to find that these findings have become even more pronounced in recent years.

## Enrollment Growth and Faculty:

Fall 2001 - Fall 2009



Source: AFT Higher Education Data Center, US Higher Ed Stats; *Digest of Education Statistics*, National Center for Education Statistics, U.S. Department of Education

Underfunding or entirely cutting student support services, especially those that help first-generation and at-risk students, is another popular cost-savings measure. Some estimates suggest that the student-to-counselor ratio at community colleges is now 1 to more than 1,000.<sup>34</sup> For those who wonder whether student support services have a measurable effect on student persistence and completion, Ronald Ehrenberg, director of the Cornell Higher Education Research Institute, found a positive correlation between graduation rates and spending on student services, including things like student organizations, additional educational tools, and health and registrar services.<sup>35</sup>

Structural disinvestment has also restricted funding for instruction and student support services, which has remained flat or declined. Institutions are leaning more on an unstable academic staffing structure that relies heavily on contingent academic labor.<sup>36</sup>

While part-time and adjunct faculty are highly qualified and care deeply about the success of their students, their lack of support in the form of living wages, job security, office space and healthcare benefits make it extremely difficult for them to carry out their job responsibilities. This could account for the fact that a growing body of research suggests that greater reliance on a contingent workforce has a negative correlation to student persistence, transfer and completion.<sup>37</sup>

Looked to as a means of more efficiently addressing the gaps in student support and high-quality instructional services that are due to disinvestment, technology-based solutions are quickly becoming a go-to for universities and students, for better and

worse. Technology has served as a huge asset in providing distance educational offerings for those who cannot easily access higher education in person, developing course management systems, providing greater access to research tools and literature, and opening up new ways of communication between faculty and students. However, as technology has evolved, it has been increasingly eyed as a cheaper and more efficient way to deliver instructional services and credentials to students.

“Massive open online courses,” or MOOCs, are being hailed as the latest trend in educational technological offerings that will save us from the effects of the recession, which are hitting institutions hard. Educational technology expert Cynthia Eaton notes that without careful consideration of some fundamental questions—such as how to assess which courses lend themselves to online delivery and the preservation of sound pedagogical practices, and how to accommodate the thousands of students who may simultaneously pursue the same MOOC yet have very different needs—MOOCs will not serve the best interests of our students.<sup>38</sup> Low-income and minority students in particular will have the most difficulty effectively accessing MOOCs, given that at this time these online services rarely come with well-developed learning support aids. Additionally, Richard Ekman, president of the Council for Independent Colleges, contends that disruptive innovational solutions like MOOCs are not all they are cracked up to be. “Advocates ... insist that [online] courses are more cost-effective. This argument, too, is overstated: The presumed price advantage of the non-traditional approach all but disappears because the higher attrition rate and longer time-to-degree overwhelm any savings.”<sup>39</sup>

## The For-Profit Threat

As access to public higher education diminishes, one sector is sweeping in to fill in the gap: for-profit institutions. The percentage of all undergraduates enrolled in the for-profit sector increased from 2 percent in 1990 to 11.8 percent in 2008-09.<sup>40</sup> And because federal student financial aid is the main source of revenue for the for-profit sector, students at for-profit schools account for close to 25 percent of the Pell Grant dollars and 25 percent of federal student loans backed by taxpayer dollars, even though for-profits actually enroll only 10 percent of students in higher education. For-profits have also focused their efforts on enrolling veterans to get GI Bill money. Of the \$4.4 billion the U.S. Department of Veterans Affairs disbursed during the 2010-11 academic year, \$1 billion went to just eight for-profit schools; for-profits took in 37 percent of all GI Bill money.

Why is this trend concerning? These federal dollars are used to fuel large profit margins—on average 19 percent—that allow them to devote huge sums of money to their advertising budgets. These advertising campaigns attract students with the promise of flexibility and convenience, faster time-to-degree, and schedules that accommodate students juggling job and family responsibilities along with school.

But rather than resulting in a career and economic mobility, the result for students is, all too often, a financial mess. Average annual tuition at a for-profit school was about \$14,000 in 2009, while tuition at community college averaged about \$2,500 and tuition for in-state students at four-year public colleges averaged \$7,000. Students at for-profit institutions are much more likely than their peers to take out federal student loans (the federal government subsidizes the interest on some loans) to finance their education—to the tune of 88 percent of students at for-profit schools. More than half of all students (54 percent) who graduated with a bachelor's degree in 2009 from a private for-profit university had more than \$30,000 in student loans, while just 12 percent of those graduating from public schools did. For-profit students hold a disproportionately high percentage of student loan defaults: In 2010, 48 percent of students who defaulted on student loans were for-profit students.<sup>41</sup>

### Shifting the Burden from the Public to Students and Families

While public disinvestment in higher education has led to cost-saving measures by institutions to mitigate cuts, as described above, increasing tuition and fees to address the lack of state funding is the first line of defense for most public colleges and places an ever increasing burden on students and families. In-state tuition and fees at public four-year colleges rose by 8.3 percent over academic year 2010-11, out-of-state tuition and fees at public four-year colleges increased by 5.7 percent over AY 2010-11, and in-state tuition and fees at public two-year colleges rose by 8.7 percent over AY 2010-11.<sup>42</sup> This is just one slice in a years long trend of increases in tuition that have exceeded the rate of inflation, in some cases by double digits.

And yet even with skyrocketing tuition and record enrollments, colleges have not been able to fill the gap caused by state disinvestment. The Delta Cost Project notes that “for the majority of institutions, increases in tuition do not translate into increases in spending. In fact, at most public institutions, tuition increases attempt to compensate for lost revenues from state and local budget reductions, but actual tuition increases are less than half of the actual reduction in state and local appropria-

tions.”<sup>43</sup> In short, college has become more expensive for students and families at the same time as colleges have less to spend on students. For example, a recent article on land-grant colleges pointed out that “state-budget cuts mean that many of the agriculture colleges are raising tuition and having to do more with less at the same time that they’re trying to make sure curricula and research keep pace with an agricultural economy that is not just increasingly high-tech but also increasingly global.”<sup>44</sup>

In addition, we are seeing a decline of need-based financial aid. Despite efforts by the Obama administration and Democrats in Congress to rebuild the purchasing power of the Pell Grant, the result has been that the purchasing power of Pell has barely been able to remain constant given the rapid rise of college costs,<sup>45</sup> and in the last federal budget, Pell eligibility was severely narrowed.<sup>46</sup> At the institutional level, colleges are placing a greater emphasis on merit-based financial aid than on need-based financial aid.<sup>47</sup> More students are using student loans (both federal student loans and private student loans) to finance their education, and for a growing group of students, loans have become the primary—even only—means of paying. Additionally, the number of students taking out risky private student loans has significantly increased, even when in many cases they have not borrowed the maximum amount of federal loans available to them.<sup>48</sup> But current students are just one piece of the borrowing picture, as college becomes more and more expensive. Parents have become more likely to co-sign their children’s loans or borrow on their behalf using PLUS loans at higher interest rates.<sup>49</sup> As past student borrowers grow older, retirees are finding their Social Security benefits garnished to repay the remainder of their student loan balances. Parents are paying for their children’s student loans while still repaying their own. Debt burdens are becoming increasingly unmanageable for the average family.

Today, student loan debt has passed \$1 trillion—more than what is owed on credit cards. According to a recent report from the Federal Reserve Bank of New York, “Forty percent of the people under 30 had outstanding student loans, and the average outstanding debt is \$23,300. About 10 percent of borrowers owe more than \$54,000 and 3 percent owe more than \$100,000.”<sup>50</sup> Graduates are also entering one of the weakest labor markets in recent history: 1 of every 2 recent graduates is either unemployed or underemployed.<sup>51</sup> The high debt burden and weak employment prospects means that young people must defer starting families and purchasing homes, undermining their own economic security and placing a serious obstacle in the way of a struggling economic recovery. Holders of educational debt are also deferring payments on these very loans. A recent study found that more than half of educational loan accounts (representing 43.5 percent of all educational loan balances) are in deferred status, meaning that the repayment of the principal and interest has been temporarily delayed.<sup>52</sup>

In more serious instances, students default on their loans. “In all, nearly one in every six borrowers with a loan balance is in default. The amount of defaulted loans—\$76 billion—is greater than the yearly tuition bill for all students at public two- and four-year colleges and universities, according to a survey of state education officials.”<sup>53</sup> That just takes into account those who have defaulted within three years of entering loan repayment, which, while a major problem, is only one piece of the problem. “According to the Education Department, the average time for a troubled borrower to default is four years. And a study last year by the Institute for Higher Education Policy

found that for every borrower who defaulted, at least two more were delinquent in their payments.”<sup>54</sup>

For those students with private student loan debt, the risk is even greater since most private loans resemble credit cards rather than financial aid. They often have uncapped variable interest rates, which have spiked as high as 18 percent in recent years; hefty origination fees; and few, if any, consumer protections; and are ineligible for federal forgiveness, cancellation, bankruptcy or repayment programs. In addition, students are using credit cards to pay for college.<sup>55</sup>

## The Road Forward

The American Federation of Teachers is committed to advocating for better support of higher education and reversing the trends of disinvestment and unsustainable student debt. It is impossible to address the challenges of access, persistence and completion in our colleges and universities without dealing with the structural problems in public higher education financing. We must stop balancing our state and institutional budgets on the backs of our students and families.

The road forward for public higher education can follow either the path of increased and focused investment in our institutions that matches stated policy priorities of increased student access and success, or the path of public disinvestment, which will continue to place more burdens on students and parents and create a more uneven and stratified system of higher education, not to mention a more polarized society. We believe all stakeholders should work toward making the first of these paths the road we build, strengthening our higher education system for the future of our country, both economically and socially.

That path is built upon certain fundamental principles.

- Higher education is a public good—economically, socially and culturally—not simply a private benefit.
- The strength of our higher education system is its diversity—both the diversity of institutions and the diversity of students, faculty and staff—and that diversity should be expanded to reflect the needs and people of our communities and country.
- The role of government should be to make higher education accessible to the students with the most need by leveling the financial playing field in such a way that students can graduate from college debt-free.
- The success of our students—to excel in coursework, to persist in their studies, to attain a degree, to find gainful employment and to lead a rich life—requires significant personal engagement in a well-supported learning environment, and the role of institutions of higher education should be to support that engagement.

The AFT is committed to working with other stakeholders on any policies that help promote these principles. In particular, we believe that a coalition of stakeholders can come together around the following policy recommendations related to educational debt. Many of these recommendations follow from AFT Higher Education’s “Student Success in Higher Education”<sup>56</sup> report, where we discuss the links between affordability, persistence and retention, and positive student outcomes. Many other

ideas and proposals are receiving attention, including many that overlap and inform our own suggestions. That so much attention and energy are being devoted to this issue demonstrates the level of concern around educational debt and the will to confront the challenge head-on.

### **RELIEVING THE DEBT BURDEN OF CURRENT BORROWERS**

Easing the debt burden of current borrowers would help millions of families already struggling in a difficult economy and would also provide an indirect stimulus to the economy by freeing up consumer dollars that are currently servicing this debt. We recommend that:

- Congress reform bankruptcy laws to allow educational debt to once again be discharged through the bankruptcy process;
- Borrowers and advocates demand private lenders increase flexibility in repayment options for borrowers of private educational loans, including loan forgiveness and income-based repayment options targeted to those most in need of assistance,<sup>57</sup> in a manner similar to the program worked out to assist underwater homeowners;
- The federal government consolidate loan forgiveness programs into one program similar to “Pay As You Earn” (which allows loan forgiveness after 20 years with monthly payments equal to 10 percent of the borrower’s discretionary income); and
- The federal government allow borrowers to swap private loans for federal loans with more-favorable repayment conditions and options.

### **PROMOTING DEBT-FREE COLLEGE**

The shift from need-based to merit-based financial assistance has made it harder for low-income, first-generation, and other deserving but disadvantaged students, as well as middle-class students, to afford college without accruing thousands of dollars in debt. This trend is exacerbated by the pressure being put on educators to demonstrate that their students are “succeeding,” pushing colleges and universities to recruit and provide merit-based assistance to those students who are likely to help institutions meet these goals for success. We recommend that:

- Congress increase funding and access to the federal Pell Grant program by:
  - Making the Pell Grant a mandatory program;
  - Increasing the purchasing power of the Pell Grant to cover 70 percent of the in-state tuition for a public four-year school (which is the amount that was covered when the program was implemented in the mid-1970s);
  - Resuming the “year-round” Pell Grant to cover summer enrollments; and
  - Reinstating a longer eligibility period (which will assist nontraditional college students);
- The federal government simplify and streamline the process for applying for federal financial aid;<sup>58</sup>
- Educational tax benefits be restructured to ensure that low- and middle-income students are receiving the bulk of the benefits<sup>59</sup> and that any tax benefit is fully

refundable for low-income students and their families. Any savings from the restructuring of educational tax benefits should be used for the further funding of Pell Grants;

- Congress require state legislatures to show a maintenance of effort in higher education funding to ensure that states do not shift the cost burden further onto the federal government or students;
- Congress restructure the current use of resources to adequately fund federal financial aid for higher education, or seek ways to generate additional revenues to fund public services and programs, such as through a financial transaction tax;
- State legislatures ensure that their higher education financial assistance programs are need-based and assist deserving students from disadvantaged backgrounds; and
- Institutions ensure that their student success and financial aid programs are designed to give deserving students from disadvantaged backgrounds both the financial and academic resources they need to afford, and succeed in, college. Institutions should consider targeting additional need-based aid in a student's first and second years of attendance in order to increase retention and the likelihood of persistence.

#### ENHANCING STATE FUNDING FOR HIGHER EDUCATION

As has been noted, the prime driver of higher tuition—and therefore, higher levels of educational debt—has been the decades long disinvestment in public higher education. The decline in funding for higher education is not simply a matter of not enough money; it is a matter of political will. Decision-makers have been unwilling to make the funding of higher education a priority in their states, and they have been unwilling to confront the challenge of ensuring they have the requisite revenues for the funding of public higher education and other public services. Addressing this issue will require a two-pronged approach: ensuring that states are able to generate the revenues necessary to fund higher education and other important social programs, and seeing that institutions of higher education are receiving adequate funding. We recommend that:

- State legislatures assess their methods of generating revenue to ensure social services, including higher education, can be adequately funded. These methods could include:
  - Reforming the tax code with higher marginal tax rates for upper-income earners,<sup>60</sup> or increased corporate taxes;<sup>61</sup>
  - Maintaining and enhancing enforcement of the tax code to ensure that revenues are not being lost to tax evasion (A recent report by the Tax Justice Institute estimates that in the United States, more than \$337 billion in revenues are lost to tax evasion.<sup>62</sup>);
  - Ending the practice used by unscrupulous employers of misclassifying employees as “independent contractors,” a practice that not only denies affected employees access to important benefits and protections (such as overtime, minimum wage requirements, access to family medical leave, etc.) but also allows employers to get away with not paying into Social Security, Medicare, and state unemployment and workers compensation funds,<sup>63</sup> and

- State legislatures reinvest in institutions of higher education and target these investments toward instructional and academic support services that benefit students.

### **PRIORITIZING ACADEMIC NEEDS IN INSTITUTIONAL BUDGETS**

Institutional budgets are where the rubber meets the road in terms of translating financial support into helping students succeed. As such, they are a key target in ensuring that a college education is affordable to all who desire it. We recommend that:

- Higher education institutions prioritize instruction and academic support services, especially services targeted to first-year retention and at-risk students, in their budgets;
- Higher education institutions provide a meaningful role for faculty, staff and students in determining institutional budget priorities through shared governance; and
- Higher education institutions maintain and expand a commitment to transparency in their academic programs and institutional budgets so that students and their families can make informed choices in selecting a college.

### **ELIMINATING FRAUD AND ABUSE**

A significant number of educational loan borrowers have been adversely affected by exploitative borrowing practices and for-profit educational institutions offering near-worthless degrees or certificates. Protections must be put in place so borrowers are spared these abuses. We recommend that:

- Congress require schools to counsel all students who have not exhausted federal loans and grants before they certify private loans, and that private lenders obtain school certification of need before approving a loan;
- The federal government increase protections against fraud and abuse in the federal aid system, whether by financial institutions or for-profit colleges. This can be done by:
  - Strengthening the “90/10” rule by requiring institutions that receive federal financial aid to certify that at least 15 percent of their revenues are coming from somewhere other than federal financial aid;
  - Barring schools from using financial aid money for marketing to and recruiting students; and
  - Having the Department of Education fully implement and enforce a strong “gainful employment” rule.

The higher education experience can be one of the most transformative and enriching experiences in an individual’s life, whether for a traditional 18-year-old student who attends college right out of high school or a 29-year-old student who returns to school after years of work. It is wrong to ensnare these people and their families in a lifetime of debt just to gain access to the higher education opportunities that can help them—and their communities—attain better lives. It is immoral that one of our nation’s greatest public goods, institutions that historically have been an important vehicle for social mobility and made vast contributions to our economic and civic wealth, is being transformed into another means to extract profit. The policies we

recommend are important steps in helping reverse these trends, but achieving them will require a broadly based social movement of educators, students and community members working to ensure that our nation's promise of higher education is available to all who desire it.

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