



INVESTING IN NEED-BASED FINANCIAL AID

Need-based financial aid is a critical support for students from low-income and low-wealth backgrounds, many of whom are Black, Latinx, Indigenous, or underrepresented Asian American and Pacific Islander (AAPI).¹ Yet many public institutions provide large grants to students who can already afford college.² In fact, between 2001 and 2017, 339 public four-year universities awarded at least \$32 billion (roughly 40 percent) of their total institutional aid to students without financial need.³

Institutions, in practice, invest in maintaining and deepening historic inequities in postsecondary education when they:



AWARD LIMITED FINANCIAL AID DOLLARS BASED ON FACTORS OTHER THAN NEED

Unlike need-based financial aid, non-need-based aid—or so-called “merit-based” aid—is typically awarded to students based on academic factors, such as high school GPA, SAT or ACT scores, or high school class ranking.⁴ Well-documented racial⁵ and socioeconomic biases⁶ in standardized testing and the unequal distribution of resources across K-12 schools⁷ mean that White and wealthy students are most likely to benefit from non-need-based aid programs. And when institutions award aid based on factors other than need, they enroll fewer Black students and students from low-income backgrounds.⁸

State policy matters, too, and often influences institutional behavior. As state investment in postsecondary education has stalled, many institutions have turned to recruiting wealthy, out-of-state students and are forced to compete with other institutions to meet their revenue goals.¹⁴ Many cash-strapped colleges turn to financial aid to entice students who can afford high tuition prices.¹⁵ This trend jeopardizes diversity—and is likely to be exacerbated as many states face budget shortfalls as a result of the coronavirus pandemic.¹⁶



FAIL TO COMMUNICATE WITH UNDERSERVED STUDENTS ABOUT THE AVAILABILITY OF AND THEIR ELIGIBILITY FOR FINANCIAL AID

Students’ awareness of financial aid and perceptions of their own eligibility for grants can influence where they apply and enroll.⁹ Sticker shock associated with high tuition prices¹⁰ and confusing financial aid award letters¹¹ can deter students from applying to or enrolling in schools that are best positioned to invest in their success—or can lead them to forgo higher education altogether.¹² Targeted outreach and streamlined aid eligibility and application processes, on the other hand, can double the application and enrollment rates of low-income students at highly selective colleges and universities.¹³

Multiple high-quality academic studies conclude that students are more likely to enroll when grant aid lowers their net cost: For every additional \$1,000 in grant aid offered to applicants, enrollment increases by about four percentage points.¹⁷

OPENING THE DOOR TO OPPORTUNITY: INVESTING IN NEED-BASED FINANCIAL AID

Even as institutions are facing intensifying budget pressures with the COVID-19 pandemic, they must prioritize equity as they make tough decisions about allocating funding. Creating a more equitable and just higher education system starts with implementing equitable need-based aid policies.

INSTITUTIONAL LEADERS SHOULD:

AWARD FINANCIAL AID DOLLARS BASED ON STUDENT NEED:

Institutions' allocation of financial aid dollars can make or break students' decisions about enrolling in and succeeding at selective institutions. High levels of unmet need put students from low-income backgrounds and students of color in precarious situations—often forcing them to choose between working more to meet their basic needs at the expense of their academic performance or dedicating time and energy to academic studies and borrowing significant amounts. The best way to allocate limited institutional aid is to target aid to students with the most financial need.

ADEQUATELY FUND TRANSFER AND PART-TIME STUDENTS:

Four-year institutions, particularly those that are well-resourced, should ensure part-time students and students who transfer from two-year institutions are eligible for and receive institutional financial aid. These students are disproportionately likely to be Black, Latinx, Indigenous, and underrepresented AAPI students or students from low-income backgrounds,¹⁸ and providing them with adequate financial aid is necessary for them to persist and complete their degree.

BE CLEAR ABOUT FINANCIAL AID AVAILABILITY, ELIGIBILITY, AND APPLICATION REQUIREMENTS:

Many selective private and public institutions do provide generous need-based aid, and have sufficient resources to meet students' financial need through grants, scholarships, or work-study awards.¹⁹ These institutions should build on this work through increased recruitment of students from low-income backgrounds and Black, Latinx, Indigenous, or underrepresented AAPI students, including clear, targeted information about aid availability and eligibility.²⁰ Institutions should ensure their financial aid award letters use plain language, list grant aid and loans separately, and calculate students' net costs and estimated bill.²¹

The federal government and states should support institutional efforts to improve affordability for historically underserved students. Federal policymakers should double the Pell Grant—the cornerstone of federal financial aid. Similarly, a federal-state partnership could provide financial support to states in exchange for state efforts to improve affordability, either through lowering the price of tuition or supplementing need-based grant aid. Even without federal support, states should allocate their aid dollars based on financial need and require public institutions to award a higher share of their aid to students based on need.

For full citations, please visit: www.ihep.org/mostimportantdoor/sources

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