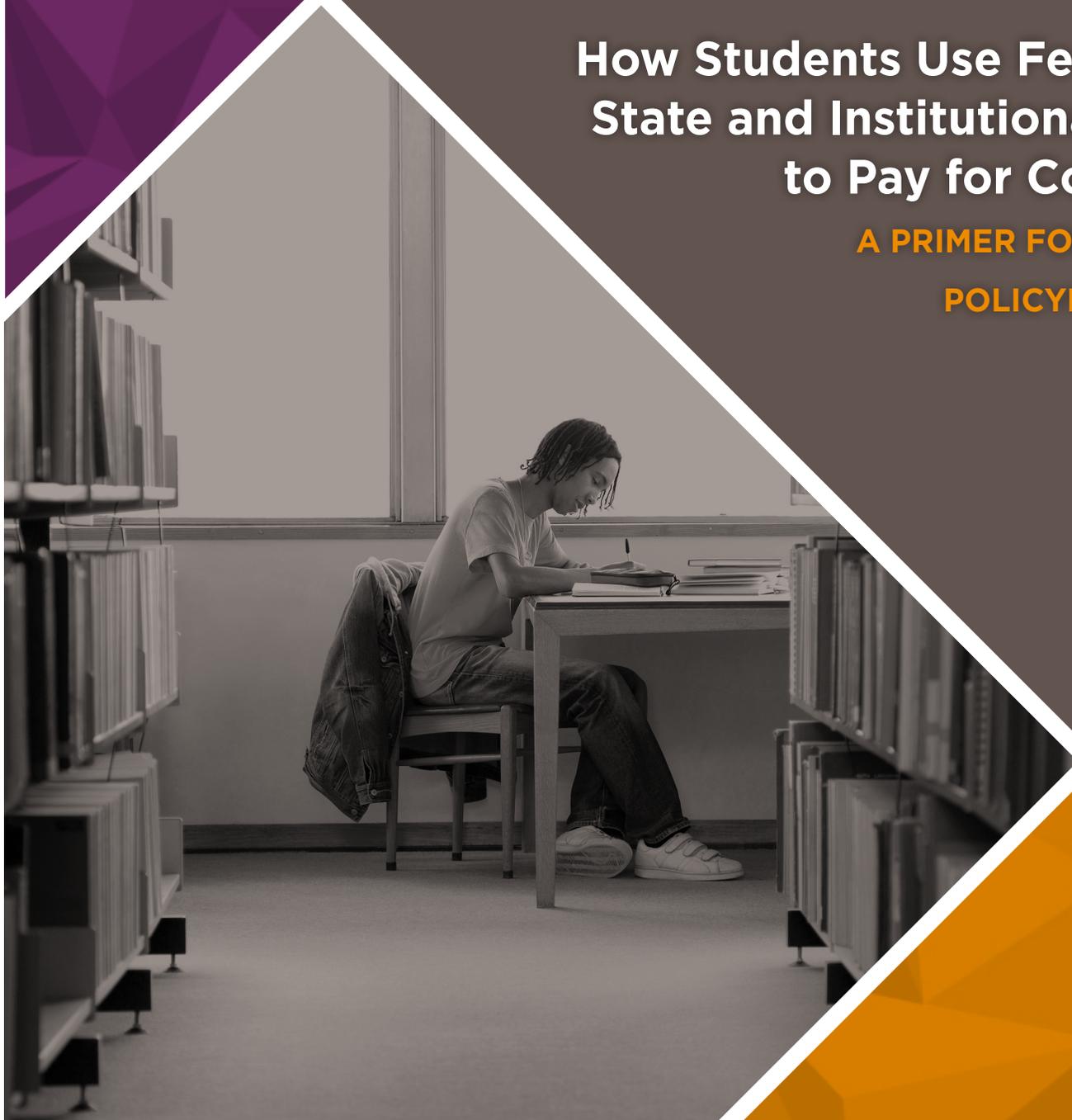


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# How Students Use Federal, State and Institutional Aid to Pay for College

A PRIMER FOR STATE  
POLICYMAKERS



**EDUCATION  
COMMISSION  
OF THE STATES**

Your education policy team.

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**P**ostsecondary education is one of the largest investments that students and their families make, with average yearly cost of attendance — including tuition, fees, room and board — of just under \$17,000 to attend a public institution in the 2015-16 academic year.<sup>1</sup> In the context of increasing college costs, aid dollars have failed to keep pace with the rising number of students requiring financial assistance. This leaves many students to rely on multiple sources of support to pay for their postsecondary experience.<sup>2</sup> While some students may utilize their own personal funds to pay for college, federal, state and institutional financial aid programs play an increasingly significant role in helping students fund their education.

The variety of aid sources available to students today can lead to confusion when it comes to policymaking, especially at the state level. Funding for postsecondary education varies across states but is often earmarked to cover tuition and fees. For some programs, financial aid may also help supplement costs for other related expenditures, such as room and board, books and supplies, transportation and other miscellaneous expenses that impact enrollment. In many states, anecdotes risk overshadowing what is clear: Today's financial aid packages, however diverse in funding sources, rarely meet the full cost of attending college.

Education Commission of the States provides a series of publications to assist new policy leaders who are taking on new roles and responsibilities for higher education policy in their communities, and to support robust policy dialogues across a number of policy issues. This primer is a tool for policymakers to use to better understand some of the ways in which federal, state and institutional dollars are distributed to help students pay for college. It begins by exploring the main sources of support — including federal grants, state assistance programs, loans and institutional aid — that are available to students today. Each type of program is explained in detail, with particular attention to the salient characteristics for state policymakers and the potential limitations of each stream of support. Following this national overview, 50 individual profiles capturing state-specific pictures of financial aid supports across a variety of common metrics are provided. While these sources are not exhaustive of the breadth of ways in which students fund their education, they do provide a broad understanding of the main sources of financial aid supports students utilize to pay for college.

## In 2015-16 ...

**7.6 million** students received **\$28.2 billion** in Pell Grants, making it the largest federal need-based financial aid program.

The **U.S. Department of Education** is the largest provider of student loans in the country, dispersing approximately \$9.5 billion in loans to students.

**Forty-nine states** have their own financial aid programs for postsecondary students, and collectively awarded over **\$12 billion** in aid to over **4.5 million students**.

## Sources of Support

Depending on students' financial status and enrollment needs, they may be eligible to take advantage of multiple federal, state and/or institutional aid programs.

### Federal

To qualify for federal student aid, students must complete an online form called the Free Application for Federal Student Aid. To successfully submit a FAFSA, students must be U.S. citizens or possess one of several **limited non-citizen statuses**. The FAFSA application period opens Oct. 1 of the academic year before a student intends to access aid.

Some students are classified as dependent according to specific criteria set into federal law, and must include their family's income information. Students who are independent only include their information, plus their spouse's if they are married. Importantly, the FAFSA only considers income and assets and does not take into account the expenses or debts a student or family may have against those resources.

### TYPES OF FEDERAL FUNDING



#### Pell Grants

The federal **PELL GRANT** is the nation's largest form of need-based aid that does not have to be repaid: In the 2015-16 academic year, 7.6 million students received \$28.2 billion in Pell dollars.<sup>1</sup>

**AWARD GUIDELINES:** The amount that a student receives depends on their institution's cost of attendance, EFC and number of credit hours they are taking. Individual student awards can vary significantly. Currently, 2017-18 awards will range anywhere from \$593 to \$5,920.<sup>1</sup>

#### Student Loans

The U.S. Department of Education is the largest provider of **STUDENT LOANS**, making approximately \$9.5 billion in awards to students and families in the 2015-16 year.

**AWARD GUIDELINES:** The amount that students can borrow is capped on both an annual and aggregate basis; dependent undergraduates cannot borrow more than \$31,000 while independent students cannot borrow more than \$57,500. The interest rates for all federal student loans are calculated based on the 10-Year Treasury Note, plus a margin depending on the loan type. Undergraduate students with financial need can qualify for subsidized loans, for which the federal government pays any interest that accrues while the student is enrolled. Both undergraduate and graduate students can access unsubsidized loans, which accrue interest that the student is ultimately responsible for repaying. Finally, PLUS loans are available to both graduate students and parents. The annual amount of a PLUS loan is limited by the cost of attendance at the student's institution, and there is no aggregate limit.

#### Work-Study

**WORK-STUDY** is a federal program that is awarded to participating postsecondary institutions.

**AWARD GUIDELINES:** The amounts vary by institution but generally privilege larger institutions that have been participating in the program over an extended period. Through the program, students can earn up to their awarded amount in an on-campus or certain off-campus jobs. Earnings from work-study assignments are not included on a student's FAFSA for the next academic year, which lowers the students' EFC and may increase their Pell Grant.

The FAFSA calculates a score commonly known as the Expected Family Contribution. The EFC is intended as a measure of a student and/or family’s ability to pay for college, and it determines their eligibility for federal student aid and other need-based programs offered at the state or institutional level. Federal student aid is typically categorized into three programs: Pell Grants, student loans and work-study assignments.



## State

While many students utilize federal direct loans, they do not always fully cover student expenses. In response, the majority of states have enacted their own aid programs to supplement federal supports.

As indicated in an accompanying [series of state profiles](#), the state financial aid policy landscape varies widely across borders. To date, every state but New Hampshire has its own aid programs for postsecondary students. Collectively, these states awarded over \$12 billion in aid to over 4.5 million students in 2015.<sup>3</sup> While federal aid is awarded almost exclusively based on need criteria, states award aid based on need, academic merit or a combination of the two. However, most state-level financial aid awards are made based on at least one financial need criterion, even if also coupled with a merit qualification.<sup>4</sup>

Most states have a centralized agency that receives FAFSA data from residents, and they proactively use this information to award student aid. States that do this usually establish a priority deadline for filing the FAFSA — meaning that awards are made on a first-come, first-served basis with priority placed on students who apply before the priority date. This disbursement method helps to streamline the process for state agencies, but may limit access for students who lack the knowledge or resources to meet the priority date.

**Oregon** has taken strides to make its state financial aid application process more flexible and inclusive by reforming its award criteria. The Oregon Opportunity Grant operates from a model in which award amounts and disbursements are prioritized by student need, rather than when an application is submitted.<sup>5</sup> This allows for the program to dispense funds to students with the highest level of financial need.

States also vary in terms of how funding flows to students. Several states, such as **Colorado**, follow a decentralized model where institutions are awarded allocations of aid dollars to then distribute to students. In other states, such as **Indiana**, a state agency selects students and disburses dollars to institutions on behalf of those specific students.

## State Policy Landscape Profiles



*Click to navigate to individual state profiles.*



## Institutional

In contrast to federal and state financial aid, much less is known about the awarding practices among postsecondary institutions. While some institutions have specific, donor-established funding streams (known as endowments), not all do; and some institutions can leverage far more of these endowed dollars than others. Institutions may also award aid as a simple discount against tuition, essentially forgoing revenue from specific students meeting institutionally defined criteria. Institutions, particularly private ones, have the most flexibility in how they choose to allocate their resources. Some may choose to offer robust merit-based programs to bolster incoming class profiles, while others prioritize need-based aid to support low-income student enrollment.

## Potential Limitations

Despite the broad range of financial support programs, eligibility criteria, disbursement limits and FAFSA confusion may unintentionally limit access to aid. The scope of these limitations likely differs in severity depending on program context and student need, but all have the ability to negatively impact how students pay for college.

## Eligibility Criteria

Many funding options require applicants to comply with satisfactory academic progress requirements to be eligible or to maintain the award. Similarly, some financial aid programs may exclude certain student groups or prioritize funding strategies for targeted populations. For example, graduate students are not eligible for subsidized direct loans and pay higher interest rates than undergraduate students. Other groups, such as veterans, undocumented students, international students, foster youth and incarcerated students, also face policy confusion regarding federal funding eligibility. States and institutions have more autonomy in how they disburse funds, so they may utilize financial aid packages to create boutique scholarships for particular majors, student-specific tuition waivers or assistantships in certain departments — thereby potentially prioritizing some student groups over others.

## Funding Limits and Award Disbursement

Even the broadest financial aid sources may inadvertently limit student utility because of annual or lifetime usage limits and stringent disbursement schedules. Pell Grants limit award times to six years, which may not cover the full duration of successful degree attainment. There are also annual financial limits to Pell Grants that create barriers for students who wish to enroll in additional credits throughout the academic year or during summer sessions. These award stipulations limit support for students who need it most. Like federal financial aid programs, state-level programs also have some limitations regarding disbursement. Because states are given autonomy to develop their own financial supports, funding can vary greatly across states. Application deadlines and award disbursement can also be barriers. Using FAFSA or state financial aid application deadlines may not be the most accurate or equitable way in delineating award disbursements because deadlines may be too early for students still contemplating their educational or enrollment plans. Additionally, some of the neediest students may be missing out on financial aid support because they are unaware of application deadlines.

## FAFSA Confusion

Another limitation of financial aid programs could be the reliance on the completion of the FAFSA, which has been shown to be challenging for many students.<sup>6</sup> Students must also discern if they are filing independently or will have to include familial information that may not be readily available. Awards do not consider individual or familial debt or other expenses which may limit the available funds students can contribute to their educational pursuits. The FAFSA application process has also been critiqued because of its complexity and renewal requirements, and could be [simplified](#).

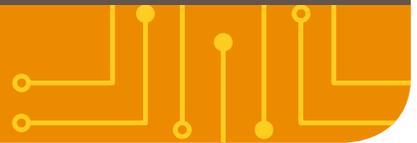
## Looking Ahead

Federal, state and institutional financial aid programs will inevitably feel ongoing pressures as more students seek a degree or credential and as costs continue to rise. However constrained these programs become, they continue to be vital resources that support college-going for the majority of students.<sup>7</sup> State resources, time of disbursement and student need play an integral role in how financial aid is packaged; and the extent to which students can cobble together these resources largely differs in each state. Creating a clear path for policymakers to understand and address the gaps in financial aid funding in their states is necessary to ensure overall student success.

### In 2014-15 ...

Among four-year institutions, **86 percent** of first-time, full-time undergraduates were awarded federal aid.

Among two-year institutions, **79 percent** of first-time, full-time undergraduates were awarded federal aid.



## ENDNOTES

1. “Table 330.10: Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2015-16,” National Center for Education Statistics’ *2016 Digest of Education Statistics*, accessed Sept. 6, 2017, [https://nces.ed.gov/programs/digest/d16/tables/dt16\\_330.10.asp?current=yes](https://nces.ed.gov/programs/digest/d16/tables/dt16_330.10.asp?current=yes).
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3. “Repository — Annual Surveys: 47th Annual Survey,” National Association of State Student Grant & Aid Programs, accessed Sept. 7, 2017, <http://www.nassgap.org/viewrepository.aspx?categoryID=3>.
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7. “Sources of Financial Aid,” National Center for Education Statistics’ *The Condition of Education*, updated April 2017, [https://nces.ed.gov/programs/coe/indicator\\_cuc.asp](https://nces.ed.gov/programs/coe/indicator_cuc.asp).

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