STUDENT FINANCIAL AID
LESSONS FOR THE UK FROM THE US

Joseph Russo
Director of Student Financial Strategies
University of Notre Dame
Notre Dame, Indiana USA
OxCHEPS Fellow

The Oxford Centre for Higher Education Policy Studies

In the summer of 2006 the OxCHEPS Visiting Fellow was Joseph A. Russo, the Director of Student Financial Strategies at the University of Notre Dame, USA, where he has led the student aid operation since 1978. He holds an undergraduate degree in English and a Master's in Higher Education Administration. He is the coauthor of two books published by Random House, one with a Notre Dame professor on financing graduate school, and the other with his counterpart at Duke University on saving for college. He has also served as the Editor of the *Journal of Student Financial Aid* since 1986 for the National Association of Student Financial Aid Administrators and has published numerous articles on student aid. His career of 42 years has involved three institutions, one of which was a two year community college in the State University of NY. He taught a graduate level course in student aid administration while at Notre Dame and has served in training capacities for the College Board and the US Department of Education. He has also testified before the US Congress.

The author is grateful to the following: David Palfreyman for the invitation to undertake this project and the generous resources he provided through OxCHEPS; the University of Notre Dame for allowing the opportunity and the leave from campus; the National Association of Student Financial Aid Administrators (NASFAA) and The Student Loan Marketing Association (Sallie Mae) for the grant support each has offered; Janine Meersman, my administrative assistant at Notre Dame, for her reliable and expert word processing skills and all the typing; and my wife and best friend, Eileen, for her constant love and support throughout my career, including my time at Oxford. Finally, the warm welcome of Warden Alan Ryan, Bursar Secretary Kate Hunter, both of New College, and Jill Flitter, College Secretary at St. Antony's College at Oxford, will all always be most appreciated and fondly remembered.

Oxford Centre for Higher Education Policy Studies

STUDENT FINANCIAL AID
LESSONS FOR THE UK FROM THE US

Joseph Russo MA MS
Director of Student Financial Strategies
University of Notre Dame
Notre Dame, Indiana USA
OxCHEPS Fellow

OxCHEPS, Oxford 2007

Oxford Centre for Higher Education Policy Studies (OxCHEPS), New College, Oxford,
OX1 3BN United Kingdom http://oxcheps.new.ox.ac.uk.

Published by OxCHEPS.

ISBN Hardback
ISBN Paperback

Printed by
Typeset by
Cover design by

Contents

Preface

"To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man's power — nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble". Aristotle

The opportunity for one to share his lifelong work to help others is an extraordinary one. Being able to do this as an OxCHEPS Visiting Fellow is especially rewarding, as the support provided by such a scholarly and respected environment is truly inspiring. The time and effort involved in this exercise could not have been possible except for the generous support of David Palfreyman, Director of the OxCHEPS program at New College, Oxford, and the University of Notre Dame, the wonderful institution where I have spent the majority of my career as a student aid administrator. I am very grateful also to the National Association of Student Aid Administrators (NASFAA) and the Student Loan Marketing Association (Sallie Mae), for their significant assistance with some of the expenses. Finally, and perhaps most importantly, I acknowledge the constant love and critical support which my dear spouse, Eileen, has provided, not only for this special adventure but also virtually for all of my long career as a professional student aid administrator.

Having been involved actively since 1965, coincidentally the birthdate of America's Higher Education Act, as an aid administrator, and even earlier as a recipient of financial aid as an undergraduate and graduate student, I have literally grown up with our policies and programs. This has included acting as a campus practitioner: a teacher, trainer, and mentor; and serving very actively in helping to organize and develop our profession. Having led the student aid operation at two other institutions, including a public two-year institution, has also broadened the base of experience from which I attempt to shed some light on the American way.

David Palfreyman has contributed immensely to these important discussions in the United Kingdom (UK), including identifying and reviewing the major issues and helping to inform policymakers. As the UK is "moving closer to the United States (US) mixed-economy model and further away from the free public economy of the European Union (EU) higher education system", (Palfreyman, David. "The Economics of Higher Education", OxCHEPS, 2004) the questions arise: What should be the price paid? Who should pay? When should they pay? How should they pay? Who should be helped and how are they to be identified? How much and what kind of help should be provided? Where do the funds needed come from? Who benefits? How long should they be supported? What if they are not successful? Answers to these questions lead to further questions.

As the UK begins to move its pricing and student aid policies to meet the future needs and demands of its citizens as well as those of an increasingly global society, the American model and how it has come to be, with all of its trendsetting excellence as well as its many flaws, can hopefully be used as a helpful benchmark for those policymakers responsible for shaping the future for the financing of higher education in the UK. The goal of this publication is to map out in simple terms the policies and procedures by which student financial aid has evolved in the US and how it is administered today. There may be as many questions raised as there are answers provided in an effort to further inform the debate and adventure upon which the UK is now embarking under the prevailing winds provided by the higher education 2004 legislation now in effect with the £3,000 tuition fees from the 2006/07 academic year.

Each chapter of this publication takes on an important topic and attempts to review and highlight the important aspects of the US experience which could serve as the basis for broad comparisons and even more robust debates expected in helping to shape UK policies and procedures. One of the most constant problems across all of our US experiences has been that of information. Whether it be for the consumer, i.e., student and family: or for the policymakers, either institutional or governmental; or the media, who surely play an important role in both countries. Providing good, accurate, simple, timely information about the cost of higher education and its affordability, to all of these constituents is indeed a major understanding, especially given the constantly moving targets, changing landscapes, and entire new cohorts of constituents each year. However, it is made even more difficult because one does not begin with a tabula rasa but rather a mixed picture that is filled with the good, the bad, and the ugly. Exaggerations, sad stories about extreme cases, misinformation, and bad experiences … all contribute too often to the poor image. While the age of technology and direct consumer access to correct information offers the prospect of at least reducing this information challenge, it also suggests new problems of information overload and the risks involved with less than deliberate decision-making. One could argue we are in the best of times and the worst of times in having to meet the information challenge.

Coincidentally in the US, given the state of affairs in higher education, (particularly in respect to rising costs, access issues for the lower income groups, the complexity of the student aid process, and the ability of our society in general to compete in a global economy), there is a similar professional review underway. Both the US Secretary of Education ("Secretary of Education's Commission on the Future of Higher Education") and a College Board organized and privately financed policy analysis group of highly respected research professionals ("The Rethinking Student Aid Study Group") are studying many of the same very basic questions currently being pondered in the UK. The starting point for the latter group is the question: if we were to design a college affordability program today, what would it look like? UK policymakers may be well served by monitoring the proceedings of both of these US enterprises.

In an effort to find a reasonable balance between the good and the ugly, some discussions in this publication will serve primarily to whet the appetite and inspire further debate. For those who seek additional detail, references will be made to various websites as well as to a number of "drill down" resources which appear in the Appendix. In this way, hopefully, both the policymakers (who need to focus on broader issues) and those responsible for administrative implementation (who need to carry out the practical side), will find this a helpful publication.

It should be noted that the commentary and opinions throughout the text are solely those of the author and do not necessarily represent any of the parties involved in supporting this project.

Finally, because this publication may also be read by some interested parties in the US, a simple explanation of some of the more basic concepts related to financing higher education in the UK are included in Appendix VII.

Joseph A. Russo
University of Notre Dame
2007

Chapter I
—History—

Public Policy

Public policy in support of higher education in America from its basically modest and rather traditional beginning has evolved into a very complex patchwork of opportunities. Thousands of institutions cover the country offering a vast array of programs based upon an equally far reaching set of purposes and mission. What was originally only a small number of private schools in the Northeast attended by a small fraction (2% – all men) of the population, has grown to over 3,700 institutions enrolling currently more than 15 million students. Every state government in the country provides relatively modestly priced public higher education. The teaching and training of students indeed has become a major driver in the US economy. Roughly two-thirds of young people finishing secondary instruction typically move immediately on to "post-secondary" education.[1]

What some could readily view as overly complex, others would argue to the contrary. It is indeed the variety of opportunity in the US that makes it so special; public and private, four-year and two-year, large and small, urban and rural, old and new, teaching and research, traditional and vocational, comprehensive and specialized, religiously affiliated and non-denominational, as well as not-for-profit and for-profit. Most of these opportunities can be found in traditional settings as well as in "distance learning" formats. What was once generally available for only the wealthy, has changed dramatically. The ability of individuals, regardless of their resources, to become college educated and thereby enhance their prospects for achieving the "American Dream" of improved lifestyle for themselves and their families, is now generally recognized in many ways as a model for other countries to emulate.

Along with the strengths which now flow from the wide range of studies available, there is also the appearance of a somewhat uncoordinated and difficult-to-understand set of policies and dynamics. Unlike the one, nationally supported system of the UK (albeit with growing differences between England and Wales and devolved Scotland), each of the 50 states in the US sets its own pricing and funding standards and budgets for subsidizing their programs, which likewise within a given state can vary widely from institution to institution. Indeed, even within

[1] National Center for Education Statistics, *Digest of Education Statistics 2005*, Table 181.

the same institution, there can be different prices charged depending on the student's grade level or even the nature of one's studies. What was once a relatively small number of private colleges has now grown to one where roughly 80% of students are enrolled in public institutions. To help support the costs which students and their parents are expected to pay, over $130 billion in student aid was made available in 2005/06. Higher education in the US continues to rise steadily each year as a percentage of the country's Gross National Product (GNP). The most recent statistic available from the Digest of Education Statistics (2005) indicated that it had reached 2.9% of the GNP in 2003 as compared to less than 1% of the GNP prior to World War II. This represented all expenditures for all colleges and universities. The infrastructure needed to administer this monumental amount of resources has become an enterprise unto itself, with a growing number of "cottage industries" proliferating along side this constantly moving landscape.

Despite the appearance of complexity, a review of the simple principles and guidelines as at least originally envisioned will provide some important historical background. The basic principles supporting the American way of providing financial assistance and setting tuition prices may indeed be difficult to identify amidst today's apparent complexity and confusion, but these tenets did indeed embody some truly American ideals.

The goal of providing higher educational opportunity for all who desired it would also be based on an understanding that achieving such a monumental ideal would require a true partnership approach. This partnership would involve the family (both parents and student), the government (federal, state, and even local), institutions, and others, including private organizations and employers. Exactly how much of a role each would play was to become a constantly changing dynamic, as capacity of and demand for higher education increased and decreased, and as the emerging needs of society and the shifting priorities of government and the exciting innovations of technology and the ever expanding competitiveness of our global world continues, and as the exponential growth of knowledge explodes around us.

Surely each of these changes could easily require its own analysis and discussion. Equally evident is the fact that changes in one will most often likely cause changes in one or more of the other dynamics. Our purpose here is to focus primarily on the student aid course of events, with appropriate references to the cost side of the equation, and the other demands which have influenced the variations found in pricing and in student aid policies and procedures. While continual change can be challenging to the need for stability and for our goal of seeking to better understand what has certainly become a rather complex story to relate, it is what it is and has become and will likely always be as both an important strength as well as a confusing reality of American higher education.

Federal Role

While one could begin an historical review of American higher education opportunity with a survey of the pre-American Revolution institutions established in New England, there are other publications which address that era. Perhaps one of the most definitive and comprehensive efforts in this regard is the recent publication by our UK colleague, Rupert Wilkinson, (Wilkinson, Rupert, "Aiding Students, Buying Students: Financial Aid in America", Nashville, TN: Vanderbilt University Press, 2005). We can fast forward our review to the post-World War II period when the US, as the UK, needed to show a sign of appreciation as well as to provide for the millions of returning veterans. The "GI Bill of Rights" more formally known as the "Servicemen's Readjustment Act", was established by Congress in July 1944. At its high-water mark in 1947, almost half of all college students in the US were supported by the GI Bill. The program was not "need-based" but rather one based on service to the country. Following a period in college enrollments severely depleted by the manpower needs of the War, colleges were bursting and all sorts of temporary quarters and accommodations were needed and constructed. As the children of these GI families and others would begin to add to the demand, a greater federal role to help address these growing needs began to emerge. A Commission on Higher Education published its recommendations in 1947 and 1948 in which it framed an ideal that suggested at least one half of the US population was capable of and could benefit from at least two years of college. It further recommended that one third of the population could do four years or more. Despite this report, there was little done at the federal level until the USSR's launching of Sputnik in 1957. The US Congress, moved perhaps more for concerns for our country's military defense than perhaps for reasons related to providing higher educational opportunity, enacted the National Defense Education Act in 1958. This early legislation included some significant debate on the basic question of whether aid should be awarded on the basis of merit rather than financial need. Likewise, exactly how much of a role the federal government would play in the actual administration of this new program was also discussed.

Nonetheless, the National Defense Student Loan (NDSL) would become an important benchmark for future federal student aid development.

Profession and Leadership

It was also in the 1950s that a small group of colleagues, primarily representing the well established Ivy League schools of the northeastern US, met to share their concerns for providing for the needs of a growing number of applicants for whom the costs of college attendance were viewed as discouraging. While the GI Bill very generously paid the full tuition of whatever (private or public) institution in which a veteran could gain enrollment, and also paid a monthly stipend to help support living expenses for such students and their families, these Ivy League officials envisioned a growing demand from a new group of college aspirants whose financial resources would be limited.

As has often been the case in other aspects of American higher education, these institutions undertook what would become a major leadership role in shaping some fundamental student aid policies and procedures:

> "… in order to try to capture certain large trends in the movement and rhythm of American academic development … it may be illuminating to see the avant-garde … as the head of a snake-like procession — the head of which is often turning back upon itself … while the middle part seeks to catch up with where the head once was. When the middle part becomes aware … that the position of the head has shifted, it may try to turn in two directions at once". (Riesman, David, "Constraint and Variety in American Education", New York: Doubleday Anchor Books, 1958.)

Indeed, it was John Monro, the Dean of Admissions for Harvard, who would share his relatively simple philosophy of attempting to provide adequate student assistance to the extent it would be needed for an individual student to reasonably meet the annual expenses of a Harvard education. He shared some basic principles and guidelines as well as a rather simple formula to help roughly determine an individual family's ability to pay. After some further refinement, his concepts and rationale were published by the College Board (Monro, John U., "Helping the Student Help Himself", College Board Review, May 1953).

Monro's basic principles included some fundamentally American values: most importantly, that it was the family's primary responsibility to pay for higher education to the extent that it was capable. Family included the parents and the student. Each student would be expected to contribute at least from savings from work undertaken during the summer prior to each year in higher education.

An additional premise was related to the question of which year's data would be the best indicator of a family's finances. While there was not full consensus, especially in dealing with families whose current year's circumstances were dramatically different due to significantly changed current year events such as death, permanent unemployment, divorce, or some sort of financial catastrophe, it was agreed that the best predictor for the vast majority of situations was the family's previous year's ("base year") finances. On this point, it is important to note that this entire process would not try to be a perfect science but one which attempts to develop a means of evaluating millions of applicants annually, focused on addressing the vast majority of situations. For those whose circumstances fall significantly from the norm, special evaluations would have to be made. Otherwise, trying to devise a process, already complex, that would accommodate each and every possible circumstance and exception, quickly becomes impossible.

Related to the principle of using a family's base year income is another one that states that this process must be an annual one. While this flies in the face of reducing the complexity and level of angst of families (which can be made somewhat less cumbersome for renewal applicants whose circumstances remain relatively unchanged), the annual nature of evaluation reflects the reality of the fact that things do change from year to year. Certainly, on the cost side, tuition and fees as well as room and board, could increase, at least they typically do currently in the US. For the family, things can also change. Employment, family size, number of children in college, asset values, health, and other factors which may impact ability to pay, can and do change. Finally, as we consider providing student aid resources and alternate means of financing, these programs, especially if supported by government, are subject to change (again, at least in the US) in funding levels and/or eligibility criteria. Of course, the volatility of this side of the equation could be somewhat controlled, by a phase-in approach.

In general, the important factors in measuring family ability to pay would include total annual income from all sources, as well as some small portion of any family asset strength which might be available. Various allowances providing for a family's basic living needs (food, clothing, shelter, taxes) would be made based upon the number of family members and whether there might be more than one child enrolled at the same time. Likewise, provisions for "protecting" from the evaluation process some major part of any family asset strength would also be considered, depending on parents' age and some basic considerations for emergencies and modest lifestyle needs upon retirement. Refinements to address the inevitable situations created by death of a parent, unemployment, or other unusual circumstances, would be added to the assessment methodology or formula that had been devised. More recently, the new dynamics in the US related to the future of the federal government's Social Security retirement program as well as to the growth of privately funded retirement programs, has added yet another challenging change to the landscape.

The honesty of the financial data submitted was an assumption, as was the expectation that a family would be willing to contribute its fair share. Families with equal resources would be expected to pay the same. Families with unequal resources would be expected to pay differing amounts. These last two principles were to be later known as "horizontal equity and vertical equity", both intended to ensure yet another principle of consistency. The underlying rationale for these equity principles is, in theory, that a family (assuming all other factors being equal) with greater asset strength is in a stronger position than another family with less asset strength. Likewise, two families (assuming all other factors are equal) with similar asset strength, should be expected to contribute similarly. As further thinking and more "sophistication" in the process were included, such things as unusual medical expenses, the cost of private schooling for younger children, and provisions for households with only one parent, were to be added. Later other factors, such as payments for educational loans incurred by parents, were also considered. All of these principles were the basis for creating a formula or "methodology" whereby a "family's ability to pay" was to be calculated. However, ultimately, one final principle was identified, i.e., the ability and responsibility of an institution's financial aid administrator to make a final judgement given each student's circumstances. This clearly was intended to make clear that the process was thus not to be considered a perfect "science" but was also to include some judgement or "art". This was referred to as the common sense or face validity principle. It also emphasized the personal "professional judgement" role of each aid administrator. The Local Education Authority (LEA) in the UK, or the campus administrator responsible for administering the institutional bursaries, can play similar "professional judgement" roles.

Thus we have framed the fundamental principles of student aid administration:

1. Parents' ability (versus willingness) to pay
2. Student's role in sharing responsibility to pay

3. A family's income <u>and assets</u> would be assessed[2]
4. The honesty of the data provided by the family
5. The face validity of the results of the process
6. Horizontal and vertical equity: consistency
7. The process was both an art and a science
8. The aid administrator would provide the final judgement

Similar principles were later to be developed in assessing "self-supporting" students. However, many would argue that this is still "a work in progress".

These basic principles were to be later embraced by the College Board which had agreed to take on a new role in its broader mission to assist in the transition process for students leaving secondary school and entering higher education. A new arm of this organization was created in 1954 called the College Scholarship Service (CSS). Based upon the well developed initial thinking provided by Harvard's Monro and several of his Ivy League colleagues, more and more institutions expressed a desire and a growing need to help provide student assistance in a fair and equitable manner to an ever increasing cohort of "first generation" college going students. The process created by Monro for Harvard had involved the gathering of certain financial information from each family which would then be uniformly but individually evaluated by his office. As other institutions embraced the concept and sought similar information, often from the same applicants, the need became evident for a more centralized process whereby the applicant would be required to complete only one common form rather than similar ones with duplicative data for each institution. Likewise, the need for a common assessment of the family's ability to pay also became equally essential. The CSS of the College Board agreed to serve this central processing role. Soon thereafter the institutional members of the College Board helped to create a data collection form called the Parents' Confidential Statement (PCS) and then later to provide a copy of this form and an "expected family contribution" evaluation to each of the institutions listed by the applicant. A fee for this service would be paid by the applicant as well as by the receiving institution(s).

---

[2] Until the US Congress removed the equity of the family's principle residence from the Federal Methodology in 1992, a family's asset strength included the home equity. However, due to the confusion this issue had created and the complaints of the "beleaguered middle class", political pressures made the elimination of this home equity a popular decision for politicians seeking to please their constituents. As a result, all of the home equity in a family's principle place of residence, <u>regardless of the amount</u>, is ignored in the Federal Methodology.

By 1958 when the federal government entered the need-based arena of student aid (NDSL), it rather quickly agreed to allow institutions to employ the CSS process as the basis for identifying needy students. The early process thus had evolved from a few elite private schools agreeing to use a simple process, to one in which a larger number of both private and public institutions using a more centralized and somewhat more sophisticated process, to yet another expanded role now embraced by the federal government. Later in the next major benchmark of the 1960s with the enactment by the US Congress of the Higher Education Act of 1965, there would be early signs of growing complexity, increasing tuition and fees, expanded demand and limited capacity, and a burgeoning growth in student aid programs. Indeed, subsequent federal amendments to the Higher Education Act would include language revising the concept of "higher" to "post-secondary" education to reflect the ever broadening array of programs and opportunities available. New issues related to comprehensiveness versus simplicity, free versus fee-based processes, honesty versus verification of data, cost of processing versus the need for efficiency, fairness and consistency versus common sense and face validity, would begin to emerge as important policy considerations by the growing number of stakeholders involved. A new profession of student aid administrators also began to meet the increased demands for training and research. Regional, state, and eventually a national organization were established. What had been a relatively simple process handled on a part-time basis by the admissions office for at least incoming students, had eventually become a major, campus responsibility (one falling upon the LEA in the UK). Virtually every institution now has a full-time office dedicated to administering a whole variety of programs, both institutional as well as non-institutional. Accompanying these funds, especially those from the government, are all sorts of rules and procedural manuals. Administering these regulations, however well intentioned, have resulted in enormous financial burdens for institutions. Some of these governmental procedures have even created conundrums in that their purpose may not always line up perfectly with those of the institution. Nonetheless, the "Golden Rule" of student aid administration must be followed, i.e., "he who has the gold, makes the rule"! The burden of government regulations has indeed become yet another challenge to the modern student aid administrator in the US. When the process becomes so regulated and codified that it begins to impact policy and basic goals, some might suggest it may be time to step back and try to return to a process which actually supports the policies intended to be achieved.

Questions

What can be learned from this historical review of student aid in the US? Are the principles upon which early student aid policy were based timeless and still appropriate given today's society? Are the changing priorities of modern family lifestyles worthy enough to challenge the initial assumptions behind these principles, including, originally, the reduced willingness to sacrifice on some of their other spending so as to finance the cost of "going to college"? Are there any fundamental aspects of life in the UK so dramatically different to warrant a separate set of principles more appropriate to local norms? Has the basic concept of need-based student aid become so unraveled and so complicated that it should be abandoned?

The next chapter attempts to further explain and define basic concepts in the hope of shedding light on some of the mystery and the "black box" reputation which too often is associated with student aid administration.

Chapter II
—Concept of Financial Need—

Assumptions

The fundamental premises outlined in the previous chapter have been challenged in many ways over the last fifty years since their establishment. The assumption that families are primarily responsible, i.e., the parents of traditional age students, and the willingness to sacrifice and consider a child's education a top priority in arranging a family's finances, as well as the role of students themselves, have all indeed been questioned, especially by what has been called the "beleaguered middle class".[3] Other priorities often related to lifestyle decisions (e.g., meals eaten out of the home, number and make of automobiles, size of mortgage payment, credit card obligations) have for many of these families left little to be set aside for the planning and saving for children's educational needs. Some argue that today's cost of living is significantly different than that of the "more simple" days of the 1950s. What then may have been viewed as a "want" has now become a "necessity" for many families (e.g., television in every room in the house, car for each family member). Others feel that someone else should be responsible, especially the government, to whom they pay large taxes to support such needs. Still others have been led to expect that there are unlimited student aid resources out there to pay for college expenses … or perhaps feel strongly that the special talents and skills, or record of secondary school achievement, will warrant full scholarship support when the time for college arrives. Others argue that their retirement needs or their second home on the ocean take precedence in the allocation of family resources.

On another premise, the honesty of the data principle has been challenged on more than one front. Because of the concern for fraud and abuse (highlighted by front page stories about a very small percentage of student aid recipients), reams of government regulations, with all their accompanying forms and procedures and regulators, have added significantly to the cost of administration. Needless to say, they are also the primary reason for the appearance of confusion and complexity, and the resulting discouragement created for many applicants. Further exacerbating this challenge is the fact that the US personal income tax system (copies of which

---

[3] "Caught in the Squeeze: Financial Aid and the Emotional Middle Class," the *College Board Review*, Winter 1990–91.

annual tax returns serve as primary means of verification of data) is in itself filled with legal loopholes for reducing personal income tax liabilities. "Gross income" versus "adjusted gross income" versus "net taxable income" are often different, sometimes significantly so, for the same federal tax returns. There is little or no room for such income tax mechanizations for lower income filers and obviously none for those whose income streams are even lower and hence who are not required to file annual tax returns. As income grows and as family tax considerations become less than simple, there is opportunity to take advantage of the tax code provisions. These surely may include real expenses impacting the actual income stream for the tax filer. They also, however, include all sorts of "paper losses", "depreciation allowances", or "business expenses", whose real impact on income is not as significant. In this way, a self-employed person, whose gross income as an attorney is $250,000, may have invested in a pig farm out in the country, where losses and depreciation allowances amounting to $200,000 provide for an adjusted gross income (AGI) of $50,000 for tax purposes. Thus, the student aid system, focused on simplicity and consistency, uses the AGI and views such a family in the same manner as that of a blue collar family whose parents' combined AGI is also $50,000. This use of the tax system was more than ever highlighted to this author one summer as he overheard two housewives chatting in a grocery store, wherein one was boasting how her family had to invest in a beach shore property in order to create some "tax losses" so that the family could qualify for financial aid!

All of this is to suggest that the principle of honesty in data collection, even when documented by signed and complete copies of a family's federal tax return, may still leave some questions. Nonetheless, if we are to attempt to ascertain a family's ability to pay and agree that a review of its basic finances is essential to this process, such data will surely be needed. How to secure it, when to secure it, what year's data to request, and exactly what data is to be used, and whether good, common sense adjustments are appropriate, are all good questions.

Finally, the premise that students bear some level of responsibility for <u>investing</u> in their own education, may be viewed differently today by some stakeholders including policymakers (Appendix II). The social and economic benefits which typically result from a more educated society had served as a fundamental rationale for the government and taxpayers' investment in subsidizing much of the instructional costs for financing higher education. In recent years, this rationale has drifted significantly to viewing the numerous individual's social and economic benefits of further education. Thus the shift to higher tuition, less grants, and more loans. Some of the discussion may be the result of what has now evolved as an "expectation" in the US that "someone else will pay". Indeed, the proliferation of student aid programs and options now available are seen by some as adding to such a view (Vedder, Richard, "Going Broke by Degree: Why College Costs Too Much", Washington, DC: American Enterprise Institute, 2004). An even more cynical view would suggest that it is because of the many options for financial aid, especially those provided by the government, that college costs are rising. Some policymakers thus suggest a need for at least constraining, if not reducing or changing, the make up of such aid programs. However, a more fundamental issue relates to the question of "who pays, who benefits"? Surely, as mountains of US research can validate, individuals with more education benefit significantly in many ways. At the same time, reasonable arguments can also be made, with equal levels of evidence, that society also benefits significantly. Part of this picture can be colored by the manner in which paying for college is viewed. Is it simply another <u>consumer</u> item to be purchased similar to the buying of a car, home, and other goods? Or should it be viewed as an <u>investment</u>, for which there is likely to be a return, as measured over one's career and lifetime?

As the marketization of higher education and the bottom-line metrics more often used to measure the costs and efficiencies and outcomes of higher education, play larger roles in these discussions, both in the US and in the UK, the drift away from an investment view toward a more consumer oriented one, also is occurring (Farrell, Elizabeth F., "Freshmen Put High Value on How Well College Prepares Them for a Profession, Survey Finds", Chronicle of Higher Education, December 12, 2006). This change also appears to be demonstrated by many students' goals for receiving marketable training and practical skills upon graduation. These new views would suggest a serious challenge to the investment perspective. This change in perspective can thus surely impact the earlier view of the family's primary role, i.e., the student aid principle which assumes a willingness to sacrifice and the high priority in family finances for planning and saving for a child's college expenses.

<u>Measuring Ability to Pay</u>

Despite the principle that measuring a family's ability to pay is not a perfect science but rather a combination of art and science, there are inevitably numbers and formulas that are needed in the end. Indeed, control, structure, and accountability are essential. Thus, assuming our principles, including the one that states that an evaluation of a family's financial strength must include its income as well as its assets, we begin our explanation of this process by defining exactly what is meant by each. Of course, defining and assessing income is a challenge in itself. The more sophisticated and complex the family income is, the more difficult it often becomes to understand. The assessment of a family's assets can quickly become even more complicated, given the nature of some of these resources. Income would be any and all income received in a given year, whether from wages or other sources, whether taxable or un-taxed. "A dollar of income is a dollar of income" is an age-old, common sense starting point to evaluating income. Thus we begin with gathering the Total Income. We immediately acknowledge that before we can attempt to calculate how much of this income might be expected to pay for a child's college costs for the coming year, a family has basic expenses (also referred to as "income offsets") which first must be met. These include the payment of taxes: federal and state income taxes, including in the US, Social Security and Medicare; as well as other taxes, including property and sales taxes, which could vary from one state to another in the US, as well as from one municipality to another within a given state. Here is an example of why this process cannot necessarily always be a perfect one, as attempting to objectively identify and then individually adjust for each municipality's exact local tax structure would quickly bring the process to its knees. At a certain reasonable point, an average tax rate liability is employed, again underlying the understanding that this is a less than perfect science. It may well be that the innovations now more frequently being incorporated by the use of more sophisticated technology (i.e., the ability to pinpoint such local taxes by the use of a family's zip (postal code) may someday soon actually make this particular expense more of an exact science).

After taxes, assumed to be nondiscretionary at least in respect to income taxes, then a family must provide the basics: food, clothing, shelter, education, transportation, and healthcare (at least in the US): the total provisions included in this "offset" are together referred to as the Income Protection Allowance (IPA). These basic costs will, of course, vary depending on family size and even local cost of living. Then, there are various standards that can be applied to allow for such costs: i.e., low, moderate, or high standards of living. Here, of course, comes the rub. Who is to say what is reasonable? Whose standards are the best indicators? The US has one source of data known as the Bureau of Labor Statistics (BLS), typically not as current as it should be. Another basis which some argue might more realistically reflect such costs, is the Consumer Expenditure Survey (CES), which uses the actual expenditures of families on these basic (food, housing, transportation, etc.) items. Then the question arises: should our goal be driven by factors related to targeting our limited resources to those most in need, or rather more by discretionary decisions related to lifestyle often made by families … which effectively have reduced their ability to pay? The current federal process used to measure family ability to pay, known as Federal Methodology (FM), uses the BLS. Another formula, supported by the College Board's[4] College Scholarship Service (CSS) and used by several hundred institutions (mostly four-year privates), is called Institutional Methodology (IM) and employs the CES. In both cases, there is some flexibility for intervention (professional judgement) by the campus student aid administrator, less so with FM than with IM. (Here is a good example of "the Golden Rule", see Chapter I). Using the BLS numbers results in less consideration for basic expenses and serves to increase expected family contribution and thus reduces "need". The opposite often occurs with the use of CES.

These two income "offsets", i.e., taxes paid and standard of living allowance or IPA, are the most significant factors in reducing a family's Total Income before assessing its ability to pay. However, there are also other "offsets", which, in some cases, can be significant. One relates to the parental employment circumstances. If both parents are employed outside the home and are receiving wages, an employment allowance (offset) is provided for the lesser of the two wage earner's wages to accommodate basic expenses sometimes incurred because both parents are working. These expenses could include care for dependents in the home, the need for additional, job related transportation expenses, or other items such as lunch, union dues, uniforms, etc. There is a "cap" on this "housekeeping allowance". A similar housekeeping consideration is provided for households with only one parent, e.g., a widow or single parent.

Another "offset" provision is made for those families whose medical expenses exceed a basic amount already provided for in the standard living allowance (IPA). This consideration attempts to recognize the unreimbursable costs a family may incur above insurance for additional medical/dental expenses which may exceed the amount typically incurred by a family.

[4] The College Board is a not-for-profit membership association whose mission is to connect students to college success and opportunity. Founded in 1900, the association is composed of more than 5,000 schools, colleges, universities, and other educational organizations. Each year, the College Board serves seven million students and their parents, 23,000 high schools, and 3,500 colleges through major programs and services in college admissions, guidance, assessment, financial aid, enrollment, and teaching and learning.

One additional "offset", not provided for in FM but allowed up to a reasonable amount in IM, is the family's cost for private elementary and secondary school tuition expenses for younger siblings. There is a tuition cap on what is allowed as a reasonable "offset", with some local discretion for the campus student aid administrator, to adjust this cap due to higher costs associated with certain urban areas in the US. However, the full tuition paid for sending a child to an exclusive prep school in New England, for example, would allow only up to the standard tuition cap, as such a decision, however expensive to the family, would be considered discretionary.

Finally, one more recently incorporated income "offset", employed only in the IM, allows for a family's setting aside a basic amount of its annual income for savings plans for other siblings' college costs. The basis for calculating this offset is determined by the number of younger siblings, their ages, an average estimate of current college costs, and additional factors related to projected costs of inflation. To some degree, this allowance has been included to help encourage planning and saving and to address the legitimate complaint that such savings are punitively treated in the process. (When we review the next part of our assessment of a family's finances, we will see a similar consideration for such college savings in evaluating a family's asset strength).

We thus have begun an assessment of a family's ability to pay from Total Income by recognizing several "offsets" to this income in order to ascertain its "discretionary income" (also known as "adjusted available income" (AAI)), i.e., the income of the family after having accommodated basic expenses. A portion of this discretionary income (AAI) will be expected to be available for helping to pay for college. Based upon the amount of this AAI, an assessment or "tax rate" is used to determine an expected parental contribution (PC). The amount of this tax rate increases from zero to as high as 47%, based on the amount of the AAI.

Parental Contribution from Income
(see Appendix V for additional detail)

Income

Taxable
+ Untaxed
= $\boxed{\text{Total Income}}$

Income Offsets

– Federal, state and other taxes
– Income Protection Allowance (IPA)
– Housekeeping allowance
– Unusual medical/dental expenses
– Private school tuition for siblings*
– College savings for siblings*
= $\boxed{\text{Total Offsets from Income}}$

Total income
– Total offsets
= $\boxed{\text{Adjusted Available Income (AAI)}}$

Adjusted Available Income
x Assessment rate
= $\boxed{\text{Parental Contribution from Income**}}$

* Only considered in IM
**Additional consideration provided for more than one dependent child enrolled in college at same time

Let us leave this (income) part of the calculation for the moment and now move to assessing the asset side.

Family assets may be in the form of liquid (e.g., cash, checking, savings accounts, investments) or non-liquid (e.g., equity in property, equity in business/farm). Families are asked to submit current (date of application) market value of each asset and the current liability/unpaid debt against each asset. (The equity in a family's primary place of residence is excluded completely in the FM but requested for the IM.) The difference between the total assets' market value and total debt is considered to be a family's "net worth". It is important to note here that credit card debt, assumed to be discretionary, is typically not considered. As with various "offsets" or protections for income, similar allowances are provided for protecting a family's net worth. What is being recognized here is the reality that families are building assets typically for multiple reasons. Generally, these include children's college costs, emergencies, and retirement. What is not considered, at least currently, in FM or IM, is the value of a family's retirement assets. While other factors may well indeed be part of a family's rationale for building assets, (such as discretionary purchases of second homes, better lifestyle, or improved retirement options), a standard "asset protection allowance" (APA) based upon modest considerations, is provided in both FM and IM. Because FM excludes the home equity in a family's primary place of residence, the FM asset protection allowance theoretically is protecting any remaining net worth. In viewing net worth, both FM and IM will view "a dollar of assets as a dollar of assets". The protection allowances vary based on the older parent's age (less protection for younger, more for older), and whether or not there are one or two parents whose future needs require "protection". Special consideration is provided for the business or farm assets of parents for those families who are self-employed or whose primary source of income is from a business or farm. Distinct from the basic asset protection allowance in FM, the IM protects a portion of assets for college savings for younger siblings. A more generous, across the board asset protection allowance, originally incorporated to supplement the government's Social Security benefits provided upon retirement, is no longer considered in IM. This was revised primarily because most employed parents now have supplementary (to Social Security) retirement programs. Because the value of retirement assets is not currently assessed data in IM (or FM), and because of the difficulty involved in securing and verifying retirement assets, IM does not currently consider it. Since it is ignored for this standard assessment of family assets, it also then provides no protection allowance for retirement needs. The loose assumption is that one (retirement assets) would "wash" the other (retirement needs). However, whether or not such retirement data should be included remains an open issue for many and currently is an increasingly discussed topic among some professionals. If individual retirement accounts (IRAs) existed in the 1950s (when needs analysis was first developed) to the same extent that they exist today, no doubt these substantial assets would have been included in the standard data being collected on application forms. However, that was then, and this is now. Lifestyles and priorities of families, (e.g., retirement needs more important than providing for children's education), have changed. The likelihood of retirement assets being used in determining eligibility for government assistance is highly unlikely due to the politically unpopular consequences it would generate. However, despite the challenges involved in collecting and verifying such data, such asset strength is certainly a measure of a family's financial wherewithal. As a result, the non-government formula of the College Scholarship Service, i.e., Institutional Methodology, is currently researching its potential utilization.

Thus, the Asset Protection Allowance(s) (APA) are subtracted from the family's Net Worth to result in the "Discretionary Net Worth" (DNW) of the family. Based upon this DNW amount and the Adjusted Available Income (AAI) from the income side of the calculation process, a very modest (5 to 6%) "tax" is applied to this DNW to calculate the parents' contribution from assets. Contrary to the often heard complaint from frugal families who have saved, the punitive consequence in the family assessment process for having lived a more moderate lifestyle by planning ahead and saving, is far more exaggerated than is, unfortunately, most commonly assumed. Moreover, simply having not saved in order to qualify for additional student aid is a dangerous path fraught with many landmines, not the least of which is the false expectation that merely showing up without resources will automatically result in a full scholarship. The false assumption, sometimes advised by "cottage industry" consultants, is that eligibility for aid is tantamount to receiving it. This belief of entitlement versus eligibility, perhaps somewhat fostered by the manner in which some aspects of the FM and IM evaluations take place, and exacerbated by myth and confusion and misinformation, is a modern consequence of what initially seemed to be a very rational approach for trying to ascertain a family's ability to pay.

Parental Contribution from Assets (see Appendix V for additional detail)	
	Liquid assets
+	Equity in non-liquid assets*
=	Net Worth (NW)*
	Net Worth
–	APA
=	Discretionary Net Worth (DNW)
	DNW
X	Assessment rate
=	Parental Contribution from Assets**

* Special protection provided to the farm/business equity of self-employed parent whose primary income is from business/farm

**Additional consideration provided for more than one dependent child enrolled in college at same time

The final step, once the parental contributions from parental income and from parental assets have been calculated, is to add these two amounts. The combined value, adjusted (x 50% in FM x 60% in IM) for a second dependent child in college at the same time, is the <u>expected parental contribution</u>. To illustrate in more actual terms, a family of three (two parents and one child), whose parents' occupations are as a school teacher and nurse, might earn $60,000 annually and have modest assets, including home equity, of less than $30,000. The expected parental contribution would range from $8,000 – $9,000. On the other hand, another family of three whose parents' professions are physician and lawyer earning $350,000 annually, without even considering their assets, would have its parental contribution calculated to be between $50,000 and $55,000 … more than adequate to pay (at least currently) for the cost of even the most expensive Ivy League institution.

A similar, but far less complex, set of calculations takes place for evaluating the dependent <u>student's</u> ability to pay from income and from assets. A detailed explanation of these calculations, both for parents as well as for students, appears in summary graphic form in Appendix V. The combined parental contribution and student contribution result in an "Expected Family Contribution" (EFC).

Costs of Attendance

Before calculating a student's need for student aid, it is necessary to ascertain the student's Cost of Attendance (COA).

In this discussion, it is noteworthy that virtually no student enrolled in a US institution, whether public or private, pays for the full cost of instruction. The price of tuition (versus the cost of instruction), sometimes referred to as the "sticker price", is the amount charged which needs to be paid. Because most private institutions provide some level of subsidy to every student from endowment or other sources, and because public institutions by definition have their cost of instruction subsidized typically by states and/or local municipalities to a very significant (but widely varying and currently decreasing) percentage of true costs, all students, regardless of need or family affluence, are subsidized. How much of such subsidization, especially in the public sector, can be sustained, is a matter of continued concern in the US. This issue will be addressed in a later chapter and is a worthy one for review, especially given current discussions in the UK.

Unlike the UK, at least for the vast majority of undergraduates, tuition and fee values can vary … and can do so widely. In addition to a public and private sector of institutions whose tuition and fees range from a modest few hundred dollars to tens of thousands of dollars, there are two-year schools and four-year schools. There are also residential students, students residing in off-campus housing, and students commuting from home. There can be full-time and part-time students, married students, and single, self-supporting students, and students with dependents. While some of this picture may be unique to the US, some of it will surely apply to the UK also. Moreover, off-campus living in Birmingham or Newcastle may not be as costly as in London. In addition to these expenses related to tuition, fees, housing and meals, the COA also considers the cost for books and supplies, personal needs, and transportation. Books and supplies can be reasonably estimated by taking average expenditures for students from the campus bookstore. Personal expenses are one of those discretionary allowances … de gustibus non disputantum est … loosely translated: "regarding tastes, there is no dispute". Most institutions will allow for moderate expenses for items related to basic needs, including laundry, clothes, bathroom items, and modest social expenditures. Such modest expenses would not include the cost of car payments, a week's vacation with friends on spring break on some exotic beach, or monthly charges for cell phone usage. Transportation, assuming the student is living away from home, allows the cost of two or three round trips annually to/from home. Direct expenses (tuition, fees, room and board), combined with indirect expenses (books, personal, and transportation), equal a student's COA for a given academic year. Adjustments in COA are made for less than full year enrollment, less than full-time enrollment, and for students with dependents. Special allowances may also be added for educationally related expenses such as special equipment required for certain study, child care, additional study abroad costs, severely handicapped students, or summer school.

Some of these expenses, e.g., attending summer school, may be the choice of the student to accelerate the time to graduation, improve a grade from a course taken earlier, the result of some academic requirement not available during the normal academic year, or simply because there was nothing better to do. The financial aid administrator's review and professional judgement is often required in such cases and could vary depending upon the reason for the course and in respect to how much and what form of aid (grant or loan) is made available.

Once the COA is set for a particular student … usually the same for similar students at a given institution … the family's ability to pay (EFC) is subtracted. The difference is the student's "demonstrated financial need" (FN). In graphic form:

$$\boxed{\text{COA} - \text{EFC} = \text{FN}}$$

Clearly there is some flexibility in allowing for the non-direct expenses, especially "personal items". The same could be said for allowing for the costs for students living off campus or even for those commuting from their parents' home. In the US, private schools, whose direct costs are typically high, would tend to be very modest in providing allowances for such indirect costs. On the other hand, lower cost public institutions, especially two-year schools, many of whose students commute from home, would sometimes be more generous in providing for such indirect allowances. Indeed, a low cost two-year public institution in the US whose tuition and fees may be less than $2,000, can rationalize a COA in excess of $16,000 a year! Why would they inflate their COA? Might it be related to being able to "certify" their students' "need" for additional student aid? The resulting contradictions include students leaving their low cost institution with excessive debt burden, as higher COA allowances provide for larger student loan eligibility. When federal commissions, such as the Advisory Committee on Student Financial Aid, make their periodic reports, grossly exaggerated calculations of "unmet need" of literally thousands of dollars per student at low cost community colleges, are often cited. While such stories of apparent hardship create the train wreck headlines which sell newspapers and attract concern of policymakers, they also unfortunately tend to expose the less than perfect science (or should we say loosey-goosey "magic wand") evaluation process upon which such numbers are based. Certainly the level of exaggerated use of data and stories of such reports and analyses also tend to weaken their credibility.

Relativity of Financial Need

If COA numbers among institutions can and do vary, sometimes considerably, at least now in the US and potentially in the future for the UK, then it follows that a given student's individual demonstrated need may indeed vary from one institution to another, sometimes considerably, based upon a given institution's COA. This is most evident when a prospective student, having been admitted and applied for financial aid at several institutions, begins to compare student aid "offers", as depicted below.

Relativity of Financial Need

		A	B	C
	COA	$15,000	$25,000	$45,000
–	EFC	15,000	15,000	15,000
=	FN	–0–	$10,000	$30,000

Assuming that each institution (A, B, and C) is calculating the family ability to pay in the same manner, how much a family is expected to pay should be constant, regardless of the institution in which he/she intends to enroll. But because the COA can and does vary, the same student may not be "needy" at Institution A, for example, but has "need" of $30,000 at Institution C. If COA values are different, so then can be the same student's demonstrated FN. Thus, financial need is a relative term, where the same student may be needy at one institution but not another … and here lies one of the many sources of confusion.

If FN can vary, so too then can financial aid (FA). Again, the graphic below displays the simple concept of the relativity of financial aid.

Relativity of Financial Aid		A	B	C
	COA	$15,000	$25,000	$45,000
–	FA	0	10,000	30,000
=	Cost to Family	$15,000	$15,000	$15,000

The fact that Institution C has offered $30,000 more in financial aid than Institution A does not necessarily make it the "better deal" or the less expensive one for the family. The amount expected from the family remains exactly the same, regardless. Yet, as we will explain further in the next chapter, the kind of financial aid involved in an institution's "offer" may indeed be different and in the end be a major factor in deciding a student's enrollment decision. The greater the scholarship/grant and the less the amount expected to be borrowed, the "sweeter" the offer. (See financial aid "packaging" in next chapter.) Of course, there are interesting discussions about the value of one institution's degree in comparison to others'. Do employers perceive a "B" grade from one institution to mean the same as a similar grade at another? Do admissions committees reviewing transcripts for graduate and professional school perceive all graduates the same regardless of where they received their undergraduate degree? The dialogue and supporting research on this topic could probably fill a separate chapter. Suffice it to say that this is a matter of continuing debate within some circles.

Conclusion

In setting policies and creating procedures to implement them, there is a need for balancing the goals of simplicity, consistency, and efficiency with those of equity, common sense, and good results. More data generally results in better decisions but also increases the complexity and cost of administration. If one accepts the fact that this entire evaluation process could probably never be a perfect science, and the reality that resources will never be unlimited, it might make a lot of sense to then attempt to create a system which targets limited resources in a priority ranking process. Those deserving students who, without such support, would not have access to the best institution for which they qualify, would be first to be aided. On the other hand, even if the system were a perfect one, institutions will typically always want to compete for the best students to support their individual needs and broader mission, thus "flavoring" their student aid decisions to support such goals. Likewise, not to be ignored in any political context, there are policymakers whose support from the noisiest and typically the more affluent of their constituents, will seek to appease such complaints and concerns by legislating aid programs not always focused on the neediest students.

Can a balance be found in the UK in creating a system of need-based aid that ensures opportunity to all who deserve it? If so, where would the additional resources to meet the new "needs" created by such a new set of policies come from? The next chapter reviews sources and kinds of student aid and how they might be put together to address these needs.

Chapter III
—Financial Aid—

Sources of Aid

In the most simple view of the big picture, student aid in the US may be supported by sources from either within an institution or from outside the institution. Sources inside the institution may be the institution's own resources or resources given to it by an outside party to administer. Institutionally funded student aid resources may be supported by the income provided by endowments or by revenues deployed from its annual operating budget (see Chapter VII for a broader discussion on "tuition discounting"). Funds administered by the institution may also be provided from outside donors (either individuals or organizations), including private programs as well as government programs. It is not unusual for funds received from outside sources to often have conditions attached to them, especially if government funded. In graphic form, institutionally provided student aid can be summarized:

Sources of Student Aid —Institution Based—
Institutional Internal • Endowment income • Income from operating budget (tuition) Institutional External • Annual donations from o Individuals o Organizations • Annual allocations from government o Federal o State/local

Student aid may also be funded to students from sources outside the institution. In a sense, the portability of such aid which travels with the student (although often distributed through the institution on behalf of the outside party), could be viewed as a "voucher" process … currently another interesting US debate related to government support for elementary and secondary private schooling, but not as much of an issue at the postsecondary level. Such external sources can likewise be categorized as being funded by private organizations such as scholarship foundations or community based scholarships, or they may be funded once again by government, federal, state, or local. Indeed, the single largest provider of student aid funds in the US for US students is the federal government. Again, most of these outside providers would distribute their funds through the institutions on behalf of the students they have selected as recipients. In this way, the institution is an agent of an outside supplier with less, but still with some level of control and responsibility for various administrative functions and accountability. Once again, a graphic summary:

Sources of Student Aid —Non-Institutional Based—

Non-Institutional Based
• Private
    o Organizations, foundations
    o Other scholarship groups
    o Private lending by organizations
• Public
    o Federal
    o State
    o Local

Kinds of Aid

Despite the fact that volumes of handbooks and numerous websites providing lists of endless student aid opportunities exist, all aid can be categorized at the most simple of levels as having to fall into one of two buckets: the aid program is either a gift or something for which you must work. The former are typically referred to as either scholarships or grants, the latter as “self-help” programs, i.e., student loans and part-time campus jobs. Once again, in simple graphic form:

Kinds of Student Aid	
Gifts • Scholarships • Grants	Self-Help • Loans • Campus jobs

Scholarships

Scholarships usually differ from grants in that they intend to recognize some meritorious achievement or special talent or skill. They sometimes are accompanied by conditions: e.g., having to maintain at least a certain grade, or remaining enrolled in a specified curriculum, or perhaps agreeing to be housed on campus. A scholarship might also include a financial need consideration. Merit scholarships do not preclude the prospect of the student being needy. Indeed, in the most selective private institutions in the US, most scholarships require the annual demonstration of financial need. This “need” factor, however, may or may not be found in the policies of many of the scholarships awarded by most institutions. Likewise, many state sponsored scholarships do not require financial need. Indeed, there has been a definite drift away from need-based scholarships to strictly merit-based in much of US higher education, as such awards are used as “strategic means for recruitment” of the “best” students … the definition of which is surely different from one institution to the next. What might be a highly identified student in one applicant pool might not be admitted from another institution’s pool. Some might argue (McPherson, Michael S. and Morton O. Schapiro, “The Student Aid Game”, Princeton, NJ: Princeton University Press, 1998), that the “bidding wars” strategies serve only to “up the ante” for all institutions and become a very expensive, zero-sum game, as students often end up where they would have enrolled anyway. Research conducted by the College Board (Chapman, R.G. and Jackson, R., “College Choices of Academically Able Students, The Influence of No-Need Financial Aid and Other Factors”, New York, NY: College Board, 1987) over 25 years ago concluded that it would require a minimum of $5,000 annually simply to “turn a head” from his/her first choice institution to even consider an alternative strictly based on money. Similar conclusions can be found in a later study (Wick, Philip G., “No-Need/Merit Scholarships: Practices and Trends, 1943 – Present”, New York, NY: The College Board, 1997). One might imagine how much more substantial such an amount might have to be in today’s dramatically increased cost scenario. As stated above in reference to merit-based scholarships: the term “merit”-based does not preclude that such a meritorious student could also be needy … or even very needy.

Grants

Grants, on the other hand, are most typically based solely on need, as any enrolled student is considered deserving. Provided the student continues to be enrolled in good standing and annually demonstrates financial need, a grant may be renewed. The value of the grant can be a factor related to the extent of a student's need but may also be related to how the grant is funded. A grant, as well as a need-based scholarship, can be awarded to meet part or all of a student's demonstrated financial need. There are typically insufficient grant funds available to meet the full demonstrated need of each and every institution's individual students. Simply demonstrating financial need eligibility does not automatically guarantee a grant or at least one sufficient to meet one's need. (There is further discussion on eligibility versus entitlement in Chapter VI.) A student whose need has not been met is said to have "unmet need" or a "gap". Many of these students fill these "gaps" with other resources or by other means … or simply "get by" … another illustration of the less-than-perfect science of the process (see "Unmet Need" discussion below).

Loans

Educational loans in the US come in a variety of ways and under a rather wide range of provisions. Such loans may be made to either students or to their parents, or to both. Unlike the UK's basic student loan program (The Student Loan) for undergraduates, such loans in the US typically must be repaid in full with interest following the termination of at least half-time enrollment … i.e., regardless of whether the student has obtained a degree. In this respect, the repayment obligation in the UK is similar to that of the US, i.e., even if the borrower fails to complete the degree, the loan must be repaid under the same provisions as for those who have completed their degree. Interest rates, including "origination fees", length of repayment, consolidation/refinancing options, and requirements for creditworthy cosigners, vary by program. Some government provided loans offer limited cancellation opportunities for certain careers. One government loan (Ford Direct Loan Program) can also offer a forgiveness of any remaining outstanding balance after 25 years of payment. By far the single largest source of borrowing is supported by the US government's Federal Family Education Loan Program (FFELP). Through this program, a partnership approach involving government guarantees and subsidies of interest is used to leverage private capital provided by private lending institutions such as commercial banks. Loans are currently made to students at a fixed rate of 6.8% interest as well as to the parents of dependent students at a fixed rate of 8.5% interest through the FFELP. Undergraduate students have limits on the amounts which can be borrowed, generally increasing as the student progresses from one year to the next. Creditworthiness of students, except for previous bad debt, is not a factor in the FFELP. Parents are allowed, assuming also no bad debt record, to borrow annually up to the full Cost of Attendance less any student aid. Both the student and the parent government loan can be used simultaneously by the same family. Both programs are enormously popular. Students who demonstrate financial need through the Federal Methodology (FM) qualify for interest subsidies paid by the government while they are enrolled as students. Students who do not demonstrate need, regardless of family income, may also borrow but the in-school interest is not subsidized. However, payment of this interest can be deferred and added to principle upon repayment. Parental loans provided by the government are not subsidized and repayment typically begins within 60 days of disbursement but most lenders provide “hardship” forbearances on these payments during the years of enrollment; in such cases, only the payment of interest is made until the student is no longer enrolled. Institutions more commonly offer students and parents a “preferred list of lenders” whose products and services have been evaluated regularly by the institution for quality and good customer service.

There are other government loan programs, including the current extension of the original National Defense Student Loan, now renamed the Perkins Loan. Unlike the partnership involving private lenders, the institution is allocated federal funds which must be matched at 25% by the institution. New loans are awarded under federal guidelines to needy students up to the extent of funds available at the institution, which include collections of loans from former Perkins Loan recipients at that institution. Interest rates are lower (fixed at 5%) for Perkins Loans and provide for similar repayment terms as the FFELP except for some additional loan forgiveness options for certain careers. Perkins Loans are intended to assist the neediest of students. Further detail on FFELP, Perkins, and other government education loans can be found at www.studentaid.ed.gov.

Institutions may also provide additional education financing opportunities to both students and their parents. Terms will vary by institutions. Such options are often more common at higher cost private institutions. Some enterprising institutions have formed agreements with one or more private lenders to create reasonable non-government loan products for qualified, i.e., creditworthy, borrowers. Provisions can range from being the same for all borrowers at a given institution to tiered rates, depending on various factors. Because government student loans are restricted by annual borrowing limits, there is a growing “market” in the US for these private loans in the student loan industry. Some of these loans are for students and may require a creditworthy cosigner. Others are for parents. Some families may need them to help meet expected family obligations for paying, some for filling other unmet needs, both real and discretionary. Lenders are happy to make these loans, especially to students enrolled in institutions with strong records of performance. Graduates of such institutions are typically successful and are likely very solid candidates for other forms of financing in their adult lives. In virtually all education loan programs, institutions are heavily involved in processing, certifying enrollment, cost of attendance, and the student’s eligibility and/or receipt of other aid. Concern for excessive debt, of course, is an issue and is addressed as a separate topic in Chapter VII. While borrowing levels are generally high, default rates currently seem to be modest, especially given the uncertainties and risks. The first such US lender has recently (2006) begun to offer similar loans to UK students at certain UK higher education institutions.

Campus Jobs

Working part time in a campus provided job is another form of student aid. Generally speaking, however, this form of assistance is intended to be modest and is offered to help provide for a student’s personal and social expenses while in school rather than to serve as a major resource for meeting tuition and fees. In the ideal world, such work opportunities would relate closely to the student’s academic program. However, this is not always the reality. Hourly pay rates may vary depending on job skills, e.g., higher for computer skills, less for dishwashing; and the number of hours per week might range from 8–15 hours. In some cases, a student may work up to 20 or so hours per week. Institutions are careful to avoid offering students excessive amounts of work opportunities which would distract from their primary purpose of study. On the other hand, some students for a variety of reasons, seek employment outside of the institution’s control in many of the “off-campus” opportunities typically available in many college communities, sometimes for many more hours per week and/or for better hourly wages. Generally, most research on students working on a part-time (up to 20 hours per week) basis on campus has suggested that such work is not detrimental to a student’s academics. Indeed, to the contrary, such students seem to do a little better with their academic performance than those not so employed. Perhaps this is a consequence of the need for better time management and for setting priorities properly, and the student's becoming a bit more closely aligned with the institution and its mission and people. On the other hand, research on students working excessive hours in off-campus situations too often reflects less than positive academic consequences.

Financial Aid "Packaging"

There are thus a wide range of student aid programs which can be found in the form of scholarships, grants, loans, and jobs. These programs can be funded by the institution or sources outside the institution. In most cases, the institution would be involved in arranging a student's aid and, at least in some coordinating manner, for the student's receipt of outside aid. For the student submitting an application for financial aid consideration to the institution, the student aid administrator would respond with a decision, once the applicant's financial aid application was deemed complete. Institutions are attempting to help make the student's enrollment reasonably affordable by putting together adequate student aid resources, often in combination of more than one kind of assistance from more than one source. This combination is referred to as a "financial aid package". It may meet the demonstrated need of the student; it may meet the demonstrated need in a very attractive (preferential) manner; it may exceed the need with merit aid or/and with suggested options for reducing the family responsibility to pay now; or it may not be able to meet the student's financial need, or at least not be able to do so in reasonable ways. Again in graphic form, below are possible scenarios.

Financial Aid Packaging					
	Meet Need	Preferential	Merit	Full COA	Unmet Need
COA	$15,000	$15,000	$15,000	$15,000	$15,000
– EFC	10,000	10,000	10,000	10,000	10,000
= FN	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Financial Aid					
Schol/grant	$ 2,500	$ 5,000	$10,000	$ 500	$ 0
Student loan	1,500	0	0	2,500	2,500
Campus job	1,000	0	0	2,000	0
Total Aid	$ 5,000	$ 5,000	$10,000	$ 5,000	$ 2,500
Unmet Need	–0–	–0–	–0–	–0–	$ 2,500
Other Financing[5]	($10,000)	($10,000)	($ 5,000)	$10,000	($12,500)

Arranging a financial aid package is generally the responsibility of the institution's student aid office. Again, some forms of student aid are portable and "travel" with the student (some may refer to this practice as a "voucher process"): federal Pell Grants (considered "entitlements") are a good example of this concept; state grants (generally restricted to state residents enrolled in institutions located in the home state, public or private); student loans provided by the government's FFELP; and many scholarships provided by private organizations to the student for any number of reasons (e.g., recognition by local community group or perhaps church; parents' employer as a benefit to children of employees; or achieved on the basis of talent, skill, or competition). The institutional aid administrator would typically begin the packaging process with any entitlement grant assistance brought by the student (federal Pell, state grant). From this point, there could be as many variances in approaches as there are institutions, as each institution will have its own policies, resources, mission, and "market position". The institution's place in the hierarchy (or food chain as may be viewed by the many "rankings", such as *US News & World Report*), often a position sought to be improved by admissions officers, deans, provosts, presidents, trustees, and/or alumni, might then result in the "strategic use" of student aid to help meet certain enrollment goals for increased student quality

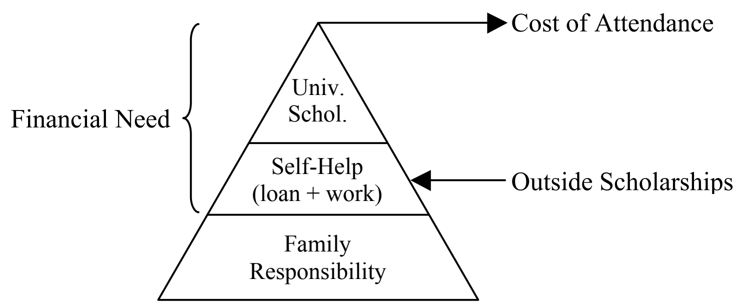
[5] There are other forms of educational financing means which some students may be able to obtain, often with the requirement of a creditworthy cosigner. Some families may also be able to arrange financing by borrowing from life insurance, retirement, or home equity assets. Some US institutions have arranged for other forms of financing with non-government loans from commercial lenders.

or diversity. Likewise, such "strategies" might be used to help recruit more and/or better students for certain courses of study within an institution, e.g., to improve numbers in the physics program.

The next layer of student aid after entitlement grant assistance might be institutional scholarship, whether need-based or merit (it can, of course, be both). This amount could range up to the remaining "need" of the student in a need-based policy; or it could be in any amount up to full tuition or even full Cost of Attendance, for students identified as highly desirable for whatever reason by the institution. The institutional scholarship/grant assistance could then be followed by self-help aid in the form of student loan and/or campus employment, in various combinations. These resources may or may not be adequate to meet a student's "need", and may be supplemented by alternate means, particularly private financing programs. The student's receipt of additional outside scholarships from private sources, the timing of which can be before, during, or long after the institution's aid decision, can also impact the institution's financial aid package. Institutions may use such aid to satisfy "unmet need", reduce the student's need for self-help loans/work, or (depending on whether certain government need-based aid is in the mix — remember the "Golden Rule" from Chapter I!), simply choose to ignore it, effectively reducing in some cases, the Expected Family Contribution.

In general, the "strategic use of student aid" might be more frequently found in the private sector, whose enrollment policies for quality, (or in some cases, for survival), are directed by enrollment managers responsible for achieving these goals. Institutions may organize the distribution of their institutional scholarships with more attractive aid (preferential packaging) to the most academically desirable, to the neediest, to the least needy, to those intending to enroll in certain curriculums, etc.,) with less (or no) institutional aid to other groups.

One simple way of illustrating graphically one institution's packaging policy where full need is met appears below:



“Unmet Need”

For many students and their families, the reality of not having adequate and reasonable resources available to provide access, let alone choice, is not uncommon. Depending on the extent of the “unmet need” and the individual student’s options for alternate financing and possibly the student’s level of confidence in pursuing his/her goal despite the odds, such scenarios could be daunting and discouraging enough to limit opportunities. This issue, then, has become a significant public policy matter in the US. There are surely numerous research reports and nationally commissioned studies that suggest that there is indeed an access/affordability crisis in American higher education. On the other hand, most demographic studies show college enrollments bursting, insufficient capacity, more demand than ever, and as high a percentage of the population, including underrepresented groups, enrolled as ever. Policymakers, concerned about access and affordability, view these conflicting scenarios and attempt to understand. The media, often seeking to attract attention, profile the most extreme stories that can be identified. Families and students, aspiring for the benefits of further education, are too often confused, upset, and discouraged, especially those whose financial circumstances are such that access to good information is often far less than ideal. Surely, once again, we note one of our biggest challenges as institutional officials responsible for supporting enrollment goals both for our own institutions as well as for society: i.e., the need for good, simple, accurate, timely, predictable, and encouraging information about college costs and student aid.

Why do college costs rise in the US in such alarming rates, too often exceeding other inflationary measures in our economy? Our next chapter begins with this question. In the meantime, UK policymakers may want to consider more carefully whether providing wider access to additional students is a worthy enough goal to warrant public support? How much further should such an expansion aspire? How would the needed revenue be raised or at whose expense should it come? Are increased costs for tuition, with proportionate increases in student aid for those unable to meet these costs (high tuition/high aid model), the way to go? If so, should such aid be in the form of “gift” assistance or loan assistance or some combination? How would such students be identified, what would be the priorities for funding, and how would such aid be administered? Would policies be the same for all UK institutions? Would decisions be made by campus officials or by the Local Authority or in some coordinated manner? Should the evaluation process for student aid be an annual one or generally one done once prior to initial year enrollment? What outcomes would be expected and how will success be measured? The next chapter will provide additional food for thought.

Chapter IV
—Current Dynamics—

Costs

As with any vibrant enterprise constantly seeking to improve itself and always subject to the critical dynamics and whims of the moment, not the least of which could be the availability of resources, the financing of higher education in the US is regularly and often rather rigorously under pressure from a variety of perspectives. Insufficient revenues, growing demands for innovation, facility maintenance needs, health care costs for employees, increasing utility expenses, technology changes, the cost of new acquisitions in libraries and for laboratories, the heavy burden of compliance with government regulations, the increased cost of remaining competitive with faculty appointments and student body quality, and even the modern demand for "keeping up with the Joneses" in meeting consumer expectations for non-educational amenities (e.g., air conditioned room, Jacuzzi in the dorm!) … all combine to present a very intensive agenda for those responsible for balancing institutional budgets. It also has become a public relations challenge for those asked to explain and justify higher fees.

As higher education fees increased at double digit rates in the 1980s, then grew throughout the remainder of the twentieth century, and again have increased significantly since 2000, more concern has been expressed for college affordability. Government policymakers especially have acted in a variety of ways to address the many challenges: expanded federal and state student aid programs; provided indirect support through tax policies (discussed at length in Chapter V); conducted numerous hearings; and threatened a variety of punitive measures including government cost controls for institutions where cost increases were considered excessive. There have been and continue to be commissions and study groups authorized to analyze the problem. One such study ("Straight Talk About College Costs and Prices", The Report of the National Commission on the Cost of Higher Education. Washington, DC: American Institutes for Research, 1998) was that authorized by Congress in 1997, whose constrained time frame for issuing a final report ended up with somewhat of a rushed set of conclusions. Nonetheless, some important points were made, especially on the matter of the need for better information and understanding of exactly what was meant by "cost" as well as at least a first attempt to identify the reasons for the increases, i.e., the "cost drivers". The variations in definition of terms related to these discussions are an ongoing matter of contention among the different groups attempting to help better understand the issues. Such efforts include the College Board, various commissions authorized by the US Congress, federal agencies such as the Government Accountability Office (GAO) and the Congressional Budget Office (CBO), and the National Association of College and University Business Officers (NACUBO).

Distinction was made between "cost", "price", and "net price". "Cost" was defined as the actual amount required to provide instruction. It was noted that virtually no one paid full cost, as even in the most expensive private institutions, there were subsidies provided to support such instructional cost. The "price" was the one listed in institutional publications as the "sticker price"; and "net price", i.e., the amount after student aid which remained to be paid. "Net price" could have been after gift aid or after all gift and self-help aid had been deducted; this last definition being somewhat unresolved and debatable.

The cost drivers were many and were identified as follows. Unlike other "industries" whose products can easily be quantified, the commission reported that the results of education are not as easily measured. Indeed, what other industry can state that its product is also its consumer? Nonetheless, the report stated, to produce it is a very labor intensive undertaking, requiring the compensation of many people, including their dental and medical healthcare and benefits. The commission next identified the cost of institutional student aid, especially in the private sector but, also, as a result of a growing trend in the public sector. Because the majority of institutional student aid at most schools is funded by operating income (i.e., tuition), and because of an ever increasing level of such expenditures in the form of institutional scholarships, this "cost driver" has grown to become a major expense. (Further discussion on tuition discounting and its consequences is found in Chapter VII.)

Because there had been, and still remain, inferences among some policymakers that institutions have taken advantage of increased student aid opportunities as a justification and catalyst for increasing tuition charges, pointing to federal and state grants and loans in particular, the commission felt it necessary to address this issue. Contrary to such thinking, the report stated that no such direct correlation could be definitively proven. Indeed, it could have been argued that during periods of flat or even declining relative values of government funded student aid, institutions have managed to continue to increase tuition charges rather regularly, if not robustly. Nonetheless, the suggestion that increases in government aid have served as an incentive for schools to rationalize increases in tuition, continue to persist (Vedder, Richard, “Going Broke by Degree”, Washington, DC: The AEI Press, 2004).

Yet another driver was the cost of administering the enormous burden resulting from government regulations. While well intended, many of these regulations present significant expense for institutions. The amount of institutional expense needed to implement and administer provisions related to government compliance, and the cost involved in providing accommodations to meet even the smallest of contingencies, have also contributed to the need to raise tuition (Howard, Philip K., “The Death of Common Sense: How Law is Suffocating America”, New York: Random House, 1994).

Technology was also noted by the federally authorized cost commission as a major cause for expense. The constant improvements in hardware and software and the need for institutions to keep up with such changes, have added enormously to annual operating budgets. Remaining competitive with other schools, as well as ensuring the institution’s ability to protect the confidentiality of the data contained in technology driven reports, leaves institutions with little choice. Indeed, software providers do not support old programs indefinitely. While all of us await the cost efficiencies which enhancements in technology promise to bring, such savings have yet to be fully realized in most institutions.

Finally, the growing expectations of the consumer, particularly for modern amenities such as more comfortable and spacious housing, access to technology, additional academic and non-academic programs, smaller classes, larger scholarships, etc., was noted by the commission as another cost driver.

Not identified as another cost driver, but surely one that could have been, was the cost of utilities, not the least of which would be fuel. Despite efforts to create efficiencies, soaring increases in utilities leave institutions with little choice but to pass such costs on to the students.

<u>Politics</u>

US Congressional rumblings still threaten to legislate punitive measures, e.g., for institutions whose cost increases exceed various inflation factors for more than three consecutive years. Reductions in federal student aid for students enrolled at such institutions would be the hammer. Others argue that a “carrot versus the stick” approach might be more appropriate, wherein institutions whose cost increases have been more moderate would be provided with additional funding for their students and/or perhaps some level of relief for having to carry out certain federal regulations. Institutions demonstrating cost efficiencies, solid performance as measured by on-time graduation rates, job placement rates, satisfaction level of alumni, acceptance rates to graduate/professional school, and low student loan default rates, would be examples of the kind of performance indicators to be rewarded.

While such proposals are likely to receive some attention, albeit now uncertain because of recent (2006) political election changes in the Congress, yet another commission authorized in 2006 to investigate college costs, appears to be shifting government focus more to outcomes and accountability. The US Department of Education, under the leadership of the Secretary of Education, Margaret Spellings, undertook a comprehensive assessment of education in America. Early drafts of "Spellings Commission's" findings in 2006 raised the ire of many institutional officials who argue that outcomes in higher education cannot be measured in simplistic terms. Likewise, others argued that because each institution can be argued to have its own special mission and individual cost pressures and finances, a national standard, cookie-cutter formula should not be applied across-the-board … thus suggesting status quo with little or even no attempt to measure outcomes. Such rationale is unlikely to hold much water, as the noise and level of concern continues to rise, especially in university settings where the cost of research and the apparent neglect of undergraduate teaching, as well as the average teaching load for some of its most highly paid professors, continue to attract questions from policymakers and taxpayers and prospective students.

As government attempts to sort this out while college costs continue to grow, enrollments boom, and student debt levels reach all time highs, other needs for government resources and financial constraints also come into play. Interstate highways, the war on terror, international competition, the cost of crime, the skyrocketing healthcare crisis, the uncertain future of the Social Security program, federal deficits, and the need for alternative fuel, and environmental concerns, also add to the litany of demands and shifting priorities. Token efforts to become more competitive in the global world were made with the recent selective expansion of federal student aid grants. Academic Competitive Grants have been targeted at highly identified students entering college. SMART Grants in larger amounts are to support third and fourth year undergraduates enrolled in what have been designated as highly critical courses of study to keep the US competitive. However, such grants are restricted to a small percentage of students who must be eligible for another federal grant program known as the Pell Grant. Such measures, however positive, are not viewed by all as being as far reaching and comprehensive in scope as ideally would be supported.

On the state level, government policymakers feel similar budgetary constraints for other demands, especially for elementary and secondary school problems, as well as the costs for healthcare and prisons. As a result, previous levels of state subsidies supporting public institutions of higher education have been squeezed, requiring budget cuts by these institutions and the need for additional revenue from other sources, typically tuition at the expense of students and their families.

Other Dynamics

The issue of technology as a cost factor, previously referenced in this chapter, has surely become a major dynamic in how higher education is provided. The efficiencies it can produce are promising. While the application of such efficiencies to the world of higher education has already been proven through classroom technology, distance learning, and the massive expansion of information availability, some may wonder whether a more deliberate approach to some aspects of providing higher education might better support its broader mission. For example, in the world of student aid administration in the US, technology has served to dramatically improve processing. Applications are submitted over the Web, data is verified using electronic means, loans are approved and promissory notes for thousands of dollars per student are "signed" using a Personal Identification Number (PIN), and funds are electronically disbursed and wired from one institution to another. Amidst the speed, one hopes that the borrower is fully aware of the serious obligation being undertaken.

No discussion on possible factors related to the causes for institutional cost increases is complete without including the enormous pressures brought on by today's focus on "rankings". Indeed, rankings by all sorts of indices have now morphed into their own cottage industry. The most often quoted of such rankings is probably the *US News & World Report's* (*USNWR*) annual publication of "top" universities and colleges. Because so much weight in developing these rankings is being placed on such factors as students' academic profiles and an institution's selectivity and admissions "yield" rates, significant recruitment expenses are incurred to increase the number of applications and to woo highly identified applicants using "strategic" marketing and sales tactics more typically commonplace in the business world. Of course, this is most blatantly illustrated by the always growing need to outbid the competition using larger and larger offers of merit scholarships (McPherson and Schapiro, Ibid) … indeed the basis for one of the many other kinds of rankings that seem to have proliferated and added to the pressures. "Best Value" institutional ranking lists colleges and universities by "net cost", i.e., a weighting of perceived academic quality (based on other rankings) coupled with the net cost of tuition after institutional scholarship/grant aid by the average student aid recipient has been factored in. Yet another listing ranks schools by average indebtedness of graduates, not, of course, one on which most schools would want to be found. (Ironically, these rankings might be better consumer guides if they ranked schools by their student loan default rates! How would trustees and policymakers react to an institution receiving top booking as having the worst student loan default rates or the poorest retention or graduation rates?) In the end, despite institutions' loud protestations and public statements of outrage as to the dubious worth of such annual rankings, not to mention the rather small role such rankings seem to play in a student's college decision, most institutions <u>do</u> take notice and react in ways which tend to add, not subtract, from the need to pay for additional and expensive and never ending spiraling costs.

Reference finally here should also be made to the growing dynamic played by the exploding "for profit" sector in US higher education. The largest single private institution of higher education in the world is now the University of Phoenix, a for-profit enterprise whose primary purpose is to make money while providing education and training for students wherever they can be found, in as quickly a manner as possible. Students pay high prices to secure skills that will make them more marketable as soon as possible. Two-year, four-year, and graduate degrees up through the doctorate are offered by such schools. They have successfully achieved accreditation and typically employ mostly part-time faculty, thus not being obligated to provide benefits nor be shackled by tenure considerations. Courses are set up "anywhere, anytime", in some cases, if enrollment is sufficient. Indeed, some employers contract with such institutions to provide on-site programs. Because such schools are accredited and provide degrees, their students are eligible and receive government student aid. It is not common, however, for such schools to offer institutional scholarships.

Some Observations

Clearly there are many major dynamics which can and have impacted the manner in which US higher education is now being financed and managed. Many have added to the strength and variety and energy of what has become one of America's shining stars: its higher education opportunities. In the end, if citizens are better prepared for a fuller participation in and appreciation of life, if society in general benefits from a more productive workforce, should not everyone be happy? Yet, questions arise about whether everyone is able to equally access these opportunities. Perhaps more basic questions can be asked about whether everyone need be provided such unlimited access, and if so, who should pay and how, and for how long, and for what programs.

While the UK system of higher education is truly one of the best in the world and has to date provided many of its citizens the opportunity to benefit from it, some have successfully and appropriately argued that more can be done. It is still premature to offer any observations on the long term impact of the "top-up fees" (Ramsden, Brian and Nigel Brown, "Variable Tuition Fees in England: Assessing Their Impact on Students and Higher Education Institutions", Nigel Brown Associates, Universities UK). Such expanded opportunity might be made possible by modern technology and revised government priorities, but again who should pay for it? Who benefits? Perhaps even more essentially, what should be provided: traditional education, training in marketable skills, or vocational training preparation? Can and should all be supported in the same manner? Is it fair to everyone if one kind of program is not as supported by the taxpayer and another is?

The next chapter reviews how the US government has attempted to provide indirect support for paying for college costs through tax policy … and exactly which of its taxpayers are benefiting from these policies.

Chapter V
—Tax Policies—

Right or Privilege?

One of the birthrights of residents of most democratic societies suggests that citizens should enjoy the opportunity to "be all that they can be". While this does not always work out for everyone and may include losses and disappointments, the US and the UK share this common heritage and a track record that is the model for other societies. The incredible range and diversity of educational institutions and training programs in the US makes apples to apples comparisons with other countries, including the UK, difficult. By most measures, the postsecondary educational opportunities are unequaled by any other country. Yet the impressive percentages of those able to participate in higher education in the UK are also the well deserved basis for much pride. Whether the push in the UK to widen participation in higher education to 50 percent of the population can be achieved is receiving much scrutiny, as new challenges begin to surface.

However, as the cost for higher education has increased so dramatically in recent years in the US, especially as measured as a proportion of median household family income, there is a growing concern that access to and opportunity for higher education, as well as choice, is at serious risk. The consequences for the lowest income families are the most obvious and immediate cause for concern not only for the deserving and able individual students, but also for the future economic strength and social stability of the larger society in which they must engage and support. However, cries from these lower income families are not as loud or heard as often as those from the middle class. Because the "middle class" are more likely to vote more often and have more influence in many ways than members of lower income families, policymakers responsible for addressing such concerns are more likely to listen and react. The media also tends to be more responsive.

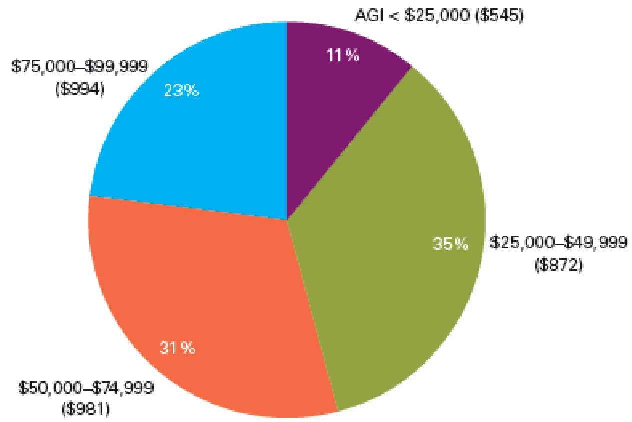
Despite the major and obvious difference between basic access and opportunity versus choice and discretion, the neediest sometimes lose out to the not-as-needy. Emotional arguments are made that suggest that those supporting the needs of society by paying more taxes deserve the benefits provided by the government to whom these taxes are paid. The expectation that a family should have to alter its financial priorities and moderate its lifestyle choices, let alone experience any discomfort or even worse, any level of sacrifice, are not easy matters. The prospect of any legislator suggesting such thinking and behavior as potentially serving the "greater good" is filled with political risk.

Because need-based student aid is intended to make a difference and provide opportunity for those, who but for such aid, would not be able to consider enrolling in higher education, its focus more often would be to target the needier student. Families with adequate resources have choices. Families without adequate resources do not. Thus, need-based student aid, especially for upper middle class families whose children enroll in lower cost public institutions, is not available. Such need-based policies do not by any reasonable measure typically preclude enrollment for the middle class, as it most often would for lower income families. What it does do often is force decisions related to lifestyle. Such impact can occur just prior to the time to pay for college bills or during the period of enrollment. For those who ideally think about the future prospects and attempt to plan ahead for options for their young children, it can force choices in spending and priorities of lifestyle many years earlier.

Because only a certain amount of "tinkering" and adjustment (e.g., total elimination of consideration of home equity in FM and eliminating an expectation that students provide a minimal amount from a summer job) can be made to the formulas involved in measuring family ability to pay before the formula no longer has any meaning or integrity (and generally had not seemed to quiet the noise anyway), US government policymakers decided another tactic. Rather than increasing spending on government student aid, a shift to using tax policy was made. The cost would still be significant in terms of lost revenue to the government treasury, but at least the reduced tax liabilities would benefit many of the vocal middle, and especially upper-middle, income families. (Those from lower-income strata, who pay little or no taxes, would not benefit as much, if at all.)

As a result, the provisions of the Taxpayer Relief Act of 1997 created both tax credits (i.e., dollar for dollar reduction in tax liability), as well as tax deductions (i.e., the lowering of the family income upon which tax was calculated). Such tax benefits have quickly amounted to billions of dollars annually of lost revenue to the federal government and are based upon the amount of higher education tuition paid by families in the previous tax year. (Figure 16, College Board "Trends in Student Aid", 2006, pg. 25.)

Figure 16: Federal Education Tax Credits: Distribution of Savings by Adjusted Gross Income Level, 2004

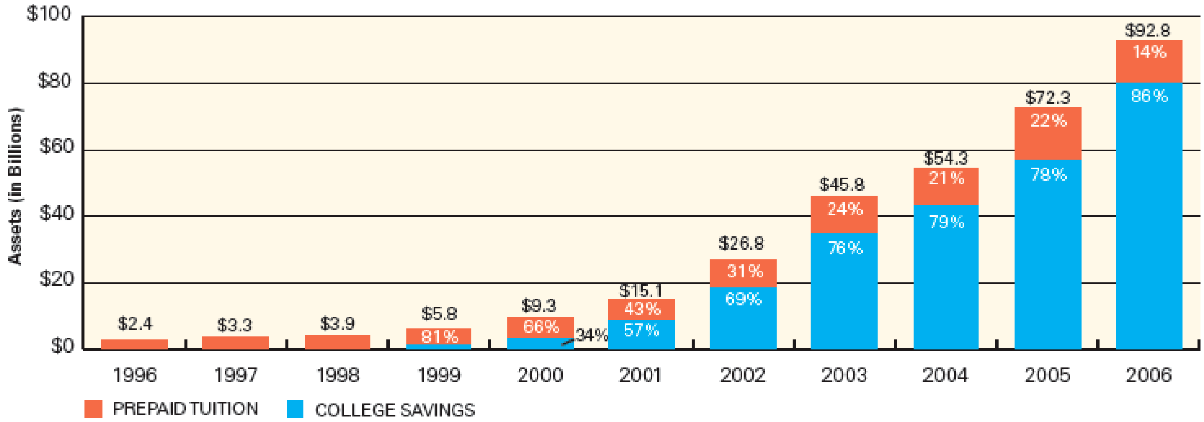


Note: Only tax credits and deductions claimed on taxable income tax returns are included.
Sources: *Individual Income Tax Returns, Preliminary Data 2004,* Table A; *Individual Income Tax Returns, Tax Year 2004,* Table 3.3; calculations by authors.
Printed with permission from The College Board

While there are income caps under which families must fall to be eligible for such benefits, they are rather generous. Despite the fact also that these benefits accrue "after the fact" (i.e., not when the tuition bill is due to be paid but perhaps more than a year later), these benefits will not be easy to take away when this tax legislation comes up for renewal. It remains to be seen, however, whether such tax relief has really changed any enrollment plans, as the vast majority of these students, despite the billions of dollars expended, would most likely have enrolled anyway.

Additional federal tax legislation also was enacted to change family behavior by providing tax incentives for families who set aside savings for the education of their children or even their grandchildren! A provision (529) in the tax code encouraged each state in the US to create "529 Plans" whereby residents of the state would not only receive federal tax considerations for such investments in college savings, but also provide relief from state income taxes (www.savingforcollege.com). At the federal level, the 529 fund's annual appreciation would be exempt from taxation; likewise, there would be no tax on the disbursement of the proceeds in the year the distribution from the assets were used to pay college bills (Figure 14, College Board "Trends in Student Aid", 2006, pg. 24.)

Figure 14: Total Assets in State-Sponsored Section 529 College Savings Plans, 1996 to 2006



Printed with permission from The College Board

Unlike the tuition tax benefits provided in other tax policy which imposed income ceilings for eligibility, 529 tax policy currently has <u>no</u> income caps. Any family, including those from the highest incomes, can enjoy federal tax benefits for such 529 savings. The 529 total asset value was estimated to be approaching $100 billion in 2006. The program's popularity has also resulted in this provision being made a permanent part of the tax code in 2006.

While 529 tax legislation may very well provide relief from the strain of paying for college costs, as well as provide for more options for choosing a college, it should ideally also serve to reduce the need for the demand on government student aid. The use of tax policy versus increased government spending on student aid or the further liberalization of aid formulas, has mitigated the level of angst and financial "crunch" for some middle and upper middle class families, thus responding to some degree to the "affordability crisis". Whether it has addressed the question of access is less certain. Whether it is sound public policy and a fiscally responsible use of the tax code and can be sustained permanently in its current format, are serious matters for responsible legislators to debate and decide.

Should similar use of the UK tax policy be considered as a means for providing relief to at least some of the more vocal middle class and upper middle class? If so, would tax relief for tuition payments or tax incentives for saving for college be preferred? Would additional government subsidized student aid be a more effective way of targeting limited resources, especially to support those for whom such resources would truly make a difference? If so, is there a certain percentage of the population which should serve as a reasonable goal for college enrollment, or should enrollment in higher education be considered an entitlement for all citizens? These and other issues are addressed in the next chapter.

Chapter VI
—Issues—

Definitions, Goals, and Structure

Discussed to some degree already have been certain issues often raised in the US, including access versus affordability, need versus merit aid, and eligibility versus entitlement. Many other issues also receive various levels of attention and are worthy of some discussion. Perhaps most fundamental of all might be the understood purpose(s) of "higher education". Although what was originally referenced in traditional terms with the "Higher Education" Act of 1965, and is still appropriate in the UK as higher education, the US expanded its scope to include virtually all forms of education and training after secondary school. The more proper term in the US is now "postsecondary education", ("tertiary" education in some countries). This terminology is intended to include traditional universities and liberal arts and teaching colleges, advanced programs through the Ph.D. and postdoctoral level as well as professional schools of medicine, law, dentistry, health, and business. However, for the purposes of federal student aid eligibility, any US student deemed eligible by any accredited institution offering a program of education or training requiring a minimum number of classroom hours and issuing some form of certificate or degree, is now deemed worthy of federal aid seeking assistance. Accreditation may be authorized by whatever recognized accrediting body has been authorized to provide whatever certification involved, be it computer repair, embalming, dog grooming, or truck driving: this takes in the nation's extensive community college provision (akin to the UK's further education sector). The rationale is simply that everyone deserves an opportunity to improve and hopefully become more productive members of society. Institutions may be public or private, with programs which vary in length of time to satisfy requirements, not-for-profit or profit (proprietary), residential, commuter, or online. This scenario has very much become the US big picture and is a long way from the medieval traditional higher education structure more commonly found in Europe and the UK.

Surely, good discussions can take place regarding definitions of what it is meant to be an educated person. Plato, Aristotle, John Henry Newman, and John Dewey have done so in the past. Is the purpose of education restricted to developing the more traditional undergraduate values such as the ability to communicate, think clearly and critically, moral reasoning, and preparation for a civil participation in one's community and global society—in short, a liberal education? Or should it emphasize more than any other purpose a need to produce graduates with adequate skills to make money? As referenced earlier in Chapter II (Farrell, Elizabeth. Ibid) the primary view among entering first year students in the US, as reflected in students' reasons for enrolling, has now become to improve one's financial status. Perhaps part of this changing view is supported by the equally increasing pressure on institutions to be more accountable and more businesslike in how they operate (Kirp, David L., "Shakespeare, Einstein, and the Bottom Line: the Marketing of Higher Education", Cambridge, MA: Harvard University Press, 2003; and Gould, Eric., "The University in a Corporate Culture", New Haven, CT: Yale University Press, 2003). Indeed, as demands by students and families grow (i.e., expectations) for non-instructional amenities unrelated to true learning, institutions attempt to compete and inevitably need to seek new revenues, typically through tuition. In the meantime, the government's trough from which the ever-growing student body must be fed, struggles to slice the pieces of the pie in even smaller portions, too often in amounts that are insufficient (unmet need).

The US federal government has expended hundreds of billions of dollars since the original Higher Education Act of 1965 in an effort to improve the education level of its citizens so that more members of American society can enjoy the benefits of a better life and achieve the "American dream". Indeed, as the population has grown, the raw numbers enrolled in postsecondary education have also grown as significantly and literally millions of individuals have benefited as a result. Yet, the level of poverty, as measured as a percentage of the US population living below poverty income levels, has not changed, despite this enormous expenditure of capital. More Americans surely enjoy the "good life" today than 50 years ago but the reality of poverty, with its accompanying high cost of public subsidies for health care, housing, welfare, as well as for the cost for prisons, are as high as ever. All this would seem to suggest the need for pause to examine what other approaches might be needed. One early indicator of problems in at least some UK institutions has been the squeeze resulting from increased infrastructure costs to accommodate larger enrollments with the uncertainty that these institutions face as to whether basic enrollment targets will be met (Wignall, Alice, "How to Fulfil Those Great Expectations", *Education Guardian*, February 20, 2007). New tactics to help ensure adequate enrollment are being contemplated by some administrators ("Opinion", The

Times Higher Education Supplement. July 2006: p. 12). Such tactics, while unfamiliar to date in the UK higher education practices among those responsible for admitting new students, may now have to include new provisions to meet enrollment numbers. Insufficient numbers of students impact operating budgets, quality of programs, and financial stability. In order to achieve needed results, questionable practices have been employed by some institutions' "enrollment managers", forcing competing schools to do the same. Additional revenue needed to support such strategies is likely to come from increased tuition ("Universities Want Fees to Rise to £7,000, *The Sunday Times*, February 11, 2007).

In the US, the availability of student aid, albeit more in the form of education loans versus scholarships and grants; and the sometimes laissez-faire attitude of some students and their parents; coupled in other scenarios with the lack of structure and accountability for outcomes from institutions and by legislators … all may have contributed to the less than fully transparent and less than efficient pricing and student aid process in the higher education financing structure of the US. Are UK students less well educated because their expected college completion time is three years instead of four? Why do less than 40% of young students going on to four-year institutions of higher education in the US actually finish their requirements in four years? Has the continued availability of student aid and the continued generous (albeit more recently uneven) stream of (state) government subsidies for the public institutions (which enroll about 80% of US students) added to this scenario? These may not be easy questions but they might be ones deserving further review. As the UK moves in a similar direction, there is a great opportunity to address such concerns.

<u>Who Should Pay? Who Benefits?</u>

One classic debate, which has grown even more intense with the vocational, make-money attitude as a primary purpose for college and which has grown to its dominant position in much of today's US thinking, is the question of "who should pay", and its related counterpart of "who benefits"? There is now considerable research data readily available to support the notion that the typical college graduate will be better off financially than his/her secondary school contemporary (Mortenson, Thomas G., "Postsecondary Education Opportunity", Oskaloosa, IA, in virtually every issue of this publication). The lifelong total income of college graduates in the US is almost twice that of the person with only a secondary school diploma. The data is very clear even with the occasional extreme stories of unemployed Ph.D.s and millionaire secondary school dropouts. Yet many other economic benefits typically accompany individuals who are more educated, including longer and healthier lives for themselves as well as for their families, much smaller rates of unemployment and incarceration, and greater levels of contributions to charity. Equally impressive economic benefits for an educated citizenry are found for society, as the tax base increases, gross national product is enhanced, employers require less resources for training or retraining, and there is less of a need for public subsidies for healthcare, unemployment, and prisons. There are likewise social benefits for both the individual as well as for society with greater levels of education (see Appendix II.)

Subsidies

If agreement is reached on an appropriate level of public support for higher education, serious questions still need to be asked. Which students should be subsidized … only those enrolled in traditional universities and colleges or those in more vocationally oriented programs as well? Or should subsidies be at different levels, depending on curriculum or/and intended career paths of students? Should undergraduates be provided for more than graduate or professional students? Should the needs of society for improved health conditions, research, more efficient means of transportation, national defense, the elderly, engineering, teaching (and the list goes on), be more deserving of greater levels of support than others? Should taxes be raised to provide for more of such subsidy? Or should the student be expected to carry the primary burden through some level of repayable educational loan, perhaps with forgiveness for certain careers? But do all students have equal access to adequate and reasonable education loans? If not, at what point does the government get involved and how and to what extent? Likewise, if subsidies to keep tuition fees low are provided, should they be tiered based on family income, on intended courses of study, or level of study, or eventual career plans? Should a particular institution's performance each year be the basis for determining such subsidy? If so, how would such performance be measured? Should such measures be applied uniformly to all institutions, regardless of purpose and mission? If there are subsidies for students, how long should they be provided?

Here currently lies a major difference between the UK and US, as students entering three-year Bachelors' degree programs in the UK know full well when they begin under the new pricing, that any student aid support will typically end after three years. Has this upfront understanding of a rather strictly enforced number of years of support explain the higher levels of on-time graduation rates in the UK? Has the lack of anything similar in pricing levels and subsidies as well as in restricting at least some federal student aid programs resulted in the serious and costly poor retention and eventual graduation and success rates in the US? US students often change the course of study several times, undertake less than the full course load required to stay on track, and too often drop courses for dubious reasons. On a related issue, perhaps more of an illustration of poor secondary school preparation, as many as 50% of US students also arrive at college requiring remedial courses prior to taking on college level work, again adding to the problem of retention and on-time completion (McPherson, Michael S. and Morton O. Schapiro, "College Access: Opportunity or Privilege"?, New York, NY: The College Board, 2006). By some measures at least, the UK higher education system's structure, while perhaps less open to risk, less flexible with student aid, and more focused on certain programs and outcomes, is better situated to keep costs controlled and support more efficiencies and greater outcomes.

Yet can the UK system be improved in any way by attempting to learn more about some of the positive features of the US approach? Is the goal of expanding access to more of the lower-income segment of the population to be abandoned completely? While £3,000 in some measure is still considered a bargain, especially for families who could well afford to pay more, how much additional revenue could be raised (for redeployment on a need basis for subsidies to support additional low-income students) by additional increases in tuition?

<u>High Tuition / High Aid</u>

Chapter II reviewed the basic process used to measure family ability to pay, including the assumptions and principles, as well as the need for certain confidential family data. While an argument can be made that more information allows for more comprehensive evaluation and better judgements, the process is quickly made more cumbersome and confusing, as the greater the amount of factors to be considered increases. Indeed, as tuition increases and students from middle and upper middle income families seek financial assistance, the complexities and "loopholes" of the US tax system begin to play a role.

If an argument for the need for simplicity is made stronger by the increased efficiencies and reduced cost of processing, not to mention the less daunting/less discouraging appearance of it all; and if there is consensus on the fact that some level of verification of whatever simple data being requested is essential to insuring integrity and fairness; and if there will always be a limit on resources and the subsequent need to target such resources to where they will be most meaningful; and, finally, if we concede that any process will always be less than perfect regardless of the constant effort to make it so; then consensus is more likely to be found in limiting the data needed to the bare minimum indicators of family finances: for example, the income data already reported to government agencies (primarily in the US to the Internal Revenue Service and to a variety of public assistance agencies for non tax filers), the federal income tax paid by the family, and the size of the household as reflected in the number of tax exemptions claimed for dependent members of the family. A rough indication of where a family stands in terms of resources could be made, perhaps with appropriate adjustments for those families paying for more than one in college at the same time. Limited student aid resources would first be targeted on the basis of those with virtually no expected ability to pay, and then gradually be reduced up the income scale as the family ability to pay increases, as far as resources could provide. There will never be adequate resources to meet everyone's need, yet the goal of equity in rationing resources would be achieved. If the use of such data, already supplied by the family and stored by a government agency, could be authorized by the family and made available electronically to whatever other government agency was responsible for rationing funds to students, the issues of confidentiality and verification are addressed, and the cost and consternation and inconsistency of administering mountains of applications and processing formulas etc., are greatly reduced. The end result would not be the result of a perfect science and would have its flaws, some of which could be addressed locally by the campus student aid administrator. Indeed, the less than perfect process now employed also has similar flaws but is preceded by lots of cost, confusion, inefficiency, and discouragement. Families wishing to appeal, as they do now, could submit their requests along with signed copies of their complete government tax returns and other documents directly to the aid administrator.

Remarkably, the process currently in place in the UK would seem to satisfy much of what is being suggested here: keep it simple!

<u>Information</u>

Regardless of the process used to provide assistance to those in need of it for helping to pay for college costs, there may be no greater need in the overall student aid industry than that for providing good, timely, accurate, and encouraging information about college costs and how they can be made affordable. It is here that any true partnership approach to providing access and opportunity needs to begin. Parents, preschool teachers, local communities, service organizations, school boards, churches, employers, financial organizations, pediatricians, healthcare providers, and others all need to share in this responsibility. The earlier this information can reach a family, especially a lower-income family, the more hopeful the results can be. College Board research (King, Jacqueline E., "Financing a College Education: How it Works, How it's Changing", Phoenix, AZ: American Council on Education/Oryx Press, 1999) reported that a student in the US drops out of college by the eighth grade of elementary school. If the seeds are not planted and encouragement and good information is not made available, the challenge becomes extremely difficult, particularly for students from low-income families.

As the student and family get closer to the actual years of college enrollment, additional effort to provide such information is needed. Because costs and student aid policies and processes and funding levels can change, there is always likely to be the need for providing good information. What is particularly challenging for our profession is the fact that as soon as we have completed our work with providing such information to the latest cohort of incoming students, the next group begins the process from scratch, requiring equal levels of patience and care once again. What makes the challenge even more daunting is the fact that not every one begins with a "tabula rasa". Unfortunately, the slate is often filled with misinformation and hyperbole and myth.

A final note about information needs to be made on a topic about which every good consumer should be asking, i.e., the performance record of the institution(s) being considered. This is perhaps more of a concern in the US than for the UK, but the point is worth sharing. Given the range of opportunity and diversity of choice, not to mention the wide differences in prices in the US including "net prices", the astute consumer should be researching and asking admissions recruiters about important institutional performance measures. Regardless of its ranking or the popularity of its reputation, or the selectivity of its admissions process, what is the retention rate of students from the first year to the second year? What is the overall, on-time graduation rate of students who enroll as freshmen? What is the average need-based student debt of its graduates and what is their student loan default rate? What is the success rate of its graduates in seeking admission to advanced degrees? What is the successful placement rate of its graduates seeking full-time employment within one year after completing their degree? What is the satisfaction level of their graduates and the level of participation in contributing back to their institution?

Perhaps one of the most egregious issues related to college costs in the US is the one related to the lack of on-time completion of course work. The issue is not nearly as prevalent in the private sector, as the higher costs are borne by the student and family, making the need to finish on time more of a financial necessity. However, the lower tuition and often laissez-faire attitudes of students, parents, institutions, and government policymakers providing the subsidies, too often combine to result in additional costs for everyone. And the costs, when fully accounted, can be significant: there is the added expense for students and parents for paying for the additional costs for tuition, fees, and living expenses; there may also be the further expenditures of student aid (scholarships, grants, loans), which are still generally made available; there is the huge amount of instructional subsidy from the state taxpayer for students enrolled in the public sector; there is what our economist colleagues refer to as “lost opportunity cost”, as the student is not employed in the workforce; and, finally, if a prospective student is unable to enroll because there is not enough space due to continuing enrollments of other students, then that student also bears the burden also.

Why is such additional expense permitted to go unchecked? Why is it happening? Can the UK learn from any of this? Of course, there are the inevitable and unfortunate problems related to health, unforeseen financial problems at home, even natural disasters (e.g., Hurricane Katrina), from which there would be an understandable need for additional time. Flexible considerations and policies to address such circumstances are appropriate. Equally worthy of understanding are those programs involving time away from the formal classroom for internships and apprenticeships. Other explanations may be more dubious: the lack of adequate secondary school preparation and the resulting need for remediation; the carefree attitude of parents which allows children the opportunity to take their time and prolong their enjoyable college years; the poor decisions being made by students fostered by the lack of any punitive consequences to their academic status at the institution; the poor or complete lack of counseling and advisement too often part of an institution's less than adequate support services; the reality that some courses needed for program completion are filled to maximum capacity by other students, effectively blocking some students from enrolling … perhaps another institutional management problem; and, finally, as some cynics suggest, the guaranteed income stream of public subsidy to the institution, which follows the enrollment of each additional student. As some state legislatures take note and move to provide constraints, such as limiting subsidies to no more than five or six years for the completion of four-year programs and by insisting on improved elementary and secondary school standards to address the remediation issue, some public institutions have reacted by charging out-of-state, non-resident fees if more than four years of schooling occurs, effectively dodging state cutoffs. Some educators might argue that it is perfectly fine for young people to explore their academic interests and adjust their career aspirations, perhaps several times, at least in their early years of enrollment. Others might counter by referencing the UK process, where timely graduation regularly occurs without much apparent problem to the young person … and with much less expense for all of the stakeholders. Indeed, if being able to provide for more capacity requires additional revenue, some may ask whether the questionable expenditures in the current US arrangement might be better directed.

Providing greater opportunity for all who can benefit is a wonderful goal of modern democracy. Providing some basic and reasonable structure to foster such opportunity in a fiscally responsible, transparent, and accountable manner, and where to draw this line, is the challenge. As the UK reviews this worthy goal for such an expanded set of opportunities, it may well learn from some of these costly experiences across the ocean in the US.

Chapter VII
—Special Challenges—

Change

If there is one thing that remains constant in the financing of higher education in the US, it's change. Of course, a dynamic and ever changing world surrounds us and institutions established to prepare students for their modern world should embrace the challenges which changes bring. In this respect, the world of student financial aid administration abounds with special opportunities which regularly present themselves. On the cost side, unlike the UK, even with its recent and controversial move to higher fees, whose future adjustment is to be tied modestly to annual inflation, annual tuition increases in the US are often dramatic and are not at all unusual. This is true in both the private and public sectors, especially more recently in the latter, as levels of state support have not kept up. Other fiscal priorities and changing political dynamics have resulted in reduced funding for public subsidies for higher education. There have actually been a few private institutions, in an effort to bolster shrinking enrollments as well as to reduce the need for institutional scholarship expenditures, which have experimented with major public relations gambles in which they have reduced their tuition fees. While the media splash highlighting such dramatic tactics received national attention, the short term fix which resulted has not seemed to have swayed other institutions to follow. In a similar move many years ago by one of the most expensive private institutions in the country, the number and quality of applicants actually decreased! This was attributed by some as the "Chivas Regal" effect, i.e., reduced price is perceived to equate to reduced quality. The institution has since returned to its previous level of fees. To some degree, this Chivas Regal consideration may today play some role in the thinking of US institutional policymakers responsible for setting fees.

Another constantly changing factor in the student aid equation in the US is the formula/methodology used to measure family ability to pay (EFC). Because the process attempts to keep up with economic factors related to the cost of living, the data behind various features, (e.g., taxes paid, the cost of maintaining a household, changes in the cost of money), the formula receives periodic "updates". Of course, those responsible for supporting the processing of these assessments must make appropriate software changes, revise office manuals and provide training to staff, and rewrite publications for its consumers. Because such changes typically result in additional costs, new income sources needed to pay for such changes must also be found.

When we arrive to the "other side" of the equation, where financial aid resources are put together to meet financial need, the programs involved, especially if they are tied to government, are likewise subject to annual change, sometimes at midyear or occasionally even after the processing has begun. These changes to laws or to the regulations which follow new legislation can impact eligibility criteria and/or funding levels.

Of course, on an individual student basis, there are often family circumstances also subject to change, including significant ones related to employment, marital, health, business failures, and natural disasters. These occurrences bring new applicants as well as previous recipients whose circumstances now require re-evaluation. Indeed, change is a constant challenge for the practicing student aid administrator and a person who has problems living with change might be better suited to working in another profession.

Simplicity

One major challenge which has been addressed by policymakers and practitioners is the tension between balancing the need for making the student aid process simple versus that of ensuring good results. Consistency, cost, and efficiency must be measured against reason, common sense, and reality. If the challenge for government is to evaluate literally millions of financial aid applications within a limited time frame in order to produce an index (i.e., EFC) used to determine eligibility, then simplicity must be emphasized while acknowledging the "loopholes" it may create … some of which are expected to be plugged by the campus aid administrator, others of which will be allowed as part of the cost of carrying out business for the masses.

On the other hand, if the resources to be administered are limited, as are those scholarship/grant programs available from institutions and other organizations, then "simplicity" alone may not be good enough. Indeed, more data to make better judgements may be needed, especially for families whose income streams may involve more than simply wages from an employer. Other less than simple circumstances, such as those related to students whose natural parents are not currently married to each other or may never have been married to each other, also present another challenge to the fairness factor. Such situations, of course, become even more complicated when one or both natural parents have remarried to other spouses. How long ago did the natural parent circumstances change, who claims the student for tax purposes, and with whom does the student most often reside, are some of the questions that could provide for a more reasonable assessment. Willingness to pay from a non-custodial parent, similar to that of a married natural parent, is viewed by some aid administrators as an assumption … regardless of any court's decision related to a formal divorce decree. Here again the "Golden Rule" comes to play. While the government may choose to ignore the love and support available from the non-custodial parent in favor of the need to be simple, some providers of student aid will seek it for their consideration.

There are other examples which could be used to illustrate the point that "simple", however ideal for efficiency purposes, may not suffice for the decisions at all levels. Not only might the data sought be more comprehensive than that driving a more simple approach, how it is to be evaluated and what the assumptions might be, could very well be different for others evaluating the same student. Moreover, the various factors in the formula/methodology employed in the government programs, however justified they may be for simplicity, consistency, and efficiency purposes, may not be acceptable for other providers.

It is for the reason of balance and responsible decision making that several hundred, mostly private institutions, have agreed to develop a separate approach to gathering additional, more comprehensive data and also to use a somewhat different set of standards for measuring a family's ability to pay. The latter is supported by the College Scholarship Service (CSS) of the College Board. The graphic below attempts to illustrate the major differences between the federal approach, Federal Methodology (FM), and the Institutional Methodology (IM) of the CSS. It is important to note that for similar reasons of efficiency, most state student aid programs employ FM. Likewise most public institutions use FM. There are also many private institutions which at least begin their evaluation of family ability to pay with the federal approach. For our readers seeking considerably more details (e.g., tables, assessment rates, etc.) on both the FM and the IM, this information is provided in Appendix V.

Differences FM Versus IM		
FM	Factor	IM
Only $50,000+ income	Assets	All incomes
No	Home equity	Yes
No	Minimum student contribution	Yes
No	Consideration for saving for college	Yes
No	Consideration for private school expenses	Yes
BLS	Income Protections allowance	CES
Flat	State/other offset	Focused
Flat	Asset conversion rate	Depends
50% of PC	Adjustment for sibling in college	60% of PC
Federal Eligibility Index	Result	Family contribution

Competition/Rankings

As capacity for enrollment expanded and continues to do so in the US, and as opportunity for more students to participate grows, many institutions have found it necessary to re-evaluate their individual missions … the core of their purpose, from which should flow policies, principles, procedures, and programs. When demographic or economic conditions change, some institutions find themselves over-enrolled or under-enrolled. Both scenarios present special problems, of course. Decisions often impacting operating budgets may sometimes be fixed on an ad hoc basis. In other cases, if the circumstances leading to the new enrollment challenge become a reoccurring trend, then longer term solutions must be found. In the US, some such changes can and have required mission change. Traditional four-year liberal arts colleges have morphed to become more accommodating to the more vocational needs of the "non-traditional student". All-women colleges have become coeducational. Small private institutions have been forced to merge with one or more others, have closed altogether, or have been taken over by the state and have become public schools. Public institutions chartered to provide teacher education have expanded to offer comprehensive programs. Undergraduate colleges dedicated to teaching have grown to more research oriented universities, or at least aspire to be regarded as such. Curricula in traditional colleges more often offer courses related to the development of "more practical" (marketable) skills.

In Chapter IV, the growing dynamic created by various rankings such as *US News & World Report* (*USNWR*), was discussed. As US institutions of higher education look for ways of improving their ranking, a growing emphasis has been placed on improving the quality of the study body, a major factor in determining the school's ranking. A clear change in managing the process of student recruitment, including building applicant pools, thereby making admissions criteria more competitive ("selectivity") and confirmation rates ("yields") higher, has emerged in many institutions. "Enrollment management" organization paradigms, often combining recruitment, admissions, student aid, and sometimes other administrative functions, under one campus official, now are evident in many institutions. As institutional leaders, often advised by professional enrollment management consultants, have also quickly come to realize, "enrollment" for operating budget purposes, is not only driven by incoming new students but also by the retention and success of returning students. Unlike relatively solid student retention rates in the UK, retention in the US institutions of higher education is a serious problem. As a result, enrollment management has expanded to include academic and personal advisors, residence hall personnel, and budget and planning administrators. Marketing and sales strategies, more often found in the corporate world, now are often found as essential aspects of enrollment policy. Cottage industry enrollment management consultants, replete with sophisticated software tools able to simulate likely consequences for shifting various recruitment or financial aid strategies, have become prominent players in shaping institutions' plans. By using institutional historical enrollment data (such as whether and how many times a prospective student has inquired or visited campus), probabilities for enrollment can often be reasonably projected. As peer institutions, or those aspiring to move up the pecking order in the rankings, begin to feel the effect of such strategies, they too are forced to engage and often react in similar ways. Increased scholarship offers and "merit wars" proliferate across the "battle field" (or perhaps better stated as the "marketplace"?). The research of respected colleagues (Chapman, R. G., and R. Jackson, "College Choices of Academically Able Students: The Influence of No-Need Financial Aid and Other Factors", New York, NY: College Board, 1987; Wick, Philip G., "No-Need/Merit Scholarships: Policies and Trends", New York, NY: College Board, 1997; McPherson, Michael S. and Morton O. Schapiro, "The Student Aid Game", Princeton, NJ: Princeton University Press, 1998), notwithstanding, the competition becomes more fierce, the "ante" is ever being raised, and the expensive consequences continue (Davis, Jerry S., "Unintended Consequences of Tuition Discounting", Indianapolis, IN: Lumina Foundation for Education, Vol. 5, No. 1, May 2003; Redd, Kenneth E., "Discounting Toward Disaster: Tuition Discounting, College Financing, and Enrollments of Low-Income Undergraduates", Indianapolis, IN: USA Group Foundation, 2000). While enrollment management consultants argue that "net revenue" at the end of the year supports such strategies, others wonder who is benefiting and at whose expense. Still others offer hope that there may be solutions (Miscamble, William D., "The Corporate University", America, Vol. 195, No. 3, July 31 – August 7, 2006; Gould, Eric, "The University in a Corporate Culture", New Haven, CT: Yale University Press, 2003), even for those traditional liberal arts programs and despite the ever growing student demand for "marketable skills". Still others (Vedder, Richard, "Going Broke by Degree: Why College Costs Too Much", Washington, DC: American Enterprise Institute, 2004) remain extremely critical and paint a future of doom and gloom.

Tuition Discounting

Because the use of tuition discounting has grown to such alarming degrees in much of private higher education (McPherson, Michael S. and Morton O. Schapiro, "The Student Aid Game", Princeton, NJ: Princeton University Press, 1998), and has begun to show itself in an increasing number of public institutions, it deserves a special discussion. Two research pieces authored by respected colleagues studying this issue in depth, provide considerable insight on this particular topic (Davis, Jerry S., "Unintended Consequences of Tuition Discounting", Indianapolis, IN: Lumina Foundation for Education, Vol. 5, No. 1, May 2003; Redd, Kenneth E., "Discounting Toward Disaster: Tuition Discounting, College Financing, and Enrollments of Low-Income Undergraduates", Indianapolis, IN: USA Group Foundation, 2000). One first must define "Tuition Discounting". The National Association of College and University Business Officers (NACUBO) defines this concept as the ratio measuring the amount of institutional scholarship/grant assistance expended on undergraduates divided by the total tuition and fee (excluding room and board) revenue generated by undergraduates. Most researchers use the NACUBO definition for the purpose of consistency in comparing data.

Current NACUBO surveys show an increased trend in tuition discounting. Data indicates a discount rate around 40% as an average in four-year private institutions. Much of this explosion in discounting has occurred since the merit war battles began to escalate and have resulted in the redeployment of an institution's operating revenue needed to support such scholarship expenditures. Of course, the larger increases in tuition rates in recent years have resulted in equally needed expenditures in discounting, as more students receive larger awards. Enrollment managers argue that this is generally acceptable as long as at the end of the year, the "net revenue" of the institution is greater than it would otherwise have been, especially if fewer students were enrolled. In the meantime, the institution's ability to use tuition revenue for other purposes is reduced. As a direct consequence, this reduced revenue then typically would impact its primary purposes of providing instruction; improving the quality of its programs and professors; paying for increased needs for technology and library acquisitions; meeting increased costs of healthcare and utilities; and doing facility upkeep and performing preventive maintenance. Some or all of these needs take second place, as tuition revenue has to be deployed to funding scholarships. If the institution is unable to compete with quality programs and quality resources and facilities, enrollment quantity and quality concerns become more pronounced and the vicious cycle escalates even further.

Exactly how this rather disturbing trend of merit wards and tuition discounting in the US will end, is uncertain. However, the UK appears to be at an important crossroad in its history. Its strong tradition of low cost, quality program reputation is situated upon a solid historical platform of performance. As the UK begins to transition into its new system of increased fees to support greater access for a larger percentage of its society, there may be early warning signals appearing. As was noted in a summer edition of *The Times Higher Education Supplement* (p. 12 Opinion), serious concern was expressed that the solid historical basis for managing enrollment in higher education in the UK may be experiencing some cracks in the dike. Have the significant increases in fees served as detractors for at least some of the less selective institutions, thus causing uncertainties in enrollment planning for some new students? What safety net, if any, will be provided by government to offset the revenue which such "no shows" might create for operating budgets, whose support for expanded infrastructure needs has already been put into place? Will those responsible for enrolling new students at such institutions consider employing some of the enrollment management tactics, such as the "strategic rise of student aid", to further attract those students in order to reach their enrollment plans? If such students' credentials are not as competitive as others whose enrollment plans are firmly in place, what will the consequences of such a strategy be? Will there be "summer melt" ripple effects,[6] common in the US, cause similar disruptions in other institutions? Will such institutions then feel the need to take off the gloves and, in a heretofore never before experienced competitive environment, begin a free-for-all, intensive set of marginally ethical and ultimately very expensive practices with their own strategic management tactics? Who then will pay for such escalating merit wars and in the end who stands to benefit … and are students enrolled in the institutions that best fit their needs?

Student Debt

Surely, any discussion about the special challenges currently faced in the US system of higher education finance would not be complete without addressing the often heard array of concerns related to student debt. In the US, studies are done regularly in an attempt to gauge the amount of educationally related debt being incurred by today's students and their parents. Included in such research is undergraduate as well as graduate and professional school debt. More difficult to get one's arms around is debt incurred through the use of credit cards by students and parents, and the educational debt which could be attributed to personal financing, as some families for a variety of reasons borrow from personal assets such as home equity, retirement programs, or life insurance policies. Still others may borrow from relatives and friends, while others take advantage of programs offered by employers. Better observations and conclusions, however, might be made from the aggregate data available from the more traditional programs offered by or through government. Generally, institutions can also do their own research from data related to the programs which administratively flow through their institutional student aid processing functions. These functions typically include certification of enrollment and costs of attendance, consideration for other aid being received by the student, and disbursement, including reconciliations for prorated amounts related to midyear change in enrollment plans. Virtually all government programs require this rather intense level of administrative involvement, as do many but not all of a growing number of non-government, private lender provided educational loan financing products. Most lenders, including those whose loans are guaranteed by the federal government, also supply data to institutions, e.g.,

[6] "Summer melt" is the term used to refer to incoming students who had confirmed their intentions to enroll at one institution but occasionally may be "persuaded" by merit scholarships to change their enrollment plans during the summer prior to the academic year.

default rates. Suffice it to say, financing has become a dominant means for paying for college costs in the US. Indeed, in today's way of life for many in US society, financing many major expenses is commonplace. On the other hand, savings rates by American families have reached some of the lowest as measured against other modern world societies. The flexible repayment provisions and reasonable rates of interest, as well as the opportunity to defer payment for many reasons, especially with government loans, have combined to make the student loan industry a major player for paying for higher education in the US.

Whether all of this borrowing is truly <u>necessary</u> is uncertain. A significant amount of such borrowing is not necessarily undertaken for the purpose of meeting college costs for which other resources <u>could</u> be secured. Rather, especially because of generous terms but also for reasons related to discretionary choices by families, non need-based financing abounds. This has increased dramatically and is reflected both in terms of the aggregate amount of outstanding debt as well as by the percentage of borrowers. This is especially apparent since the federal 1992 Amendments to the Higher Education Act. An unsubsidized, i.e., no in-school government subsidy of interest but a government guarantee of repayment to private lenders, version of the traditional need-based FFELP product was made available to all otherwise eligible students for the same annual and aggregate amounts available to those borrowers who could demonstrate need. Children of wealthy parents can now borrow and do so in great numbers. Some borrow because they cannot meet some portion of the Expected Family Contribution calculated by the government formula. Others ask their children to borrow because they want them to share some portion of the responsibility for paying. Others borrow rather than using investment assets, either because interest rates for student loans are lower than the return currently being enjoyed on the investment or because taking a disbursement from their investments under current poor market conditions would involve taking a loss. Still others would prefer to provide their children with a car while in college, or a more comfortable, off-campus housing arrangement; others do so in order to support a several week extension of a study abroad program, or for a few more trips back home during the school year, or for the spring vacation trip with friends to some exotic location; still others do so to pay for expenses related to the use of cell phones. In the end such borrowing shows up as student debt, even though in some cases, parents will be assisting their children in repaying these obligations. In other cases, future employees of these students might also assist, as perhaps the future spouses of such borrowers would do the same. Default rates nationally for both subsidized and unsubsidized student loans remain at historic lows, despite the borrowing explosion.

The 1992 Amendments also provided for the removal of an annual cap on the amount which the federal government made available to the parents of undergraduates through the PLUS Loan. This program can now be used at the parents' discretion, assuming no bad credit history, for any amount of the Costs of Attendance less any student aid which the student might be receiving. Because it is available to any parent regardless of income, no confidential financial information is required on the application, another feature making it an attractive financing instrument in comparison to student loans or personally arranged financial products.

So what then can be defined as a reasonable level of debt? Should it be restricted to student borrowing? If so, should it be only need-based loans? If so, who defines "need"? Where do unsubsidized loans and PLUS Loan fall in the analysis which are undertaken to meet "unmet" need at institutions unable to meet the full need of all of their students?

Should borrowing amounts be based on the student's finances or his/her parents'? Should the amount of debt be driven in any way by the individual student's academic credentials, or intended course of study, or academic achievement or actual coursework once enrolled? Or should it be decided after the fact, once employment and annual income is firm? What if the employer is prepared to intervene? Should the borrower's spouse's income be included? Should the amount be decided in any way by the reputation/success record of the institution's alumni, or aggregate default rates of previous borrowers at that institution?

Most research, albeit some of which was conducted on borrowers from student loan eras pre-dating much of the more recent borrowing explosion, suggests that most borrowers have been able to reasonably manage their educational debt. While this may very well require some delays in certain major financial decisions such as marriage, home purchase, children, and lifestyle, the vast majority have met their obligations. Some refinancing (loan consolidation) and generous deferment/forbearance provisions surely have contributed to lower default rates. Indeed also, there are a small percentage whose excessive amounts of student loans, especially when combined with an excessive amount of credit card debt, have experienced serious problems sometimes creating severe hardships and defaults.

There is also some range of opinion on whether a banker's measure of manageable debt should be a deciding factor as to what is viewed as "reasonable". However, here there is some difficulty in agreement, as the proposed banker's rate itself ranges between 8% and 12% of monthly income, a rather significant spread to say the least. Others argue that bankers' guidelines for financing mortgages or car loans would not provide an equitable benchmark. Young students, especially prior to completion of their studies, typically have no credit history, and no guarantee of success in school or for eventually gaining employment.

Given all of this mixed picture of experience, the clear popularity of exercising such options, and at least current US default rates, much can be said to supporting a process for student borrowing that is generous at the front end, with reasonable repayment provisions at the back end, including income contingencies and reasonable interest rates … similar to the current UK program!

While the issues and special challenges noted in the previous two chapters have hopefully provided some food for thought for those involved in the good debates currently underway on higher education financing discussions in the UK, there may yet be some additional morsels which can be chewed upon as we anticipate some future issues. The next chapter briefly suggests a few of these items.

Chapter VIII
—Future Issues—

Role and Scope

As we move into the next worldwide revolution related to technology and the exponential growth of knowledge, is it time for those responsible for policy making to review the democratic goals of higher education? Or should the basic principles upon which these were originally framed remain timeless and simply be refined and adapted to the challenges of the times. Many questions could be asked about whether the hundreds of billions of dollars intended to expand opportunity for further postsecondary education and training might be more effectively focused on a more realistic ordering of at least some of the priorities. Does traditional higher education still have a leadership role, or indeed any role, in preparing for a global, technology driven society? What will it mean to be an "educated" person in the years to come? What skills and talents should be nurtured for such roles? How should such education be provided and who should pay for it?

Capacity

Assuming a set of principles can be defined and a consensus on priorities can be reached, will the current structure and capacity of higher education be proportionate to the expected need and demand? Clearly, the demographics for the near future in the US suggest a reconfiguration in the number of students finishing secondary school. Most evident in the US is the shrinking percentage of those going on to further education whose racial background will be White Caucasian and the growing numbers of those seeking to enroll who are Asian and Latino, many of the latter group needing significant financial help.

Cost Control

As college costs continue to rise, will the current level of concern expressed by families, policymakers, and the media finally result in formal punitive measures intended to control or even punish such behavior. Could such action include mandatory price controls or reduced availability of government support for those institutions failing to measure up and comply? Or would a more positive approach intended to reward good performance be more effective in controlling such cost increases? (Russo, Joseph A., Editor's Column: "The Carrot or the Stick?" NASFAA *Journal of Student Aid*, Vol. 33, No. 3, 2003). Will the promised efficiencies related to the greater use of technology actually create cost savings without impacting the quality of the instructional and learning experience? Are there any appropriate lessons to be learned from the very successful and quickly growing for-profit enterprise, such as the expanded use of adjunct professors, the absence of a tenure process, the "anywhere, anytime" approach to course offerings, and the application of distance-learning techniques? Can the priorities for resources illustrated by these institutions, such as their focus on instruction instead of on such non-instructional activities as providing extraneous amenities or out of line expenditures on intercollegiate sports, become the standard? Should the marketable skills of its graduates and the accountability to shareholders become the primary drivers of educational policy?

<u>Partnerships</u>

Is the partnership approach originally envisioned in the US with the Higher Education Act of 1965, involving students, parents, institutions, community, benefactors, and employers, still achievable and worthy of renewed effort? Should the democratic way of achieving the "American Dream" include some reasonable level of <u>sacrifice</u> by everyone involved?

The growing demand for transparency and accountability may very well dictate the road map of the future. It is unreasonable for those paying, whether it be the student, family, taxpayer, benefactor, employer or society as a whole as represented by various levels of government, to expect some record of proven performance? Responding to expanding need by spending more money may no longer be an accepted modus operandi, especially in the context of other spending priorities for healthcare, fuel, the environment, and defense. An ivory tower reaction or the longstanding and often obtuse explanations from educators in the face of these demands may no longer suffice. Consumers may demand honest performance indicators related to retention, graduation, success, satisfaction, placement in jobs, acceptance to graduate school, average indebtedness, and default rates. Government providers of subsidies and student aid programs may likewise expect serious, effective, and clearly evident measures to control costs, reduce inefficiency, and demonstrate success. Those benefactors still in a position to have their voices heard may also want to weigh in to see such accountable results.

As the UK struggles to meet similar challenges from all of its constituents, there may be many aspects of the US experience which can shed much light on those stakeholders in the UK currently engaged in these discussions. One could recall the famous line in Lewis Carroll's "Alice in Wonderland": "If you don't know where you're going, any road will do". (Carroll, Lewis, "Alice in Wonderland", New York: Random House, 1946). Indeed, the UK is at a relatively early crossroad on its path and could truly benefit by avoiding many of the roadblocks, landmines, and dead-ends already experienced by US travelers. Many of these challenges, failures, and successes have been raised and noted throughout this text. The next chapter attempts to summarize them.

Chapter IX
—Lessons to be Learned—

<u>The Good</u>

The US model for providing higher education has evolved from one framed by a few, very selective and elite private institutions primarily in the New England area, to the largest and most comprehensive array of institutions and programs in the world. The opportunities, resources, facilities, and level of public and private support are unmatched. The range and variety of size, cost, location, age, mission, and structure cover the spectrum. The nature of instruction and the means by which it is provided also varies widely. The length of such programs depends upon both the institution, and, in many cases, the student's circumstances, as less than full-time enrollment and interruptions in study, and return to school for retraining and new skills, is not at all uncommon in today's quickly changing world. The flexibility, comprehensiveness, variety, accessibility, and affordability combine to create the strength of the stellar reputation which US education enjoys worldwide. Literally tens of millions of individuals have been able to directly benefit.

<u>The Bad</u>

As programs have grown and greater access has been provided, so has the cost to provide for all that is required. Many can argue that some level of further education is an enviable and worthy aspiration for all who seek to achieve it, because it is typically a sound investment for both individuals and for the enhanced contributions which better educated/trained citizens provide for the greater good of society. Yet, the lack of adequate and reasonable constraints and structure, coupled with growing concerns for standards of accountability which have accompanied these ideal policies, have left the US system exposed. What is not all that it could and should have been relates to <u>quality</u> of performance for many of the US institutions in adequately providing the education they advertise. Liberal (sometimes referred to as "open admissions") standards in the admitting process, typically rationalized by arguments related to providing everyone a chance, too often lead to failure … failure that was inevitable for many. Those who do succeed often require intense and costly remedial courses needed to prepare them for the program they intend to pursue. Such opportunities for special help may indeed be appropriate and are commendable. In the most extreme cases, however, unlimited opportunity to "try and try again", results in enormous cost for whomever is shouldering the financial burden. In the public sector, this blind commitment includes significant taxpayer subsidies for continued enrollment. For the student, it too often involves the additional need for student debt and, of course, the lost opportunity income.

However, the reality of cost must be balanced against the prospects for success. At some point, the hard question must honestly be asked: Is higher education, at least in its most traditional sense, absolutely essential for everyone's ultimate success in life? Indeed, the world needs good plumbers and good philosophers. All of one and none of the other would likely create serious problems for any society.

So where then, should the line be drawn? Should such a line vary according to each individual's financial circumstances? This kind of an approach would likely not be perceived as fair in any democratic society. Data reflecting enrollment patterns in the US by family income, regardless of the student's academic worth, demonstrate that those born in more affluent circumstances are exponentially more likely to enroll and successfully pursue further education after secondary school than those with equal ability from the lowest income strata (Mortenson, Thomas G., "Postsecondary Education Opportunity", in virtually every issue of this publication). The challenge for policymakers in a democratic society is to address this blatant imbalance in a manner that reasonably provides equal access for all who are deserving, regardless of family income.

One not very positive feature of US higher education is the reality of the admissions process for many institutions, especially those in the private sector. The ideal policy for admissions would be that of the UK system, i.e., providing a policy which excludes from the selection criteria the ability of the student and their families' ability to pay. In the US, such a "need-blind" admissions policy is rare in the private sector, except for a relatively small percentage of institutions whose resources are adequate. Most institutions unable to be need-blind in admissions policies would generally not include their inability to subscribe to such a policy in their public statements but would acknowledge it in some other way, if pressed. It is surely not a policy one would advertise but good consumer sensitivity considerations might argue that such a policy should be made public. The alternative policy practiced, but not included in publications, by many institutions, public and private, is to offer an acceptance decision but then to not provide adequate and reasonable financial assistance to all those students admitted. This admissions/financial aid policy is referred to as "admit/deny" and has been a long debated issue among professionals. One side argues that one's ability to pay should have nothing to do with the decision related to one's ability to succeed academically. Indeed, stories abound where students judged not to have the adequate resources somehow eventually secure them. Grandparents, family friends, community benefactors, etc. might occasionally supply the needed funds. "Dues ex machina" interventions may be unusual but occur frequently enough in "miraculous" manners to create pause for many policymakers. On the other hand, the stark reality of having such a student show up for enrollment, perhaps with resources sufficient for one year or less, and then having to advise such students they cannot return for the next term because they cannot pay, is not a pleasant prospect. Thus, the rationale for not admitting such students to begin with, is argued. As unfair and difficult as it may be not to admit such students because of lack of adequate resources, the alternative of having to send home an otherwise fine student after enrolling, is not a happy scene either … and the debate goes on.

This difficult scenario becomes more likely for all of US higher education, as the sticker price for tuition and fees grows. The current UK system, including the new one in effect for the 2006/07 academic year, albeit with significant increases in tuition, still remains as close to a realistic ideal as can be envisioned. The moderate cost and the projected increases being tied to an inflation factor which can rather easily be predicted … unlike the uneven, wildcard approach in the US … can virtually be met by all who are admitted. The UK has provided a reasonably adequate, rather simple to understand and plan for, safety net through its expanded student aid policies. Because the tuition costs are moderate in the UK, so too then are the amounts of aid needed, even in the most extreme cases. Such assistance can literally be guaranteed and the term "entitlement" concept, established for some government programs, primarily student loans and then only for limited amounts, seems justified. The more appropriate concept in the US is better termed "eligibility". "Eligibility" in the US does not necessarily guarantee that the funds for which one is eligible will actually be forthcoming. The "entitlement" policy does provide this assurance. The smaller the amount of individual tuition fees to be paid, the more likely such a generous, "entitlement" public policy can be supported.

Indeed, the "Equal Opportunity Statement" which appears in the admissions policies of UK institutions is truly one in which much pride can be taken: "Decisions on admission are based solely on the individual merits of each candidate and the application of selection criteria appropriate to the course of study". The challenge again is where to balance the cost of expanded equal opportunity with the need to support this truly admirable need-blind/ meet full-need policy. Is the added cost for the ideal goal of opening up such opportunity to <u>any</u> who aspire, a worthy enough one to risk the other ideal goal of ensuring reasonable universal affordability?

A first step in this direction for the UK has been taken, albeit a step which some suggest might lead to two steps in reverse. Complaints are heard from the middle and even upper middle income families who must now shoulder some of the additional cost through increased contributions from their own resources or/and in the form of loans incurred by the student. The long-standing and amazingly low cost of higher education in the UK has become an entitlement in and of itself, albeit supported to a large degree by the taxes paid by many of these same families. The issues expressed are very similar to those expressed by many of the same families in the US, who have also benefited from the relatively low cost opportunities made available through the public institutions, especially the "flagship" ones, now available nationwide.

Surely part of any reasonable approach to expanding access should include clearly defined standards which provide for simple measures of progress and reasonable limits for the amount of time and support to be made available for basic programs of study. One of the most expensive aspects too often found in the current structure of the US system is that which lacks any common sense constraints altogether, literally allowing individual students to move around from program to program, or to continue in one program at whatever leisurely pace they choose. Such dubious and wasteful expenditure of resources from whatever source, including family, comes at someone else's expense. If such wasted expense could be redirected by reasonable constraints, the significant level of recovered resources could be made available to pay for expanded opportunity for others. This is not rocket science requiring mountains of economic and social research. It is simply bad public policy which any person on the street, especially the one paying taxes from modest levels of income, can understand. The UK is at a crossroad in considering its admirable goals for expanding opportunity. Lessons can be learned from some of these questionable public policies too often evident in the US.

The Ugly

Inevitably, in a free market society, there will be some individuals who will take advantage of the generosity and compassionate policies made available. Some illustrations of such behavior by individuals are related in the above section. Another version of such abuse and even fraud is also found in the institutions and industries involved in providing various services related to those aspiring for further education. New programs can be established with relative ease, requiring rather simple accreditation steps and sometimes not even a facility from which to conduct their training and instruction. If some equally simplistic criteria for coursework are satisfied, the US federal government is prepared to allow its financial aid to pay for students' costs. In some such cases, institutions decide on tuition costs which not uncoincidentally equal the amounts of student aid available from Uncle Sam. These have typically, but not always, been "for-profit" or "proprietary" institutions of "post-secondary education" and have resulted in enormous volumes of federal regulations being promulgated which, for discrimination purposes, must apply equally to all institutions, including the Ivy League. What occasionally follows are stories of government funds being "ripped off", huge penalties, bankruptcies, owners going to jail, being fined, or leaving the country; and, of course, unsuspecting students are left with neither proper training nor any worthwhile education but often significant levels of education debt which must be repaid. These stories then become the fodder for headlines in the media and for even more reams of punitive, broad brushed regulations.

In yet another, not very pretty, view of individuals taking advantage of generous programs and policies, various enterprises sometimes known as "cottage industries", have emerged whose purpose is to provide advice to families, often for a fee, of course. While certainly many of these consultants provide creditable counseling, others are more suspect in their motives and the quality of service being offered. Poor and unsophisticated families are easily bewildered by the daunting appearance of the higher education process and are easy targets and low hanging fruit for some of the more flagrant abusers. In some cases, the "fee" is based on a percentage of the total student aid which may result. On the other hand, some of these consultants cater to the more affluent who might be seeking ways to orchestrate the system, sometimes also taking advantage of certain tax loopholes by artificially but legally reducing the "adjusted family income", so that the simplistic central agency processing the data to determine eligibility will not recognize the full financial strength of a particular family. If these tactics prove inadequate or unsuccessful, for yet another fee, the consultant can prepare an appeal for the family, using all the proper wording to tickle the attention of the campus aid administrator. While many of these "consultants" do provide a credible service, others too often cross the sometimes blurry line where integrity ends and "gaming the system" begins.

Yet another very difficult consequence of the expanded capacity in certain parts of the US system is reflected in the cutthroat tactics practiced by institutions seeking to fill their classrooms and beds by whatever means necessary to get the job done. One illustration of this are the so called "merit wars" referenced in an earlier chapter, and the ever increasing expenditures and the rising cost of tuition discounting which too often takes away institutional resources, thus impacting its ability to maintain its basic purpose and functions. Such tactics often come at the expense of increased fees for all students, with the greatest burden placed on those not as highly identified in the "merit war" student aid game. As this practice continues to expand up the food chain of US institutions of higher education (now nipping at the ankles of even the most respected, elite private colleges and universities who struggle to maintain their need-based policies), the expense for most stakeholders grows annually, except for those families who benefit from such tactics, many of whom could easily have paid anyway. The increases in tuition required to pay for such "merit awards" are paid by those families and students not benefiting from these awards … and often requiring them to borrow more funds.

Similar criticism can be directed on the very expensive (but popular among the more affluent families) tax policies authorized to reduce tax liabilities for families paying college tuition expense. While there are income caps for families seeking these tax credit and tax deduction benefits, most reasonable people would agree that such expenditure has done little to change enrollment plans of most of the families who receive them. Furthermore, the billions of tax revenue dollars lost annually from the US Treasury could surely have been directed to provide reasonable affordability options to families for whom such resources would truly have made the difference. Having such a generous policy, however, wins votes for policymakers, and serves to appease the loud complaints from more vocal constituents and quells the noise generated by the exaggerated stories depicted by the media. The lack of such a generous tax policy neither wins votes nor calms the whiners. So, here's the bad news—tuition fees are up another 5%; but, here's the good news: a) there are tax breaks and b) there are government and private loans to help pay for them …

A Few Last Observations

While tax policy to benefit the non-needy may have its problems in reference to supporting expanded opportunity, there are some aspects of US tax policy related to meeting the costs of higher education which the UK may find worthy of some limited consideration. Incentives for planning and saving, especially if constrained by certain, even generous income caps, might do much to relieve the burden of college costs when the time arrives to pay the piper; this policy also serves to provide more choice. Consideration might also be made for some tax relief for the employers of former students facing student loan repayment, by providing tax breaks for those employers who offer as a benefit to employees some level of assistance in repaying these obligations. Such benefits, perhaps promised to those after some continuous period of employment, could also serve to promote employee loyalty, reduce employee turnover and employer costs for recruitment and retraining, and help to encourage employer stakeholding in the process of paying for a more prepared and stable workforce.

Providing more financing options to families who might, for whatever reason(s), desire or require alternative means for paying, may also be worthy of further policy review. While the current, very generous student loan program supported by the UK for undergraduates has proven worthwhile, it may not be appropriate for all families. If the future includes an additional commitment of government resources to expand the student loan program, including its use by graduate and professional school students, UK policymakers may wish to consider creating the public/private partnership approach employed by the US, using the best features of such an approach. One of the most obvious strengths of such an approach is the great amount of leveraging of government resources which can be employed to help generate the private (not government) capital actually being lent. Currently, over $50 billion of private capital is made available annually for assisting those seeking educational financing, with lenders providing the capital and the government the subsidies and guarantees. Whether and to what extent subsidies might be provided, and when and for how long, would be part of the conversation, along with the government's guarantee of repayment in case of default, permanent disability, death, etc.

Another approach, at least to help supplement current resources or even to help create new ones, would simply have credible lenders with proven records to offer strictly private (i.e., no government involvement whatsoever) loan products to students and/or to their parents. What might differentiate such products from others currently available (through individual family financing via home equity lines or borrowing through other assets such as retirement or insurance programs), is for the institution to negotiate with a preferred lender or set of lenders, a special product dedicated to assisting with education costs. This could also be done by a consortium of institutions, where strength in numbers could help leverage better borrowing provisions, or by individual institutions leveraging their own records of performance. There would not necessarily have to be any risk for the institution(s), with the entire risk being borne by the borrower and often by a creditworthy cosigner (typically a parent) for at least the dependent undergraduate. If the ability to secure a creditworthy cosigner is an issue for some students, the institution could serve to act as a cosigner, which, of course, becomes a risk for the institution, for which insurance could be purchased and/or for which reserve funds could be established to manage such risk. Setting aside a small <u>percentage</u> of funds currently being given away as scholarships and grants to address certain needs of students, could be redeployed to fund such reserves. Such private options could help to address unusual situations, such as the death of a parent, the loss of employment, or the unexpected need to pay for an additional term. Being able to offer yet another solution for consumers to consider for addressing some of these kinds of situations, especially in an expanded opportunity platform, would seem to be an idea worthy of consideration. Such a program would, no doubt, create much interest, so to speak, from credible lenders.

Can some part of this US history be helpful to policymakers in the UK? Can more be learned from such knowledge to help provide additional detail and rationale? Has any of the US experience been documented and supported by studies? Indeed, are such studies done, and by whom, and through what support? Can similar studies be undertaken in the UK? Despite some significant differences between the US and the UK, are the goals for access similar enough to warrant comparisons related to pricing and student aid policies, procedures, and outcomes? The next chapter attempts to respond to these questions.

Chapter X
—Research—

History

The student aid profession in the US has grown and developed over fifty some years or so to now be recognized and respected. In its early years, many administrators or even some faculty would have included in part of their job descriptions some aspect of the student aid responsibility. Admissions personnel might decide on incoming first year students' scholarship assistance. A member of the bursar's office might serve the role of student loan counseling and securing properly signed promissory notes. The personnel office could assist with placing students in campus jobs. The chair of an academic department or an assigned member of the department's faculty could administer scholarship assistance available to outstanding upperclass students. The counseling center could advise students whose families may have suffered some financial catastrophe. Student government might administer an emergency loan fund.

As the federal government began to assert its role in the mid-1960s with its accompanying rules, forms, and formulas; and as additional student aid was put into place to support the growing number of students as well as the increasing number of special programs (nursing loans, health profession scholarships, loan forgiveness options for certain professions, off campus as well as on campus federal work-study opportunities, grants to provide for the training of law enforcement officers, etc.); so too grew the maze of paperwork and the need for individuals whose primary and eventually sole responsibility would be the management and coordination of all student aid programs and everything involved in their administration. A federal regulation would draw a clear bright line to distinguish between those campus officials responsible for the awarding of (federal) student aid and those involved with the actual disbursement of such aid. (This was to ensure a separate "checks and balances" structure to guard against individuals awarding funds in some inappropriate manner.) Today some of the larger public institutions enrolling tens of thousands of students and administering hundreds of millions of dollars annually, have financial aid staffs which easily number in the dozens. Some are organized by functions, e.g., scholarships, student employment, federal grants, student loans, freshman decisions, publications, customer service, systems support, reporting research, support staff, etc. Others are much smaller operations related to the size of the institution's enrollment and administrators may by necessity be generalists, responsible for all functions. Some institutions provide state of the art, online technology for all of their major functions, including automated decision making. Others provide a more one-on-one, personal approach in administering their operation.

Trends in Data Collection

As the profession grew, so did the data related to student aid administration. Research began to be collected on: trends in student aid; effectiveness of one kind of program versus another, (e.g., grants versus loans); success rates of students from various backgrounds or by those enrolled in certain kinds of institutions; and characteristics of student aid administrators, (e.g., academic backgrounds, gender, salary). More sophisticated student aid analysis began to take place as the enrollment management paradigm rose to more prominence, where enrollment patterns of previous students at an institution were studied as the basis for redirecting student aid resources in more "strategic" ways. Research included: trends by academic quality; level of need or unmet need; distance from home; intended curriculum; timing of application for admission (early or regular or late); number of inquiries and campus visits prior to matriculation; and predictors of loan default. Examining various characteristics in multiple combinations could provide the basis for developing, refining, targeting student aid policies. As one colleague involved in providing enrollment management consulting stated once, "we seem to reward (using enhanced institutional scholarship funds) those who desire us the least, and punish (with less attractive scholarship decisions) those who desire us the most" … based upon their likely decision not to enroll or to enroll. One might observe that this manner of managing is student aid administration run amuck … or at least one whose purpose has strayed far from its origins.

As the volume of data has expanded, and as programs have been refined and sometimes refocused to serve more current needs of the provider, i.e., the government, society, the institution, or the donor, the effort to compare data historically has become more difficult. Definitions have changed, e.g., who is a "self-supporting" student, several times over the years. Eligibility criteria for certain programs have changed, student loan provisions have been revised, definitions of "default" have been tightened or loosened, and even the names of some programs have changed, sometimes to honor a policymaker, e.g., Basic Educational Opportunity Grant is now the Pell Grant; the National Defense Student Loan became the National Direct Student Loan and is now the Perkins Loan; the Guaranteed Student Loan is now called the Stafford Federal Family Education Loan Program (FFELP). The application for student aid, once embedded in the application produced by the College Scholarship Service (CSS) in what was called the Multiple Data Entry (MDE) process, began the inevitable drift to complexity when the federal government created the Basic Grant's own unique federal application and its own formula to determine eligibility for this federal grant. The Parents Confidential Statement (PCS) of the CSS was changed to the Financial Aid Form (FAF) and today is known as the CSS/Financial Aid PROFILE. It can no longer be used to officially determine eligibility for federal student aid. The formula used has also changed from the CSS original one created collegiately among all stakeholders to another called "Congressional Methodology" to yet another, forcing the current split formulas approach (Federal Methodology and Institutional Methodology), each of which use its own sets of data and rationale.

Attempting to measure family ability to pay in constant terms over the history of student aid; or the effectiveness of scholarships, once primarily need-based but not always today; or the patterns of student loan defaults since the inception of the Guaranteed Student Loan Program (now FFELP), often results in data summaries replete with multiple asterisks of explanation. Nonetheless, such research and much more does take place and is well worth the special effort, as the effectiveness of policies and programs is measured.

Value of Research

The need for researching the various trends of data and the conclusions which often can be made from such effort is typically one which does not require extensive rationale. Of course, such review should be at the essence of any profession and all sound policy evaluation. Nonetheless, a few words on this topic are necessary, especially given a rather unusual US government ruling in the early 1990s. An essential component of any profession should be the regular and formal activity involved in sharing experiences, best practices, and solutions to common problems, creating "the reflective practioner". Institutions also should regularly be reviewing the effectiveness of their policies, creating "the learning institution". The pooling and comparing of such information in aggregate terms serves to help reinforce policies or demonstrate the need for either changing or improving them. Indeed, the sharing of data and learning experiences is at the essence of education and professional training, helping to insure that future generations can benefit from the experiences of the past. More data provides better levels of confidence. Government agencies in the US responsible for monitoring the effectiveness of public policies, churn out all sorts of reports and studies in volumes. The Government Accountability Office (GAO) and the Congressional Budget Office (CBO) provide policymakers such data regularly.

US Department of Justice

In an effort to reduce confusion among common applicants to several, highly selective institutions; and for the purpose of reducing any significant differences in measuring the Expected Family Contribution (EFC) for commonly admitted students seeking financial aid, so that such students could make their academic decisions without considering the variance in cost to the family, a group of institutions (primarily highly selective private universities and colleges in the New England area known as the "Overlap Group"), had met annually to come to a consensus on the EFCs of commonly admitted applicants. Because the Cost of Attendance (COA) could vary from one institution to the other, and because each institution could provide their own mix of financial aid packages, the consensus reached was not on the kind or amounts of specific aid but rather only on the EFC, i.e., the cost expected to be met by the family.

Some institutions outside of this group and some applicants viewed such consensus efforts as being anti-consumer, arguing that fair competition regulations (promulgated in the federal Sherman Antitrust legislation intended to bar behind the scenes market "collusion" among members of certain industries), should rightfully apply to the Overlap Group. Alleged collusion was also said to be occurring at these meetings in setting future rates of tuition increases, as well as in such matters as faculty salary increases. Despite the well intentioned purpose of those admissions and financial aid administrators involved in the Overlap meetings, immense public pressure, fueled by the media and further burdened by the Department of Justice's request for all sorts of Overlap meeting data, eventually forced these institutions to stop meeting. The enormous legal expense for each institution simply prohibited litigation. The sharing of data on common applicants was no longer possible and the institutions involved were left to make their own individual judgements on EFCs. While such calculations are generally straightforward for simple family circumstances, they become more complex for those with less than simple situations … often resulting in more art (use of discretion and judgement), less science (strict formula approach). Certain types of situations were especially vulnerable for wide variances, e.g., dealing with divorced natural parents, or with business losses and depreciation allowances, or with cost of living differences for certain parts of the country. It would soon follow that financial aid decisions for common applicants would indeed vary significantly, sometimes resulting in poor academic decisions or enrollment in institutions which were not the student's top choice or best fit.

Because one institution, MIT, successfully challenged the Department of Justice and won some modest relief in later federal legislation[7] allowing for certain professional sharing of data, albeit with institutional legal counsel present, certain institutions were allowed to meet with the goal of trying to resolve <u>in principle</u> some of the variances. However, each institution was required to be need-blind in its admissions policies for incoming freshmen, including for any who might be selected from a waitlist. After several years of confusion for applicants receiving financial aid awards based upon widely variant EFCs, a group of presidents from institutions able to satisfy the need-blind admissions criterion agreed to meet. The "Presidents' 568 Group" did meet and, within this strict context and with many attorneys present, attempted to address in principle the problems created by the most common causes for variance, e.g., divorce, business losses, regional differences in the cost of living, and other such difficult sets of circumstances. This task would be delegated to a representative group of experts from some of their institutions who would be charged with further identifying the major causes for such variances and finding consensus on how to deal with them. This group of experts, known as the 568 Technical Group, did meet and after several years have reached a Consensus Approach to addressing a number of these problems. They continue to work to refine them and to seek similar consensus on other causes for variance. There is <u>no</u> discussion on common applicants but rather the focus is drawn to reaching consensus on principles and common approaches to finding solutions. A study of the Presidents' 568 Group was conducted in 2006 by the GAO for Congress to help determine whether this effort was worth renewing the legislation which originally authorized such activity.

Why was the 568 experience important and what lessons might be learned by the UK? As the drift by students to a greater emphasis on market skills as their primary motivation for higher education continues; and as institutions react by spending more on non-instructional

[7] Section 568 is a reference to a part of the "Improving America's Schools" Act (1994). As a result of a settlement reached by the Massachusetts Institute of Technology (MIT) and the US Department of Justice in December 1993.

amenities and non educationally related enterprises; and further, as institutions restructure their admissions efforts with more businesslike marketing and sales strategies administered by enrollment managers; and as institutional operating budgets become more driven by bottom line results at whatever cost to quality of instruction; then the application of antitrust laws intended to provide for fair trade in the marketplace of the business world, may indeed be applicable to higher education practices in the US. If the conclusions made by the 1998 Cost Commission ("Straight Talk About College Costs and Prices", Washington, DC: American Institutes for Research, 1998) and the unintended consequences of tuition discounting needed to support ever escalating marketing maneuvers made by other studies are accurate commentaries on the state of at least some enrollment management tactics; and if the data on the rising tuition discounting rates of recent years provided in annual NACUBO reports (Annual NACUBO Tuition Discounting Survey, Washington, DC) are accurate; then perhaps the basic goals and mission of not only student aid but also of higher education in general need to be revisited. If, on the other hand, the traditional purpose of higher education is not only to prepare individuals for a more productive life economically but more importantly to foster clear and analytical ability to think, to communicate, to write, to understand the need to appreciate other cultures, and to act in a civil manner, then further review of public policy supporting higher education may be needed. Perhaps some more creative thinking can help bring back the basic principles and sound thinking which have served civilized societies and made US higher education the most respected in the world. When one observes ("Today's Students Don't Know Much About History", *USA Today*, September 26, 2006, p. 9D) that some recent graduates from some US institutions of higher education cannot easily complete an employment application, construct a grammatically correct sentence, balance their checkbook, know where Afghanistan is located or the name of their US Congressman, but can navigate the internet in their sleep and relate incredible detail on the affairs of some rock star, one may question the value of the time and expense which were invested for four (or more!) years of "higher education".

The research data about such issues attempts to understand the scope of this problem and more is needed to provide the basis for policy review at all levels. Immediately following the Justice Department Ruling for the Overlap Group in 1991, a real and disparaging sense of fear spread through the profession of both admissions and financial aid administrators. The welcomed collaboration and intense debates and the honest sharing of problems and solutions at various conferences and meetings, both formally and informally, virtually were now viewed as unacceptable behavior professionally. To do otherwise one would run the risk of being accused of collusion. The "marketplace" was then allowed to move into a free-for-all, anything goes, cutthroat modus operandi. Many schools abandoned the emphasis on need-based principles and policies and longstanding, albeit unwritten, understandings and conventions related to good practices; and "merit wars" proliferated and now cover most of the landscape. Tuition increases were needed to support these strategies, most consumers paid more, student debt levels rose, and institutional quality often suffered. Who among the consumers were the winners in this picture: typically, the students with stellar credentials often from families well able to pay the bill. Who were the losers: the academically able but less economically well-off students unable to meet the rising costs and those who needed to incur additional debt in order to pay for the tuition needed to support the merit wars.

Hopefully, the guiding light admirably led by the Presidents' 568 Group of institutions will be again allowed to shine and to continue enlighten their good efforts to find solutions related to the difficult issues of affordability; and the role of student aid, which now abounds with confusion, misunderstanding, and discouragement, will once again be more reasonably affordable for all deserving to enroll. Whether the need-based genie is out of the bottle and can no longer be returned, or whether these leadership institutions can provide a beacon to help guide their colleagues back toward the reasoned and fiscally responsible approach upon which the profession was first established, may indeed be a most interesting and telling indication of the future of US higher education; in particular, can the focus of policy be returned to the fundamentally democratic principle of support of the American Dream through expanded access and opportunity for education. UK policymakers may well take note of these experiences and learn from them, at least to whatever degree the US Justice Department allows such information to be shared. A country's worth and future may very well rest upon the values it considers essential.

Any good policy evaluation surely requires the ability to review the actual impact of the programs and practices designed to implement them. The larger the volume, the longer the history, and the more it can be viewed from different perspectives … while measuring how one characteristic might relate to another … can be very revealing when observed at a distance above the noise and distractions often accompanying the shorter view. Good and effective policy is only strengthened by such research.

In a growing era of accountability and desire to see actual outcomes and demands for indicators of good performance and return on investment, the role of solid and credible research done robustly and honestly for transparent viewing in the bright sunshine for all to understand and appreciate, may be more critical today as the basis for responding to the needs of future generations than ever before.

At a 2005 conference held at the University of Virginia which convened a number of very respected researchers attempting to address whether America's "flagship public" universities truly supported increased educational opportunity, a key question was raised as to whether these leading institutions could resist the ruthless competition for top students which seemed to be the driving force for so much of the spending causing tuition to increase. The hope was expressed that these institutions would work together to reduce some of the wasteful aspects of such competition. This effort, it was noted, could not be undertaken solely by any one institution but could be achieved by cooperation … in the face of the rather "chilling climate created by the antitrust case brought against several selective colleges in the early 1990s", ("College Access: Opportunity or Privilege?", New York, NY: College Board, 2006: p. 123). Participants at the conference were challenged to test the antitrust climate and to do so aggressively in the public interest. Such effort was encouraged to include the possibility of public/private collaboration, in a manner similar to that prevailing at the high-water mark of collaboration which had directed student aid policies in the 1970s. Indeed, such collegial discussion on difficult topics whose resolution would benefit the greater common good, further enhanced by good research and analysis, were and always will be the grounds for truly professional problem solving.

Literature

Professional literature on student aid and the economics of higher education, as well as on the political history and the growth of the profession, can be found through a number of sources. Some of the sources used for this publication, as well as others, can be found in the Reference section following the final section of this publication. The National Association of Student Aid Administrators (NASFAA) is a primary source.

Research is often conducted by institutional research offices or by organizations often found near the location of the centers of government or at policy centers on many American campuses. They also include associations and "think tanks" who employ professional researchers who gather data from government agencies and institutional practitioners. Additional support is also provided by the philanthropic, not-for-profit arms of financial institutions such as loan guarantors, private lenders, as well as by privately funded foundations. The Lumina Foundation, a major source of research funding focused on issues of higher education cost and affordability, has become a leading voice and source of such research. Additional information about their publications and funding opportunities for further research proposals can be found at www.luminafoundation.org.

Readers are encouraged to pursue such resources to help foster further thinking and good discussion on the issues involved in financing higher education in the US and around the world. Hopefully, this small effort to add to such further thought and careful deliberation will have contributed in some productive manner to this admirable goal. The needs of future generations in the context of a clearly growing, global economy and the worldwide health considerations which already abound, stand to benefit significantly from such good thinking and research.

Bibliography

Gould, Eric, “The University in a Corporate Culture”, New Haven, CT and London: Yale University Press, 2003.

Howard, Philip K., “The Death of Common Sense: How Law is Suffocating America”, New York: Random House, 1994.

King, Jacqueline E., “Financing a College Education: How it Works, How it’s Changing”, Phoenix, AZ: American Council on Education/Oryx Press, 1999.

Kirp, David L., “Shakespeare, Einstein, and the Bottom Line: the Marketing of Higher Education”, Cambridge, MA and London: Harvard University Press, 2003.

McPherson, Michael S. and Morton O. Schapiro, “College Access: Opportunity or Privilege?”, New York, NY: The College Board, 2006.

McPherson, Michael S. and Morton O. Schapiro, “The Student Aid Game: Meeting Need and Rewarding Talent in American Higher Education”, Princeton, NJ: Princeton University Press, 1998.

Monro, John U., “Helping the Student Help Himself”, New York, NY: College Board Review, May 1953.

Palfreyman, David, “The Economics of Higher Education: Affordability and Access; Costing, Pricing, and Accountability”, New College, Oxford, United Kingdom: OxCHEPS, 2004.

Quinn, F. Duane, “Caught in the Squeeze: Financial Aid and the Emotional Middle Class”, New York, NY: College Board Review, No. 158, Winter 1990-91

Ramsden, Brian and Nigel Brown, “Variable Tuition Fees in England: Assessing Their Impact on Students and Higher Education Institutions”, Nigel Brown Associates, Universities UK.

Russo, Joseph A., Editor’s Column: “The Carrot or the Stick?”, NASFAA *Journal of Student Aid*, Vol. 33, No. 3, 2003.

Russo, Joseph A., 1995, “The Financial Aid Professional: An Endangered Species?”, New York, New York. The College Board Review. Nos. 176/177.

Russo, Joseph A., 1999, “Policies, Practices, and Philosophy”, Alexandria, Virginia: The National Association for College Admissions Counseling (NACAC), The Journal of College Admission.

Vedder, Richard, “Going Broke by Degree: Why College Costs Too Much”, Washington, DC: American Enterprise Institute, 2004.

Wick, Philip G., “No-Need/Merit Scholarships: Practices and Trends, 1943 – Present”, New York, NY: The College Board, 1997.

Wignall, Alice, “How to Fulfil Those Great Expectations”, *Education Guardian*, February 20, 2007.

Wilkinson, Rupert, “Aiding Students, Buying Students: Financial Aid in America”, Nashville, TN: Vanderbilt University Press, 2005

“Straight Talk About College Costs and Prices”, The Report of the National Commission on the Cost of Higher Education, Washington, DC: American Institutes for Research, 1998.

“Universities Want Fees to Rise to £7,000, *The Sunday Times*, February 11, 2007.

Appendix I
—Comparing UK and US—

The UK is at a critical crossroad as it considers options available for structuring its higher education financing policies and procedures. In many ways, it is also a very enviable position in comparison to the US, whose current framework has been severely burdened by a history of tinkering and revisions since its early days. As is noted in several chapters in this publication, there are both legislative and professional initiatives in the US currently focused on re-examining policies and procedures which appear to many to be overly complex, confusing, and discouraging.

In an ideal world, the goal of such policies and procedures should be simple, predictable, and encouraging—three benchmarks noted early in this publication. Any proposal intended to move the UK forward in its effort of providing greater access to its residents should be tested rigorously against these criteria.

This special section is intended to help illustrate the differences in policies and procedures between the UK and US current state of affairs. On the one hand, the UK program is summarized in a couple of pages of information in publications. The eligibility criteria for bursaries as well as for The Student Loan program are very straightforward. Prospective students and their families can understand where they will fit within these simple guidelines, regardless of the number of years in advance of their actual enrollment. In this respect, the criteria can be very encouraging also. The application procedures are also such that they are not burdened by a maze of paperwork and bureaucracy, as a more personal process involving a Local Education Authority (LEA) assists with the necessary steps and advises applicants and their respective institutions about eligibility.

While the US policies and procedures have evolved into a more sophisticated array of addressing a myriad of possible situations which some may argue need special consideration, the result is rampant with problems related to complexity and even abuse. Any hope for significant relief provided through the innovations of our modern technology continues to be stalled by the overwhelming complexity of the general program. It is this current state of affairs in the US which cries out for relief and which has inspired legislative inquiry and professional review.

The UK is truly in an ideal point in time to position itself to avoid drifting from its current workable program toward one which could be less simple, less predictable, and less encouraging. The remainder of this section of this publication may help illustrate the differences in policies and procedures between the US and UK programs.

The intention of this special section is to make a rough comparison of the access and the affordability opportunities for four sets of students. In each set, there is one UK and one US eighteen year old student who has completed secondary school and has been admitted to a selective institution of higher education whose instructional costs are substantially subsidized by the government, leaving the “sticker” price of tuition at a moderate level. In the UK, the subsidy is provided through the national government; in the US, the state government provides this support. The student will reside in the institution’s residence hall and participate in its board meal plan. It is also assumed that in each of the four examples, the two students had similar academic and personal credentials and that each intended to pursue the same educational goals. Likewise, each student is dependent upon parents who have cooperated in completing the prescribed financial aid application process.

Each of the four sets of examples illustrated are distinguished by differences in total family income. Likewise, in each case, there are two parents working full-time and two younger siblings attending non-private secondary schools. Assets for each set of families will be assumed to be similar. The assets for each set of families will increase, as the income status improves, from none for the lowest income to more substantial amounts for the highest income. Income values, of course, are rough equivalents of the dollar versus the pound based upon currency differences and are not intended to suggest absolutely accurate comparisons, as these differences can vary daily.

While an entire paper could probably be written with interesting discussions about who is truly a “middle income” family, we have assumed straight forward income tax situations for each family, with no adjustments for various tax “loopholes”. While ranges of incomes may also have been used to dodge the inevitable difficulties that so often arise in such discussions and the lifestyle and discretion involved, we have divided the most contentious of these debates (i.e., who is the “middle income”?) especially for the “middle income” group (often referred to in the US as the “beleaguered middle income”), by providing for a “lower middle” and “upper middle” category (Quinn, F. Duane, “Caught in the Squeeze: Financial Aid and the Emotional Middle

Class", College Board Review, No. 158, Winter 1990-91). Further discussion could also occur on whether average or median values should be used, as well as whether all US and UK income data should be viewed in identifying these groups, or only the incomes of those families whose age of the heads of household are from about 40 – 60, i.e., the age of parents who typically face paying for their dependent children's costs of higher education. There is, of course, typically a significantly greater income for older wage earners. We have chosen to use what is assumed to be close to median income data for the typically, 40 – 60 year old parent group.

Four Sets of Families (by Income)				
	Income			
Status	£	$	UK	US
Low	10,800	20,000	Charles	Chuck
Lower Middle	21,600	40,000	Henry	Hank
Upper Middle	43,200	80,000	Sarah	Sally
Upper	86,400	160,000	Samuel	Sam

COA			
Tuition/Fees	Room/Board	Books/Personal	Total COA
£3,000*	£4,300	£1,000	£8,300
$6,500	$8,000	$1,900	$16,400

*The £3,000 is a fee in the UK which payment can be deferred until after completing one's degree

Charles and Chuck

The Costs of Attendance (COA) assume maximum UK tuition of £3,000 for Charles and that his transportation costs will be nominal. Chuck's tuition was assumed to be a standard one charged to in-state residents. He also will be assumed to have nominal transportation costs. The COA in both illustrations provides for on-campus room and board charges and also include similarly modest indirect expenses for books and personal items.

COA – Family Contribution = Financial Need	
Charles	£ 8,300 – 0 = £ 8,300
Chuck	$16,400 – 0 = $16,400

Neither Charles' nor Chuck's parents are able to contribute anything to their son's college costs. Neither student has any assets. Both will need maximum student aid in order to meet their expenses. Both have also been awarded scholarships by a local civic club in their home community valued at £550 for Charles and $1,000 for Chuck. Chuck could choose to borrow from the government's guaranteed and subsidized Federal Family Education Loan (FFELP) or to secure a campus job; or combine these self-help options in some proportion according to his preference.

Student Aid	Government Grants	Deferred Fees	Institutional Bursary/Grant	Other Schol.	Self Help	Total Aid
Charles	NA	(£3,000)	£4,750	£550	–0–	£8,300
Chuck	$13,250	NA	$550	$1,000	($1,600)*	$16,400

*Student Loan is available if family requests it in lieu of student's summer savings

Henry and Hank

The parents of Henry and Hank are only able to contribute very modest levels of support for their son's Costs of Attendance. Hank will be expected to save a good part ($2,000) of his income from a summer job he secures prior to leaving home and enrolling. Neither student has any assets. Both will need significant levels of student aid to meet their expenses. Both have been awarded scholarships by a local civic club in their home community valued at £550 for Henry and $1,000 for Hank. The self-help resource for Henry was made available through The Student Loan program of the UK; Hank had his summer resources available for assisting with the remaining balance but could instead also choose to borrow from the government's guaranteed and subsidized Federal Family Education Loan; or to secure a campus job; or combine these self-help options in some proportion according to his preference.

COA – Family Contribution = Financial Need	
Henry	£ 8,300 – 0 = £ 8,300
Hank	$16,400 – $2,000 = $14,400

Student Aid						
	Government Grants	Deferred Fees	Institutional Bursary/Grant	Other Schol.	Self Help	Total Aid
Henry	£2,600	(£3,000)	£550	£550	£1,600	£8,300
Hank	$7,150	NA	$600	$1,000	$5,650	$14,400

Henry may help to contribute to part of his family contribution of £600 through his summer savings or by seeking a campus job once he enrolls. Hank will be expected to contribute a portion of his family contribution from some or most of his summer savings. However, he will also be able to work on campus during the academic year. The campus job earnings are typically used by US students to pay for personal and incidental expenses such as clothing, laundry, and social expenses. Options are available for substituting additional student loans for the portion of Hank's campus job portion of his student aid, effectively allowing him to substitute one form of self-help for another. If Hank's parents are unable or unwilling to provide some portion of their expected parental contribution, the federal government provides a guaranteed <u>but</u> <u>unsubsidized</u> parents' loan to effectively offset the immediate need for this expected contribution; this Parents' Loan for Undergraduate Students (PLUS) will need to be repaid by his parents, which payment may typically be deferred until Hank's four years of education are completed, with payment plans up to 10 years.[8]

<u>Sarah and Sally</u>

Sarah and Sally come from similar families including a nice suburban neighborhood with excellent elementary and secondary schools providing state of the art facilities and technology, well equipped classrooms, and well paid teachers. Their parents have been able to travel with

---

[8] The student may choose to help his parent pay off the loan … and parents are also free to help their children pay off their loans.

their children, exposing them to broader aspects of life. Each student also takes advanced piano lessons costing $100 (£55) per month. Their monthly expenses as a family are equal to their monthly income, leaving little left to be saved. Part of this monthly expense is a refinanced combination of several credit card obligations for a variety of discretionary purchases made over a period of several years. Both Sarah and Sally each have a modest trust fund established at their births by their grandparents to which have been added occasional small gifts by various family members and friends. Sarah's assets are valued at £2,300 and Sally's at $4,200. Each of the students will receive an educational benefit available from their father's employer of £550 and $1,000 respectively. Each set of parents is contributing pre-tax wage income to a private, tax deferred supplemental pension program to support a better lifestyle when they retire in 25 years. Other than the small amount of equity in their home, which was refinanced two years ago to remodel the kitchen, there are no parental assets.

Both Sarah and Sally's parents are expected to contribute about £5,400 and $10,000 respectively toward their children's costs of higher education, roughly 12 – 13% of their total annual income. Nothing from either family is expected to be available from the parents' assets. In the US, Sally's assets will be divided by the number of years needed for the degree; no similar expectation is calculated for Sarah in the UK. Thus, £1,050 will be expected from Sally's assets. For Sally, the US financial aid process will also assume a reasonable summer savings contribution of $2,000.

COA – Family Contribution = Financial Need	
Sarah	£ 8,300 – £ 5,400 = £2,900
Sally	$16,400 – $13,050 = $3,350

Student Aid

	Government Grants	Deferred Fees	Institutional Bursary/Grant	Other Schol	Self Help	Total Aid
Sarah	NA	(£3,000)	–0–	£550	£3,300*	£6,850
Sally	–0–	NA	–0–	$1,000	$2,350**	$3,350

*The Student Loan option

**Additional self-help above this amount may be available for student and/or parent

If Sally chooses not to work in the summer or to spend all of her summer savings on discretionary non-essentials; and/or her parents would prefer, for whatever reason(s), to take advantage of the federal government's PLUS, such a loan up to the full amount of the Expected Family Contribution, in this case up to $13,050, could be secured. The amount of Sally's "self-help" awarded to her by her institution's student aid administrator was $1,600 in a Federal Family Education Loan (FFELP) and a campus job for $750. If Sally declined either or both of these self-help student aid programs for any amount, this declined amount could also be borrowed by the parents from the government's PLUS program.

The US provides the option for parents of undergraduates, assuming they have no bad credit in their recent financial past, to consider spreading their calculated Expected Family Contribution, or any portion of it, out over many years (up to 10 years) following the four year "crunch" of paying for higher education costs. While interest (currently fixed rate at 8.5%) is accruing over the period of outstanding obligations for these PLUS loans, this option of "buy now, pay later", often employed in today's US economy, offers many families considerable flexibility for meeting some or all of their expected contribution.

Whether paying "up front" by saving over a period of years or whether the student or parent is borrowing, <u>a level of sacrifice is indeed understood</u>. While borrowing may not be the optimal solution, it does provide a reasonable option under very reasonable provisions for interest rates, deferments, and repayment periods. Unlike the mindset surrounding any <u>consumer</u> purchases, which too often is the perspective by which many families also view the expenses associated with higher education, these costs should arguably be seen as the <u>investment</u> they truly are, for which graduates will typically receive many benefits, financial and otherwise, over their entire lives. There is no question that sacrifice and hard work, and perhaps a change in lifestyle for a period of time before, during, and/or after for both parents and student/graduate, is assumed and will be required. There is no apologizing for or disguising these burdens.

It is often this upper-middle income family, whose children may not qualify for much, if any, "need-based" student aid, who express concern or even outrage at what might be expected. Not every parent will hold their children's higher education as the very top priority in their monthly budget process; distant retirement needs, dining out expenses, luxury cars, and/or discretionary credit card obligations are sometimes viewed as being more important. In the US, there are a reasonable set of alternative financing options available. Only the government programs have been mentioned here. Some families may have the flexibility to consider using other means of financing.

Samuel and Sam

Finally, we have Samuel and Sam, whose parents' incomes from wages alone would, at least by most measures, be considered affluent or "upper income". Surely, there are families with equal or even greater levels of income, who for unusual circumstances such as having a large number of children, and/or with multiple children in college simultaneously, or suffering from chronic medical expenses, might arguably have a challenge when paying for higher education. But here again, we are simply presenting a family set of circumstances which are similar in respect to a family size of five (three children, two parents), with the oldest of the three children about to enter as a first year undergraduate student. In addition to wages, the family may have interest and dividend income, capital gains, rental property income, and other income. Moreover, on the asset side, there may be a second home, albeit with mortgage, as well as various investments ranging up to several hundred thousand dollars or the equivalent in British pounds.

Whether Samuel or Sam have summer savings or have accumulated their own assets really is not an issue in trying to determine financial need, as the parents' measured ability to meet the Cost of Attendance is equal to or greater than the full costs.

COA – Family Contribution = Financial Need	
Samuel	£ 8,300 – £ 8,300+ = –0–
Sam	$16,400 – $16,400+ = –0–

Student Aid						
	Government Grants	Deferred Fees	Institutional Bursary/Grant	Other Schol.	Self Help	Total Aid
Samuel	–0–	(£3,000)	–0–	–0–	(£3,300)*	(£6,300)
Sam	–0–	NA	–0–	–0–	($5,900)**	($5,900)

*The Student Loan option

**Additional self-help above this amount may be available for student and/or parent

Sam has the option of borrowing an unsubsidized (no taxpayer subsidy of in-school interest) Federal Family Education Loan (FFELP) for up to $3,500 for his first year of study, as well as seeking campus employment during the academic year for up to 12 hours per week and total earnings of $2,400, thus providing "self-help" of $5,900, effectively reducing the amount expected from his parents. Sam's parents may also choose to exercise borrowing any amount of the Expected Family Contribution for up to the full Cost of Attendance (less any student aid) from the federal government's PLUS program under the same provisions available to any US family, regardless of income. Again, any family, except those with recent poor credit history, is eligible.

Additional Observations

There are some important additional observations about our UK students and their US counterparts.

First of all, the scenarios we created were based upon a number of basic assumptions, not the least of which begins with the parents' willingness to do their fair share. Likewise, not all family circumstances are always nice and neat, as health problems, unexpected incidents, loss of employment, business failures, or even natural disasters and calamities can challenge even the most reasonable of assumptions. The US and the UK both have policies and resources which could be made available to address such circumstances.

On the Cost of Attendance side of the equation, there are occasional additional educationally related costs which, for some students, might have to be considered for conducting special projects, buying necessary equipment, or managing unusual but mandatory expenses. Student aid programs may or may not be available to help in such circumstances, no matter what the family income for either the UK or the US student. In the UK the student may apply for additional funds through UK Access. For the US student, there may be additional loan options available either from government or non-government programs, depending on individual circumstances. All of this is to perhaps restate the "less-than-perfect science" side of the student aid story.

It is also noteworthy to include in these happy stories the reality that there are institutions in both the UK and the US where there will inevitably be limitations of available funds needed to address all the needs of all the students. Indeed, there are numerous situations where this is more the norm than the exception in the US. While "need" may be met, it might be with inordinate amounts of educational loans from government and/or private sources, simply again because of inadequate scholarship and grant funds. It is critical to note well here that in the US, "eligibility" for need-based student aid is not tantamount to "entitlement". Simply showing up with one's hand out demonstrating the need for thousands of dollars, does not automatically translate into adequate amounts of student aid. In some institutions, limited scholarship and grant assistance may be targeted by "merit within need", i.e., to those with the best credentials who have demonstrated need. In other cases, the institution may decide to spread its limited funds evenly to as many needy students as possible, not coming close to meeting everyone's need. Still other institutions may decide to target their limited resources to the very neediest, leaving others to fend for themselves as best as possible. When the "unmet need" is modest, there may be ways of stretching family resources or cutting back on some parts of the Costs of Attendance to make ends meet.

In the UK, as in the US, there are institutions whose enrollments reflect a much higher percentages of students from lower income or lower middle income families. It is common in both countries to note that the most selective institutions typically enroll students from more affluent, upper middle and upper income families. This is the result of need-blind admissions policies which evaluate the competitive candidacy of all applicants without regard to their individual family's ability to pay. While this need-blind policy is most fair in many respects, in a highly selective environment at some institutions, it does most often result in the admission of students whose academic and personal credentials have been enhanced greatly by the special opportunities related to growing up in a more affluent family and community.

In the UK, as the new pricing and student aid system continues to develop, each institution will be able to use a substantial part (up to 25 – 30%) of the additional revenue generated by increased tuition for the purpose of assisting needy students. In elite, very competitive institutions, the Bursary may have far more funds than can be awarded due to the lack of eligible, i.e., needy students. On the other end of the UK spectrum of higher educational institutions, these additional revenues may fall far short of the amount needed to assist all of the eligible students. Here indeed may very well eventually be experienced a clear illustration in the new UK system of the basic difference between "eligibility" and "entitlement", a lesson learned many times over for many years by needy students in the US.

Appendix II

—The Array of Higher Education Benefits—

	Public	Private
Economic	• Increased Tax Revenues • Greater Productivity • Increased Consumption • Increased Workforce Flexibility • Decreased Reliance on Government Financial Support	• Higher Salaries and Benefits • Employment • Higher Savings Levels • Improved Working Conditions • Personal/Professional Mobility
Social	• Reduced Crime Rates • Increased Charitable Giving/ Community Service • Increased Quality of Civic Life • Social Cohesion/Appreciation of Diversity • Improved Ability to Adapt to and Use Technology	• Improved Health/Life Expectancy • Improved Quality of Life for Offspring • Better Consumer Decision making • Increased Personal Status • More Hobbies, Leisure Activities

Institute for Higher Education Policy

Appendix IIIa

—Legislative History—

1939	Pre-World War II
1945	Post-World War II
1946	GI Bill
1957	Sputnik
1958	National Defense Education Act
1964	Office of Economic Opportunity
1965	Higher Education Act
1968	Amendments
1972	Amendments
1976	Amendments
1978	Middle Income Student Assistance Act
1980	Amendments
1981	Omnibus Reconciliation Act
1986	Amendments
1991	Justice Department Ruling
1992	Amendments
1993	Omnibus Reconciliation Act
1996	Amendments
1997	Taxpayer Relief Act
1998	Amendments
2006	Deficit Reduction Act

Appendix IIIb

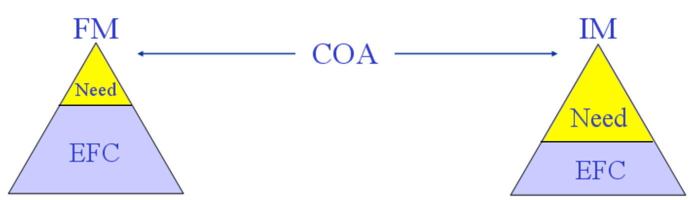
— Need Analysis History—

1950	Ivy League, Munro, College Board College Scholarship Service Parents Confidential Statement Principles established
1960	Central Processing by CSS Simple Income Test for Loans Growth of Programs, Federal and State American College Testing Program
1970	Multiple Forms, Processes, Formulas Basic Education Opportunity Grant Keppel Task Force Coalition for Student Aid
1980	Middle Income Student Assistance Act Simple Needs Test Multiple Data Entry Uniform Methodology Congressional Methodology
1990	Congressional Micromanagement Free and Simple: Federal Methodology CSS: Institutional Methodology Justice Department Ruling Challenges to principles
2000	Presidents' 568 Group Online application Emerging use of technology Challenges to growing student aid process

Appendix IV

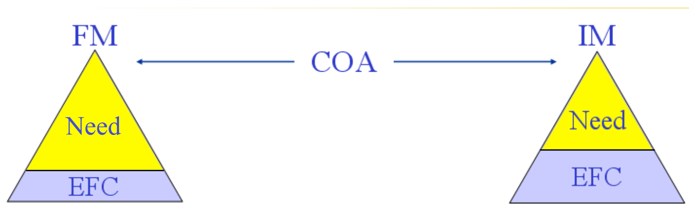
—Conundrum—

Interesting complications are often presented to institutions responsible for complying with federal and state regulations required for the administration of need-based government student aid. An institution's assessment of family ability to pay may very well differ, sometimes widely, from that resulting from the government's (FM). In some cases, the family expectation is less in FM; in other cases the result in FM may be more than that calculated by the institution (IM). For the institution who must not exceed the student's need factor with need-based aid, or who in the other scenario has a policy of meeting each student's demonstrated need, whose "need" is to dominate? Here is a good example of how US student aid administration can quickly become a source of confusion, consternation, and discouragement for all stakeholders. Illustrated below is a graphic which attempts to depict such a conundrum.



$44,390	COA	$44,390
- 24,390	- EFC	- 19,390
$20,000	FN	$25,000
	Financial Aid	
$20,100	Scholarship	$20,100
2,600*	Loan	2,600
2,300**	Job	2,300
$25,000	Total Aid	$25,000
$5,000	Over	$0

*Unsubsidized **Not federal



$44,390	COA	$44,390
- 14,390	- EFC	- 34,390
$30,000	FN	$10,000
	Financial Aid	
$5,300	Scholarship	$5,300
2,600	Loan	2,600
2,100	Job	2,100
(20,000)	Unmet	0
$10,000	Total Aid	$10,000

These special challenges in the US process may well serve as reason for pause, as the UK evaluates whether its current system of directing assistance is doing the job. The goal is not complicated: to keep its higher education affordable for all. If cost is controlled at moderate levels, so will the anxiety related to raising such cost, especially for middle and upper middle families. The aggregate need for additional public support can quickly become very expensive; it will always need to be balanced by reasonable democratic goals for access and the additional revenue which such expanded access would require. Likewise, a one-size-fits-all approach to gather confidential family financial data through a special process and evaluate it in a standardized formula, however simple or sophisticated, from potentially millions of applicants, will be a huge undertaking. Moreover, to do this in a "blind" and objective manner centrally by a government agency, will likely generate much of the same level of challenge often experienced in the US. Strong arguments can be made in favor of a more localized approach as currently provided by the Local Education Authority (LEA in England and Wales and similar body for residents of other eligible localities), which employs a very simple family income test to distribute need-based assistance. Policymakers will need to carefully consider the efficiencies possible through a national, technology driven, standard approach versus an already proven, more local approach.

Appendix V

—Methodology—

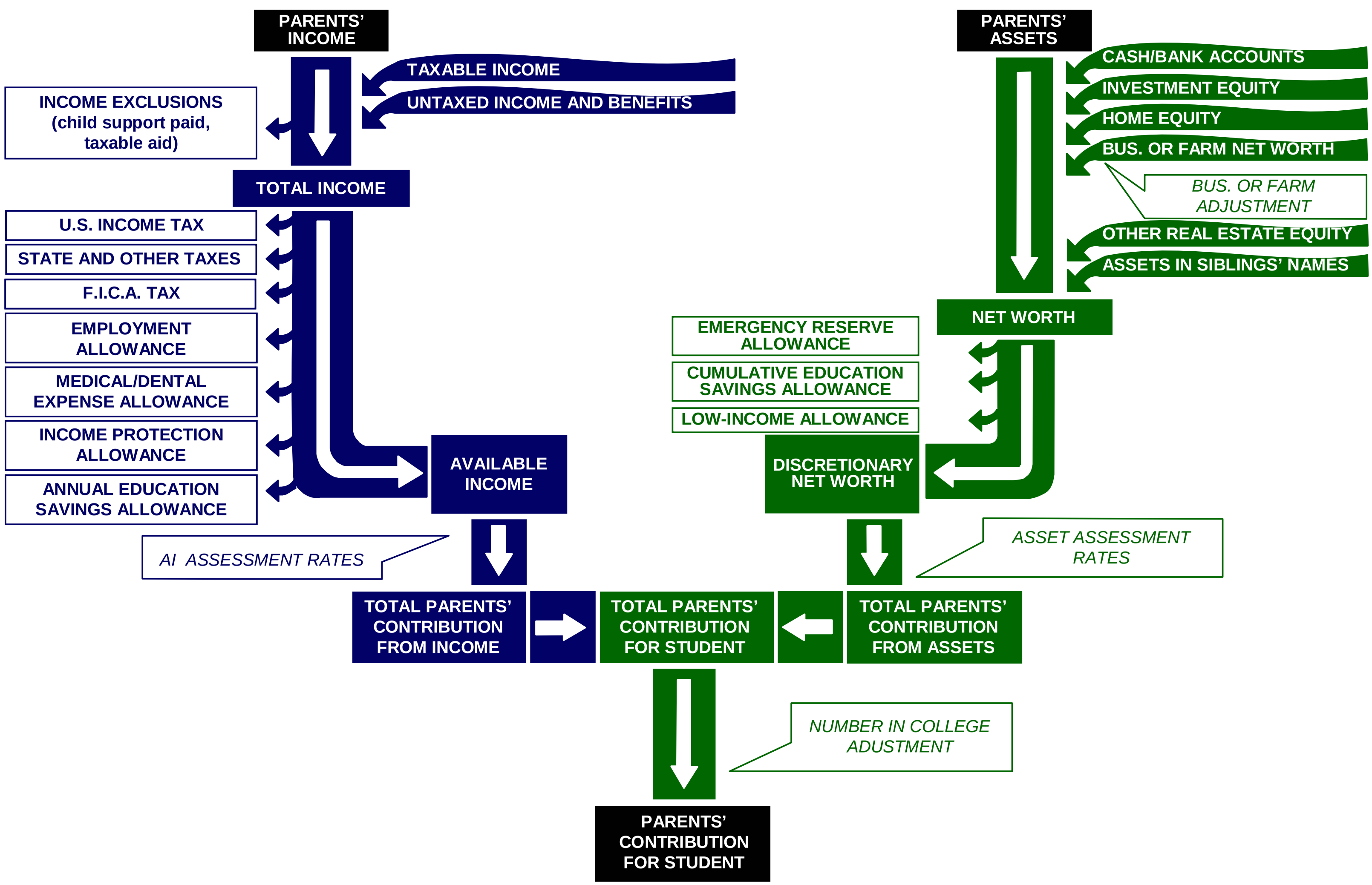
All of the information in this Appendix is reprinted with permission from the College Board.

There are two parts to this Appendix: the first relates to the calculation and tables supporting the Institutional Methodology (IM) of the College Scholarship Service (CSS). The second represents similar information supporting the Federal Methodology. Both reflect the 2007/08 methodologies and are typically updated annually.

In general, the IM is more comprehensive while the FM is more simple.

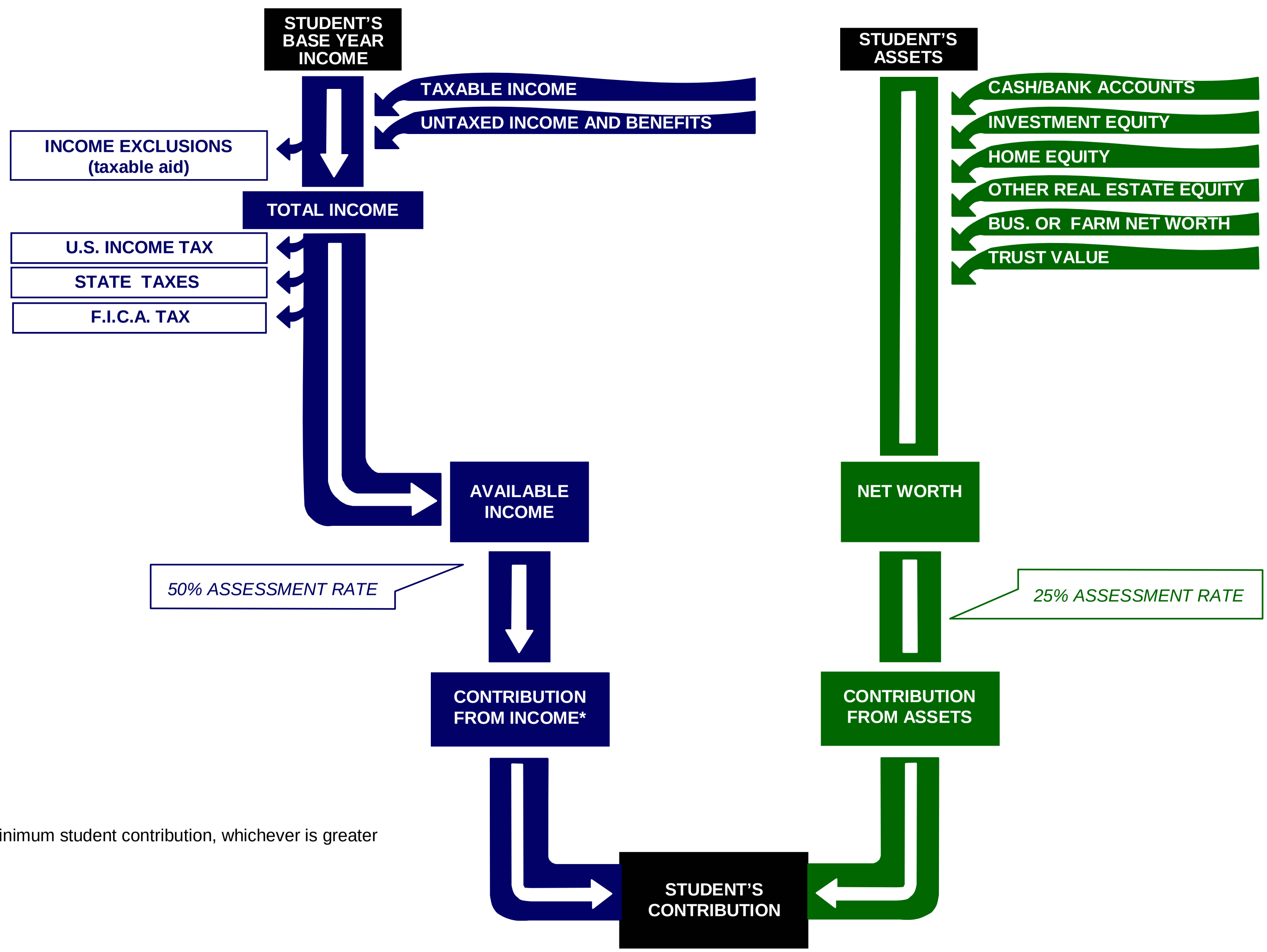
Institutional Methodology (IM)

Parents of dependent students



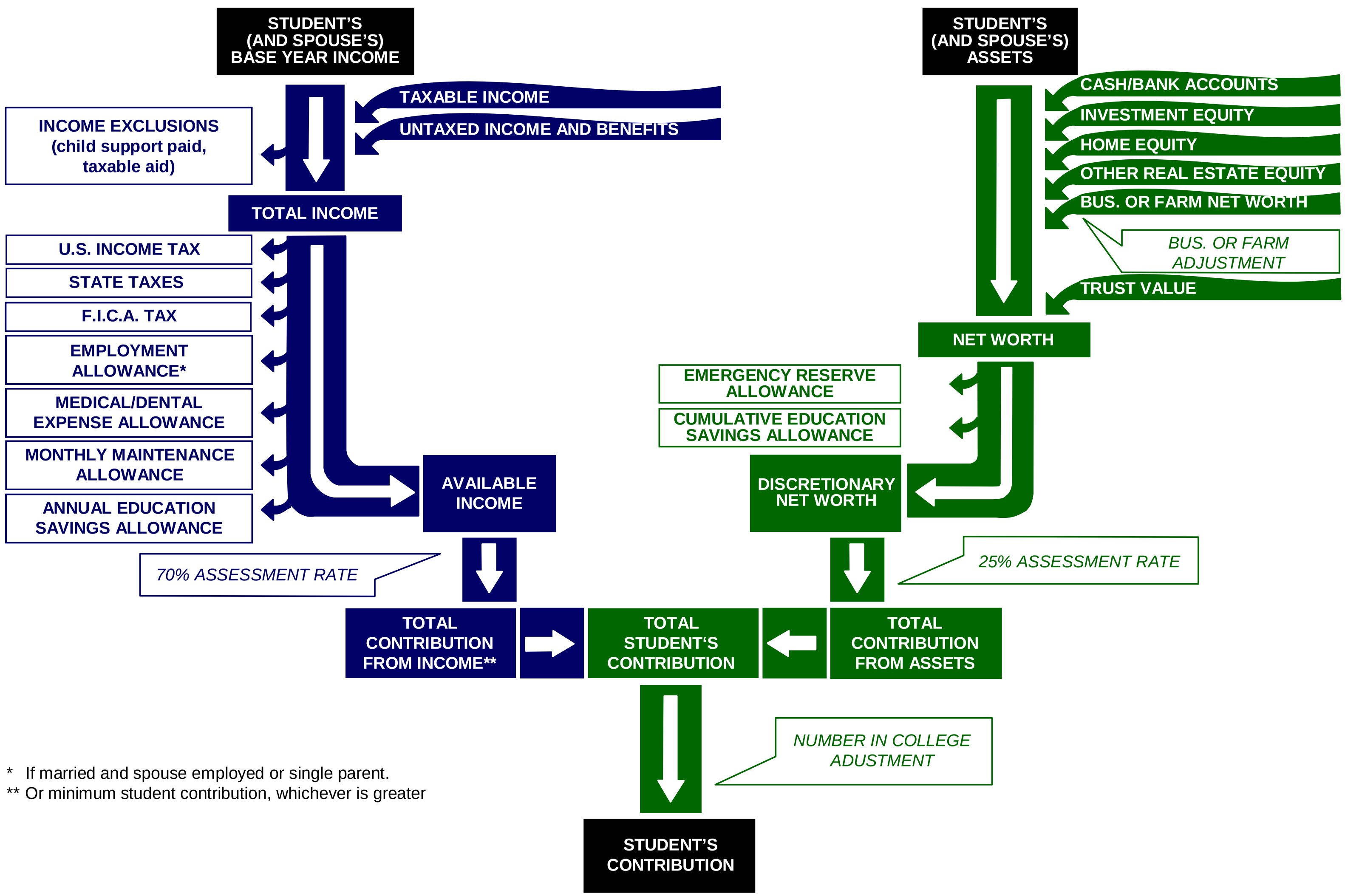
Institutional Methodology (IM)

Dependent Students



* Or minimum student contribution, whichever is greater

Independent Students



* If married and spouse employed or single parent.

** Or minimum student contribution, whichever is greater

2007-2008 Institutional Methodology (IM) Computation Tables

TABLE 1. ALLOWANCES FOR STATE AND OTHER TAXES

	Parents of Dependents												Students	
State	***0 - 30,000***	***30,001 - 40,000***	***40,001 - 50,000***	***50,001 - 60,000***	***60,001 - 70,000***	***70,001 - 80,000***	***80,001 - 90,000***	***90,001 - 100,000***	***100,001 - 110,000***	***110,001 - 120,000***	***120,001 - 130,000***	***More than 130,000***	***0 - 20,000***	***More than 20,000***
Alabama (AL)	9.5	9.5	9.0	8.5	8.0	7.5	7.5	7.0	6.5	6.5	6.5	6.0	2.5	3.0
Alaska (AK)	4.0	3.5	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0.0	0.0
American Samoa (AS)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Arizona (AZ)	9.5	9.5	9.0	8.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	1.5	1.5
Arkansas (AR)	9.5	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	1.5	2.0
California (CA)	8.5	8.0	8.0	8.0	8.0	8.5	9.0	9.5	9.5	9.5	9.5	10.0	1.0	1.5
Canada (CN)	11.0	12.0	12.0	12.0	12.0	12.5	13.0	13.0	13.0	13.0	13.0	12.5	1.0	1.5
Colorado (CO)	8.0	8.0	8.0	8.0	8.0	8.5	8.5	8.5	8.5	8.5	8.5	8.0	1.5	2.0
Connecticut (CT)	11.0	12.0	12.0	12.0	12.0	12.5	13.0	13.0	13.0	13.0	13.0	12.5	1.0	1.5
Delaware (DE)	4.5	5.0	5.5	6.0	6.0	6.0	6.5	6.5	6.5	6.0	6.0	6.0	1.5	2.0
Dist of Columbia (DC)	8.0	8.5	9.0	9.5	9.5	9.5	9.5	9.5	10.0	10.0	10.0	9.5	2.0	2.5
Federated States of Micronesia (FM)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Florida (FL)	9.0	8.5	8.0	7.5	7.0	6.5	6.5	6.5	6.0	6.0	6.0	5.5	0.0	0.0
Guam (GU)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Georgia (GA)	9.0	9.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.0	2.0	2.5
Hawaii (HI)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.5	3.0	3.5
Idaho (ID)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	1.5	2.0
Illinois (IL)	11.5	11.0	10.5	10.5	10.5	10.5	10.0	10.0	10.0	10.0	10.0	9.5	1.5	2.0
Indiana (IN)	11.0	10.5	10.0	10.0	9.5	9.0	9.0	9.0	8.5	8.5	8.5	8.0	3.0	3.5
Iowa (IA)	10.5	10.5	10.5	10.5	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0	2.0	2.5
Kansas (KS)	9.0	9.5	10.0	10.5	10.5	10.5	10.5	10.0	10.0	10.0	10.0	9.5	1.5	2.0
Kentucky (KY)	9.5	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0	2.5	3.0
Louisiana (LA)	8.0	7.5	7.5	7.5	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5	1.0	1.5
Maine (ME)	10.0	10.0	10.0	10.5	11.0	11.0	11.0	11.0	11.0	10.5	10.0	9.5	1.5	2.0
Marshall Islands (MH)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Maryland (MD)	8.5	9.0	9.5	9.5	9.5	9.5	9.5	10.0	10.0	9.5	9.5	9.0	3.0	3.5
Massachusetts (MA)	9.0	9.5	10.0	10.0	10.5	10.5	11.0	11.0	11.0	11.0	10.5	10.0	2.0	2.5
Mexico (MX)	4.0	3.5	3.5	3.5	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0.0	0.0
Michigan (MI)	11.0	11.0	10.5	10.5	10.5	10.5	10.5	10.0	10.0	9.5	9.5	9.0	2.5	3.0
Minnesota (MN)	8.0	8.5	9.0	9.0	9.0	9.0	9.0	9.5	9.5	9.5	9.0	9.0	1.5	2.0
Mississippi (MS)	8.5	8.0	8.0	8.0	8.0	7.5	7.5	7.5	7.5	7.0	7.0	6.5	0.5	1.0
Missouri (MO)	9.0	9.5	9.5	9.5	9.5	9.5	9.5	9.0	9.0	9.0	9.0	8.5	1.5	2.0
Montana (MT)	8.5	8.0	8.0	8.0	8.0	8.0	7.5	7.5	7.5	7.5	7.0	7.0	1.5	1.5
Nebraska (NE)	11.0	10.5	10.0	10.0	10.0	10.0	10.5	11.0	11.0	11.0	10.5	10.0	1.0	1.0
Nevada (NV)	6.5	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.0	5.0	4.5	4.0	0.0	0.0
New Hampshire (NH)	8.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	7.5	7.0	0.5	0.0
New Jersey (NJ)	13.0	12.5	12.0	12.0	12.0	12.0	11.5	11.0	11.0	10.5	10.5	10.0	0.5	1.0
New Mexico (NM)	9.5	9.0	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.0	1.0	1.5
New York (NY)	12.5	13.0	13.0	13.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0	13.5	1.5	2.0
North Carolina (NC)	9.5	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0	2.5	3.0
North Dakota (ND)	8.0	7.5	7.5	7.5	7.5	7.0	7.0	7.0	7.0	7.0	6.5	6.0	0.5	1.0
Northern Mariana Islands (MP)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Ohio (OH)	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	11.0	11.0	10.5	2.0	2.0
Oklahoma (OK)	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	9.0	9.0	8.5	2.0	2.5
Oregon (OR)	10.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.5	10.5	10.5	10.0	3.5	4.0
Palau (PW)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Pennsylvania (PA)	11.5	11.0	11.0	11.0	10.5	10.5	10.5	10.5	10.0	10.0	10.0	9.5	2.0	2.5
Puerto Rico (PR)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.0	1.0
Rhode Island (RI)	11.5	12.0	12.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.0	1.5	2.0
South Carolina (SC)	8.0	8.5	8.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	8.0	1.5	2.0
South Dakota (SD)	7.5	7.0	6.5	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.5	5.0	0.0	0.0
Tennessee (TN)	8.0	7.5	7.0	7.0	6.5	6.0	6.0	6.0	6.0	6.0	5.5	5.0	0.5	1.0
Texas (TX)	7.5	7.0	7.0	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.5	0.0	0.0
Utah (UT)	10.5	10.0	9.5	9.5	9.0	9.0	9.0	9.0	9.0	8.5	8.5	8.0	2.0	2.5
Vermont (VT)	10.0	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	1.0	1.5
Virgin Islands (VI)	4.5	4.0	3.5	3.0	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	0.0	0.0
Virginia (VA)	8.5	9.0	9.0	9.0	9.0	9.0	9.5	9.5	9.5	9.5	9.5	9.0	2.5	3.0
Washington (WA)	10.0	9.5	9.0	8.5	8.0	8.0	7.5	7.5	7.5	7.5	7.5	7.0	0.0	0.0
West Virginia (WV)	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	8.0	7.5	2.0	2.5
Wisconsin (WI)	12.0	12.0	12.0	12.0	12.0	12.5	12.5	12.5	12.5	12.0	11.5	11.0	2.0	2.5
Wyoming (WY)	7.0	6.5	6.0	5.5	5.0	4.5	4.5	4.5	4.0	4.0	3.5	3.0	0.0	0.0
Nor Reported (NR)	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	8.5	1.5	2.0

2007-2008 Institutional Methodology (IM) Computation Tables

TABLE 2. ALLOWANCES AGAINST INCOME

FICA: Wages	
$1 to $94,200:	7.65% of income earned by each wage earner (maximum $7,206.30 per person)
$94,201 or more:	$7,206.30 + 1.45% of income earned above $94,200 by each wage earner
Elementary/secondary tuition allowance:	Reported tuition paid to per child maximum of: $7,900 based on avg. public school expenditures; $5,870 based on avg. private school tuition
Employment allowance:	44% of lesser earned income to a maximum of $3,970 (single parent: 44% of earned income to a maximum of $3,970)
Medical/dental expense allowance:	Unreimbursed expenses in excess of 3.6% of total income

TABLE 3a. INCOME PROTECTION ALLOWANCE (IPA)
(Parents of Dependent Students)

Family Size* (including student)	Number in College** 1	2	3	4	5
2	$18,790	$18,080			
3	22,700	21,990	$21,280		
4	26,090	25,380	24,670	$23,960	
5	29,220	28,510	27,800	27,090	$26,380
6	31,830	31,120	30,410	29,700	28,990

*For each additional family member, add $2,610.
**For each additional college student, subtract $710.

TABLE 3b. MONTHLY MAINTENANCE ALLOWANCE
(Independent Students)

Single Student	$1,750 per month during period of non-enrollment
Married Student:	$1,260 per month during period of non-enrollment (calculated for student and spouse)
Children of Independent Students:	$490 per month during period of non-enrollment for each child

TABLE 4. EDUCATION SAVINGS ALLOWANCES

Annual Savings Goal (ASG) =
1.52% of Total Income, to a maximum of $2,350

Annual Education Savings Allowance (AESA) =
ASG x number of pre-college children, excluding the student applicant

Cumulative Education Savings Allowance (CESA) =
[(Number of college students x ASG x 18 x .625) +
(ASG x total ages of pre-college children)]
OR
$19,690, whichever is greater

TABLE 5. CONTRIBUTION FROM AVAILABLE INCOME (AI)
(Parents of Dependent Students)

Available Income (AI)	*Total Contributions from Income*
Less than $15,530	22% of AI
$ 15,531 to 20,970	$ 3,417 + 26% of AI over $ 15,530
$ 20,971 to 26,410	$ 4,831 + 30% of AI over $ 20,970
$ 26,411 to 31,850	$ 6,463 + 34% of AI over $ 26,410
$ 31,851 to 37,280	$ 8,313 + 38% of AI over $ 31,850
$ 37,281 to 42,720	$10,376 + 42% of AI over $ 37,280
$ 42,721 or more	$ 12,661 + 46% of AI over $ 42,720

TABLE 6. STUDENT INCOME ASSESSMENT RATES

Dependent Students .... 50% of Available Income (AI)
Independent Students .... 70% of Available Income (AI)

TABLE 7. ADJUSTED NET WORTH OF A BUSINESS OR FARM

Net Worth (NW)	Adjusted Net Worth
Less than $1	$ 0
$ 1 to 105,000	$ 0 + 40% of NW
$ 105,001 to 320,000	$ 42,000 + 50% of NW over $ 105,000
$ 320,001 to 535,000	$149,500 + 60% of NW over $ 320,000
$ 535,001 or more	$ 278,500 + 100% of NW over $ 535,000

TABLE 8. EMERGENCY RESERVE ALLOWANCE (ERA)

Parents of Dependents and Independent Students with Dependents

Family Size	ERA
2	$17,470
3	21,110
4	24,260
5	27,180
6	29,600
Each additional family member	+ 2,420

Single Independent Students without Dependents:	$1,750
Married Independent Students without Dependents:	$2,520

TABLE 9. ASSET CONVERSION RATE

Parents of Dependent Students

Discretionary Net Worth	*Total Contribution From Assets*
Up to $ 29,600	3%
29,601 to 59,200	$890 + 4% of DNW over $ 29,600
59,201 or more	$2,070 + 5% of DNW over $ 59,200

All Students:
Asset conversion rate is 25% of discretionary net worth

TABLE 10. NUMBER IN COLLEGE ADJUSTMENT

Number of Children in College	*Adjustment Rate*
1	100% of PC
2	60%
3	45%
4 or more	35%

For independent students, the adjustment rate is determined by the total number in college, including the student, spouse, and dependent children.

TABLE 11. STUDENT MINIMUM STANDARD CONTRIBUTION

$ 1,550 ....Freshman Dependent Students
2,150 ....All Other Dependent Students
2,950 ....All Independent Students

2007-2008 Institutional Methodology (IM) Worksheet

Parent(s) of Dependent Students

Student's Name:		Social Security Number:		
INCOME OF PARENT(S)				
1. AGI/taxable income				$
a. Add back losses from business, farm, etc., and capital losses			+	
2. Untaxed income & benefits			+	
3. Child support paid			-	
4. Total income (sum of lines 1, 1a, and 2, minus 3)			**=**	
ALLOWANCES				
5. U.S. income tax				
6. State and other taxes (% from Table 1 X line 4)			+	
7. F.I.C.A. (Table 2)			+	
8. Medical/dental expense allowance (Table 2)			+	
9. Employment allowance (Table 2)			+	
10. Annual education savings allowance (AESA) (Table 4):				
a. Annual savings goal (1.52% X line 4, up to $2,350)	**=**			
b. Number of pre-college children, excluding student	X			
c. Total AESA (line 10a X 10b)			+	
11. Income protection allowance (Table 3a)			+	
12. Total allowances (sum of lines 5 - 11)			=	
13. Available income (line 4 minus line 12)			=	
14. Total PC from income (calculate using line 13 and Table 5; if negative, enter $0)			**=**	
ASSETS				
15. Cash, savings, and checking accounts				
16. Home equity			+	
17. Investment equity			+	
18. Other real estate equity			+	
19. Adjusted business/farm equity (Table 7)			+	
20. Parental assets in siblings' names			+	
21. Net worth (sum of lines 15 - 20)			=	
22. Asset protection allowances:				
a. Emergency reserve allowance (Table 8):				
b. Cumulative education savings allowance (CESA) (Table 4)	+			
c. Low income asset allowance (amount from line 13, if negative)	+			
d. Total asset protection allowances (sum of a + b + c)			=	
23. Discretionary net worth (line 21 minus line 22d; if negative, enter $0)			=	
24. Total PC from assets (calculate using line 23 and Table 9)			**=**	
CONTRIBUTION				
25. Total parent contribution (sum of line 14 and line 24)			**=**	
26. Number in college adjustment (Table 10)			X	%
27. Parent contribution for student (line 25 X line 26)			=	

2007-2008 Institutional Methodology (IM) Worksheet

Dependent Student

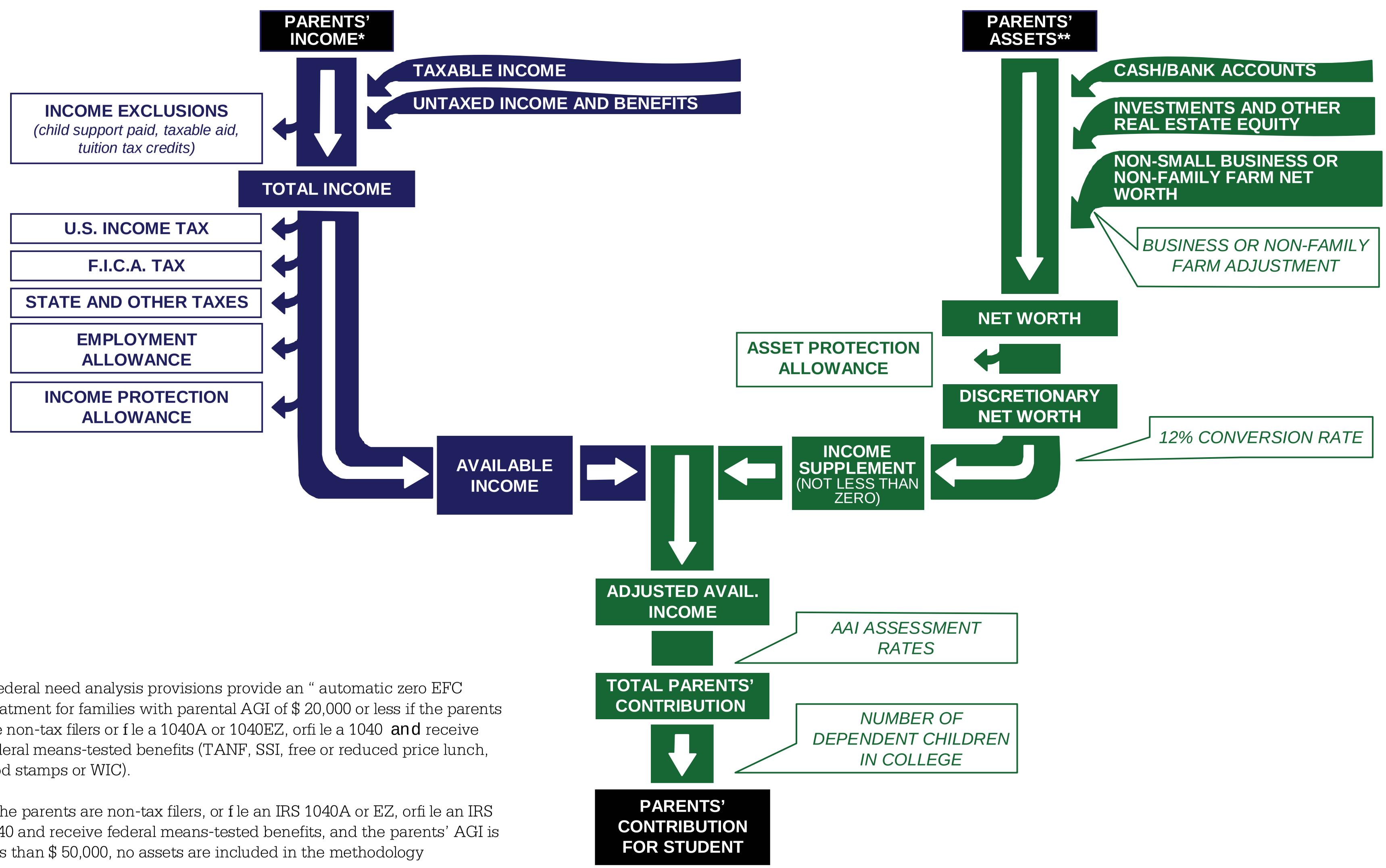
Student's Name: **Social Security Number:**		
INCOME OF STUDENT		
1. AGI/taxable income		$
2. Untaxed income & benefits	+	
3. Taxable student aid	-	
4. Total income (sum of lines 1 and 2, minus 3)	**=**	
ALLOWANCES		
5. U.S. income tax		
6. State and other taxes (% from Table 1 X line 1)	+	
7. F.I.C.A. (Table 2)	+	
8. Total allowances (sum of lines 5 - 7)	=	
9. Available income (line 4 minus line 8)	=	
10. Available income assessment rate	X	0.50
11. SC from income (line 9 X line 10 or minimum SC (Table 11), whichever is higher)	**=**	
ASSETS		
12. Cash, savings, and checking accounts		
13. Home equity	+	
14. Investment equity	+	
15. Other real estate equity	+	
16. Business/farm equity	+	
17. Trust value	+	
18. Net worth (sum of lines 12 - 17)	=	
19. Asset assetment rate	X	0.25
20. SC from assets (line 18 X line 19)	**=**	
CONTRIBUTION		
21. Total student contribution (sum of line 11 and line 20)	**=**	

2007-2008 Institutional Methodology (IM) Worksheet

Independent Student

Student's Name:		**Social Security Number:**		
INCOME OF STUDENT (& SPOUSE)				
1. AGI/taxable income				$
2. Untaxed income & benefits			+	
3. Income adjustments (child support paid + taxable student aid)			-	
4. Total income (sum of lines 1 and 2, minus 3)			**=**	
ALLOWANCES				
5. U.S. income tax				
6. State and other taxes (% from Table 1 X line 1)			+	
7. F.I.C.A. (Table 2)			+	
8. Medical/dental expense allowance (Table 2)			+	
9. Employment allowance (Table 2)			+	
10. Annual education savings allowance (AESA) (Table 4):				
a. Annual savings goal (1.52% X Line 4, up to $2,350)	=			
b. Number of pre-college children	X			
c. Total AESA (line 10a X 10b)			+	
11. Monthly maintenance allowance (Table 3b)			+	
12. Total allowances (sum of lines 5 - 11)			=	
13. Available income (line 4 minus line 12)			=	
14. Available income assessment rate			X	0.70
15. SC from income (line 13 X line 14)			=	
16. Number in college adjustment (Table 10)			X	
17. SC from income for the student (line 15 X line 16)			=	
ASSETS				
18. Cash, savings, and checking accounts				
19. Home equity			+	
20. Investment equity			+	
21. Other real estate equity			+	
22. Adjusted business/farm equity (Table 7)			+	
23. Trust value			+	
24. Net worth (sum of lines 18 - 23)			=	
25. Asset protection allowances:				
a. Emergency reserve allowance (Table 8):				
b. Cumulative education savings allowance (CESA) (Table 4, dependent children only)	+			
c. Total asset protection allowances (sum of a + b)			=	
26. Discretionary net worth (line 24 minus line 25c - if negative, enter 0)			=	
27. Asset assessment rate			X	0.25
28. Total student contribution from assets (line 26 X line 27)			=	
29. Number in college adjustment (Table 10)			X	
30. SC from assets (line 28 X line 29)			=	
CONTRIBUTION				
31. Total contribution (sum of line 17 and line 30)			**=**	

Parents of dependent students

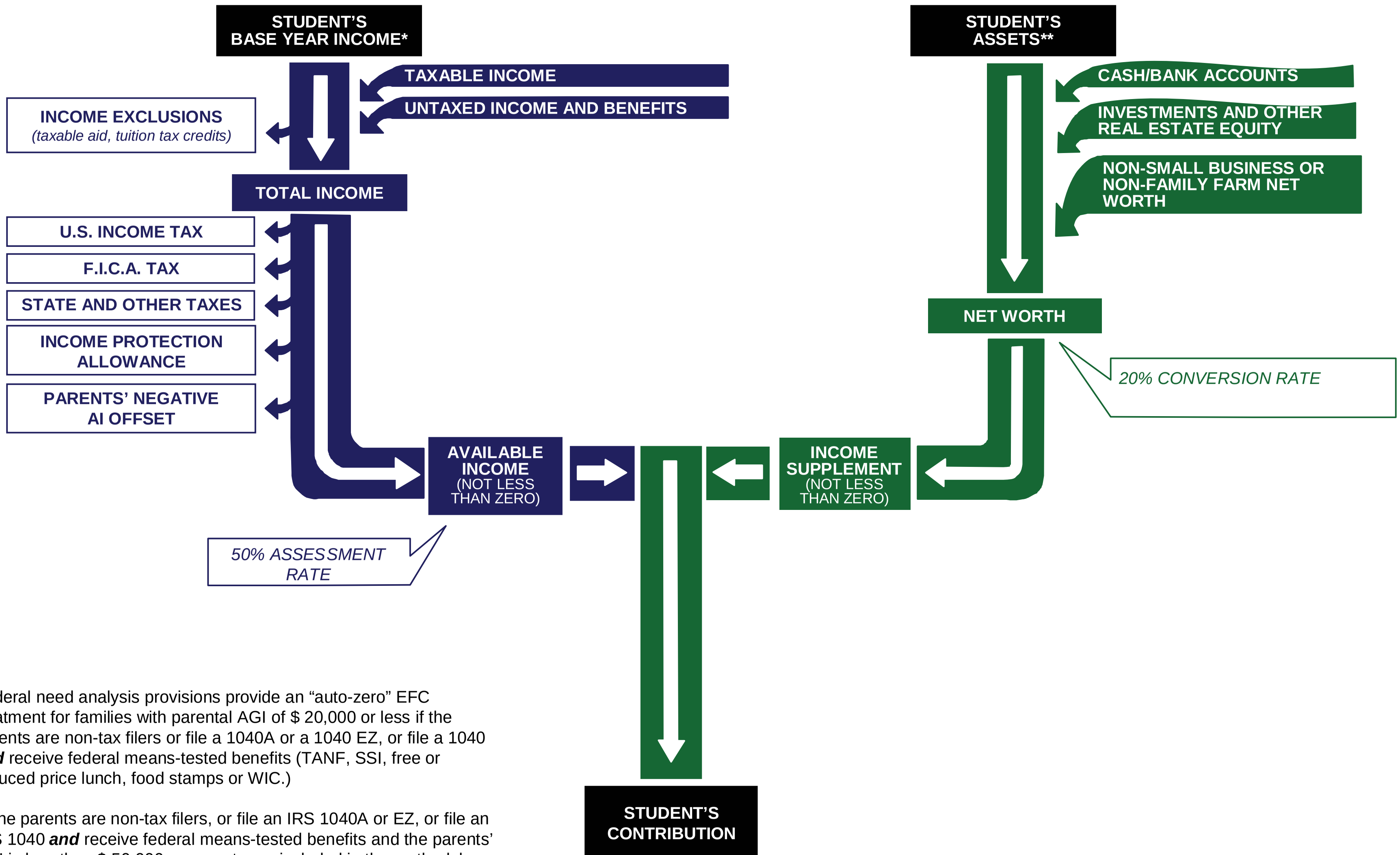


* Federal need analysis provisions provide an "automatic zero EFC treatment for families with parental AGI of $ 20,000 or less if the parents are non-tax filers or f le a 1040A or 1040EZ, orfi le a 1040 and receive federal means-tested benefits (TANF, SSI, free or reduced price lunch, food stamps or WIC).

** If the parents are non-tax filers, or f le an IRS 1040A or EZ, orfi le an IRS 1040 and receive federal means-tested benefits, and the parents' AGI is less than $ 50,000, no assets are included in the methodology

Federal Methodology (FM)

Dependent Students



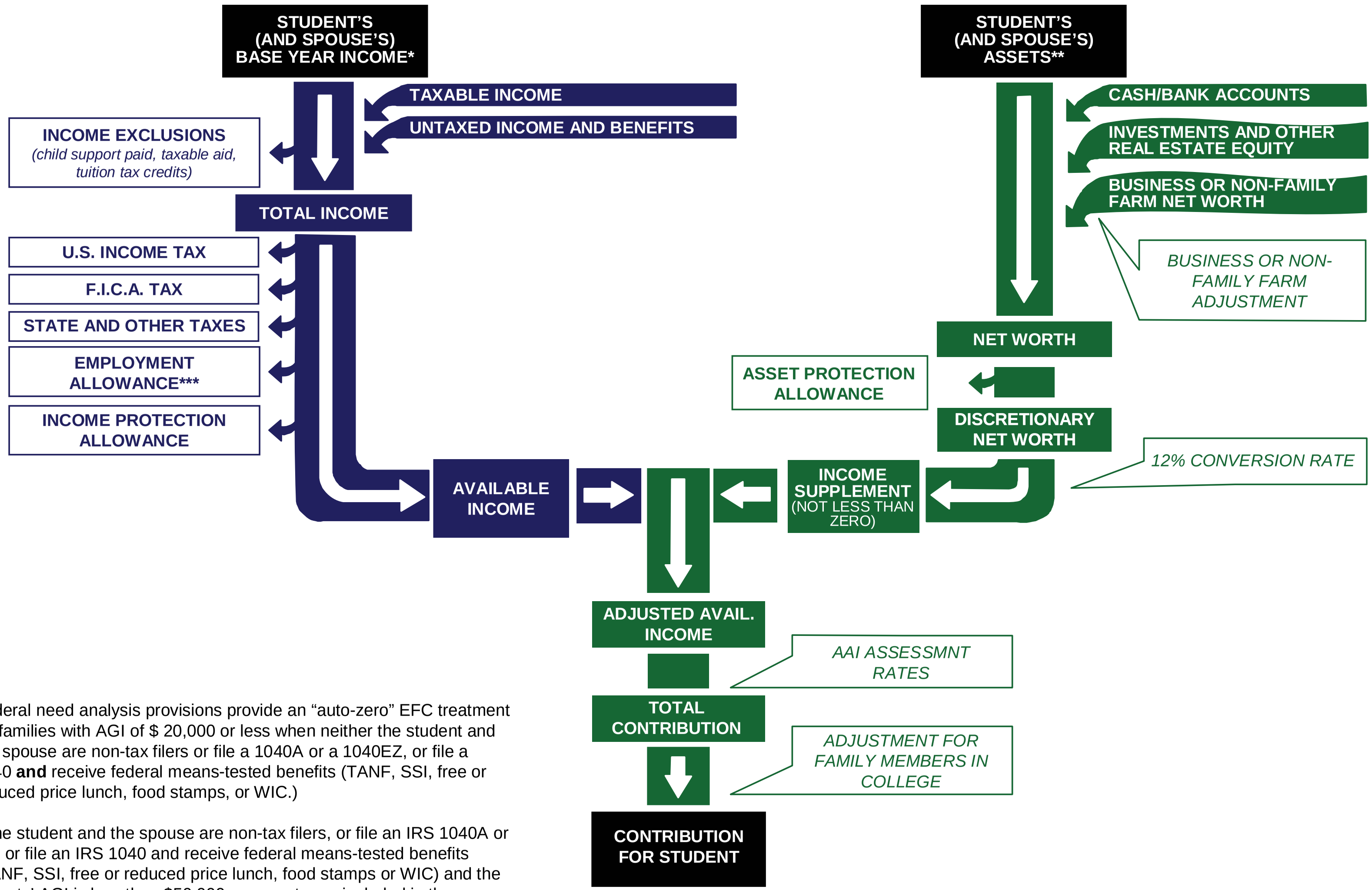
- Federal need analysis provisions provide an "auto-zero" EFC treatment for families with parental AGI of $ 20,000 or less if the parents are non-tax filers or file a 1040A or a 1040 EZ, or file a 1040 ***and*** receive federal means-tested benefits (TANF, SSI, free or reduced price lunch, food stamps or WIC.)

** If the parents are non-tax filers, or file an IRS 1040A or EZ, or file an IRS 1040 ***and*** receive federal means-tested benefits and the parents' AGI is less than $ 50,000 no assets are included in the methodology.

Federal Methodology (FM)

Independent Students

WITH dependents (other than a spouse)



* Federal need analysis provisions provide an "auto-zero" EFC treatment for families with AGI of $ 20,000 or less when neither the student and the spouse are non-tax filers or file a 1040A or a 1040EZ, or file a 1040 **and** receive federal means-tested benefits (TANF, SSI, free or reduced price lunch, food stamps, or WIC.)

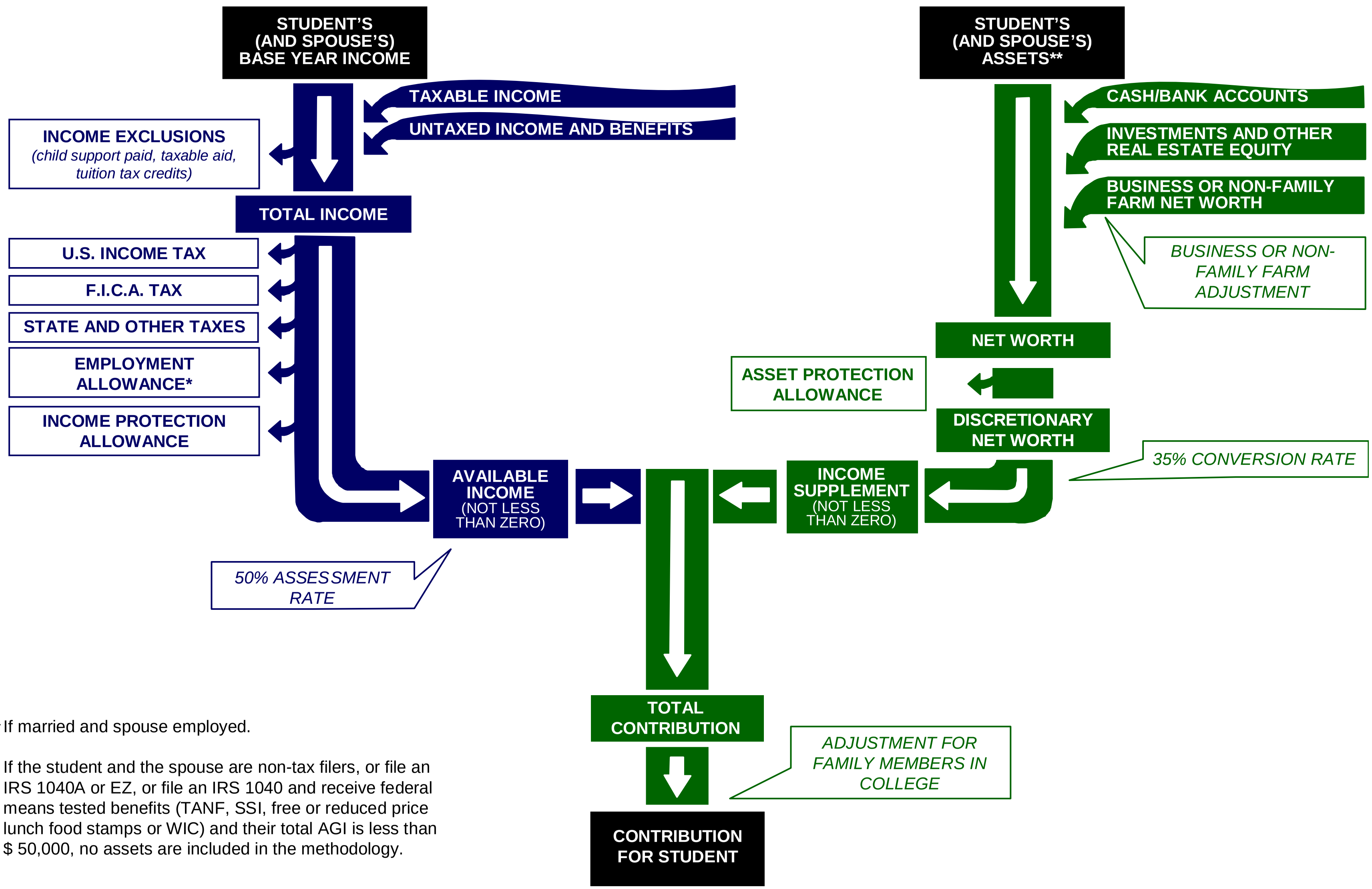
** If the student and the spouse are non-tax filers, or file an IRS 1040A or EZ, or file an IRS 1040 and receive federal means-tested benefits (TANF, SSI, free or reduced price lunch, food stamps or WIC) and the parents' AGI is less than $50,000, no assets are included in the methodology.

*** If married and spouse employed or if single parent.

Federal Methodology (FM)

Independent Students

with NO dependents (other than a spouse)



* If married and spouse employed.

** If the student and the spouse are non-tax filers, or file an IRS 1040A or EZ, or file an IRS 1040 and receive federal means tested benefits (TANF, SSI, free or reduced price lunch food stamps or WIC) and their total AGI is less than $ 50,000, no assets are included in the methodology.

2007-2008 Federal Methodology (FM) Computation Tables

TABLE 1. ALLOWANCES FOR STATE AND OTHER TAXES

State/Territory/Country of Residence	Parents of Dependent Students and Independent Students with Dependents Other than a Spouse — Total Income: $ 0-14,999	15,000- or more	Dependent Students and Independent w/ No Dependents — Total Income: Any amount
Alabama (AL)	3%	2%	2%
Alaska (AK)	2	1	0
American Samoa (AS)	3	2	3
Arizona (AZ)	4	3	2
Arkansas (AR)	4	3	3
California (CA)	7	6	4
Canada (CN)	3	2	3
Colorado (CO)	4	3	3
Connecticut (CT)	7	6	4
Delaware (DE)	4	3	3
District of Columbia (DC)	7	6	6
Federated States of Micronesia (FM)	3	2	3
Florida (FL)	2	1	0
Georgia (GA)	5	4	3
Guam (GU)	3	2	3
Hawaii (HI)	4	3	3
Idaho (ID)	5	4	3
Illinois (IL)	5	4	2
Indiana (IN)	4	3	2
Iowa (IA)	5	4	3
Kansas (KS)	5	4	3
Kentucky (KY)	5	4	4
Louisiana (LA)	2	1	2
Maine (ME)	6	5	3
Marshall Islands (MH)	3	2	3
Maryland (MD)	7	6	5
Massachusetts (MA)	6	5	4
Mexico (MX)	3	2	3
Michigan (MI)	5	4	3
Minnesota (MN)	6	5	4
Mississippi	3	2	2
Missouri (MO)	5	4	3
Montana (MT)	5	4	3
Nebraska (NE)	5	4	3
Nevada (NV)	2	1	1
New Hampshire (NH)	4	3	1
New Jersey (NJ)	8	7	4
New Mexico (NM)	4	3	3
New York (NY)	8	7	5
North Carolina (NC)	6	5	4
North Dakota (ND)	2	1	1
Northern Mariana Islands (MP)	3	2	3
Ohio (OH)	6	5	4
Oklahoma (OK)	4	3	3
Oregon (OR)	8	7	5
Palau (PW)	3	2	3
Pennsylvania (PA)	5	4	3
Puerto Rico (PR)	3	2	3
Rhode Island (RI)	7	6	4
South Carolina (SC)	5	4	3
South Dakota (SD)	1	0	0
Tennessee (TN)	1	0	0

TABLE 1., *continued*

State/Territory/Country of Residence	Parents of Dependent Students and Independent Students with Dependents Other than a Spouse — Total Income: $ 0-14,999	15,000- or more	Dependent Students and Independent w/ No Dependents — Total Income: Any amount
Texas (TX)	2%	1%	0%
Utah (UT)	5	4	3
Vermont (VT)	6	5	3
Virgin Islands (VI)	3	2	3
Virginia (VA)	5	4	3
Washington (WA)	2	1	0
West Virginia (WV)	3	2	2
Wisconsin (WI)	7	6	4
Wyoming (WY)	1	0	0
Not Reported (NR)	3	2	3

TABLE 2. ALLOWANCES AGAINST INCOME

FICA: Wages

$1 to $94,200......... 7.65% of income earned by each wage earner (maximum $7,206.30 per person)

$94,201 or more .... $7,206.30+ 1.45% of income earned above $94,200 by each wage earner

Employment allowance ....35% of lesser earned income to a maximum of $3,200 (single parent: 35% of earned income to a maximum of $3,200)

TABLE 3a. INCOME PROTECTION ALLOWANCE (IPA)

(Parents of Dependent Students)

Family Size* (including student)	Number in College**: 1	2	3	4	5
2	$ 15,000	$ 12,430			
3	18,680	16,130	$ 13,560		
4	23,070	20,510	17,950	$ 15,390	
5	27,220	24,660	22,100	19,540	$ 16,980
6	31,840	29,280	26,720	24,160	21,600

*For each additional family member, add $3,590.
**For each additional college student, subtract $2,550.

TABLE 3b. INCOME PROTECTION ALLOWANCE (IPA)

(Independent Students with Dependents Other Than A Spouse)

Family Size* (including student)	Number in College**: 1	2	3	4	5
2	$ 15,320	$ 12,700			
3	19,070	16,470	$ 13,850		
4	23,560	20,940	18,330	$ 15,710	
5	27,800	25,170	22,570	19,950	$ 17,340
6	32,510	29,890	27,290	24,660	22,060

*For each additional family member, add $3,670.
**For each additional college student, subtract $2,610.

2007-2008
Federal Methodology (FM)
Computation Tables

TABLE 3c. INCOME PROTECTION ALLOWANCE
(Dependent Students and Independent Students without Dependents)

Dependent Student	$3,000
Independent Student	6,050
Married Independent (student and spouse enrolled)	6,050
Married Independent (only student is enrolled)	9,700

TABLE 4. ADJUSTED NET WORTH OF A BUSINESS OR FARM

Net Worth (NW)	Adjusted Net Worth
Less than $1	$ 0
$ 1 to 105,000	$ 0 + 40% of NW
$105,001 to 320,000	$ 42,000 + 50% of NW over $105,000
$320,001 to 535,000	$149,500 + 60% of NW over $320,000
$535,001 or more	$278,500 + 100% of NW over $535,000

TABLE 5. EDUCATION SAVINGS AND ASSET PROTECTION ALLOWANCE
(Parents and Independent Students)

Age of older parent or student	*Couple/ Married*	*Unmarried/ Single*
25 or under	$ 0	$ 0
26	2,500	1,000
27	5,100	2,100
28	7,600	3,100
29	10,200	4,200
30	12,700	5,200
31	15,200	6,300
32	17,800	7,300
33	20,300	8,400
34	22,900	9,400
35	25,400	10,500
36	27,900	11,500
37	30,500	12,600
38	33,000	13,600
39	35,600	14,700
40	38,100	15,700
41	39,100	16,100
42	40,100	16,400
43	41,100	16,800
44	42,100	17,200
45	43,100	17,500
46	44,200	17,900
47	45,300	18,300
48	46,400	18,800
49	47,600	19,200
50	48,700	19,700
51	50,200	20,100
52	51,500	20,500
53	53,000	21,000
54	54,300	21,600
55	55,900	22,100
56	57,300	22,700
57	59,000	23,200
58	60,700	23,900
59	62,500	24,400
60	64,300	25,100
61	66,200	25,700
62	68,100	26,400
63	70,400	27,200
64	72,400	27,900
65 or over	74,800	28,700

TABLE 6. ASSET CONVERSION RATE
(Parents of Dependent Students/Independent Students with Dependents Other than a Spouse)

Asset conversion rate for Dependent Students and Independent Students without Dependents is 20%.

Asset conversion rate for Parents is 12%.

Asset conversion rate for Independent Students with Dependents is 7%.

TABLE 7. INCOME ASSESSMENT RATE
(Dependent Students/Independent Students without Dependents)

50% of available income

TABLE 8. CONTRIBUTION FROM ADJUSTED AVAILABLE INCOME (AAI)
(Parents of Dependent Students/Independent Students with Dependents Other than a Spouse)

Adjusted Available Income (AAI)	*Total Contributions from Income*
Less than $ -3,409	$ -750
$ -3,409 to 13,400	22% of AAI
$ 13,401 to 16,800	$ 2,948+ 25% of AAI over $ 13,400
$ 16,801 to 20,200	$ 3,798+ 29% of AAI over $ 16,800
$ 20,201 to 23,700	$ 4,784+ 34% of AAI over $ 20,200
$ 23,701 to 27,100	$ 5,974+ 40% of AAI over $ 23,700
$ 27,101 or more	$ 7,334+ 47% of AAI over $ 27,100

2007-2008 Federal Methodology (FM) Worksheet

Parent(s) of Dependent Student

Student's Name: **Social Security Number:**		
PARENTS' INCOME		
1. AGI/taxable income		$
2. Untaxed income & benefits	+	
3. Income exclusions (child support paid + education tax credits)	-	
4. Total income (sum of lines 1 and 2, minus line 3)	**=**	
ALLOWANCES		
5. U.S. income tax		
6. State and other taxes (% from Table 1 X line 4)	+	
7. F.I.C.A. (Table 2)	+	
8. Employment allowance (Table 2)	+	
9. Income protection allowance (Table 3a)	+	
10. Total allowances (sum of lines 5 - 9)	=	
11. Available income (line 4 minus line 10)	**=**	
PARENTS' ASSETS*		
12. Cash, savings, and checking accounts		
13. Other real estate/investment equity	+	
14. Adjusted business/farm equity (Table 4)**	+	
15. Net worth (sum of lines 12 - 14)	=	
16. Education savings and asset protection allowance (Table 5)	-	
17. Discretionary net worth (line 15 minus line 16)	=	
18. Conversion percentage	X	12%
19. Contribution from assets (line 17 X line 18; if simple needs test or line 17 is negative, enter $0)	=	
20. Adjusted available income (sum of line 11 and line 19)	**=**	
CONTRIBUTION* **		
21. Total contribution (calculate using line 20 and Table 8)	**=**	
22. Number of dependent children in college at least half time	÷	
23. Parents' contribution for student (line 21 divided by line 22; if negative, enter $0)	**=**	

* For parents who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits, no assets are included in the methodology if parents' AGI is less than $50,000.

** Business equity is excluded if business has fewer than 100 employees or FTE employees; family farms are excluded.

*** For parents who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits and whose AGI is less than $20,000, no contribution is expected.

2007-2008 Federal Methodology (FM) Worksheet

Dependent Student

Student's Name:	Social Security Number:	
STUDENT'S INCOME		
1. AGI/taxable income		$
2. Untaxed income & benefits	+	
3. Taxable student aid	-	
4. Total income (sum of lines 1 and 2, minus line 3)	**=**	
ALLOWANCES		
5. U.S. income tax		
6. State and other taxes (% from Table 1 X line 4)	+	
7. F.I.C.A. (Table 2)	+	
8. Income protection allowance (Table 3c)	+	3,000
9. Parents' negative available income offset (line 11 from parents' worksheet, if negative)	+	
10. Total allowances (sum of lines 5 - 9)	=	
11. Available income (line 4 minus line 10)	=	
12. Available income assessment rate	X	0.50
13. Contribution from income (line 11 X line 12; if negative, enter $0)	**=**	
STUDENT'S ASSETS*		
14. Cash, savings, and checking accounts		
15. Other real estate/investment equity	+	
16. Business/farm equity**	+	
17. Net worth (sum of lines 14 - 16)	=	
18. Asset assessment rate	X	0.20
19. Contribution from assets (line 17 X line 18; if simple needs test, enter $0)	**=**	
CONTRIBUTION***		
20. Total student contribution (sum of lines 13 and 19)	**=**	

* For parents who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits, no assets are included in the methodology if parents' AGI is less than $50,000.

** Business equity is excluded if business has fewer than 100 employees or FTE employees; family farms are excluded.

*** For parents who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits and whose AGI is less than $20,000, no contribution is expected.

2007-2008 Federal Methodology (FM) Worksheet

Independent Student With Dependents

Student's Name:		Social Security Number:
STUDENT'S (AND SPOUSE'S) INCOME		
1. AGI/taxable income		$
2. Untaxed income & benefits	+	
3. Income exclusions (child support paid + taxable student aid + education tax credits)	-	
4. Total income (sum of lines 1 and 2, minus line 3)	**=**	
ALLOWANCES		
5. U.S. income tax		
6. State and other taxes (% from Table 1 X line 4)	+	
7. F.I.C.A. (Table 2)	+	
8. Employment allowance (Table 2)	+	
9. Income protection allowance (Table 3b)	+	
10. Total allowances (sum of lines 5 - 9)	=	
11. Available income (line 4 minus line 10)	**=**	
STUDENT'S (AND SPOUSE'S) ASSETS*		
12. Cash, savings, and checking accounts		
13. Other real estate/investment equity	+	
14. Adjusted business/farm equity (Table 4)**	+	
15. Net worth (sum of lines 12 - 14)	=	
16. Education savings and asset protection allowance (Table 5)	-	
17. Discretionary net worth (line 15 minus line 16)	=	
18. Conversion percentage	X	7%
19. Contribution from assets (line 17 X line 18; if simple needs test or line 17 is negative, enter 0)	=	
20. Adjusted available income (sum of lines 11 and line 19)	**=**	
CONTRIBUTION* **		
21. Total contribution (calculate using line 20 and Table 8)	**=**	
22. Number of family members enrolled at least half time	÷	
23. Student contribution (line 21 divided by line 22; if negative, enter 0)	**=**	

* For students (and their spouse, if married) who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits, no assets are included in the methodology if the AGI is less than $50,000.

** Business equity is excluded if business has fewer than 100 employees or FTE employees; family farms are excluded.

*** For students (and their spouse, if married) who are not required to file or who are eligible to file an IRS 1040A or 1040EZ, or who are required to file a 1040 form but also receive means tested federal benefits and whose AGI is less than $20,000, no contribution is expected.

CollegeBoard

2007-2008 Federal Methodology (FM) Worksheet

Independent Student Without Dependents

Student's Name: **Social Security Number:**		
STUDENT'S INCOME		
1. AGI/taxable income		$
2. Untaxed income & benefits	+	
3. Income exclusions (child support paid + taxable student aid + education tax credits)	-	
4. Total income (sum of lines 1 and 2, minus line 3)	=	
ALLOWANCES		
5. U.S. income tax		
6. State and other taxes (% from Table 1 X line 4)	+	
7. F.I.C.A. (Table 2)	+	
8. Employment allowance (Table 2)	+	
9. Income protection allowance (Table 3c)	+	
10. Total allowances (sum of lines 5 - 9)	=	
11. Available income (line 4 minus line 10)	=	
12. Available income assessment rate	X	0.50
13. Student's contribution from income (line 11 X line 12)	=	
STUDENT'S (AND SPOUSE'S) ASSETS*		
14. Cash, savings, and checking accounts		
15. Other real estate/investment equity	+	
16. Adjusted business/farm equity (Table 4)**	+	
17. Net worth (sum of lines 14 - 16)	=	
18. Asset protection allowance (Table 5)	-	
19. Discretionary net worth (line 17 minus line 18)	=	
20. Asset assessment rate	X	0.20
21. Contribution from assets (line 19 X line 20; if simple needs test or line 19 is negative, enter 0)	=	
CONTRIBUTION* **		
22. Total contribution (sum of line 13 and line 21)	=	
23. Number in college	÷	
24. Student contribution (line 22 divided by line 23; if negative, enter 0)	=	

Appendix VI

—Glossary of Terms—

568 Presidents' Group	A group of mostly private school presidents who believed that need based aid continues to be the most appropriate manner in which to distribute institutional financial aid resources. This group developed the Consensus Approach to Need Analysis.
AGI	Adjusted Gross Income of the amount listed on line 34 of the IRS 1040 form.
Alternative or Commercial Loans	Banks, some state agencies, and some educational institutions offer loans through which credit worthy parents may borrow up to the annual cost of education less any financial aid their student receives.
Award letter	A letter from a college or university that details the amount and type of aid that will be available to the student.
College Board	America's oldest educational organization works to support students as they make the transition from secondary school to college.
College Scholarship Service(CSS)	As the financial aid "arm" of The College Board, CSS sponsors the PROFILE.
Consensus Approach to Need Analysis	Developed by a group of some thirty institutions, the Consensus Approach is designed to return consistency to the determination of parent ability to pay. Also known as the 568 Consensus Approach.
Cost of Attendance	Student cost of attendance budgets generally include tuition and fees, room, and board, books, miscellaneous expenses and travel.
EFC—Expected Family Contribution	Families submitting the Free Application for Federal Student Aid will receive a Student Aid Report from the Department of Education. The EFC is the family contribution used to determine eligibility for federal student aid.

FAFSA	All applicants for federal Title IV resources must complete this document and submit it directly to the Department of Education. These forms will be processed and distributed to all institutions listed by the applicant.
Federal Methodology (FM)	A streamlined "need analysis" methodology for determining eligibility for federal Title IV student aid. FM was designed by Congress and is updated periodically by the Department of Education.
Federal Perkins Loan	A low interest payment (5%) deferred payment federal loan. Interest is subsidized while the student remains in school.
Financial Aid Package	When meeting a student's need, institutions "package" student aid which could include different amounts of campus employment, student loans, grants and/or scholarships.
Financial Need	If the family contribution is less than the cost of attendance, the student is said to have demonstrated financial need.
Grant funds	Provided by a variety of sources including federal and state governments, private organizations, and colleges and universities, these are essentially free funds that do not have to be earned or repaid.
Independent 529 Program	Also know as the Tuition Plan, Inc., this prepaid college savings program offers discounted tuitions certificates. Over 225 private institutions participate in this national college savings program.
Institutional Aid Applications	Some colleges and universities require institutionally developed aid application designed to further supplement standard national forms such as the FAFSA and the PROFILE.
Institutional Methodology	The traditional need analysis methodology. Developed by the educational community, this methodology is generally used to determine eligibility for institutional or private funds.
Local or Outside Scholarships	Scholarships available in the local community. These are sometimes provided by churches or synagogues, civic organizations, local businesses, employers, and national associations.

Merit Scholarships	Institutional grants offered to students because of special academic achievement or special talent in art, music or some other area.
Need Analysis	The process through the Department of Education or a college or university determines eligibility for need based aid.
Need Blind Admission	Institutions that admit students without considering their eligibility for financial aid.
Parent Contribution	The need analysis determined amount the parent(s) are expected to contribute towards their child's annual cost of attendance.
Parent Loan to Undergraduate Students (PLUS)	Parents of undergraduate students without recent credit problems may borrow the annual cost of attendance less any financial aid their student is receiving. Repayment begins six weeks after funds are disbursed.
Pell Grants	Federal grants made available to low income students as annually determined by filing the FAFSA.
PROFILE	The aid application generally required for institutional or private student aid resources. Forms will be processed and distributed to all institutions listed by the applicant.
Proprietary Institution	An educational institution that is operated for profit.
ROTC Programs	Reserve Officer Training Corps programs are sponsored by the Air Force, Army, Navy, and Marine Corps. Participants receive grants to cover some or all tuition, fees, and a monthly stipend. Participants are generally required to spend some time on activity duty.
Scholarship Search Companies	Many companies offer to help students locate scholarship support, generally for a fee. Information on virtually any scholarship support for which a student might be eligible is available free and be located with a bit or research in the local library or guidance counselor's office.
Self Help	That portion of a need based aid award generally made up of campus employment and student loans.
SEOG Grants	Federal grants awarded by institutions to low income students as determined by filing the FAFSA.

Stafford Student Loans—Subsidized	Students who demonstrate need by filing the FAFSA, may borrow interest free Stafford funds. Student may borrow $2,500 as freshmen, $3,500 as sophomores, and $5,500 as juniors and seniors and fifth year undergraduates up to a total limit of $23,000. Borrowers have up to ten years, beginning six months after graduation, to repay their loans.
Stafford Student Loans—Unsubsidized	Student failing to qualify for the interest subsidy may borrow, without benefit of the interest subsidy, from the Stafford Loan Program. Other aspects of the program are the same, regardless of a borrower's eligibility for the interest subsidy.
Student Contribution	The family contribution generally includes a student expectation based on consideration of the student's assets and any continuing income he or she may receive. This expectation almost always includes a summer saving expectation that requires a student to work during the summer and use some of the earnings to support educational expenses during the following academic year.
Taxpayer Relief Act of 1997	This act of Congress which among other provisions authorized 529 Savings Accounts.

Appendix VII
—UK Policies—

The affordability of college in the UK has been a traditional benefit provided for all UK students able to gain admission. A basic policy is founded on the principle that the brightest students should be able to attend, regardless of their financial circumstances. In this respect, the UK and the US have similar policy goals. However, the UK has decided to expand access to more individuals and intends to continue to support its full affordability for all who can be admitted. Sustaining this policy with adequate resources, especially in reference to grant support, has been a serious problem in the US and has impacted equal opportunity, retention, and choice.

UK Tuition Fees

The cost related to instruction in the UK are referred to as "tuition fees" and were increased for the 2007/08 academic year for all new students in most institutions of higher education to £3,000. The plan for the future would have these tuition fees increase annually with inflation. However, there is no need to pay any part of the tuition fees until after graduation, although the option to pay this fee is available to any one who chooses to pay it. Most students take advantage of a loan from The Student Loan Company to cover these fees. Repayment of this loan does not begin until after graduation and only if you are earning more than £15,000 (2006 values).

All UK students will be entitled to borrow this Student Loan which is subsidized while they remain enrolled. The student can apply for the full amount of the institution's tuition fees. Payment of the loan is made directly on the student's behalf by The Student Loan Company (SLC). This loan is not based on family income. Monthly payments will be automatically deducted by a UK employer when repayment begins and the amount is based upon annual earnings. All European Union students are also eligible to apply for this tuition fees loan.

Maintenance

The cost on other expenses related to college attendance, such as room and board, is referred to as "maintenance". Any student living away from home may seek additional assistance from The Student Loan for up to £4,405 for the 2006/07 academic year. All students are eligible for 75 percent of this loan regardless of their family income. The remaining 25 percent is means-tested based upon what is referred to as "residual household income" … an amount similar to "net taxable income" in the US tax system, but with notable differences. If the student receives a "Maintenance Grant", this will be a factor in limiting the amount of loan eligibility.

Local Education Authority

Prospective students work with a Local Education Authority, often referred to as the "LA". The LA secures the student's household information and determines eligibility for various amounts of grant and loan assistance and then advises the student's institution.

Eligibility

Eligibility for grant support is assessed in accordance to income. If the annual household residual income is below £17,500, the student is entitled to the full amount of the "Maintenance Grant" which is £2,700 for 2006/07. Incomes between £17,500 and £37,425 may provide partial grants.

Access to Learning Fund

There is an additional resource for students in need of extra help to meet living expenses. This support may provide up to £3,500 in exceptional circumstances and is only available after the student has first exhausted the maximum student loan entitlement.

Bursaries

Each institution of higher education may also offer "bursaries". These grants are also based on residual household income as provided by the student's LA and are intended to help meet maintenance costs. They may be sufficient, in combination with the Maintenance Grant, to cover basic living expenses, thus reducing the need for additional help from The Student Loan.

College Funds

Each institution may also offer certain financial awards and funds for a variety of reasons, including academic excellence, special projects, purchase of books, and hardship.

Additional Information

Additional information may be found at www.dfes.gov.uk/studentsupport.