

Held Back: **How Student Aid Programs Fail Working Adults**

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Executive Summary
April 2002

Overview

The following summary is drawn from *Held Back: How Student Aid Programs Fail Working Adults*, a report prepared by FutureWorks with underwriting assistance from the Ford Foundation. The aim of the report was to determine whether federal and state post-secondary student aid programs met the needs of working adults. Our principal finding is that in the areas of education and skills development, they do not.

Millions of working adults seek career-enhancing education and training programs, but their job and family obligations prevent them from taking courses on anything other than a part-time basis. Because most post-secondary aid is awarded only to students who are enrolled in classes at least half-time (six or more credit hours per semester), these working adults are not eligible for most forms of aid, and they benefit little from the few programs for which they are eligible. Moreover, educational institutions have had little incentive to create and offer the more accessible and modularized programs that working adults most need. Without increased assistance in gaining post-secondary credentials, a large number of working adults will remain in low wage jobs with limited career opportunities. This situation is both inequitable and unwise.

Federal spending on post-secondary education is significant. Major federal student financial assistance programs financed through Title IV of the Higher Education Act, including Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Perkins Loans, Federal Direct Student Loans, and Federal Family Education Loans (FFEL) totaled nearly \$50 billion in fiscal year 2001. State student aid grant programs add another \$5 billion.

Funding for “workforce development programs” is very small by comparison. Only \$950 million was appropriated in FY2001 for Workforce Investment Act (WIA) adult employment and training programs, with \$1.6 billion allocated under WIA for dislocated workers. Most of this funding has been spent for employment services, such as job search, resume writing, and other *non-training* activities. Federal funding for Adult Basic Education (\$561 million last year), even as supplemented by the states, doesn’t come close to the soaring need for ESL or GED-level education. The \$1.2 billion for the Carl Perkins Vocational Education program goes mainly to the secondary school system and to administrative costs.

Of course, funding is not the only barrier to post-secondary education for working adults, but it is a very large barrier. Student aid can help low-income people get post-secondary credentials, which can propel them into good jobs and good careers. But working adults have not had access to the post-secondary financial aid system at the federal or state level. This report explains why and suggests how it could be different.

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Identifying the Need

In 2000, there were 110.5 million people aged 25 to 64 in the U.S. workforce. About 40 percent had a post-secondary degree (associate, bachelor's, or advanced).

About 10 percent of all adult workers had not finished high school and 31 percent had not attempted college after high school graduation. An additional 19 percent had “some college, but no degree.” Some of these adults may hold certificates from programs shorter than two years, but most probably attended college briefly after high school and dropped out before achieving any credential.ⁱ

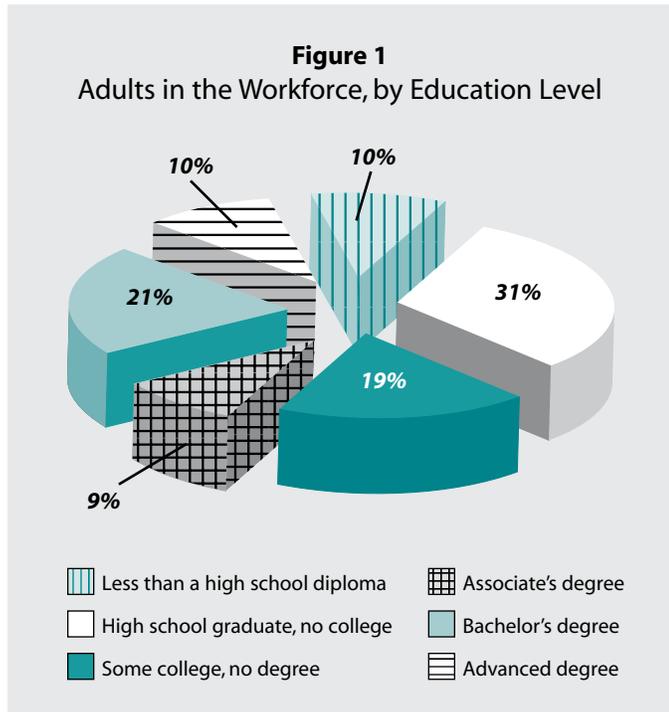
Many of these working adults graduated from high school at time when their diploma, if complemented by a good attitude and a strong back, promised steady work at a good wage sufficient to support a middle class life. But the rules governing economic success have changed dramatically since then. These adult workers are not now adequately equipped to succeed or thrive on the job. Increased and ongoing education and skills development are a necessity in order to support a family and maintain a middle class lifestyle. The availability of flexible and modularized programs is key to achieving these goals.

Helping working adults gain post-secondary credentials is essential for the wellbeing of both

individuals and the businesses in which they work. With the application of new technologies and business strategies, the skills content of many jobs has jumped dramatically and the number of new jobs requiring a higher level of skills has also increased. Worker education and training are necessary for increased productivity for individual businesses and the economy as a whole.

Demographic trends predict continuing labor market shortages, which suggest America cannot afford to leave any worker behind. Moreover, the economic bias toward employees with post-secondary education and training is steadily increasing. Census Bureau data shows that monthly earnings increase significantly with increased education levels. Income disparities are directly correlated with differences in educational attainment. Failing to help under-prepared workers gain post-secondary credentials means consigning them to the bottom half of an increasingly inequitable two-tiered economy.

The importance of post-secondary skills development is not lost on the American worker. According to the National Household Education Survey (NHES), the estimated number of adults participating in any form of adult education increased from 58 million in 1991 to 90 million in 1999.ⁱⁱ This represents a stunning increase of over 50 percent in less than a



Source: Bureau of Labor Statistics, 2000

decade. In 1999, almost half of those 90 million adults were taking work-related courses and 18 million were seeking a formal post-secondary credential. Most of these 18 million already had some post-secondary degree or credential, but the NHES estimated that 3.5 million adults whose highest educational attainment was a high school diploma were attempting to get a post-secondary credential and another 8.9 million were enrolled in some form of work-related education or training. The NHES also found that millions of additional working adults were interested in adult education, but did not to pursue it because they lacked time, available and accessible programs, and money.

One reason time is a major barrier is the length of an average work week. Last year, the average workweek for employees age 25 and over was 43.5 hours. Long hours mean time for education and training is limited. Moreover, most have family obligations that further restrict the time and financial resources that can be dedicated to school and training. With these constraints, adult workers can take only one or two courses at a time. Research indicates that working adults overwhelmingly prefer short, intensive programs, and find it difficult to sustain even a part-time commitment over a period of 15 weeks (the average semester at most educational institutions).ⁱⁱⁱ

However, some working parents do find a way to enroll in one or two college courses per semester. Analysis of data from the National Post-Secondary Student Aid Survey (NPSAS), during the 1999-2000 school year, shows that there were about 3 million less-than-half-time degree-seeking students enrolled in Title IV eligible programs and institutions (18% of 16.5 million students). FutureWorks estimates that about one-third of them — 1 million students — worked full-time, had dependents, and considered themselves “employees” rather than “students.” This represents one-half of all working parents enrolled in college. Of the other half, 29 percent were enrolled half-time, 15 percent full-time, and for 9 percent, enrollment hours fluctuated over the school year.

It is important to note that these figures represent only students who are officially enrolled in a program at a Title IV-eligible institution approved to distribute student financial aid by the U.S. Department of Education. They do not include those working parents who may take some college courses to improve their skills without officially enrolling in a program. Nor do they include working adults taking courses at educational institutions not approved by the U.S. Department of Education. The NHES survey indicates clearly that there are even more working adults seeking post-secondary credentials but enrolled in non-Title IV eligible programs and institutions.

Additionally, there is the barrier of cost. A quarterly Work Trends survey by the John J. Heldrich Center at Rutgers University and the Center for Survey Research and Analysis at the University of Connecticut in 1999 reported that 87 percent of the working poor

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adults surveyed (those with earnings at 200 percent of poverty or less, about \$35,000 for a family of four) were concerned about earning enough money just to support their family. Nearly three-quarters were “very or extremely” concerned.^{iv}

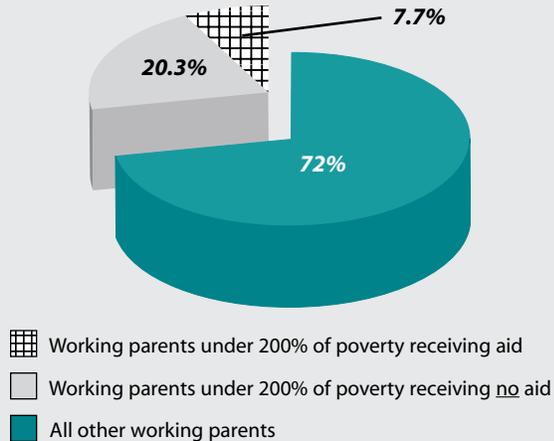
These working poor adults will struggle to afford even the \$500 average annual cost of tuition and fees for working parents attending less-than-half-time (analysis of 1999-2000 NPSAS data). Of course, tuition and fees are only part of the cost of attending college. NPSAS data shows that the total budget for a working parents enrolled less-than-half-time is about \$2,200 (including tuition, fees, and some living expenses).

About 28 percent (280,000) of working parents who were enrolled less-than-half-time were working poor adults according to the Work Trends definition. However, only 7.7 percent (77,000) of all working parents received any federal, state, or institutional aid. Only 3.5 percent received Pell Grants, and virtually none received Perkins Loans or Supplemental Educational Opportunity Grants. Less than 3 percent received some sort of institutional aid, 1.7 percent received State aid, less than 2 percent received grants from private sources, less than 1 percent received private loans, 3.7 percent received veterans’ benefits, and 1.8 percent received tuition waivers.^v

The few working parent students who receive some student aid get far less than their traditional counterparts. When traditional students are awarded financial aid, the assistance they receive is

generally not limited to tuition and fees — living expenses, such as room and board, are often part of the aid package. This is not the case for working adults enrolled less-than-half-time. These students receive aid for only tuition, fees, and some dependent care and transportation costs. For the less than 8 percent of working parents who received some sort of federal, state, or institutional aid, the average award was about \$1,800. This leaves a \$400 gap that these students must pay. Although \$400 is not a significant price to pay for an investment in one’s skill development, it can be an insurmountable barrier for working poor families who are concerned about earning enough money just to support their families.

Figure 2
Working Parents and Student Aid



Source: Analysis of NPSAS 1999–2000 data

Aid Availability by Program

Federal Loan Programs

There are three main federal loan programs in which higher education students can participate: the Federal Perkins Loan program; the Federal

Direct Loan program (DL); and the Federal Family Education Loan program (FFEL), the latter two formally under the Federal Stafford Loan programs.^{vi} Perkins Loans are designed for students with “exceptional need” and enrollment in a formal certificate or degree program is not required. Further, schools receiving Perkins Loan funds are required to offer a “reasonable proportion” of these funds to independent or less-than-full-time students, including less-than-half-time students. However, this “reasonable proportion” is based on the amount of federal capital funds schools apply for to cover these students. If this amount is low, the reasonable proportion will be low. Additionally, schools can establish other eligibility requirements for these loan funds. Moreover, Perkins Loans received only \$100 million in new appropriations for 1999-2000. According to NPSAS data for that school year, less than one-half of one percent of working adults taking classes on a less-than-half-time basis received a Perkins Loan.

Federal Direct Loan and Federal Family Education Loan Programs are not available to students taking courses on a less-than-half-time basis. To qualify for these programs, students must be enrolled at least half-time and must be enrolled or accepted for enrollment in a certificate or degree program. Although they are by far the largest source of federal student aid resources, Direct and Family Education Loans are almost never available to the working adults who are the focus of this report.

Federal Grant Programs

Although students enrolled in fewer than 6 credit hours (less-than-half-time) are technically eligible for federal Pell Grants and federal Supplemental Educational Opportunity Grants (SEOG), very few get them and those who do get limited funding. The SEOG is restricted to students with “exceptional financial need” and is very modestly funded by Congress — it is less than 1 percent of the total Title IV budget. Moreover, it is a campus-based program, meaning that each school has flexibility in determining student eligibility for this program. Less than one-half of 1 percent of all less-than-half-time students receive an SEOG.

Pell Grants also are designated for students with “exceptional financial need.” In 2000, only 1 percent of Pell Grant recipients were less-than-half-time students. Only 3.5 percent of working parents who took classes less-than-half-time received a Pell Grant in 1999-2000. A number of “technicalities” may explain why a working adult with a family may not meet the eligibility requirements for a Pell Grant, including the following:

- Working adults, because they work, often have too high an expected family contribution (EFC) for eligibility
- Less-than-half-time students often have too low cost of attendance (COA) for eligibility (e.g., less-than-half-time students cannot include their room and board in their cost of attendance)

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- They may not be regular students because they may not officially be seeking a degree
- They may not be enrolled in eligible programs
- They may not be enrolled at eligible institutions
- Their college may conclude that they cannot maintain an acceptable pace of study to complete their program within federal and institutional requirements
- They may not have a high school diploma and may not have the resources to gain an equivalent; and,
- If immigrants, they may not have documentation of high school diplomas from their home countries.

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State Programs

Most state grant programs (there are very few state loan programs) have been designed to supplement the federal grant programs and therefore tend to have the same eligibility requirements — or they preclude eligibility for less-than-half-time students. This means that most state financial aid programs and policies present the same barriers to access for working poor adults as do the federal policies. However, about 15 states have established policies or programs either to provide special funding for students attending school on a less-than-half-time basis or to open up their main need-based grant programs to include students taking courses at any enrollment level. These newer and innovative programs are profiled in the full report and provide models for other state governments and the federal government to aid working adults seeking credentialed skill development on a limited part-time basis.

The Hope Scholarship and the Lifetime Learning Tax Credit

The Taxpayer Relief Act of 1997 created the Hope Scholarship and the Lifetime Learning tax credits to help make college more affordable for millions of American students and families and to expand access to education and skill development for working adults. The Hope Scholarship Credit provides a tax credit up to \$1,500 for the first two years of post-secondary education. Tax filers can claim 100 percent of the first \$1,000 spent on qualified expenses (tuition and fees) and 50 percent of the second \$1,000 for themselves or their dependent(s). Students benefiting from this credit must attend school at least half-time. Because, as is noted above, most working adults are unlikely to pursue higher education at this pace, the current structure of the Hope Scholarship makes it irrelevant to their needs.

The Lifetime Learning Tax Credit allows students (or taxpayers claiming them as dependents) studying beyond the first two years of undergraduate or those taking courses on a less-than-half-time basis to claim a credit of up to \$1,000 — 20% of the first \$5,000 of qualified educational expenses (tuition and fees).^{vii} In 2003, this maximum will increase to the first \$10,000 and the potential credit thus increases to \$2,000.

Similar to the Hope Scholarship, the structure of the Lifetime Learning Tax Credit limits its potential benefit for working adults. First, the percentage of qualified educational expenses allowed under this program is low — 20 percent vs. 100 percent under the Hope Scholarship. Because working parents enrolled in courses less-than-half-time spend on average \$500 on tuition and fees, the \$100 credit that they might claim under the Lifetime Learning Tax Credit is small compared to the percentage of support provided by the Hope Scholarship.

Second, the pending increase in the cap on qualified educational expenses from \$5,000 to \$10,000 is a windfall for full-time students who have high tuition and fee costs, such as dependent undergraduates in middle-income families and independent graduate students. However, this increase does nothing to further support working parents' skills development because their spending on education is far below both caps. What would help this group of students more is an increase in the percentage of qualified educational expenses, which would help them realize more of a benefit under this program.

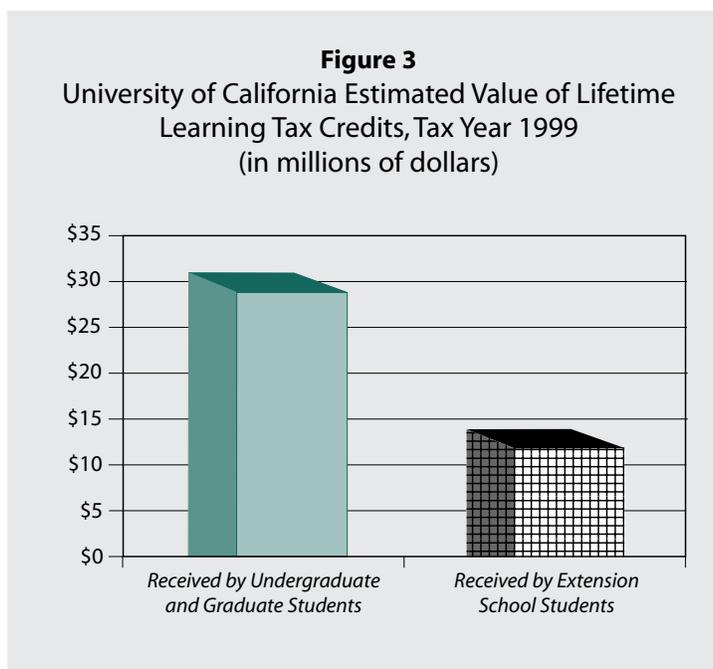
Findings from one of the few studies on student use of educational tax credits leads us to believe that due to these structural limitations, many of the tax filers benefiting from the lifetime learning tax credit may be the parents of traditional students or graduate students with excellent prospects, rather than chronically poor working adults seeking to improve their education and work skills.

From a survey of students in the 1999 tax year, the University of California (UC) system estimated that the total value of the Lifetime Learning Tax Credit for its students was \$44.7 million. "Main campus students" — mostly dependent undergraduates and independent graduates — realized \$30.7 million and Extension School students — generally working adults — realized \$14 million.^{viii}

One of the reasons for the disparity is that Extension School students did not apply for the credit because they did not think they were eligible. However, comments on the survey indicated that many were confused about the eligibility requirements. Additionally, many students did not know about the credit. These findings suggest the need for better education and marketing efforts of the credit. Whatever the reasons, the UC estimates indicate that the Lifetime Learning Tax Credit may be making more progress toward its goal of helping traditional students afford college than that of assisting working adults develop career skills.

Third, the Lifetime Learning Tax Credit presents a cash flow problem for many

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Source: Hoblitzell and Smith, 2001.

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workers. They often do not have the discretionary income to pay for classes at the beginning of a semester in anticipation of receiving a credit as much as 15 months later when taxes have been filed. Finally, tax filers must owe taxes in order to benefit from a tax credit; however, many of the very low-income workers do not owe taxes and do not benefit from this tax credit.

Section 127 Employer Assistance

Although federal employer education tax breaks have potential to help working adults gain post-secondary credentials, only 8 to 9 percent of eligible employees receive educational assistance from Section 127. A report by the US Department of Education shows that employers generally favor higher paid and better educated workers when providing such assistance, leaving lower-paid workers few options for financing their education and skill development.

How Can Federal and State Policies Better Aid Working Adults?

The purpose of the FutureWorks report is to identify areas of inadequacy in providing aid to working adults pursuing credentialed skills development. Through our research, we found that federal and state student aid policies are extraordinarily complex. More detailed analysis of the policies, as well as any potential changes and their ramifications, is necessary before specific recommendations to make them more working-adult-friendly can be developed. However, our initial findings enable us to identify priorities for future policy and program development.

FutureWorks proposes the following general recommendations for federal and state governments to consider in addressing the gap in financial aid resources for working adults. Our focus is to go beyond helping those working adult students already enrolled in college. These recommendations are aimed at changing student aid policy to better assist more working adults in their credentialed skills development. Our goal is to meet the economy’s increasing skill demands and to help workers learn — and earn — more.

Priorities at the Federal Level

1st Priority: Amend the Hope and Lifetime Learning Tax credits so that they provide better opportunities for working adults to pursue skill development.

FutureWorks recommends changing the provisions of the Hope Credit that require half-time or more enrollment. These can be modified to include students enrolled less than half time, which is a more manageable pace for working adults with full-time jobs and dependent care responsibilities. FutureWorks also recommends re-examining the pending increase from \$5,000 to \$10,000 in the amount of educational

expenditures that may be claimed under the Lifetime Learning Tax Credit. This increase represents a windfall benefit both to middle-income parents with traditional dependents attending college and to graduate students, but working adults seldom incur educational expenses over \$5,000 per year. Instead, the amount of the credit could be increased from 20 percent to 60 percent (or higher) of qualified educational expenses. In addition, the credit could be made refundable as is the case for the Earned Income Tax Credit. Just as the concept of “making work pay” ushered in an expansion of the Earned Income Tax Credit, so too the requirement for lifelong learning will ideally lead to refundable education tax credits. Finally, a major effort to market these programs seems necessary and desirable.

2nd Priority: *Make less-than-half-time students eligible for some government guaranteed loans.*

Requirements in the student aid program that deny loans to less-than-half-time students are perhaps understandable in their intent to avoid potential abuse. But they penalize millions of working adults who cannot place their job and their family responsibilities at risk to attend college at least half-time. The 1998 Reauthorization of the Higher Education Act introduced student loans that are not based on need in order to help middle income families afford their children’s college education. Unfortunately, this benefit was limited to the traditional students who were taking courses at least half-time, and excluded working parents who might take courses less-than-half-time to improve their own skills. Providing access to this form of student aid is one way to help working adults in their skills development.

3rd Priority: *Modify eligibility barriers for less-than-half-time working adult students with dependents within the Pell Grant program.*

Working adults with dependents need a better break in gaining eligibility for Pell Grants. The current Pell Grant formula may provide for traditional students with “exceptional need,” but its restrictive student budget calculations generally fail to provide for non-traditional working adult students with equally “exceptional need.” Working adults going to school less-than-half-time are unable to receive assistance with living expenses that a dependent living in the same household would receive. Their expenses could be calculated more generously and their income more narrowly.

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4th Priority: *Revisit financial aid eligibility barriers to shorter term and more flexible educational programs.*

The 1992 reauthorization of the Higher Education Act focused on the prevention of fraud and abuse in the student financial aid system

by questionable educational programs. However, some of these protections are stifling innovative and useful educational program designs. For example, the “12-hour rule,” which requires full-time students to be in a classroom for at least 12 hours each week to be considered in an “eligible program” and to receive student aid, is a barrier to schools developing and using distance learning programs.

The 2004 reauthorization would be a good opportunity for Congress to revisit financial aid eligibility requirements for educational institutions with an eye toward shorter credential programs, modularization of courses, open entry-open exit programming, and distance learning.

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5th Priority: *Encourage employers to help poorly prepared adult workers gain post-secondary credentials.*

Under Section 127, employers tend to support the skill development of their more educated workers and their more educated workers are more likely to use tuition reimbursement programs. Perhaps the federal tax code can provide employers greater incentive to allocate a greater share of their resources to workers who do not have post-secondary credentials and to help assure that training for lower-wage workers leads to “portable” credentials.

Priorities at the State Level

1st Priority: *State educational policies should focus on encouraging educational institutions to be more working-adult-friendly.*

Because most educational institutions rely on federal student financial aid, their procedures are shaped by those policies. However, state governments provide most of the institutional aid to colleges and universities, and state educational policy is therefore in a good position to influence the development of structural improvements in educational programs for all students, including working adults. The FutureWorks report outlines some of the most significant non-financial barriers to credentialed skills development faced by working adults. It is the states’ responsibility to help break through these barriers. More flexible programs and course schedules, modularization of programs, shorter-term credentialed training, and innovative delivery of education and training are as important in easing access to skills development for working adults as expanded financial aid policies.

2nd Priority: *State education and workforce policies and programs should encourage credentialed skills development.*

Credentials help employers because they signal what workers know and can do. They help workers by providing portable and recognizable skill sets in a time of increasing labor market volatility. By focusing on

credentialed skills development and encouraging working adult eligibility in an expanded federal student financial system, states can tap into an established system with “quality control” processes (federal accreditation) to benefit employers, workers, and education and training organizations.

A few states are already moving in this direction. Indiana requires that all skills development programs result in a portable credential. Michigan also has a similar initiative ensuring that all state-funded technical skills-training programs provide participants with portable credentials. As part of a comprehensive reform effort toward working-adult-friendly education and training, the Kentucky Community and Technical College System is working to ensure that all education and training in its system result in academic credit, the basis of a portable credential. Other states could take this approach not only to benefit working adults, but also to improve their entire workforce development systems and, ultimately, the state economy.

3rd Priority: *States can fill in gaps in the federal student financial aid system for less-than-half-time students.*

State governments can provide financial support for those working adults students enrolled less-than-half-time who do not receive or qualify for federal aid. Findings indicate that about one-quarter of the states have created policies and programs to fill some of this federal student financial aid gap. More can be done and more states can do it.

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A Final Note: What Are the Barriers to Change?

There are other big issues confronting state and federal post-secondary student aid programs outside of aiding working adult students. Collectively, the states have begun to allocate a growing share of their student assistance funds from need-based to merit-based programs. This shift inevitably limits the potential flexibility of the state aid programs in responding better to the needs of working adults. It puts at risk aid to students from low-income families who have significant financial barriers to attending college. Studies show that, in contrast to their moderate-income peers, low-income students are more likely to persist through college if they have grant support than if they have loan support. Overall, the trend toward merit-based aid may have negative implications for low-income traditional students and working adult students in credentialed skills development programs.

At the federal level, there are two overarching challenges that may well impede the allocation of more aid to working adults. First, most post-secondary institutions regard the federal student financial aid

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system as essentially a “zero sum game.” To the extent that this is true, more aid to one needy group simply diverts aid from other needy groups. For instance, Pell grants receive a fixed annual appropriation from Congress, and modifying eligibility requirements to make more non-traditional students, such as working adults, eligible for more aid may reduce the pool of resources to serve traditional students.

The other issue of federal post-secondary aid is even more fundamental. Federally subsidized student loans and Pell grants are policy instruments designed to expand post-secondary *access* and *affordability* for low and moderate-income families. But they have little positive effect on *persistence* and *completion*. In looking at the challenges faced by low-income traditional students in completing college, we see much overlap with the needs of working adult students. One obvious area to examine for both types of students is how student aid could be used to influence the pace and structure of degree and credential offerings in our colleges and universities. Might student aid money provide incentives for modularized, competency-based, flexible degree programs that would encourage persistence and degree completion for traditional students from low-income families as well as working adults in those same families? Such a wide-ranging policy review might conclude that federal student aid does not have to be a zero sum game of competition for the resources that pit traditional against non-traditional students.

In fact, in a time when skills development is a lifelong endeavor required by all, the distinction between “traditional” and “non-traditional” student becomes less meaningful. When low-income “traditional” students work 30 hours a week to support themselves as students and when working adult “non-traditional” students take classes to support their career development, the distinction blurs between students working and working students. To benefit both, we need a financial aid system that recognizes that both are students and both are workers.

There is little question that federal student aid already is a good investment of federal resources, but it could better support both traditional and non-traditional students with a single set of policies, some of which are previewed in this report. In classic negotiating terms, this suggests that, instead of dividing up the current value of the student financial aid system — as in a zero-sum game — it be re-structured to find and create more value for more students. Slicing the student financial aid pie into smaller pieces for more students does not solve the problem. Even expanding the pie is not enough. In an era of lifelong learning, we need to re-think the policy ingredients and change the recipe to better meet the needs of all students.

Endnotes

- i The college completion rate is changing only very slowly. Over the past decade, more high school graduates (almost 75 percent) are going on to college but a third fail to return after their first year and only one-half earn any degree.
- ii In this report, the term *adult education* is used to mean any form of education taken by an adult outside of primary and secondary school enrollment. It is not limited to the activity of adult basic education.
- iii US Department of Education. National Center for Education Statistics. *Adult Education in the 1990s: A Report on the 1991 National Household Education Survey*. Working Paper No. 98-03, by Teresita L. Chan Kopka, Nancy Borkow Schantz, and Roslyn Abrevaya Korb. Project Officer: Peter Stowe. Washington, DC: 1998.
- iv “Can the Working Poor Move Ahead?” *Working Hard, Staying Poor: A National Survey of the Working Poor and Unemployed*. Work Trends Series by the John J. Heldrich Center at Rutgers University and the Center for Survey Research and Analysis at the University of Connecticut. October 1999. www.heldrich.rutgers.edu.
- v Because these aid sources are not mutually exclusive, they do not add up to the total percentage of students who received aid.
- vi The federal government guarantees the repayment of the loan to the lender and subsidizes the repayment terms.
- vii A taxpayer may not claim both a Hope credit and the LLTC for the same student or the same expenditures.
- viii Hoblitzell, Barbara A. and Tiffany L. Smith. 2001. University of California Office of the President. “Hope Works: Student Use of Education Tax Credits.” *New Agenda Series*, Vol. 4, No. 2. November 2001. Lumina Foundation.

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