

## Helping Students Pay for College — and Achieve Better Outcomes

*MDRC is dedicated to learning what works to improve the well-being of low-income people. Through our research and the active communication of our findings, we seek to enhance the effectiveness of social and education policies and programs. As part of our “Looking Forward” series, we provide policymakers with memos that suggest ways to make progress on critical issues.*

**Bottom line:** America faces a two-pronged problem in higher education: increasing costs and low completion rates. Despite the recent expansion of federal Pell Grants, many students still are left with unmet financial needs and may drop out of college because of financial concerns, pressing work responsibilities, and fears of taking on too much debt. One idea that may help students pay for college *and* complete their degrees more quickly is to offer financial aid that rewards academic progress.

### What Do We Know?

**The cost of college is steadily rising.** In 2011-12, the average tuition and fees charged by community colleges in the U.S. was about \$3,000; for public four-year universities, the average was about \$8,200. These figures — which do not include room, board, or other expenses — represent more than an 8 percent increase from the year before.

**A majority of college students receive some type of financial aid, but it rarely covers all expenses — so many are forced to take out loans to make up the difference and acquire debt.** About two-thirds of full-time students receive some type of grant aid from the federal government, states, institutions, or private sources. The Pell Grant program, which offers up to \$5,550/yr to students who demonstrate financial need, is the largest source of grant aid. Yet when other expenses (room and board, books and supplies, etc.) are also considered, grants and federal tax savings cover only a portion of college costs. Public and private loans are often used to make up the difference — more than half of students who earned bachelor’s degrees from public four-year institutions in 2009-10 graduated with debt. The average debt per borrower was \$22,000, up 12 percent from a decade prior.

**The time it takes students to complete a college degree has steadily increased over the past three decades because students are working more hours while attending college.** Research suggests that some outside work is beneficial to students, but too much work reduces the time needed for classes and studying. The increase in work hours has occurred mainly among low-income students.

**Many students do not complete college.** Just 65 percent of students who first enrolled in a four-year institution earned a postsecondary credential after six years. The situation is worse for community college students: only 34 percent had earned a certificate or degree in six years. While many factors are responsible for low completion rates, concerns about cost and acquiring debt are important.

### The Promise of Financial Incentives: Performance-Based Scholarships

- **In a first test of the idea, MDRC found that performance-based scholarships produced large, positive effects on credits earned and persistence in college — and these effects continued even after the scholarships ended.** At two community colleges in the New Orleans area, low-income parents were offered \$1,000 per semester on top of the rest of their financial aid if they met two conditions: (1) stayed enrolled at least half-time and (2) earned a “C” or better grade point average. By conditioning the financial aid on certain performance benchmarks, the program encourages students to focus more on their studies, which should lead them to perform better in their classes, progress through their degree requirements, and earn more credits so they can graduate or transfer to a four-year college. The

scholarships were paid in three increments over the course of the semester, and students could use the money for any purpose.

- **Performance-based scholarship programs in other states also produced preliminary positive impacts on credits earned and other outcomes.** Preliminary results in New Mexico, New York, and Ohio showed positive impacts on credits earned in one or more semesters or terms, although not as large as those found in Louisiana. Students were also more likely to attend full time, rather than part time, and the scholarships also lowered student debt. To date, however, only the New Orleans program had an impact on persistence in college. This may be due to differences in economic conditions when the studies were conducted (students may be more likely to stay in school during a recession because jobs are scarce) or to the characteristics of students served (Louisiana’s program enrolled many low-income single mothers who may have especially benefited from the scholarship).
- **These programs can be designed to fit the needs of the states and their local communities.** As part of MDRC’s national demonstration project, programs in Arizona, California, and Florida are also testing the efficacy of scholarships that are contingent on enrollment and grades. The amounts, target groups, and other details vary based on local goals and resources. The funding of performance-based scholarships also varies by state; Louisiana and Ohio used funds from the Temporary Assistance for Needy Families (TANF) program to provide scholarships for low-income parents attending community college, but state lotteries, philanthropies, corporations, and individual donors are other potential means of support. The long-term effectiveness of the model is currently being evaluated.

### **Other Innovative Ways of Using Financial Aid to Incentivize Academic Progress**

MDRC has recently piloted the **Aid Like a Paycheck** program to see if a new approach to distributing financial aid will lead to better student outcomes. Currently, students who receive Pell Grants and other financial aid may get a “refund” to help cover living expenses if their grant aid exceeds the cost of tuition and fees — a situation that is most likely to occur at community colleges. Most schools disburse the refund in one or two lump sums during the semester. In contrast, students participating in Aid Like a Paycheck receive their financial aid payments in increments every two weeks. This form of disbursement may help students manage their money so that it lasts throughout the semester. Biweekly payments may also help students regulate the time they spend working and encourage them to stay in school, just like a paycheck encourages employees to come to work. Aid Like a Paycheck has not yet been rigorously evaluated, but participants said that it helped them manage their money better and maintain a good balance between work and school.

The **Wisconsin Scholars Grant** is a need-based scholarship program that offers \$3,500/yr to Pell-eligible students who enroll in a community college or state university. Unlike traditional aid — which is extended to students before they enroll — this grant is offered after students start college to encourage their progress and reduce the need for work while in school. An ongoing study conducted by researchers at the University of Wisconsin has found modest positive impacts on credit completion and retention, particularly for students at less-selective institutions.

### **What’s Next?**

At this stage, performance-based scholarships — when implemented on top of existing aid — create a net increase in financial resources for students and lead to at least modest impacts in performance and some reduction in debt. When budgets are tight and policymakers want to make financial aid more effective, applying performance standards to scholarships that supplement existing federal and state aid or changing the way existing aid is disbursed may be promising approaches. New longer-term findings from MDRC’s ongoing studies will be available in the near future.