

Lots of Money, Limited Options: College Choice and Student Financial Aid

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Financial aid and college preparatory programs are designed in part to allow students from low-income families to have the same choices of institutions as those from middle- and upper-income groups. Unfortunately, despite providing more than \$100 billion in financial aid and college preparatory assistance, state and federal policy makers have been unable to achieve the goal of equalizing college choice for students from low- and moderate-income families. Throughout the 1990s, these undergraduates became even more likely to enroll at community colleges and lower-cost four-year public institutions than their peers from higher-income families. These trends suggest that policy makers have been successful in using financial aid and other policies to improve college access for low-income students, but have been unsuccessful in achieving true equality in college choice.

Why have financial aid and academic enrichment programs fallen short of their goal of achieving equal educational opportunity? What options are available to campus officials and state and federal policy makers who want to reverse these trends? This study reviews some of the key reasons increases in grants and other support for low-income students have failed to equalize college choice between low- and higher-income undergraduates, and proposes some solutions for closing the college choice gap.

Over the past decade, the total amount of financial assistance provided to students has more than tripled. According to The College Board (2003a), financial aid programs now award more than \$105 billion to students who attend postsecondary education institutions. While the bulk of this new aid has come from increases in student loans, grant assistance for low-income students has also seen a healthy increase. In fact, during the past 10 years, funding for low-income students through the Federal Pell Grant program has risen 48% in inflation-adjusted dollars (The College Board, 2003a). These funds are designed to provide students with both college *access* and a range of college *choices*. That is, Pell Grants and other aid programs are designed in part to allow students from low-income families to have the same choices of institutions as those from middle- and upper-income groups (Hartle & Stedman, 1986).

To enhance this goal even further, the federal government also funds academic enrichment programs through the TRIO and GEAR-UP college preparation programs, which are designed to give low-income students additional academic

support, tutoring, mentoring, and other services that might be required to attend selective, often higher-cost institutions. Collectively, the federal government appropriates \$1.1 billion in TRIO and GEAR-UP grants (U.S. Department of Education, 2004a). These dollars are in addition to state-appropriated financial aid and early intervention programs, which provide additional funds and services to prepare at-risk students for higher education (Cunningham, Redmond, & Merisotis, 2003).

Yet, despite the best efforts of financial assistance and college preparatory programs, low-income students are still much more likely to choose lower-cost community colleges and four-year public schools than their higher-income peers are. The American Council on Education (ACE, 2004) reports that in 1999, 36% of traditional-age undergraduates from the lowest-income families enrolled at community colleges, compared with 23% of those from the highest-income group. The share of low-income students enrolled at two-year public institutions rose from 31% in 1989 to 36% in 1999, while the share attending four-year public colleges and universities fell from 41% to 40%. In the same period, the proportion of undergraduates from the highest-income families who entered community colleges increased from 20% to 23%, and the share at four-year public institutions increased from 47% to 49%. It is clear that, despite increases in financial aid, family income continues to be one of the strongest influences on undergraduates' choice of institution. Students from higher-income families are more likely to attend public and private four-year institutions than are their lower-income peers (ACE, 2004).

Why have Federal Pell Grants and other financial aid and academic enrichment services fallen short of their goal of achieving equal educational opportunity? This study reviews some of the key reasons why increases in grants and other support for low-income students have failed to equalize college choice between low- and higher-income undergraduates, and proposes some solutions for closing these gaps in college choice.

Rapid Increases in College Prices

There are several key reasons for the lack of equal college choice. First, Federal Pell Grants have been unable to keep pace with the growth in college costs. From academic year 1982-1983 to 2002-2003, the maximum Pell Grant award rose from \$1,800 to \$4,000; however, at the same time, the average cost of tuition, fees, room, and board for full-time undergraduates at four-year public colleges and universities increased from \$3,196 to \$10,636; at private colleges, the average cost grew from \$7,126 to \$26,854 (The College Board, 2003a and U.S. Department of Education, 2003). The \$2,200 increase in the maximum Pell Grant awards was more than offset by the \$7,400 rise in the price of attendance at four-year public colleges and the \$19,728 jump in attendance price at four-year private institutions. In 1982-1983, the maximum Pell Grant covered 56% of the price

of attendance at four-year public colleges; by 2002-2003, the maximum grant represented just 38%.

Community colleges have also seen significant tuition price increases. Since 1993-1994, the average tuition and fee charge at two-year public institutions has grown 53% (The College Board, 2003b). However, the average tuition price at community colleges in 2002-2003, \$1,905, is still far below the maximum Pell Grant. Thus, the recent Pell Grant increases have made it easier for students to afford lower-cost two-year colleges, but have not had kept pace with price increases at four-year public and private colleges and universities. Because the gap between Pell Grants and total costs at four-year colleges has become substantially wider, it has become even more difficult for poor students to realize true equity in college selection.

Shifts in Financial Aid

Second, while total financial aid funding has tripled, much of the increase has been in the form of student loans. The inflation-adjusted value of total loan aid from all sources (federal and state governments, postsecondary institutions, and private lenders) has jumped 173% over the past decade, but total grant aid has increased only 85% (The College Board, 2003a). In 1982-1983, roughly 50% of total financial aid came from grants and 45% was provided through student loan programs. By 2002-2003, the proportion of aid from grants fell to just 40%, but the share from loans increased to 54%. This shift may have had substantial adverse effects on the enrollment decisions of low-income undergraduates, as prior research (e.g., St. John, 2001) has shown that these students are much less willing to borrow to attend postsecondary education.

Additionally, a much greater share of the available grant aid has been used by institutions and states for merit aid programs and other scholarships that generally are not targeted toward students from the lowest-income families. Under merit criteria, institutions base eligibility for grant awards on students' grade point averages and/or scores on college entrance exams (Redd, 2002a). These merit grants represent a shift in the purpose of institutional grants used in the 1950s and 1960s, during which time most colleges and universities distributed their grant aid primarily based on students' demonstrated financial need (Heller and Nelson Laird, 1999). Use of institutional merit aid appears to have accelerated in the 1990s. Data from The College Board and the National Association of Student Financial Aid Administrators (NASFAA) show that in 1999-2000, more than 90% of four-year public and private colleges used academic merit to distribute at least a portion of their institutional grants (NASFAA and The College Board, 2002).

Campus officials hope the increased use of merit scholarships will raise their enrollments of high-achieving undergraduates. However, Heller and Nelson Laird (1999) found that as a result of the growth in merit scholarships, the number of

high-income undergraduates who received institutional grants at public or private colleges and universities from 1989 to 1995 increased 62% while the number of grantees from lower-income groups rose only 16%. More troubling is the fact that the number of low-income undergraduates who received non-need grants at four-year colleges and universities actually *fell* 19%, while the number of upper-income awardees increased 16%.

More recent research by Davis (2003) reveals that, as a result of the continued increase in merit scholarships and other “strategic” uses of institutional aid from 1995-1996 to 1999-2000, average institutional grants to families with income of less than \$20,000 at four-year public colleges grew by just 1%, but average grants to students from families with income of \$100,000 or higher increased 159%. At private colleges, average grants to the lowest-income undergraduates increased 17%, compared with a 145% gain for those from the highest-income group. Davis (2003, p. 3) concludes that the institutional aid strategy used by four-year colleges has led to “troubling” outcomes for low-income students because “it has restricted their access to grant aid to attend four-year institutions [and] *it has reduced their opportunities to choose among public and private colleges*” [emphasis added].

A number of state governments have also used merit-based awards to entice high-ability students (Heller and Rasmussen, 2001). Since 1993, at least 13 states have instituted scholarship programs that award students based on academic merit or other “non-need” criteria. The largest of these include the Georgia Helping Outstanding Pupils Educationally (HOPE) Scholarship, Florida Bright Futures Scholarship, and the Michigan Merit Award Scholarship Program. Smaller programs, such as New Mexico’s Lottery Success Scholarship and Nevada’s Millennium Scholarship, have also been enacted. Typically, these programs require students to meet certain eligibility requirements in order to qualify for benefits, such as having a high school grade point average of 3.0 or higher, or scoring at a high level on standardized test scores (Redd, 2002b). These programs have proven to be very popular with state legislators, many of whom believe they help to encourage hard work in high school and award meritorious achievement (Redd, 2002b). In the 1990s, total state spending on merit- and other “non-need” programs jumped 206%, while state need-based grants rose only 41%. In 2002-2003, more than one fifth of all state scholarships were awarded based on academic merit or other criteria besides demonstrated financial need, up from just 11% in 1989-1990 (Redd, 2002b; NASSGAP, 2004).

These scholarships have greatly benefited students from middle- and upper-income families, but may not have had any positive effect on college access or choice for low-income students. In 1999-2000, only 13% of the traditional-age undergraduates who received state merit aid recipients came from

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families with income of less than \$20,000, while 39% came from families with income of \$60,000 or more. At the same time, nearly 45% of Pell Grant recipients had a family income below \$20,000, and less than 1% had an income of more than \$60,000. Even more telling is that nearly 70% of the state merit grant recipients from high-income families used the grants to attend four-year public colleges, compared with just 39% of recipients from low-income families. The majority (51%) of state merit aid recipients from low-income families used the grants to attend community colleges (National Center for Education Statistics, 2003).

Institutions and states have very legitimate reasons for establishing and supporting merit programs. These grants provide aid to groups of students who have demonstrated high academic ability; help institutions recruit meritorious candidates for admission; may help states encourage academic excellence in high school and college attendance; and provide some relief for middle-income families who may not qualify for traditional need-based aid but feel squeezed by the continuing growth of college prices (Redd, 2002b and 2002c). Unfortunately, the growth of state merit aid also reflects a shift away from using traditional need-based financial assistance to promote equal educational opportunity for students from low-income families. Instead, funds are shifted toward protecting college affordability for the middle and upper classes. This shift may have contributed to the decline in college choice equity among low- and moderate-income students.

Continuing Gaps in Academic Preparation

Third, despite great efforts by TRIO, GEAR-UP, and other programs designed to prepare high school students for college, large gaps in academic preparation still exist between low- and high-income high school graduates, and these gaps also contribute to the lack of equal educational opportunity. As Gladieux and Swail (1998, p. 5) point out, “Of all the variables that influence who enters and who succeeds in college, aspiration and academic preparation are probably the most powerful.”

Research has suggested that in order to be academically prepared to succeed in a four-year college, high school students should undertake a curriculum that consists of four years of English; three years of science, mathematics, and social studies; and two years of foreign language. They should also take an undergraduate admissions test, such as the SAT or the ACT (Berkner and Chavez, 1997; Gladieux and Swail, 1998).

Unfortunately, low-income high school students are less likely than their higher-income peers to have undertaken these actions. Berkner and Chavez (1997) found that only 53% of high school seniors from families with incomes below \$25,000 are considered “college qualified” based on these academic preparation criteria, compared with 68% of those from families with incomes between \$25,000 and \$74,999 and 86% of those from families with incomes above \$75,000. These data suggest that

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nearly half the low-income high school graduates would not meet the admissions criteria of selective or highly selective colleges and universities. It is likely that those who did not meet these admissions standards either did not attend any postsecondary institution after high school or attended community colleges or less selective schools.

As a result of these trends, fewer low-income students have been able to choose selective colleges and universities relative to their peers from higher-income families. According to data from the National Center for Education Statistics (NCES), just 42% of the low-income, full-time, full-year undergraduates at four-year public and private colleges in 1999-2000 were attending research or doctoral institutions (which are generally the higher-cost, more selective colleges and universities), compared with 56% of those from families with incomes of \$80,000 or more (NCES, 2003). Further, Mortenson (2004a and 2004b) has demonstrated that, collectively, only 18% of the undergraduates at the top 50 national colleges and universities (as ranked by *U.S. News and World Report*) received Pell Grants, compared with 30% of all undergraduates at all school types.

Data from the Campus Equity Web site, sponsored by the Pell Institute (<http://www.campusequality.org/index.asp>), provide vivid illustrations of the underrepresentation of low-income undergraduates at some of our nation's most selective colleges and universities. According to the Campus Equity Web site data, only 6% of all undergraduates at Harvard University, 11% of those at Stanford University, and 12% at the University of Michigan at Ann Arbor received Pell Grants in 2000-2001. On the other hand, a number of less selective institutions have much higher shares of low-income students. Roughly 54% of the undergraduates at California State University-Dominguez Hills received Pell Grants in 2000-2001, as did 64% of those at Alabama A&M University and 76% of students at Albany State University in Georgia.

To measure the relative size of the low-income population at each institution, the Pell Institute created the Equity Quotient (EQ) Index. The EQ is based on the enrollments of Pell Grant recipients, the percentage of undergraduates who applied for financial aid by income level, and other factors. In general, at institutions with EQ ratings below 100, low-income students are underrepresented in their undergraduate enrollments, while at those with EQ ratings greater than 100, low-income students are overrepresented.

Many institutions with low proportions of Pell recipients also have comparatively low EQ ratings. Harvard University, for instance, has an EQ of 43 and Stanford University has a rating of 70, while Alabama A&M University's rating is 265. This means that low-income undergraduates are more than *six times* as likely

to enroll at Alabama A&M University as they are at Harvard University.

These data are not intended in any way to criticize the efforts by Harvard, Stanford, or any other institution to increase enrollments of low-income students. On the contrary, as the Campus Equity Web site points out, using Pell Grants and EQ ratings as measures of any institution's commitment to equal educational opportunity is fraught with dangers. For example, it is possible that some low-income students received full or partial institutional or private scholarships that allowed them to attend schools like Harvard, Stanford, or the University of Michigan without the need for Pell Grants, and the Pell Institute's EQ ratings might not take this factor into account completely. Further, some institutions, like Alabama A&M University, have a history and tradition of providing access to lower-income students who do not meet their regular admissions standards (Merisotis & O'Brien, 1998). Selective institutions such as Harvard generally do not have these missions, so it may not be fair or accurate to compare them on the EQ scale.

Another weakness in the EQ is that it may assume that costs alone are the reason for the lower numbers of low-income undergraduates at some institutions. As mentioned, differences in academic preparation (generally not under the direct control of colleges and universities) may account for a large share of these gaps. And surely very qualified students from all income levels choose schools based on many factors—such as location, suitability of career goals or academic interest, and social or cultural opportunities—which cannot be influenced by changes in costs or financial aid policy.

The EQ ratings also do not take into consideration the fact that a rising number of Pell Grant recipients are older, non-traditional students who enroll in postsecondary institutions for much different reasons than younger undergraduates. Nearly 30% of all Pell Grant recipients were age 25 and older in 2002-2003, according to data from the U.S. Department of Education (U.S. Department of Education, 2004b). Since 1994-1995, the number of Pell Grant recipients age 25 and older has increased by 29% (U.S. Department of Education, 1996 and 2004b). These older students are more likely than traditional-age undergraduates to enroll at community colleges to receive job training and other specialized certificates. Older students are also more likely to have children or other responsibilities that would make it much more difficult for them to choose higher-priced institutions that are outside their communities. The growth in older students may thus account for some of the increase in the number of low-income students attending community colleges, which may be responsible for the higher EQ ratings of some lower-cost, four-year public institutions.

Despite these weaknesses, the Pell Institute's EQ ratings focus attention on a question that has plagued policy

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makers and educational analysts for some time: What is the best way to measure educational opportunity? Should the focus be on providing students access to a higher education institution, even if that choice is limited to the one with the lowest cost? Or should policy continue to attempt to provide students with a range of choices among institutions of different costs?

As higher education has become more expensive, it has become easier for aid programs and federal policy to meet the goal of providing *access* to lower-cost public institutions, but it has become more difficult for aid policy to realize the goal of *choice* of attending higher-cost public and private colleges (Hartle & Stedman, 1986). Many would argue that the emphasis on access has benefited a great number of low-income students. Because of this emphasis, more and more students from all income backgrounds have been enrolled in higher education. Indeed, Mortenson (2001) has shown that the college-going rate of high school graduates from low-income families rose by 15 percentage points between 1980 and 1999. Surely, increases in financial aid have helped to improve access to postsecondary education, and policy makers should be applauded for appropriating the funds and establishing the programs needed for this success.

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Further, an emphasis on choice potentially implies that there is a linkage between the cost of an institution and its educational *quality*. Lower-priced two- and four-year institutions may offer students educational programs that are just as good as those offered at higher-priced schools, and may help to limit or completely eliminate the students' need to borrow to pay attendance costs. It is very likely that a large number of students have become very successful after starting their postsecondary careers at community colleges, and these successes should be celebrated.

On the other hand, the dilution of choice for low-income does bring some potential dangers. As the majority opinion on the U.S. Supreme Court's decision in *Grutter v. Bollinger* noted, "[selective] universities...represent the training ground for a large number of our Nation's leaders" (539 U.S. 20 (2003)). The majority of our country's business, academic, and public policy leaders received their undergraduate education at selective and highly selective institutions. Using aid and other policies that might lead to limits in the educational choices of low-income students could harm their ability to rise to these leadership positions.

The U.S. Supreme Court and many other observers of higher education also note that there is an educational benefit to a diverse student population at selective institutions. Students from different backgrounds bring different ideas, perspectives, and experiences to course discussions and other aspects of college life. If financial aid policies are not able to support

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students' choice of institutions, this aspect of the educational experience might be lost.

Despite vast increases in funding for financial aid and college preparation, the goal of providing equal educational opportunity for lower-income Americans remains elusive. Increases in college costs, shifts in financial aid from grants to loans and from need-based aid to merit aid, and gaps in adequate college preparation have contributed to the lessening of college choice for lower-income families. There has been some progress in college opportunity, as the proportion of high school graduates from poor families who enter some form of postsecondary education has increased over the past two decades, and much of this increase can be credited to increases in financial aid. However, more of these students have been segregated into community college and lower-cost four-year institutions. The proportion of low-income students at many of our nation's most selective and prestigious institutions of higher learning remains very low and appears to have declined.

These trends suggest that policy makers have been successful in using financial aid and other policies to improve college *access* for low-income students, but have been unsuccessful in achieving equal college *choice*. What options are available to campus officials and state and federal policy makers who want to reverse these trends?

Changing financial aid and other policies to ensure equal choice would require a huge commitment of funds and other resources. Student aid and college preparatory programs compete for funding with other pressing and legitimate social needs, such as health care, the environment, national security, etc. At the same time, the federal government and many states have been running very large budget deficits, making it difficult for policy makers to reserve additional funds needed to re-emphasize college choice.

Nonetheless, there are some options available to policy makers that could increase college choice for low-income students and families more efficiently and effectively. These options, identified by the Pathways to College Network (2004), include:

- Improving information about the courses students need to take in high school to prepare academically for college.
- Initiating partnerships between high schools and selective colleges so that promising students from low-income families are identified and tracked early.
- Providing high school guidance counselors and families with more information on college enrollment and financial aid options, and involving all family members in the college planning process.

- Offering low-income students grant aid instead of loans, particularly during the early years of college.
- Using merit aid criteria that do not disadvantage students from lower-income families.

Much progress has been made in the efforts to achieve educational equity. Financial aid and college preparation programs have helped raise college aspirations and enrollments for students from all income and family backgrounds. But large gaps still remain between the college choices made by poor and wealthy students. The challenge ahead is to develop, fund, and implement policies that will allow students from any background the ability to access and complete educational programs at institutions that best meet their needs. To achieve true educational equity, policy makers must recommit to the goals of using available resources to ensure both educational access and choice for low- and moderate-income citizens.

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