

Recommendations **Seven & Eight**

# College Affordability & Student Financial Aid

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**The  
College  
Completion  
Agenda**  
State  
Policy Guide

Produced in Collaboration with:



NATIONAL CONFERENCE  
of STATE LEGISLATURES

## One

Provide a program of voluntary preschool education, universally available to children from low-income families

## Two

Improve middle and high school college and career counseling

## Three

Implement the best research-based dropout prevention programs

## Four

Align the K–12 education system with international standards and college admission expectations

## Five

Improve teacher quality and focus on recruitment and retention

## Six

Clarify and simplify the admission process

## Seven

Provide more need-based grant aid while simplifying and making financial aid processes more transparent

## Eight

Keep college affordable

## Nine

Dramatically increase college completion rates

## Ten

Provide postsecondary opportunities as an essential element of adult education programs

## Background

State legislators and their constituents are concerned about the rising cost of attending college and the ability of state, federal and family resources to keep pace. Rising costs are of particular concern to students from lower- and moderate- income families and may dampen their college aspirations. This is occurring at a time when fewer well-paying jobs are available to people with no college education. A statewide commitment to keeping college affordable not only helps more students obtain a postsecondary degree but also supports state economic development.

Most state legislators focus on rising tuition as the primary indicator of college “affordability.” But tuition is only part of the picture. Affordability depends on several factors, including living expenses, family income and the availability of financial aid. All these elements together create the total cost of attending college. Although living expenses are incurred whether or not individuals are in school, these expenses (on or off campus) constitute the largest portion of total college costs for many students. Another central issue is the loss of income students may experience when they strive for an appropriate balance between devoting their time to studying, working and managing other family obligations.

Traditionally, the federal government has been the main source of financial aid for low-income students. The Higher Education Act of 1965 created the Basic Educational Opportunity Grant Program, now called the Federal Pell Grant Program, to increase college enrollment by providing low-income undergraduate students with need-based grants. Eligibility for a Pell Grant is based primarily on family income. Funding for the Pell Grant program has increased over the years, but not rapidly enough to keep pace with rising college costs coupled with the growth in the number of eligible recipients. Recently, the individual maximum Pell Grant was increased from \$4,850 to \$5,350 per academic year, after a period of stagnation between 2002 and 2007.



During the past 10 years, states have put more money into merit-based financial aid. Beginning with the Georgia Helping Outstanding Pupils Educationally (HOPE) scholarship program in 1993, merit-based financial aid programs emerged as a popular policy option. Financed by the Georgia Lottery, the HOPE scholarship rewards academic achievement (i.e., maintenance of a 3.0 GPA) with a scholarship that covers tuition, fees and books at in-state public colleges or universities. Following the popularity of the HOPE program, Florida, Tennessee, New Mexico and Louisiana also created large merit aid programs.

Merit aid has been growing proportionately faster than need-based aid. There is considerable evidence that, while the simplicity and assurance of some of the state merit-based programs have a positive effect on college enrollment, aid to low- and moderate-income students has much more impact on students enrolling and graduating than aid distributed to more affluent students.

As college costs increase, so does the reliance on student loans. Without sufficient grant support, students are turning more and more to loans. Students borrowed about \$88 billion from federal sources and an additional \$12 billion from private sources to help finance their education in 2008-09, according to the College Board.<sup>1</sup> Two out of three college students graduate with debt — the average borrower who graduates from a public four-year college owes about \$18,000 in student loans.<sup>2</sup> This figure is closer to \$22,000 for a student graduating from a private not-for-profit university. Although many students can repay these loans relatively quickly if they find a good job after graduation, this debt burden creates real hardship for others.

# What Legislators Need to Know

To evaluate the state's affordability landscape, legislators may want to seek answers to the following questions:

- In the overall state budget, what has happened to the share that goes to higher education? If state appropriations have decreased, do you see different trends in tuition and financial aid?
- What are the current tuitions at state institutions, what are the trends and how do these translate into families' ability to pay?
- What were the trends in tuition, financial aid and appropriations policies during the last decade?
- What percentage of college costs does the state cover versus the student? How has this changed over the last decade?
- What drives tuition increases in the state?
- Who sets the tuition policy in the state? Who oversees the financial aid policy?
- What are the current state need-based aid programs and how many students are (and are not) taking advantage of them?
- What current need- and merit-based programs exist? Who administers these programs?
- Is state policy aligned with federal policy so that students are taking full advantage of federal money (Pell Grants and tax credits)?
- What are the state projections for the number of high school graduates? How many of the graduates immediately go to college and earn a degree? What are the students who do not immediately enter college doing? Do they ever reenter the educational system?

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- How long does it take a student to graduate from college?
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- What do you know about growth among the 18- to 24-year-old population? Will the state higher education system have the capacity to serve them?
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- What is the proportion of in-state versus out-of-state students in the system? Does the state import college students from other states?
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- What is the enrollment of adults in the postsecondary system?
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- How much of the population growth is due to immigration from other states? Where are these immigrants coming from?
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- Is the population of the state getting older or younger?

# Research

## **Overall, states are not doing well at maintaining college affordability.**

The annual survey of state higher education policy, “Measuring Up,”<sup>3</sup> flunks almost every state on affordability, arguing that states aren’t effectively using available policies to ensure that college tuition remains affordable for the neediest students. Some reasons for this have already been discussed: State appropriations to higher education have not kept pace with increasing enrollments; tuition has increased and grant aid has not kept up.

## **Decreasing state appropriations contribute to higher tuition.**

There is a close relationship between decreases in state appropriations for higher education and increases in tuition.<sup>4</sup> The cost of educating students rose a modest 3 percent between 1998 and 2005 at public research institutions, for example, but the student share of that cost rose 12 percentage points — from 35 percent (\$4,602) to 47 percent (\$6,328).<sup>5</sup> This increase coincides with the average decrease in the state share through appropriations. Tough state economies and cuts for higher education are responsible in large part for tuition increases. Students are paying more for higher education while states are contributing less.

## **Investments in affordability return to the state.**

The College Board’s publication *Education Pays*, illuminates the fact that investing in student success in college is worthwhile for states. We know that education level is associated with higher income and higher tax revenues for the state, greater community service and charitable donations, improved health, and less dependence on the human services and criminal justice systems. Increased levels of educational attainment also significantly improve the prospects of the next generation.

## **Today’s financial aid system is out of sync with today’s college students.**

State financial aid systems are targeted toward what used to be (but no longer is) the “traditional” student: an 18- to 24-year-old, right out of high school who enrolls in college and finishes within four years. Today’s college students, however, often take longer to finish, transfer between institutions and are over age 24. Simplifying the federal financial aid system and coordinating academic classes between two- and four-year institutions will help today’s students pay for and complete a credential or a degree.

### **Merit-based financial aid doesn't necessarily serve the most financially needy students.**

During the past decade, states have invested significantly more financial aid in merit-based programs. Research studies indicate that merit programs have helped keep the best and brightest high school students in state. But merit programs disproportionately reward students who most likely can afford and will go to college anyway. Merit aid may erode critical funding for need-based programs.

### **Many students who are eligible for financial aid don't seek it or obtain it.**

According to the American Council on Education, many low- to moderate-income high school graduates are eligible but do not apply for Pell Grants. These students may be unaware of their eligibility or may be intimidated by the federal application process. Outreach programs and simplification can help these students receive the financial aid for which they are eligible.

### **Money is crucial for success, but money alone is not sufficient.**

Students cite the inability to afford college as the most common reason for not attending. Research has found that much of this perception is inaccurate. Students presume they cannot afford college but don't know much about the different kinds of institutions or financial aid. In addition, we know that financial aid alone is not enough to guarantee students' success. Even with sufficient financial assistance, they may not complete their degrees if they are not well prepared for college in the first place and if they do not receive ongoing personal and social support throughout their college experience.



**WA**

# State Policy Approaches



**\$**  
**Low Cost**

## **Align appropriations, tuition and financial aid policy.**

The major elements of higher education financing policy — appropriations, tuition and financial aid — need to be considered together in order to address college affordability. All three are intimately linked; decisions about one directly affect the other two. Typically, however, decisions regarding these policies are made independently. As a result, decisions in the legislature regarding appropriations or financial aid can lead to unintended changes in tuition, or worse — higher education finance policies that work against each other.

## **Improve student information and outreach.**

Many students, especially those who are first-generation college students, are unaware of their potential eligibility for financial aid. States and communities are actively engaged in efforts to reach students with this information. This includes informing students about the FAFSA, helping them complete it and identifying websites that offer financial aid information. College Goal Sunday is a national effort that draws on resources in the community to focus student and family attention on college and the sources of financial aid.

## **Seek out matching grant programs with local foundations.**

The Gates Foundation supports the **Washington** State Achievers program in 16 high schools. Scholarship recipients may receive up to \$5,000 per year for college.

In **Colorado**, the Denver Scholarship Foundation provides counseling to high school students to help them enroll in and receive funding for college. The foundation supports counselors who make sure students complete the FAFSA and receive all federal and state grants for which they may be eligible.



### Medium Cost

#### **Help institutions control costs.**

Many state officials are working with colleges and universities to support and encourage (but not necessarily mandate) cost control measures. These include supporting joint contracts for certain services, expanding the use of technology, improving administrative efficiency and increasing faculty teaching loads.

#### **Expand work-study programs.**

Work-study programs subsidize employment for students on campus and can be a great value for states and institutions by saving on labor costs.

#### **Focus on policies that help students earn their degrees in four years.**

Every additional year students spend in a higher education system increases the cost for both the state and the student. So lawmakers are experimenting with policy reforms and incentives that help students complete their degrees in four years. Such policies include requiring rigorous high school preparation, allowing dual and concurrent enrollment options, and providing tuition or other monetary incentives for completing college in four years. Of particular importance is ensuring that there are enough resources to allow students to enroll in all the courses they need to graduate in a timely manner.



### High Cost

#### **Increase and/or target financial aid and other resources.<sup>6</sup>**

For most states, it is unlikely there will be significant new money to increase need-based student aid, so legislators have been considering better ways to target financial aid, and to link aid and ensure that it improves students' success in college. States have begun to invest in a new generation of financial aid programs that let students and families know well in advance about resources to attend college and that encourage students to take a rigorous high school curriculum and graduate. Early commitment financial aid programs guarantee college tuition to qualified low-income students in middle school. They are appealing because they help those most in need, reach out early and offer incentives for students to graduate. Students earn the money for college by taking tough courses, staying out of trouble and maintaining a good grade point average.



### Offer cash incentives to students.

**Virginia** has established Two-Year College Transfer grants that provide an additional \$1,000 annual incentive for students who have received an associate degree and will enroll in a four-year institution the following year in a shortage field (e.g., science, technology, engineering, mathematics or nursing).

### Encourage and reward students for being well prepared for college.

The **Indiana** Twenty-First Century Scholars Program provides academic and college-preparation assistance through high school to low-income middle school students who sign a pledge to complete high school and avoid illegal activities. If a student graduates from high school with a “Core 40” (rigorous curriculum) diploma and at least a 2.0 grade point average, and has stayed out of trouble, he or she is guaranteed four years of financial aid covering all tuition and fees at an in-state public college or university or an equivalent amount at an in-state private institution. The program receives substantial state support — \$25.4 million in FY 2007. Forty-nine percent of scholars come from single-parent families, and 32 percent are members of racial and ethnic minorities whose families have a median income of \$29,000.<sup>7</sup>

**Oklahoma’s** Promise Scholarship targets low-income students in middle school as well. They agree to take a rigorous high school curriculum, maintain a 2.5 grade point average, maintain good behavior and complete the federal financial aid form (FAFSA). The state provides \$54 million in funding.

**Minnesota** and **Oregon** have developed a “Shared Responsibility Model” of financial assistance that outlines the various responsibilities of the students and their family, the public and philanthropic partners, and the universities — to make college more affordable. This approach combines several components of financial aid policy, requiring students to pay some of the costs, and ensuring that states and students receive available federal and institutional aid. It assumes that all students have a responsibility for investing in postsecondary education, but that low- and moderate-income families need help to reduce the disproportionate burden of the price of a college education.



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**High Cost**

### **Provide student loan forgiveness for high-need fields.**

Most states have loan forgiveness programs to encourage students to stay in the state and work in their field after graduation, typically in high-need fields such as math and science, teaching, and medical practice in rural communities. For students interested in these fields, this can be a valuable way to make college affordable and give them work experience, and also benefit the state. Some of the programs are at risk, however, because of current economic pressures.

### **Provide financial aid for adults.**

**Michigan** and **Kentucky** recognize that helping adults complete a college degree is an investment with significant returns. In every state there are thousands of adults age 25 through 54 with some college credit but no degree. Kentucky identifies those people and sends them information about options for returning to college to finish a degree. Michigan provides up to \$5,000 for adults to attend two years at a community college.

### **Provide guaranteed tuition and state savings programs.**

Almost all states currently have 529 college savings accounts that help students and families save for college. A 529 plan allows tax-free withdrawals for qualified education expenses. There are two types of plans: prepaid tuition and savings. Prepaid tuition plans (sometimes called guaranteed savings plans) are currently available in 13 states and allow for the prepurchase of tuition based on today's rates. They then are paid out at the future cost when the student is in college.<sup>8</sup>

### **Increase and target investments in community colleges.**

Community colleges play a vital role in the higher education system. They provide opportunities for many traditionally underserved students to obtain certificates and degrees; they help students transfer to four-year institutions; and they serve adult students. They are a good investment for states and for certain students because the average cost of one year at a community college is \$2,544, compared to \$7,020 for a four-year public institution.<sup>9</sup> Because many students who begin their higher education at a community college do not earn a four-year degree, state policy could focus on improving remedial education and transfer agreements.

# Take Action

**1** Set the agenda. Bring legislators together with other higher education policymakers to talk about affordability. Too often, the legislature's agenda for higher education is reactive rather than proactive and deals with individual issues rather than the big picture. Legislators can take the initiative to identify a targeted set of priorities for the year ahead.



**Short-Term**

**2** Help bring media and legislative attention to the relationship between affordability, access and success. Sponsor a series of workshops or bring in speakers to talk with state policymakers about these issues.



**Short-Term**

**3** Support federal student aid simplification. Be sure that state grant programs and the application processes for these funds do not counteract federal simplification efforts.



**Short-Term**

**4** Find reliable ways to measure the impact affordability has on student access, choice and success. Rather than monitor only tuition or "sticker price," pay attention to "net price" — that is, tuition minus financial aid grants. Closely examine family "ability to pay" — the percentage of family income required to cover the net price of college for students at different income levels.



**Mid-Term**

**5** Launch a statewide discussion: What responsibility does the state have to students for higher education in today's economy? What portion ought to be covered by the state, the student and the institution? (What's the fair share?)



**Mid-Term**

# Take Action

**6** Target financial aid or incentives on low-income — the most price sensitive — students. Enrollment and success of higher-income students are not significantly affected by moderate increases in price. This will begin with a close examination of current financial aid policies and good data about how the state is using (and not using) various forms of state and federal aid.



**Mid-Term**

**7** Ask your higher education institutions how productive they are. What are they doing to lower costs? Together, consider how state policy can provide incentives for institutions to contain costs while making it possible for more students to complete their degrees.



**Mid-Term**

**8** Sponsor a discussion or series of discussions on merit-based versus need-based aid. Help your colleagues become more aware of the different types of students served and the different public policy goals achieved by both forms of aid. Closely examine the investment the state makes in both types of programs and the number of students who use them.



**Mid-Term**

**9** Examine instability in state funding. Rising tuition and postsecondary unaffordability are the result of various factors. Unstable state funding plays a significant role in the ongoing increase in tuition and creates unexpected and unplanned increases for students and families. Reaching some level of funding stability and creating incentives for higher education funding are two ways legislators can help reduce the rate of tuition increases. This will require a shift in focus from revenues and inputs to costs and quality, which can make operations more efficient and contain — or even reduce — spending.



**Mid-Term**

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## Notes

1. College Board, *Trends in Student Aid 2009* (Washington, DC: The College Board, 2009), [www.collegeboard.com/trends](http://www.collegeboard.com/trends).
2. Patricia Steele and Sandy Baum, *How Much Are College Students Borrowing?* (Washington, DC: The College Board, 2009).
3. National Center for Public Policy and Higher Education, *Measuring Up 2008* (San Jose, Calif.: NCPPHE, 2008).
4. Jane Wellman, Donna Desrochers, and Colleen Lenihan, *The Growing Imbalance: Recent Trends in U.S. Postsecondary Education Finance* (Washington, DC: Delta Cost Project, 2008).
5. Julie Davis Bell, *Getting What You Pay For: The Nuts and Bolts of the Higher Education Legislative Appropriations Process* (Boulder, CO: WICHE, 2008).
6. As high-cost strategies, the types of programs listed as examples may flourish in strong economic times but are vulnerable to cost-cutting measures when state financial resources decline.
7. Wendy Erisman and Melissa Del Rios, *Creating Change One Step at a Time: Efforts to Improve College Access and Success in Indiana* (Washington, DC: IHEP, 2008).
8. See National Association of State Treasurers, [www.nast.org](http://www.nast.org).
9. College Board, *Trends in College Pricing 2009* (Washington, DC: The College Board, 2009), [www.collegeboard.com/trends](http://www.collegeboard.com/trends).

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