EDUCATION COMMISSION OF THE STATES
Your education policy team.

JULY 2016

EDUCATION COMMISSION OF THE STATES

SPECIAL REPORT

State Financial Aid: Applying redesign principles through state engagement

SARAH PINGEL

College is increasingly expensive for students, but states have an important policy tool to help defray the costs: state financial aid programs. However, many states' programs are misaligned with articulated strategic postsecondary education policy goals. Over the past two years, Education Commission of the States has supported a variety of state-level projects to redesign state financial aid. This report shares lessons learned from each of these efforts.

OVER THE PAST **TWO YEARS**, EDUCATION COMMISSION OF THE STATES SUPPORTED STATES TO CRAFT **MORE STRATEGIC APPROACHES** TO FINANCIAL AID POLICY DESIGN.

IN 2014, STATES ALLOCATED **$11.7 BILLION** TO FINANCIAL AID PROGRAMS AND SUPPORTED **4.5 MILLION** STUDENTS.

STATES THAT ARE THINKING ABOUT REDESIGNING THEIR FINANCIAL AID PROGRAMS CAN APPLY FOR **STATE TECHNICAL ASSISTANCE** THROUGH THE STATE FINANCIAL AID REDESIGN PROJECT.

INTRODUCTION

By all accounts, college is becoming increasingly costly for students and their families. As a result, higher education policy conversations often focus on federal and state proposals to lower the price of college, with the aim to preserve access to postsecondary education for all Americans.

The trouble is, while the popular policy levers to address college cost are familiar (namely tuition setting, financial aid and appropriations), the nuances of how to best employ them to reach strategic goals remain opaque. The difficulty stakeholders at all levels - researchers, elected officials and institutional leaders - have had in effectively utilizing these levers to control the cost and price of college is evident in the difficulty that low-income students still have in accessing and completing postsecondary programs nationally.

States are particularly well-positioned to influence the cost of college within their borders given their role in providing more than $11 billion in state financial aid to 4.5 million students in 2014. In response to the need for increased understanding of state-level financial aid policymaking, Education Commission of the States has focused on redesigning state-funded financial aid programs over the past two years with the support of USA Funds.

As part of the State Financial Aid Redesign Project, states examining major aid policy revisions have the opportunity to engage in intensive technical assistance projects with Education Commission of the States. The pages that follow present broad lessons resulting from these state-level engagements. This analysis demonstrates the contested - and at times highly controversial - nature of state financial aid policy, as seen through legislative activity, setting eligibility requirements and wholesale changes to states' aid systems. Education Commission of the States shares these lessons with the goal of increasing knowledge of state aid policymaking and supporting the creation of affordable, accessible college pathways across the country.

About the State Financial Aid Redesign Project

Over the past two years, three channels of engagement surrounding state financial aid policy have contributed to Education Commission of the States' understanding of policy development and adoption.

- **Engaging Experts**

  In April 2015, a group of 12 experts on state financial aid policy convened to reimagine state financial aid programs to meet current state and student needs. Coalescing around four redesign principles – student centered, goal driven and data informed, timely and flexible, and broadly inclusive – the group proposed both incremental and fundamental changes to current state financial aid policy.

- **Providing Information**

  Education Commission of the States' review of the two largest financial aid programs by state provides leaders with the opportunity to learn about their own state programs and those of their peers. Contextualized with statewide enrollment data, the interactive database examines student eligibility criteria and program structures across the country.

Supporting States

Through an ongoing Request for Proposals process, four states were selected to receive confidential, targeted support from Education Commission of the States in preparation for and during the 2016 legislative sessions. In addition to these four states, additional states received research and/or convening support. Close engagement with these states provides the backbone of the lessons learned that are shared in this brief.

Each of these project activities is designed to allow for learning both within and across states. This brief explores lessons learned through the state engagement phase of the State Financial Aid Redesign Project.

SPOTLIGHT FOUR REDESIGN PRINCIPLES FOR STATE FINANCIAL AID

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

Principle 2 **Financial aid programs should be goal driven and data informed.** Aid programs should have a clearly defined and easily understood intent 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 students.

FOCUSING ON STATE ENGAGEMENTS

The four redesign principles for state-funded financial aid programs have framed engagements with states over the past year. While the purpose and goals of each state's specific project varies, each can be understood through the lenses of student centered, goal driven and data informed, timely and flexible, and broadly inclusive provision of state financial support. Specifically, states selected for technical assistance focused efforts on shifting student eligibility criteria, changing delivery models for higher education, goal-setting and resource allocation. Thematically, each project has echoed the difficulties all states face in designing programs that honor the principles of state financial aid redesign while confronting competing priorities and limited resources. The following discussion elucidates larger lessons from these engagements that may prove broadly instructive in other state contexts.[1]

[1] While we illustrate applications of the principles using a variety of state examples, we did not engage in technical assistance projects with all states mentioned in this report.

Targeting Needy Students Early

Principle 1: Student Centered

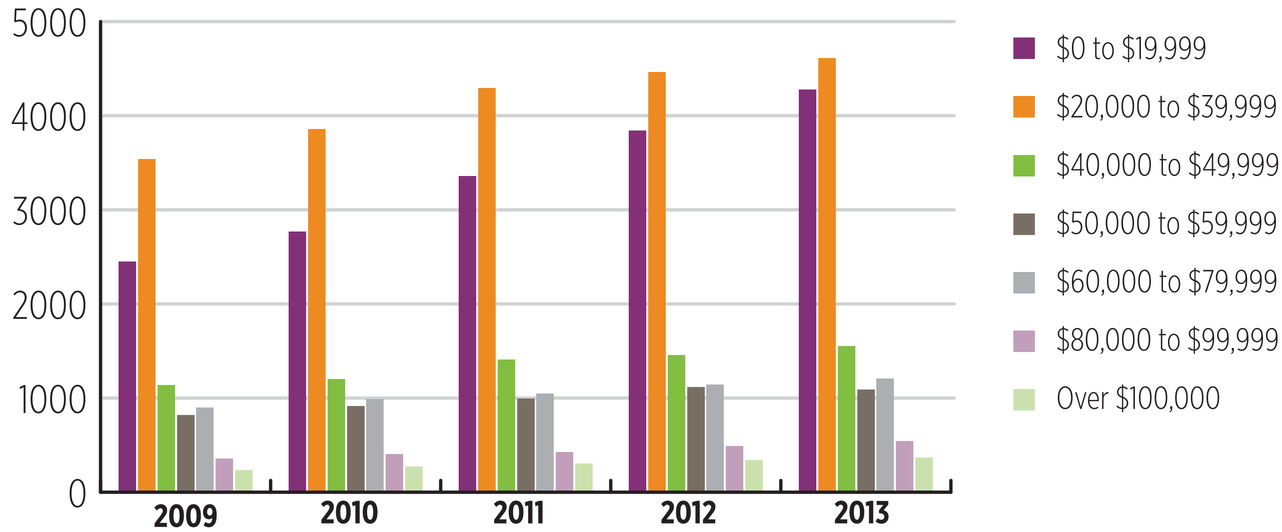
Several states offer financial aid programs that promise eligibility from a relatively early age, such as **Washington**, **Indiana**, **Oklahoma** and **West Virginia**. Through these programs, students meeting certain academic and/or financial criteria while enrolled in grades spanning from 6th to 10th are promised financial support for postsecondary education within the state. Awards generally cover the remaining balance of tuition and fees after other sources of financial aid are deducted.

Such an approach to providing financial aid is commonly characterized as student centered: from the student's perspective, the application process is relatively short and simple at the time of qualification, or students may be automatically enrolled by the state or their school. Additionally, students may benefit from earlier notification of aid eligibility, thus solidifying college-going intent and focus in middle or high school.

As states design early notification financial aid programs, aspects of program design may risk compromising the student-centered intent. For example, three need-based early promise programs in **Indiana**, **Oklahoma** and **Washington** have added a secondary check for income eligibility when the student enrolls in college - in addition to the check completed in middle or high school to determine the student's eligibility. Given the very low income levels needed to initially qualify for the programs, the utility of this second check is questionable. In fact, it may risk eliminating eligibility for more low-income students due to lack of adherence with the application process rather than revoking awards from families who no longer qualify due to extraordinary changes in their family income status.

An analysis from the **Indiana** 21st Century Scholars program provides an example. The program currently utilizes one income check while the student is enrolled in middle school to establish eligibility. Figure 1 displays the dependent student recipient count in the Indiana program by family income at the time that the student receives the funding in college. The majority of 21st Century Scholars remain financially needy throughout high school and college, despite the lack of a secondary income check. The Indiana Commission on Higher Education's analysis, based on existing 21st Century Scholars data, shows that adding the secondary income check in 2018 is anticipated to impact less than 2 percent of dependent students and less than 1 percent of independent students.[2]

FIGURE 1. Indiana 21st Century Scholars, Dependent Student Recipient Count by Income, 2009-2013.



Source: NASSGAP[3]

Therefore, states should pay careful attention to the financial criteria students must meet to qualify for early promise programs and how those criteria are assessed. The design of the need-based component serves two dual, and at times, competing purposes: targeting limited resources to the neediest students within the state, and barring eligibility for those with a higher actual or perceived ability to pay for postsecondary education on their own. While the initial income criteria in these programs is generally very broad and easy to understand, adding the secondary check, and the concomitant request for further documentation of family income, may provide an unnecessary barrier that compromises the student centered design of early promise programs.

States should pay careful attention in deciding if the potentially limited benefit of reducing eligibility for students with increasing incomes in the high school years outweighs the unintended consequences of increasing administrative burden or compromising eligibility for lower-income students due to non-compliance with increased application requirements.

Allocating Resources Across Programs

Principle 2: Goal Driven, Data Informed

Goal setting in state financial aid programs can prove to be a particularly challenging task for two key reasons that have emerged through Education Commission of the States' technical assistance engagements: the number of stakeholders in state financial aid policy development, and the sheer number of legislative proposals related to college affordability and state financial aid programs. Despite these challenges, goal setting and monitoring progress through data remain key principles of state financial aid redesign.

The first main challenge to achieving alignment around a common goal is the variety of players that have a stake in financial aid policy. Figure 2 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, 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.

For example, it is common practice across states to appoint institutional leadership to committees tasked with redesigning state aid programs. However, policymakers making these appointments should do so with an acknowledgement that the institutional perspective on state aid policymaking should be balanced with alternative points of view from state or local government, or even from students themselves. A lack of stakeholder balance in redesign committees or task forces can result in a system design that may not incorporate the diverse and valid perspectives of each stakeholder group.

FIGURE 2: Main Stakeholders in State Financial Aid Policy Development and Maintenance[4]

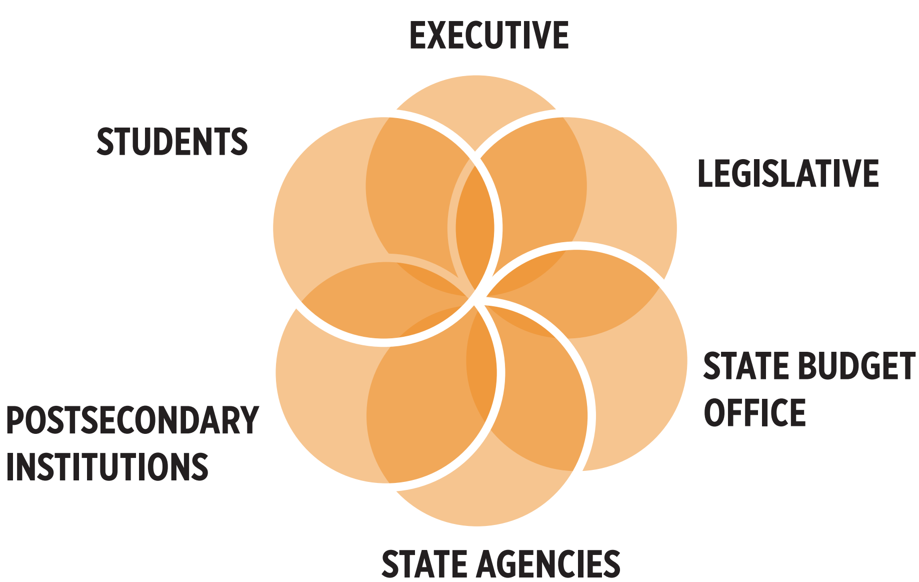
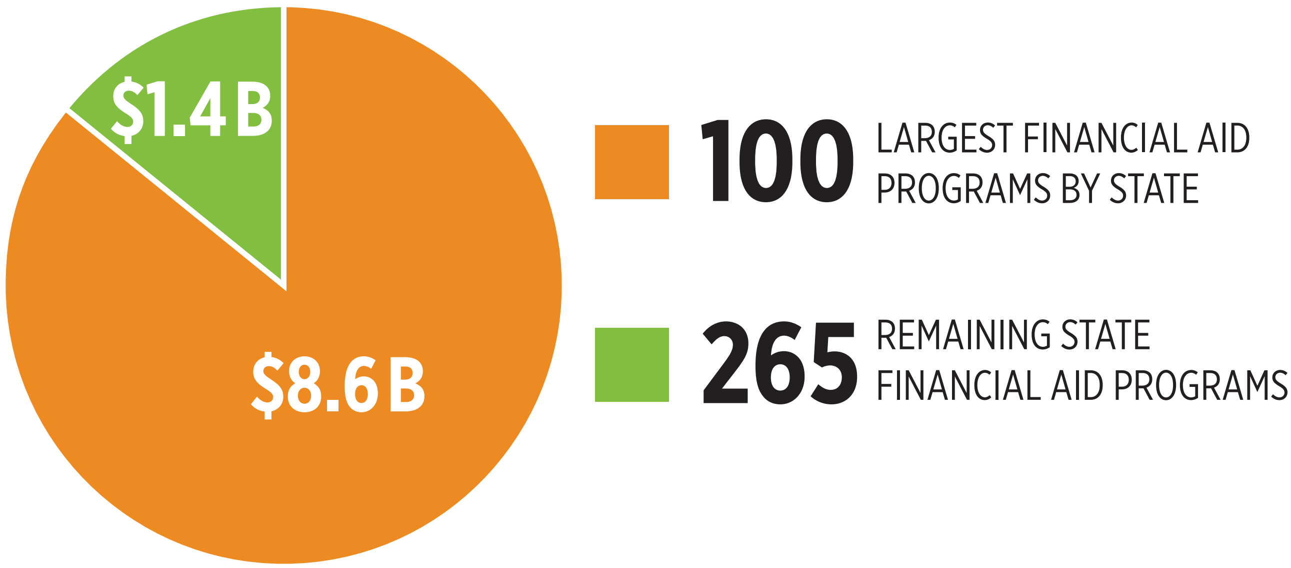


FIGURE 3: Share of State Aid Expenditures by Program



In addition to the broad variety of stakeholders implicated in state financial aid policy, national legislative tracking demonstrates just how prevalent legislation related to state financial aid is across the country. In 2015, 44 states considered 245 bills related to state financial aid programs. Individual states considered anywhere from one measure to up to 54.[5] As an indicator of legislative interest in aid, the sheer number of bills introduced certainly has its limitations, however, the wide reach of financial aid programs as a topic of legislation is unique across other areas of postsecondary policymaking.[6]

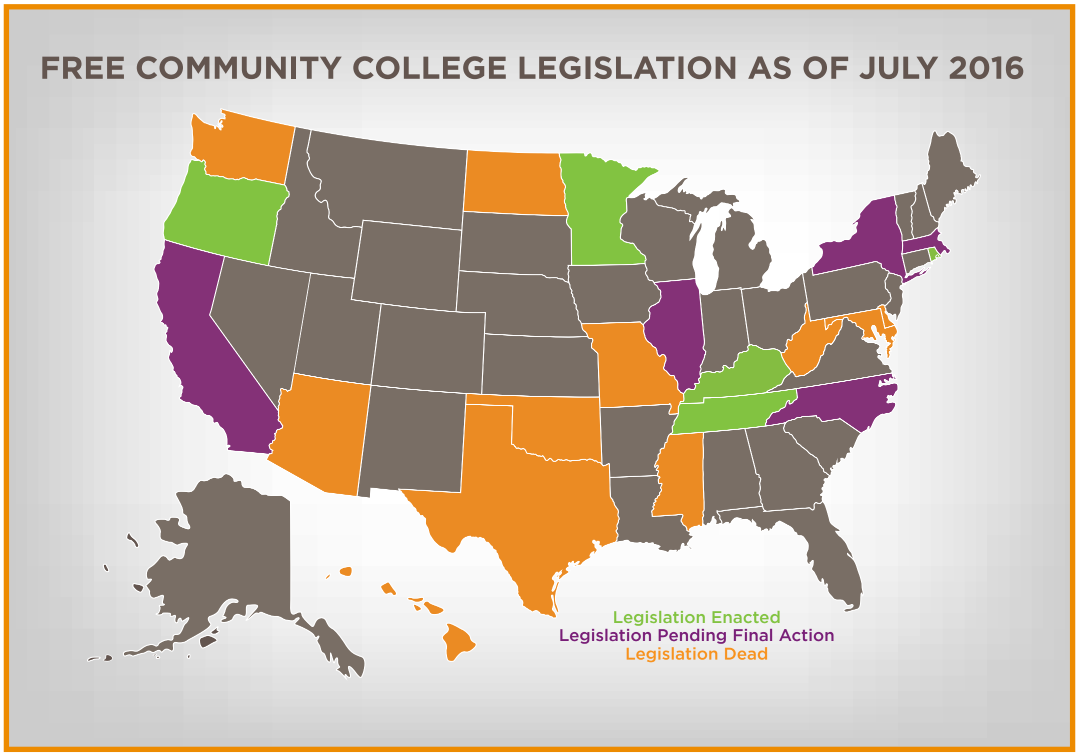
Of the 245 measures considered in the 2015 session, half of all proposed bills create entirely new state financial aid programs. These new programs would be in addition to the 365 state-sponsored grant and scholarship programs that awarded financial aid to students across the states in 2014.[7] However, as shown in figure three, within the 49 states with active financial aid programs the top two largest programs awarded 87.5 percent of the total aid amount awarded through state grants and scholarships in 2014. This evidence suggests that states tend to primarily operate through a smaller number of programs, with the other 265 programs operating in 2014 sharing the remaining 12.5 percent of resources - approximately $1.2 billion.

States face real challenges in providing affordable college pathways for students and legislative attention is a welcome voice in facing these challenges. However, when such a large number of proposals are brought forward each year, program coordination can be difficult to achieve. 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. Education Commission of the States' work in states has indicated that a powerful, overarching goal should be in place to inform statewide financial aid policy development and maintenance. Absent such a goal, states may pursue an approach where a variety of smaller investments are made across many programs, as opposed to a united effort under a smaller number of programs.

Just Make it Free?

Principle 3: Timely and Flexible

Crafting approaches to state financial aid eligibility that are both timely - providing aid when it can have the largest potential impact on student's enrollment decisions- and flexible - allowing for students to have a say in when they access aid disbursements - is an ongoing challenge for states. In most state programs, an annual amount of aid is allocated in equal portions over each academic term the student attends. The predominant aid structure is limited in both its timeliness and flexibility, especially when application deadlines and disbursement calendars dominate if and when students can access funds. Conceptually, the free college movement suggests eliminating these issues by ending the need to pay for tuition. Such a program could eliminate application and disbursement processes that are currently determined by the passage of time through providing a constant, universal tuition price of $0 across all students, no matter when they choose to attend college or seek aid.



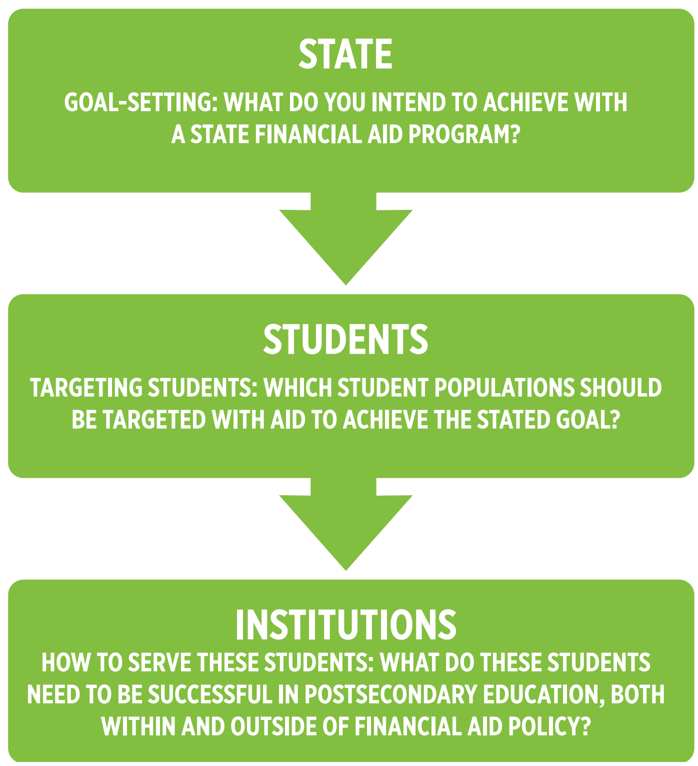
As of July 2016, 22 states have considered a total of 46 measures related to free college. While the specifics of proposals across the states vary, several trends point towards their potential inefficacy at creating a perfectly timely and flexible system of aid delivery. For example, 24 proposed bills link eligibility to the year a student completes high school or to a certain age requirement, 13 require a minimum high school GPA to qualify and 31 require students to file the FAFSA to qualify. These criteria effectively narrow the pool of eligible students in ways that resemble existing aid delivery structures rather than providing a universally free college education to all who enroll.

Considering the timeliness and flexibility of free community college proposals is of key importance to differentiate them from existing aid processes and structures. A perfectly timely and flexible system of supporting college attendance may mirror a universal public high school experience: students elect to enroll and attend free of charge without filing forms related to their family's financial situation. Without foregoing Pell Grant support, which is currently determined through filing the Free Application for Federal Student Aid (FAFSA), states may not be positioned to provide an equivalent experience at the postsecondary level. However, timeliness and flexibility can still be enhanced at the state level through eliminating additional state application processes and deadlines, including remedial courses, supporting institutions at a sufficient level to meet capacity demands, and providing information to all potential students regarding their eligibility for support to begin or finish their credentials.

Institutional Participation

Principle 4: Broadly Inclusive

FIGURE 4: Key Questions in State Financial Aid Redesign



In addition to targeting aid to certain populations of postsecondary students through merit and/or need based eligibility criteria, states also target aid to specific postsecondary institutions through eligibility criteria based on sector or system membership, geographic location, program delivery model or other means. Far fewer states have explored or adopted approaches to institutional eligibility based on outcomes or performance metrics.

Overall, policymakers have an appropriate desire to ensure that state financial aid dollars are being used to support degree completion and overall educational attainment within their state. Given the important role that postsecondary institutions play in supporting postsecondary completion, policymakers in most states have enacted criteria that institutions must meet in order to accept state aid on behalf of their students. These policies seek to funnel aid to a certain subset of institutions within a state.

Through engaging with states, Education Commission of the States has seen that states take a variety of approaches to setting these eligibility criteria. Some states are highly inclusive of all postsecondary sectors, such as Nebraska[8], and are designed to allow institutions to gain or lose eligibility as often as annually. Some states' policies are clearly structured to maintain a consistent group of eligible institutions that is impossible for other institutions to join, as is the case in **South Carolina**.[9]

Education Commission of the States encourages leaders to examine their own notions of which institutional types should be eligible to participate in state aid programs, notions which may be based in opinion or preconceived ideas of institutional prestige or merit. States are also encouraged to put students' needs first in program design. Figure four illustrates questions policymakers may ask as they redesign state financial aid policy.

In other redesign principles, Education Commission of the States encourages states to first identify a program goal, and then structure student-centered eligibility criteria that will bring a state closer to that goal. A necessary corollary to these steps is considering the institutional types and delivery models that are best situated to provide a postsecondary educational experience to this group of students. In this way, many states may need to take more expansive and inclusive views of the institutions currently eligible to participate in state aid program, as well as their current degree of participation. States should critically examine how resources flow to eligible institutions and if current systems are providing sufficient equity across institutional sectors.

CONCLUDING THOUGHTS

This brief shares several examples of lessons learned from engaging with states in financial aid redesign project over the past two years. Through the lens of the four redesign principles for state financial aid, the brief demonstrates that:

1. State aid may be promised to students early, but income criteria at the time of college matriculation may result in the unintended consequence of additional barriers for the very students early promise scholarship programs are designed to serve.
2. College affordability enjoys a disproportionate share of attention from policy leaders. This attention may result in productive policy evolution towards strategic goals or in approaches that suffer from a lack of cohesion and focus.
3. Completely eliminating the cost of college may be a way to reach low-income and other under-represented student populations, but a student's age should not be the deciding factor in eligibility if states intend to enroll or re-enroll adult students through free college programs.
4. States should carefully consider how institutional eligibility criteria to participate in state aid programs reflect pathways that are the most promising for students, or to what extent they may employ state financial aid simply as an additional conduit for institutional support.

"Getting it right" in postsecondary policymaking is no easy feat. States face the common challenge of providing accessible, affordable college pathways for their residents. While the challenge is common, states differ in their approach and response to the challenge. Education Commission of the States remains committed to supporting states in examining ways to become more student centered, goal driven and data informed, timely and flexible, and broadly inclusive in their approach to state financial aid.

AUTHOR

Sarah Pingel, Ed.D. is a policy analyst in the Postsecondary and Workforce Development Institute at Education Commission of the States. Sarah supports states by providing analysis tailored to student financial aid and college affordability policies. When she isn't knee deep in policy research, Sarah spends time in the small Rocky Mountain town where she is from and enjoys finding opportunities to practice her French. Contact Sarah at ***spingel@ecs.org*** *or 303.299.3695.*

Endnotes

1. 45th Annual Survey Report on State-Sponsored Student Financial Aid. (2014). National Association of State Student Grant and Aid Programs: Washington, DC. Retrieved from **www.nassgap.org**.
2. Indiana Commission for Higher Education, *Financial Means Testing for 21st Century Scholar Eligibility (2016 Cohort)*, memo dated December 12, 2013, http://www.in.gov/che/files/131212_Scholars_Means_Testing.pdf (accessed August 18, 2015).
3. Author's calculations from: *45th Annual Survey Report on State-Sponsored Student Financial Aid.* (2014). National Association of State Student Grant and Aid Programs: Washington, DC. Retrieved from **www.nassgap.org**.
4. Figure created based on analysis from Ness, E. C. (2010). The Politics of Determining Merit Aid Eligibility Criteria: An Analysis of the Policy Process. *The Journal of Higher Education*, 81(1), 33–60. http://doi.org/10.1353/jhe.0.0080
5. Of note, the number of bills considered in each state 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.
6. Fulton, M., et al. State postsecondary policy database [unpublished]. Denver, CO: Education Commission of the States.
7. Author's calculations from: *45th Annual Survey Report on State-Sponsored Student Financial Aid*. (2014). National Association of State Student Grant and Aid Programs: Washington, DC. Retrieved from **www.nassgap.org**.
8. Neb. Rev. Stat. § 85-1913
9. S.C. Code Ann. § 59-104-20

Education Commission of the States | 700 Broadway Suite 810 Denver, CO 80203