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The effects of financial aid on college student persistence

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The effects of financial aid on college student persistence

Abstract

Student enrollment is of paramount importance to most colleges' and universities' financial stability, particularly private institutions which rely heavily on tuition revenue. Some colleges and universities have invested in costly recruitment strategies to increase enrollment. Many institutions, however, view student retention as the most cost-effective means of stabilizing enrollment (Moline, 1987; Tinto, 1987). Student retention is an obvious goal for all institutions of higher education.

THE EFFECTS OF FINANCIAL AID ON
COLLEGE STUDENT PERSISTENCE

A Research Paper
Presented to
The Department of Educational Administration
and Counseling
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In Partial Fulfillment
of the Requirements for the Degree
Master of Arts in Education

by
John Paul Wageman
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Student enrollment is of paramount importance to most colleges' and universities' financial stability, particularly private institutions which rely heavily on tuition revenue. Some colleges and universities have invested in costly recruitment strategies to increase enrollment. Many institutions, however, view student retention as the most cost-effective means of stabilizing enrollment (Moline, 1987; Tinto, 1987). Student retention is an obvious goal for all institutions of higher education.

College administrators and faculty members want students to succeed in their pursuit of a college degree. Not all students stay at a specific college or even persist in obtaining a degree. More students leave their institution before completing a degree program than stay (Tinto, 1987).

Over half of all students enrolled in college receive some form of financial aid (Cabrera et al., 1991; Voorhees, 1985). Thus it appears that the availability of financial aid is a crucial element in determining whether students are able to persist in college. The purpose of this paper is to examine the relationship between financial aid and college student

persistence. This paper provides a basic overview of the financial aid program; presents the theoretical framework from which persistence models address the relationship between financial aid and persistence; and examines research studies that address whether certain forms of financial aid or combinations of financial aid packages increase persistence better than others. This paper concludes with a summary and implications for further research.

#### Overview Of Financial Aid

Financial aid is distributed in the form of loans, grants, work, or a combination of the three. Aid in the form of a student loan is repayable with interest once the student has completed a program of study or dis-enrolls. The most common types of loans are the Stafford Loan (formerly called the Guaranteed Student Loan) and the Perkins Loan (formerly called the National Direct Student Loan).

A grant is obviously the most attractive form of aid since it is "gift money" that is not repayable. The Pell Grant (formerly the Basic Educational Opportunity Grant) is the most widely dispersed type of grant and is awarded to the most needy students. The

Supplemental Educational Opportunity Grant is also reserved for the most needy students. Most colleges and universities also have some form of institutional grant aid, or state funded grant aid that is dispersed at their discretion.

Work is a form of student aid in which a student earns the awarded money at a part-time job (usually on-campus) while attending classes. This program is commonly known as college work study.

The purpose of federal, state, and institutional financial aid programs is to promote equal educational opportunities for students who are financially disadvantaged (St. John et al., 1991). The original concept was that financial assistance would enhance access to those students who could not afford to pay for college on their own. Financial aid is also additionally viewed as a means of providing students the opportunity to choose the institutions they wish to attend (Moline, 1987).

Early research on persistence investigated factors such as academic achievement in high school, student housing, standardized pre-admission tests (ie ACT, SAT), social integration in to campus life, and

academic achievement in college (Astin, 1975; Tinto, 1975). The next section reviews the theoretical framework which provides the basis for persistence studies that include financial aid as an important element in student retention.

### Theoretical Framework

Tinto's (1975, 1987) student integration model asserts that persistence is a process of interactions between the social and academic elements of the institution and the student. Social and academic integration forms commitment to the institution and goal commitment to degree completion. The higher the degree of commitment, the more likely the student will persist. Tinto postulates that students who have a strong commitment will continue their college experience when facing financial burden and short-term debt.

Other researchers (Cabrera et al., 1990; Voorhees, 1985) argue that financial concerns can limit students' academic integration and the amount of time and energy spent on academically related activities. Cabrera et al. (1992) has also argued that work study programs facilitate academic and social integration because work



study students are exposed to administrators, faculty, and institutional operations and procedures. Tinto's model provides a basis for understanding attrition and persistence as an integrative process, although it does not specifically address financial aid variables in detail.

St. John et al. (1991) developed a model for assessing the effects of student financial aid on persistence that incorporated student integration theory and educational attainment models. Educational attainment models include academic and background variables that are used to predict years of educational attainment, college graduation, etc. St. John's model viewed persistence as a function of social background, academic ability, academic achievement, high school experience, post secondary aspirations, college experiences, and financial aid.

An additional objective of financial aid programs is to prevent low-income student from dropping out of college due to limited resources. Price response theories incorporate student integration theory to explore the effects of ability to pay on persistence in college (Cabrera et al, 1990; St. John et al, 1990).

Price response theories indicate that student enrollment and persistence decisions are responsive to the cost of education and changes in the cost of education.

The foregoing describes the varying approaches to analyzing the relationship between financial aid and persistence. The following section reviews some of the research studies that include financial aid variables in analyzing student persistence. We will begin by looking at the general relationship between financial aid and persistence, and then examine how certain types of aid packages effect persistence.

#### Financial Aid And Persistence

From 1983 to 1984 public institutions awarded 89% of their financial aid on the basis of economic need (Stampen, 1985). Cabrera et al. (1990) found that financial factors had a direct effect on persistence, and can effect a student's academic and social integration process. Students who were satisfied with the cost of attendance were more likely to persist than dissatisfied students as long as they were motivated to complete at least a bachelors degree.

Brinkman (1988) reviewed 46 research studies that compared persistence between aid recipients and nonrecipients. He found that overall, students who received financial aid were 55% more likely to persist than students who did not receive financial aid.

Moline's (1987) research conclusions indicated that neither the receipt of financial aid nor the dollar amount of aid had a significant effect on persistence. A weakness of this study is that the sample consisted only of students who received aid, and only measured the effects of aid in the form of grants.

Voorhees (1985) examined persistence among high need freshman. He found that all three types of aid had a positive impact on persistence. Work study and National Direct Student Loans (now Perkins Loan) had greater positive impact than Supplemental Educational Opportunity Grants in promoting persistence from the freshman to sophomore year. However, when combining all types of grants and loans, it appeared that loans had the greatest effect on persistence followed by all grants and workstudy. A weakness in Voorhees study is that types of financial aid packages were not included as variables. Each type of aid was examined

independently, without combining aid in the form of an aid package.

St. John explored how different types of financial aid packages effected student persistence during college. The following aid packages were examined: 1) grants only; 2) loans only; 3) loans and grants; 4) grants and work study; and 5) loans, grants and work study.

Packages with loans, grants, and work study had the most effect on persistence from the second to third year of college. Students who received this packages were 5.4% more likely to persist than students receiving other aid packages. Loans as the only form of aid, and loans with grant money had a positive effect on persistence between the first and second year, and the second and third year.

Herndon (1984), on the other hand, found that packages with loans as the only form of aid, and loans with grant money did not have a positive effect on persistence unless the student also participated in the college work study program. St. John et al. (1991) concluded that all types of financial aid are positively associated with college persistence, but do

not entirely eliminate financial barriers to completing college.

Murdock (1990), perhaps, has conducted the most comprehensive analysis of whether financial aid promoted student persistence in higher education. Murdock's research, based on an integration of over 60 research studies, used meta-analysis to account for differences in study results and mediating variables. He specifically examined which types of financial aid increased persistence, and how the dollar amount of aid effects persistence.

Murdock concluded that loans alone did not prove to increase persistence. Loans combined with other forms of aid, however, proved to have a positive effect. Grants and loans combined were more effective than any single type of aid. Work study alone did not prove to be as positively effective as some researchers (Herndon, 1984; Tinto, 1987) have suggested.

Murdock (1990) also found that the dollar amount of financial aid had a significantly positive effect on persistence. In most cases larger awards consisted of two or more types of aid. Brinkman (1988) also found that persistence was enhanced by larger amounts of

financial aid. Murdock (1990) submits that the differentiating effects of combination awards and award amounts are still a problem that is unresolved.

Studies of college student persistence have basically followed or elaborated on three theoretical frameworks - student integration theory, price response theory, and educational attainment models. Student integration theory centers on predicting persistence based on the level of commitment, social integration, and academic integration. Price response theory focuses on financial variables that relate to persistence and academic performance. Educational attainment models use academic and background variables to predict how well and how long a student will persist.

The research conclusions presented (with the exception of Moline, 1987) indicate that financial aid does have a positive impact on college persistence. It appears that aid packages with more than one form of aid have been the most effective in facilitating college student persistence (Murdock, 1990; St. John, 1991; Voorhees, 1985).

Discrepancies exist on the impact of specific types of aid packages, and quantity of aid. This may be attributed to differences in which variables were used, how the researchers operationally defined variables, and how data was analyzed. For example, several of the research studies mentioned (Cabrera et al, 1990; Moline, 1987; and Voorhees, 1985) operationally defined persistence by looking at the number of credits completed over a period of time. Others (Herndon, 1984; St. John, 1990; St. John et al, 1991) measured persistence as continued enrollment from semester to semester or year to year.

#### Implications For Further Research

The degree to which financial aid impacts college student persistence will continue to be debated. St. John (1992) explained that the use of inconsistent logical models and statistical methods contribute to the ambiguity of research conclusions. The use of standardized models, such as the one developed by St. John (1992), could help eliminate the ambiguities on the impact of financial aid. Research studies should always include forms of aid packaging and dollar amounts of aid in addition to variables that control

for college student experience, and social and academic background.

The federal regulations that govern financial aid policy are rewritten every five years in a process called Reauthorization. Each Reauthorization brings with it new types of aid programs and modifications to existing programs. In addition to new types of aid, the dollar amounts also change. The most recent Reauthorization effects students who enrolled in the fall of 1993 (St. John, 1992).

Major changes show a decrease in the amount of Pell Grant available and an increase in the amount of loans available. Also, many students who were eligible for a Pell Grant in previous years are now not eligible. A new type of loan called Unsubsidized Stafford allows all students the opportunity to receive aid in the form of a loan.

For the first time in the history of higher education, all students are entitled to financial aid regardless of Social Economic Status. To date, no research has been conducted to examine the impact of the 1992 Reauthorization policy on college student persistence.



Future research studies need to examine persistence in conjunction with the financial aid policy that is in effect. In order to fully understand how financial aid has contributed to student persistence, we first need to determine which financial aid policies were in effect. By examining which types of aid were available during a specific time frame, and the dollar amounts that were available, law makers can use persistence studies to implement financial aid policy that will be more effective in promoting student persistence in college.

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