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# The Role of Financial Aid in Promoting College Access and Success: Research Evidence and Proposals for Reform

By Judith Scott-Clayton

*Since the passage of the Higher Education Act of 1965, great progress has been made in increasing college enrollment rates for qualified students. But gaps in enrollment and completion by family income have persisted and even widened over time. These gaps are both troubling, given the high returns gained by attending college, and puzzling, given the growing availability of financial aid. This essay discusses key lessons that have emerged from decades of research on the impacts of student aid, suggests high-priority directions for federal policy reform, and examines implications for financial aid administrators.*

*Keywords: federal policy reform, higher education act, federal financial aid*

Nearly half a century ago, upon signing the Higher Education Act of 1965, President Lyndon Johnson stated his intent that the Act ensure that “the path of knowledge is open to all that have the determination to walk it.”<sup>1</sup> Since then, the country has made great progress in increasing college enrollment rates for qualified students across the income spectrum. Yet, as Bailey and Dynarski (2011) show, significant inequities remain, and while the levels of college enrollment are higher across the board, the *gaps* in enrollment between high- and low-income families are actually greater for recent cohorts than for those born in the early 1960s. Income inequality in college degree completion is even higher than for college entry, and these gaps cannot be completely explained away by differences in academic preparation (Bailey & Dynarski, 2011).

These gaps are troubling because of the compelling evidence regarding the value of postsecondary education. Baum, Ma, and Payea (2013) found that not only is the earnings premium for a college degree near historically high levels, but those with a college degree also have substantially higher employment rates—even in this soft economy—and receive better benefits, are less likely to smoke, and are more likely to vote. In addition, they found that the median college graduate also pays \$5,000 per year more in taxes than the median high school graduate. Further, their study shows that while a bachelor’s degree appears to offer the most substantial payoffs, two-year degrees (often in highly applied fields) also confer significant benefits, and even those who enter college but drop out without any degree do better than those who never enroll at all (Baum, Ma, & Payea, 2013).

The gaps are also troubling in light of the substantial amount of aid that is available to help students finance undergraduate education: over \$121 billion in grants and other non-repayable aid, and \$63 billion in federal student loans in 2013-14 (College Board, 2014). Two-thirds of undergraduates will receive some kind of grant assistance, with more than a third receiving a Federal Pell Grant. In 2013-14, full-time undergraduates received an average of over \$14,000 in aid—a fifty percent increase (after adjusting for inflation) over just a decade ago—including over \$8,000 in grants, nearly \$5,000 in federal loans, and \$1,260 in other assistance including education tax credits and work-study.

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If inequality in college access has persisted or even increased as financial aid has risen, does that imply that aid is ineffective? Hardly. Socioeconomic gaps in college access would almost surely be even worse in the absence of aid. But given the large public investment, it is reasonable to ask what impact all of this aid has on college access and completion, as well as how programs can be modified to work better. Now is not the time to reduce public investment in education, as the United States falls behind other countries on measures of educational attainment and social mobility and leaps ahead on measures of inequality. But whatever the level of investment, the stakes have never been higher to ensure that every dollar spent has the maximum impact—not just for the sake of taxpayers, but for the sake of students themselves, who make the biggest investments of all. In this paper, I discuss the key lessons that have emerged from decades of research on the impacts of student aid. I then suggest high priority directions for reform. I conclude with a discussion of implications for financial aid administrators.

## **What Do We Know about the Effectiveness of Financial Aid?<sup>2</sup>**

I draw five lessons from the available research on the effects of financial aid:

1. Net prices matter for college access and college choice.
2. Program complexity undermines aid effectiveness.
3. Students need proactive help to navigate the aid system, not just more information.
4. Every program has incentives, and these incentives affect outcomes.
5. While loans are unpopular, they may still be an important tool for access.

### ***Lesson 1: Net Prices Matter for College Access and College Choice***

The first and most fundamental lesson, grounded in more than 30 years of research, is that the net prices faced by students influence their enrollment, persistence, and completion decisions. Net prices refer to the price students or their families pay after taking into account discounts, grants, and other non-repayable aid. Leslie and Brinkman (1988) were among the first to review the evidence. Based on the available non-experimental research, they concluded that a \$1,000 decrease in net price was associated with a 3- to 5-percentage-point increase in college attendance.

Of course, it is difficult to infer causal effects based on non-experimental comparisons because aid programs often systematically target recipients based on characteristics (such as need, merit, or motivation to enroll) that may independently influence outcomes of interest. But subsequent research using more rigorous empirical methods has found positive effects of a similar magnitude across a range of contexts. Several studies have taken advantage of discrete policy changes to compare similar students who receive dramatically different amounts of aid, including Dynarski's (2003) analysis of the Social Security Survivors Benefit; Abraham and Clark's (2006) and Kane's (2007) studies of Washington, D.C.'s Tuition Assistance Grant; and two separate studies of the mid-century G.I. Bills (Stanley 2003; Bound & Turner, 2002). All of these studies find that enrollment increases when the net price faced by students is exogenously lowered. For more detailed reviews of these older studies, see Long (2008), Deming and Dynarski (2009), and Dynarski and Scott-Clayton (2013).

Recent work has increasingly focused on college choice, persistence, and eventual degree completion. A recent randomized evaluation of the Buffet Scholarship program in Nebraska (which considers both need and merit) finds that scholarship winners were significantly more likely to switch from two-year to four-year institutions, and were more likely to persist there as well (Angrist, Autor, Hudson, & Pallais, 2015). A set of studies exploits natural geographic variation in community college prices resulting from community college taxing districts in Texas: students who live within a district face lower prices than similar students living just

outside district boundaries (McFarlin, 2007; Martorell, McCall, & McFarlin, 2014; Denning, 2014). All three studies confirm that students facing lower community college prices are more likely to enroll in college. In particular, McFarlin (2007) finds significant switching away from four-year institutions, while Denning (2014) finds an overall positive impact on bachelor's degree completion. Castleman and Long (2013) examine the effects of a need-based program in Florida by comparing high school graduates just above and below a strict financial eligibility cutoff (a so-called “regression-discontinuity” or RD design), and find significant increases in four-year college enrollment and subsequent bachelor's degree completion. Broad-based state merit aid programs have also been found to increase college completion, at least in some states (Dynarski, 2008; Scott-Clayton, 2011).

Despite the preponderance of positive results in the literature, some notable null findings suggest that program design matters and positive impacts are never a guarantee—a theme I expand upon below. For example, two recent examinations of broad-based state merit aid programs using national data find no effects on degree completion in general (Fitzpatrick & Jones, 2012; Sjoquist & Winters, 2012), and a study of the Adams Scholarship in Massachusetts finds that the merit-based program actually reduced degree attainment by inducing students to switch into under-resourced institutions (Cohodes & Goodman, 2014). Finally, recent quasi-experimental analyses by Bulman and Hoxby (2015) and Hoxby and Bulman (in press) provide compelling evidence that none of the higher education tax benefits—tax credits and deductions valued at nearly \$16 billion in 2013-14—influence college enrollment, perhaps because these tax benefits are not realized until months after the enrollment decision has been made.

## ***Lesson 2: Program Complexity Undermines Aid Effectiveness***

While financial aid clearly can influence college enrollment, this does not imply that all aid programs are equally effective. For example, the programs discussed above that have demonstrated positive impacts on college enrollment tend to have simple, easy-to-understand eligibility rules and application procedures. The eligibility and application rules for Pell Grants—the nation's largest grant program—are comparatively complex, requiring students to submit to the lengthy and burdensome Free Application for Federal Student Aid (FAFSA) process for determining their eligibility (ACSF, 2005). Though recent efforts at simplification have reduced the number of questions on the FAFSA from 127 to 116, the application remains longer than an income tax form for the majority of U.S. households, and the eligibility calculation remains opaque. Most of the data items in the aid application have little effect on the distribution of aid, and that aid amounts can be replicated with great accuracy using only a few pieces of information (such as adjusted gross earnings and family size) that are readily available from IRS records (Dynarski & Scott-Clayton, 2006; Dynarski, Scott-Clayton, & Wiederspan, 2013).

It may be tempting to view the complexity of the aid application process as a mere annoyance perhaps not worth prioritizing for policy reform. To the contrary, while the form may be little more than an annoyance for well-supported, upper-income students, for low-income and first generation college students, the process can be overwhelming, especially when its benefits are obscured behind the complex EFC calculation. In all too many cases, these students may not even realize how much assistance they could receive unless they have applied and been accepted to college.

Dynarski and Scott-Clayton (2006) argue that this process is akin to a car salesman only revealing a substantial discount *after* a customer has committed to buying the car. The result is that the discounts flow primarily to those who were going to buy regardless, while those for whom the discount matters most may walk away before even learning the discounted price (Dynarski & Scott-Clayton, 2006). Indeed, while FAFSA application rates have risen over time—from 50% of undergraduates in 1999-2000 to 70% in 2011-12—substantial numbers of eligible students still fail to apply. Estimates based on data from the 2011-12

National Postsecondary Student Aid Study (NPSAS) indicate that of the 30% of students who failed to file a FAFSA, one third would have qualified for a Pell Grant, representing nearly 2.3 million students annually.

A recent experimental study by Bettinger, Long, Oreopoulos, and Sanbonmatsu (2012) provides dramatic evidence that the complexity of the financial aid application process is itself a significant barrier to college access. In the experiment, some low-income families who visited a tax-preparation center were randomly assigned to receive personal assistance with completing and submitting the FAFSA. This intervention, which took less than ten minutes and cost less than \$100 per participant, increased immediate college entry rates by 8 percentage points (24%) for high school seniors and 1.5 percentage points (16%) among independent participants with no previous college experience. After three years, participants in the full-treatment group had accumulated significantly more time in college than the control group. They also were much more likely to have received a Pell Grant.

Other suggestive evidence on the potential power of simplification comes from so-called “promise” programs in various locations, which communicate the very simple message that college is free if students meet basic academic criteria for admission. For example, in 2005 the Kalamazoo Promise began offering full, in-state college tuition to graduates of the Kalamazoo Public Schools in Michigan who had been enrolled in the district for at least four years. Even though many of these students would have qualified for substantial financial aid anyway, research has found the program had substantial effects on high school credit completion, college enrollment, and graduation (Bartik & Lachowska, 2013; Bartik, Hershbein, & Lachowska, 2015). Similarly, Carruthers and Fox (in press) find that a free community college program in Tennessee had large impacts on high school graduation and college enrollment even though it ultimately provided students with relatively little additional financial aid, since most students already received significant tuition reductions via existing federal and state programs.<sup>3</sup> This adds to the evidence that the design and messaging of grant programs, not just the dollar value of aid provided, can be a significant factor in influencing student behavior.

Complexity may also help explain why studies have found somewhat mixed evidence regarding the enrollment impact of Pell Grants. Studies by Hansen (1983) and Kane (1996) found little effect overall, while Seftor and Turner (2002) found positive impacts for adult students and Bettinger (2004) found some evidence of positive effects on persistence for students who are already enrolled. While the evidence on the effects of Pell is not conclusive, what is clear is that complexity and confusion surrounding the Pell eligibility and application process may obscure its benefits and dampen its impact among the individuals who need it most—those who are on the fence about college for financial reasons.

### ***Lesson 3: Students Need Proactive Help to Navigate the Aid System, Not Just More Information***

An interesting aspect of the FAFSA experiment described above is that it also randomized some individuals to receive an “information-only” intervention instead of the full FAFSA application assistance, but this information-only group experienced no increases in college enrollment relative to the control group (Bettinger et al., 2012). This suggests that students need more than information alone—they need assistance walking through the application process. But many high schools and colleges, particularly public institutions, are insufficiently staffed to provide such support, with student-to-counselor ratios at public colleges as high as 1,500-to-1 (Bettinger, Boatman, & Long, 2013).

This lack of guidance has consequences for students’ decisions about whether and where to enroll. A substantial percentage of college-intending students—high school seniors who graduate on time, are accepted to college, and apply for financial aid—nonetheless fail to matriculate in the fall, a phenomenon known as “summer melt” (Castleman & Page, 2014). Evidence suggests that prospective students likely to attend community colleges and for-profit colleges make institutional choices haphazardly, and many

students fail to investigate more than one option (Rosenbaum, Deil-Amen, & Person, 2006). Studies have also found worrisome evidence of under matching, in which high school students from low- and middle-income families often do not even apply to the most selective institutions for which they academically qualify (Avery & Turner, 2009; Bowen, Chingos, & McPherson, 2009; Hoxby & Avery, 2012; Hoxby & Turner, 2013; Roderick, Nagaoka, Coca, & Moeller, 2009).

Evidence is mounting that simple, low- to modest-cost coaching interventions that reach out to students during the summer after high school and throughout the first year of college can have substantial effects on enrollment and persistence. For example, in a series of randomized experiments, Castleman, Page, and Schooley (2014) found that text messaging, peer mentoring, and proactive outreach were all successful at reducing summer melt, with costs of no more than \$200 per student served. In the Expanding College Opportunities (ECO) project, Hoxby and Turner (2013) used data on SAT scores from the College Board to target information packets and application fee waivers to a random sample of high-achieving, low-income students. Despite an average cost of just \$6 per participant, the intervention had substantial impacts on the number of applications submitted and on the quality of institutions actually attended in terms of instructional spending and peer achievement. Finally, a randomized study of a student coaching service provided by InsideTrack (a for-profit company that contracts with individual institutions) via phone, email, text message, and social media interactions found significant impacts on persistence for a cost of approximately \$500 per student per semester (Bettinger and Baker, 2013).

In addition to their modest cost, because these interventions largely use phone calls and/or text messages rather than relying on in-person meetings with a counselor, they are more accessible for students and potentially easier to scale up.

#### ***Lesson 4: Every Program Has Incentives, and These Incentives Affect Outcomes***

The available research gives reason to believe that students respond to the incentives embedded in program rules. One example includes a study I conducted of West Virginia's PROMISE scholarship, which at the time provided free tuition and fees for up to four years to academically eligible students as long as they maintained a minimum GPA and completed 30 credits per year while in college. Interestingly, I found that prior to the scholarship's implementation, a substantial proportion of enrollees—even those near the top of the high school achievement distribution—were taking only 12 credits per semester (24 credits per year), which corresponds to the federal definition of “full-time” status but does not enable students to graduate on-time. After implementation, the PROMISE scholarship increased five-year graduation rates by 4 percentage points and on-time graduation rates by nearly 7 percentage points. Moreover, the achievement incentives were an important mechanism driving these increases. The scholarship increased credits completed in the first three years of college, but in the fourth and final year of the scholarship—while students were still receiving the money but no longer faced the course-load requirements—the program's effect disappeared.

While the West Virginia study sample is hardly nationally representative, other research has found that students respond to performance incentives in a range of other settings as well. For example, the social policy research organization MDRC has conducted several randomized experiments in multiple states, where they offered low-income students the opportunity to receive additional grant assistance if they met modest academic benchmarks throughout the year (Patel, Richburg-Hayes, de la Campa, & Rudd, 2013). In most cases, those offered the chance to participate improved their grades and completed more credits than the control group. Although longer-term follow up is ongoing, at the one site for which degree completion information is available (Ohio), participants were 3.5 percentage points more likely to have earned any degree or certificate after three years (from a baseline completion rate of 23 percent).

These findings do *not* suggest that Pell should be converted into a merit-based scholarship. In fact, the success of some merit-based programs relies in part on the existence of a wholly need-based program like Pell that serves as the foundation of financial support. The fundamental mission of Pell Grants has been and should remain to provide financial access to higher education for disadvantaged students, not to reward achievement.

Nevertheless, the Pell Grant program should not—and cannot—avoid incorporating incentives into its design, and these incentives should be structured to align with program goals. The current design actually provides disincentives for timely completion by providing more assistance for the same number of credits to students who take longer to finish, essentially penalizing those who would prefer to finish faster. This occurs because students are considered full-time, and qualify, for a full Pell Grant if they enroll for at least 12 credit hours a semester. Those who enroll for 15 credit hours—the average number necessary to complete an associate’s degree in two years or a bachelor’s degree in four years—do not receive additional funding. A student who takes an average of 12 credits a semester over five years of full-time study to complete 120 credit hours receives five full Pell Grants. A similar student who graduates in four years by taking 15 credit hours per semester receives only four full Pell Grants.

### ***Lesson 5: While Loans Are Unpopular, They May Still Be an Important Tool for Access***

A final lesson is that even though loans are unpopular, they are a critical element in college financing, and their design might be significantly improved to minimize students’ repayment risks and better communicate both risks and protections upfront. Compared to the volume of research on grant aid and tuition discounts, relatively few studies have examined how student loans affect college enrollment, performance, or completion.

There is strong evidence outside of the United States of the value of student loan access in countries where student loans have been the most prominent form of government aid for college. In Chile, access to student loans is determined by both income quintile and test scores. Using an RD design, Solis (2014) finds that college enrollment is 16 percentage points higher for those who barely qualify for loans compared to those who barely miss the test score cutoff (from a baseline college enrollment rate around 30 percent); he also finds that the program virtually eliminates the income gradient in college enrollment for students above the cutoff. Examining college applicants just above and below a credit score cutoff for loan access in South Africa, Gurgand, Lorenceau, and Mélonio (2011) find a similarly large, 20 percentage point increase in college enrollment for students with access to loans (from a baseline enrollment rate of about 50 percent).

It is difficult to extrapolate from these studies to the United States, where loans are increasingly important but remain only one component of a broader aid system. Heller (2008) reviews the non-experimental literature on whether loans increase college access and concludes that college enrollments are not as sensitive to loans as to grants, but cannot conclude whether they may still be cost-effective, given that they cost the government only a few cents on the dollar to provide.<sup>4</sup> Dynarski (2005) finds suggestive but ultimately inconclusive evidence that student loan expansions in the United States in the early 1990s led to increased college attendance. Two recent studies utilize institution-year level variation in whether or not community colleges offer access to federal loans and find higher levels of enrollment intensity and persistence for students who have access to loans (Dunlop, 2013; Wiederspan, in press).

Students clearly would prefer to avoid debt if given an alternative. A lottery study with NYU law school admits found that students were more likely to matriculate when offered an aid package with no debt, even when the alternative aid package was structured to be financially equivalent (Field, 2009). Debt also appears to constrain students’ career options after graduation (Rothstein & Rouse, 2011). But since loans also cost

the government only a few cents on the dollar to provide, it remains an open question whether loans provide bigger, smaller, or the same “bang for the buck” as grant aid does.

Given the widespread reliance on student loans, a more interesting question than whether they increase college enrollment and completion is whether some types of loans are more effective than others. Are there ways to make loans more attractive and less risky for students without drastically increasing costs? This is an open question, but unless it is answered, student loans may remain primarily a financing tool for students who have already decided to go to college, rather than a tool to promote college access for students who are on the fence.

### **High-Priority Directions for Federal Student Aid Reform**

In prior work in collaboration with colleagues (Dynarski & Scott-Clayton, 2007; Baum & Scott-Clayton, 2013), I have proposed significant reforms to the Pell Grant program. Sandy Baum describes our recent proposal in detail in this volume. Below, I make some additional comments on three key elements of our proposal and also discuss a fourth reform idea relating to student loans. See Baum’s paper for additional details regarding the first three proposals.

#### ***Proposal 1: Simplify the Pell Eligibility Calculation, as well as the FAFSA Application and Renewal Process***

Research cited above demonstrates that the complexity of the federal aid application process has significant costs while providing few benefits in terms of the targeting of aid. All of the complex calculations that go into the determination of Pell Grant awards are unnecessary—research has shown that award sizes can be accurately predicted using only a few pieces of information already available from tax data. Thus, for most students, Pell awards should be based only on adjusted gross income and family size, as measured by number of federal income tax exemptions. Neither students’ income and assets nor the timing of siblings’ enrollment in college would affect the amount of aid awarded.

Simplifying the aid formula would enable the system to take advantage of IRS data that the federal government already has, eliminating the need for most students to submit a separate application. We further recommend basing eligibility on the most recent year of tax data available at the time of college application—typically the “prior-prior” year relative to college enrollment (for example, the 2013 tax year for students enrolling in fall 2015).

Various groups have articulated how aid simplification could work, including Senators Lamar Alexander (R-TN) and Michael Bennet (D-CO) who introduced the Financial Aid Simplicity and Transparency (FAST) Act in January 2015, in addition to proposals from The Institute for College Access and Success (2007), Dynarski and Scott-Clayton, (2007), Baum and Scott-Clayton (2013), and the Bill & Melinda Gates Foundation (2015). There may be more than one workable model, as long as the goals of communicating eligibility early and eliminating the need for a separate application are achieved. While some have expressed concern that states and institutions might require additional aid applications if the FAFSA is eliminated, this is a surmountable problem. A simplified formula can replicate state aid awards as well as federal aid awards (Baum, Little, Ma, & Sturvesant, 2012). The most elite private institutions already use additional forms and will continue to do so. If necessary, the federal government could use inducements to encourage institutions to not add forms.



### ***Proposal 2: Augment Pell Grants with Basic “Navigation” Support Services for Program Participants***

The evidence discussed above demonstrates that students need more than just better information about financial aid and the college application process more generally: They need proactive and personalized assistance. Providing information about college quality and costs on a website is insufficient because many students will never visit it, and those that do may be unable to interpret how generalized information applies to their specific case.

The importance of providing program participants with access to “navigators” is already recognized by other complex federal programs. For example, State Health Insurance Assistance Programs (SHIPs) are the product of a grant-funded collaboration between the U.S. Department of Health and Human Services and the U.S. Administration for Community Living to provide “free, in depth, one-on-one insurance counseling and assistance to Medicare beneficiaries, their families, friends, and caregivers” (SHIP National Technical Assistance Center, 2014). More recently, the Centers for Medicare & Medicaid Services awarded \$65 million in “navigator cooperative agreements” to entities that will help consumers in new federal and state health insurance marketplaces to “prepare electronic and paper applications...provide outreach and education to raise awareness...and refer consumers to health insurance ombudsman and consumer assistance programs when necessary” (Centers for Medicare & Medicaid Services, 2015). Deciding where to go to college and how to pay for it are equally complex decisions, and Pell Grant recipients should not be left on their own to figure it all out. An investment on the order of 5 to 10 percent of current Pell funding (\$2 billion to \$4 billion) could support meaningful and effective additional services for new recipients (see Baum’s article in this volume for more details on what these services might look like).

### ***Proposal 3: Align Program Rules to Support College Success, Not Just Access***

As Baum describes in more detail in this volume, we have proposed basing Pell Grants for all recipients on the number of credits attempted (Baum & Scott-Clayton, 2013) rather than fixing the maximum award for students completing 12 or more credits per term. Pell Grants are already prorated according to credit load for students attending less than full-time (fewer than 12 credits per semester) but not for students attending more than “full-time” (i.e., more than 12 credits), even though the federal definition of full-time does not enable students to graduate on time. Funding students according to the number of credits they take would eliminate the current arbitrary caps on enrollment intensity and would enable students to enroll year-round if they so desire. Lifetime caps on total number of credits would minimize any incentives for students to enroll for more credits than they could reasonably complete.

This change, as well as other aspects of our proposal, would promote student success without changing the fundamental nature or purpose of Pell as a need-based rather than a merit-based grant. Program rules always create incentives of one kind or another, so we ought to ensure, at a minimum, that those incentives don’t work against important program goals.

### ***Proposal 4: Restructure Student Loan Repayments to Make the Enrollment Decision Easier, Not Harder***

In addition to the Pell reforms Sandy Baum and I have articulated in this volume, the student loan program also badly needs changing. While student loans are unpopular, they remain an important tool for maintaining college access. The evidence discussed above suggests that access to student loans does increase college enrollment (Dynarski, 2005; Solis, 2014; Wiederspan, in press; Dunlop, 2013). And, the vast majority of borrowers are able to repay thanks to strong earnings prospects for those with higher education (Akers & Chingos, 2014a).

Nonetheless, students' discomfort with student loans as currently designed is understandable. Many students don't even know how much they have taken out in loans, let alone what their monthly repayments will be (Akers & Chingos, 2014b). Moreover, as Dynarski and Kreisman (2013) point out, the default loan repayment plan asks students to pay back their student debt over a ten-year period right after college, when earnings are lowest and most variable, creating non-trivial repayment risk. Moreover, the current provisions intended to protect students against default (including loan deferment, forbearance, and existing income-based, income-contingent, and extended loan repayment plans) are themselves so complex that many students at risk fail to take advantage of them before they get into repayment trouble.

Drawing upon recent work by Dynarski (2014) and Dynarski and Kreisman (2013), I propose two key reforms. First, student loans need to be restructured to minimize students' repayment risks. Dynarski and Kreisman (2013) have proposed making the standard repayment option for all student borrowers into an income-contingent repayment system that would collect repayments as a proportion of income automatically through the tax system. The repayment period would extend up to 30 years, or until the loan is paid off, whichever comes first.

Second, more work should be done to ensure that students understand the loan repayment process upfront, so that they are not afraid to take advantage of this important tool for access. Too many students (and policymakers) view student loans as a burden to be dealt with on the back end of college rather than as a potentially powerful tool for increasing access to college at the front end. Indeed, to many students, loans hardly feel like a form of college aid at all; counterintuitively, a loan that is meant to help students afford college may instead feel like a disincentive to enrollment. But with streamlined, income-contingent repayments and better guidance upfront, student loans might be much less scary and a much more effective tool for promoting access than they currently are.

### **Implications for Financial Aid Administrators**

Federal student aid is at the foundation of our nation's efforts to increase college enrollment and attainment. Given the stakes involved—for both students and taxpayers—it is essential that every dollar of student aid be used as effectively as possible. The federal reforms suggested above are research-based and have the potential to substantially improve the impact of federal investments in postsecondary education. Any substantial reform is likely to create more work for financial aid professionals in the short term; however, simplifying the aid application and streamlining student loans ultimately could reduce the administrative burdens on aid offices.

But regardless of what happens at the federal level, the body of research described above also has additional implications for the policies and programs in place at individual institutions. The first clear implication is that the day-to-day work of financial aid professionals is critically important to promoting college access and success. If aid offices are understaffed, it is not just an inconvenience—for some students, it could mean the difference between enrolling in college or not. Furthermore, we cannot assume that students themselves will always ask for help. Proactive and ongoing outreach is essential.

A second implication is that the more communication and collaboration there is between financial aid and academic advising offices, the better. Even need-based programs typically have minimum academic requirements (see Schudde & Scott-Clayton, 2014 for an examination of the role of satisfactory academic progress rules in the federal aid programs), yet students are often unaware of these requirements until they get into trouble. In fact, a striking observation regarding the MDRC evaluations of performance-based aid is that the GPA requirements typically were not any higher than what participants already faced as Pell

recipients—yet the “performance-based” awards still had a positive impact, perhaps because they made the standards more salient than they had been before.

A third implication for aid administrators is that while much of the public discussion has focused on the risks of students incurring too much debt, the research suggests that there could be risks associated with *not* borrowing as well. Students who do not have access to loans—either because their institution doesn’t offer them or because they are personally debt averse—may end up reducing their course load, or opting out of college completely, as a result.

## Conclusion

In the ongoing policy discussions about financial aid and the costs of college, it is important to keep in mind that “college affordability” isn’t just about what or how students pay for college, but also about value—the quality of education that students receive for their investment (Baum & Ma, 2014). There is tremendous variation in quality across institutions, and even across programs within institutions, and evidence suggests that this variation matters for students’ future outcomes (Bowen, Chingos, & McPherson, 2009). The most “affordable” option is not always better for either students or taxpayers; programs that appear more expensive in terms of costs per enrollee may actually be cheaper in terms of costs per graduate (Levin & Garcia 2013).

Thus, figuring out the cost side of the college cost-benefit equation only gets a student halfway to a good decision. While efforts to provide more accessible information on college quality—by providing comparisons of graduation rates, employment rates, and default rates are laudable, research suggests information alone isn’t enough to help students make good college choices (Bettinger et al., 2012; Núñez, 2014).

Ultimately, making good college choices requires individualized, personalized guidance that has proven to be effective, but would be difficult for the federal government to provide directly. Still, if federal policymakers can simplify the cost calculus for students and their families, it could free up financial aid administrators, college advisors, high school counselors, and volunteers nationwide that are currently devoted to helping students fill out FAFSAs and navigate the student loan system. These valuable resources could be redirected to helping students with other complex decisions, like how to identify a high-quality college pathway that not only fits their budget, but furthers their educational aspirations. And if students themselves could spend a little less time worrying about money, they could spend a little more time doing the things they need to do academically to prepare for and succeed in college.

## *Endnotes*

<sup>1</sup> Lyndon Baines Johnson, *Remarks at Southwest Texas State College upon signing the Higher Education Act of 1965*, November 8, 1965. Archived online by Gerhard Peters and John T. Woolley, The American Presidency Project. Retrieved from <http://www.presidency.ucsb.edu/ws/?pid=27356>.

<sup>2</sup> This section updates and expands, but largely follows an earlier review of the literature in Dynarski, S. M., & Scott-Clayton, J. (2013). Financial aid policy: Lessons from research. In C. Rouse, L. Barrow, & T. Brock, (Eds.), *Future of Children*: Vol. 23, No. 1. Princeton, NJ: The Trustees of Princeton University.

<sup>3</sup> This study examines the Knox Achieves program, which initially began in Knox County, Tennessee in 2008, was expanded to 22 counties in 2011, and formed the basis for the statewide Tennessee Promise expected to roll out in 2015. The program also provided college advising to high school students.

<sup>4</sup> Some disagreement exists about the best way to measure how much student loans cost the government. The official methodology used by the Congressional Budget Office (CBO) estimates that student loans averaged across all types (subsidized, unsubsidized, and parent loans) have a -6 percent net subsidy rate, meaning that for every dollar disbursed in student loans, the government recovers \$1.06 (see CBO, 2013, p. 7). However, the official methodology may understate costs by using a risk-free interest rate in its net present value calculations rather than a risk-adjusted rate. The New America Foundation concludes that “fair value” estimates that adjust for risk generate estimated costs of 7 to 12 cents to the government for every dollar of loans disbursed (New America Foundation, 2015).

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