Public Good or Private Benefit: Orienting the Public Investment in Higher Education Through State Financial Aid

Brian T. Prescott
WICHE Commission Meeting
Santa Fe, NM ~ May 12, 2014
States in the Driver’s Seat

April 2014

• Policy drift as we have not decided what the right balance of payment sources is → no consensus on what affordability means beyond an agreement that it has eroded.

• WICHE’s paper attempts to:
  – Suggest a framework for finding an appropriate balance of payment sources
  – Stimulate greater coherence in state finance policies
  – Integrate sources of subsidy
  – Align incentives with state goals
  – Include a possible means for restraining prices through a federal/state partnership
Financial Aid Makes ATFA Go
Talk About Guiding Principles

• Integrated role assignments
• Demand-side interventions
• Supply-side interventions
• Program administration
• Compelling philosophical rationale
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 grants, tuition tax credits).
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.

Institution

State Government

Federal Government

Family

Institutional grant

Student

Private scholarship
Recognizing the Difference in Costs Between Sectors

Two-Year Sector

- State
- Feds
- Family
- Student

Four-Year Sector

- State
- Feds
- Family
- Student

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
• More rapid progress leads to larger grants on renewal (forward-looking merit)
• Spreading out disbursements during the semester
• 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 by explicitly linking state financial aid to those very same students’ success.
• Requirement to meet excess COA above recognized COA
• Public commitment to serve state-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 of which is spent on rankings- and prestige-driven priorities
- Match based on a schedule that accounts for role and mission and institutional wealth

<table>
<thead>
<tr>
<th>Institution Match</th>
<th>State Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>Family</td>
</tr>
<tr>
<td>Discretionary institutional grants</td>
<td>Student</td>
</tr>
<tr>
<td>Private scholarship</td>
<td></td>
</tr>
</tbody>
</table>

*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) stimulated creation of state need-based aid programs when it was enacted in 1972. Never modernized, its effectiveness diminished and it was cut 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, then no match is required