BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION,
INFORMATION OR DISCUSSION

TOPIC: Issues Affecting USM Financial Aid Decisions and Strategies for Using Aid to Increase Degree Completion

COMMITTEE: Committee of the Whole

DATE OF COMMITTEE MEETING: October 3, 2013

SUMMARY: Financial aid effectively targeted to key student populations and at levels sufficient to incentivize greater student retention and graduation within these populations could become one of the System's most effective tools for increasing undergraduate degree completion in support of the State's 55% completion goal. This session will examine research on the USM's financial aid programs, particularly its institutional aid programs, and their impact. Issues examined in the session will include how institutional aid is currently divided up by student population (first-time freshmen versus transfers) and by aid type (merit versus need), as well as the degree to which receiving institutional aid correlates with higher graduation rates for students. Strategies the USM and its institutions can more effectively use to help boost degree attainment in support of the State's 55% completion goal and the degree production goal set forth in the USM's 2020 strategic plan are also explored. Finally, as the tenth anniversary of the Board's 2004 Task Force on Financial Aid approaches, information presented at the session is intended to assist the Board in identifying and framing any additional financial aid-related policy studies or discussions to be held in the coming year.

ALTERNATIVE(S): This item is for information purposes.

FISCAL IMPACT: This item is for information purposes.

CHANCELLOR'S RECOMMENDATION: This item is for information purposes.

COMMITTEE RECOMMENDATION: DATE:

BOARD ACTION: DATE:

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Issues Affecting USM's Financial Aid Decisions and Strategies for Maximizing Aid Impact In Support of the State's 55% Degree Completion Goal

Context of the Paper

This paper has two goals. The first, which ties directly into the budget aspects of the retreat, is to generate a discussion on how the USM and its institutions can leverage available financial aid resources, particularly institutional aid, to promote greater levels of undergraduate degree attainment. To help frame discussion under this goal, this paper looks at three key questions: 1) To what extent does institutional aid contribute to degree attainment? 2) Where can the USM get the most "bang for its financial aid buck"? and 3) Going forward, what need-based aid strategies should the USM employ to maximize the likelihood of students achieving a degree? The second, and somewhat longer-term, goal of the paper is to provide background information to the Board on the USM's financial aid programs, particularly the institutional need-based aid programs, and their effectiveness to date as the Board prepares for a general review of the System's financial aid policies and practices. To this end the questions set out above, along with the answers suggested by the data, are designed to aid the Board in framing an agenda for more in-depth financial aid discussions as they are planned and rolled out over the coming year.

Before turning to the three questions posed above, however, it may be useful to first look at where the USM stands with its degree attainment goal and the challenges we see in succeeding under it.

Part I: The 55% Degree Attainment Goal and USM's Progress to Date

In its 2020 strategic plan the USM established an ambitious goal of producing at least 28,000 undergraduate degrees annually by 2020. That is the number of undergraduate degrees the USM estimates its institutions need to produce if the System is going to do its part to help the state achieve its 55% degree attainment goal. At the time this target was set, USM institutions were producing just over 19,000 degrees – a level of output that had increased just 25%, or 3,800 additional degrees, over the prior ten years. In comparison, the 2020 plan called on the USM institutions to ramp up degree production by at least 45% (9,000-10,000 additional graduates) by the conclusion of the 2010-2020 period, a level of growth that at the time was acknowledged to be a huge stretch for our institutions but one that was also critical to the state's ability to achieve it 55% degree goal.

As of FY 13, USM institutions are now awarding approximately 23,200 undergraduate degrees a year, an increase of almost 4,000 degrees within just four years. This level of growth places the USM well ahead of where it expected to be when the plan was adopted three years ago (the 2013 benchmark contained in the subsequent institutional implementation plans was approximately 21,000 degrees by 2013) and means that the USM has clearly put itself in a position to achieve its 2020 goal...but only if it can maintain the current pace of degree growth.

Unfortunately, the USM faces a series of challenges that will make it hard to maintain the present level of degree growth—and, indeed, could mean some fall off in coming years. The core of the problem lies in the size and composition of the incoming classes over the last four years and has three distinct elements: low numbers of new freshmen coming into our institutions, an over-reliance on UMUC for transfer enrollment, and an overall lack of enrollment growth.

With regard to new freshmen, the number of first-time full-time freshmen admitted to USM institutions peeked in fall 2008, the last year in which the USM received resources under the Enrollment Funding Initiative (EFI). Since then the number of new freshmen admitted has fallen each year until now, when it stands at the 2005 level. Since the USM's recent growth in graduates has been fueled, in large part, by the growth in enrollment that occurred during the EFI period, and that period ended in fiscal 2009, we expect FY 2013 to be the last year in which the benefits of EFI are significantly felt in the degree production numbers.

With regard to the second impact mentioned, transfers, although transfer classes have grown as freshmen classes have shrunk, many of these students have chosen to attend UMUC. Though this is not in itself a problem for long-term completion, transfer students at UMUC generally take as much or more time than first-time freshmen to graduate. Thus these students are unlikely to graduate in time to buoy the number of graduates we are producing over the next few years.

Finally, even ignoring the issues noted above, the total number of students attending System institutions remains too small to meet the USM's completion goals. That total number has stood at 30,000-33,000 since 2008. Efficiencies have allowed us to improve the ratio of incoming students to students graduating each year from around 63% four years ago to nearly 70% in the most recent year. To reach our completion goal at present levels, however, we would need to achieve a minimum ratio of 85% of the new enrollment. This would require all institutions to achieve an enrollment-to-degree conversion rate equivalent to that of UMCP.

Given these challenges, and absent any new initiative to counter their impact, the USM expects the number of undergraduate degrees awarded annually to level off within the next two years, with some danger that it could begin to decline. As a consequence the USM has begun investigating other resources and strategies that the System and its institutions could use to "squeeze" greater rates of degree completion from a student population that is unlikely to significantly expand in the near term. Research has suggested that one of the most effective tools available to the System to leverage greater degree attainment is financial aid. The remainder of this paper will look at the status of USM's financial aid programs, particularly its institutional aid programs, and whether there are institutional aid strategies that can contribute to greater degree growth if appropriately targeted or tailored.

Part II: USM Financial Aid Analysis: Issues and Strategies for Maximizing Greater Degree Growth Using Institutional Aid Programs

1) To what extent does institutional aid contribute to degree attainment? And how can USM institutions be more effective in distributing institutional aid?

There are two types of institutional aid—need-based and merit/performance (which includes athletic aid). Research has shown that both types are effective in improving graduation rates. The USM's own analyses show that 67% of new freshmen receiving institutional aid graduated in six-years, while 59% of transfers receiving some type of institutional aid graduated in four-years. In comparison, graduation rates for new freshmen and transfers who did not receive aid were (53%) and (33%), respectively. The issue is not whether institutional aid is a useful tool in boosting degree attainment – the research shows it is – but rather how institutional should aid be balanced among different types of student (freshmen vs. transfer), and within those groups, on what basis should it be awarded (merit/need).

Where does most institutional aid go and is there a difference in the relative payoff?

USM institutions have traditionally focused the vast majority of their institutional aid on new freshmen (versus new transfer students). In the fall 2004 cohort, for instance, USM institutions expended a cumulative total of $57M on the 11,804 new freshmen entering our institutions. By comparison, the 8,974 new transfers from Maryland community colleges who entered a USM institution in fiscal year 2007 had a total of just $9.8M in institutional aid expended on them. Put another way, we spent over $4 per new freshmen on aid versus just $1 per Maryland community college transfer in order to boost our likelihood of success (i.e., graduating on time) by 8% points. Over time, the cumulative amount spent on new freshmen is $10,842 (spent over six years) versus $3,191 spent on Maryland community college transfers (over four years). While the payoff in terms of student success is greater for freshmen, whether it, alone, is enough to justify the imbalance is worthy of debate.

Merit versus Need?

While the contrast between the amount of institutional aid going to new freshmen versus the amount going to transfers is stark on its face, the break down becomes even more informative when we look at it in terms of merit versus need. For new freshmen, 72% of all institutional aid is distributed as merit/athletic awards ($41.2M of the $57M). In comparison, for transfers merit/athletic makes up just 37% of the institutional aid received ($3.6M of $9.8M). Leaving out athletics, 2,649 new freshmen merit winners split $34.3M with a graduation rate of 76% (above USM average). For transfers, 1,351 merit winners split $2.9M and scored a 61% graduation rate (also above USM transfer average). As these totals suggest, USM institutions use merit money to attract the kinds of students who they know are going to succeed. But because these students are highly sought after, institutions have to purchase their attendance through merit aid. Thus merit, to many institutions, is a necessary cost if they are going to build or maintain their academic reputations and keep themselves competitive. They have little flexibility in using these dollars.

In comparison, need-based aid represents the only pot of discretionary institutional aid funds that can be directed towards retention purposes, provided the student has demonstrated need (i.e., as long as the student has demonstrable need there are no other strings attached). As such, institutions have more flexibility in their use of need-based aid and are better able to focus the aid on the areas where there is the greatest need and/or where it will have the greatest impact. USM's analysis of institutional need-based aid distributed to freshmen shows it took cumulative awards of at least $5,000 to "move the needle" on graduation rates for freshmen (i.e., achieve rates above the cohort average of 77%-90%). Any award amount below the $5,000 level appears to have little to no impact in boosting the graduation rate for new freshmen above the cohort average. <u>In contrast, the analysis also suggested that ANY</u>

need-based award contributes to improved transfer graduations rates above cohort averages (59%-70%). The take away here should be that need-based aid, distributed in sufficient quantity and over time, can improve graduation rates whether it is focused on freshmen or transfers. However, the scale of resources necessary to "move the meter" toward degree completion, measured at the per student level, differs for freshmen and transfers. While any amount of need-based aid should boost transfers success (and the data suggest a minimum of $1,000 per year is the amount of need-based aid that will improve graduation success presumably by retaining the student), it takes more dollars distributed over a longer period to impact freshmen success.

What impact do student loans have on graduation success?

Student loans are, and will continue to be, a critical tool for helping USM students attend and complete college. As was noted in the System's recent financial aid report for the period 2007-20011, the amount of loans going to USM students has been growing at a significant rate both because of the increase in the numbers of students eligible to borrow and the sums being borrowed. At the same time, however, in line with Board policy, low-income students appear to be taking on less debt than their higher-income peers, and transfers accrue lower debts balances while at USM (albeit enrolled for fewer years) than do freshmen.

In terms of educational outcomes, USM's analysis of data indicate that the impact of loans is similar to that of the other sources of financial aid—USM students who take out loans graduate at higher rates than those who receive no financial aid. However, the data also show that for those students whose entire financial aid package was based on loans (i.e., they were given no other sources of aid), their graduation rates were not as strong. For instance, among the 8,974 Maryland community college students who transferred to a USM institution in 2007, 1,076 of the cohort had student loans only and their graduation rate was 46% (slightly less than the USM average). Similarly, of the 11,804 new freshmen who entered USM institutions in fall 2004, 1,427 had student loans only and their graduation rate was 53% (again less than the USM average). The impact for these students could be that over half of them exhaust their financial aid resources before completing a degree.

Question 2: Where can the USM get the most bang for the financial aid buck?

To help answer the above question, it is important to recognize that the goal of financial aid is to meet the full cost of attendance (COA) for a student through a combination of his/her family resources and financial aid, whether need-based, merit-based, or some combination of the two. The cost of attendance is defined as the estimated full and reasonable cost of completing a year as a full-time student, and includes tuition and fees, books and supplies, room and board, personal costs and transportation. A student's need is calculated by subtracting the amount of money he/she is estimated to be able to contribute to his/her education (the expected family contribution or EFC) from the stated cost of attendance. So financial need is really a sliding scale that tries to balance the relative costs of an institution (including the area in which it is located) and the resources available to the students seeking to attend that institution. Table 1 below shows the impact that the differing COA and EFC estimates have on the approximate need per student at each USM institution (note these are the median estimates and only for students who filled out a FAFSA).

As Table 1 suggests, thanks to a combination of lower cost of attendance and more affluent student populations some USM institutions have a distinct advantage in being able to stretch available aid resources farther and get the best return on investment in terms of degree production. Operationally, $40,000 could cover the entire level of need for almost four students at some USM institutions while covering just one or two students at others. While issues of equity and access must never be ignored in USM planning, issues associated with COA should also be taken into account, in conjunction with enrollment policies and practices (i.e., designated growth institutions), if the USM is to fully leverage current and future financial aid resources in order to promote greater degree attainment.

Table 1. FY 2012 Undergraduate Median COA, Median EFC, Median Need by Institution

Fice	COA Median	EFC Median	Approximate Need per Student
BSU	$ 18,926	$ 1,700	$ 17,226
CSU	$ 15,921	$ -	$ 15,921
FSU	$ 18,866	$ 5,468	$ 13,398
SU	$ 20,018	$ 9,793	$ 10,226
TU	$ 22,278	$ 7,988	$ 14,290
UB	$ 39,063	$ 1,396	$ 37,667
UMCP	$ 22,433	$ 9,100	$ 13,333
UMB	$ 32,488	$ 3,170	$ 29,318
UMBC	$ 23,676	$ 4,648	$ 19,028
UMES	$ 19,740	$ 150	$ 19,590
UMUC	$ 26,285	$ 1,277	$ 25,008
USM	$ 22,278	$ 4,074	$ 18,204

*Note: UB's median cost of attendance (COA) includes costs associated with summer school. If adjusted to remove summer, UB's FY 12 median COA falls to $29,900.

A second point that also deserves consideration is the following: institutions that appear to be bargains for the state (meaning low state support costs) may not be bargains for students attending without financial aid. UMUC, for instance, which is a prime example of a low state support/high cost operational model, serves a very low-income population, according to the EFC of students who applied for aid, but also supplies little need-based aid. The result, as Table 1 shows, is that UMUC students have the third highest level of need per student, just below that of UMB and UB and more than double that of Salisbury.

The import of all this is to suggest that as the USM seeks new ways to boost enrollment and degree completion in support of its strategic plan and the state's 55% goal, a variety of factors must be considered, including:

- The institutional cost of attendance and average level of student need associated with an institution, particularly when growth at a particular institution or set of institutions is being proposed.
- The cumulative cost to students who attend on a part-time basis an institution having a high COA and lower EFC (for example UMUC at $26K versus Frostburg at $19K).
- And finally, whether the fact that some costs can be avoided (e.g., housing) and others cannot (tuition and fees) may increase the need for education opportunities that are closer to home, such as regional centers.

3. Going forward, what strategies should the USM seek to implement to help achieve its 55% degree attainment goal (or, How much will it cost to add 4,000 degrees)?

Given what we know about the degree attainment of cohorts (freshmen and transfer) by institutions, the level of student need by institution, the cost of attendance, and the minimum levels of need-based aid required to effectively retain students, we can project that 6,000 new students (transfer or freshmen) supported by at least $1,000 per year – properly and effectively targeted – should yield up to 4,000 degrees within 6 years for freshmen or within 4 years for transfers (all other factors remaining the same and requisite support services being in place). The minimum total cost in financial aid should be about $6M per year ($24M-$36M to fully sustain an increase of 6,000 student cohorts per year at only $1,000 in need-based awards per year). A harder question then becomes more how to "properly and effectively target" those additional dollars. The following discussion offers some potential strategies that can be explored by the System and the Board's Education Policy Committee as it tackles financial aid over the coming year.

1. Focus the new money on those students <u>without</u> institutional aid or who are being missed by current institutional aid distribution practices. If institutional aid increases to campuses are allocated proportionately among need-based aid and merit aid, as has been the practice in the past, we are likely to continue to see a small, long-term reallocation toward need (as of FY 2011 need-based aid was 38% compared to 34% in FY 2007). However, our data suggest that need-based aid is more essential as it can be more easily focused on students on the brink.

2. A second strategy is to focus new resources on near completers. When we look at seniors on USM campuses, we know that about 88% will graduate at some point—57% within 4 years; another 21% in 5 years; an additional 6% in 6 years; and another 4% thereafter. <u>However, 12% do not complete</u> (roughly 4,000 students with 90 credits). Based on the FY 13 senior class of 33,787 students, that 12% could amount up to an additional 4,000 degrees. Using the new money to entice near completers back could help to cut down on this 12% attrition. The estimated minimum total cost in financial aid would be $4M (minimum $1,000 grant per non-completer). This may be the closest thing we can get to a one-award-for-one-degree outcome.

3. Finally a third strategy is to focus new resources on students who receive loans only. We know from the data that the graduation rate of need-based institutional aid recipients is about 15-25% higher than for students with loans only. Thus, of the 2,400 students identified as only receiving loans, it is possible that 360 to 600 more degrees could be generated from decreasing the student loan burden for these students. The minimum total cost here would be about $2.4M in financial aid per year split between the new freshmen cohort and new transfers cohort ($10M to fully sustain the effort at $1,000 need-based grant per loan-only recipient).

Conclusion and Next Steps

For a system of higher education, financial aid appears to offer one of the most effective tools available to “move the needle” on college completion. Assuming key cost factors remain the same and necessary support systems are in place, the USM estimates that an additional $6-10 million dollars per year in need-based financial aid properly targeted could help increase the System’s baccalaureate output by up to 4,000 additional degrees over the next 4-6 years. The above strategies suggest some preliminary thoughts on how additional financial aid dollars could be targeted. However, additional research, testing, and discussion needs to be done. We propose that as the Board plans its agenda for the coming year, which is expected to include an ongoing review of USM financial aid policies and programs and their impact, the USM Office will work with the Board and campus leadership to explore and test various options and strategies for not just enhancing the total amount of financial aid dollars available to the USM and its institutions but also targeting those dollars so as to maximize their effect on degree completion.