

Do Financial Aid Policies Promote Equality or Close Equity Gaps?

Over the past 20 years, governmental support of public four-year institutions declined by an average of about \$2,700 per full-time equivalent student, corrected for inflation.¹ At the same time, tuition and fees increased by \$4,300 per student, raising tuition costs from 21% of a median family income to 33%.² States and higher education institutions provide some relief to students in the form of grants. However, a large number of students—typically historically underserved populations, including low-income and first-generation students and students of color—find themselves facing insurmountable college costs. Some students turn to loans, which can result in large debt, while others who are financially risk averse may choose not to attend.

Examination of students' education costs and funding resources across populations is imperative for institutions to realize where barriers to access occur and to close financial equity gaps. While *equality* is fairness in the implementation of practices, policies and allocation of resources, *equity* is fairness in outcomes, achieved through differentiated practices and policies (i.e., equality is treating everyone the same and equity is ensuring everyone succeeds).

The American Association of State Colleges and Universities (AASCU) has been working closely with a group of five institutions—Austin Peay State University (Tenn.), Bowie State University (Md.), California State University-San Bernardino, Lehman College in The City University of New York, and Northwest Missouri State University—to refine and validate the institutional transformation process at the heart of its student success strategy. The effort is supported by the Bill & Melinda Gates Foundation³ and aligns with AASCU's strategic goals to assist its members in achieving equitable student outcomes across race/ethnicity, income and first-generation status.⁴

This analysis uses data reflecting 43,000 dependent students collected from the five institutions to explore inflation-adjusted cost and aid data for the first year of attendance for students entering between 2014–15 and 2018–19.⁵

This brief addresses the following questions regarding participating institutions:

- 1 How do grant awards vary across student populations?
- 2 How does the education funding gap vary across student populations?
- 3 Do grants eliminate cost barriers and close equity gaps?
- 4 How do students use loans?

The findings reveal patterns in students' costs and funding resources that, when examined in tandem with institutional policies and practices, can help colleges and universities understand what actions may result in, and sometimes perpetuate, inequities for some students.

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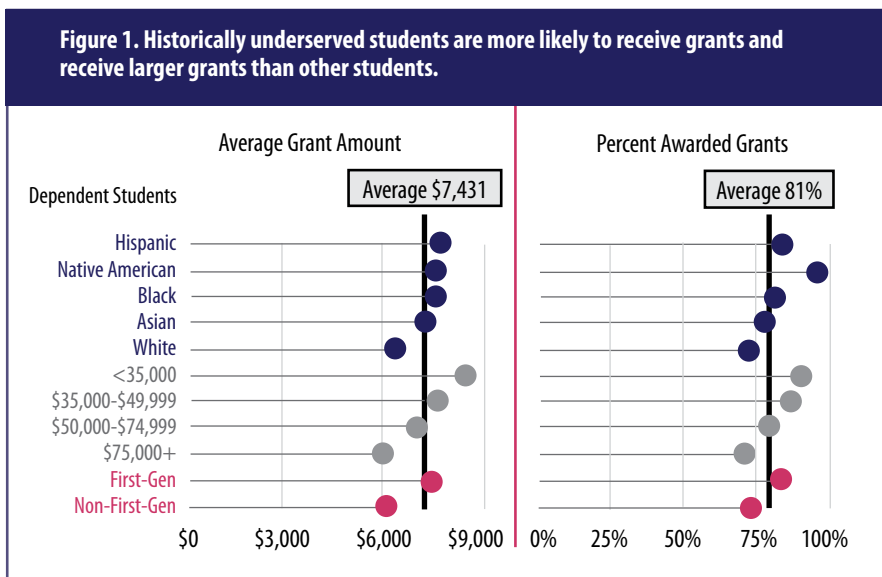
1 How Do Grant Awards Vary Across Student Populations?

Since grants do not have to be repaid, they are an important type of aid for historically underserved students. Federal and state grants are largely need-based and a function of income. While the federal grant formula is consistent across states and institutions, state grants vary due to budgets, policies and resources. Institutions award grants based on need and merit, and amounts vary considerably due to budgeting and availability of funds such as endowments. Across the five institutions, 8 in 10 students receive grants averaging \$7,431 (Figure 1); the number of recipients and amounts vary across student populations.

Income. The largest variability in grant aid is across income brackets. Although 9 in 10 students from the lowest-income families receive grants averaging \$8,600, 1 in 10 do not receive grant aid, including Pell Grants. Notably, 7 in 10 students from the highest-income families also receive grants, albeit smaller awards than their low-income counterparts and averaging just over \$6,000.

Race/ethnicity. Black, Native American and Hispanic students are more likely to receive grants than white students, and the amount awarded is higher. Nearly all, 96%, of Native Americans receive grants—the largest share by race/ethnicity—and Hispanic grant recipients receive the largest amount, averaging \$7,958.

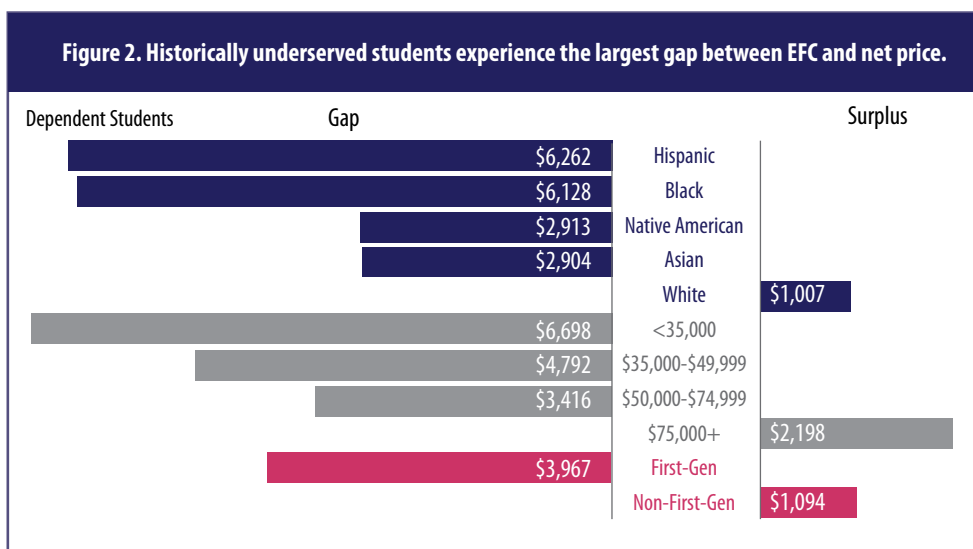
First-generation status. First-generation students are more likely than their counterparts to receive grants, 84% compared to 73%, respectively, and to receive larger grants, \$7,700 versus \$6,200, respectively.



2 How Does the Education Funding Gap Vary Across Student Populations?

Net price is a common measure of the amount of funds a student needs to pay for education. It is defined as the cost of attendance (i.e., tuition, fees, and room and board) minus all grant aid. Net price is specific to each student's financial circumstances and the institution's financial aid policies. Expected Family Contribution (EFC) is a federally defined measure of how much a student and family can pay for education based on income and assets. When a student's financial resources, or EFC, do not meet the net price, the student needs to secure additional funds to close this education funding gap, typically from loans and/or earnings from work-study or non-aid employment.⁶ Bridging a large funding gap can lead to crippling debt and/or working many hours, which can detract from studies.

Grant awards bring the average net price across the five institutions analyzed to \$11,978 (Figure 2). With an average EFC of \$9,093, the average education funding



gap is \$2,885. Students who have been historically underserved continue to experience the largest financial inequities. For example, the funding gap for Black and Hispanic students is \$6,128 and \$6,262, a significant disadvantage when compared to white students' average funding surplus of more than \$1,000. Students in the lowest-income group have the largest funding gap, \$6,698, while students in the highest-income group have a \$2,198 surplus. First-generation students experience funding gaps of \$3,967, as compared with the \$1,094 surplus of their non-first-generation peers.

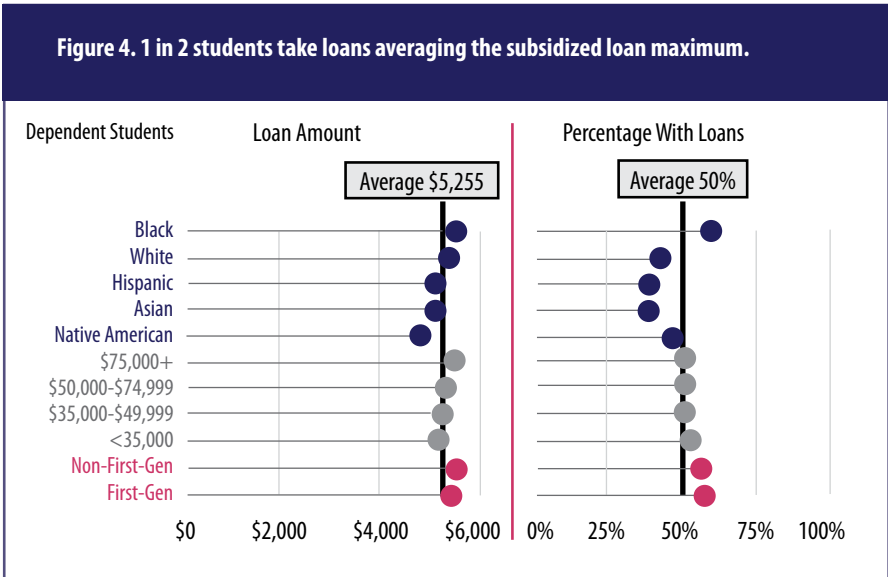
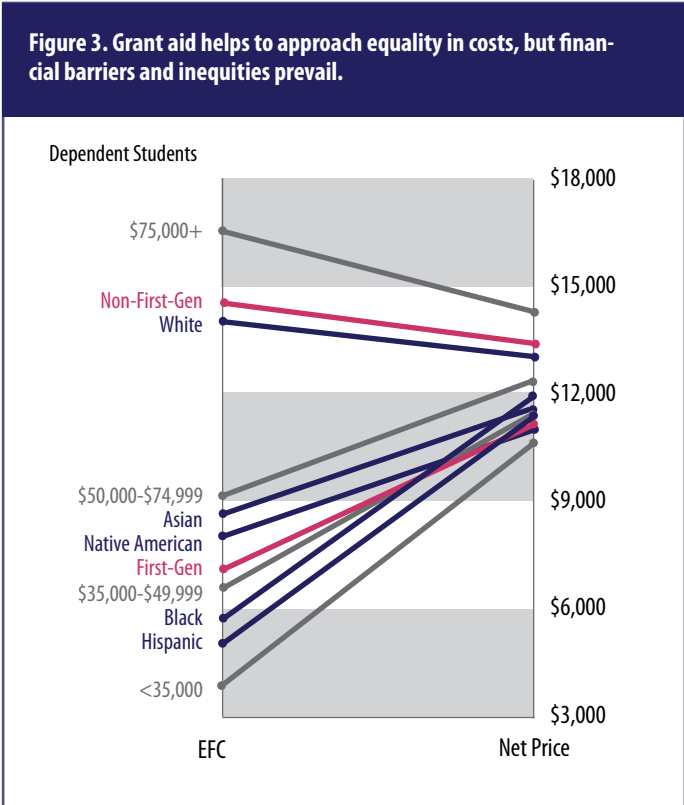
3 Do Grants Eliminate Cost Barriers and Close Equity Gaps?

Grant awards reduce education costs and appear to equalize net price across student groups (Figure 3). However, Hispanic, Black, Native American, low-income, and first-generation students begin at a greater disadvantage with the least financial resources. Although grants are awarded with more frequency and in larger amounts to these students, the amounts are not enough to close the education funding gaps experienced by these students, perpetuating the inequities that already exist. Institutions prioritizing financial equity help their students access financial resources that eliminate this funding gap without resulting in large and uneven debt across populations.

4 How Do Students Use Loans?

Students with funding gaps turn to loans to supplement their resources, but this comes with risks. "In 2019, the total amount of student debt owed surpassed \$1.5 trillion," becoming "the largest source of non-mortgage debt," stated the Aspen Institute in a February 2020 report, *Making the Case: Solving the Student Debt Crisis*. This debt causes "undue harm" to individuals' and households' financial security throughout the U.S., "with disproportionate impacts on both low- and moderate-income households and communities of color."⁷

One-half of students take student loans, averaging \$5,255 (Figure 4). Students who borrow appear to take loans near the maximum allowable for one year—\$5,500 for freshmen (including both subsidized and unsubsidized loans) and \$7,500 for juniors and seniors (where \$5,500 is the maximum subsidized loan amount). Notably, students with more resources often take loans, while some students with limited resources do not.



Race/ethnicity. The largest differences in loan usage occur across race/ethnicity. Black and Hispanic students have similarly large funding gaps but make use of loans differently. Black students take loans at much higher rates and in larger amounts than other students: 64% of Black students take loans, and these loans average \$5,572. In contrast, only 41% of Hispanic students take loans, which average slightly less at \$5,111. This is consistent with research that shows relatively large shares of some populations, including Hispanics, are debt averse due to cultural or familial perspectives.⁸ White students are less likely than average to take loans—perhaps because, on average, EFC covers net price—but when they do, the loan is slightly larger than average.

Income. Across income, loan usage is similar. Of students from the highest-income families—who, on average, have a funding surplus—51% take loans in amounts slightly above the average of \$5,518. A similar share of students from the lowest-income families—with a \$6,700 funding gap—take loans at a slightly smaller amount, \$5,096.

First-generation status. Being first in the family to attend college does not appear to result in notable variance in loan use.

Conclusion: Significance and Application

This analysis reveals patterns in students' costs and funding resources. Grant aid in its current application begins to *equalize* out-of-pocket costs across student groups, but not all students have the resources to pay the remaining gap, resulting in *inequities*. Loans are used by some to cover their funding gap, but others are debt averse.

In addition, the coronavirus pandemic is dramatically affecting and will continue to impact the U.S. economy and higher education, increasing the number of students needing more aid. At the same time, institutions face potential declining enrollments, fee discounts and reimbursements, decreasing endowment value, and state disinvestment that, all told, impact how they will provide financial aid to students in the future. Exploring patterns in student costs and funding resources while reviewing institutional policies and practices can help institutions strategize for how to support students with the greatest financial disadvantages.

Questions to Consider

Notable patterns highlighted in this analysis are listed below for institutions to consider along with targeted questions about practice and policy. Examining these will help institutions defy myths, support tough cross-campus conversations about current practices that perpetuate inequities, and design innovative approaches that broaden access to education for all students.

1 in 10 students from the lowest-income families do not receive any grants, including Pell Grants.

Do our students have access to information about financial aid? How are students made aware of available scholarships and other financial aid? Have all students applied for financial aid—particularly those from the lowest-income and historically underserved populations? If not, why?

1 in 7 students from the highest-income families receive grants.

Are our financial aid policies intended to achieve financial equity rather than cost equality? Who are the high-income students that receive large grants? Are their grants awarded within the confines of policy? Do our policies need to be reviewed to take equity into account or to emphasize it further?

The funding gap—in relation to the cost of tuition, fees, and room and board—is nearly \$7,000 for those from the lowest-income families, or 1 in 5 students.

What other financial needs are our students experiencing, such as for books and supplies; childcare; transportation; and, for those living off campus, housing or food? How can our practices or policies address these needs?

1 in 2 students take loans, and the average loan approaches the allowable maximum.

How do cumulative loan amounts compare with graduation rates across student groups? Are many students taking large loans and not completing, and, thus, becoming saddled with large debt without the advantage of a degree? Do completers face large debt upon graduation? Are students completing as quickly as possible to contain debt levels?

1 in 2 students from high-income families take loans.

Why are students who appear to have a funding surplus taking loans averaging more than the subsidized loan maximum of \$5,500 per year? What additional data can be gathered to explore the details of students' finances? How can we assist these students?

60% of students attending public four-year colleges and universities work while enrolled.⁹

To what extent do our historically underserved students mitigate their funding gap by working, which causes them to attend part time? Do policies exclude part-time students from participating in financial aid programs and possibly perpetuate financial inequities? Are students attending part time and working because they do not know about financial aid options? To what extent is our institution engaging local employers and alumni for part-time employment opportunities?

Historically underserved students are more likely to experience financial disruptions due to the effects of the COVID-19 pandemic.¹⁰

How can we gather data about student experiences and financial needs during the pandemic, especially for those from historically underserved groups? How can we offer assistance, particularly for students that begin college at a greater financial disadvantage?

Methodology and Terms

Adjustments for inflation. Income, cost and aid data were adjusted to 2018 dollars.

Computation of averages. The five institutions vary in size; as such, simple averages were computed across the institutions so that one institution does not weigh more or less than the others.

Cost of attendance. Sum of tuition and fees charges plus room and board charges. Room and board charges for students living off campus were estimated by the institution. All institutions were not able to provide data regarding books, supplies and other costs accurately and, as such, were not included in the cost of attendance computation. Lehman College is largely a commuter campus. In order to account for living costs while attending Lehman, room and board costs were imputed based on the U.S. Department of Education published room and board data.

Dependency status. Given that financial aid policies and aid computations differ for dependent and independent students, analysis was conducted separately for the two groups. The analysis herein reflects only dependent students; data for independent students can be found here: <http://bit.ly/AASCU-DB1-Independent>. About 30% of students across the five pilot cohort institutions were reported as independent.

Income. Each student's permanent address was geocoded to U.S. Census Bureau block/tract data and merged to the bureau's American Community Survey data to capture estimated median household income.

Native American. The Native American category includes students identifying as American Indian and Alaska Native.

Endnotes

- 1 The sum of federal, state and local appropriations.
- 2 ASA Research analysis of *Finance Survey*, U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), [https://nces.ed.gov/ipeds/Search?query=&query2=&resultType=all&page=1&sortBy=datedesc&surveyComponents=Finance%20\(F\)](https://nces.ed.gov/ipeds/Search?query=&query2=&resultType=all&page=1&sortBy=datedesc&surveyComponents=Finance%20(F)) and "Table H-5. Race and Hispanic Origin of Householder – Households by Median and Mean Income: 1967 to 2018." *Historical Income Tables: Households*, U.S. Census Bureau, <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html>.
- 3 The findings and conclusions contained within are those of the authors and do not necessarily reflect positions or policies of the foundation.
- 4 "Strategic Directions and Goals: FY 2020–2025," American Association of State Colleges and Universities, July 9, 2020, <https://www.aascu.org/strategic-plan/StrategicDirections/>.
- 5 With the exception of Lehman College; cohorts 2014–2016 were included for Lehman College.
- 6 An average of 2% of dependent students and 1% of independent students received work-study funds.
- 7 Kiese Hansen and Tim Shaw, "Making the Case: The Student Debt Crisis," The Aspen Institute, February 2020, <https://assets.aspeninstitute.org/content/uploads/2020/03/SolvingStudentDebtCrisis.pdf?ga=2.208465872.334434592.1592500541-1418378710.1592500541>.
- 8 Research also confirms that Asian students are debt averse: Alisa F. Cunningham and Deborah A. Santiago, "Student Aversion to Borrowing: Who Borrows and Who Doesn't," Institute for Higher Education Policy and Excelencia in Education, December 2008, <https://files.eric.ed.gov/fulltext/ED503684.pdf>.
- 9 ASA Research analysis of *National Postsecondary Student Aid Study: 2016 Undergraduates*, U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, <https://nces.ed.gov/datalab/index.aspx>.
- 10 Doug Lederman, "Low-Income Students Top Presidents' COVID-19 Worry List." *Inside Higher Ed*, April 27, 2020, <https://www.insidehighered.com/news/survey/presidents-biggest-covid-19-worries-low-income-students-and-colleges-financial-strain>.



About the American Association of State Colleges and Universities

The American Association of State Colleges and Universities (AASCU) is a Washington, D.C.-based higher education association of nearly 400 public colleges, universities, and systems whose members share a learning- and teaching-centered culture, a historic commitment to underserved student populations, and a dedication to research and creativity that advances their regions' economic progress and cultural development. These are institutions Delivering America's Promise.



Prepared in Partnership With ASA Research

This AASCU Data Brief was prepared by Sue Clery, founding partner of ASA Research, in collaboration with AASCU. ASA is driven by the belief that research—particularly in the fields of higher education and workforce—is essential for expanding opportunity, improving economic mobility, and contributing to personal and social well-being. ASA is pleased to partner with AASCU in support of student success and to provide strategic data consulting and assistance to AASCU.

For questions about this Data Brief, please contact Bao Le, AASCU's director, data analytics & impact, at leb@aascu.org.

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