FINANCIAL AID
An Integral Piece of the Finance and Affordability Puzzle

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States in the Driver’s Seat

States in the Driver's Seat: Leveraging State Aid to Align Policies and Promote Access, Success, and Affordability

by

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• Policy drift: What’s the right balance? No consensus on what affordability means

• Current Noise:
  – The public benefit/private benefit rift
  – Debt is the problem
  – The something for nothing ideas
  – The middle-class squeeze
  – Malaise – all is lost/ isn’t anything we can do

- WICHE’s attempt:
  - Align funding with state goals—the public agenda
  - Suggest a framework for finding an appropriate balance of payment sources
  - Stimulate greater coherence in state finance policies
  - Integrate sources of subsidy
  - Include a possible means for restraining prices through a federal/state partnership
Financial Aid Makes ATFA Go
A Tad Bit on Financial Aid

• Various public policy objectives
  – Reward past performance
  – Reward current performance
  – Reduce barriers to college – make affordable
    • Incentivize enrolment
    • Incentivize completion
  – Reduce burden – make more affordable
  – Seduce target audience to you and yours
  – Force partners to “comply”
A Tad Bit More on Financial Aid

• Various Methods
  – Merit scholarships
  – Need based grants
  – Combined need/merit
  – Need with performance
  – Performance with need
Guiding Contemporary Principles

- Compelling contemporary philosophical rationale
- Clearly Integrate policy and roles
- Demand-side interventions (students)
- Supply-side interventions (providers)
- Strong program administration
Five Partners Share Responsibility for Meeting the Cost of Attendance

5. The **institution** is responsible for any difference between the recognized COA and its own actual COA.
4. The **state** grant award makes up the remaining difference.
3. The model accounts for the **federal government**’s contribution (i.e., Pell, tuition tax credits, other transfer payments).
2. The **student’s parents** contribute their share, which is determined by the federal methodology.
1. Each **student**, as the principal beneficiary, is expected to contribute toward his/her own educational costs. Sources include: earnings, savings, borrowing, or scholarships.
Recognizing the Difference in Costs Between Sectors

A cost to choice, linked to a reasonable borrowing expectation
Earnings, given a reasonable work commitment at minimum wage
Targets for Incentives

- **Students**: More and faster success
- **Institutions**: Shared risks/rewards, Aligning investments
- **States**: Supporting strategic redesign
Demand-Side Incentives

• Initial eligibility for recent HSGs dependent on coursework
• Rewarding progress (forward-looking merit)
• Pay in increments; not all at once
• Folding existing and politically popular merit programs into the SRM approach
• Workplace experience can help students meet their expected contribution
Supply-Side Incentives

- “Double down” on the state’s investment in aid recipients: explicitly link state financial aid to those students’ success.
- Recognize COA as costs, not just tuition
- Commitment to serve aided students with needed courses and other supports
- Shared risk, shared reward
- Institutional match
Supply-Side Incentives: Institutional Match

- $44.4 billion of institutional aid in 2011-12, much spent on rankings- and prestige-driven priorities
- Match based on a schedule that accounts for role and mission and institutional wealth

*This component reflects the requirement that an institution cover any difference between the state’s recognized COA and its own actual COA, for state grant recipients.
State Incentives: A Renewed and Reinvigorated Federal/State Partnership

- LEAP (formerly SSIG) originally stimulated creation of state need-based aid programs. Never modernized, effectiveness diminished, eliminated in FY12.

- WICHE: set states in competition for federal funds based on affordability with more funds provided to states with a better affordability index.

- SHEEO: sets affordability threshold based on IBR (15% of discretionary income), states match federal funds up to that threshold, no match beyond that required.
Shared Responsibility

• Means real shared responsibility
  – Feds, for sure
  – Students as principal beneficiaries
  – Families before tax payers
  – States to fill in the gap
  – Institutions to fill in the “exceptional” gap

Shared responsibility means real sharing of responsibility – it’s that simple.