Calibrating the Public Investment in Higher Education With State Financial Aid

CSG-West Higher Education Task Force

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• 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

Appropriations

Tuition-Setting

Financial Aid

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Appropriations

Financial Aid
Five Partners Share Responsibility for Meeting the Cost of Attendance

1. Each student, as the principal beneficiary, is expected to contribute toward his/her own educational costs. Sources include: earnings, savings, borrowing, or scholarships.

2. The student’s parents contribute their share, which is determined by the federal methodology.

3. The model accounts for the federal government’s contribution (i.e., Pell grants, tuition tax credits).

4. The state grant award makes up the remaining difference.

5. The institution is responsible for any difference between the recognized COA and its own actual COA.

Institutional grant

Private scholarship

Institution

State Government

Federal Government

Family

Recognized Cost of Attendance
Distinguishing Features

• Focus on Cost of Attendance
  – Alignment with tuition and appropriations policies
  – Evaluating state commitment to financial access
  – Enables more strategic rationing

• The beginnings of an Affordability Benchmark
  – SC = (minimum wage * 15 hrs/week * 48 weeks/year) * weight

• Integration of aid sources and self-help
  – Federal, state, and institution
  – Grants, loans, and work

• Incentives alignment
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 framework
- 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
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
Questions

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