Financial Aid Policy: Lessons From Research

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The Changing Landscape of Financial Aid Policy

• President Johnson’s speech at HEA 1965 signing ceremony encapsulates view of financial aid at that time:
  – “To thousands of young men and women, this act means the path of knowledge is open to all that have the determination to walk it… it means that a high school senior anywhere in this great land of ours can apply to any college or any university in any of the 50 states and not be turned away because his family is poor.”

• What has changed since then?
  – Cost of attendance nearly doubled
  – But financial aid has also expanded dramatically in size, scope and form
  – Now serves a much broader population, with more diverse goals
Average Aid Per FTE Undergraduate, 2012-13
(Total Per FTE: $13,904)

Implications of Changed Landscape for Future Policy and Research

- Student aid is no longer just for poor high school seniors
- Broadening, proliferation of aid programs makes it more difficult for families to estimate costs
- Complexity also makes it more challenging for policymakers to ensure coherence across programs
- And makes it harder for researchers to summarize the effectiveness of aid policy!
Lesson 1: Money matters for college access

• Several quasi-experimental studies find that when prices decreases, enrollment increases
• Roughly 3-5 percentage point increase in enrollment per $1,000 in grant aid
• Only two studies of federal tax credits; found conflicting results
• Evidence of effects of pure grant aid on completion is less conclusive
Lesson 2: Complexity undermines effectiveness

- Experimental evidence shows that helping students with FAFSA submission substantially increases enrollments.
- Pell formula is highly obscure & requires a FAFSA; recent simplification efforts have not solved this problem.
- Complexity may partially explain why research evidence on impact of Pell specifically is less conclusive than evidence on grant programs with simpler eligibility/application procedures.
- Simulation research finds that Pell formula could be dramatically simplified without substantially changing the distribution of aid.
Lesson 3: Pairing aid with incentives and supports may augment effectiveness, particularly post-enrollment

• Emerging lesson with which some disagree
• Does not imply money doesn’t matter, or that incentives always work
• But does suggest that money alone may be insufficient to generate impacts on this margin
• Pell grant rules actually include some disincentives for timely completion
Lesson 4: Evidence on loans is limited, but design appears important

• Shockingly limited evidence on the effects of loans given their prominence in college finance
• Students clearly don’t like them and they don’t appear to be as effective as grants
• But are they cost-effective compared to grants?
• So much attention has been focused on interest rates and in-school interest subsidies, but other features of loan repayment may be even more important
Other Lessons from Research

• Effectiveness of FWS appears highly heterogeneous across students and institutions, depending upon what a given student would be doing if they hadn’t received FWS aid.

• Little evidence that financial aid drives up tuition prices (the “Bennett Hypothesis”), except for in the for-profit sector.

• However, there is evidence that Pell grants “crowd out” other forms of institutional and federal aid (i.e. those who receive more Pell receive less other aid).
Pressing Questions

• Pell Grants: what can be done to augment its effectiveness?
• Loans: are students borrowing too much, or not enough? What can be done to ensure wise borrowing decisions?
• Student employment: detrimental, harmless, or something to encourage?
• Breakouts to follow will include some new (in some cases preliminary) evidence on each of these topics
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