



IN OUR PREVIOUS ESSAY, WE CONSIDERED THE ROLE OF INSTITUTIONAL FINANCIAL AID AND THE PRACTICE OF ENROLLMENT MANAGEMENT. IN THAT ESSAY WE EXPLORED

# Enrollment Management

## & **FINANCIAL AID**

Part Two

THE USE OF FINANCIAL AID AS A TOOL TO ENHANCE EQUITY, INCREASE PRESTIGE, AS A REVENUE ENHANCEMENT TOOL, AND AS A MEANS TO SHAPE INSTITUTIONAL IMAGE IN THE VARIOUS MARKETS THAT COMPRISE OUR DIVERSE SYSTEM OF POSTSECONDARY EDUCATION. IN THIS SECOND ESSAY ON THE TOPIC OF FINANCIAL AID, WE EXAMINE CURRENT FEDERAL AND STATE FINANCIAL AID PUBLIC POLICY ISSUES AND THEIR RELATIONSHIP WITH THE ENROLLMENT MANAGEMENT STRATEGIES AND PRACTICES ON INDIVIDUAL CAMPUSES.



BY DON HOSSLER AND DAVID KALSBECK

## A Public Policy Perspective

To put things in perspective, the most recent issue of The College Board publication, “Trends in Student Aid, 2007,” reports that the total amount of institutional financial aid is approaching four times the amount that states invest in financial aid. Nevertheless, state and federal financial aid programs play an important role in the enrollment strategies of colleges and universities. The ways in which federal and state financial aid policies influence enrollment management and enrollment outcomes, however, can vary widely depending upon the wealth, market position and mission of individual institutions. For example, well-endowed institutions such as Princeton or Williams have developed their own definitions of financial need and are so generous with campus-based financial aid that federal financial aid policies are no longer relevant. Regional public or private urban institutions, on the other hand, pay a great deal of attention to how much money students can borrow in any given year and to shifts in the level of funding for Pell Grants and state grants. Finally, financial aid policies at many community colleges discourage students from taking on student loans because they are concerned

about problems associated with Title IV refunds if students do not attend their classes and with potentially high student loan default rates that could make them ineligible to participate and result in negative publicity. Despite the range of mission, wealth, size, and location of institutions, it behooves enrollment managers to be the campus experts on shifts in public policy and how such changes affect the students and the institutions we serve. The policy analyst role is increasingly part of the successful enrollment management officer’s portfolio of skill sets.

For most institutions, federal financial aid provides a foundation upon which all campus-based and state financial aid programs are built. Phrases such as *unmet need*, direct costs, and *net costs* are used by offices of financial aid and admissions to communicate to students and families how much they will have to pay out of pocket to attend a specific institution. These same phrases are used to create internal metrics that are used to measure institutional affordability among various groups of students or to serve as an indicator of the amount of institutional effort that is being made to assure financial access to low-income ad-

mitted students. Pell Grants and Stafford loans provide a common starting point for nearly all institutions as they build their financial aid packages that ultimately lead to calculations of *unmet need* or *net cost* and that determine to significant degrees enrollment and revenue outcomes.

More complex is the impact of state financial aid programs on the enrollment management strategies of colleges and universities. States such as California, Illinois, Indiana, and New York provide relatively generous need-based grants for students while states such as Florida and Georgia have invested large amounts of state funds into merit-based financial aid programs (Bright Futures in Florida and the Hope Scholarship in Georgia). Yet another state model is the voucher program in Colorado that enables students to use their vouchers at any public or private institution in the state. Still other states provide modest amounts of need-based or merit-based financial aid. To make things even more complicated, some states provide more generous financial aid programs for public sector institutions, ignoring the private sector, while other states, such as New York for example, provide more generous scholarships for students enrolled in the private sector. Thus at Georgia public institutions, it is unlikely that senior enrollment managers have to budget large amounts of campus-based financial aid in efforts to provide merit scholarships for Georgia high school students. On the other hand, public and private institutions in the State of New York may have to worry less about providing need-based financial aid for low- and moderate-income students because TAP Grants, along with Pell Grants, enable campus policy makers to keep the amount of unmet need relatively low for needy students. However, both public and private institutions in Alaska have to be more concerned about both merit- and need-based financial aid because the state invests relatively little in any form of financial aid assistance.

Historically, the American Council on Education (ACE) and the National Association of Student Financial Aid Administrators (NASFAA), working with senior campus policy makers and financial aid administrators have worked closely to try to influence federal financial aid public policy. In recent years, however, there is a sense that because of the wide gap in the views of proprietary, public community college, four-year private institutions, and four-year publics toward financial aid that ACE has not been able to play as significant a brokering role in advocat-

ing for specific changes in federal financial aid. In addition, NASFAA has increasingly become the technical experts on federal aid policy, but they are viewed by some as no longer playing a major role in shaping major elements of federal policy. Although the national office of AACRAO has been active in public policy debates, to date, most enrollment management conferences, other than the College Board Annual Forum, have seldom included a strong focus on federal and financial aid policy, despite the important role these programs play. This may be due to the overriding focus on tactical dimensions of EM in the early years of the profession, as addressed in our previous essays.

Now seems to be a propitious time for enrollment managers to be thinking broadly and deeply about federal and state financial aid policies and their impact. Both federal and state financial aid programs have once again come under great scrutiny from elected leaders and educational policy analysts. There is a growing sense that our current federal system of financial aid is broken. Since the passing of the Higher Education Act of 1965, the federal financial aid system has evolved from a program focused on providing grants for needy students, to a complicated system that over time has also added programs to provide loans, tax deductions, tax credits, scholarships for low-income students who perform well in STEM-related fields (Science Technology Engineering and Mathematics), and loan forgiveness programs for teachers, among others. These changes have made institutional efforts to manage federal, state, and institutional financial aid offices increasingly difficult. In addition, no matter how many efforts have been made to simplify the application for federal financial aid and the method of assessing student eligibility for federal aid, both have become increasingly complex. Federal government investment in financial aid has grown dramatically yet the goal(s) of federal financial aid programs are no longer clear. Ranging from the Spelling's Commission Report to the soon to be released recommendations of the College Board's "The Rethinking Student Aid Study Group," efforts are afoot to make significant changes in federal financial aid programs. To the extent any of these efforts are successful; they will affect changes in state financial aid programs that will in turn influence the focus of institutional financial aid programs. Thus, in this second essay on financial aid, we provide a brief overview of some current public policy debates about federal and state

financial aid policies. We conclude with a discussion of the potential impacts of some of the key policy changes currently being considered, and a call to EM leaders to become more involved in these policy discussions.

## THE FEDERAL SCENE

### Critiques of the Federal Financial Aid System

There is a spate of critiques of the current federal financial aid system. The broad line of criticisms of the current needs analysis system include the following:

- The needs analysis system no longer reflects real financial need because Congress has overly politicized the ways in which need is calculated.
- Expected family contribution (EFC) does not accurately reflect family income and assets and it is too complicated for the average family to understand.
- The current application for federal financial aid is too complex. In an effort to make sure no student/family receives more aid than they are eligible for, the designers of the FAFSA have designed a questionnaire that only parents from well educated families can readily complete.

Critiques of federal financial aid policy note that federal financial aid programs have moved so far away from their original focus on providing grants for needy students that it is hard to ascertain the primary goals of federal aid policy. As evidence of this, critics point to the following developments:

- A dramatic decline in the purchasing power of Pell Grants, and a concomitant increase in the use of subsidized loans for low-income students, thus requiring students who are more likely to be averse to borrowing, and who face the prospect of lower incomes to take on unmanageable levels of debt to finance their postsecondary education.
- Federal involvement in loans for which students from middle and upper middle class families have been the principal beneficiaries.
- The use of tax credits and tax deductions for college expenses that principally benefit middle and upper middle class families. What is especially worrisome to many critics is that these programs have the potential to exceed the federal government's total investment in Pell Grants and that these programs may not have a large

impact on the postsecondary enrollment decisions of students and families because the financial benefits of these programs accrue to families after they have had to expend significant amounts of their own funds, and the research is mixed on the extent to which families consider these programs when they make their postsecondary decisions.

- The recent creation of SMART Grants, Academic Competitiveness and Teach Grants that create yet another set of policy goals for the federal financial aid system. In addition, critics say both of these programs were poorly conceived and implemented at the federal level.

A significant area of debate in the federal financial aid policy arena is that of student loans. The debate of the relative merits of direct lending and the Federal Family Education Loan Program has received a great deal of attention. What has received less attention in recent years are proposals to move away from our current program of fixed terms of repayment to income contingent loans (ICL). In addition, in this last re-authorization of Title IV of the Higher Education Act, questions about how to best calculate default rates and the impact of any changes in calculating default upon institutional eligibility to participate in federal financial aid programs also re-emerged.

- With respect to ICL loan schemes, Australia, England, and New Zealand, for example, have adopted income contingent loan schemes. As Tom Kane at Harvard points out, moving to an ICL program would also remove the necessity of means testing through tools like the FAFSA because repayment would be based on the future income of the borrower, not the past income of the borrower's family. The other advantage of ICL programs is that they remove much of the risk, and thus potentially much of the risk aversion of low-income students is about taking out loans because repayment is based upon the student's income level after he or she graduates from or leaves college.
- In the last re-authorization of the Higher Education Act proposals were made to alter the time period during which default rates will be calculated. In the past, default rates have been calculated over a one-year period. In the future, calculation rates will be calculated over 36 months. The argument advanced was that this new method provided a more realistic measure of de-

fault rates. Using the new formula, the default rates increased at many proprietary schools, community colleges, and other schools that enroll large numbers of low-income students, and place some of these institutions at risk of losing their eligibility to participate in federal financial aid programs.

### **How Changes Might Influence Enrollment Management Practices**

Other proposals have been offered to bring about significant changes in the federal financial aid system, but these represent the major policy critiques levied at our current federal system. For enrollment managers, any changes made to satisfy critics would alter the institutional enrollment management strategies. Income contingent loan programs could alter the perceived costs of attendance because the longer pay back period linked to income could make repayment seem less onerous. This could not only change the amount of financial aid that institutions would need to provide, but alter the entirety of the marketing and program pricing process. Changes in the needs assessment system could result in more low- and moderate-income students electing to enroll in postsecondary education thus increasing enrollments—especially at community colleges and regional public institutions located in metropolitan areas. Any sizeable increase in Pell Grants would also increase postsecondary participation rates yet have differential impact on access of different groups of students and on different institutions. Finally, some of the recent changes in how default rates are calculated could have a significant impact on some proprietary institutions, community colleges, urban four-year institutions, and HBCU's—institutions that enroll large numbers of low-income students who historically have been at greater risk of defaulting on their loans.

There is no question that changes in Title IV programs influence many of the challenges enrollment managers face. Because of the diverse missions and types of students served by the two- and four-year sectors of our postsecondary educational system, it behooves enrollment managers to stay abreast of these shifts and to keep senior campus policy makers informed of how these changes might influence student enrollments. Monitoring the federal policy scene, a task and responsibility which chief financial aid

and chief student records officers already embrace, is a process that increasingly defines EM today.

### **THE STATE SCENE**

Talking about trends in state financial aid policies is more complicated; there are 50 states and thus 50 state policies. Because of the wide range of state approaches to financial aid, we make no attempt to highlight current state aid programs. Instead we identify some of the major differences in focus and structure of state programs. Key distinctions between various state financial aid programs are: the scope of state aid programs, the extent to which merit or need are the primary focus of state programs, and the extent to which state aid programs are sensitive to tuition costs. This is a key factor for private sector institutions. States that increase student eligibility for grants or loans as costs rise help to level the playing field between the two sectors. Those states that do not increase student eligibility for grants and loans make it harder for private colleges and universities to compete with their public sector counterparts.

#### **Merit vs. Need**

The largest area of debate has been the growing investment in merit aid. There are now eight states that spend more on merit aid programs than on need-based financial aid programs. In recent years, there has been a more substantial increase in merit aid at the state level than in need-based financial aid. Since no state has the resources to meet all demands for financial aid that are present amongst its citizens, merit aid programs usually result in smaller investments in need-based state financial aid programs. Thus states are subsidizing students who may have attended college anyway while possibly decreasing enrollment rates among low- and moderate-income students. If states were able to afford adequate merit and need-based programs, merit aid programs would not be so heavily scrutinized; however, few states can afford both types of programs. While our previous essay cautioned against drawing too sharp a distinction between merit- and need-based aid programs, the general reality is that states with generous merit aid programs typically have more modest need-based programs.

State merit programs typically produce unintended consequences that effect institutional enrollment strategy. Certainly, so-called “Bright Flight” strategies such as the

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Georgia Hope Scholarship has kept academically strong Georgia students within the state. However, because students have to maintain high grades in order to keep their scholarships, state merit aid programs also put upward pressure on college grades resulting in grade inflation. They tend to suppress ethnic diversity at some institutions by increasing the number of applicants which, in turn, results in these campuses becoming more selective, which, in turn, typically reduces the number of students who are first generation, low-income and/or students often associated with being from ethnically diverse backgrounds. In addition, large state merit programs can put pressure on public institutions to keep their tuition levels artificially low because if they raise their tuition levels too much, state legislators may not be able to continue to fund popular state merit programs.

### **Leveling the Playing Field**

In an effort to equalize student choice and competition, some states such as New York and Indiana have state financial aid formulas that provide more generous state grants to students who are enrolled at private institutions. The state financial aid system in New York, for example, has a series of aid programs that attempt to level the competitive playing field between public and private institutions. But other states do relatively little to help foster a vibrant private sector. In the State of Washington, unlike states such as California, Indiana, or New York, the amount of funding for a state grant is not very responsive to the differences in tuition between public and private colleges and universities. Insofar as EM is a process of mapping an institution's market position relative to key competitors in ways including price, net price and net cost, marketing strategy inevitably becomes state specific for institutions with a limited regional draw.

### **Other Variations**

There are additional variations in state financial aid programs that can influence campus-based enrollment management strategies. One example of differences across state policies can be found in the ways in which financial aid programs encourage students to transfer between two- and four-year institutions. For example the states of Arizona, Massachusetts, and Texas provide more generous financial aid incentives for students to transfer from two-

to four-year institutions. Finally, some states invest relative amounts of public funds into state aid programs. Alaska on the other hand does not have a state grant program. The primary form of state financial aid comes in the form of loans.

The structure of state financial aid programs can have an important impact on the tasks of senior enrollment managers. They shape in direct and indirect ways the mix of students who apply and enroll. This directly determines the net cost to the student and the net revenue to the institution. They shape the way institutions manage their institutional aid program; generous state grants for needy students can reduce pressure on institutions to fund need-based scholarships for students. Generous state-funded merit programs can have a similar impact on campus investments in merit aid. Because of their visibility, they may also help keep more talented students within the state. The task of enrollment managers is to pay careful attention to the impact that state financial aid programs have on the enrollment behaviors of students, and to develop institutional strategies that take into account the strengths and weaknesses of the unique programs in each state.

## **THE ENROLLMENT MANAGEMENT PUBLIC POLICY AGENDA**

There is no question that federal and state financial aid policies exert a powerful influence on the strategies and practices of enrollment managers. Except perhaps for the most selective and most well endowed private colleges and universities, who have sufficient student demand and financial resources to chart enrollment strategies that are relatively independent of public forms of financial aid, federal and state aid policies influence the postsecondary destinations of students and the numbers who enroll in postsecondary education and the way that institutional mission, along with location, size, wealth, and selectivity, shape the focus of campus-based financial aid programs. They help to determine the relative importance of need versus merit, the extent to which diversity and other factors shape the strategies of institutional-based aid programs. In essence, federal and state aid policies influence how institutions set price, manage costs, design their own financial aid policies, and realize their enrollment and revenue goals.

To date, enrollment management as a profession has not played an active role in attempting to shape these policies.

However, there is a growing vacuum in the voice of institutional efforts to influence public policy. Given the number of thoughtful critiques of federal and state programs and the increasing scrutiny by federal and state legislators and policy advocates, the time may be ripe for enrollment managers to get more involved in advocacy for financial aid programs. Perhaps no group of campus administrators is better positioned to understand the full impact of federal and state financial aid policies on student and institutional outcomes. In addition, perhaps no campus administrators are in a better position to understand how current levels of competition for students—numbers of students, diversity of students, and quality of students—are stretching institutional resources and diminishing the ability of campuses to invest more financial aid to enhance access, or to increase the number of students in STEM fields as federal and state resources erode.

In recent annual meetings of professional higher education organizations, there has been a growing effort and interest in updating members about federal financial aid policies, but more efforts are needed. To date, little attention has been given to state financial aid programs at such conferences. As we have already noted, The College Board Annual Forum, and other Board publications, are increasingly making efforts to focus the attention of enrollment professionals on financial aid policy.

At the institutional level, at both private and public schools, EM offices and officers are increasingly called upon to monitor public policy trends so that they can address matters relating to how federal and state aid policies will shape the future of the institution. As Boards of Trustees realize that institutional reliance on federal and state aid sources are critical to institutional financial health, yet cannot be taken for granted, EM leadership must be in a position to speak to such aid as either a strategic threat or opportunity. Many large private and public institutions have professional administrative staffs that analyze public policy and who are engaged in policy advocacy. In the areas of federal and state financial aid it is increasingly impor-

tant that offices of financial aid, enrollment management and government relations or public affairs carefully coordinate their information and advocacy. The amount of federal and state financial aid dollars available to students has become so large that following these policy trends and engaging in advocacy when necessary has become one of the defining activities of Enrollment Management.

## About the Authors

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Hossler has consulted with more than 45 colleges, universities, and related educational organizations including: The College Board, Educational Testing Services, the University of Cincinnati, Inter-American University of Puerto Rico, the Pew Charitable Trust, the University of Missouri, Colorado State University, the University of Alabama, and the General Accounting Office of the United States Government. He has presented more than 130 scholarly papers and invited lectures, and is the author, or co-author, of twelve books and monographs and more than 65 articles and book chapters. Hossler is currently directing funded projects of The College Board, the Lumina Foundation for Education, and the Spencer Foundation focusing on student success and persistence. He has received national awards for his research and scholarship from the American College Personnel Association and the National Association of Student Personnel Administrators.

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