

## Background: Addressing Access to Financial Aid

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### Overview

Research has documented seven risk factors that impact a low-income young adult's ability to enroll in college and complete a degree<sup>1</sup>. Almost all of them relate to a student's financial stability.

Whether students delay college in order to work, juggle a job and classes, or support a family, it is well documented that the cost of college is a barrier for millions of deserving low-income students. Less well known is how our antiquated and needlessly complex financial aid impedes low-income students and actually decreased their odds of earning a degree.

One disturbing national trend has colleges and universities favoring merit-based grants and scholarships over need-based aid<sup>2</sup>, forcing millions of low-income students to finance their educations with loans, credit cards and other types of debt. Yet these same students are most often uninformed on financial matters and don't understand the nuances of changing interest rates, loan terms, and consolidation options. Parents sometimes don't want to reveal their financial information, which limits the number of grants and scholarships that their children may receive.

It's not surprising, then, that low-income students avoid debt, opting instead to work and attend part-time or enrolling in two-year community colleges rather than four-year institutions. What most do not realize, however, is that those decisions actually add years onto their college careers—making graduation less likely and more expensive than if they had simply borrowed and attended a four-year school fulltime.

We, as a nation, must create a financial aid system that includes strong incentives for completion and academic performance. Clearly, what we have been doing no longer works. Between 1993 and 2003, federal aid to college students more than doubled to \$122 billion while completion rates dropped and the nation's global standing (in percentage of its population with bachelor's degrees) fell from first to tenth.<sup>3</sup>

Using financial aid as a lever to boost graduation rates would open doors for deserving low-income students and strengthen the country's economic competitiveness—yet such approaches are uncommon.

We cannot, though, merely place the burden on institutions. Students pay considerable sums out of their own pockets and, ultimately, their actions will decide if they graduate or drop out. Therefore, the foundation must pursue policy initiatives and practices that offer completion-based incentives to both the student and the institution.

### Foundation Objectives and Strategy

The foundation's primary objective is to promote and develop new funding policies that provide incentives to colleges and students to focus on completion, not enrollment. However, we lack sufficient evidence on how aid should be structured to optimally boost completion rates.

Therefore, our grantmaking will test a range of approaches to restructuring and delivering financial aid that will put the focus on boosting completion rates through a series of incentives

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<sup>1</sup> <http://nces.ed.gov/DAS/epubs/2002168/profile3.asp>

<sup>2</sup> Attewell, Paul and Lavin, David, *"The Other 75%: College Education Beyond the Elite."*, 2008, page 8

<sup>3</sup> National Postsecondary Student Aid Study

aimed at both the institutions and individual students. We will then assess their effects on student behavior and outcomes.

We are especially interested in examining whether incentives that are integrated into financial aid packages increase student persistence toward completion. For example, if financial aid were delivered like a paycheck, would it reinforce the link between attending and the resources supporting that attendance?

In addition we will explore new approaches to delivering information about enrolling in college and accessing financial aid resources. Some of this work will utilize “new media” channels targeted to our 16- to 26-year-old population. In every instance we will seek to contribute to the evidence base for how to optimally structure student aid and support to promote success.

Our financial aid reform strategy is based upon the following goals:

- Influencing student behavior toward activities correlated to higher completion rates: full-time enrollment, mentoring, limiting work to less than 20 hours a week;
- Redesigning aid programs with well-structured incentives in partnership with colleges in our target states (OH, NC, TX, WA) and then increasing public awareness of what aid models work;
- Decreasing student reliance on loans, increasing need-based grants while simplifying the application process;
- Communicating the likely amount of financial support colleges will provide to students earlier in the application process;
- Identifying sustainable sources of financing for the most-effective aid structures;
- Advocate for the development of financial aid packaged structured specifically for part-time students who must work while they are in school.

We believe meeting these goals will allow the foundation to strengthen the delivery of financial aid in a manner that contributes to increased student engagement and improved completion rates among our target population of low-income 16- to 26-year-olds.

### **Key investment areas:**

#### *New Structures of Financial Aid*

Existing research tells us that students are most likely to stay in school and complete their degree programs if they enroll in college soon after high school, attend full time, interact with students and faculty outside of class and do not take time off to work. Research also indicates that successful students limit working to no more than 20 hours per week. It seems logical, but it bears saying: Successful students are those who have time to study, and are engaged in their education both in the classroom and on campus.

All of these factors comprise academic momentum which is critical to postsecondary success.

Financial aid provides support that can allow students to engage in their studies and with their peers and alleviate the need to work. We have much to learn about how financial aid influences the choices students make about how they spend their time, and whether these choices can be influenced to help them progress toward a degree or credential.

We recognize that while our emphasis is on structuring aid for completion, students live within a larger system of social and cultural supports. Therefore, we expect to support efforts that research shows can help students complete their degrees.

- Strong mentoring relationships that are peer-to-peer using new media channels like Facebook, as well as building inter-generational relationships.
- Enhanced on-line tutorials regarding accessing financial aid, understanding student loans and other important financial how-to's.

#### *Information for optimal decision making and action*

The foundation will develop informational tools to support young adults as they consider how to pursue a postsecondary education. Young adults weigh many factors in determining whether a degree is worth the investment of time, effort and money. For students who have struggled with school, this is an especially difficult decision, and the information available to them about the long-term payoff of a postsecondary credential doesn't always help them envision ways to overcome the psychological and logistical barriers they will encounter.

Through our grantmaking we will seek to deliver information to young adults using the channels they turn to most frequently, and organize data in a way that will support informed decision making and ignite their interest in pursuing a postsecondary education.

Ensuring access to high quality information for decision making and action will require us to undertake aggressive efforts to help low-income young adults:

- Determine whether they should pursue a postsecondary education and helping them understand the kinds of lifestyle commitments such a pursuit requires, and what a degree or credential can do for them long-term.
- Figure out where what school they should attend, and what type best fits their interests, abilities and goals.
- Devise a financing plan to cover the costs of their schooling and living expenses that will allow them to stay continuously enrolled and won't leave them saddled with debt.

#### *Advocacy*

The Postsecondary Success team's advocacy objectives in this area are to further policies that:

- Promote experimentation around new financing models that better serve low-income young adults by providing incentives for completion and progress toward a degree or credential;
- Dramatically increase the pool of resources available to low-income young adults by removing obstacles to application and improving the mix of aid available;
- Build awareness/lay groundwork for evidence-based policies that promote and reward completion-focused aid with the highest impact on student outcomes, (including performance based scholarships);
- Advocate shifting funds toward effective approaches and away from less-effective interventions.

#### **Current Grants**

**MDRC** – To conduct a demonstration and evaluation effort analyzing the effectiveness of three program innovations designed to increase the engagement of low-income young adults in postsecondary education. The largest intervention is *performance based scholarships*: an

incentive provided to community college students enrolled in school at least half-time, structured with payments at the beginning middle and end of a term, and designed to increase persistence in school over time. (Co-funded with Robin Hood Foundation, College Access Foundation).

**Princeton University** – The biggest challenge facing low-income young who are returning to school is juggling their work, home and school lives. In order to be successful, they must re-arrange their life in a manner that accommodates their studies. Working with the Gallup organization, researchers at Princeton will conduct a time use survey that will allow us to understand the degree to which students are able to rearrange their lives and how students generally tend to spend their time.

**The Institute for College Access and Completion (TICAS)** – Existing research tells us a lot about factors that are linked to completion, including: going to college right after high school; going full time; engaging with other students and faculty outside of class; going continuously rather than taking time off to work; and working no more than 15 to 20 hours per week. The proposed grant will develop a series of projects that will generate new approaches for delivering financial aid in a manner that increases student engagement with education. At least three pilots will be designed to test the following options:

1. What if financial aid were delivered more like a paycheck, supporting the development of student budgeting skills and reinforcing the link between attending college and receiving resources supporting that attendance?
2. If students were given practical information about how working too much hinders their ability to succeed academically, along with additional financial support to reduce the need to work, will students cut back their work hours and improve their academic progress?
3. Can a financial incentive for reaching clear and achievable benchmarks (similar to a short-term loan forgiveness model) help to increase students' likelihood of reaching those benchmarks? How would the outcomes differ for two- and four-year colleges?

**Expanding College Opportunity** – A grant to Stanford University researcher Caroline Hoxby and University of Virginia's Sarah Turner will explore how we can better inform students about the college application process. Approximately 400,000 low income high school students across the country graduate in the top 20 percent of their high school class but do not pursue postsecondary education. Based on interviews with leading high school guidance counselors the researchers will develop an on-line "college application strategy" to guide students through the application process including key deadlines and requirements. It will also provide two additional pieces of information:

1. The "net price" of a range of colleges (where the net price is the total cost to attend a college less any financial aid). Academically prepared low income students are often eligible for far larger amounts of aid that reduce the net cost of attending college. It is hoped that we can move more of these students into four-year institutions where the likelihood of completion is higher given the systems of support in place to help guide through to completion.
2. Vouchers to cover the cost of application fees in the hopes that students will apply to a broader range of colleges than typical given the lowered barrier to entry.