Leveraging Financial Aid Programs to Increase Student Recruitment and Retention

Custom Research Brief

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I. Research Methodology

**Project Challenge** Leaders at a member institution approached the Council with the following questions:

- What funding sources are available for financial aid distribution?
- What restrictions or regulations on funding sources do administrators face? How do these restrictions affect the way administrators distribute financial aid?
- How do administrators use financial aid to increase student enrollment and retention?
- What types of financial aid are available to out-of-state and international students?
- What processes or strategies have administrators used to develop a financial aid model?
- How effectively has a financial aid model allowed administrators to achieve the institution’s tuition targets?
- How have retention and recruitment rates for out-of-state and international students changed because of a financial aid model?

**Project Sources** The Council consulted the following sources for this report:

- Education Advisory Board’s internal and online (www.educationadvisoryboard.com) research libraries
- National Center for Education Statistics [NCES] (http://nces.ed.gov/)
- Institutional Web sites

**Research Parameters** The Council interviewed financial aid directors at public institutions.

_A Guide to the Institutions Profiled in this Brief_

<table>
<thead>
<tr>
<th>Institution</th>
<th>Location</th>
<th>Type</th>
<th>Approximate Enrollment (Total/Undergraduate)</th>
<th>Ratio of In-state, Out-of-state, and International Students</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>University A</td>
<td>Midwest</td>
<td>Public</td>
<td>7,100 / 6,200</td>
<td>73 percent in-state 23 percent out-of-state 0 percent international</td>
<td>Master’s Colleges and Universities (larger programs)</td>
</tr>
<tr>
<td>University B</td>
<td>Midwest</td>
<td>Public</td>
<td>18,700 / 16,700</td>
<td>88 percent in-state 12 percent out-of-state 0 percent international</td>
<td>Master’s Colleges and Universities (larger programs)</td>
</tr>
<tr>
<td>University C</td>
<td>Midwest</td>
<td>Public</td>
<td>6,800 / 5,200</td>
<td>85 percent in-state 9 percent out-of-state 6 percent international</td>
<td>Master’s Colleges and Universities (larger programs)</td>
</tr>
<tr>
<td>University D</td>
<td>Mountain West</td>
<td>Public</td>
<td>13,000 / 10,500</td>
<td>90 percent in-state 9 percent out-of-state 1 percent international</td>
<td>Doctoral/Research Universities</td>
</tr>
</tbody>
</table>

**Source:** National Center for Education Statistics
II. Executive Overview

Key Observations

Financial aid staff leverage the input and guidance of executive administrators or external consultants to develop strategic financial aid models. At one institution, the board of regents for the university system articulates strategic goals, while a campus-level committee composed of faculty, staff, and students use the goals to define benchmarks and indicators that are relevant to the campus. Financial aid staff at another institution hired Noel-Levitz, a higher education consulting firm, to help design the financial aid model.

Administrators design financial aid models to increase enrollment rates. Administrators acknowledge the impact of increased enrollment on tuition revenue but do not consider a tuition target when distributing financial aid. The financial aid models at two institutions aim to increase enrollment and attract more tuition revenue. In contrast, the financial aid model at another institution strives to balance increased enrollment and increased costs, because most students require financial aid and may not contribute more tuition revenue.

Funding sources for financial aid typically include federal and state grants, institutional allocations, and private donations. Financial aid staff face heavy restrictions when they distribute funds from federal, state, and private sources. In contrast, institutional allocations are typically more flexible and financial aid staff can distribute these funds to students who may not qualify for need-based aid.

Staff use financial aid incentives to recruit out-of-state and international students with strong academic records. While all institutions participate in domestic student exchange programs that guarantee reduced tuition for students from participating states, most institutions also offer reduced tuition incentives for all out-of-state students with strong academic records. These merit-based financial aid programs also retain out-of-state and international students who achieve minimum GPA standards during their first year of college.

These financial aid models have led to increased enrollment and retention rates. In particular, the financial aid counseling program at one institution has helped triple the first- to second-year retention rate of students on academic probation. Additionally, financial aid incentives for strong academic students at another institution have helped increase the overall ACT score of incoming students.
III. Development of Financial Aid Model

Planning Process  Financial Aid Strategic Planning Includes Executive Administrators and External Consultants

The vice president of finance, enrollment manager, and provost at University D participated in discussions to update the financial aid guidelines over the past three years. In contrast, the state University system’s board of regents determines the strategic goals for all three campuses, while a campus-level committee at University C regularly meets to translate these strategic goals into indicators and benchmarks relevant to the campus. Faculty, students, and staff sit on the committee, which first met in 2009 to develop a financial aid model and currently meets to update the benchmarks.

Case Study: Professional Consultant Guides Financial Aid Plan

In 1997, administrators at University A contracted Noel-Levitz, a higher education consulting firm, to help design a financial aid model guided by several enrollment priorities (described in further depth below). Based on the consultant’s recommended strategy, financial aid staff received additional grant money from the university to distribute as financial aid. However, financial aid staff have struggled to fully implement the plan because funding for financial aid has substantially decreased.

Priorities and Implementation of Financial Aid Model

Enrollment Goals Influence Financial Aid Distribution

Financial aid models typically reinforce enrollment goals for the overall student population and sub-populations. Administrators acknowledge the impact of increased enrollment on tuition revenue, but do not consider a tuition target when distributing financial aid. Administrators structure financial aid to pursue one of two enrollment goals:

- **Increase Enrollment:** Financial aid models at University A and University C aim to increase enrollment to generate more tuition revenue.
- **Balance Enrollment Increase against Revenue Needs:** Most of the students at University D require financial aid assistance; therefore higher enrollment may not yield higher tuition revenue. The financial aid model aims to slowly grow enrollment and ensure that the institution raises enough tuition revenue to meet all budgeted costs.

The financial aid committee at University C has defined enrollment goals for several student sub-populations:

- Non-resident domestic
- International
- First-time and full-time degree seeking
- First-generation college-bound
- Transfer
- Graduate
- Ethnic and racially diverse
Need-blind Admission Philosophy Guides Financial Aid Distribution

The admissions policy at University A is need-blind, and financial aid staff distribute aid to all students who require it. The administration has suspended salary increases and raised tuition to ensure that funds are available to distribute as financial aid; however state funding is limited and students increasingly rely on loans.

Coordination with Several Offices Facilitates Financial Aid Distribution

Several administrative offices are responsible for achieving strategic planning goals, such as target rates of enrollment, retention, and graduation. Financial aid staff at University C work closely with staff in admissions, academic success, and academic advising to ensure that each office prioritizes the same strategic goals.

IV. Strategic Distribution of Financial Aid

Financial Aid Sources Private and Public Sources Contribute to Financial Aid

The majority of financial aid consists of federal funding; however, contacts describe several additional state and private funding sources. Students also receive financial assistance through loans and private scholarships. Financial aid staff distribute funds from four contributors.

<table>
<thead>
<tr>
<th>Sources of Financial Aid</th>
<th>Federal Government</th>
<th>State Government</th>
<th>Institution</th>
<th>Private Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>• Pell grants</td>
<td>• State government-funded aid</td>
<td>• University system need-based aid at University C</td>
<td>• University foundation funds</td>
</tr>
<tr>
<td></td>
<td>• Supplemental Education Opportunity Grants at University B</td>
<td>• University-funded discretionary aid at University A and University C</td>
<td>• Tuition remissions</td>
<td></td>
</tr>
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Funding is Bundled in Financial Aid Packages

Students typically receive a financial aid package that includes funding from several sources such as federal grants, state aid, merit-based awards, scholarships, and tuition remissions or waivers (i.e., discounted tuition). Financial aid staff at University B and University D do not administer scholarships; rather, students receive scholarships directly from a donor or through departments. Tuition remissions or waivers at most institutions target employees of the institution or their dependents. However, many at University C qualify for the following types of tuition remission or waivers:

- **Required Tuition Remission** for employees, employees’ dependents, graduate students with assistantships
- **Optional Tuition Remission** for students based on academic merit, athletic achievement, or music awards
Federal, State, and Private Funds Face Heavy Restrictions

Federal, state, and private funds are subject to strict rules on recipient qualifications; institutional funds are more flexible. Therefore, financial aid staff typically distribute these funds on a discretionary basis. Two types of restrictions apply to financial aid:

- **FAFSA Qualifications**: Students must complete the Free Application for Federal Student Aid (FAFSA) and demonstrate need to qualify for federal aid. The state-based funding models at University A and University C also base financial aid eligibility on FAFSA parameters. For example, students at University C who are eligible for a Pell grant typically receive state funding.

- **Complex Donor Agreements**: Contacts at University C and University D explain that financial aid from private donors can be challenging to distribute because recipient qualifications vary substantially across donor agreements. Additionally, the timing of donation availability does not always match the timing of financial aid distribution; therefore financial aid staff sometimes struggle to bundle financial aid packages with private donations.

Knowledge of Aid Package Attracts Prospective Undergraduate Students

Staff at University A advertise financial aid programs through admissions presentations on aid opportunities; message campaigns via direct mail, email, and text messages; and individual consultations with two graduate assistants during campus visits. In addition to marketing tools, two components of financial aid models help students understand their expected aid:

**Aid Notifications**

- **Net Price Calculator**: The financial aid website at the University of Nebraska-Kearney includes an online survey tool to help students determine the amount of aid they qualify for before they apply.

- **Rolling Merit-based Aid**: Financial aid staff at University C distribute merit-based aid on a rolling basis. Students learn the exact amount of merit-based aid they receive two weeks after their admission to the university and have ample time to consider tuition prices before they select a university to attend.

**Aid Guarantees**

- **Stacked Scholarships**: Students who qualify for several scholarships at University A can “stack” three scholarships, or can receive all three awards. In contrast, students at institutions without scholarship stacking policies may qualify for several scholarships but are only allowed to receive one.

- **Guaranteed Need-based Aid**: The state university system recently instituted an need-based aid guarantee. Under this policy, financial aid staff guarantee financial aid that covers tuition for in-state students who complete the FAFSA by April 1st and are eligible for a federal Pell grant. Students who are not eligible for the Pell grant may still receive funding through the guarantee.
Reduced Tuition Recruits Academically Strong Domestic Out-of-state Students

Financial aid staff offer reduced tuition to attract domestic out-of-state students with a strong academic background to the university. Domestic out-of-state students apply for reduced tuition through one of two avenues:

- **Merit-based Reduced Tuition**: All out-of-state students at University C are eligible for tuition waiver if they meet two of three academic qualifiers: obtain a 23 or higher on the ACT, graduate in the top 30 percent of the class, or achieve a 3.5 GPA or higher. The state department of higher education created an index system to evaluate students’ academic achievement based on high school GPA, class rank, and standardized test scores. Financial aid staff at University D use these index scores to determine how much merit aid to award to domestic out-of-state students. Students with a high index score may receive up to $6,000, while students with a slightly lower score may receive $4,500.

- **Student Exchange Agreements**: University A, University B, and University C participate in the Midwest Student Exchange Program (MSEP) and University D participates in the Western Undergraduate Exchange (WUE). Both programs allow students from participating states to pay 150 percent of in-state tuition.

<table>
<thead>
<tr>
<th>Case Study: Student Exchange Agreements Conflict with Merit-based Tuition</th>
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<tr>
<td>At University C, the MSEP reduced tuition targets out-of-state students who do not receive the merit-based reduced tuition. In contrast, students who are eligible for WUE reduced tuition at University D cannot receive additional merit-based awards. Financial aid staff are reconsidering the eligibility requirements for merit-based and WUE aid because students with high academic index scores express frustration that they cannot receive additional financial assistance.</td>
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International Students Receive Limited Financial Assistance

Financial aid offices across institutions offer few financial aid opportunities for international students. International students apply for three types of financial aid:

- **Outreach Assistance Aid**: International students at University B are eligible for in-state tuition rates if they maintain a prescribed GPA and agree to participate in outreach and informational events. For example, international students may choose to host a discussion and educate other students about the culture of their home country.

- **Student Exchange Agreements**: University C participates in student exchange programs with several countries; students from those countries are eligible for discounted tuition.

- **Merit-based Aid**: Financial aid staff at University A evaluate international students’ standardized test scores to determine merit-based scholarships.
Continuous Aid Retains Students

While one institution reserves funding for students in their second year or higher, other institutions structure financial aid programs to provide students with assistance throughout their college experience. University B allocates $100,000 of financial aid grants to retain high-achieving students. Financial aid staff award these funds based on students’ GPA on a first-come, first-serve basis. A scholarship program for low-income students at University A pays for almost all tuition not covered by federal and state aid and is guaranteed for the first and second year students. Similarly, need-based aid guarantee program at University C guarantees funding for all in-state and Pell grant eligible students throughout their academic career.

Merit-based Aid Retains Out-of-State and International Students

All domestic out-of-state students at University A who achieve a minimum 3.0 GPA over the course of 24 credit hours are eligible for in-state tuition. Financial aid staff decided to extend reduced tuition incentives beyond the MSEP program to all out-of-state students because many enrolled students come from a state that does not participate in MSEP. This merit-based program is also available to international students, who can receive in-state tuition if they achieve a minimum 3.3 GPA during their first academic year.

Students on Academic Probation Benefit from Individual Financial Aid Counseling

In response to low retention rates between the first and second year for students on academic probation, financial aid staff at University A developed an individual counseling program in 1997. If a student receives financial aid and is placed under academic probation during his or her first semester, financial aid staff freeze funding for spring semester and require the student to meet with a financial aid counselor. Although counseling requires a significant amount of staff time, the program has dramatically improved retention and graduation rates and encouraged academic advising to launch a similar program for students who do not receive financial aid.

60 percent

Retention Rate

The retention rate of students who receive financial aid and are on academic probation between their first and second year tripled from 20 percent in 1997 to 60 percent in 2012.

The financial aid counselor and the student on academic probation discuss:
- Why the student is on probation
- What requirements the student must fulfill to be eligible for enrollment and aid
- How to improve the student’s academic record
V. Effectiveness of Financial Aid Model

Outcomes of Financial Aid Model

Financial Aid Model Leads to Increased Enrollment and Retention Rates
Enrollment for all students at University A and University C and for out-of-state students at University D has increased because of financial aid incentives. At University A, enrollment has grown by 2,000 students; the overall retention rates between the first and second year has reached 72 percent (slightly lower than the state average); and the graduation rate is 55 percent (a higher rate than the national average).

Higher Achieving Students Respond to Financial Aid Incentives

The financial aid model at University C aims to attract high-achieving students; since its implementation, the average ACT score of students has increased. Contacts observe that the need-based aid guarantee program, which requires students to submit the FAFSA form by April 1st, has encouraged many students to become more responsible and proactive about their financial aid applications.