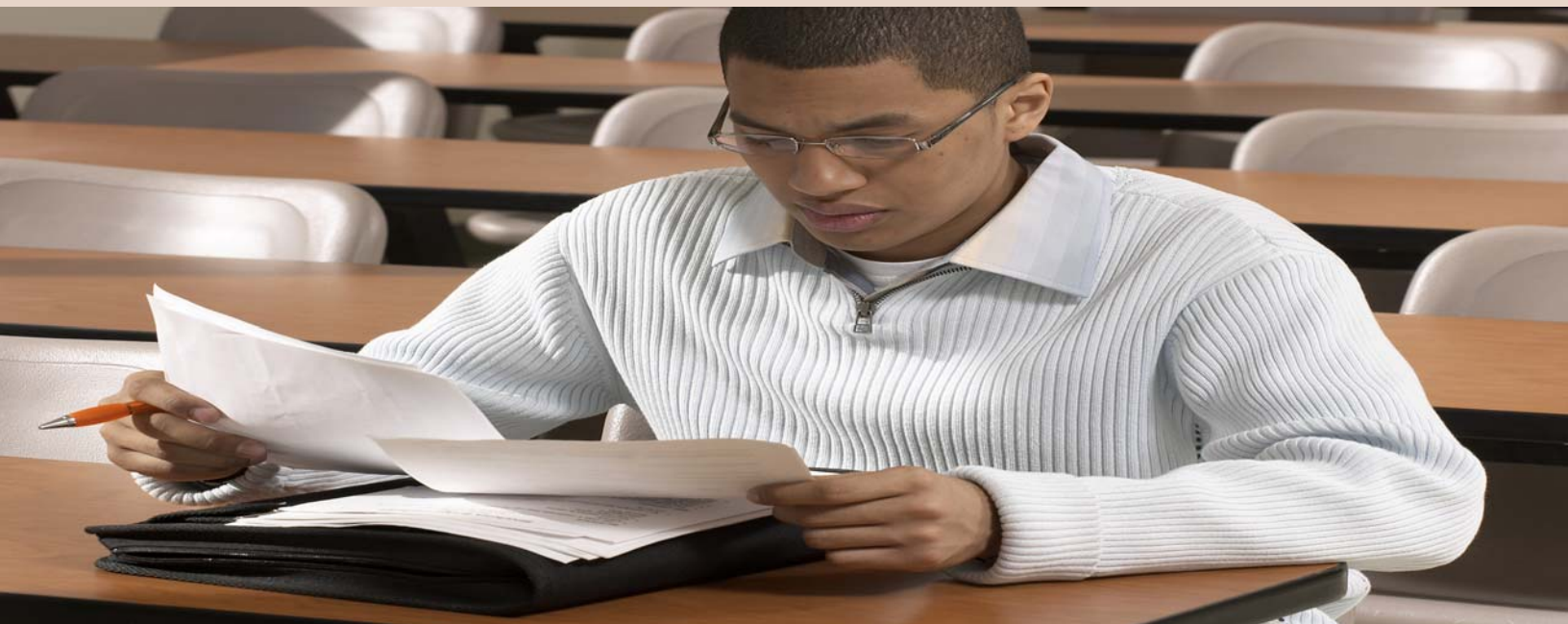


POLICY REPORT

February 2008

Financing the American Dream: Effects of Financial Aid Policies on Student Enrollment



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While the demand for an educated workforce is steadily rising, low-income and African American students are finding it more and more difficult to pursue a college degree. High tuition costs combined with financial aid policies are limiting access to postsecondary education for this population.



Since the early 1980s, the costs of attending college have risen at a rate considerably higher than that of other consumer expenditures. College costs increased 375% while the median family income in the U.S. grew only 127%. Even health care, often seen as skyrocketing, has increased by a relatively less dramatic 223% (Callan, 2006). For those in the lowest income brackets, college costs take a prohibitively large share of family income (Callan, 2006; Haycock, 2006) effectively limiting or even eliminating access to higher education.

While the price of attending college has risen significantly, student financial aid has changed in ways that further hinder disadvantaged students. Historically, the purpose of student financial aid has been to enable qualified students to attend college who could not otherwise afford it. More recently, however, financial aid funds have been used in a variety of other ways, many of them not based on financial need (Advisory Committee on Student Financial Assistance, 2001; Callan, 2006; Haycock, 2006).

This trend toward higher tuition and non-need based financial aid has evolved, at least partially, as a result of economic pressures, demographic transitions, and policy drift (Callan, 2006; Gladieux, King, & Corrigan, 2005). Since the

early 1980s, economic recessions have eroded state support for higher education resulting in significant tuition and fee increases (Mortenson, 2007b). At the same time, low-income and minority populations are growing steadily and will increase the demand for education at all levels (Mortenson, 2007a). Lastly, public policy has shifted from primarily providing resources for those who cannot afford college to easing the burden for those who already can (Callan, 2006; Gladieux, King, & Corrigan, 2005; Haycock, 2006). Because they are more frequently found in the lower portions of the income distribution, African American students and their families are often negatively impacted by this growing trend.

BACKGROUND

In 1993, approximately 20% of low-income students attended college. By 2005, that percentage had increased to 26% (Postsecondary Education Opportunity dataset, 2007). By comparison, the overall enrollment rate for all 18-24 year-old dependent students in 2005 was 47%. With regard to minority participation, 66% of Asian 18-24 year olds were enrolled in college in 2005. Whites were second with 48%, then African Americans (36%) and Hispanics (33%) (See Figure 1) (U.S. Census Bureau, Current Population Survey Data, October 2005).

While low-income and African American students are underrepresented in higher education, they continue to be a rapidly expanding segment of the school-age and working-age populations. The number of K-12 students in the U.S. eligible for free or reduced meals, a widely utilized proxy for poverty, increased from 37% in 1993 to 44% in 2005 (Mortenson, 2007a). The U.S. non-White working age population will increase to 24% by 2020. New Mexico, California, and Hawaii are predicted to have non-White majority working-age populations by 2010 and Texas will join them by 2020. An additional 13 states will have non-White working-age populations of 33% or greater. Only five states will have minority working-age populations of less than 10% by 2020 (Kelly, 2005; The National Center for Public Policy and Higher Education, 2005, 2006). As more low-income students move through the educational pipeline, they will need affordable access to the nation's colleges and universities.

TUITION INCREASES AND FINANCIAL AID

For a relatively short period between 1967 and 1991, state and local governments were the pri-

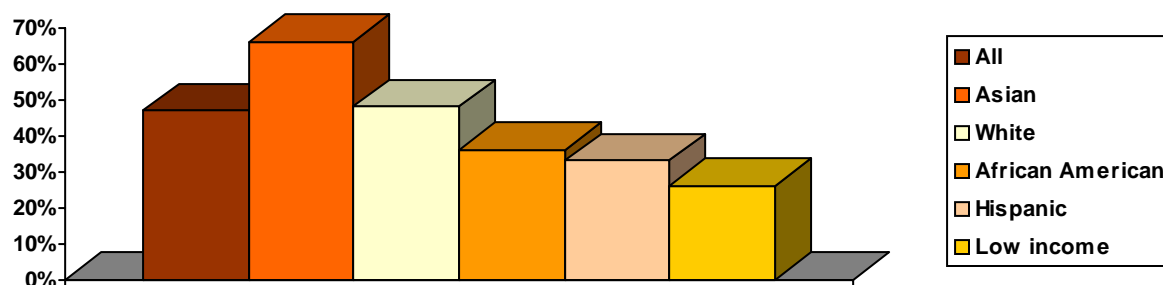
ABOUT THIS REPORT

This report describes two important reasons for the disproportionately low participation rates of African American students in higher education and examines how these factors impact college enrollment. It also provides a list of key findings and offers recommendations. Much of the data used in this report are from publicly available reports and data sets.

mary source of funding for higher education. However, state funding began to experience a downturn beginning with the economic recessions of the early 1980s. Starting in 1992, the job of providing the majority share of operating revenue for public higher education shifted away from state governments to students and their families (Mortenson, 2007b). As part of their response to decreased state funding, most colleges and universities raised tuition significantly (Mortenson, 2006b).

Figure 1

College Participation Rates in the U.S. by Racial Category for 18-24 Year-Old Dependent Students and by Low-income Status (2005)



While the impact of escalating college costs falls on everyone, it falls most heavily on low-income students and their families. This disparity is best illustrated by the percentage of family income needed for net college costs (net college costs are those after financial aid has been awarded). The following example uses data from public, 4-year colleges and universities provided by the National Center for Public Policy and Higher Education.

FAMILY INCOME AND FINANCIAL AID

Nationwide, the average share of family income necessary to meet costs not covered by some type of financial assistance is 31%. While this is a significant amount in itself, when it is partitioned by income the importance of the situation for low-income students and their families becomes readily apparent (See Table 1).

For families with an average annual income of \$12,168, a total of \$8,913 or 73% would be needed for college costs. Moderate income families, those with an average annual income of \$47,900, will need 23% of their income for college costs. The most affluent families, those with average annual incomes of \$126,492, need only \$11,115 or 9% of their income to cover college costs (The National Center for Public Policy and Higher Education, 2006). For those students whose families are in the lowest income level, money for a college education and the opportunities associated with a degree are limited.

RACE AND FINANCIAL AID

African American students are especially hard hit by tuition increases because many of them

NOTABLE QUOTE

The projected decline in educational levels coincides with the growth of a knowledge-based economy that requires most workers to have higher levels of education. At the same time, the expansion of a global economy allows industry increased flexibility in hiring workers overseas. As other developed nations continue to improve the education of their workforces, the United States and its workers will increasingly find themselves at a competitive disadvantage (The National Center for Public Policy and Higher Education, 2005, p. 1).

come from low-income families. In 2005, the median income for White families in the U.S. was \$60,310. For African American families, the median income was \$36,075 and for Hispanic families, \$37,387. More than a quarter of African American and Hispanic families have incomes less than \$20,000 per year. Over 10% of African American families have incomes of less than \$10,000 annually compared to less than 5% for Whites (See Table 2) (U.S. Census Bureau, 2005).

KEY FINDINGS

- Many low-income and African American students do not enroll in postsecondary education. Although many reasons exist, lack of financial resources is a major barrier (Advisory Committee on Student Financial Assistance, 2001; Haycock, 2006; U.S. Department of Education, 2006).

Table 1
Family Share of Income Needed for College Costs at U.S. Public 4 Year Colleges and Universities

Income Levels	Lowest 20%		Middle 20%		Highest 20%
Average family income 2003-2005	\$12,168	\$28,620	\$47,900	\$74,126	\$126,492
Net college costs after financial aid 2005-2006	\$8,913	\$9,731	\$10,813	\$11,017	\$11,115
Share of income needed for net college costs	73%	34%	23%	15%	9%
Average share of income needed for net college costs in the United States			31%		

Note. Data in this Table were obtained from the "Measuring Up 2006" dataset.

- Fewer financial aid resources target low-income and African American students than in previous years. Instead, there has been a shift to merit based awards. These awards favor middle class and wealthy students.
- States differ greatly with regard to how they distribute financial aid. Some states spend substantially less per FTE on need-based grants yet have sizable low-income student populations.
- While attending a 2-year college or attending school part-time are alternative routes to a degree, the traditional path of 4 years of college immediately following high school is most likely to result in actual graduation. Shifting financial aid dollars from need based to merit based allocations exacerbates the poor enrollment and completion outcomes for low-income and African American students (Haycock, 2006).
- It is estimated that high unmet financial need resulted in approximately 406,000 college-qualified high school graduates not enrolling in a four-year college or university in 2001-2002. Of these, 168,000 did not attend any college at all. Other estimates indicate that from 2001 to 2010, 4.4 million high school graduates will not be able to enroll at a four-year college. Two million of these will not attend any college at all (Advisory

Table 2
Income Distribution by Race (2005 Family Income)

	White	African American	Hispanic	Asian
Less than \$10,000	3.9%	13.2%	8.8%	4.3%
Less than \$20,000	10.9%	28.2%	24%	11.1%
Less than \$50,000	40.3%	63.9%	64.1%	35.1%
Less than \$100,000	77% ^a	90.4%	91%	69.1%

Note. From the U.S. Census Bureau, 2005 American Community Survey.

^aPercentages are cumulative.

Committee on Student Financial Assistance, 2002).

- Students with fewer financial resources pursue a non-traditional approach to college such as either attending a 2-year college or attending part-time. In fact, many low-income students are shifting away from the traditional 4-year institution to 2-year or proprietary schools (Mortenson, 2006a). For a variety of reasons, students attending 2-year or community colleges are less likely to eventually obtain a baccalaureate degree from a 4-year institution (Dougherty, 1992), often leaving without a degree but still struggling with financial aid debt.

POLICY IMPLICATIONS

While college tuition costs are not generally a public policy matter per se, they are often influenced by the actions of state legislatures and other policy making bodies. One of the most important ways that policymakers influence college access is through higher education funding. Reduced funding for higher education frequently results in higher tuition and fees for all students but the impact on low-income and African American students is often significantly greater.

On the other hand, student financial aid is often the direct result of specific policies by legislative bodies, agencies, and institutions. It is subject to pressure from various groups and from competing priorities. Financial aid policy decisions over the last several decades have reflected significant changes that have negatively impacted low-income and African American students.

RECOMMENDATIONS

- Legislatures, agencies, and postsecondary institutions should review their policies with regard to financial aid in light of their impact on low-income and African American students. For postsecondary institutions, this may involve an intensive examination of their mission statements and how these can be reconciled with the needs of these students.
- Because the cost of tuition is high, many low-income and African American students and their families may be convinced that a college education is out-of-reach. Starting in middle school, teachers and school counselors should stress the availability of financial aid to parents and students as well as encourage students to excel academically.
- Educators at community colleges and 4-year colleges and universities should be strongly encouraged to work together to improve outcomes for students who wish to pursue a baccalaureate degree.
- The academic achievement gap must be closed. Poor academic preparation limits low-income and African American students' opportunities to compete for prestigious grants and fellowships.
- Low-income and African American students should have access to the same educational opportunities that more affluent students have.

- Policy leaders, especially those in states with low educational attainment, should ensure that qualified low-income and African American students have adequate funding for college without assuming an overwhelming debt.

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