File: EITC

CENTER ON BUDGET AND POLICY PRIORITIES

THE SENATE FINANCE COMMITTEE'S ACTIONS IN REMOVING $10 BILLION FROM THE CLINTON EITC EXPANSION

In action on the budget reconciliation bill last week, the Senate Finance Committee scaled back the EITC expansion proposed by the Clinton Administration by $10.1 billion over five years, shrinking it from $28.3 billion to $18.2 billion. The Committee dropped entirely the Clinton proposal to provide a modest EITC to poor workers without children, cutting approximately $4.5 billion. The Committee also reduced the proposed expansion for families with children by approximately $5.5 billion. All families with children that qualify for the EITC, including those at very low income levels, would receive a smaller EITC benefit under the Finance Committee package than under the Clinton proposal. More than three million families would receive a modestly smaller EITC benefit than under current law.

As part of the actions it took on the reconciliation package, the Finance Committee replaced the Administration's energy tax with a substantially smaller transportation fuels tax. Serving as an offset to the energy tax was not, however, the sole purpose of the President's EITC proposal. Equally if not more important was fulfilling the pledge that if a parent in a family of four worked full-time year-round, the family should not have to live in poverty. Due to the reductions the Finance Committee made in the EITC proposal, this goal would not be met.

Moreover, millions of poor households would receive no offset to the transportation tax. The administration's proposal to offset the effects of the energy tax on low-income households included three components — the EITC changes, an increase in food stamp benefits, and an enlargement of the low-income energy assistance program. Not only did the Senate Finance Committee scale back the EITC improvements, but the Senate reconciliation bill includes none of the proposed $7.5 billion food stamp increase. In addition, the proposed energy assistance increase is moribund, a victim of the need to squeeze non-entitlement spending within the tight budget ceilings established by the 1990 budget agreement. The combined effect of these developments is that millions of low-income workers would receive no EITC increase — and would have no offset to prevent the increased levy on gasoline and other fuels from taxing them deeper into poverty. The large numbers of poor who have no earnings and are not eligible for the EITC, including the elderly and disabled poor and the low-income unemployed, also would receive no offset and would slip farther into poverty.

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Robert Greenstein, Executive Director ✦ Loring Henderson, Deputy Director

The EITC proposal adopted by the Finance Committee thus has three major shortcomings:

- It fails to offset the transportation tax for millions of working poor households. This is due in large part to the Committee's rejection of the proposed EITC for poor workers without children.

- It makes several million working families with children worse off than they would be under current law, cutting their EITC by up to $77 in tax year 1994 — and up to $55 in subsequent years — while simultaneously subjecting them to the transportation tax.

- It fails to achieve the President's goal of lifting a family of four with a full-time year-round minimum wage worker to the poverty line, even if the family receives food stamps and the minimum wage is indexed to inflation, as President Clinton proposed during the campaign.

The Finance Committee and Workers Without Children

The Clinton Administration proposed that a very modest EITC be established for childless workers with incomes of less than $9,000 per year. The credit would equal 7.65 percent of their first $4,000 in earnings, providing a maximum credit of $306. The credit would phase down once income passed $5,000 and phase out entirely when income reached $9,000. The average benefit would be about $175.

This proposal has substantial merit, and not only because it would offset the effects of the energy tax on these households. The poorest fifth of households without children is the single group in the U.S. population whose federal tax burdens have increased most since 1980. A Congressional Budget Office analysis shows that their overall federal tax burden has risen *38 percent* during this period (that is, the proportion of income consumed by federal taxes rose by 38 percent among these households). This is much larger than the increase in tax burdens borne by any other group of households in any income category. (See Table 1.)

This sharp tax increase occurred in large part because of a series of increases in Social Security, gasoline, alcohol, and tobacco taxes. For low-income families with children, these regressive tax increases were generally offset through EITC expansions. For poor workers without children, no offsetting actions were taken. The resulting tax increases these workers bore were substantially larger than the modest income tax reductions they received as a consequence of the 1986 Tax Reform Act.

Table 1

Changes in Federal Tax Burdens, 1980-1993

Household Category	Change in the Percentage of Income Consumed by Federal Taxes
Non-elderly households without children	
poorest fifth	+38%
middle fifth	5
top fifth	-3
Families with children	
poorest fifth	-19%
middle fifth	1
top fifth	1
Aged	
poorest fifth	-22%
middle fifth	-14
top fifth	-11
All households	
poorest fifth	4%
middle fifth	-2
top fifth	-3

Source: Congressional Budget Office data published in House Committee on Ways and Means, 1992 *Green Book*, pp. 1526-7.

Moreover, although the 1986 Tax Reform Act sought to establish a principle that those who work but are poor should not be subject to federal income tax and thereby taxed deeper into poverty, the Act failed to achieve this goal for single workers. They are the one group of workers who continue to pay income tax despite their poverty. They begin owing income tax when their earnings reach $6,050, nearly $1,500 below the poverty line for single individuals.

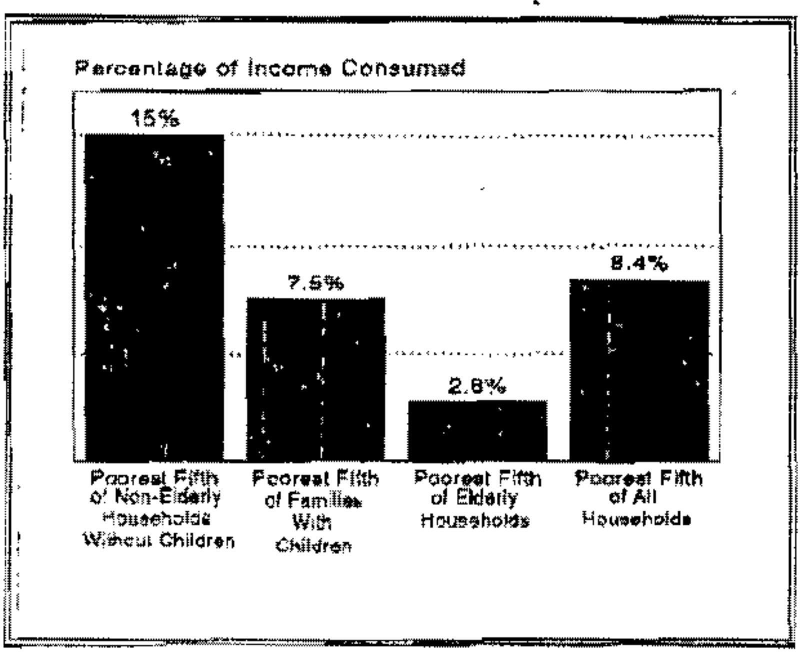
The new EITC for childless workers proposed by the Clinton Administration would remedy this problem, bringing the point at which single workers begin to owe income tax about to the poverty line. The Finance Committee's decision to eliminate this new credit puts that goal out of reach. Thus, under the Finance Committee package, a regressive tax would once again be levied with no offset provided to poor workers without children. Once more, these workers would be taxed deeper into poverty.

Some have sought to dismiss the importance of the EITC for childless workers, arguing that most of those who would benefit are individuals in their twenties, including a substantial number of graduate students. These assertions have been made with no supporting data. Extensive data on the characteristics of the childless workers who would be eligible for the Clinton EITC have recently become available. The data show these assertions to be groundless.

Census data show that no more than two percent of the childless workers who would be eligible for the credit are students mixing work with graduate studies. More than half of these workers have no more than a high school education. In addition, a new Congressional Research Service study shows that three-fifths of these childless workers are age 30 or over.

The Census data also indicate that these workers are employed an average of 33 weeks during the year and work more than 32 hours a week on average during these weeks. They work nearly 1,100 hours per year on average but earn wages that average only $5.67 an hour. They are not typically individuals who work for only a few hours per week or a few weeks per year.

Percentage of Income Consumed by Federal Taxes
for Different Low-Income Groups, 1993



Families With Children

The Finance Committee also scaled back the Clinton Administration proposal to expand the EITC for families with children. The Committee did so in three ways:

- The Finance Committee shaved the size of the EITC increase. When phased in fully, the maximum EITC benefit for families with two or more children would be $56 smaller than under the Clinton plan. The maximum benefit for families with one child would be $22 smaller.[1]

- The Finance Committee package also would phase down the EITC more quickly for families that have two or more children and incomes of more than $11,000.[2] When combined with the reduction in the size of the maximum benefit, the overall effect would be to set EITC benefits for families that have two or more children and incomes in the $11,000 to $27,000 range from $56 to $200 lower than under the Clinton plan. In addition, the EITC income limit for families with two or more children would be set at $27,000, rather than at $28,000 as under the Clinton plan.[3]

- Finally, the Committee phased in the EITC increase more slowly than the Administration had proposed, particularly for families with two or more children. Under the Clinton proposal, the increase would take full effect in tax year 1995. Under the Finance Committee plan, the increase for families with two or more children would take full effect in tax year 1996, meaning that most families would not see the full EITC increase until the spring of 1997 when they filed their 1996 tax returns.

There would still be significant EITC increases under the Finance Committee plan. The maximum EITC benefit would rise from $1,836 to $2,040 for families with one child and from $1,998 to $3,315 for families with two or more children. But a substantial number of families with one child would have their EITC benefits

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[1]This would be the result of: setting the credit for families with two or more children at 39.0 percent of the first $8,500 in earnings rather than at 39.66 percent as proposed by the Clinton Administration; and setting the credit for families with one child at 34.0 percent of the first $6,000 in earnings rather than at 34.4 percent as proposed by the Administration.

[2]Under the Clinton plan, the benefits these families receive would drop $19.83 for each additional $100 of income. Under the Finance Committee package, their benefits would fall $20.72 for each additional $100 in income.

[3]All dollar figures in this paper are expressed in 1994 dollars. Under current law, the EITC income limit is $23,760.

reduced rather than increased. And families of four with a full-time worker would be left short of the poverty line.

Families Made Worse Off

More than three million working families with one child would be made worse off. In tax year 1994, all families with one child and incomes between $12,110 and $23,760 would get a smaller EITC than they would receive under current law. A family with $12,600 of income would receive a $77 smaller EITC. A family at $20,000 would get a $56 smaller EITC. In tax years after 1994, families in this income range would lose $55 compared to current law. These families also would face a tax increase due to the transportation fuels tax.

The Finance Committee proposal — like the Clinton plan — would wisely terminate two supplemental EITC credits now in the law that unnecessarily complicate the EITC. These are an extra credit for families with a child under one and an additional credit for families that pay part or all of the cost of health insurance premiums that cover a child. But this means that families with one child that now receive either of these credits — and have income in the $12,000 to $23,760 range — would have their EITC reduced by significantly more than $55 when compared to current law, while also having to pay the fuels tax.

Families in this income range would have suffered an EITC benefit loss under the Clinton plan as well, but the loss would have been smaller. Moreover, the proposed food stamp and low-income energy assistance increases in the Clinton budget would have enabled a number of these families to offset both their EITC loss and their energy tax increase. As noted, the Senate reconciliation bill does not include the Administration's proposed increase in food stamp benefits, and the increase requested for low income energy assistance appears to be virtually dead.

Falling Short of the Poverty Line

Finally, the changes made in the Senate reconciliation bill will leave families of four with a full-time minimum wage worker short of the poverty line, thereby failing to meet one of the President's key goals. The Clinton proposal was designed to bring families of four with a full-time worker to the poverty line if the family also received food stamps. This plan was based on calculations showing that net minimum wage earnings for 40 hours of work for 52 weeks,[4] plus the EITC benefits proposed by the

[4]Net minimum wage earnings equal earnings after payroll taxes are deducted.

Administration and current food stamp benefit levels, would lift a family of four just about exactly to the poverty line. The plan also assumed that the Administration's proposed increase in food stamp benefits would about equal the energy taxes these families would pay, thereby preventing those taxes from pushing these families back into poverty.

Under the Senate reconciliation bill, the EITC benefits for such families are scaled back by $56 compared to the Clinton plan. And while the transportation fuels tax is substantially smaller than the Clinton energy tax, the offsetting food stamp increase has disappeared entirely. As a result, these families would be left about $150 to $200 short of the poverty line if they received food stamps (and if legislation to index the minimum wage is approved). For those not receiving food stamps, the shortfall would be much greater. It would also be greater if legislation to index the minimum wage ultimately is not enacted.

Conclusion

The Senate reconciliation bill achieves major progress in reducing the deficit and does so in a progressive manner. The overwhelming bulk of its revenue increases would come from those at high income levels. In addition, the bill still includes a sizable EITC expansion.

But the low-income portions of the bill have significant weaknesses, especially when compared to the House bill and the Clinton budget. By deleting the EITC expansion for poor workers without children, the bill nudges these workers deeper into poverty. By scaling back the EITC expansion for families with children and failing to include the Administration's food stamp proposals, the bill makes millions of working families with one child worse off than under current law. It also fails to bring families of four with a full-time minimum wage worker to the poverty line. Major improvements are needed in the conference committee.

THE WHITE HOUSE
OFFICE OF DOMESTIC POLICY

CAROL H. RASCO
Assistant to the President for Domestic Policy

To: Orig: CHR CC: Reed
Galston
McCown
Schmidt

Draft response for POTUS
and forward to CHR by: ________

Draft response for CHR by: ________

Please reply directly to the writer
(copy to CHR) by: ________

Please advise by: ________

Let's discuss: ________

For your information: ________

Reply using form code: ________

File: ________

Send copy to (original to CHR): ________

Schedule ?: ☐ Accept ☐ Pending ☐ Regret

Designee to attend: ________

Remarks: ________

THE WHITE HOUSE

WASHINGTON

February 15, 1995

MEMORANDUM FOR LEON PANETTA

CC: HAROLD ICKES
ERSKINE BOWLES
MARK GEARAN

FEB 15 1995

FROM: KITTY HIGGINS Kitty

SUBJECT: Marketing Strategy for EITC And Student Loans

On Monday, I sent you the Department of Education's proposal for marketing the college loans.

Attached is Treasury's proposal for promoting the EITC.

Mark Gearan and I will meet with the Agencys' Communications teams to discuss implementing these ideas and others. We will invite Dave Barram (Dept. of Commerce) and Frank Greer to join us.

Please let me know what else we can do.

Carol –
Here are the Ed + Treasury proposals on Student loans + EITC. I will let you know when the meeting time is confirmed. Kitty

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 13, 1995

MEMORANDUM FOR KITTY HIGGINS
ASSISTANT TO THE PRESIDENT AND
CABINET SECRETARY

FROM: SYLVIA MATHEWS
JOYCE CARRIER

SUBJECT: EITC/AEITC

The Internal Revenue Service (IRS) and the Department of the Treasury are in the second year of an extensive public outreach campaign regarding the Earned Income Tax Credit (EITC) and the Advance Earned Income Tax Credit (AEITC.)

Last year's outreach effort resulted in a 270% increase of those filing for AEITC, enabling them to receive the credit in their paychecks. (Most people opt to receive the credit in a lump sum when they file their tax return.)

This year we are planning communication efforts to reach both employees, and employers. The plan is to show employers the benefits of giving their employees the credit in advance. AEITC is good because it more directly links the credits benefit with work. It also helps combat fraud by establishing a relationship with the employer.

<u>KEY MESSAGE:</u> THIS IS ABOUT <u>REWARDING WORK</u>

- 4.5 million more people are eligible for an earned income credit. The credit has been expanded to persons with no qualifying children who have income below $9,000.
- Low income persons with children are still eligible for the credit.
- Employees can get the credit in their paychecks instead of waiting to file a tax return.
- Employers can take advantage of the opportunity to put more money in employee's pocket without it costing employers a dime.

IRS/ACTIONS - 1984:

Last year 14.7 million EITC recipients recieved information regarding AEITC and the PR efforts resulted in over 10,000 news clips regarding the credit. While successful in reaching employees, the IRS has developed a national lpublic information campaign. Publicity Materials include:

- TV and radio PSAs (English and Spanish)
- EITC Video (English and Spanish)
- Brochure for Employers
- Poster
- Camera-ready "drop-in" ads
- Stuffer for payroll, grassroots organizations
- Buscard
- Grocery bag art

The IRS's extensive network of local taxpayer assistance centers guarantees these materials getting into the hands of thousands of employers.

Big Business   Last year the Administration had some success reaching out to big business on this issue. CEOs of major corporations such as Auggie Busch (Anheuser-Busch), Josh Weston (ADP), David Glass (Wal-Mart), and Don Fisher (The GAP) helped to spread the word about the advance EITC option throughout private industry. It was fairly successful, contributing significantly to a 270 percent increase in advance EITC enrollees. Further efforts to expand the program our underway.

1995 STRATEGY:

To reach the target audiences of low-income families with qualifying children, low-income persons without qualifying children, businesses with lower-paid employees, associations, congressional offices and state and local governments and federal agencies through an information and education campaign.

ACTIONS:

Community Organizations   Partnerships have been developed with dozens of national associations (see attached list) such as the NAACP, YMCA and community action agencies to enlist their support in educating the public about the expanded credit and AEITC. Those efforts have included:

- The Center on Budget and Policy Priorities is conducting a major national campaign to over 15,000 associations and groups;

- The American Bar Association is sending letters to 500 national business association soliciting support in promoting the credit and is setting up tax clinics for lower-income taxpayers around the country;

- The National Association of Neighborhoods has made contact with several high level state officials to enlist their support in conducting state-wide publicity.

- The Tax Executive Institute is providing information on the credit to tax officials of the top 3,000 companies in North America;

- The U.S. Pan Asian Chamber of Commerce is helping promote the tax credit to their 2,000 members.

<u>POSSIBLE TREASURY/ADMINISTRATION EVENTS</u>

Every year the media starts to focus on the IRS and tax issues during the weeks leading up to April 15th. There are any number of events that could emphasize the success of EITC in providing incentives for individuals to stay off of welfare, for employers to add money to workers' paychecks without costing employers a dime.

1. A Name Change -- There has been some who have advocated a name change to something that is easier to understand -- something like... **Rewarding Work Tax Credit.** We could create an event with credit recipients who have improved their lives (bought a car, down payment on house) because of their additional revenue.

2. Big City Event -- Last year, Congressman Bobby Rush (D-IL) formed the Chicago Partnership for the Earned Income Credit. This group included some of Chicago's largest companies as well as community, civic groups and Mayor Richard Daley. Highlights included:

- Jewel Food stores printed and EIC message on 15 million grocery bags.

- 400 EIC bus cards were placed on the Chicago transit system.

- The Association of Currency Exchanges posted and EIC posters in nearly 800 currency exchanges in the Chicago area

- Ameritech published and article which was sent to millions of phone customers.

An event thanking the partnership at one of the member companies could be used as a challenge model for other communities.

3. A visit to a voluntary income tax assistance site in a low-income neighborhood could highlight the IRS's effort to help working Americans receive the credit. Taxpayers who claimed the credit last year could talk about the benefits.

4. We are working with a number of Hispanic organizations -- HispanAmerica, U.S. Hispanic Chamber of Commerce to produce publicity materials in Spanish. Many issues could be discussed by holding an event with this community encouraging participation in the program.

5: Using the EITC/AEITC in a speech to a small business organization (NFIB, SBLC) encouraging them to offer the program to their employees highlighting the message "The Advance EITC is a way for your, as an employers, to help Uncle Sam add extra money to your workers' paychecks."

6. With the issue of minimum wage is on the table, it is worth noting that the EITC expansion amounts to a substantial increase in the minimum way, raising it from the current level of $4.25 per hour to approximately $6.00 per hour. A speech to a union group (hotel and restaurant workers) could highlight the Administration's commitment to working Americans.

7. Re-double the effort to bring big business on board by hosting a CEO lunch focusing on industries that have a large percentage of lower income workers -- retailers, restaurants and the hospitality community.

it's difficult for the President to make a trip, but yet you've been up often --

THE PRESIDENT: Have been up a couple of times and --

Q I'm sure you'll make it again. But any thoughts as you openly sit and reflect upon the state that you say -- and grew so fond of?

THE PRESIDENT: I have a couple of thoughts -- one that I just want to say thank you again to the people of New Hampshire. As I said, most of the people I met I didn't even know whether they were going to vote in the Democratic primary, or not. But whether they supported me, or not, they taught me a lot about America. And they reminded me that all these issues we talk about in abstract terms in Washington have a human face and a real impact. And I'm deeply indebted.

The other thing I would say is that because of New Hampshire's special status, the people of New Hampshire have an enormous responsibility to the rest of the country. We sort of vested in you a rite of review that it takes an enormous amount of citizenship to exercise.

And I closed my State of the Union by introducing those five people because I thought in different ways they had been extraordinary citizens. And the citizens are still more important than all public officials, including the President. Citizenship is the most important job in our society. And it's been drifting away from us. We can't conduct the business of citizenship in a negative or a passive way. It has to be positive, active, aggressive, and involved. That is the work that New Hampshire can help America do in 1996.

So, thank you, and good luck.

Q Thank you for the time, Mr. President. Appreciate it.

THE PRESIDENT: Thanks.

END6:08 P.M. EST

MORE

Gene 2/13
Leon has the original for the President. If you have any questions or concerns let me know
Kitty

THE WHITE HOUSE

WASHINGTON

February 13, 1995

INFORMATION

MEMORANDUM FOR THE PRESIDENT

CC: LEON PANETTA

FROM: KITTY HIGGINS
GENE SPERLING

SUBJECT: Communications Plan for Direct Lending

For your information, this memo summarizes the Department of Education's recent efforts to publicize your Direct Lending program.

Free Media

Radio Public Service Announcements:
The Department mailed seven radio PSAs to 10,600 radio stations in November and the ads continue to run in virtually every market in the country, with a heavy concentration on campus and college radio. The results of these PSAs have been phenomenal as the Office of Public Affairs has been inundated with calls for more information. The direct lending 800 numbers have received several thousand calls as a result of the PSAs.

In the next few weeks, the Department will have the next generation of the ads and will send them to radio outlets across the country.

Newspaper Public Service Announcements:
PSAs have been sent to 11,700 newspapers (ranging from weeklies to large dailies) and 1,600 campus newspapers. The ads run at the discretion of the publishers; the Department has had better success with the smaller circulation papers and the campus papers. A copy of the ad is attached. The second wave of PSAs will be mailed in conjunction with the new radio PSAs.

Television Public Service Announcements:
The Department is in the process of soliciting bids for a company to produce television PSAs.

Press Release: Today, the Department mailed to the same 11,700 newspapers and 1,600 campus papers a press release written as a news feature on the advantages of direct lending (attached). Many newspapers run a release like this as if it were their own news story. The Department has found this to be a particularly effective tool in getting out our message. This same press release will be available on the Departments's radio feed, which reaches 10,000 radio stations. A similar mailing this past November generated hundreds of calls to the Office of Public Affairs requesting additional information on the direct lending program.

Two weeks ago, the Department did a targeted mailing to the same list with a press release on a new publication, "Preparing Your Child for College." The publication discusses the direct lending program in detail. The mailing has generated hundreds of calls and numerous regional press clips.

In addition, the Department has prepared a packet for college financial aid administrators to generate local media. In the packet, there is a description of how to set up a media event showing how easy it is for a student to get a direct loan. (It literally takes a matter of minutes.) The Department also gives them direction in planning the event and inviting the media. These local events are designed to reach the grassroots in a way that coverage in The Washington Post and The New York Times can't.

Editorials: The Department routinely place op-eds by Department officials or surrogates in regional newspapers around the country. For example, in mid-January, the Department placed an op-ed by former Education Secretary Ted Bell (Republican) in more than 40 regional papers. The Department attempts to place op-eds monthly.

The Department has prepared and distributing talking points on the benefits of direct lending to editorial writers to aid them in crafting editorials. Departmental staff is contacting these writers individually to tout the benefits of direct lending and offer additional information or sources who can speak positively.

College and University Press and Radio

In addition to being part of the broader mailings, the Department routinely does targeted mailings to this audience. These mailings always generate press calls for more information. In addition, the direct lending 800 numbers usually are inundated with requests for information.

Brown Bag Lunches

The Secretary and Deputy Secretary regularly invite reporters and columnists in to talk about direct lending issues. Another is planned for late next week. Those that have written favorable so far are David Broder, Mort Kondracke, Ben Wattenberg, William Raspberry, Mary McGrory, Jack Anderson and Ed Yoder.

Events

Both Secretary Riley and Deputy Secretary Kunin have done numerous events over the past year which often generate positive local coverage. For example, the Deputy Secretary will visit Georgia State University this week to do a direct lending event. She will work with a student to show how easy it is to get a direct loan. Reporters will see how first-hand the effectiveness of direct lending. In many of the events, financial aid administrators demonstrate via computer how loans are processed and describe the ease and simplicity of the new program.

Video/Computer Demonstration

The Department is preparing a seven-minute video (with accompanying computer demonstration) on the benefits of direct lending which will be distributed to financial aid officers, University Presidents, interest groups, Department officials and others. The video can be used to make presentations and speeches to student groups and other interested parties.

Getting Money for College Just Got Simpler... and More Affordable, Too.

Introducing the New Individual Education Account

You know the problems with college loans. They're a hassle to get. And you worry about how you're going to pay them back.

Well, there's something new that can help. It's the Individual Education Account, recently created by the President and the Congress. It's great for undergraduates and graduates, too. Here's how it works:

- *Borrowing for college is simpler.* You can get your loan directly through your college. No more confusion about where to go for a loan. No more red tape.

- *Loans are more affordable.* The new direct loan program lowers fees and interest rates for all types of college loans.

- *You pay back as you can.* You can tailor your repayment plan to match your ability to pay. That means you can start a business, do community service, or take other jobs you want without being burdened with a big, fixed debt early in your career.

- *Refinancing is available.* If you have more than one loan, an IEA can help you consolidate them and refinance in a way that makes more sense.

Sound good?
Then call your financial aid officer or 1-800-4FEDAID to get all the facts.

THE NEW INDIVIDUAL EDUCATION ACCOUNT
The better way to finance a college education.

William D. Ford Federal Direct Loan Program

Now, Uncle Sam Has a Way to Help Families and Students Afford College... *And Save Taxpayers Billions !*

Introducing New Individual Education Accounts

Finally, there's good news for families. And good news for taxpayers, too.

New Individual Education Accounts are here. Recently created by the President and the Congress, they make the American dream of an affordable college education a reality for many more young people and their families who thought it was beyond their financial reach. Here's how it works:

- *Borrowing for college is simpler.* Students get their loans directly though their colleges. No more confusion about where to go for loans. No more red tape.
- *Loans are more affordable.* The new direct loan program lowers fees and interest rates for all types of college loans.
- *Pay back as you can.* Students can tailor their repayment plan to match their ability to pay. That means they can start a business, do community service, or take other jobs without being burdened with a big, fixed debt early in their careers.
- *Refinancing is available.* If students have more than one loan, an IEA can help consolidate them and offer a refinancing plan that makes more sense.
- *Taxpayers come out winners, too.* With streamlined procedures, IEA's will save American taxpayers billions of dollars in unnecessary costs.

That *is* good news!

For more information, call your college financial aid officer or 1-800-4FEDAID.

DEPARTMENT OF EDUCATION · UNITED STATES OF AMERICA

THE NEW INDIVIDUAL EDUCATION ACCOUNT
The better way to finance a college education.

William D. Ford Federal Direct Loan Program
U.S. Department of Education

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FOR RELEASE
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Add Univ. of Calif. example

Contact: Jane Glickman (202) 401-1307
Stephanie Babyak (202) 401-2311

DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

"Getting a student loan was easier than I ever imagined," says Marjorie Collins, a graduate student at Washington, D.C.'s American University (AU). She's a single mom, working full-time and attending a weekend master's program in public affairs.

"I made a last-minute decision to go back to school and was afraid I wouldn't be able to secure a loan in time to pay my tuition. And with my busy schedule, I also worried about the time it would take to find a lender and do the paperwork. But with direct lending, I only had to make one visit to the school's financial aid office and AU was able to process my loan and credit my account in a few days. It was a tremendous relief."

Students like Collins -- and financial aid administrators across the country -- are praising the new William D. Ford Federal Direct Loan Program, which allows students to borrow directly from the federal government through their schools instead of through banks and other third-party lenders.

Schools cite a number of benefits to direct lending: it's simple, with less paperwork, less money spent on staff overtime and phone calls to lenders, and much quicker turn-around time for loan processing; improved cash flow; and flexibility to structure the loan program to fit their particular needs and capabilities.

"The program is so much simpler than the FFEL (Federal Family Education Loan) program that we've completed awarding aid to 800 more students this year than we did at the same time last year," said a financial aid administrator at SUNY-Brockport just a few weeks into the program.

And at the University of Idaho, the financial aid director said, "The biggest joy of direct lending is having the money ready for the students when they expect to receive it. Our students have definitely been the beneficiaries of better service."

The University of Florida pointed to other administrative benefits: "...a happier, more in-control financial aid staff who are better able to meet their customers' needs and an overall cash flow improvement for the school."

These are just some of the comments from the 104 colleges, universities and trade schools participating in the first year of the direct loan program. Beginning July 1, the total number of schools in the program will climb to about 1,400, or 40 percent of total loan volume, as set by law. More than 2 million students are expected to receive direct loans next year.

Benefits for students were summed up by University of Michigan President James J. Duderstadt, "With one-stop shopping, students have been able to obtain their loans in precord time. By the end of the first month of school this year, there was a 43 percent increase over 1993 in loans originated and funds disbursed to students." In addition to having loan money earlier in the school term to pay for books and other up-front expenses, flexible repayment options give student borrowers more control over their finances and career choices.

Students also report that they borrow less because it is now so easy and simple to obtain additional funds if needed compared to the hassle under the FFEL program.

Borrowers with direct loans can open an Individual Education Account (IEA), giving them the option to repay their loan in one of four ways -- and to switch repayment plans as their financial situations change.

The four repayment options are:

- o **Pay-as-you-can or income contingent plan** -- monthly payments are based on a percentage of annual income, family size and loan amount, with payments rising and falling as income fluctuates.

- o **Extended plan** -- monthly payments are a fixed amount over a period of 12 to 30 years, depending on loan amount.

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- o **Graduated plan** -- payments are lower initially and then increase every two years over a period of 12 to 30 years.

- o **Standard plan** -- monthly payments are a fixed amount for up to 10 years.

Taxpayers also gain from direct lending. From the Student Loan Reform Act that created direct loans, the government expects to save an estimated $6.8 billion from FY 1995 to FY 2000 by eliminating unnecessary payments to lenders and taking advantage of the federal government's ability to borrow at a lower interest rate. The Administration's FY 1996 budget proposes speeding-up the phase-in of direct loans to 100 percent of loan volume by academic year 1998, for an additional $5.2 billion savings ($12 billion total savings).

"We are determined to take the expense and confusion out of how students finance and pay for higher education," said U.S. Secretary of Education Richard W. Riley. "We're determined to make the loan process simple, easy and efficient, and it's working. Both schools and students recognize that direct lending accomplishes these goals -- and saves billions of dollars at the same time."

Last month, the Education Department held a meeting in New Orleans to provide schools who will begin direct lending in the 1995-96 school year with training and technical assistance to get the program up and running smoothly. Campus officials from the 104 schools that began direct lending this year also attended, sharing their start-up experiences and describing its advantages. One benefit cited by many financial aid directors was the importance of being in control of their own programs and funds -- an impossibility in the guaranteed student loan program, which involves over 7,000 lenders, 42 guaranty agencies and more than 50 secondary markets. Assuming control of the loans, they said, means corrections and adjustments are easy to do and the whole process flows more smoothly.

The financial aid director at Ohio University in Athens put it this way: "Direct loans put the students back where they belong -- at the center of this business. Our purpose is to provide the best service possible and to deliver financial aid in a timely manner. Go direct loans!"

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