

# Financial Aid: A Key To Community College Student Success

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## **The Connection between Financial Aid and Persistence**

Although there are many barriers to college success, a major impediment is cost. As the federal Commission on the Future of Higher Education concluded, “There is no issue that worries the American public more about higher education than the soaring cost of attending college” (2006, p. 19). According to the College Board, during the 2009-10 school year, the average full-time tuition at community colleges was \$2,544, which is significant relative to the resources of a low-income family. In addition, there are many other costs associated with higher education, including foregone earnings. In the case of California, Zumeta and Frankle (2007) calculate that community college fees represent only five percent of the total cost of attendance.

Researchers have long thought that financial aid is important to supporting college success, and there have been a number of studies that have analyzed the relationship between financial aid and persistence. However, a core problem in this work is that the characteristics that are positively related to receiving aid (i.e., being from a low-income family or having high test scores) are also likely to be related to educational outcomes.<sup>1</sup> Therefore, a simple comparison of the outcomes of aid recipients to non-recipients is not a satisfactory research strategy. A few studies have utilized more rigorous methods to provide a casual estimate of the impact of aid on college persistence. For example, Dynarski (2008) finds that the state merit-based aid programs of Arkansas and Georgia reduced the college dropout rate. Moreover, Scott-Clayton (forthcoming) examined the West Virginia PROMISE Scholarship and found that it had positive effects on a range of

outcomes, including credit accumulation. One study that focuses on community colleges examined the effects of a scholarship that was provided to low-income students in reward for reaching minimal course-related benchmarks. The researchers found that this had positive and significant effects on credit accumulation and full-time enrollment (Richburg-Hayes, et al., 2009). There are a number of additional studies that demonstrate a positive correlation between financial aid and persistence and college graduation (St. John, 1989; Cabrera, Stampen, and Hansen, 1990; Singell, 2004). While much more research is needed in this area to better understand how and what types of financial aid are most effective in supporting the persistence of community college students, the potential benefits of providing financial aid seem positive.

<sup>1</sup> For example, students with large merit-based awards are more likely to persist in college, but it is unclear whether that is due to the fact that they received financial aid or that the traits that garnered them the award also helped them to do well in college irrespective of the aid.

## **The Financial Aid Process and Needs of Community College Students**

The financial aid process begins with the Free Application for Federal Student Aid (FAFSA). Applying for federal financial aid, and often for state and institutional aid, requires a student to complete the FAFSA. The FAFSA collects information on family income and assets to determine the Expected Family Contribution (EFC), the amount that a family is estimated to be able to give towards higher education expenses. Other information that affects this calculation is the size of the family, the number of family members in college, and the age of the oldest parent, as well as information on the student's earnings and assets. The EFC formula differs if the student is independent, meaning that they are age 24 or older, married, have legal dependents, are orphans, or have served in the Armed Forces. Because independent students may have their own dependents and are not expected to rely on parental contributions, the federal system does not expect independent students contribute as much as the families of dependent students. To calculate need, the government subtracts the EFC from the total cost of attendance.<sup>2</sup> A student's financial need, in combination with his or her EFC, determines whether the student is eligible for certain grants and loans.

While the financial aid system was created with the idea of determining the need of recent high school graduates who are dependent on their parents and attend college full-time, community college students are a much more diverse group. Most would be considered "nontraditional" (or "neotraditional") meaning someone who fits at least one of the following criteria:

- Delays enrollment after high school • Does not have a regular high school
- Attends part-time diploma (i.e., a GED or other certificate)
- Works full-time while enrolled • Is a displaced workers or unemployed
- Considered financially independent • Is a welfare recipient

• Has dependents other than a spouse • Is an immigrant According to Choy (2002), nearly

three-fourths of all undergraduates are nontraditional, and at most community colleges, this proportion is even higher. The nontraditional group includes working adults, parents, welfare recipients, immigrants, displaced workers and the unemployed, and single, financially-independent students.

Given the disconnect between how the financial aid system was designed and the profile of many community college students, many suggest that the current financial aid system does not adequately meet the needs of community college students. In the next section, I discuss some of the main barriers that currently exist and hinder financial aid from helping community college students to the fullest. By understanding the problems, the implications for how to improve things are clear. The last section highlights several efforts to address these barriers.

### **Current Financial Aid Barriers**

#### **(1) Lack of Awareness about Financial Aid**

In order to have an impact on behavior, students and their families must be aware of the policies designed to help them. Unfortunately, awareness appears to be low as many students lack accurate information about higher education costs and financial aid. Researchers have continually

<sup>2</sup> Total cost of attendance, which is pro-rated based on the student's enrollment intensity (whether they attend full- or part-time), includes tuition, fees, room and board, and other costs at the institution the student attends.

found a significant lack of information among prospective college students (e.g., U.S. General Accounting Office, 1990; Ikenberry & Hartle, 1998). Most studies find that students and their parents greatly overestimate the costs of college (Horn, Chen, & Chapman, 2003; ACSFA, 2005). There is also a lot of misinformation about financial aid among parents and students. A Harris Poll commissioned by the Sallie Mae Fund found that two-thirds of all parents and young adults planning to go to college did not name grants as a possible source of funds when asked about types of financial aid (Sallie Mae Fund, 2003). Awareness about aid and college costs appears to be especially limited among low-income students (Sallie Mae Fund, 2003; Kane and Avery, 2004). The low levels of awareness and misinformation about aid have serious implications for student success and completion.

## **(2) The Complexity of the Financial Aid Application (FAFSA)**

As described above, the FAFSA collects a wealth of information about a family's situation in the hope of equitably treating families with similar situations. However, a major critique is that the FAFSA is long and cumbersome. Until recently, to determine eligibility, students and their families had to fill out an eight-page, detailed form that contains over 100 questions. To answer three of these, students had to complete three additional worksheets with nearly 40 additional questions. Even the lowest income students, who had already established their eligibility for other federal means-tested programs and were known to be eligible for federal student aid, had to go through this arduous process. Not surprisingly, research suggests that students and their families are often confused and even deterred by the form (ACSFA 2005). King (2004) found that half of the 8 million undergraduates enrolled in 1999-2000 at institutions that participate in the federal student aid program did not complete the FAFSA. Yet 850,000 of them—more than 20 percent—would have been eligible for a Pell Grant. In fact, at two-year colleges, about 50 percent of students with family incomes less than \$20,000 did not file a FAFSA. Furthermore, of those who did file, more

than half missed the April 1<sup>st</sup> deadline to be eligible for additional state and institutional aid programs.

## **(3) The Need Analysis System: How it Treats Many Community College Students**

There are several major criticisms about the way federal need analysis is applied to community college students. As noted above, the system was designed with a traditional, dependent student in mind. Therefore, it is assumed that the earnings of the potential student are relatively minor (i.e., the result of a summer job) and should be highly taxed to cover college expenses. Moreover, the calculation assumes that the parents' income, the main source of support for the child, will continue even while the student is in college and should be used to help cover expenses. In contrast, many community college students are independent and do not have other major sources of support on which to rely. Most are formally engaged in the labor market when applying for financial aid, and while the government assumes this income level will remain the same even after college enrollment, the student may actually experience a reduction in earnings while pursuing courses. Therefore, assumptions about the amount of earnings available to them while in school are incorrect. As an extension of this, the EFC for many independent students may be too high as they are penalized for their earnings the year before starting school.

## **(4) Financial Aid Award Criteria**

The criteria applied when awarding financial aid can also penalize many community college students. For example, some programs require students to be enrolled at least part-time or even full-time. Due to the fact that community college students often attend part-time or less than half-time, this excludes them from qualifying for some aid. Community college students are also less likely to be enrolled in a degree program and more likely to pursue a particular skill without the goal of completing a particular certificate or other credential. They are therefore excluded from programs requiring students to be enrolled in a degree program. Finally,

some programs require a regular high school diploma while many nontraditional students at community colleges instead have a GED or other certificate (Bosworth and Choitz, 2002).

#### **(5) Loans: Too Little and Too Much**

Loans are a much more complicated form of financial aid than grants. Because they must be repaid, students have to consider their future ability to pay, and research suggests that debt burden can cause students to alter their decisions regarding career choice and life events such as buying a home. With respect to community college students, loans are a double-edged sword. On the one hand, many community colleges do not participate in the federal student loan program, and this limits the availability of this type of financial aid to their students. By preventing students from accessing this resource, we may be forcing them to work more hours and/or attend at lower intensities, thereby reducing their probability of college completion. On the other hand, some community college students seek out private student loans, which tend to have higher interest rates and less favorable terms. There are many concerns that these loans have too steep costs for students, and students can end up with too much debt. This is especially a concern if they do not complete a degree or reap significant returns to their educations. Taken altogether, research suggests that loans can have a negative impact on college persistence (Dowd and Coury, 2006). There is no question that grants are a more effective means of supporting college access and success and so caution should be used when considering loans as a financial aid policy.

#### **Financial Aid Strategies to Increase Retention and Completion**

While financial aid has the potential to help community college students persist to their goals, it is clear that much could be done to improve student awareness and access to such resources. Below I highlight several interventions that have attempted to address this need.

#### **(1) Improve Financial Aid Information and the Application Process**

Given the many critiques of the FAFSA, there have been numerous calls to simplify the financial aid process, and the Department of Education has implemented procedures to do just that, including using skip logic in the online version of the FAFSA to eliminate questions that do not apply to some students and piloting ways to transfer information directly from the IRS to the online FAFSA. While these changes will likely help many students, these efforts still require families to be aware of the FAFSA and able to complete it online, preferably with high-speed internet, a problem for many potential community college students.

Although the financial aid application process remains complicated for many students, one intervention has been proven to increase FAFSA submission rates and college outcomes. Working with several co-authors, I developed a project to help low-income families complete their FAFSAs. Using a random assignment research design, professionals helped a group of low- to middle-income families complete the FAFSA. The intervention streamlined both the aid application process and students' access to accurate and personalized higher educational information, and the whole process took on average only eight minutes. Results from project confirm suspicions that a lack of information and the complexity of the aid process are hindering low- and moderate-income students' ability to enroll and persist in college. We found that individuals who received assistance with the FAFSA and information about aid were substantially more likely to enroll in college. Students also experienced increased amounts in aid receipt (Bettinger, Long, Oreopoulos, and Sanbonmatsu, 2009). Although it will take time to determine the full benefits and costs of simplification, these results suggest that streamlining the application process and providing better information could be effective ways to improve the resources available to students, and thereby, rates of students success.

This study also has implications for improving the effectiveness of the Pell Grant. While

it is the most visible grant program, research on the effectiveness of the Pell Grant has left more puzzles than answers. Its introduction was expected to increase the relative enrollment of low-income students, but researchers instead found no overall effect and only a small effect on community college enrollment (Manski and Wise, 1983; Hansen, 1983; Kane, 1995). One set of explanations for the lack of a response relate to low program visibility, the complexity of the application process, and intimidating audit procedures. It is important to note that the current Pell Grant program is somewhat different than it was in the early 1970s, but the concerns about low levels of awareness of the Pell Grant and the complex processes needed to access it are still valid. By educating potential students about their aid eligibility and streamlining the aid application process, as shown with our intervention, the Pell Grant could become a much more effective tool in improving college success.

## **(2) Link Financial Aid to Benchmarks**

As part of the Opening Doors demonstration, MDRC conducted an intervention in Louisiana that serves as a compelling example of how to help students. In 2004, low-income parents who were enrolled in or planning to enroll in community college were offered performance-based scholarships (PBS). The students could get \$1,000 for each of two semesters if they met two conditions: (a) they had to enroll at least part-time, and (b) they had to maintain an average GPA of 2.0. The PBS money was in addition to the Pell Grant and any other aid received. MDRC researchers found the program to have many positive effects. First, it encouraged more students to enroll in college. Moreover, it increased persistence. In the second semester after being randomly offered a PBS, students were 30 percent more likely to register for classes. The intervention also had positive effects on a range of social and psychological outcomes (Richburg-Hayes, *et al.*, 2009). Unfortunately, due to Hurricane Katrina, the researchers were not able to do longer term analyses, but there are a series of current studies testing whether the same effects are found in other contexts.

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