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

David Longanecker (for Brian T. Prescott)
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States in the Driver’s Seat

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- Policy drift: We have yet to decided the right balance of payment sources → no consensus on what affordability means beyond an agreement that it has eroded.

- WICHE’s attempt:
  - Align funding with state goals
  - 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

Appropriations

Tuition-Setting

Financial Aid

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Guiding Principles

• Compelling philosophical rationale
• Clearly Integrate role assignments
• Establish demand-side interventions
• As well as supply-side interventions
• Ensure 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 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.
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: explicitly link state financial aid to those students’ success.
• Requirement for institutions to recognize 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 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.