CBO Issues Report That May Affect Higher Education

The Congressional Budget Office (CBO) recently issued its biennial report of budget options to aid policymakers with making decisions on budgets, setting priorities, and dealing with altering circumstances. This report presents several options that may have positive and negative effects on higher education. The CBO examined topics such as Pell Grants, PLUS Loans, subsidized loans for graduate students, and tax credits for educational costs.

The Pell Grant program, the single largest source of federal grant aid for postsecondary education, was closely examined in the report. An option to increase maximum award amounts for the grants was presented. With this option, the maximum Pell Grant amounts would increase by either $100 or $1,000, which would affect both the number and size of grants awarded. The option would not only allow those students who previously qualified for Pell Grants to receive larger awards but also afford some students who were ineligible to receive Pell Grants before the possibility of becoming eligible.

The report also suggested that there be verifications of the income amounts Pell Grant recipients report on their Free Application for Federal Student Aid (FAFSA) forms. If this option were implemented, the Internal Revenue Service (IRS) would report income information directly to the Department of Education and its contractors in order to verify amounts reported. This would allow the Department of Education to report any discrepancies to the colleges or universities where Pell Grants are administered so that they can adjust the amounts of students' awards accordingly.

Another topic that the CBO addressed was standardizing the interest rate on PLUS Loans. Parent Loans for Undergraduate Students (PLUS Loans) allow parents with dependent students to take out loans to compensate for their children's educational costs. The option presented by the CBO would standardize the interest rate on PLUS Loans offered by both the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program.

Perhaps the suggestion that would affect the most postsecondary students adversely is the option to eliminate subsidized loans to graduate students in 2007. With this option in effect, graduate students would no longer have the opportunity to take advantage of subsidized loans, on which the government forgives interest that accrues while students are in school, in their grace periods, or in deferment. Graduate students would still be able to take out unsubsidized federal loans and benefit from the below-market interest rates. Assuming that these students opt to take out unsubsidized loans, this option would reduce federal spending by $1.1 billion in 2008 and by $8.2 billion over the 2008-2012 period.

Those in favor of eliminating subsidized loans for graduate students argue that the federal government should use the money to make college education available to all high school graduates, rationalizing that graduate students have already taken advantage of opportunities to obtain college educations. Those against the shift in funding argue that supporting the continuing education of graduate students will benefit society as a whole due to the fact that graduate students are more likely to make technical, scientific, and other advances.