

National Scholarship Providers Association
Annual Conference
October 20, 2005

Need and Merit in Financial Aid

Donald E. Heller

PENNSTATE



COLLEGE *of* EDUCATION

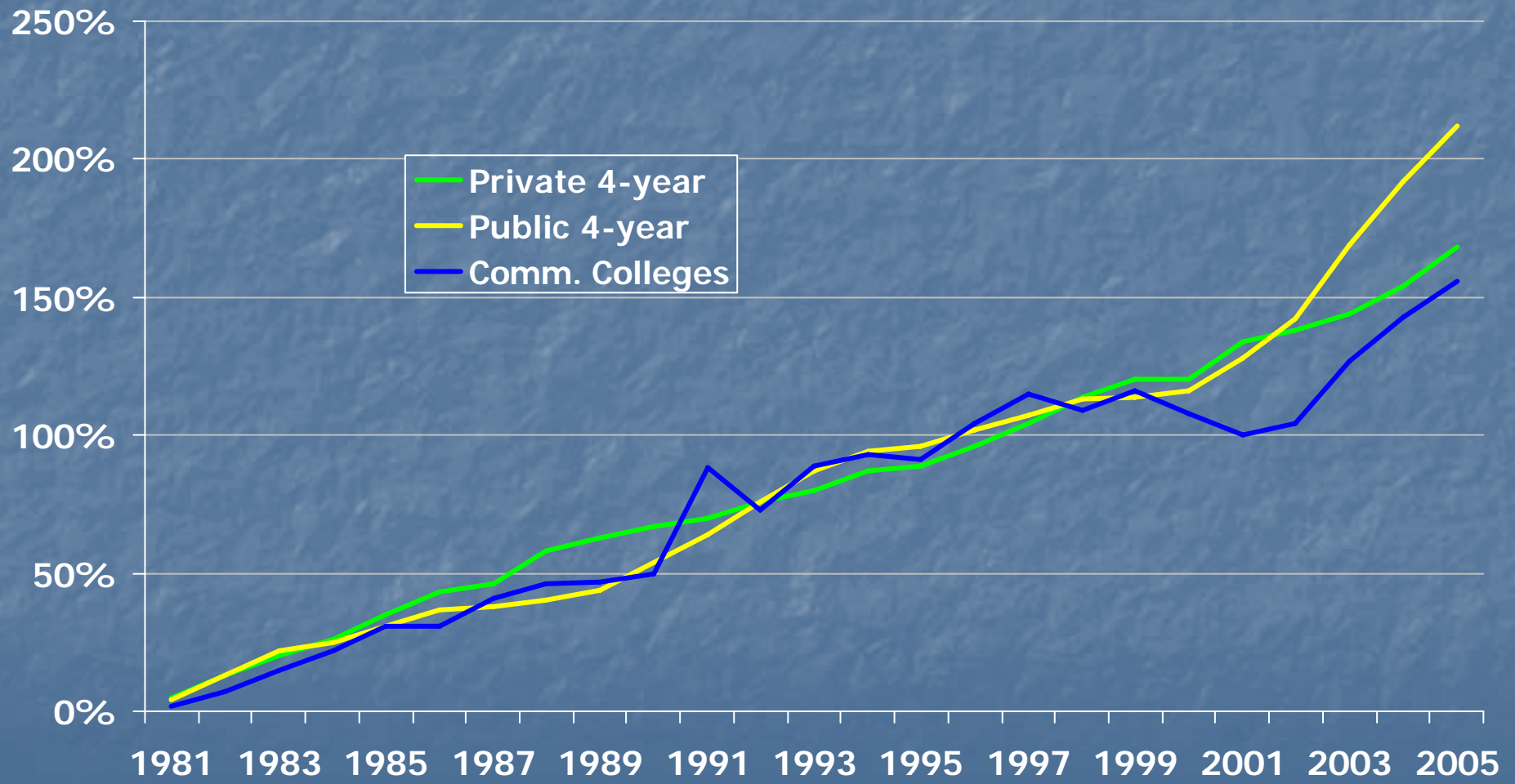
CENTER FOR THE STUDY OF HIGHER EDUCATION

Overview

- College participation and attainment
- Financial aid
 - Trends over time
 - Distribution among different students
 - Need vs. merit
 - Private scholarships in the larger context
- What can we learn from state merit aid programs?
- Discussion – what are the important issues to you?

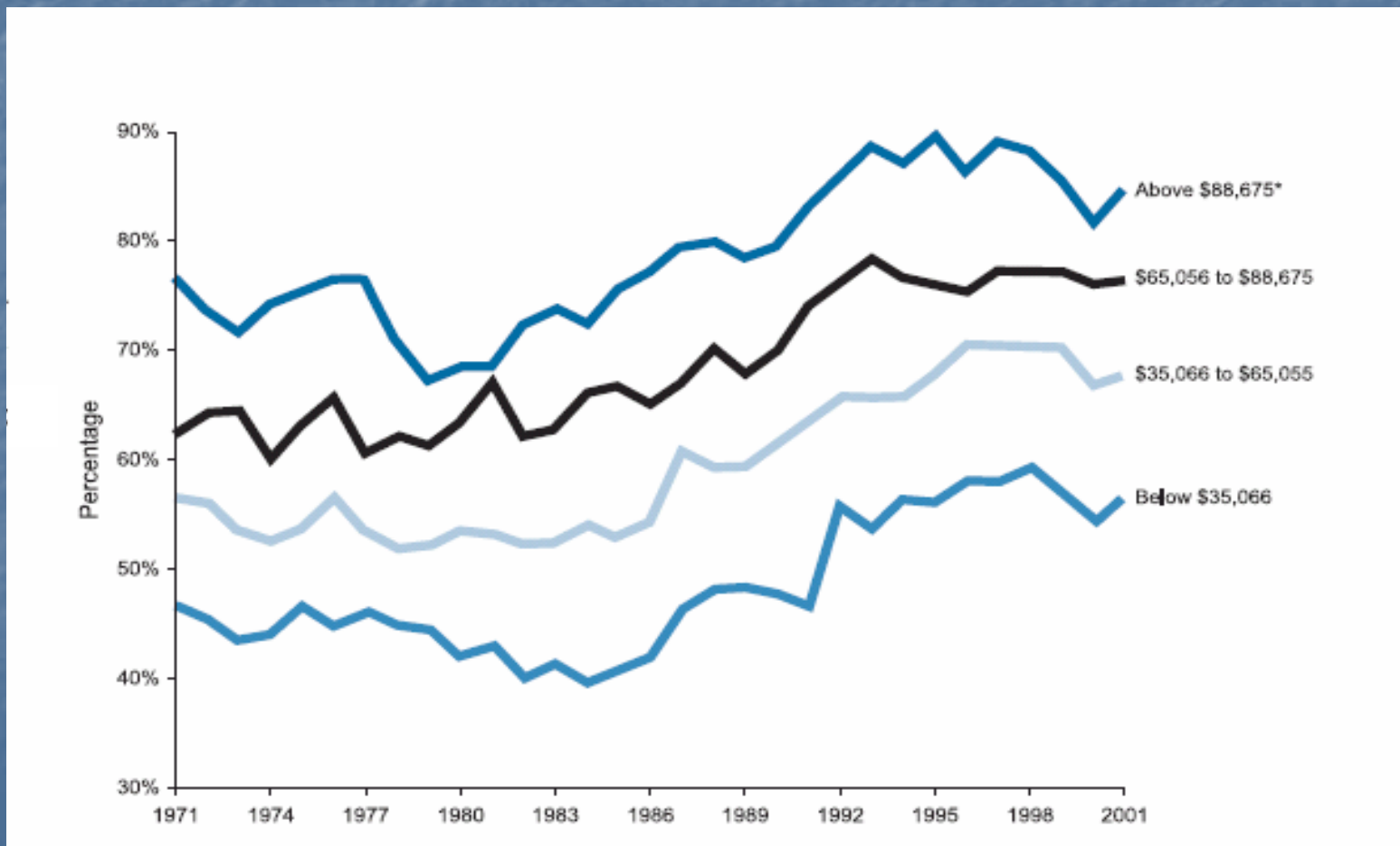
Changes in tuition prices

Increase in tuition prices since 1980, constant dollars



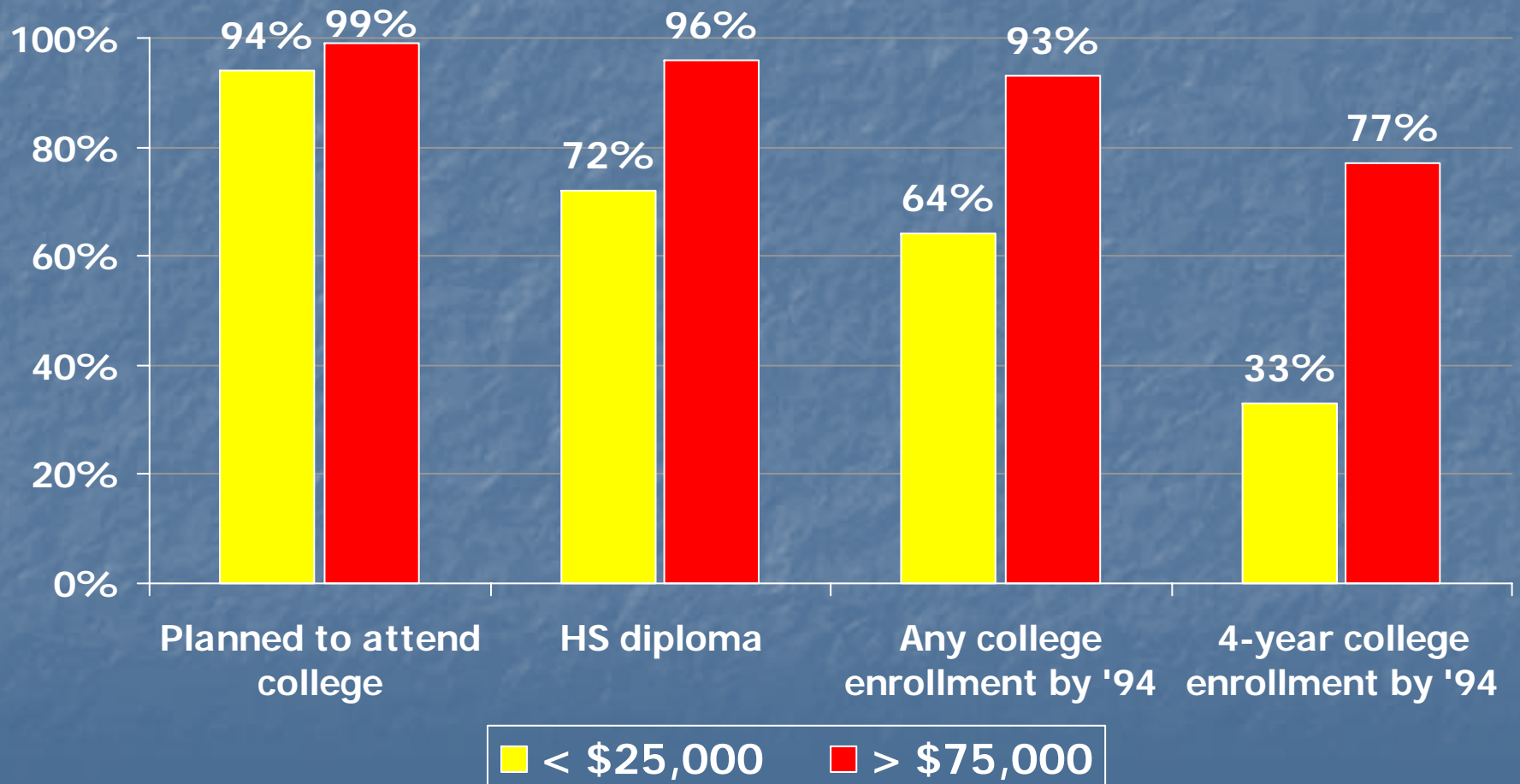
College participation by income quartile

College participation rates of unmarried 18-24 year olds



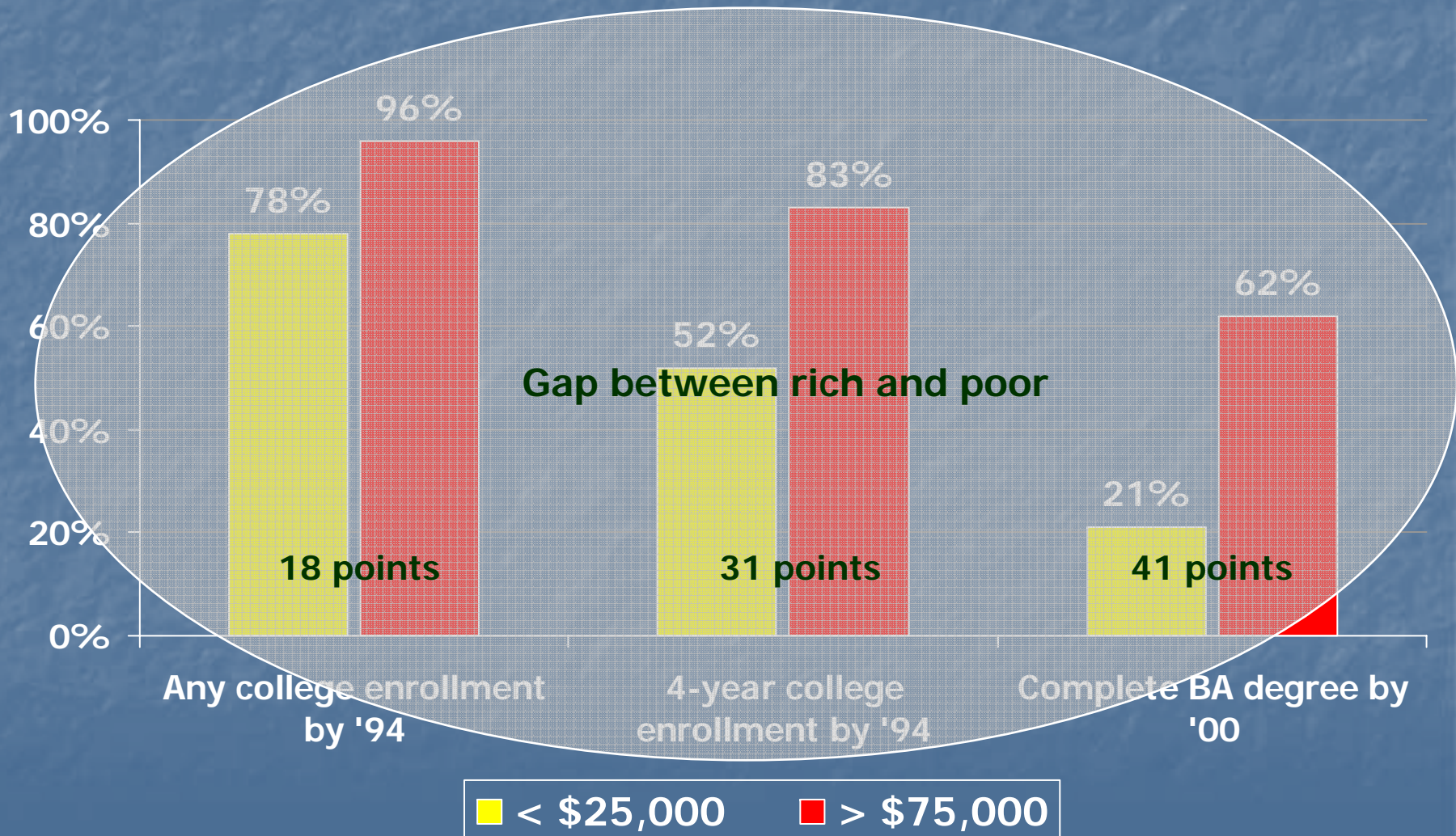
The educational pipeline

1988 8th graders by family income in 1991



The educational pipeline – *college-qualified students*

1988 8th graders by family income in 1991



Academic barriers vs. financial barriers?

Percentage of 1992 High School Graduates
Attending College by 1994

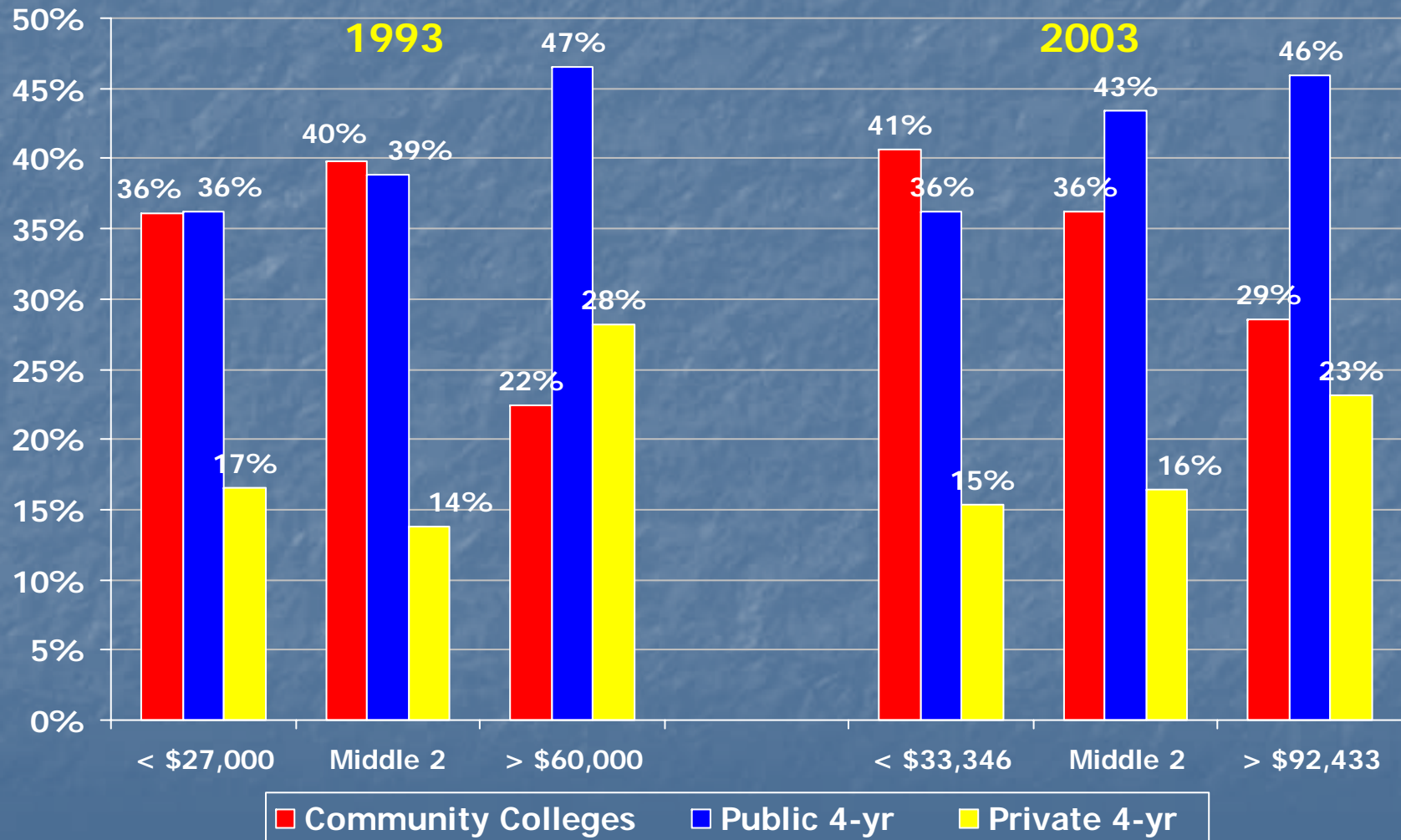
		<u>SES Quartile</u>	
		Lowest	Highest
<u>Test Quartile</u>	Lowest	36%	77% Not-so-smart rich kids
	Highest	78% Smart poor kids	97%

Students shut out of higher education

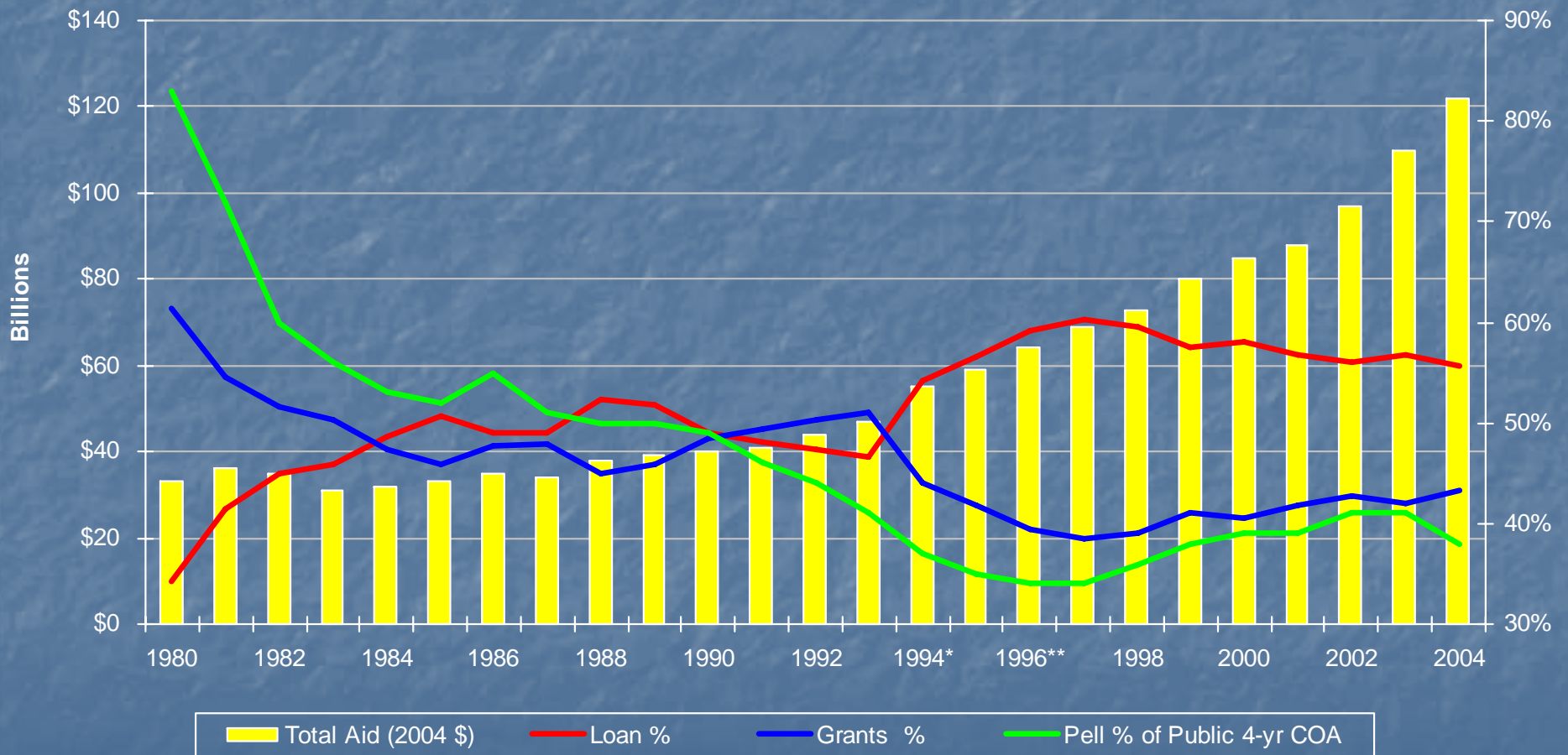
- Advisory Committee on Student Financial Assistance, *Empty Promises*
 - In 2001-2002, financial barriers prevented 406,000 **college-qualified** high school graduates from low- and moderate-income families (income <\$50,000) from enrolling in a 4-year institution
 - 168,000 of these are unable to enroll in any type of college
 - Over the ensuing decade, 4.4 million students will be shut out of 4-year institutions, and 2 million will be shut out of attending college at all

Middle class melt?

Enrollment by sector for income quartiles, 1993 & 2003

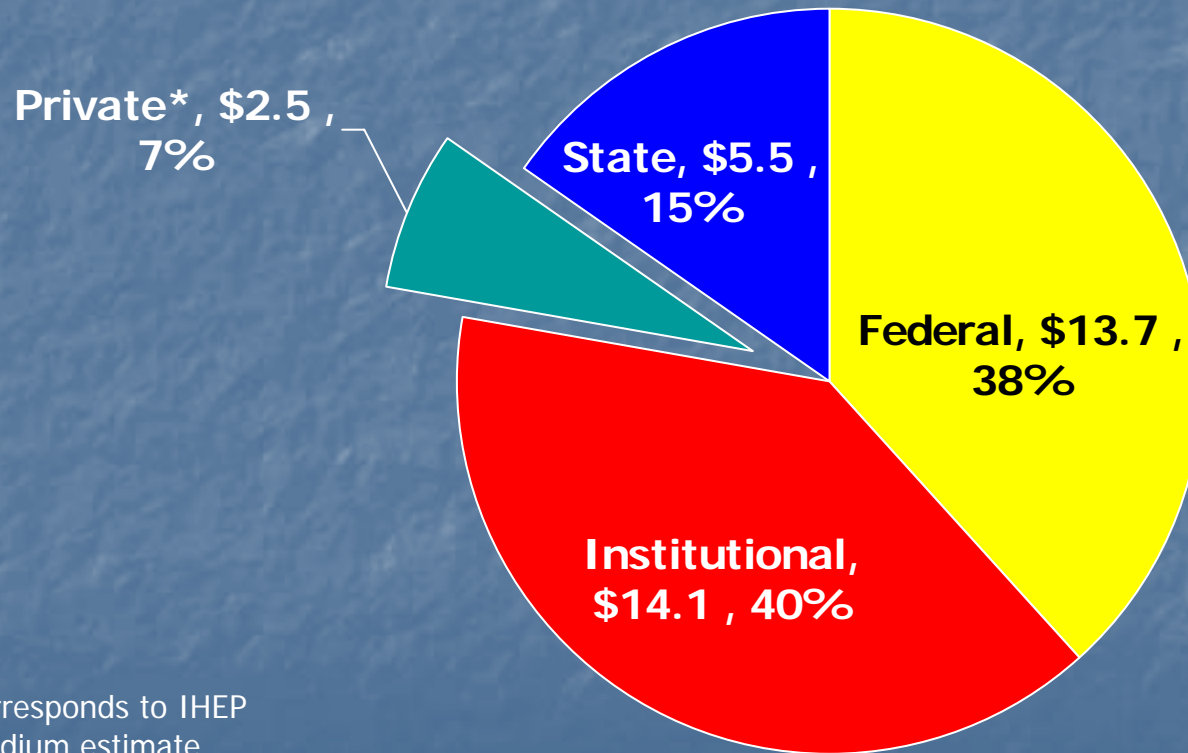


The growth – and shift – in financial aid



Grants to all undergraduate students

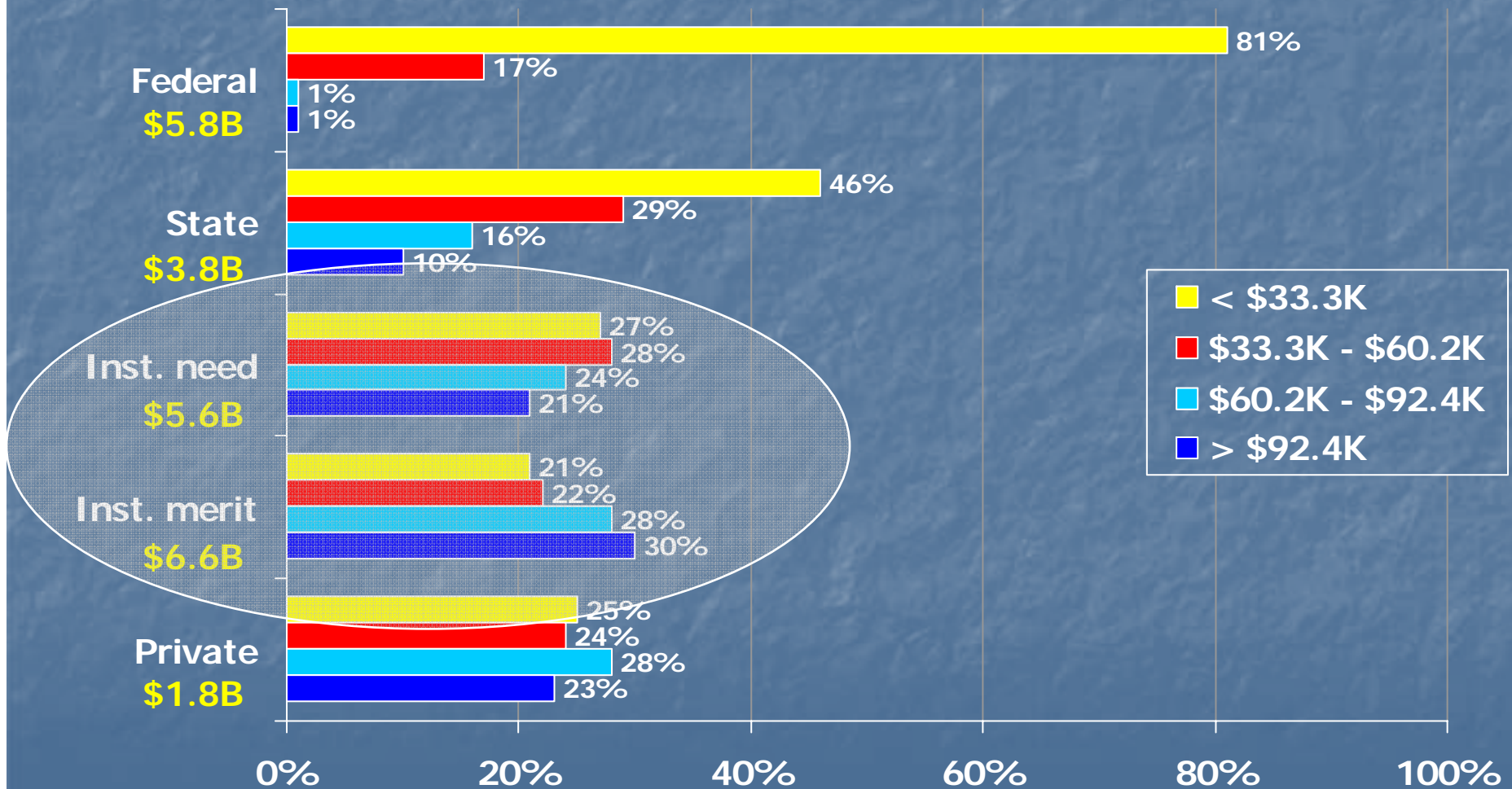
2003-2004, Total \$36 billion



*Corresponds to IHEP
medium estimate

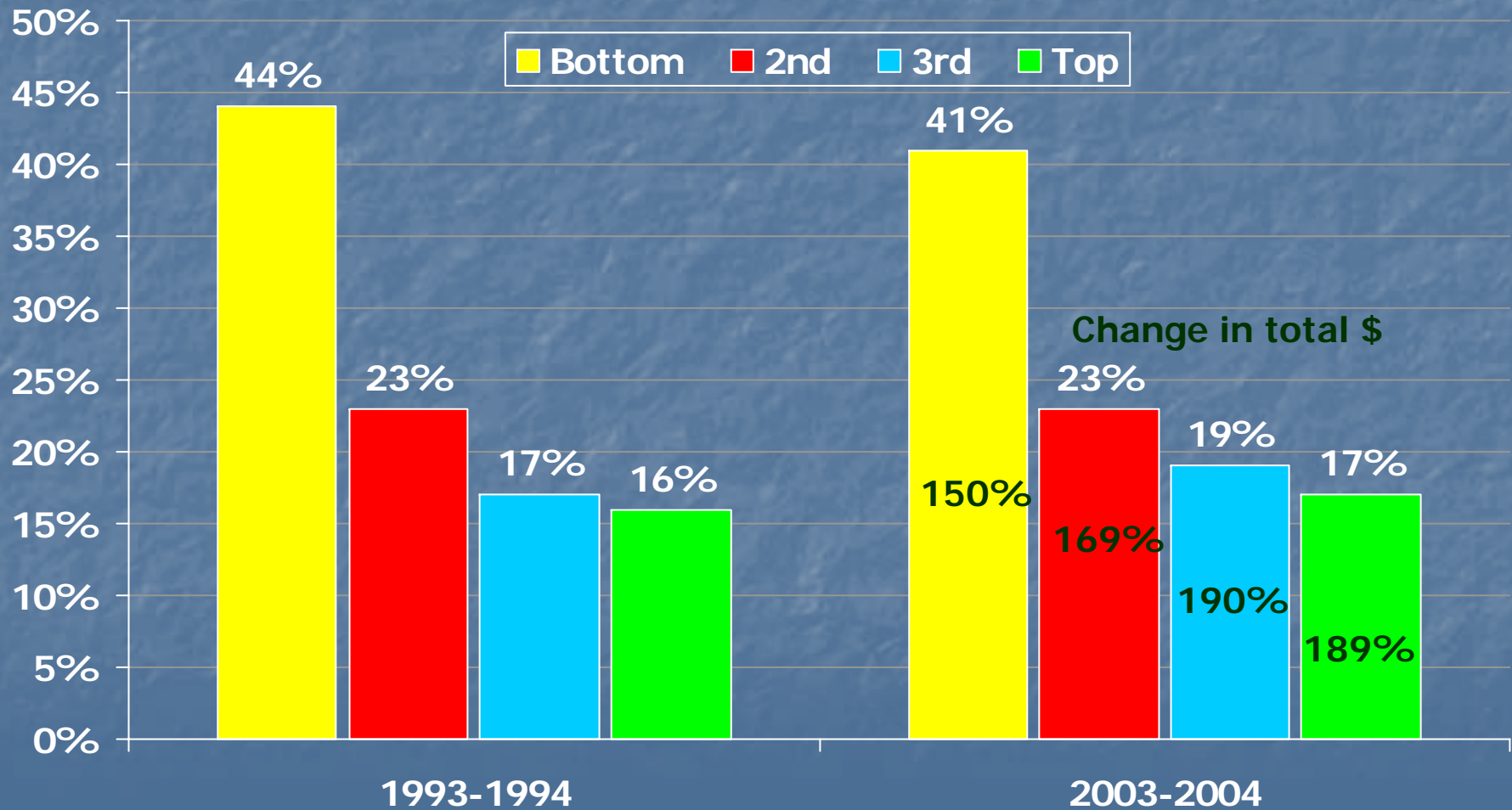
Who gets grants?

Distribution of grant \$ by income quartile



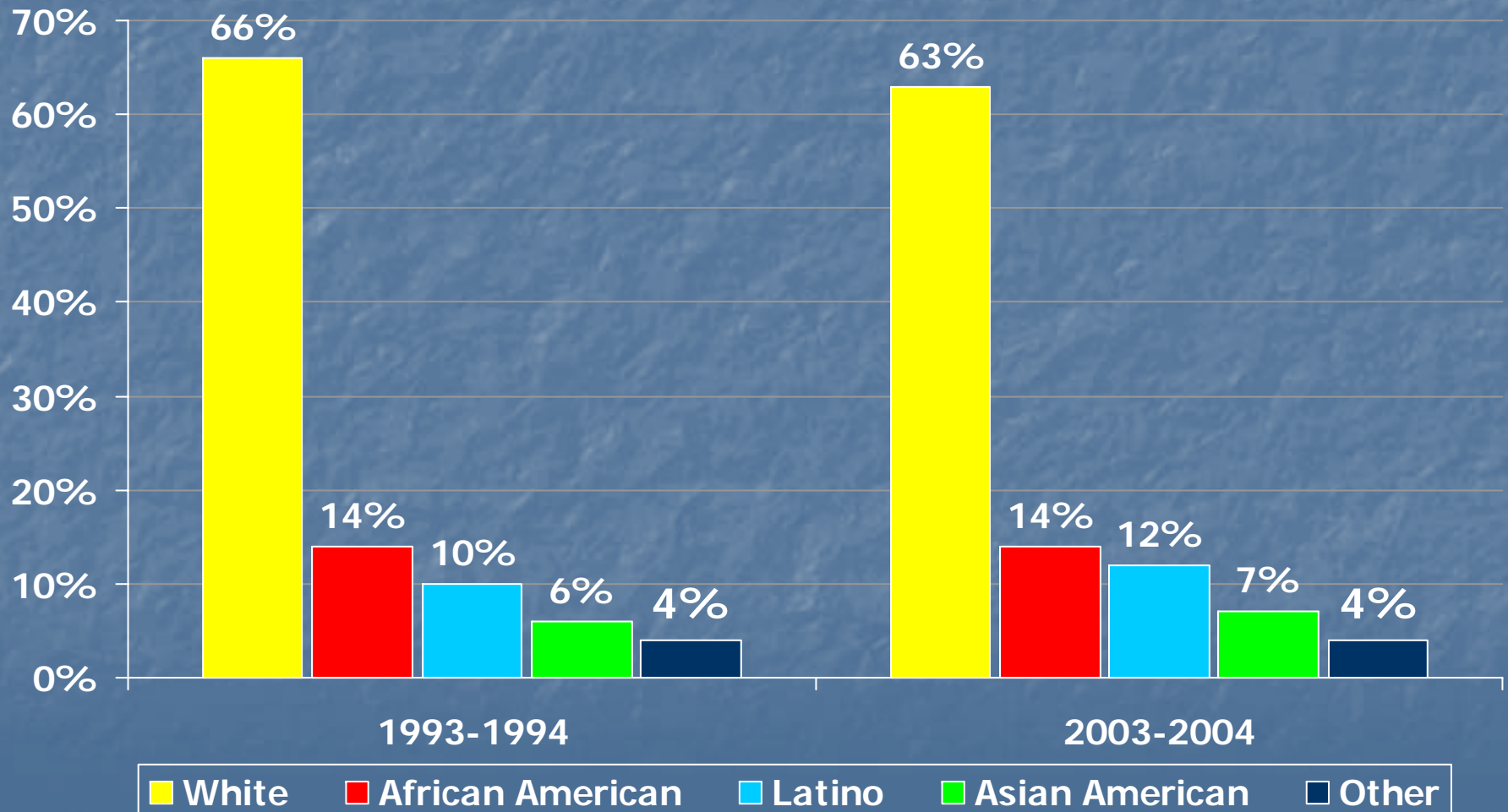
Trends in all grant aid

Distribution of grant \$ by income quartile



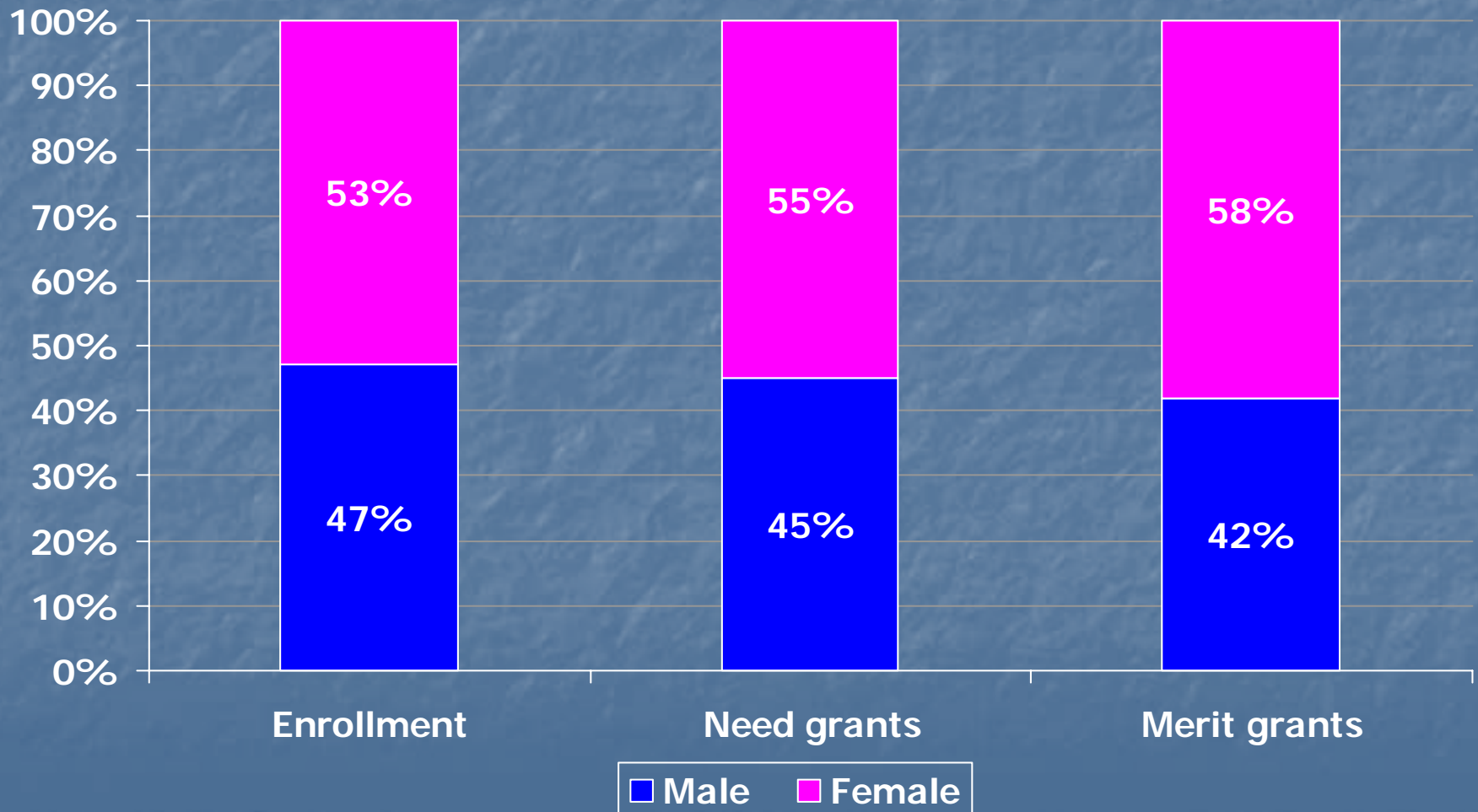
Trends in all grant aid

Distribution of grant \$ by race



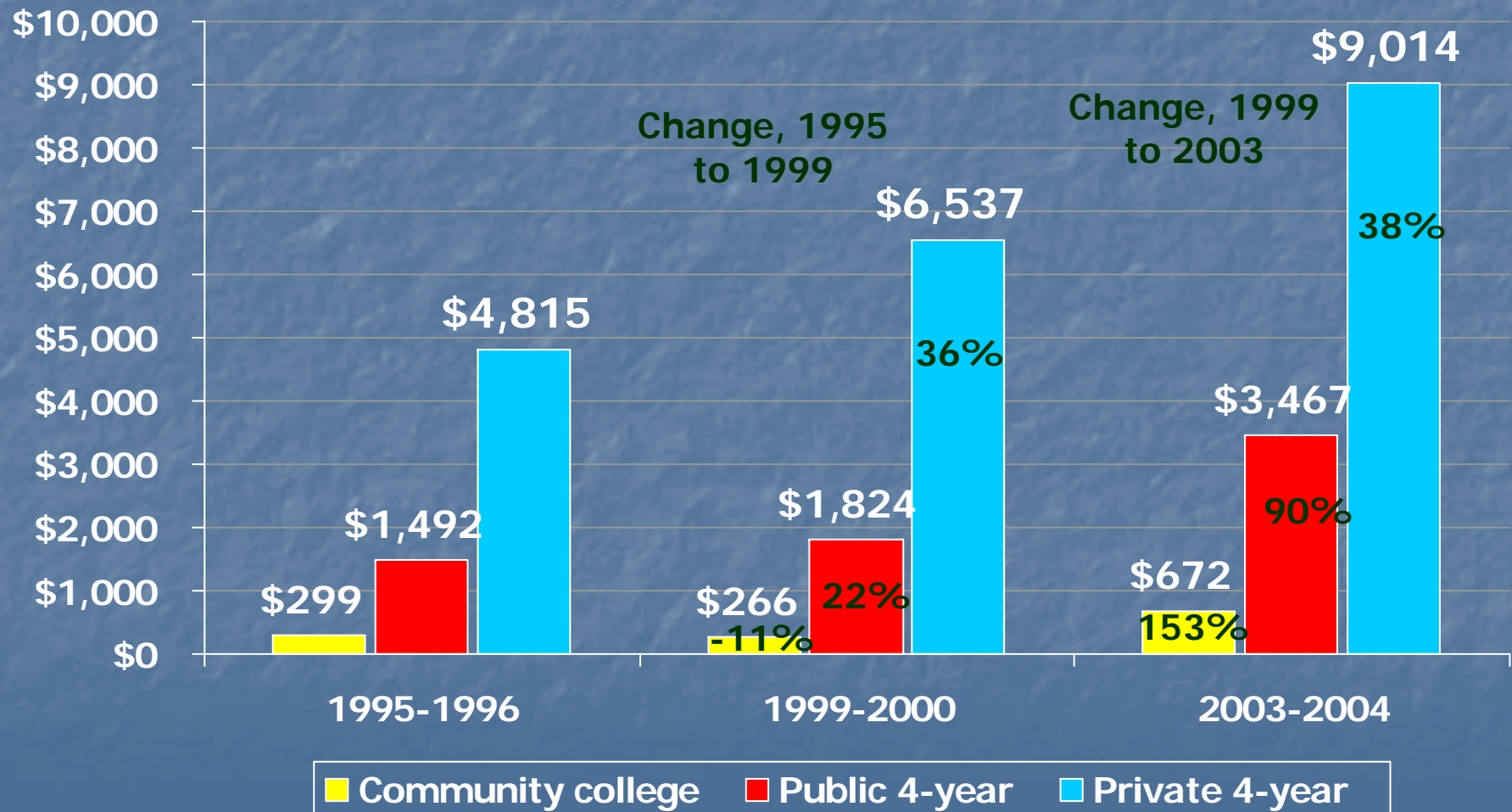
Trends in all grant aid

Distribution of enrollment and grant \$ by gender



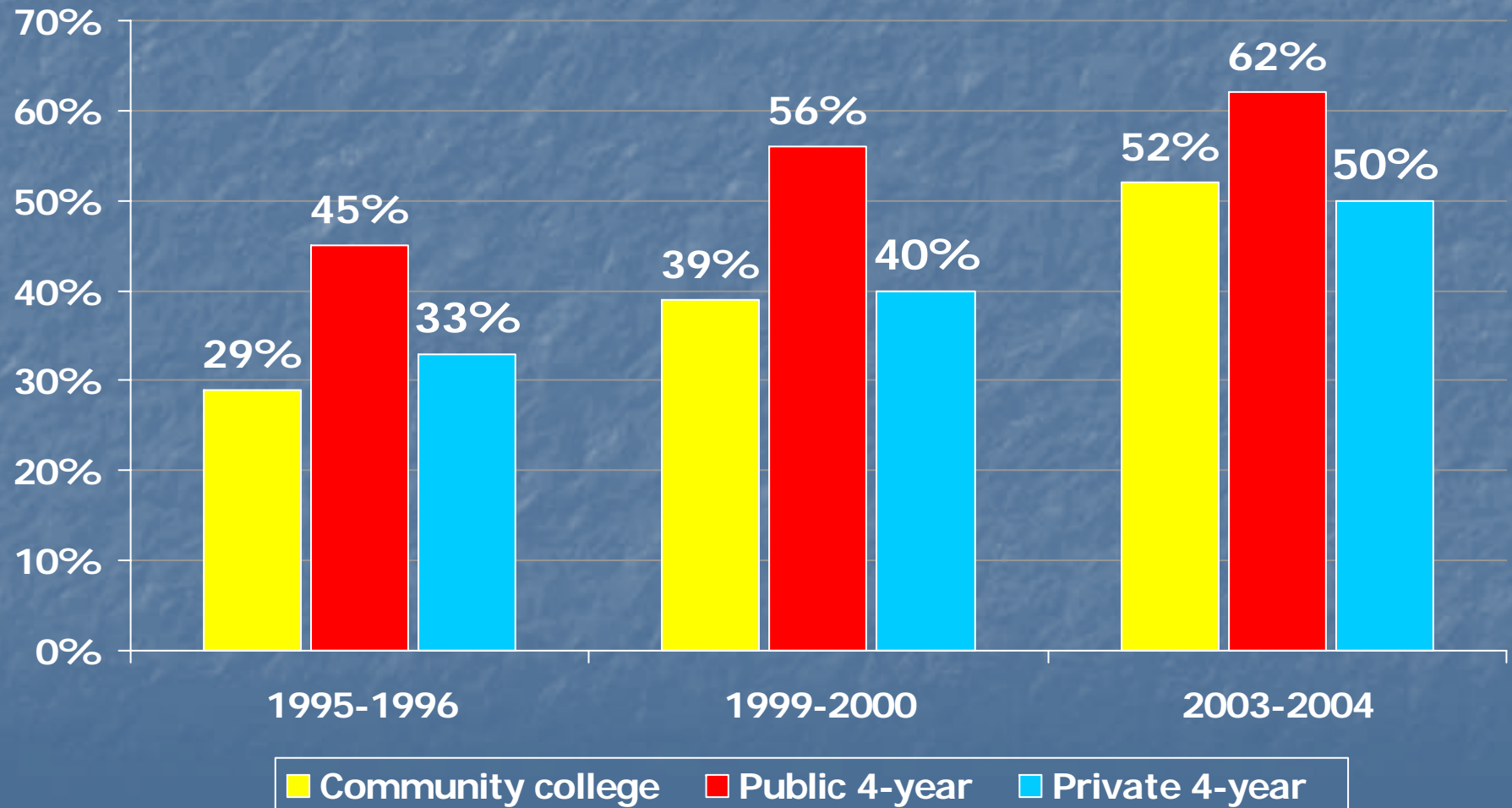
Trends in institutional aid

Institutional grants to undergraduates (\$millions)



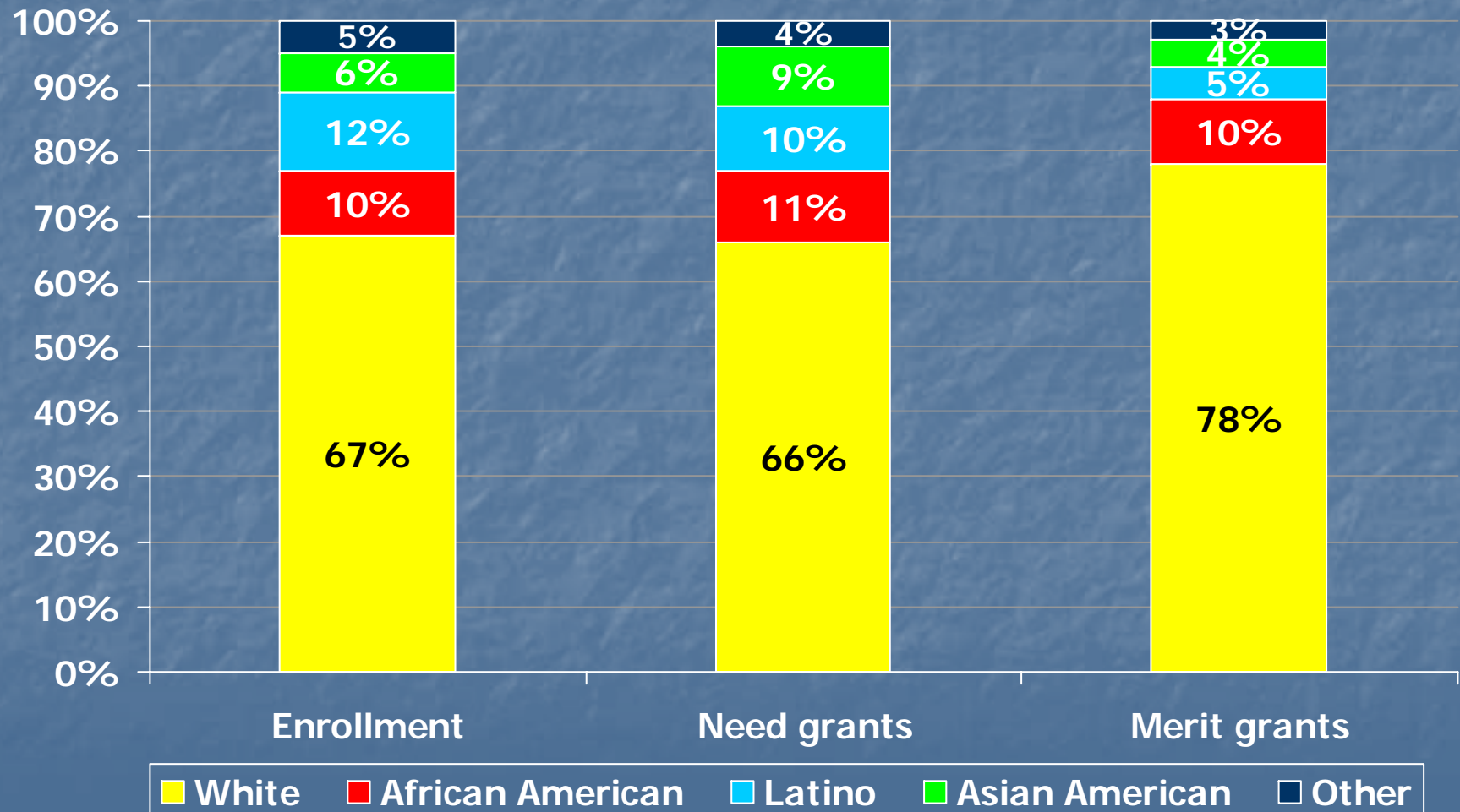
Trends in institutional aid

% of dollars that are merit aid



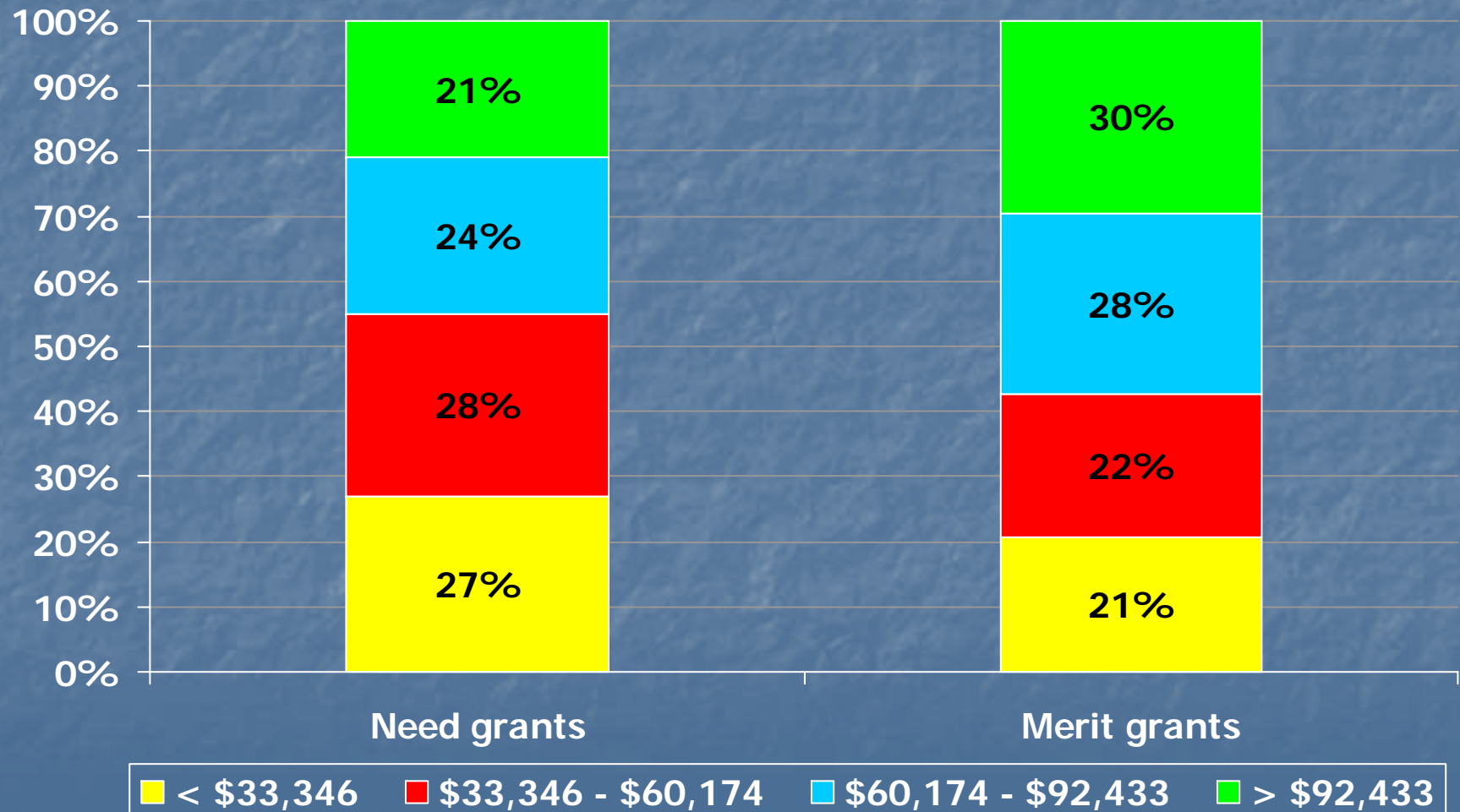
Institutional aid – need vs. merit

Distribution of grant \$ by race – 2003-04



Institutional aid – need vs. merit

Distribution of grant \$ by income quartile – 2003-04



Private scholarship recipients

- See *Private Scholarships Count*

State merit scholarship programs

- Over 25% of state grant dollars in merit (no-need) aid, \$1.5 billion in 2003-04
- Georgia HOPE started trend in 1993, currently largest merit aid program (~\$450M last year), larger than *total* aid spending by every state other than CA and NY
- Three primary policy rationales for merit programs:
 - Promote college access and attainment
 - Encourage and/or reward academic work
 - Stanch brain drain

Merit aid – impact on college access

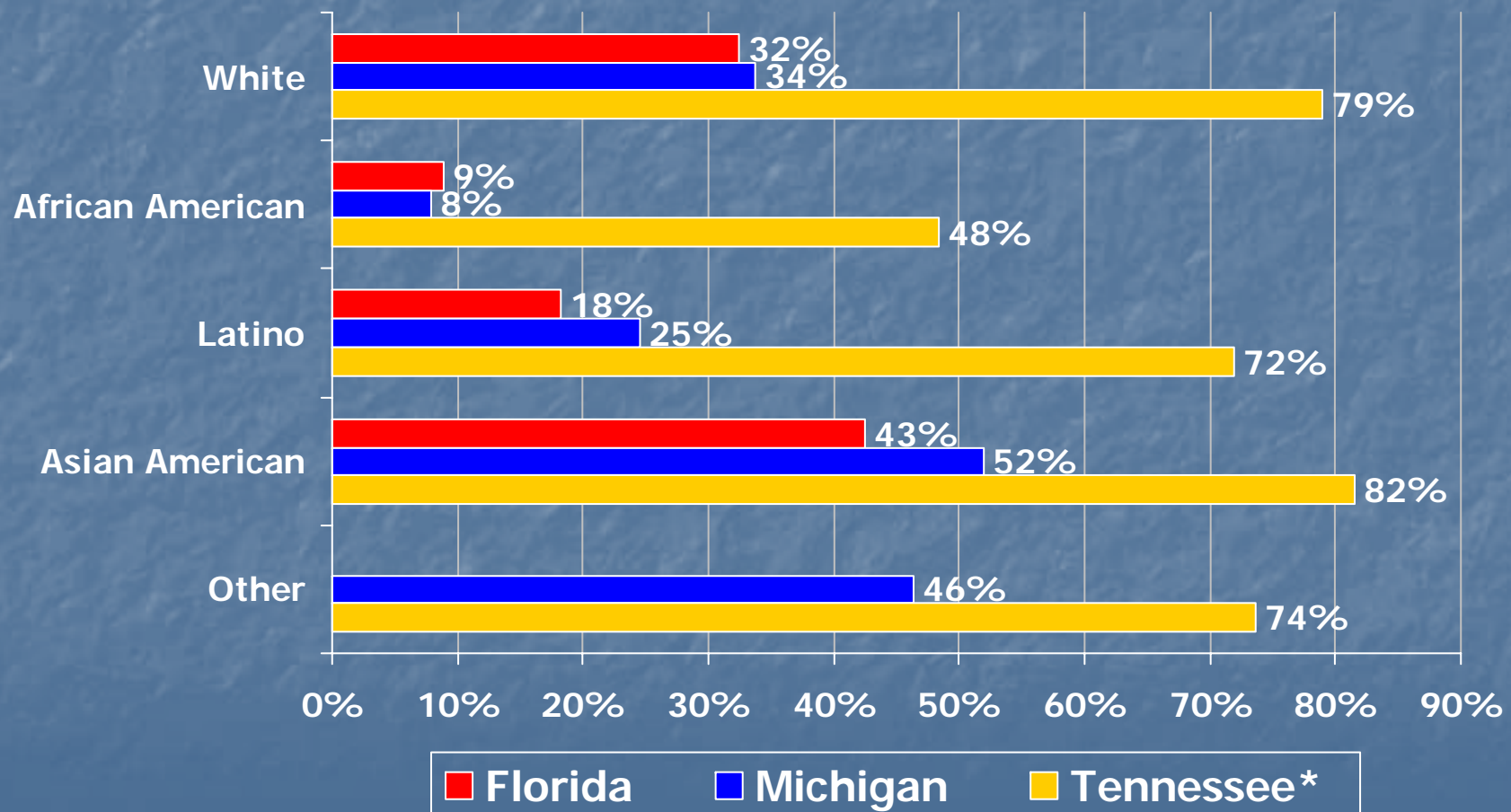
- Civil Rights Project reports, 2002 & 2004
 - **Georgia:** Over 90% of expenditures on HOPE went to students who would have attended college anyway; program *increased* the gap in college participation between white and African-American students
 - **Florida and Michigan:** Grants awarded disproportionately to racial majority students and students in wealthier communities (those with higher participation rates)
 - **New Mexico:** No impact on access; did shift some students from 2-year to 4-year institutions. 80% of recipients were from families with income >\$40,000 per year, above the state's median income of \$38,000

Three state merit programs

- Florida
 - Up to 100% of tuition at a public institution plus book allowance each year
 - Requires minimum HS GPA and SAT/ACT score
- Michigan
 - One-time award of \$2,500
 - Requires minimum score on state curriculum frameworks assessment
- Tennessee
 - \$3,300 per year, plus \$1,500 supplement for income <\$36,000
 - Minimum HS GPA *or* SAT/ACT score

Comparing state merit programs

Proportion of students qualifying for merit scholarships



Merit aid – incentive effects

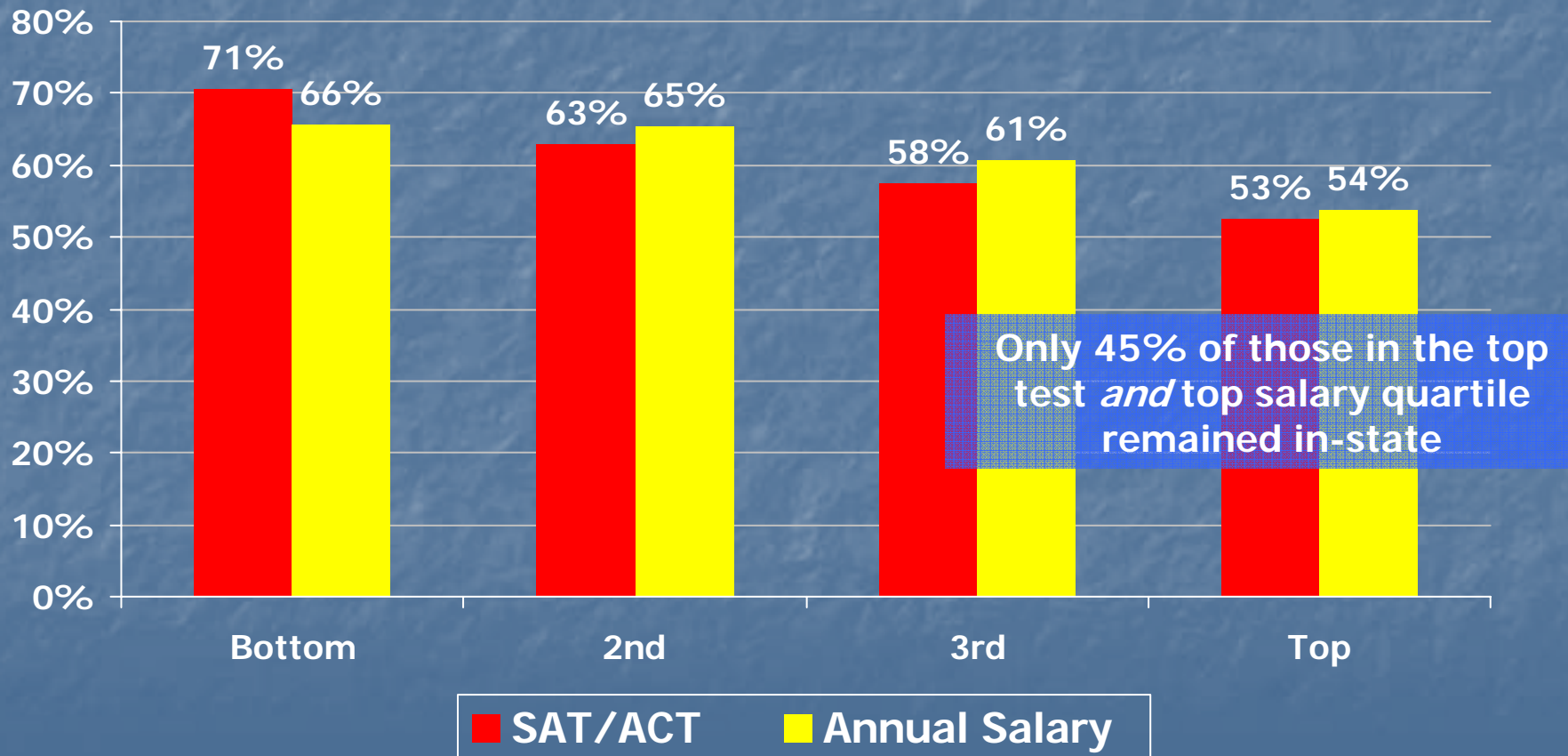
- Some evidence from Georgia and Florida that grades have increased
- Mixed evidence on standardized test scores – increases in Georgia but decreases in Florida
- Evidence that discourages academic achievement once enrolled in college
 - Lower course loads (GA and NM)
 - Higher course withdrawal rates (GA)
 - Lower first year retention rates (NM)

Merit aid – stanching brain drain

- Chasing the “best and brightest”
- Encourage labor force and general economic development
- Issues
 - The best and brightest are the most likely to enroll in graduate school and are the most mobile
 - Students are becoming increasingly mobile
 - How to guarantee the state’s investment?

Labor market mobility of the "best and brightest"

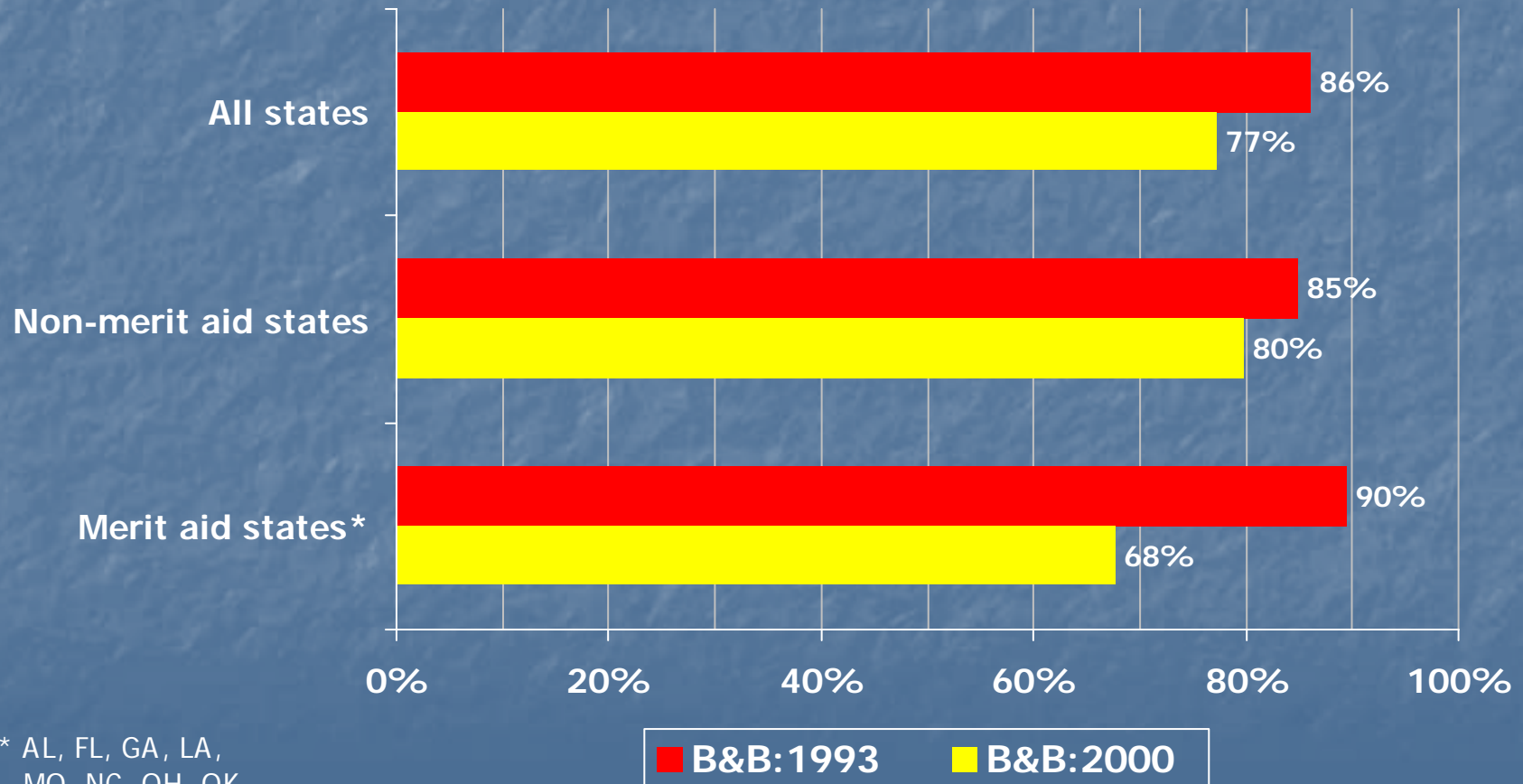
Baccalaureate class of 1993 (dependent students)
Proportion of full-time workers remaining in-state in 1997 by quartile



Labor market mobility is increasing

Baccalaureate classes of 1993 and 2000 (dependent students)
Proportion of full-time workers remaining in-state one year later

Students who attended in-state public institutions



Alternative brain drain policies

- Alternative ways to guarantee the state's investment in labor force development
 - Loan forgiveness programs
 - Convertible grants
 - State income tax credits
 - State employer tax credits
 - Cash bounty

Conclusions

- The college attainment pipeline still has many leaks, particularly for lower-income and minority students
- Financial aid is shifting
 - More loans
 - More use of merit aid
 - Aid shifting up the income ladder
- Major lesson from state merit aid programs is that they are an *inefficient* use of public funds to accomplish the stated goals