Higher Education

Redesigning State Financial Aid to Meet the Needs of Today’s Students

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As state leaders construct public policy to support increased educational attainment and workforce development, they need be mindful of the assumptions about college students and their attendance patterns embedded in most state financial aid programs. Reforming state aid is one necessary step to supporting student success.

Data confirms what intuition unearths—higher education looks vastly different today than it did in the 1970s. When viewed across all student groups and postsecondary institutional types, undergraduate enrollments have increased 140 percent since 1970. There also has been significant progress in racial and ethnic group participation in higher education. For example, black male participation has jumped from roughly 470,000 students in 1976 to 1.07 million in 2013, a 127 percent increase. Even greater or equally impressive gains have been made for black females (221 percent), Hispanic males (523 percent) and females (925 percent), and American Indian and Native Alaskan students (113 percent) over the same time period.1

In addition to marked strides in postsecondary participation by race and ethnicity, students are also increasingly likely to pass through several gateways to adulthood prior to or while enrolled in higher education. For example, approximately one in five students are working full time while enrolled, and 26 percent are raising dependents of their own. While significant work remains to ensure postsecondary access and success for all types of students, these data show that the makeup of college campuses has shifted as compared to 40 years ago.

At the same time, our progress in creating postsecondary opportunity for students from low-income households remains stymied. While half of all people from high-income families earn bachelor’s degrees by age 25, just one in 10 people from low-income families attain undergraduate degrees. While a variety of factors likely contribute to a student’s overall propensity to enroll in and complete college, affordability remains a persistent challenge that may be addressed through policy at federal, state, and institutional levels.

States in particular stand to play a key role in crafting affordable pathways to and through college for students of a variety of backgrounds. The provision of appropriations supports campus budgets in a variety of areas, such as general operating support and capital improvements. Many states also utilize tuition policy to control the maximum price that students may pay for college, whether through setting the actual tuition amount, imposing a cap on tuition increases or freezing tuition levels. Finally, 49 states provide further support for targeted populations of students through state-funded financial aid programs.

It is state financial aid programs in particular that merit new scrutiny as postsecondary institutions and the students that they serve continue to evolve in the 21st century. States have a long history of making investments in individuals seeking postsecondary education. Before the federal government created broadly accessible financial aid programs through the passage of the Higher Education Act in 1965, several states had already begun funding aid for college students. Two original state aid programs are still in operation today—California’s Cal Grant, created in 1955; and Illinois’ Monetary Award Program, which began in 1958. Spurred in part by a federal matching incentive, a wave of state programs were developed throughout the 1960s and 1970s, including 20 states with established programs that are still awarding aid to students today.

Continuing this historical legacy, in 2014, state financial aid programs collectively invested $11.7 billion in students, providing a significant financial benefit for individuals, institutions and, ultimately, state economies. State financial aid programs, however, tend to primarily serve students following what is often mislabeled a “traditional” postsecondary pathway: matriculating directly into a two- or four-year degree program in the fall following high school graduation. These students are more likely than their peers to attend credit-hour-based postsecondary programs, pursue their education on a full-time enrollment basis and complete their programs on time.
The Need for Reform

Education Commission of the States’ research and policy analysis indicates that many of the largest state-based financial aid programs are explicitly designed to serve students following the historically traditional pathway into and through college—a challenge when trying to address the needs of today’s college students. For example, among the 100 largest state-funded financial aid programs in the country:

- Twenty-nine programs will only fund students who enroll full time.
- Forty-three programs define the duration of the aid award by a set number of terms or years, as opposed to anchoring eligibility to the length of time needed to complete a program at varying enrollment intensities.
- Thirty-three programs link aid eligibility to college entrance exams, such as the SAT or ACT, or a high school grade point average—traditional college readiness measures that are of little relevance for adults returning to higher education from the workforce.

To support intentional redesign conversations, the Education Commission of the States has outlined four key principles to serve as guideposts for state policy leaders as they seek to redesign state financial aid policies and programs:

- **Principle 1: Financial aid programs should be student-centered.**
  Aid programs designed around students and their needs position students for successful outcomes.

- **Principle 2: Financial aid programs should be goal-driven and data-informed.**
  Aid programs should have clearly defined and easily understood intentions aligned with measurable state education and workforce goals.

- **Principle 3: Financial aid programs should be timely and flexible.**
  Aid programs should provide financial support to students when it can have the greatest impact on enrollment and persistence decisions.

- **Principle 4: Financial aid programs should be broadly inclusive of all students’ educational pathways.**
  Aid programs need to respond to the diverse enrollment options available to today’s college students.

Separately, each of the principles addresses a specific area for states to make fundamental shifts in how state financial aid programs are designed and awarded and how aid dollars impact student enrollment and persistence choices.

Applying these principles within states over the past two years has proved a rich undertaking, with many states seeking support in aid policy reform. Specifically, state policy leaders need to find ways to bridge the divide between the current reality of higher education and the design of state-funded aid programs. As we have supported states through thoughtful redesigns of aid policy, we have found that one of the largest challenges is achieving coordination among competing priorities and stakeholders, and the challenges posed by limited fiscal commitments to state financial aid programs.

Competing Priorities

First, while state legislative activity around financial aid programs is robust, it often lacks coordination with existing programs or approaches to student financial support. In 2015, 44 states considered 245 bills related to state financial aid programs. Individual states considered anywhere from one measure to 54. As an indicator of legislative interest in aid, the sheer number of bills introduced by states certainly has its limitations, however, the wide reach of financial aid programs as a topic of legislation is unique across other areas of post-secondary policymaking. Of the 245 measures considered in the 2015 session, one-half of these proposed bills would create entirely new state financial aid programs. These new programs would be in addition to the 559 grant, scholarship, loan forgiveness, work study, tuition waiver, and other state-run programs awarding students in 2014.

To be sure, states face real challenges in providing affordable college pathways for students; legislative attention is a welcome voice in facing these challenges. However, a powerful, overarching goal should be in place to inform statewide financial aid policy development and maintenance. Through engagement within the states, we learn that program coordination can be difficult to achieve. Additionally, we find that the number of programs a state operates is likely unrelated to the total amount of funds that they devote to the programs. Therefore, when new programs are enacted, they do not necessarily incite more investment in aid. In the best case, new programs may be enacted as a strategic choice to bring a state closer to its goals; in the worst case, new programs can divert resources and attention from existing approaches that may be showing promise.
Another challenge to achieving alignment around a common goal is the variety of players within a state that have a stake in financial aid policy. Figure A illustrates several of the key stakeholder groups involved in state financial aid policy development and maintenance. Within and across these groups, coalitions of support for financial aid programs have the potential to develop. On the other hand, in some state contexts, various stakeholders who are removed from key conversations have the potential to derail, distract or detract from state goals that they were not involved in developing.

Final Thoughts
The data bear out the changing demographics among postsecondary students as compared to 40 years ago. Unfortunately, the pace of policy adaptation to this new group of students has been slower than the changes in postsecondary participation rates. This disconnect is especially salient in state financial aid policies; policies that have the potential to remove affordability barriers for key student populations. States have begun to redesign policies to be more student-centered, goal-driven and data-informed, timely and flexible, and broadly inclusive. In the path to reform, states face a variety of challenges, not the least of which are posed by competing priorities and limited budgetary capacity. Ultimately, the ways in which states choose to face—or not face—these challenges will contribute toward their overall approach to the provision of higher education within their borders and the composition of their workforce.

Notes
2 Of note, the number of bills considered in each state and in total across the nation is not a pure measure of legislative interest in financial aid programs, as it is also impacted by unrelated factors such as the number of legislative days and specific state-level legislative processes.
3 Education Commission of the States’ unpublished postsecondary tracking database.
5 Ibid.

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