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# FOR WHOM THE PELL TOLLS



How Financial Aid Policies Widen the Opportunity Gap

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## Executive Summary

*For Whom the Pell Tolls: How Financial Aid Policies Widen the Opportunity Gap* is a companion piece to the report *A Level Playing Field: How College Readiness Standards Change the Accountability Game*, and reports on the findings from a series of descriptive analyses seeking to understand the potential relationship between college access and school poverty for high achieving middle school students, focusing specifically on potential access to state merit-based grant funding.

As detailed in *A Level Playing Field*, we monitored the academic achievement of more than 17,000 high-achieving middle school students from 31 states across the country, using their eighth grade performance on a nationally-administered assessment of academic achievement to make projections about their likely status to meet Pell Grant eligibility criteria four years later. Of particular interest were comparisons that examined the differences in likely eligibility rates between high- and low-poverty schools, given that one of the major findings from *A Level Playing Field* was that college readiness “gaps” exist between high- and low-poverty schools.

### Findings

***The achievement gaps between high achievers in low- and high-poverty schools are likely to have a significant effect on college access.***

To illustrate the likely impact of the gaps among our high achievers, we projected the performance of our middle schoolers relative to the eligibility standards employed by several states (primarily in the South) that offer merit aid that depends, in part, on a student’s ACT score. We found that students attending high-poverty schools had far lower rates of scholarship eligibility than the students attending low-poverty schools and that the gaps in eligibility generally increased as the ACT eligibility score was raised. In South Carolina, a state with a relatively high eligibility score requirement, the eligibility gap between students from high- and low-poverty schools reached 30%, and that gap, projected across our sample, meant that students in high-poverty schools were projected to receive \$5 million less in scholarship aid from the South Carolina program than students coming from low-poverty schools.

### Policy Implications

The manner in which merit-based eligibility criteria are currently applied reduces the likelihood that high achievers from high-poverty schools will enjoy college access. Consequently, there is need to revise or augment these eligibility criteria to narrow the access gaps between high achieving students who attend high- and low-poverty schools. Programs such as Texas’ Top 10% Scholarship Program base eligibility on the student’s class ranking. Such programs reward merit while assuring that the top students in each school and community share in the benefit. Moving merit-scholarship eligibility from fixed criteria based on college entrance exams and GPA to criteria that recognize high achievement in one’s own school setting would be a large step toward improving equity and access for the top tenth that come from low-income schools.



## FOR WHOM THE PELL TOLLS

### How Financial Aid Policies Widen the Opportunity Gap

**As** budget deficits push political leaders to make tough policy decisions, debates about student loan interest rates and changes to the Pell Grant were key issues in the 2012 presidential election. Over the past 30 years, college tuition rates have increased at four times the rate of inflation. While *A Level Playing Field* documented achievement gaps between the top 10th of students in high- and low-poverty schools, it can be difficult to articulate the impact that these gaps are likely to have as students move toward college. One obvious area is the impact on college access. In this study, we examined the financial impact of achievement gaps by projecting how student access to state-level merit-based scholarship funds might vary, based on the estimated performance on the ACT. Our findings parallel recent studies that show low-income students qualify for state-level financial aid at lower levels than their more privileged peers (Heller & Marin, 2004). Financial aid decisions at the national- and state-level thus have the potential to disproportionately affect the nation's neediest citizens. We hope our analysis and recommendations encourage thought leaders and policymakers to take a hard look at the role of financial aid policies in widening the opportunity gap for low-income students.

To help ease the burdens of increasing tuition costs, state governments have traditionally supported higher education through direct assistance to institutions and grant aid to students. But direct funds have failed to keep pace with rising enrollment patterns, placing a larger portion of college costs on students (State Higher Education Executive Officers, 2011). In addition, state governments, facing their own fiscal difficulties, have greatly reduced their support to state university systems since 2008. According to the Illinois State University Center for the Study of Higher Education's annual *Grapevine* study, in 2011-12 state spending on higher education dropped by nearly eight percent, the largest decline in half a century. One third of states enacted double-digit drops in funding (Lederman, 2012).

Federal programs to support low-income students have also experienced cuts. Federal Pell Grants, which covered 77% of the cost of four-year state colleges for low-income students in 1980, now cover only an average of 36% of the cost of attendance at these institutions. With a growing number of students receiving aid and an increasing deficit in this program (\$20 billion), the program saw some significant cuts by the end of 2012, including tighter income restrictions (formerly \$30,000, now \$23,000) and a reduction in semesters of eligibility (United States Department of Education, 2012). Further, most new or expanded aid programs in recent years have benefited the highest income families. These include state and private college's merit-based scholarship programs, where student's financial background (need) is not a factor in determining scholarship award amounts.

State-sponsored programs have become politically popular in many southern states and these merit-based grants have grown at three times the rate of need-based grants in the last decade (National Association of State Student Grant and Aid Programs, 2010). Low-income students are eligible at much lower rates than middle- and upper-income students for these programs (Ballou & Springer, 2008). This confluence of policies has the greatest impact on college access and affordability for the families that have the fewest resources (The College Board, 2010; Education Week, 2011; Callan, 2008). This is disheartening as research suggests that financial aid policies can positively influence student aspirations and success, particularly for disadvantaged students (Bowen, Chingos, & McPherson, 2009).

**There are many factors that influence which students attend post-secondary institutions (e.g., academic preparation, family, peer, neighborhood influences), but the costs of attending college may constitute the most difficult barrier for students from lower-income families. The availability of scholarship funds often shape the decision to go on to college for low-income students.**

Heller and Marin (2004) found that many more affluent students already bound for college receive merit-based funds despite not needing them, while students from traditionally underrepresented groups in higher education and who face the greatest financial obstacles to attend college have increasingly more difficulty entering four-year institutions.

Of the nearly 15 states that offer financial aid programs, the majority of money is allocated on merit-based (or academic) qualifications compared to need-based aid, \$1.5 billion and \$350 million respectively (Heller & Marin 2004; Ness & Tucker 2008). For instance, in Georgia, the lottery-funded HOPE Scholarship program which provides tuition assistance at a Georgia public institution has no income cap restrictions. States generally employ multiple eligibility requirements, including Grade Point Average (GPA), class rank, Advanced Placement (AP) exam scores, state test scores, etc., for student assistance scholarship programs. Additionally, some states offer several types of awards. For example, Louisiana's Tuition Opportunity Program for Students (TOPS) offer three awards (excluding the Tech Award): Opportunity, Performance, and Honors, with increasingly rigorous eligibility criteria. However, many state-based merit aid programs use standardized test scores, ACT and SAT, as the primary eligibility requirement.

## Data and Methods

For illustrative purposes, we examined achievement trends in math and reading for students who performed in the top ten percent of their individual grades and schools on a national assessment of student achievement, the Northwest Evaluation Association's Measures of Academic Progress® (MAP®)<sup>1</sup>. We tracked approximately 17,000 high achievers in reading and 14,000 high achievers in math, from 400 schools from sixth grade to eighth grade. Data came from NWEA's Growth Research Database, a longitudinal repository containing MAP assessment results. The full repository includes data from 4,800 school systems and approximately five million students. To estimate the

impact of achievement gaps on the high-achieving groups, we projected how their access to state-level merit-based scholarship funds might vary, based on the estimated performance on the ACT. Eighth grade MAP scores were translated into predicted ACT scores using the results of NWEA's recently published MAP/ACT scale linking study (NWEA, 2012), in order to evaluate whether students in eighth grade were "on track" to meet the ACT eligibility requirements of 10 state scholarships.

## Findings

Table 1 shows that the percentages of high achievers from high-poverty schools who seem to be "on track" for eligibility for these state scholarships were consistently lower than the "on track" rates for students from low-poverty schools. Further, the gaps in eligibility rates increase dramatically as the cut scores associated with eligibility are raised. For example, Arkansas has a relatively low cut score for eligibility (an ACT composite of 19). Eighty-three percent (reading) and 90% (math) of the students from high-poverty schools in our sample would qualify for Arkansas programs, while 97% (reading) and 99% (math) of students from low-poverty schools would qualify. The financial assistance gap is actually greatest in South Carolina which requires a higher ACT composite of 27 to qualify for the program. South Carolina follows a high-tuition, high-aid financing model and has one of the highest average tuition rates (\$10,147 for the 2010-11 academic year) for an in-state public four-year institution (National Center for Education Statistics, 2011). This approach assumes wealthy students will pay full tuition costs to attend college, but the state will offset the cost for low-income students through grant assistance. However, aid and tuition policies are created independently and grant programs seldom keep pace with the rising cost of tuition (The Education Trust, 2011). If our high-achieving students came from South Carolina, for example, the prospective eligibility gap between those students coming from high- and low-poverty schools was 30% in reading and about 31% in math. Given that the average per capita merit-based award from the Legislative Incentive for Future

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<sup>1</sup> Please see *A Level Playing Field?: How College Readiness Standards Change the Accountability Game* for more details about the study design, samples, and variables.

Excellence (LIFE) award at a four-year public institution is \$4,700 (South Carolina Commission on Higher Education, 2005), this would translate into scholarship funds of nearly \$7 million for the students in the sample who attended high-poverty schools and nearly \$12.5 million

for students from low-poverty schools. In other words, students from the wealthiest schools in our sample were qualifying for nearly twice as many South Carolina scholarship dollars as the high achievers from our high-poverty schools.

STATE SCHOLARSHIP	ACT COMPOSITE SCORE REQUIRED FOR SCHOLARSHIP ELIGIBILITY	PERCENT OF HIGH-ACHIEVERS "ON TRACK" FOR ELIGIBILITY			
		READING		MATH	
		High-Poverty Schools (>47% FRL; n = 4,318)	Low-Poverty Schools (≤16% FRL; n = 4,318)	High-Poverty Schools (>48% FRL; n = 3,540)	Low-Poverty Schools (≤18% FRL; n = 3,540)
Arkansas (LS)	19	83.2%	96.7%	90.5%	98.8%
Florida Bright Futures	20	78.3%	95.0%	82.5%	97.3%
Georgia (HOPE)	26	45.2%	74.3%	44.2%	75.2%
Kentucky (EE)	22	66.1%	89.9%	68.1%	91.3%
Louisiana (TOPS)	23	61.2%	87.1%	60.5%	87.3%
Mississippi (ESP)	29	28.9%	59.2%	30.3%	58.5%
Missouri (HEASP)	30	24.3%	53.4%	30.3%	58.5%
South Carolina (LIFE)	27	36.0%	66.0%	40.3%	71.5%
Tennessee (HOPE)	21	73.2%	93.0%	79.0%	96.1%
West Virginia PROMISE	22	66.1%	89.9%	68.1%	91.3%

**Table 1:** Projected Percentage of Top Students Qualifying for State Merit-Based Scholarships, by School Poverty Level

## Discussion

There are many talented students from low-income families that do not enroll in college and degree completion rates among the lowest income families suggest there is a need for financial aid system reform to promote greater access to higher education. By age 24, 82% of Americans from the highest income quartile hold a bachelor's degree, compared to only 8% from the lowest income quartile (Mortenson, 2010). If we fail to address issues of access to higher education for those students who attend public schools in our most disadvantaged neighborhoods, we lose out on a pool of intellectual capital. Thus, it is imperative that policymakers consider how policy will impact the neediest students when they decide how to finance higher education.

While the figures in this study should only be considered preliminary estimates of future eligibility (based on their academic performance in eighth grade in either reading or math; not composite scores), the disturbing trend they reveal is remarkably consistent with previous research findings: many of the top students from high-poverty schools do not qualify for merit-based scholarship funds in terms of standardized test performance (e.g., Ballou & Springer 2008).

We found low-income students, in our case the top-performing students from high-poverty schools, are eligible at much lower rates than middle- and upper-income students for merit-based financial aid programs. These gaps in eligibility are not likely to be limited to state colleges and universities. Many private colleges and universities also base eligibility for merit scholarships on a matrix that uses ACT/SAT scores and GPA. This pattern has striking consequences for exacerbating inequality when we consider the growing costs of college tuition coupled with reductions in state-level need-based scholarship funds.

Institutional, state, and federal policies all have important roles in making college affordable for low-income

students. At the federal level, our policy recommendations echo the College Board (2008) and include: simplifying the application process for federal student aid and incentivizing institutions to boost aid for low-income families. Currently, the application process for financial aid is cumbersome and the grant, loan, tax, and work-study policies are poorly connected with inconsistent regulations. Generous and simple aid programs designed to subsidize tuition costs have large impacts on initial attendance and college completion (Goldin & Katz, 2008). Second, the federal government also has an important role to incentivize state institutions to focus their financial funds on boosting low-income student enrollment as well as the development of programming that helps with retention. The current Leveraging Educational Assistance Partnerships (LEAP) Program matches grants for state

need-based grants and work study assistance. However, LEAP funding has significantly declined in recent years. We argue that federal incentives for state need-based grant aid be strengthened.

Additionally, state-level scholarship incentives advantage schools in wealthy areas where student resources (e.g., counseling, teacher professional development, tutoring) are more abundant than high-poverty areas. Taking into consideration our findings, as well as previous research on the economic inequality of merit scholarship programs, we also have state-

level policy recommendations. States should include a financial need component in the eligibility criteria for scholarship funds. For example, Heller & Marin (2004) suggest that high school graduates should complete a Free Application for Federal Student Aid (FAFSA) form allowing states to use financial data in addition to academic eligibility requirements to assess award amounts. Finally, requiring students to meet specific eligibility requirements, such as ACT/SAT scores or GPA, is biased toward students from low-poverty schools. States should consider multiple measures of "merit." For instance, scholarships that reward the top 10% of students in every school rewards academic excellence and

**"EDUCATION, BEYOND ALL OTHER DEVICES OF HUMAN ORIGIN, IS THE GREAT EQUALIZER OF THE CONDITIONS OF MEN, THE BALANCE-WHEEL OF THE SOCIAL MACHINERY."**

—Horace Mann, *Annual Report to the Massachusetts State Board of Education* (1848)

promotes greater equity of life chances across schools. Coupling financial indicators with multiple eligibility requirements that are based on sliding scales for award amounts (e.g., ACT/SAT and state exam scores, GPA, class

rank) would also distribute scholarship funds more equitably across the socio-economic spectrum than fixed eligibility requirements.



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