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Redesigning Financial Aid to Support Post-Secondary Completion Among Low-Income Young Adults

By
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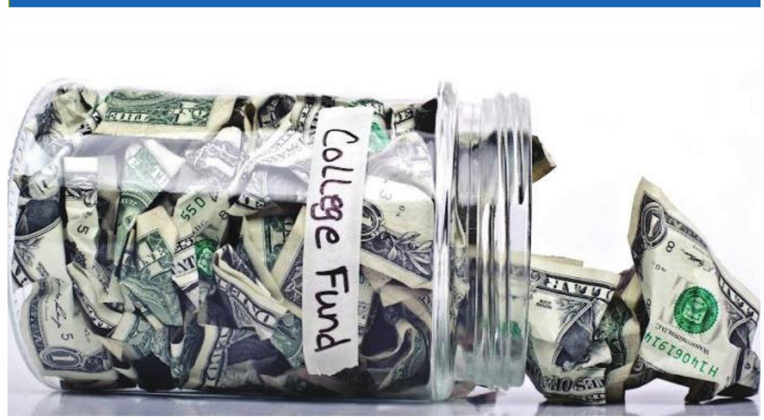

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FSG is a nonprofit consulting firm specializing in strategy, evaluation, and research. Our goal is to help foundations, school systems, nonprofits, government agencies, corporations, and other social sector organizations—individually and collectively—achieve greater social change. Our teams work across all sectors and in every region of the globe. FSG has completed more than 400 consulting engagements around the world, produced dozens of research reports, and published influential articles in *Harvard Business Review* and *Stanford Social Innovation Review*.

Our Education & Youth Impact Area focuses on the most critical issues facing young people today, including strategies for improving higher education access and completion. As former educators and youth service providers, we are passionate about ensuring that students and young people—particularly those who are most vulnerable—succeed in school and are prepared for bright futures.

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Acknowledgements

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Finally, this study would not have been possible without the much appreciated support and dedication of Javier Hernandez and Sooah Cho, who were indispensable members of our team and helped to compile much of the research that informs this report.

Disclaimer

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of any individual interviewee or of the Bill & Melinda Gates Foundation.

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Executive Summary

More American students are attending college than ever before. Total post-secondary enrollment in the 2009–2010 academic year reached 20.4 million, a growth of 38 percent over the last decade.[1] Yet students from low-income families remain significantly less likely to enter and complete college than those from high-income families. Indeed, just 40 percent of students from families in the lowest income quartile obtain post-secondary degrees within six years, compared to 68 percent of those from families in the highest income quartile.[2]

Financial aid, as well as the ability to use it effectively, plays a critical role in college enrollment and completion. As the cost of attending college has risen more quickly than family incomes in recent decades, access to financial aid has become increasingly important in ensuring access to post-secondary education for low-income young adults.[3] Low-income students are more sensitive to increases in net price than are more affluent students.[4] Small increases in net price are much more likely to prevent a low-income student than her middle or high-income peers from attending a post-secondary institution or to cause her to drop out before completing a degree or credential. Financial aid packages that reduce the net price of attending college cushion the effect of rising college costs on students and families, removing a critical barrier to accessing, persisting in, and completing college for students with financial need. Thus, increasing the rate of college enrollment and completion for low-income students will require ensuring that they have access to the financial aid they need in the forms and with the supports that are most conducive to completion.

With this need in mind, the Bill & Melinda Gates Foundation commissioned FSG to explore the challenges low-income young adults face in accessing and using financial aid and the related trends contributing to inequality in post-secondary education today, as well as potential approaches to helping students overcome these barriers. To do so, FSG interviewed national and state experts on financial aid, including policymakers, college leaders, financial aid officers, service providers, funders, academics, and researchers; conducted secondary research; and benchmarked funders' efforts in the financial aid space. This report is the result of that research and aims to provide funders with recommendations from the field on the areas where support is most urgently needed to structure aid to increase access and completion for low-income young adults. Key findings in the report are summarized below and expanded upon in the full report that follows.

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[1] U.S. Department of Education, National Center for Education Statistics, 2011.

[2] 2003/04 Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics, Enrollment and Aid totals.

[3] Callan P, "College Affordability: Colleges, States Increase Financial Burdens on Students and Families," from http://measuringup.highereducation.org/commentary/collegeaffordability.cfm.

[4] Bowen W, Chingos M, and McPherson M, *Crossing the Finish Line* (Princeton 2009), pp. 149, 184.

Financial Aid Challenges for Low-Income Young Adults

Low-income young adults face a number of significant barriers to accessing aid and receiving the support they need to complete their degrees. The following challenges were cited most over the course of our research and interviews:

1. The financial aid system is complex and difficult to navigate.
2. Aid packages are unpredictable and announced late.
3. Community college students have less access to aid.
4. Financial aid offices serving low-income students are under-resourced.
5. The types of aid and support that appear to be most helpful in fostering completion are less available.

How Trends in Aid Are Affecting Low-Income Young Adults

The challenges low-income young adults face in accessing and using aid result from systemic issues plaguing the financial aid system at the federal, state, and institutional levels. Unfortunately, trends in financial aid have only exacerbated these issues over the last decade and the current economic climate is likely to continue the negative trend. Financial aid has failed to keep pace with rising tuition costs and increases in aid are largely driven by loans, leading to increasing debt levels and growing default rates for students.

At the federal level, the purchasing power of the Pell Grant, the largest source of need-based student aid in the United States, is steadily eroding, dealing a significant blow to low-income young adults who have seen the share of family income required to pay for tuition steadily increase over time. At the state level, funding for higher education is also on the decline, and the shift from need to merit-based aid translates into even fewer dollars for low-income young adults.

For institutions, less federal and state funding results in more pressure to fill in the aid gap. Yet when faced with limited funds, colleges often end up allocating aid to higher-performing, higher-income students. In concert, the effect of these trends is to further limit the opportunities for post-secondary education for low-income young adults. Our research revealed that these trends also shift financial aid dollars to students who are more likely to complete a degree whether or not they receive additional funding and are therefore less efficient at increasing post-secondary degree production overall.

Recommendations for Improving Financial Aid to Increase Post-secondary Access and Success among Low-Income Youth

Redesigning the financial aid system is critical if the United States is to increase the number of low-income young adults who complete a degree or certificate. Funders can play a distinct role in helping to reverse the trends that are putting these students at risk of not accessing or completing college. They can also help address the financial aid challenges facing low-income young adults. The following recommendations, derived from our conversations with practitioners and policymakers in the field, offer a starting point for funders to help structure aid to increase completion for low-income young adults by focusing on three key areas where support is most urgently needed.

Summary of Recommendations for Funders to Help Structure Aid to Increase Post-Secondary Access and Success for Low-Income Young Adults	
Support the Leveraging of Key Existing Aid Channels	• Support policy efforts to leverage *federal need-based aid* for low-income young adults by facilitating alignment among policymakers on the goals of financial aid. • Support policy efforts to leverage *state need-based* aid by funding research on the effectiveness of need-based aid, as well as advocating for better coordination of federal and state aid programs.
Innovate Aid Access and Delivery	• Reduce *regulatory and institutional requirements and inefficiencies* that hinder effective aid package structuring for low-income students. • Research and support *delivery approaches* tailored to the needs of low-income youth that reduce complexity and incorporate incentives for performance and completion. • *Support colleges* that serve low-income communities by recognizing and providing for the monetary and resource costs of financial aid delivery. • Identify and strengthen *non-financial student support* to help ensure that recipients of aid dollars complete their degrees.
Expand the Amount of Aid in the System	• Design, implement, and scale replicable private-public *scholarship models* aimed at encouraging completion by low-income youth. • Build the internal *fundraising capacity* of community colleges. • Expand provision of aid programs that are specifically effective supports for low-income students, such as *work study* and *emergency aid*.

These recommendations envision a system in which all the providers in the financial aid system—institutions, federal and state government, scholarship funders—work in concert to improve the provision of aid for low-income young adults, thereby ensuring that the United States remains a society that offers equal opportunity for all, regardless of family income.

About This Report

The Bill & Melinda Gates Foundation is committed to improving post-secondary success rates for low-income young adults. This report, researched and produced for the Foundation by FSG, is intended to inform funders in higher education about the barriers to obtaining and successfully using aid that low-income young adults face, as well as aid-related trends that contribute to inequality in the post-secondary education system today. In addition, the report provides recommendations from the field on ways that funders can help support and redesign aid to increase college access and completion for students with financial need. In particular, this report seeks to answer the following key questions:

- What **barriers** to accessing aid exist for low-income young adults? Why?
- What are the **implications of recent trends** in financial aid? How do these trends perpetuate inequality in post-secondary education?
- What do experts in the field believe are the **best opportunities** for funders to help support and redesign aid to increase college access and completion for students with financial need?

To answer these questions, FSG interviewed national and state experts on financial aid, including policymakers, college leaders, financial aid officers, service providers, funders, academics, and researchers; conducted secondary research; and benchmarked funders' efforts in the financial aid space. Our state research was focused on four states—Texas, North Carolina, Washington and Florida—which rank among the top twenty in terms of total state grant aid per full-time undergraduate awarded nationwide.[5] Please see the appendix for a list of interviewees.

[5] NASSGAP Survey, 2009–2010 Academic Year, Table 12.

Introduction

More American students are attending college than ever before. Total post-secondary enrollment in the 2009–2010 academic year reached 20.4 million, a growth of 38 percent over the last decade.[6] However, although college participation rates among low-income and minority students have increased dramatically over the last three decades, they still lag behind those of higher income students. Students from low-income families are 25 percent less likely to enter college than those from high-income families.[7] Even for those who enroll in college, obtaining a degree is not a certainty. An estimated 40 percent of students who start off as freshmen in four-year colleges drop out without a degree.[8] Moreover, 60 percent of students attending community college fail to graduate or transfer to a four-year college within three years.[9] Completion rates are particularly low for students from low-income families. Indeed, just 40 percent of students from low-income families obtain post-secondary degrees within six years, compared to 68 percent of students from high-income families (see Figure 1).[10]

Financial aid plays a critical role in college enrollment and completion. As the cost of attending college has rapidly escalated in recent decades, so has the percentage of family income needed to pay for college, particularly for the lowest income families.[11] Low-income students are more sensitive to variations in price than more affluent students.[12] Thus, financial aid packages that reduce the net price of attending college directly effect the likelihood that these students will enroll in college or persist until completion. An analysis of persistence and completion revealed that, among low-income students, recipients of the Pell grant (the primary federal aid program for low-income students) tend to complete at a significantly higher rate than non-recipients, an effect that does not exist for high-income students (see Figure 2).[13] Indeed, financial aid cushions the effect of rising costs for attending college on students and families, removing a critical barrier to accessing, persisting in, and completing college for students with financial need.

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[6] U.S. Department of Education, National Center for Education Statistics (2011), *Digest of Education Statistics, 2010* (NCES 2011-015).

[7] Mortenson T (2001a, Oct.). Graph titled: High school graduation rate by family income quartile for dependent 18–24 year olds. Postsecondary Education Opportunity.

[8] Knapp L, Enrollment in Postsecondary Institutions, Fall 2004; Graduation Rates, 1998 and 2001 Cohorts; and Financial Statistics, Fiscal Year 2004 E.D. Tab. NCES, U.S. Department of Education, February 2006.

[9] National Center for Education Statistics (NCES). (2010d). Integrated postsecondary education data system (IPEDS): Graduation rate survey. Washington, DC: U.S. Department of Education, Institute for Education Sciences. Available from http://www.nces.ed.gov/ipeds/datacenter/DataFiles.aspx.

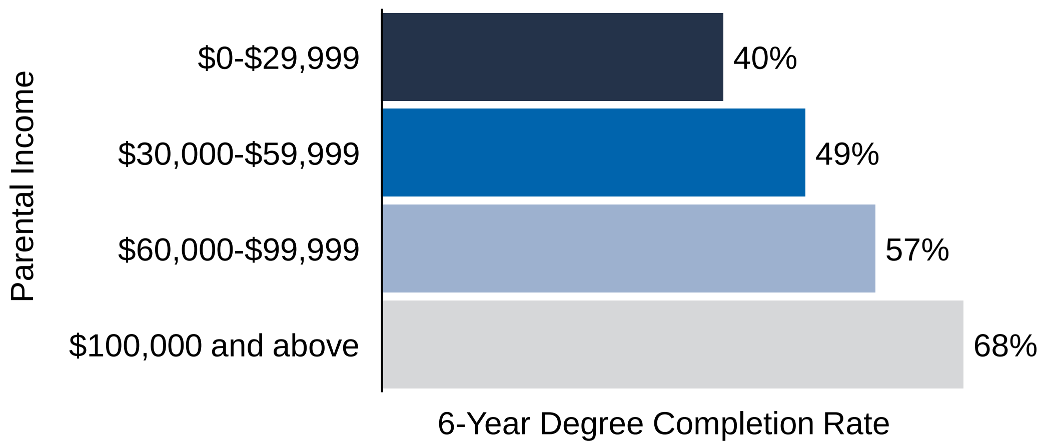
[10] 2003/04 Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics, Enrollment and Aid totals.

[11] Callan P, “College Affordability: Colleges, States Increase Financial Burdens on Students and Families,” from http://measuringup.highereducation.org/commentary/collegeaffordability.cfm.

[12] Bowen W, Chingos M, and McPherson M, *Crossing the Finish Line* (Princeton, 2009), pp. 149, 184

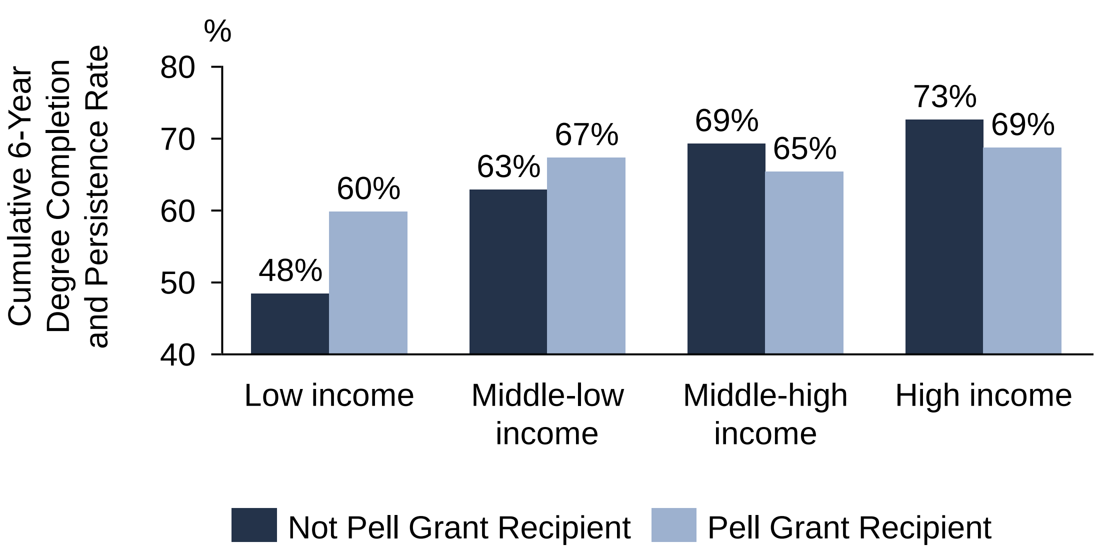
[13] Persistence and Attainment Among Pell Grant Recipients, Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics, Enrollment and Aid totals.

Figure 1: Post-secondary Degree Completion Rates by Parental Income



Source: 2003/04 Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics, Enrollment and Aid Totals

Figure 2: Cumulative Persistence and Completion Rate for Pell Grant vs. Not Pell Grant Students Seeking a Degree



Source: Persistence and Attainment Among Pell Grant Recipients, Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics

Increasing the number of low-income young adults who complete a degree or certificate is not just a matter of ensuring that the United States remains a society that offers equal opportunity to all, regardless of family income; it is increasingly an issue of international economic competitiveness. As other nations have invested in post-secondary education, the performance of the Unites States has stagnated. While the United States still leads the world in baccalaureate production, it ranks twenty-second in attainment below the baccalaureate level and seventh in total post-secondary performance. The nation's rate of growth in post-secondary attainment is last among its OECD peers.[14]

In a globalizing world that bestows economic rewards on countries that excel in innovation and knowledge production, this trend does not bode well for the future of the United States. While affordability is only one element of what is required to turn these trends around, it is a key piece. Low-income young adults are not the only ones affected by the increasing cost of college and the increasing demand for financial aid, but they are the most at risk of not attending or not finishing post-secondary studies if funds are not available. Increasing the nation's overall rate of degree completion will require ensuring that low-income students have access to the financial support they need in the forms that are most conducive to completion. Recent shifts in financial aid policies at the federal, state, and institutional level have gone in exactly the opposite direction, further tilting the odds against low-income young adults who aspire to attend and complete college. This report was designed to highlight the challenges those students face and potential approaches to helping them overcome those barriers.

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[14] Carnevale A and Strohl P, "How Increasing College Access Is Increasing Inequality and What to Do about It," in *Rewarding Strivers* (Century Foundation Press, 2010), p. 75.

Financial Aid Challenges for Low-Income Young Adults

As college costs have risen more quickly than family incomes, access to financial aid has become more important in ensuring access to post-secondary education for low-income young adults. Studies show low-income students are more sensitive to increases in net price than are more affluent students.[15] Small increases in net price are much more likely to prevent a low-income student than her middle or high-income peers from attending a post-secondary institution or to cause her to drop out before completing a degree or credential.

Low-income students face a number of disadvantages that, together, dramatically reduce their likelihood of enrolling in and completing post-secondary education.

Low-income students also face a number of other disadvantages when it comes to navigating the financial aid system. Across our interviews, experts repeatedly cited five key challenges that, together, dramatically reduce low-income students' likelihood of enrolling in and completing post-secondary education. First, and perhaps most significant, is the United States' fragmented and decentralized financial aid system, which is composed of many different sources and types of aid, each with their own advantages and disadvantages, requirements, and rules. Due to the complexity of the financial aid system, aid packages are not predictable in advance of enrollment or from year to year once a student is enrolled. Low-income students have little ability to absorb the financial uncertainty this creates, since they often have fewer family assets to cushion or smooth over delays in receiving aid or provide assurance that they will be able to afford the coming semester's expenses even if they receive less aid than they anticipate or if a sudden emergency occurs. Low-income young adults also are more likely to attend types of institutions, such as community colleges, at which less financial aid is available. These institutions also have fewer resources to invest in their financial aid offices, despite the fact that those offices deal with the neediest students. Such students are also often first-generation college students whose parents cannot provide them with guidance or intervene with institutions to obtain a better aid package, as middle-class parents often do.[16] Finally, the types of aid that appear to be most conducive to completion—grants, work-study, and emergency aid—are generally least available to low-income students at community colleges and regional four-year universities. These institutions are also more reluctant, for various reasons, to offer loans. The following section provides an in-depth look at each of these issues and offers perspectives from interviewees on the significant effect they have on students.

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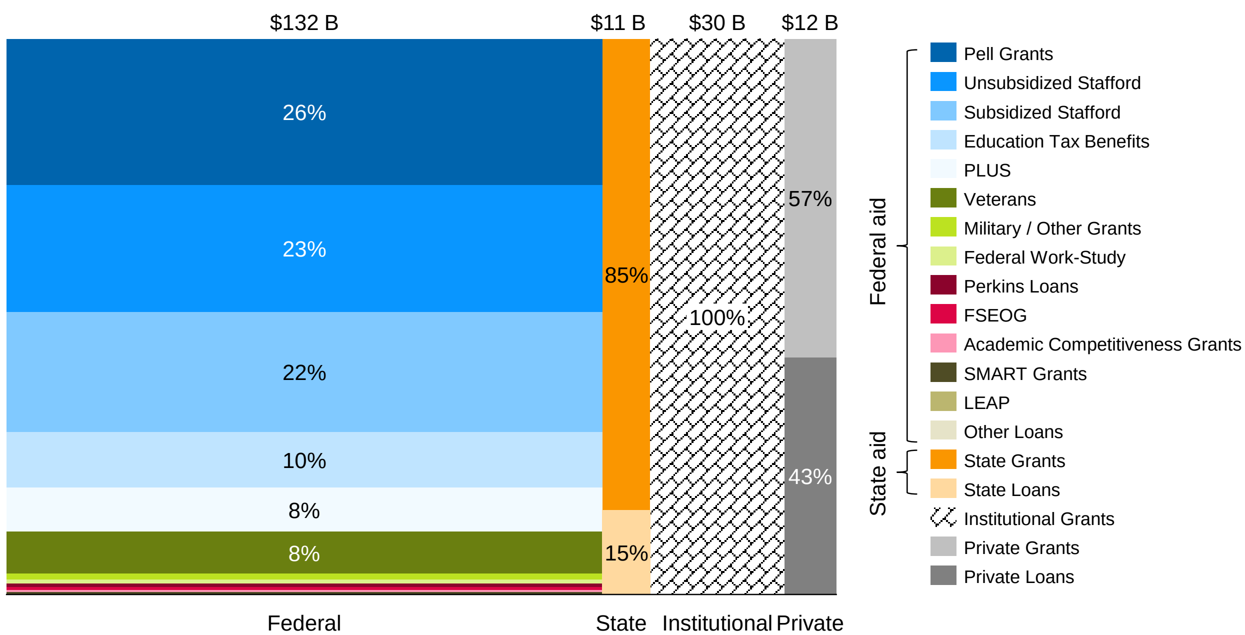
[15] Bowen W, Chingos M, and McPherson M, *Crossing the Finish Line* (Princeton, 2009), pp.149, 184.

[16] Horn L, Chen X, Chapman C, "Getting Ready to Pay for College," NCES, 2003; Mullen A, *Degrees of Inequality* (Baltimore, 2010), p. 112.

The financial aid system is complex and difficult to navigate

The complexity of the financial aid system stymies families from all income levels, but it is particularly challenging for families that have no previous experience with it. Aid comes from different sources (federal, state, institutional, private) and in various forms (loans, grants, work study). Figure 3 below depicts the composition of available aid by source and type. There are multiple sources of aid across federal, state, institutional, and private funds, and the federal government is the largest source of funding by far. Although state, institutional, and private funding contributes much less to the overall aid pie, those sources still play an important role because the aid they provide is primarily in the form of grants, which research shows are a key component in securing college access and success for low-income students.

Figure 3: Financial Aid Awarded by Source and Type of Aid (2010 – 2011)



State loans include both state and institutional loans, for which data is not disaggregated by source.
Source: College Board Trends in Student Aid, 2011.

These segments further break down into an intricate mosaic in which each piece often has its own deadlines, eligibility requirements, and application processes. The highly fragmented and uncoordinated nature of financial aid makes it hard for students to navigate, and the process is particularly intimidating for first-generation college-goers. In fact, research has shown that uncertainty and complexity in the financial aid process can prevent low-income students from applying for and accessing available aid.[17] As one expert explains, "*the multilateralism of the financial aid system consisting of federal, state, institutions, and parents initially came about in order to ensure that no one will be left without access, but it has now become our enemy by creating a complex aid system*."

Complicating the picture further is the fact that aid delivery mechanisms are highly variable across states. While some aid sources flow directly to students, others flow to institutions, which then decide how to allocate the available dollars to students. At the institution level, college aid offices use the financial aid applications that students submit to determine the extent of a student's need for financial aid and then try to fill it using the various sources of funding available to them. However, institutions today often allocate aid based on criteria derived from their own priorities (such as increasing enrollment numbers and quality of students) rather than a straightforward calculation of individual student need.

In addition to the inherent complexity and unpredictability of the overall financial aid system, specific institutional practices, such as displacement and gapping, can make college access and completion more difficult for low-income students. These practices arise because institutions are trying to stretch their available aid dollars as far as possible, but due to low-income students' heightened price sensitivity, their impact is felt more strongly by those students. Gapping refers to the practice of offering an aid package that does not fully meet a student's need. For low-income students, gapping may force a stark decision to simply not matriculate, as opposed to its effect on higher-income students, for whom the available aid amount is more likely to act as one incentive to attend among many others. Displacement refers to the practice whereby financial aid officers respond to a student receiving aid from one source by reducing aid from other sources. Thus, if a student receives a scholarship from an external source, there is no guarantee that she will see an overall increase in the aid package equal to the scholarship. The scholarship may supplant another source of grant aid, rather than supplementing it. Again, for higher-income students, this element of aid packaging may be one input into making a choice among several enrollment options, but, for lower-income students, the reduction of grant funding and increase in net price created by displacement can have a more serious impact.

Aid policies are also often outdated, contradictory, and not adapted to the needs of the current student population. Interviewees with an understanding of the needs of community college-bound aid applicants consistently point out policies that fail to accommodate adult learners, returning students, transfer students, and part-time and working students. Definitions of "need" may exclude the indirect costs of attendance faced by community college students, since assumptions such as room and board are valid needs for students attending four-year colleges, but not for community college commuters. "*If you*

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[17] Dynarski SM and Scott-Clayton JE (2007), "College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid," The Hamilton Project Discussion Paper 2007-01; The College Board (2008), "Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid"; Dynarski SM and Scott-Clayton JE (2006) "The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics," Faculty Research Working Paper Series, Harvard University, John F. Kennedy School of Government; The Institute for College Access & Success (2010) "After the FAFSA: How Red Tape can Prevent Eligible Students from Receiving Financial Aid."

compare a 19 year old at a four-year institution and a single mom trying to get a vocational degree at a two-year institution, the same eligibility criteria won't work for all of them," points out one interviewee.

Financial aid officers highlighted a number of ways in which the complexity, variability, unpredictability, and lack of clarity of the financial aid system creates challenges for low-income students. Low-income students are often unaware of all their options or of eligibility and timing requirements concerning the availability of aid. The amount and nature of data required for financial aid applications poses a particular challenge for students from low-income or immigrant families, who often are not financially literate. Parents may be reluctant to share data or unable to gather required documentation regarding income and tax data. "*Not only do different programs have different deadlines*," explains one expert, "*but many institutions work on a first-come, first-served basis, which students may not be aware of*." Even when students do submit financial aid applications on time, they may find it hard to understand important details of the aid packages that are offered to them (e.g., subsidized versus unsubsidized loans), making it difficult for them to compare packages from different institutions.

Aid packages are unpredictable and announced late

Interviewees repeatedly stressed the difficulty that students face as they try to determine the costs of tuition and living expenses, how much aid they will get, and how much debt they will need to take on. Said one expert, "*If you're looking at it from the students' perspective, the best aid package would actually relieve the anxieties regarding the students' financial stress regarding whether they can attend college next month or next semester—an aid package that allows the student to predict ahead of time and plan accordingly. But this isn't how aid packages are created*." Unfortunately, students do not find out about aid packages until shortly before school starts, making it difficult for them to make an informed decision about whether and where to attend college and plan ahead to meet costs.

Additionally, since colleges make decisions on financial aid packages one year at a time, the uncertainty continues through the course of the program. Typically, students face a drop off in grant aid after the first year, resulting in higher net prices as they proceed through school. This drop off occurs because many third-party grants and scholarships are awarded exclusively to incoming first-year students, and because the limited number of multi-year scholarships may not be renewed after the first year if students do not meet the scholarship requirements.[18] As a result of this continuing uncertainty, students find it difficult to put together a financial strategy for getting through college. They often face a funding deficit after the first year and are forced to take on more loans, work more hours, or take time off from school to work.

The unpredictability in aid packages has worsened with the current economic climate, as states make cuts that grow deeper each year. In North Carolina, for instance, a $19.7 billion spending cut led lawmakers to reduce need-based aid for the University of North Carolina (UNC) System by 9 percent for 2011–2012 in July 2011. The impact will be felt directly by 6,000 qualified college students who won't get

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[18] Bowen W, Chingos M, and McPherson M, *Crossing the Finish Line* (Princeton, 2009), pp. 180–181.

aid they might have otherwise received. At the same time, the UNC Board of Governors approved in-state tuition increases on the system's 13 campuses, including a maximum tuition increase of 6.5 percent at the University of North Carolina at Chapel Hill, East Carolina University, and Fayetteville State.[19] Meanwhile, North Carolina's private colleges announced a 12 percent cut in need-based assistance. In Texas, prolonged uncertainty about the level of state funding led institutions to not package any state aid last year, affecting enrollment among vulnerable student populations. UT Austin, for instance, saw a 14 percentage point drop in first generation college goers in their freshman class last year.[20]

Community college students have less access to aid

The inequality of aid availability across different types of institutions is a particular challenge for students attending public two-year institutions. Enrollment in community colleges is growing across the country, increasing by 1.6 million students over the last decade.[21] These institutions serve as an entry point into post-secondary education for a disproportionate percentage of underserved students. Nearly half of all minority undergraduates and more than 40 percent of undergraduates living in poverty (1.7 million students) attend community colleges.[22] Yet despite serving a large and growing low-income population, two-year institutions have less access than four-year schools to grant aid from most sources—state, institutional, private third-party—and of most types. Although two-year institutions receive the highest percentage of Pell grants, they receive the smallest proportion of most other types of federal aid dollars (see Figure 4). Moreover, only 60 percent of students at two-year institutions apply for aid and only 49 percent receive some form of aid (compared to 79 percent and 71 percent at four-year institutions).[23]

Exacerbating these challenges, financial aid officers at community colleges often do not "auto-package" loans; instead, they offer them only upon request. As a result, community college leaders explained, students often do not realize that loans or other sources of aid may be available to them. Additionally, one interviewee highlighted that many colleges were pulling out of federal loan programs because of high student default rates and a perception that enabling students to borrow high amounts would be "inappropriate." Interviews reveal that this perception is fueled by the low likelihood of completion for community college students, potentially leaving them saddled with debt and without the future financial advantages of a degree.

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[19] The University of North Carolina at Chapel Hill: http://uncnews.unc.edu/content/view/4620/103/.

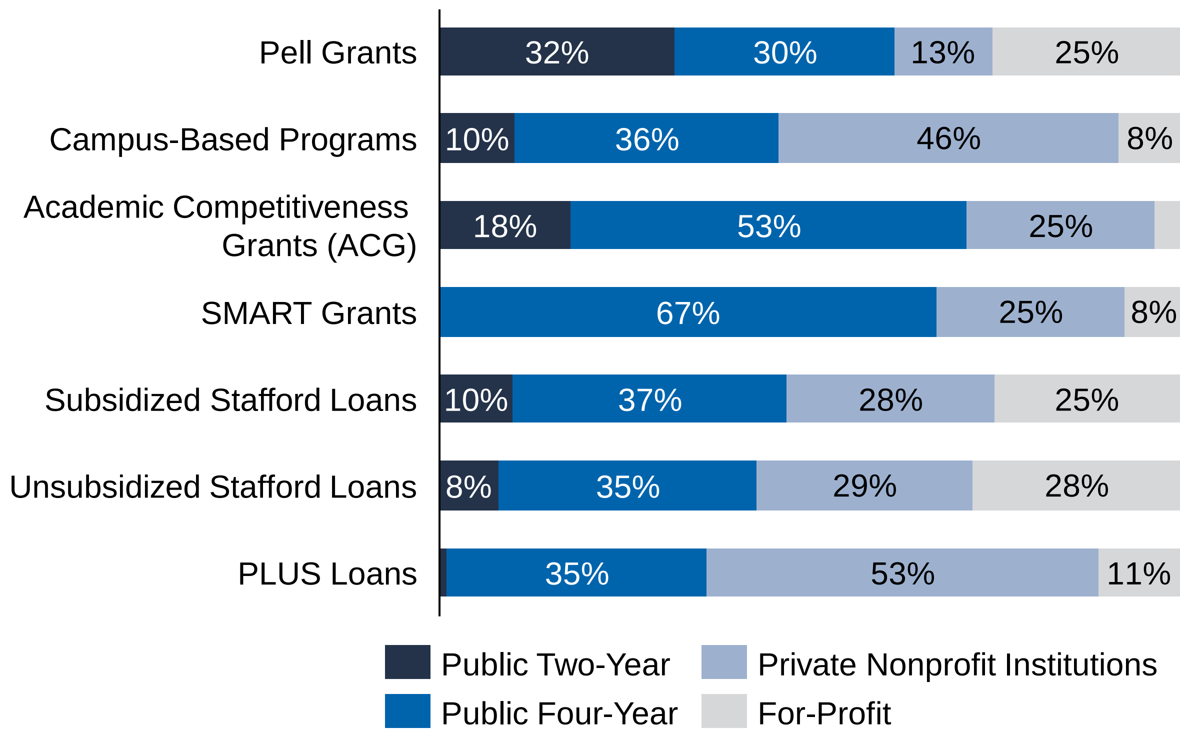
[20] FSG interviews.

[21] Desrochers DM and Wellman JV, "Trends in College Spending: 1999–2009 (Washington, D.C.: Delta Cost Project, 2011), p. 44.

[22] Snyder TD & Dillow SA (2011, April), Digest of education statistics: 2010 (NCES 2011-015), Washington, DC: U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics.

[23] National Post-secondary Student Aid Study, 2008 from http://nces.ed.gov/surveys/npsas/.

Figure 4: Percentage Distribution of Federal Aid Funds by Sector (2009–2010)



Source: College Board Trends in Student Aid, 2011.

The net effect of these policies is that levels of unmet need at two- and four-year institutions are similar even though the cost of attendance is much lower at two-year institutions.[24] In one interviewee's words, "*community colleges need more resources. Very few are funded at a level that allows them to actually succeed.*" With fewer financial aid options available, another interviewee pointed out, "*community college students end up working more hours or taking fewer classes or both. Research has shown that these two factors hurt persistence the most*."

Exacerbating the situation is the fact that community college students often do not succeed in successfully navigating the application processes of the aid programs that they are eligible for. Some miss financial aid filing deadlines, whereas others do not file for aid at all. Research shows that in 2007–2008, only 44 percent of students at public two-year colleges submitted the FAFSA, compared to 63 percent at public four-year institutions and 72 percent at private four-year institutions. Many of these

[24] FSG, "Dollars for Degrees: Structuring post-secondary scholarships to increase student success" (2011), p. 11.

students would be eligible for federal grant aid.[25] One expert on community colleges pointed out, "*community college students usually require a lot more help to receive financial aid. These colleges need more resources to serve their populations, but they have less than other schools*."

Financial aid offices serving low-income students are under-resourced

Financial aid offices at community college and public four-year colleges are the most likely to work with students from low-income backgrounds. These students generally have more complex needs, less family support, and less ability to navigate the maze of the financial aid system than do students from higher-income backgrounds. However, across the board, experts and officials associated with these institutions pointed out that financial aid offices at these colleges have far fewer resources than their counterparts that serve higher-income students.

In addition to the demands on their time and resources from students, financial aid offices are under great pressure to comply with myriad regulatory and policy requirements, but they do not have access to the training, technology, and data that would help them make finer-tuned decisions for their students while maintaining compliance. "*There are a lot of regulations, and colleges live in fear of audits,"* says one expert. *"That can lead to colleges taking a heavier hand than they need to in order to make sure that they operate within the regulations*."

Due to the complexity and variability of eligibility requirements of various federal, state, and private aid options, as well as aid offices' lack of access to the most up-to-date systems, financial aid officers find it difficult to gauge the impact of changes in requirements in any one option on aid packages that can be offered. Lack of predictability about what aid will be available at the state level also makes it difficult for aid officers to create packages in a timely and effective manner. "*Every time they create a new program, financial aid offices have to invest in updating their systems, and everyone has to figure out how to get money from the new program*," says a financial aid officer. Aid meant for lower-income students often ends up allocated to students applying to colleges that serve higher-income students because those financial aid offices may be better equipped to apply on-time and counsel their students on their options.

Financial aid offices in community colleges in particular, due to the dearth of endowed funds that are more characteristic of four-year colleges, have less access to institutional discretionary aid that they could use to provide grants and work-study funding. Incorporating discretionary aid, even if it were available, introduces complexity and unpredictability into the aid packaging process that resource-strapped community college aid offices are ill-equipped to manage. Standardization and simplification of aid options would help reduce the administrative burden on these offices, but might affect their ability to flexibly target aid where it is most needed.

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[25] Kantrowitz M, "FAFSA Completion Rates by Level and Control of Institution" (October 2009), available at www.finaid.org. See also College Board Advocacy and Policy Center, "The Financial Aid Challenge," May 2010.

The types of aid and support that appear to be most helpful in fostering completion are less available

As mentioned above, state, institutional, and private funding contribute much less to the overall aid pie than federal funding does. Yet these sources of aid play an important role because they are primarily in the form of grants, which research shows have a "substantial and significant impact on degree attainment."[26] For example, private third-party scholarship dollars account for just two to three percent of financial aid available to students nationally, yet these funds help to increase completion by reducing the level of debt that students must assume. These funds are particularly important for two reasons: (1) they are the most flexible funding as they are neither necessarily tied to government eligibility requirements nor attached to particular institutions, and (2) they can be used to fill gaps in funding from other sources and increase students' ability to attend the institution of their choice.[27] For low-income students, increases in aid have the greatest impact in the form of these flexible types of funds.

Similarly, access to emergency funds for low-income students once they are in college can help ensure that they remain enrolled and complete their degree. Students who have no prior experience with managing money find it difficult to estimate their financial needs over time and budget accordingly. Emergency crises (e.g., medical emergencies, loss of housing, child care, car repairs, etc.) often lead students to drop out of school. For instance, the emergency financial aid program at Mercy College in New York has been successful in preventing seniors from dropping out. Since the emergency financial aid program began, more than 95 percent of the students who have received the emergency aid graduated.[28] Work-study programs also have financial and non-financial benefits for students. In particular, work-study has the ability to increase persistence by helping students integrate into college communities.[29] Given work-study's potential to enhance persistence, financial aid experts emphasized that work-study deserves more institutional and public policy attention.[30] However, a number of interviewees also pointed out that given the multiplicity of issues surrounding financial aid and the relatively small contribution of work-study programs, work-study gets less attention than other types of student aid.

Finally, there is a strong need to include non-financial support in the overall aid package. Evidence suggests that aid by itself does not necessarily lead to persistence and completion. A survey of programs

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[26] Mundel D, "What Do We Know About the Impact of Grants to College Students?," in Baum S, McPherson M, and Steele P, eds., *The Effectiveness of Student Aid Policies: What the Research Tells Us*, 2008, p. 30; referencing Dynarski S, "The consequences of merit aid," Working Paper No. 9400, Cambridge, MA, NBER, 2002 and Dynarski S, "The new merit aid," Working Paper No. 9400, Cambridge, MA, NBER, 2003.

[27] FSG, "Dollars for Degrees: Structuring post-secondary scholarships to increase student success" (2011).

[28] Ajose L, MacGregor C, and Yan L, with Pih M. (February 2007), "Emergency financial aid for community college students implementation and early lessons from the DreamKeepers and Angel Fund program," MDRC. Retrieved May 1, 2007.

[29] DesJardins SL, Ahlburg DA, and McCall BP (2002), "Simulating the longitudinal effects of changes in financial aid on student departure from college," *Journal of Human Resources*, 37(3): 653–679.

[30] Baum, McPherson, Steele (2008), "The Effectiveness of Student Aid Policies: What the Research Tells Us," p. 102.

that eliminated the direct costs of schooling for many entering students found that, despite the offer of free tuition, a large share of students continued to drop out of college, suggesting that the direct costs of college are not the only (or even the central) impediment to degree completion.[31] Post-secondary success is influenced by many factors, including academic preparation, family and cultural attitudes, and motivation and awareness of opportunities, so it is important that efforts to increase the rates of college completion address these other factors as well through programs such as mentoring and peer mentoring, providing students with cohorts, tracking progress, and intervening when students are at risk of leaving. Unfortunately, the institutions that serve the most low-income youth have the least available resources to provide this kind of support.

These challenges are daunting in themselves, but the current economic climate is creating even greater pressures on low-income students, as states and institutions try to manage fiscal squeezes by reducing or reallocating the aid that is still available.

[31] Dynarski S, *"Building the Stock of College-Educated Labor," Journal of Human Resources* (Summer 2008), 43:3, 576–610 .

How Trends in Financial Aid Are Affecting Low-Income Young Adults

The challenges low-income young adults face in accessing and using aid are a result of systemic issues that plague the financial aid system at the federal, state, and institutional levels. Unfortunately, trends in financial aid have only exacerbated these issues over the last decade and the current economic climate is likely to continue the negative trend. Financial aid has failed to keep pace with rising tuition costs and increases in aid are largely driven by loans, leading to growing default rates for students.

At the federal level, the purchasing power of the Pell Grant, the largest source of need-based student aid in the United States, is steadily eroding, dealing a significant blow to low-income young adults who have seen the share of family income required to pay for tuition steadily increase over time. At the state level, funding for higher education is also on the decline and the shift from need to merit-based aid translates into even fewer dollars for low-income young adults.

For institutions, less federal and state funding results in more pressure to fill in the aid gap. Yet when faced with limited funds, colleges often end up allocating aid to higher-performing, higher-income students. In concert, the impact of these trends is to further limit the opportunities for post-secondary education for low-income young adults. These trends also shift financial aid dollars to students who are more likely to complete a degree whether or not they receive additional funding; the funds are thus less efficient at increasing post-secondary degree production overall.

Financial aid has failed to keep pace with rising tuition and living costs

Total financial aid increased by approximately 120 percent from 2000–2001 to almost $167 billion in 2009–2010.[32] Despite this, unmet need has remained high, partly because of the simultaneous increase in enrollment and partly because increases in tuition and living costs have largely outpaced increases in financial aid. For instance, while aid per full-time undergraduate has increased 238 percent at four-year institutions over the last 18 years, tuition has increased by 282 percent over the same period.[33] At two-year institutions, increases in aid have largely covered tuition increases, but they have not kept pace with rising living expenses.

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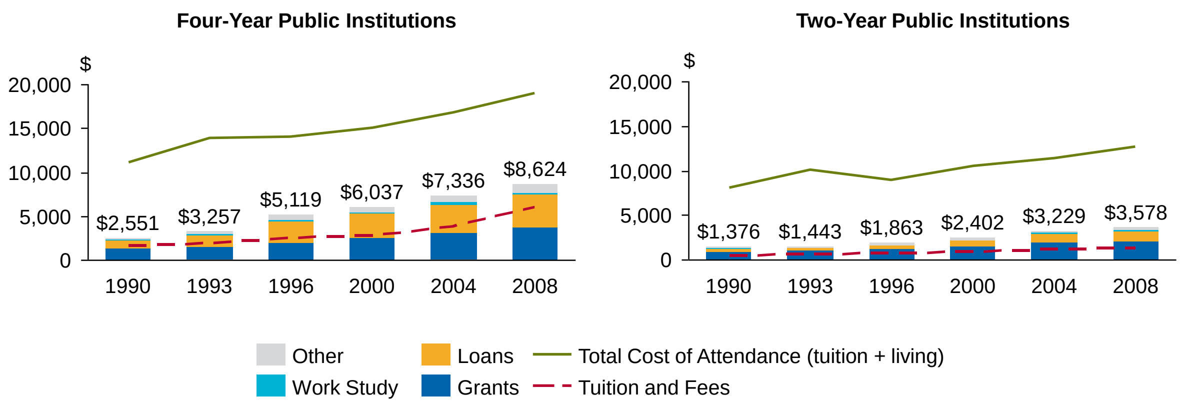
[32] Total Student Aid and Nonfederal Loans per FTE Student Used to Finance Undergraduate Post-secondary Education Expenses; Total Aid includes aid from all institutions (public, private, nonprofit, profit, 2 year, 4 year, less than 2 year).

[33] NPSAS: Aid by Type, Student Budget (Cost of Attendance) by type of Institution and year, 1990, 1993, 1996, 2000, 2004, 2008.

Indeed, thirty years ago, the maximum Pell Grant award was equivalent to about three-fourths of the cost of attending a public four-year institution. It now covers only about one-third of that cost.[34] In the words of one interviewee, "*As long as college tuition costs are out of control the way it has been over the past few decades, aid will just never catch up at the same level*."

Figure 5: Aid per Student, Cost of Attendance per Student, and Tuition and Fees per Student by Type of Institution (1990–2008)



Source: NPSAS – Aid by Type, Student Budget (Cost of Attendance) by Type of Institution and Year, 1990, 1993, 1996, 2000, 2004, 2008

Compounding the situation is the fact that increases in aid have been driven largely by increases in the availability of loans, resulting in an increase in the contribution of loans to the overall aid package and a commensurate decrease in the contribution of grants (see Figure 5). In the words of one expert, "*Because of higher costs, there is less of an ability to pay, students need to take out more loans, and they graduate with higher debt*."

Loans at four-year institutions increased from 36 percent of total aid to 43 percent, while grants decreased from 50 percent to 43 percent in 18 years.[35] Two-year institutions saw the share of loans increase from 25 percent to 31 percent, while grants decreased from 62 percent to 58 percent in 18 years. Not surprisingly, low-income students are more likely to take on loans than their higher income

[34] American Council on Education (2007). "Status report on the Pell Grant Program, 2007" and CRS, "Federal Pell Grant Program of the higher education act: Background, recent changes, and current Legislative issues," 2011.

[35] NPSAS: Aid by Type, Student Budget (Cost of Attendance) by type of Institution and year, 1990, 1993, 1996, 2000, 2004, 2008.

counterparts: In 2007–2008, 68 percent of low-income bachelor degree recipients at public four-year colleges took out student loans, compared to 40 percent of high-income students.[36]

This replacement of grant aid with loans is a particular cause for concern because emerging evidence suggests that loans are less effective at securing college access and success than grants, particularly for low-income students. Some minority groups, such as Hispanics, have shown an aversion to taking on debt, which in turn affects their decision to attend college as well as their choice of college. Debt is a particularly risky aid option for low-income students who are already at a higher risk of not completing their degree. High levels of debt, coupled with lower completion rates, increase the likelihood of default. In fact, even though the national Cohort Default Rate (CDR) declined steadily from 1990 (when it hit a high of 22.4 percent) to 2003 (when rates reached 4.5 percent), the trend has since reversed; CDR increased steadily back up to 8.8 percent in 2009.[37] The consequences of taking on a debt burden are more adverse for low-income students. "*The poorer you are, the worse off you'll be, whether you complete or you don't*," says one interviewee, "*and obviously for the students who don't complete, they are in a much worse situation because they usually have high levels of debt with no degree that is of market value*."

The purchasing power of the Pell Grant is steadily eroding

The federal Pell Grant program is the largest source of need-based student aid in the United States, awarding $35.8 billion in FY2011 to approximately 9.4 million students.[38] It is designed to be the foundational aid component for low-income students. In fiscal year 2009, an estimated 76 percent of all Pell Grant recipients had a total family income at or below $30,000.[39] Although Pell Grant expenditures have more than doubled in the last decade, the average Pell Grant per recipient has increased just 48 percent and the percentage of cost that the Pell Grant covers at four-year public institutions has *decreased* from 49 percent to 32 percent (see Figure 6). The sharp erosion in the coverage provided by the Pell Grant can be attributed partly to the rapid increase in the number of Pell recipients, coupled with sharp increases in college tuitions.

The reduced purchasing power of the Pell Grant is a significant blow to low-income students who have seen the share of family income required to pay for tuition steadily increase over time. Besides being a significant source of financial aid for low-income students, the Pell Grant is important because it flows directly to students (rather than through institutions) thereby allowing them to attend the institution of their

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[36] The College Board, "Trends in Student Aid 2010" (New York: College Board, 2010), p. 18.

[37] U.S. Department of Education, National Student Loan Default Rates from http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html.

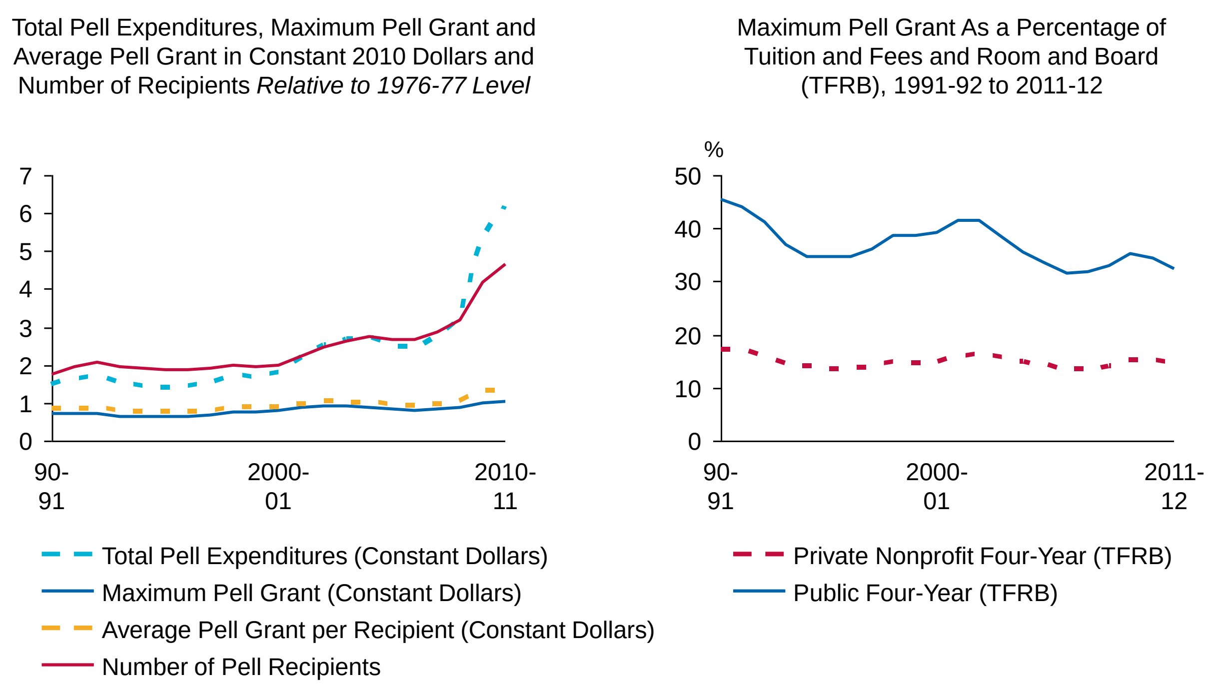
[38] U.S. Department of Education, Federal Pell Grant Program, Awards Information, 2011.

[39] Congressional Research Service Report: "Federal Pell Grant Program of the Higher Education Act: Background, Recent Changes, and Current Legislative Issues," Shannon M. Mahan, Specialist in Education Policy, May 12, 2011, p. 2.

choice. Additionally, as discussed earlier, low-income Pell recipients tend to complete at a significantly higher rate than low-income non-recipients.[40]

States also rely heavily on the availability of Pell Grants and design their aid policies to complement Pell Grant offerings. Several state officials point to the fluctuating trends in the purchasing power and availability of Pell Grants for their students as a serious detriment to their ability to predictably structure state level need-based aid. This, in turn, leaves colleges in a bind from both the federal and state perspective, when it comes to timing and predictability of the aid packages they are able to offer.

Figure 6: Pell Expenditures, Pell Grant Amounts, Number of Recipients, and Pell Grant as Percentage of Tuition and Fees and Cost of Living



Source: College Board Trends in Student Aid, 2011.

Note: All values are charted relative to an initial value of 1 based on level in 1976–1977.

[40] Persistence and Attainment Among Pell Grant Recipients, Results from Beginning Post-secondary Students Longitudinal Study of 2004/09, National Center for Education Statistics, Enrollment and Aid Totals.

The exponential growth of the program has recently generated significant debate and a growing belief among some that the Pell Grant is unsustainable in its current form.[41] An additional concern frequently voiced by critics of the Pell Grant is that institutions may strategically increase effective prices for grant recipients by reducing discounts provided through institutional aid, in effect displacing federal aid. A recent paper shows that this concern is somewhat justified, as institutions capture 17 percent of all Pell Grant aid—about $6 billion in 2011—through such price discrimination, with substantial variation by institutional control (i.e., whether public or privately owned) and selectivity. For example, on average, public institutions do not displace any Pell Grant aid, while non-selective private institutions displace 22 percent and selective nonprofit institutions displace more than 60 percent.[42]

While there is evidence that low-income students do not receive the full benefit of the Pell Grant, it is not clear that the program has been the cause of increases in tuition. On the other hand, based on the statistics quoted above, there is strong reason to believe that significantly tightening eligibility requirements for the Pell Grant or reducing the funding available to the program will harm the educational prospects of the millions of students who depend on it.

State funding for higher education is on the decline and shifting away from need-based aid

States and local governments, which have traditionally been the largest revenue sources for public higher education, have been reining in their contributions over the last two decades.[43] In the words of one interviewee, "*State budgets and spending are unpredictable. You can start to see the cuts at the state-to-state level*." For instance, overall state fiscal support for the operating expenses of higher education per $1,000 of personal income declined by 32 percent between 1990 and 2011.[44] Correspondingly, the contribution of state and local government revenue sources to total expenditure on higher education has declined from its historical high of 60 percent in 1974 to 50 percent in 2007.[45] A significant portion of the resulting funding deficit has been made up by students and parents whose contributions to total expenditures have increased from 30 percent to nearly 38 percent over the same period. For instance, in 2011–2012, California cut $650 million from the California State University System's budget, forcing a tuition increase of 23 percent in just one year.[46]

Simultaneously, state financial aid has also been subject to cuts. Although state financial aid is a relatively small proportion of overall aid (constituting approximately 6 percent of total financial aid), it plays

[41] Lederman D, "A Plea to Cut Pell Wisely," *Inside Higher Ed*, 2011.

[42] Turner L, "The Incidence of Student Financial Aid: Evidence from the Pell Grant Program," 2012.

[43] Postsecondary Education Opportunity, "How to Limit Opportunity for Higher Education 1980 to 2011."

[44] College Board Trends in Financial Aid 2011.

[45] Postsecondary Education Opportunity, "How to Limit Opportunity for Higher Education 1980 to 2011."

[46] The California State University – Working for California: http://blogs.calstate.edu/budgetcentral/?p=1644.

an important role for students because it is composed primarily of grant aid. Nationally, 82 percent of state aid is in the form of grants. In Illinois, state appropriations for its Monetary Award Program (MAP) have lagged behind increases in tuition and inflation in recent years. In FY2002, the maximum award covered 100 percent of average tuition and fees at public community colleges and four-year universities. But by FY2010, it covered only 66 percent at community colleges and just 48 percent at public universities. Funding shortfalls have also resulted in the dispersal of aid on a first-come, first-served basis and about 130,000 eligible applicants did not receive a MAP grant in 2010 because they applied after the available funding was exhausted.[47] This phenomenon is on the rise: at least six states, including Illinois, Kentucky and Tennessee, now have "until funds depleted" policies on grants, so late filers risk getting nothing at all. Other states are shrinking the application window. Oklahoma, for example, moved its grant-application deadline two weeks earlier than last year, a step that will likely reduce the number of qualifying students. New Hampshire has suspended its grant support to college students for the 2012–2013 school year.[48]

Not only are states decreasing funding toward higher education overall, but many are also reducing the proportion of need-based aid relative to merit-based aid. This shift has a dramatic impact on low-income students, because higher income students stand a better chance of receiving merit aid. Since the early 1990s, states have increased funding for student grants not based on financial need at more than four times the rate of need-based grants.[49] As a result, the contribution of non-need based aid at the state level has increased from 10 percent to 27 percent from 1993–1994 to 2009–2010 (see Figure 7). The share of merit aid allocated to higher income students has also steadily increased from 51 percent in 1995–1996 to 57 percent in 2007–2008 (see Figure 8).

Even within their need-based grants, states are starting to consider incorporating criteria linked to merit. Texas, for instance, is in the process of reconfiguring its primary state based program by including "merit within need" for prioritizing students. To receive priority access to the grant, students need to meet two of the following four criteria:

1. Take a college preparatory curriculum.
2. Receive a college-readiness score on a state mandated test.
3. Finish in the top third of their graduating class or receive a B average.
4. Take advanced math courses.

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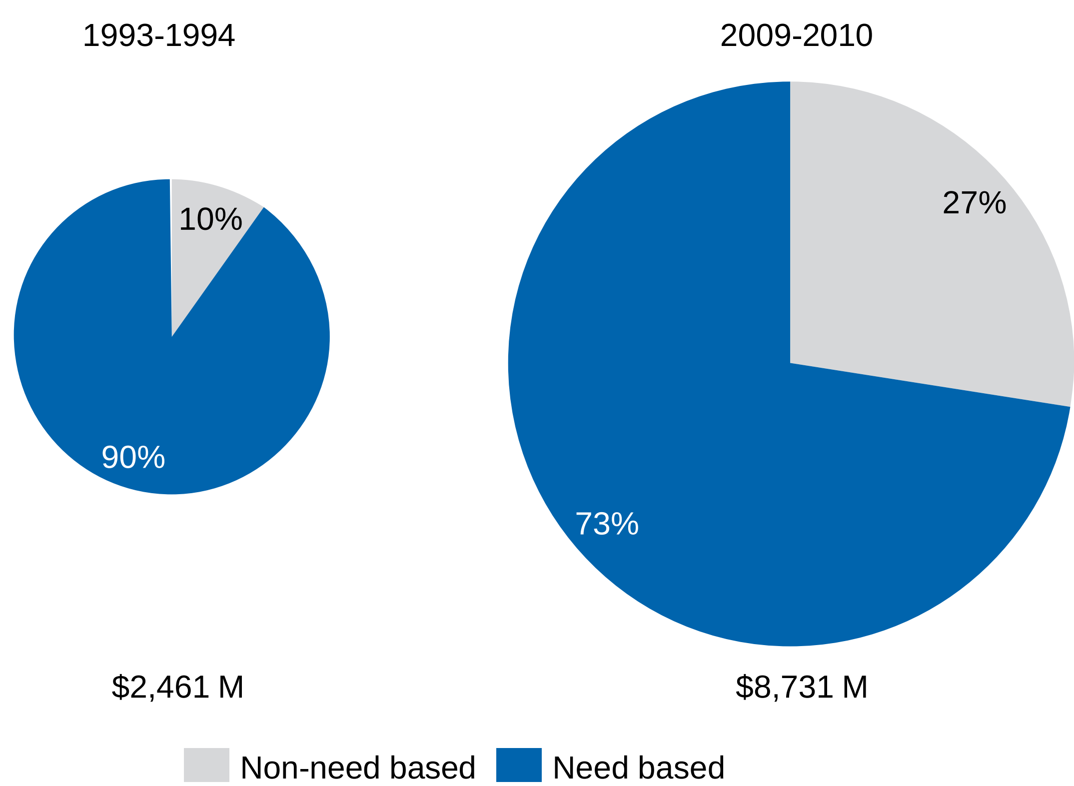
[47] Callan P, "A Story of Decline: Performance and Policy in Illinois Higher Education," The National Center for Public Policy and Higher Education, 2011.

[48] Lourosa-Ricardo C, "Cash-Strapped States Cut College Financial Aid," *Wall Street Journal*, January 2012.

[49] National Association of State Student Grant and Aid Programs (NASSGAP), 40th Annual Survey Report on State-Sponsored Student Financial Aid 2008–2009 Academic Year (Washington, D.C.: NASSGAP, 2010), 3; and National Association of State Student Grant and Aid Programs (NASSGAP), 34th Annual Survey Report on State Sponsored Student Financial Aid 2002–2003 Academic Year (Washington, D.C.: NASSGAP, 2010), 3.

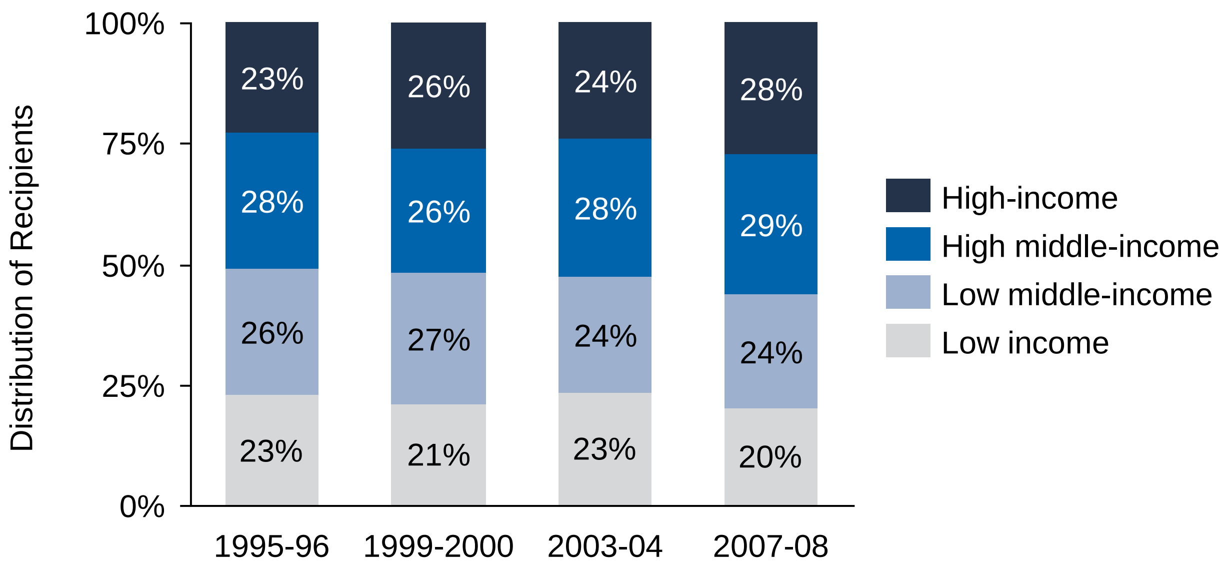
The program was designed based on an analysis by the Texas Higher Education Coordinating Board that showed that students who are better prepared are more likely to complete. Based on THECB's initial estimates, 70 percent of low-income students will be eligible for funding under the current criteria. The new system will come into effect after two years of transition to prepare students and schools for the new system. However, even as the state aims to target dollars to students that are most likely to graduate, some concerns remain that the neediest students who don't qualify will either not enroll at all or will take on even more loans, with the accompanying risk of heavy indebtedness, especially if they drop out.

Figure 7: State Spending on Grant Aid (Millions of Dollars)



Source: NASSGAP 34th and 40th Annual Survey Report on State-Sponsored Student Financial Aid

Figure 8: Distribution of Merit Grant Recipients by Income Quartile (1995–2008)



Source: College Board Trends in Student Aid, 2011.

Institutions are allocating aid to higher-performing, higher-income students

The gradual withdrawal of states from the provision of student financial aid has resulted in an increased reliance on institutions to fill the gap. However, institutions often face an excess demand for their limited student aid funds and often allocate available funds based on criteria that advance their own goals. Experts interviewed for this report agreed that this shift from need-based to merit-based aid has been one of the most striking recent trends in financial aid. In the words of one interviewee, "*Institutional behavior used to be very irrational—they engaged in selfless activities where their focus was not their own interest. But now institutions are increasingly thinking about financial aid in an institution-oriented way rather than a student-oriented way*." This change of behavior has resulted in a shift from need-based to merit-based aid within institutions, mirroring the trend at the state level. In total, colleges and universities awarded $5.3 billion worth of grants in 2011 to students beyond their demonstrated financial need as determined by the federal formula.[50] A report released earlier this year by the National Center for Education Statistics (NCES) showed that more students receive institutional merit-based aid than need-based aid even at public universities.

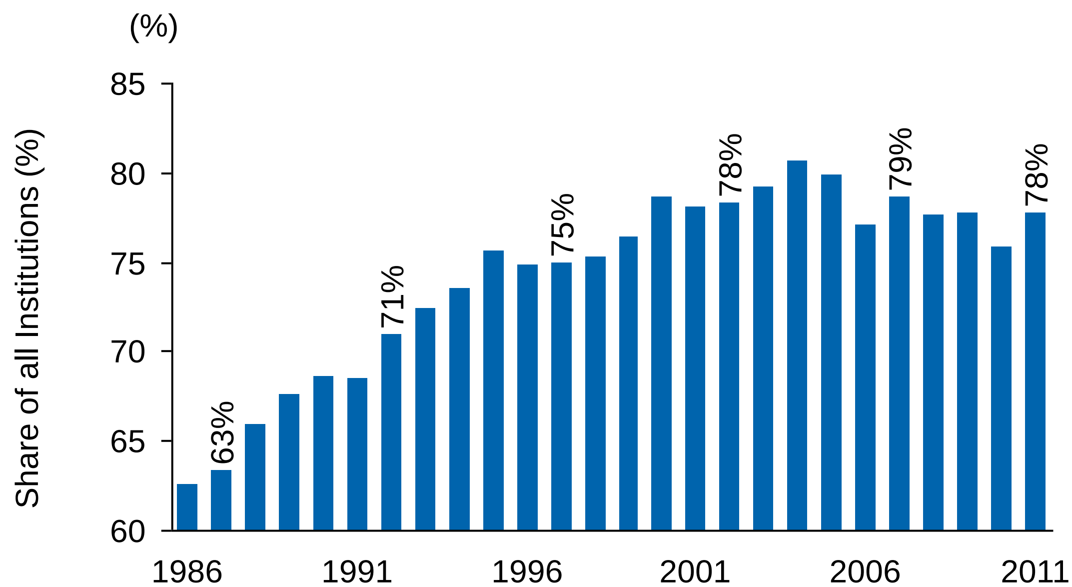
A number of factors have played into this trend. First, in an effort to improve their rankings in an increasingly competitive market, institutions are more frequently focused on recruiting and enrolling students with strong academic records. An analysis of data shows that the share of public four-year

[50] Marcus J, "Financial aid not always going to neediest college students," *The Hechinger Report*, November 2011.

institutions that enroll freshmen primarily or exclusively from the top half of their high school class has been steadily increasing since the 1980s (see Figure 9).[51] The growing market-driven pressure on institutions to become more selective has led several to adopt merit-based criteria in an effort to use aid to enroll higher-performing students. "*From an institutional perspective, financial aid has become marketing dollars. It has become a tool to attract students, even if they do not necessarily have need*," says one expert. At the same time, pressure from states to improve graduation rates and the increasing focus not just on access but on persistence and success has led institutions to allocate aid to candidates who are perceived as more likely to graduate.

The budgetary pressures faced by many institutions also cause many to use financial aid as a way to attract students from middle-income and higher-income families, who, even with aid, will pay proportionally more of their tuition bill than lower-income students.

Figure 9: Share of Public Four-Year Institutions that Enroll Freshmen Primarily or Exclusively from Top Half of High School Class (1986–2011)



Source: Post-Secondary Education Opportunity, *How to Limit Opportunity for Higher Education from 1980 to 2011*

[51] Post-Secondary Education Opportunity, "How to Limit Opportunity for Higher Education from 1980 to 2011," August 2011.

Overall, the shift from need-based to merit-based criteria has shifted aid to higher income students and reducing the funds available to low-income students. For example, in 2003, the average institutional award to students from families making less than $20,000 per year was $1,200 less than the average award for students from families making $80,000–$99,000 per year at four-year private institutions. At four-year public universities, the average 2003 award to low-income students had increased 50 percent since 1995 to $1,251, while the average award to students from families earning more than $100,000 had grown 227 percent to $781.[52]

While the experts interviewed for this report agreed on the need for providing assistance to low-income students, there was less consensus on whether scarce funds should be prioritized toward needy students who also meet certain merit criteria (merit-within-need) or allocated to those who need it the most. Some experts feel that the merit-within-need trend is pernicious: "*Merit aid exacerbates the inequality that already exists within the current education system*," explains one expert. "*The student who was privileged enough to get a good education in high school is rewarded and is given additional resources for their college education, while the student who was not privileged in high school is not rewarded*." Others think that aid should be closely tied to performance and completion: "*We shouldn't squander our limited money on people who are not likely to complete college*," said one interviewee. Still others made an efficiency argument for need-based aid. "*The biggest bang for the buck will be achieved if you give aid to the student who will not likely succeed in college without your aid. There are unintended consequences to the merit-within-need strategy. Rather than encouraging students to take challenging classes, students are taking easier classes to maintain a good GPA. And rather than remaining a full-time student, students are becoming part-time students because it's easier to get better grades as a part-time student*."

Disagreement among these approaches often appears to be value-driven. For example, one policymaker stated, "*We need to send a message to poor students… the message [that you] need to work hard, overcome your circumstances, we want to see evidence that you are not just poor but working hard to prepare to go to college and succeed.*" Merit-within-need's detractors also have strong beliefs. As one researcher asserted, "*Incentives can only be effective if the students already have a base level of financial security to go to college*." At this point, there is a lack of evidence to resolve these conflicting points of view. Without further research and data clarifying the impact of the different approaches to aid, it is unlikely that a fact-based alignment can be achieved among key stakeholders on the goals and appropriate structure of financial aid offerings.

Overall, rising tuition costs combined with a decline in state support have led to significant unmet financial need for students despite increases in total financial aid. At the same time, the shift from need to merit-based aid at the state and institution level has adversely affected low-income students in particular. These trends have increased the financial pressures on low-income young adults who are already less likely to attend college, putting their chances of accessing or completing their degrees at even greater risk.

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[52] National Postsecondary Student Aid Study, (2003–2004) data analysis conducted by Jerry Davis for the Education Trust.

Recommendations for Improving Financial Aid to Increase Post-Secondary Access and Success among Low-Income Young Adults

Redesigning the financial aid system is critical if the United States is to increase the number of low-income young adults who complete a degree or certificate. Funders can play a distinct role in helping to reverse the trends that are putting these students at risk of not accessing or completing college. They can also help address the financial aid challenges facing low-income young adults. The following recommendations, derived from our conversations with practitioners and policymakers in the field, offer a starting point for funders to help structure aid to increase completion for low-income young adults by focusing on three key areas where support is most urgently needed. Acting on these recommendations will be a crucial step toward ensuring that the United States remains a society that offers equal opportunity for all, regardless of family income, and toward investing in a key lever to spur the nation's international economic competitiveness for years to come.

Summary of Recommendations for Funders to Help Structure Aid to Increase Post-Secondary Access and Success for Low-Income Young Adults	
Support the Leveraging of Key Existing Aid Channels	• Support policy efforts to leverage *federal need-based aid* for low-income young adults by facilitating alignment among policymakers on the goals of financial aid. • Support policy efforts to leverage *state need-based* aid by funding research on the effectiveness of need-based aid, as well as by advocating for better coordination of federal and state aid programs.
Innovate Aid Access and Delivery	• Reduce *regulatory and institutional requirements and inefficiencies* that hinder effective aid package structuring for low-income students. • Research and support *delivery approaches* tailored to the needs of low-income youth that reduce complexity and incorporate incentives for performance and completion. • Support colleges that serve low-income communities by recognizing and providing for the monetary and resource costs of financial aid delivery. • Identify and strengthen *non-financial student support* to help ensure that recipients of aid dollars complete their degrees.
Expand the Amount of Aid in the System	• Design, implement, and scale replicable private-public *scholarship models* aimed at encouraging completion by low-income youth. • Build the internal *fundraising capacity* of community colleges • Expand the provision of aid programs that are specifically effective supports for low-income students, such as *work study* and *emergency aid*.

Support the Leveraging of Key Existing Aid Channels

Throughout our interviews, stakeholders stressed the importance of preserving and leveraging need-based aid, at both the federal and state levels. On the federal level, interviewees broadly agreed on the importance of efforts aimed at supporting the Pell Grant program and influencing tax policy, as well as funding new research to better understand the impact of aid. At the state level, they urged programs to help states develop practices that would make aid delivery more predictable and transparent. Lastly, policymakers and education experts consistently pointed out the need for better alignment across the nation on the goals of various financial aid approaches and the methodologies to support those goals.

Support policy efforts to leverage federal need-based aid

The Pell Grant has come under pressure in recent years as the program has burgeoned, raising concerns that it has become unsustainable. At the same, income tax credits for higher education have remained broadly popular even as they have more than doubled to $14.7 billion since the American Opportunity Tax Credit took effect in 2009.[53] Unfortunately, it is unlikely that tax credits can replace the Pell Grant in encouraging college attendance among needy students. Tax credits most benefit families with incomes between $30,000 and $75,000 because they have exceptionally broad eligibility requirements and low-income families often have insufficient tax liabilities to benefit from the program. Given the profile of the beneficiaries and the significant delay between when a recipient enrolls in college and when she receives the benefit, tax credits are a relatively insignificant factor in the decision to enroll in college. Armed with this knowledge, experts in financial aid encourage funders to move away from efforts to support income tax credits and instead focus on those that aim to preserve and expand the Pell Grant program, which has a demonstrated impact on college graduation rates for low-income students, as Figure 2 shows above. Funders can contribute to the discussion by highlighting innovative approaches to aid delivery that can increase the effectiveness of Pell dollars, as well as by reinforcing the need to increase the number of people with post-secondary degrees or credentials and the critical role of Pell grants in that effort.

Other than Pell grants, experts brought up several opportunities at the federal level for influential funders to help align policies and better leverage the available aid. These included influencing tax policy to provide tax incentives to individuals who donate to scholarship funds, an approach that may initially reduce revenue, but may result in future gains via payroll taxes from more high-earning adults. They also recommended analysis (from the perspective of aiding low-income students) and alignment efforts focused on whether grants should be portable with students or campus-based, and whether they should be targeted primarily at public institutions or continue to include private colleges. Incidental observations show that portable loans allow students to choose their preferred programs, but institutions have the ability to gauge and focus on overall community needs and access. Public four-year and community colleges are also reducing their participation in federal loan programs because of the fear of high default rates and lack of consensus on the role and effectiveness of loans in encouraging completion. Funders can help address this by sponsoring new research on whether and how loans affect college access and

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[53] Nelson L, "Invisible Spending on Financial Aid," *Inside Higher Ed*, November 2011.

completion rates for low-income students and how loans might be better structured (e.g., incentive-based conversion to grants for a portion of loan amount) to support degree completion.

Support policy efforts to leverage state need-based aid

Another major opportunity to leverage an existing channel of grant aid is at the state level. Research is needed to support policy alignment at this level as well. As discussed above, state financial aid funding in the form of grants plays a crucial role in the financial aid offerings for low-income students. However, the state officials with whom we spoke repeatedly stated that states have less control over aid policy and that decisions are mostly made in response to federal policies.

There are three strategies that could help states develop practices that would make aid delivery more predictable and transparent:

1. Increase the visibility of how much federal aid can be allocated to students per state.
2. Improve coordination between state and federal aid funding, especially by improving the predictability of the timing of federal funds and making states aware of policy changes in a timely way.
3. Conduct and publicize research on the effectiveness of various types of federal aid in relation to persistence and completion. Currently state legislators struggle to make meaningful policy decisions in the absence of conclusive evidence of the success of federal programs, despite the size and long history of these programs.

For example, as discussed above, little consensus exists on whether scarce funds should be prioritized to needy students who also meet certain merit criteria (merit-within-need) and are therefore more likely to complete, or allocated to those students who have the greatest need. North Carolina and Washington allocate almost 100 percent of state aid on the basis of need alone, and support for keeping college affordable has historically been high in those states. However, even there, rising tuition rates have made it difficult for state aid programs to keep up. A resolution to the debate is difficult in the absence of conclusive evidence on the impact of different kinds of criteria on access and completion. There is little understanding of key issues such as the link between tuition and aid policies or the effect of an institutional focus on access versus completion and quality. There is also a disconnect at all levels on topics such as the definitions of poverty and need as they relate to aid requirements—these are often discussed in light of received opinion and with little fact-based understanding of the specific needs of low-income students attending colleges near their homes.

At both the federal and state levels, policymakers and education experts consistently point out the need for better alignment on the goals of financial aid. Should the financial aid system be focused on access, choice, or completion? All are worthy goals, but all three cannot be optimized simultaneously. There are trade-offs that have to be made and it is best if they are made intentionally. There is a significant opportunity for influential private funders to facilitate, via research and discussion, alignment across the nation on the goals of various financial aid approaches, and the methodologies exist to support those goals.

Innovate aid access and delivery

The need for more innovative, research-based approaches to delivering aid recurred throughout our interviews. In particular, interviewees felt that current approaches have been relatively ineffective in ensuring persistence and completion. In the absence of rigorous analysis of what works and what doesn't, there haven't been enough efforts to identify and scale up promising approaches. Four broad recommendations emerged from our conversation:

- Develop delivery approaches that incorporate promising incentives for performance, retention, and completion.
- Reduce regulatory and institutional barriers for aid to support productivity and innovation.
- Increase support for financial aid offices serving low-income communities.
- Increase provision and utilization of non-financial student supports.

Develop delivery approaches that incorporate incentives for performance, retention, and completion

While the traditional approach of providing funding in one lump sum at the beginning of college can help drive enrollment, it does not serve as an incentive for persistence. As the education sector has shifted its focus from college access to student success, several promising approaches to designing financial aid packages to better support completion have emerged. Many of these are based on the concept that a multi-year funding approach is preferable to non-renewable one-year awards. For example, using "aid as a paycheck" provides students with financial aid at shorter intervals, thereby encouraging fiscal responsibility. As one interviewee put it, "*A student is better off receiving $750 every year for four years than $3,000 once*."[28] Similarly, scholarship providers could structure their scholarships for grant amounts to increase in successive years in order to remedy the issue of aid declining as students persist in college. The University of Texas system is going one step further by considering increases in aid to students each year based on performance. Thought leadership and research on such approaches to incentivizing students from low-income backgrounds toward persistence and completion require broader dissemination across funders and financial aid offices at public and community colleges around the country.

Some states are pioneering innovative approaches to packaging aid in order to simplify the process for students and reduce uncertainty. For example, in North Carolina, community college students with an EFC[54] of less than $6,000 are guaranteed a certain amount of money (the floor), providing an assurance to low-income students about the amount of aid that they will receive. The state adds funding to any Pell Grant money to bring the aid package up to the floor. The program is targeted at students with an EFC of $3,000 to $6,000. In Washington, the College Bound Scholarship commits to providing college aid to low-income students when they are in seventh and eighth grade. The program is in its fourth year of signing

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[54] Expected Family Contribution (EFC) is the amount a family is expected to contribute to a student's education, based on family earnings, net assets, savings, size of family, and number of students in college.

up students and will start providing aid for the first cohort in 2012. Over 70,000 students have applied to date.

New ways to improve the effectiveness of the Pell Grant program are also being explored. For instance, a national study that examined financial aid policies at four-year colleges found that when Pell grants are paired with state grants that assist nontraditional and low- to moderate-income students, student retention rates were 14 percent higher than when students received Pell grants alone.[55]

How aid is bundled and distributed can ensure or derail the base-level security that low-income students need to be able to focus on their educational goals. Understanding the root causes behind the effectiveness of various approaches to bundling and distribution of aid will be key to enabling financial aid officers on the ground to make decisions that are optimal for the students they serve. Funders can help support research into these innovation practices and help to share lessons learned across the field to catalyze adoption of those that work.

Reduce regulatory and institutional barriers for aid to support productivity and innovation

Over the course of our research, financial aid officers highlighted the burden placed on financial aid offices by regulations and institutional requirements. While some caution against simplifying such requirements too much, the burden is significant for a few reasons: first, the repercussions of not complying with federal or state requirements can be so high that colleges and financial aid officers stick with existing approaches rather than risk trying something innovative. Second, the resources required to ensure compliance with the regulations and requirements are significant, and most colleges do not have the necessary capacity to come up with innovative solutions to problems on top of managing their existing workload. Finally, in the absence of studies to show the benefits of innovative approaches, there is little incentive to identify and scale up alternative ideas that might work.

At the same time, one of the challenges that community college students face is the fragmented nature of the aid system within which they operate. Funders can play a role in helping to coordinate application policies, criteria, and post-award conditions among community colleges, which will help ease the burden on students. Technology-driven initiatives such as TheWashBoard.org—an online scholarship clearinghouse—can also help students easily identify and apply for available aid. WashBoard.org is free for students and providers. To date over 149 scholarship providers have registered, totaling $12.5 million in support (with an average award of $2,400).

There is also a need to eliminate waste from the system through better targeting of aid. This targeting and structuring should accommodate the specific needs and situations of low-income students. For example, a study discussed in the previous section shows that when additional college grant funds are targeted at those low-income students already receiving Pell Grants, the impact on retention rates is significant. Funders can help capitalize on such synergies in two key ways. One, by supporting further research on identifying techniques for aid targeting that deliver the most value, and two, by funding the development

[55] Anas B, “Study shows targeted financial aid increases retention at universities,” December 2011.

of information solutions that help colleges easily identify those students who would fit the targeting criteria revealed by these studies.

In addition to better targeting, financial aid offers should be standardized to a level that allows ease of comparison for students, ease of combination of various offerings, and consistency in the presentation of application timelines and eligibility criteria. Our research indicates that some colleges have begun to post net-price calculators on their websites to help with this. However, until such tools are generally available to students in a standardized format across all the schools they are applying to, the value of scattered availability of these tools will remain low. The challenge for providing such transparency is deeper than supporting the availability of this information in a standard format on the front-end. To be meaningful, relevant financial aid data as well as college cost data across different types of colleges, across entire states, and even nationally, will need to be structured in comparable formats. Funders could aid students with intelligent decision-making in this area by supporting efforts focused on the standardization and presentation of this data.

Streamlined application and data gathering processes will also greatly enhance the ability of low-income students to take advantage of the gamut of financial aid potentially available to them. Low-income students tend to have less family support throughout the mechanics of applying for college, and interviewees point out the complexity of compiling family financial data as a challenge to effective application for aid for such students. High value could be obtained from automating financial data transfers into college aid application from two key sources: the IRS and students' federal aid applications. Funders could aid the development and finessing of technology to support this automation and hence increase the likelihood of low-income applicants receiving the aid they are eligible for that would increase access and incentives to complete.

Increase support for financial aid offices serving low-income communities

Admissions and financial aid officers at colleges serving low-income communities voice a need for training and professional development targeted at a developing a better understanding of financial aid options, timing and regulations, and specific ways to support their particular student base.

Financial support to these offices can help in two crucial areas. First, the level of demand for the services they offer prevents them from using their capacity to effectively provide the guidance and support needed by low-income students applying for financial aid at their institutions; more funds could enable these institutions to support a greater number of aid administrators and officers. This will free the officers up to focus more on student needs, rather than just assembling aid packages that are in compliance with regulations.

Funding can also help improve the technological infrastructure available to community college financial aid offices. Interviewees often cited low information technology capacity as a key factor in the inability of these offices to access and integrate current student information and federal and state aid data.

Increase provision and utilization of non-financial student supports

Non-financial support is a critical, yet infrequently provided, complement to financial aid to increase students' likelihood of completion, especially for minority and less traditional students (e.g., first-time college goers, students who work, etc.). These services need to be provided as early as middle school and must continue post-enrollment in order to effectively influence student outcomes.

Academic preparation in high school, college application guidance, and financial aid counseling are three of the pre-enrollment support services shown to be most effective at increasing post-secondary completion rates.[56] Many of the effective support services (academic tutoring, early college high schools, dual enrollment, etc.) offered to middle and high school students are designed to ensure that students take challenging courses that prepare them for college-level, credit-bearing courses, confirming the critical role that the academic intensity and rigor of a student's high school curriculum play in ensuring post-secondary success. Several experts interviewed emphasized the need for states to work with school districts to ensure that students are college-ready and understand the value of a post-secondary education. This is widely considered a more effective approach to supporting high-risk students academically than spending aid dollars on developmental education courses in college.

In addition to academic preparation, high school students also need access to post-secondary counseling or guidance services that help them navigate the system and ensure that they attend the most selective schools possible. In addition to preparing students to complete college applications, counselors can help ensure that students apply to more selective colleges where their likelihood of completion is higher. The College Access Foundation of California, for instance, provides funding to organizations that not only re-grant scholarships to low-income and underrepresented students, but that also support those students in the college selection, application, and financial aid processes while they are in high school.

Non-financial support services play an important role post-enrollment as well. Academic advising, counseling, supports (e.g., tutoring, study skills), interactions with faculty, and career counseling help improve students' academic engagement and are especially crucial for first-generation college-goers. An expert from a college in North Carolina cites such supportive measures as a key factor in improving the four-year graduation rate by 9.6 percent compared to a control group of students not given the benefit of such programs. Students from low-income backgrounds tend not to actively seek out non-financial support, but given the burgeoning evidence of the effectiveness of such support, some programs have begun taking a proactive approach to mentoring. "*We'd call, go on campus, text—whatever we need to stay in contact with the kids*," explained one Washington state education official associated with the Washington State Achievers Program.[57]

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[56] FSG, "Dollars for Degrees: Structuring post-secondary scholarships to increase student success" (2011) p. 17.

[57] Funded by the Bill & Melinda Gates Foundation, the program engineered the redesign of 16 high school through Washington State to increase academic rigor and relevance, as well as to develop supportive relationships in school. Each year, 500 low-income high school seniors receive Washington state college scholarships that cover full tuition and fees.

Activities such as mentoring programs, peer mentoring programs, orientations and summer bridge programs, counseling, mental health support, clubs/campus activities, cohort programs, and learning communities designed to increase student engagement on campus similarly increase the likelihood of post-secondary completion.[58] Financial guidance and support, including financial aid advice, financial literacy programs, and access to emergency funds, form the third prong of a successful post-secondary support strategy.

Expand the amount of aid in the system

Experts unanimously agreed that there is a compelling need to increase the amount of aid in the system as the importance of a college education to future success increases and the number of college-goers and the costs associated with college keep increasing.

Policy-level efforts to keep college affordable must also broaden focus to address the issue of rising tuition to minimize adverse impacts on most vulnerable groups. Increases in financial aid alone will not help if they are outpaced by increases in tuition. Interviewees spoke to the need for coherent state policies that tie decisions on tuition increases to state student aid policies. In North Carolina, for instance, generous state support has allowed colleges to keep tuitions and fees low, which has obviated to some extent the need for hefty financial aid packages.

Although advocacy is needed to preserve and expand federal and state aid, experts also acknowledged that the likelihood of increased federal and state contributions was low given straitened economic circumstances, and they recommended three additional opportunities for expanding the amount of aid in the system:

- Designing, implementing, and scaling replicable private-public scholarship models;
- Building internal fundraising capacity of community colleges; and
- Mobilizing partnerships to expand the provision of work-study and emergency aid programs.

Design, implement, and scale replicable private-public scholarship models

Private and corporate funders play a more important role than their dollar contributions to financial aid would suggest. Scholarships are the most flexible type of funding because they are not tied to government requirements or institutions. They can fill gaps in funding and increase students' ability to attend their institution of choice. They also help increase completion by reducing the debt burden by enabling students to attend a higher-quality post-secondary institution and to enroll full-time or work fewer hours while attending school.

[58] FSG, "Dollars for Degrees: Structuring post-secondary scholarships to increase student success" (2011), p. 22.

Private and corporate funders can play an important role in augmenting financial aid packages by developing, evaluating, and scaling scholarship models aimed at increasing completion rates among low-income students at community colleges. For instance, Texas-based Terry Foundation recently started a pilot scholarship program to fund transfer students entering the University of Texas from community colleges with high GPAs. Experts on our panel also recommended increasing the support extended to state-wide coordinating boards, which have recently been vulnerable to financial cutbacks and curbs on their regulatory ambits.

Public-private partnerships can also bring scale to scholarship programs. The Washington Opportunity Scholarship Program, supported by Microsoft and Boeing, is an example of such a partnership: contributions from the two companies will, together with matching contributions from the state of Washington, raise $100 million for scholarships for low- and middle-income students as a first step toward creating a billion-dollar endowment by the end of this decade.[59]

Private funders can reform financial aid by providing a market-driven model that facilitates innovation and by helping to align perspectives on financial aid goals through informed decision-making by policymakers via research and knowledge-sharing.

Build internal fundraising and fund allocation capacity of community colleges

Although community colleges enroll a large proportion of low-income students and enrollment has been growing rapidly over the last decade, these institutions have less access than four year schools to most types and sources of grant aid —federal, state, institutional, and private third-party. Moreover, because of high student default rates, high risk of non-completion, and student aversion to debt, community college aid officers often do not “auto-package” loans to students, instead offering them only upon request. The net impact of these factors is an unmet need among community college students that is equivalent to unmet need among students at four-year institutions, despite the lower cost of attendance.

There is an urgent need to increase the funding available to students at two-year colleges. Community college leaders and researchers acknowledged that two-year colleges did not have the necessary skills or capacity to raise funds from public or private sources. Funders can support training and professional development around this goal, targeted at community college admission and financial aid officers.

Innovations in improving availability of funding in the community college arena would also be helpful. For example, state community colleges could pool their resources and developed centralized staff and common policies, an approach currently followed in Connecticut.

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[59] “Boeing and Microsoft Pledge $50 Million to New Scholarship Fund,” June 2011 http://www.microsoft.com/Presspass/press/2011/jun11/06-06MSBoeingEndowmentPR.mspx.

Mobilize partnerships to expand the provision of work-study and emergency aid programs

Private funders should also consider increasing the amount of emergency and work-study aid available to low-income students. Emergency aid is an area that is still underdeveloped. Emergency crises (e.g., medical emergencies, loss of housing, child care, car repairs) often lead students to drop out of school. Providing access to emergency funds for students once they are in college can help ensure that they remain enrolled and complete their degrees. Such funds can be in the form of short-term loans, scholarships, or grant money.

Work-study programs have financial as well as non-financial benefits for students from economically disadvantaged backgrounds. Work-study aid allows students to earn funds from work in a manner that is often set up to accommodate their academic schedules and constraints, and it minimizes transportation time and expenses, reducing a key area of distraction and cost for low-income students who often continue to work for basic living expenses and even to support families. Additionally, work-study wages do not count toward the next year's student contribution for financial aid.

On the non-financial side, work-study has the ability to increase persistence by helping students integrate into college communities via the value they add and the relationships they build on their campus or with the community organizations they work with. For students from economically disadvantaged backgrounds, work-study experiences can help level the playing field by giving them crucial career-related skills, career-path exploration, and networking and positive recommendation opportunities that would not be otherwise available to them.

Conclusion

The Obama administration and many funders and advocacy groups have laid out ambitious post-secondary completion goals for the country. Indeed, in his 2009 address to the Joint Session of Congress, President Obama declared, "*By 2020, America will once again have the highest proportion of college graduates in the world*." Yet the United States' rate of growth in post-secondary attainment is currently last among its OECD peers,[60] and studies show that there is less room for moving the numbers among higher income students than their lower income peers. Bachelor's degree attainment by age 24 for the top quartile of family income reached 82 percent in 2009 compared to just 8 percent for the bottom quartile.[61]

The students who present the greatest opportunity for increasing our nation's college completion rates are in fact the low-income young adults discussed in this report. However, the disadvantages these students face in accessing aid pose serious threats to their education, and trends in financial aid are making matters even worse. If low-income young adults are to have the resources necessary to complete their degrees, we will need to create a more streamlined, predictable, and equitable financial aid system than the one we have now.

We know that more research is required to resolve many of the policy debates highlighted in this report and to shed more light on which financial aid practices are most effective at fostering completion. There are, however, promising approaches emerging and funding is needed to evaluate, replicate, and scale these innovations. The recommendations outlined above provide a starting point for funders to envision a system in which all actors work in concert to improve the provision of aid for low-income young adults. Redesigning the financial aid system to support these students' post-secondary success is critical to fulfilling the promise of opportunity that has been extended to generations past and is central to America's vision of itself as a land where talented, hard-working young people can attain their greatest potential, regardless of the circumstances into which they were born. Now is the time to begin.

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[60] Carnevale A and Strohl P, "How Increasing College Access Is Increasing Inequality and What to Do about It," in *Rewarding Strivers* (Century Foundation Press, 2010), p. 75.

[61] Postsecondary Education Opportunity, "Family Income and Educational Attainment 1970 to 2009," Number 221, November 2010. Note: Top quartile of family income includes families with incomes greater than $108,294, while bottom quartile of family income ranged up to $36,080.

Appendix

List of Interviewees

1. Sandy Baum, The College Board
2. John Barnhill, Florida State University
3. Steven Brooks, North Carolina State Education Authority
4. Justin Draeger, National Association of Student Financial Aid Administrators (NASFAA)
5. Linda Downing, Valencia Community College
6. Jacob Fraire, Texas Guaranteed Student Loan Corporation
7. Deborah Frankle Cochrane, The Institute for College Access and Success (TICAS)
8. Enrique Garcia, Del Mar Community College
9. Heather Gingerich, College Spark Washington
10. Sara Goldrick-Rab, University of Wisconsin
11. Linda Gonzalez-Hensgen, El Paso Community College
12. Mark Herzog, Connecticut Community Colleges
13. Brad Honious, Valencia Community College
14. Ed St. John, University of Michigan
15. Mark Kantrowitz, FinAid and FastWeb
16. John B. Lee, JBL Associates
17. Kay Lewis, University of Washington
18. Julie Rice Mallette, North Carolina State University
19. Tom Melecki, University of Texas, Austin
20. Mark Mitsui, North Seattle Community College
21. Barmak Nassirian, American Association of College Registrars and Admissions Officers
22. Shirley Ort, University of North Carolina, Chapel Hill
23. Raymund Paredes, Texas Higher Education Coordinating Board
24. Tom Ross, University of North Carolina System
25. Rachelle Sharpe, Washington Higher Education Coordinating Board
26. Senator Richard Stevens, North Carolina Senate
27. Wanda White, North Carolina Community College System
28. Deborah Wilds, College Success Foundation

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect those of the other organizations or references noted in this report.

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