Federal Need-Based Aid on the Decline as States, Institutions Fill Gap

By Hunter B. Martin, NASFAA Staff Reporter

By some indications, the issue of college affordability is improving. The annual growth in sticker prices for tuition has slowed in both public and private nonprofit colleges, student borrowing has declined for the eighth year in a row, and the average grant aid awarded per student has been on the rise. But according to two annual reports from the College Board that track trends in student aid and college pricing, unresolved issues remain.

The annual reports — "Trends in Student Aid" and "Trends in College Pricing," released today — provide the necessary context to see the bigger picture of college affordability and access. Notably, the trends in student aid report found the share of federal aid that is need-based has declined, from 91% in 1988-98 to 33% in 2018-19.

"This trend in federal student aid is noteworthy despite the fact that much of the non-need-based aid relieves significant financial strain on students and families," the trends in student aid report said.

While the share of federal aid that is need-based has declined — in part due to the introduction of things like unsubsidized federal loans, education tax credits, and the Parent and Grad PLUS Loan Programs — many states have shifted to a need-based focus. In 2017-18, more than half of states considered financial need in allocating at least 95% of their grant aid, and another 13 states considered financial need for less than half of their grant aid.

While the majority of state grant aid was need-based in 2018-19, approximately a quarter from 2011-12 onward has been merit-based. Institutional grant aid has a similar share of need-based versus merit-based grant aid, the trends in student aid report found.

"A grant based on academic achievement helps a student from a low-income family as much as a need-based grant of the same amount," the trends in student aid report said.

To further provide financial support to students, institutions also distribute aid on the basis of financial need. However, in 2015-16 78% of full-time students at public four-year institutions still had financial aid need — averaging $14,400 — after all types of grant aid had been applied, according to the trends in student aid report.

Even as the growth in tuition prices has slowed, the average net price that students and families pay has increased more in the last decade than the one before, while increases in grant aid have failed to keep pace, according to the college pricing report. Things like the cost of room and board, textbooks, and other supplies can present obstacles for some students.

"Even those who receive grant aid sufficient to cover tuition and fee charges may struggle to meet living expenses," the trends in college pricing report said.

Typically, full-time students at public two-year colleges received more than enough grant aid to cover tuition and fees, but the leftover amount — calculated at $400 for 2019-20 — to put toward other expenses has steadily declined since 2010-11.

The average grant aid awards plus tax benefits helps many students keep net prices lower. However, the difference between the sticker price and net price of college is significant when compared to the slowed growth in income for certain families.

The dollar increase in average income for families in the top 5% of the average income distribution between 1988 and 2018 was more than twice as large as the increase for those in the middle quintile of the income distribution, and nine times as large as the increase for those in the bottom 5% of the distribution.

"Given this reality, understanding how families pay for college requires separate analyses for families in different financial circumstances," the trends in college pricing report said.

The wealth gap is even greater when race and ethnicity are taken into consideration. According to the pricing report, the median income of black and Hispanic families were 59% and 62%, respectively, of the median income of white families, with the median income of Asian families being 13% higher than the median income of white families in 2018.

For some groups, the growth in published tuition and fees outpaced the average increases in family income. For example, the increase in average published tuition and fees for in-state students at public four-year institutions over the last three decades was just under $6,900, after adjusting for inflation. Meanwhile, the increases in average family income for the lowest two income quintiles were $2,170 and $6,820 respectively.

"These facts highlight the reality that family background has a significant impact on the challenges students face financing a college education," the trends in college pricing report said.

Furthermore, financial struggles plague undergraduate students at four-year schools who need extra time to graduate. Low-income, black, and Hispanic students are the most likely to take longer than other students to finish their bachelor's degrees when compared to white or Asian students, explained Sandy Baum, a senior fellow in the Income and Benefits Policy Center at the Urban Institute and co-author of the College Board's reports.

"Students from top half of income distribution have a better shot at finishing their degrees on time," she added.

The longer it takes to finish a college degree, the higher the net cost. So while college tuition and fees prices have risen more slowly in recent years and borrower rates are on the decline, household incomes have also stagnated. This has increased the inequality in the wealth gap and left many students struggling to repay student loans, according to the college pricing report.

"The patterns [in this report] do not by any means signal the end of the problems too many students face with debt — particularly those who do not complete their programs, African American students, and those who attend for-profit institutions. But they are nonetheless encouraging," the trends in student aid report said.

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