

APPENDIX 3

Reforms in Other States and Countries

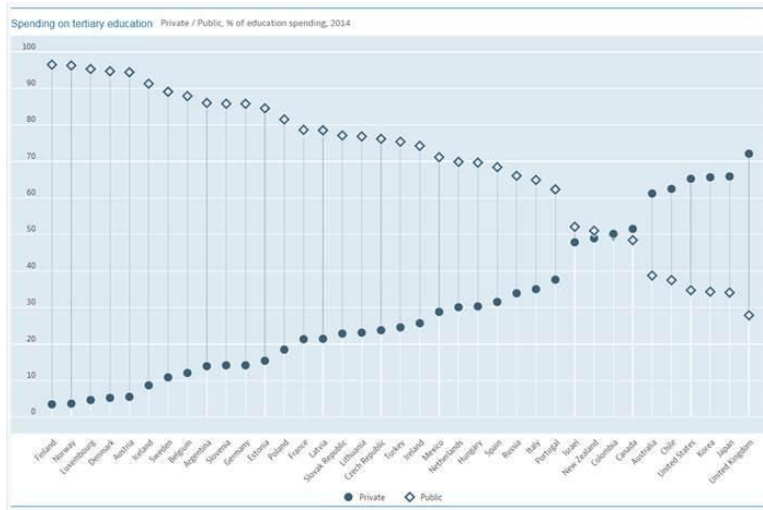
This report describes recent student financial aid reform efforts in different states and nations that might inform financial aid streamlining in California. After arranging state reforms into seven categories, the report evaluates the benefits and risks of each program to students, aid providers, and institutions. The report does not include research studies administered to samples of students that attempt to improve outcomes related to financial aid or other topics.¹ One partial exception, described below, is a research study of text message reminders administered at a statewide level.

Methods. We performed an environmental scan of all 50 states and selected countries for relevant financial aid reform efforts. In selecting countries, we focused on those most similar to California, namely developed countries with a substantial private postsecondary sector characterized by the Organisation for Economic Co-operation and Development (OECD) as having relatively high tuition (which in this report also refers to mandatory fees) and moderate to significant financial aid.² For example, among developed countries, compared with the United States, only Korea, Japan, and the United Kingdom have a higher percentage of postsecondary education funding provided by private funds (figure 1). Australia, Canada, and Chile have a lower proportion of private funding but were included for comparison purposes. We also examined the province of Ontario, Canada, which recently reformed its financial aid system.

¹ Recent examples include Broton, K. M., Goldrick-Rab, S., & Benson, J. (2016). Working for college: The causal impacts of financial grants on undergraduate employment. *Educational Evaluation and Policy Analysis*, 38(3), 477–494; Hoxby, C., & Turner, S. (2013). *Expanding college opportunities for high-achieving, low-income students*. Stanford, CA: Stanford Institute for Economic Policy Research; and Scrivener, S., Weiss, M., Ratledge, A., Rudd, T., Sommo, C., & Fresques, H. (2015). *Doubling graduation rates: Three-year effects of CUNY's Accelerated Study in Associate Programs (ASAP) for developmental education students*. New York, NY: MDRC. For a recent review of these and other interventions, see pp. 111-114 of Holzer, H. J., & Baum, S. (2017). *Making College Work: Pathways to Success for Disadvantaged Students*. Washington, DC: Brookings Institution Press.

² OECD. (2017). *Education at a glance 2017: OECD indicators* (pp. 217–218). Paris, France: Author. Retrieved from <http://dx.doi.org/10.1787/eag-2017-en>.

Figure 1. Public and private spending as a percentage of total spending on postsecondary education: 2014



SOURCE: Organisation for Economic Co-operation and Development (2017), “Spending on tertiary education” (indicator). Retrieved January 25, 2018, from <http://dx.doi.org/10.1787/a3523185-en>.

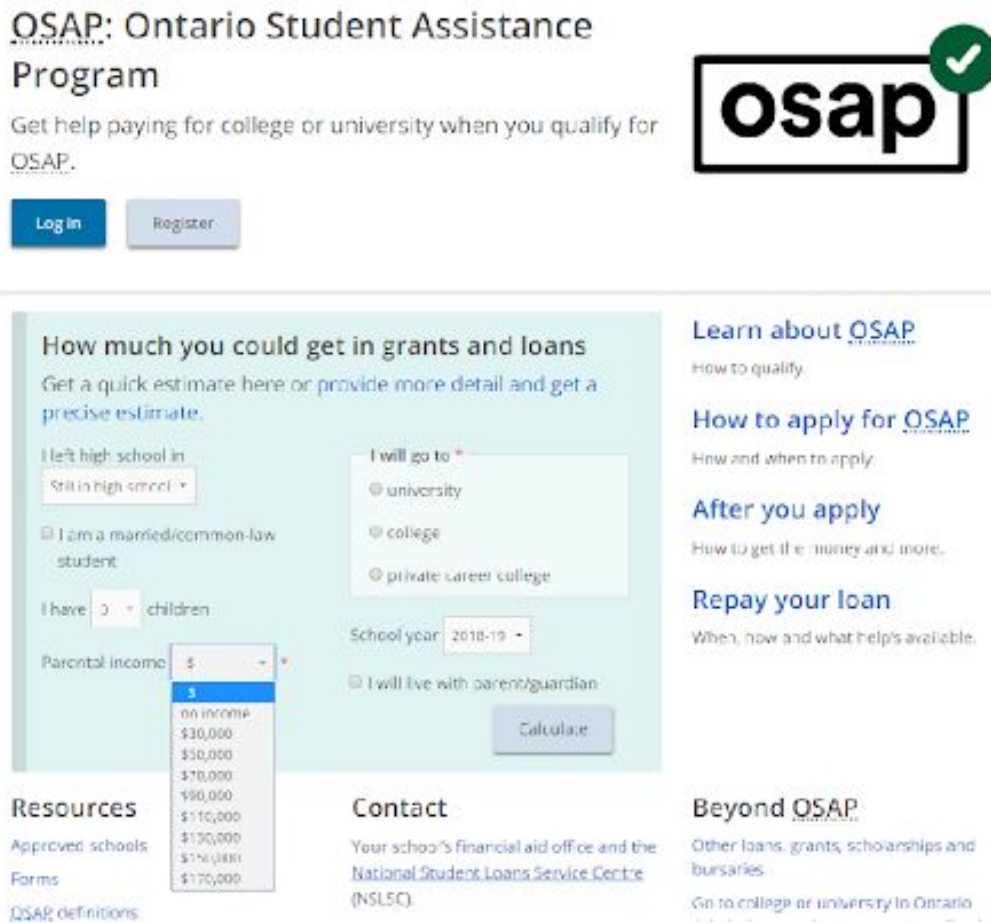
We examined each reform to identify features that might be relevant for improving California’s financial aid system. We found that these efforts fall into seven categories: user-friendly websites, high credit hour minimums, zero tuition, regional cost-of-living adjustments, simplified loan repayment, increased funding, and tuition caps (not strictly a financial aid reform but included because of its close relationship to financial aid).

User-friendly website. It is safe to assume that in 2018, every financial aid agency across the country and around the world maintains a website. However, some websites are more helpful than others—those of the financial aid agencies of Ontario, Canada,³ and Oregon⁴ are noteworthy for their simplicity, thoroughness, and usability. These websites also allow users to easily create an accurate estimate of expected financial aid and total price of attendance before and after aid and direct them to apply for aid. The home page of the Ontario Student Assistance Program features a questionnaire that quickly estimates financial aid and net price of attendance after entering only seven elements of information: high school graduation year, marital status, number of children, approximate parental income, institution type, year expected to start postsecondary education, and whether the student will live at home with a parent (figure 2). In addition to these estimates, the website displays a link to apply for financial aid.

³ See <https://www.ontario.ca/page/osap-ontario-student-assistance-program>.

⁴ See <https://oregonstudentaid.gov>.

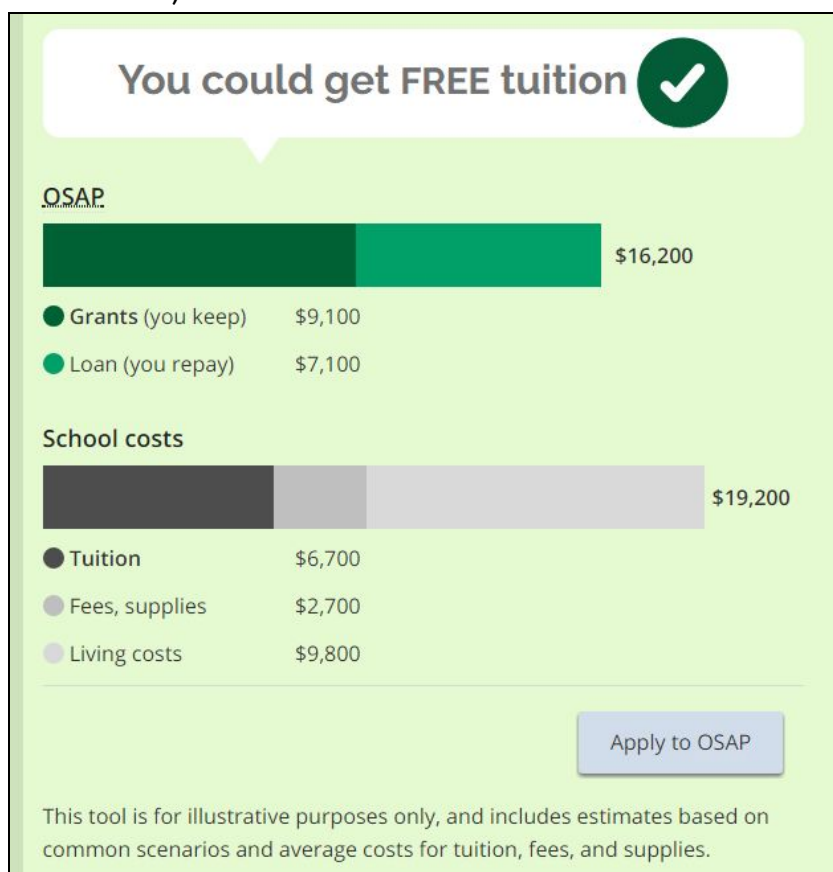
Figure 2. Ontario Student Assistance Program home page (partial screenshot)



SOURCE: Ontario Student Assistance Program (2018). Retrieved January 26, 2018, from <https://www.ontario.ca/page/osap-ontario-student-assistance-program>.

The Ontario calculator has a list of incomes to choose from in wide bands (though each is represented by a single number), so users do not need to know the precise amount. To illustrate, figure 3 shows the initial financial aid and net price estimate that appears if users identify as a current high school senior (the default option) with a parental income around \$50,000 (Canadian), planning to attend a university (as opposed to a college or private career college). This estimate appears after users enter only two pieces of information. The values adjust if and when users select other options, such as a different school year or living arrangement.

Figure 3. Ontario Student Assistance Program initial financial aid estimate (partial screenshot)

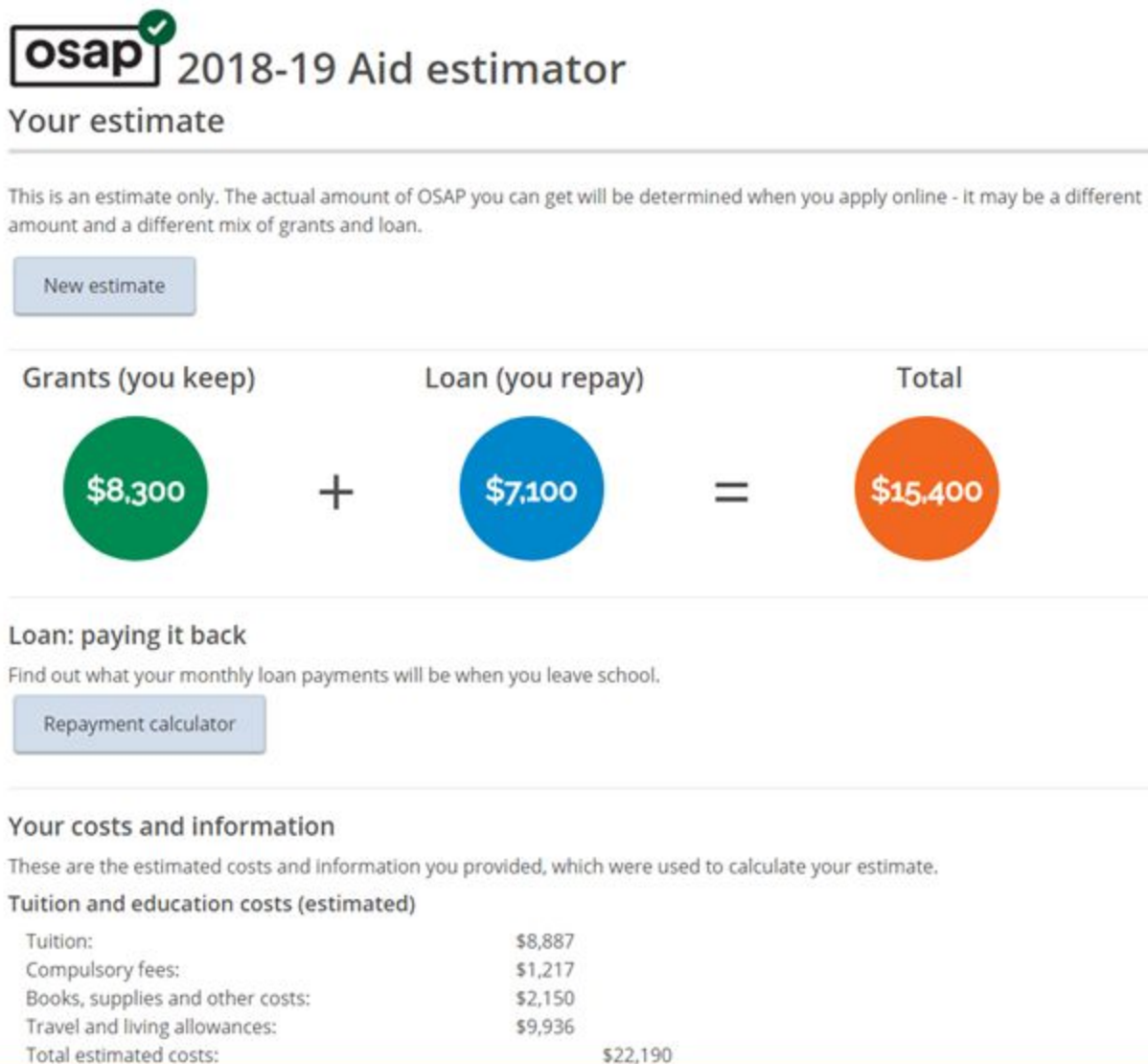


SOURCE: Ontario Student Assistance Program (2018). Retrieved January 27, 2018, from <https://www.ontario.ca/page/osap-ontario-student-assistance-program>.

Figure 4 shows the results of a “precise estimate” for a dependent student with an income of \$55,000 planning to attend McMaster University as a freshman in computer science. The functionality is similar to the net price calculators provided by most U.S. institutions as required by the Higher Education Opportunity Act of 2008 (P.L. 110-315, 122 Stat. 3078). In the Ontario case, however, the calculator is provided by a government agency that allows users to generate estimates for multiple institutions from the same website, whereas users in the United States must visit individual institutions’ websites or perhaps use a third-party service that aggregates estimates across multiple institutions.⁵

⁵ Jaschik, S. (2017, August 21). The value of simplicity in estimating student aid. *Inside Higher Ed*. Retrieved February 8, 2018, from <https://www.insidehighered.com/admissions/article/2017/08/21/tools-are-less-detailed-most-colleges-aid-calculators-are-gathering>.

Figure 4. Ontario Student Assistance Program precise financial aid estimate (partial screenshot)



SOURCE: Ontario Student Assistance Program (2018). Retrieved January 27, 2018, from <https://www.ontario.ca/page/osap-ontario-student-assistance-program>.

Many students and parents dramatically overestimate the price of postsecondary education.⁶ Showing them their estimated aid and net price and helping them apply for aid makes them more likely to apply for aid and enroll in college. The primary risks to providing estimates of aid and

⁶ Horn, L. J., Chen, X., & Chapman, C. (2003). *Getting ready to pay for college: What students and their parents know about the cost of college tuition and what they are doing to find out* (NCES 2003-030). Washington, DC: National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education.

⁷ Bettinger, E. P., Long, B. T., Oreopoulos, P., & Sanbonmatsu, L. (2012). The role of application assistance and information in college decisions: Results from the H&R Block FAFSA experiment. *The Quarterly Journal of Economics*, 127(3): 1205–1242.

net price are increasing the aid providers' workload to handle additional aid and the incremental cost to update and maintain these elements of a website. There is also a tradeoff between simplicity and accuracy. It may be easier, for example, for users to enter income by selecting a range rather than entering a precise dollar amount and to disregard assets and other financial circumstances that determine aid amounts. However, students and their families who rely on estimates based on simplified criteria may end up with less aid than anticipated, leaving them with more unmet need than anticipated.

High credit hour minimums. Three U.S. states (Nevada, New York, and Rhode Island) require state financial aid recipients to enroll each term for at least 15 credit hours (hereafter, credits), which is higher than the 12-credit minimum used to determine full-time status for most federal student aid. The logic behind this reform is that students who successfully complete at least 15 credits will accumulate enough to complete a bachelor's degree in 4 academic years (120 credits on a semester calendar) or an associate's degree in 2 academic years (60 credits on a semester calendar). In contrast, students who complete only 12 credits per term would take 5 years to complete a bachelor's degree and 2.5 years to complete an associate's degree. (Some public institutions and systems, such as the University of Hawai'i system and Indiana University-Purdue University Indianapolis, have promoted the 15-credit minimum without requiring it for financial aid eligibility.⁸)

The advantage of the 15-credit minimum enrollment is that it puts aid recipients on a path to timely graduation if they complete these credits. But this policy also poses several risks to students and institutions. Some students cannot take 15 or more credits due to family or work obligations or because of a limiting disability. Required noncredit remedial courses might not count toward the 15-credit limit and, in any case, would not count toward a degree. The 15-credit minimum for state aid may be confusing to students and aid administrators who simultaneously have a 12-credit minimum for federal aid. Finally, students might attempt to skirt the rules by initially enrolling for 15 credits for financial aid purposes and intentionally dropping some courses later, which would undermine the purpose of the reform while possibly preventing other students from enrolling in the courses that get dropped.

Zero tuition. In recent years, four states and one country that had been charging tuition began waiving tuition for large populations of students, irrespective of financial need. Nevada, Oregon, Rhode Island, and Tennessee introduced zero tuition (or "free college") policies for community colleges (public 2-year institutions). (California's enactment last fall of Assembly Bill 19 set the stage for zero tuition for first-time, first-year community college students, though it has not yet taken effect.) New York state now offers near-zero tuition for public 4-year institutions for virtually all residents as well. A recent zero tuition reform in Chile, though not universal, applies to students in the lower half of the income distribution at many institutions.⁹ Similarly, the "Promise"

⁸ Complete College America. (2017, January 10). CCA, NACADA launch effort to boost on-time completion rates, reduce student debt. Retrieved January 26, 2017, from <https://completecollege.org/article/complete-college-america-and-nacada-the-global-community-for-academic-advising-launch-effort-to-boost-on-time-completion-rates-reduce-student-debt>.

⁹ OECD. (2017). *Education in Chile* (Reviews of National Policies for Education). Paris, France: Author. Retrieved January 25, 2017, from <http://dx.doi.org/10.1787/9789264284425-en>.

programs in many U.S. cities offer grants intended to cover tuition to all residents of a particular city.

The major appeal of the universal zero tuition concept is the simplicity of its message to prospective students: if you attend college in this state, you will not pay tuition no matter what your financial circumstances are. Critics of these programs have pointed to several issues for students and states. One is that at many public institutions (including all California public institutions), tuition is significantly less than nontuition expenses (such as housing, food, and books). Zero *tuition*, in other words, falls far short of zero *price of attendance*. A second concern is that students may enroll in community colleges simply because they know that community college is tuition free. Some of these students would qualify for enough grant aid to cover tuition at a more selective 4-year institution, and in fact might have a lower total cost of attendance at a 4-year institution after figuring in nontuition expenses and institutional grant aid. Additionally, students who attend colleges that are less selective than their academic preparation would permit, known as undermatching, tend to have less positive outcomes during and after college. Another issue is that zero tuition programs have other conditions, like New York's postgraduation residency requirements, that may pose hurdles for students before, during, or after enrollment. Such conditions would likely impose administrative costs on the institutions or financial aid agencies that must track down students who left the state to reclaim the awards and any applicable interest or penalties. Additionally, from the state perspective, waiving tuition for students with no need means fewer dollars for students with need.

Regional cost-of-living adjustments. Maryland adjusts its largest state grant program to account for regional differences in the cost of living, though we were not able to find documentation of how they measure these differences.¹⁰ A Maryland Higher Education Commission employee informed us that these adjustments are based on data from the College Board but was unable to provide any further details. This approach has significant potential for a state with wide regional variation in cost of living like California. It might measure cost of living using an existing source such as the U.S. Department of Defense's Basic Allowance for Housing, which is updated annually and is already used by the U.S. Department of Veterans Affairs to calculate living expenses for recipients of the Post-9/11 GI Bill based on the location of the institution.¹¹ For instance, in 2018, the maximum stipend in the California State University system ranges from \$1,358 per month (or \$12,222 over 9 months) at Humboldt State University to \$4,247 per month (or \$38,223 over 9 months) at San Francisco State University.

The main downside to cost-of-living adjustments is the added complexity to the process of budgeting for and awarding grants. Presumably this process would be straightforward at the campus level, and most of the burden would fall on state agencies such as the California Student Aid Commission and on postsecondary systems and chains, all of which serve students in multiple locations.

¹⁰ Maryland Higher Education Commission. (n.d.) *Howard P. Rawlings Educational Assistance (EA) Grant*. Retrieved January 26, 2018, from http://mhec.maryland.gov/Preparing/Pages/FinancialAid/ProgramDescriptions/prog_ea.aspx.

¹¹ Office of the Federal Register. (2009, March 31). *Post-9/11 GI Bill; Final rule*, 38 CFR Part 21 (p. 14659). Washington, DC: Author. Retrieved from https://www.va.gov/orpm/docs/20090331_AN10_Post911GIBill.pdf.

Simplified loan repayment. Over the last two decades, as college enrollment outpaced government appropriation, the United Kingdom has moved from a system of tuition-free postsecondary education to one that charges tuition at substantial levels (equivalent to over \$11,000 per year on average). Along with this change, it has also instituted a student loan system that automatically enrolls borrowers in an income-contingent repayment system that adjusts monthly payments to a percentage of their earnings.¹² In general, the automatic enrollment aspect of a policy like that in the United Kingdom reduces the administrative burden on both students and lenders. Payments are deducted from paychecks, so borrowers cannot forget to make them. Monthly payments are set by policy (currently pegged at 9% of income above a certain threshold) to be manageable for borrowers even if their income unexpectedly drops.

This reform has little relevance for California's current financial aid system, which relies almost exclusively on grants. If California were to initiate a significant state-financed loan program, it would face significant administrative hurdles implementing automatic payroll deductions for payments, particularly for graduates who move out of state. Moreover, many students have more favorable terms from existing federal loan programs, including several options for income-contingent repayment options.

Increased funding. Chile, Korea, and the United Kingdom have significantly increased funding for their national financial aid programs. Other things equal, better funding benefits students by increasing amounts, increasing the number of recipients, or both. Beyond the cost of the aid itself, the main risk is that institutions will “capture” the increased funding by raising tuition accordingly, diminishing the efficacy of the grants to make college more accessible. There is considerable scholarly debate about whether and to what degree this occurs. One study comparing private for-profit institutions that do and do not accept federal Title IV student aid found that those that accept federal aid charge 78% more for tuition.¹³ A second risk is the marginal increase in the financial aid processing workload for institutions and aid providers.

Text messaging. We identified one statewide initiative, funded and implemented as a grant-funded research project rather than a state-sponsored policy, that is worth mentioning for achieving meaningful results at a low cost. In 2015, researchers sent a series of text messages to all 9,200 twelfth-graders in Delaware public high schools who provided a mobile phone number reminding them to complete a Free Application for Federal Student Aid (FAFSA). The estimated effect was a 5-percentage-point increase in FAFSA submission.¹⁴ An intervention like this one would increase applications for financial aid, and it would be expected to increase enrollment in postsecondary education and use of financial aid. The estimated marginal cost of the technology was approximately \$8 per student reached and about \$150 per student who enrolled in college

¹² Murphy, R. J., Scott-Clayton, J., & Wyness, G. (2017, April 27). *Lessons from the end of free college in England*. Washington, DC: Brookings Institution. Retrieved from <https://www.brookings.edu/research/lessons-from-the-end-of-free-college-in-england>; Government Digital Service, United Kingdom. (n.d.). Student finance. Retrieved January 26, 2018, from <https://www.gov.uk/student-finance>.

¹³ Cellini, S. R., & Goldin, C. (2014). Does federal student aid raise tuition? New evidence on for-profit colleges. *American Economic Journal: Economic Policy*, 6(4), 174–206.

¹⁴ Page, L. C., Castleman, B., & Meyer, K. (2016). *Customized nudging to improve FAFSA completion and income verification*. Retrieved from Social Science Research Network website: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2854345.

(not including staffers' time spent managing the text messages and responding to queries). The primary risk for this intervention is that it would increase demand for financial aid, which would mean an incrementally bigger budget and workload for the funding agency and institutions.

Tuition caps. Korea and the United Kingdom recently capped tuition to allow financial aid to cover a greater proportion of nontuition expenses.¹⁵ (Australia, in contrast, removed tuition caps in 2016.¹⁶) Although setting tuition rates is not a financial aid reform per se, it affects financial aid policy in these countries by freeing up funding for students' living expenses. Limiting tuition obviously makes postsecondary education more affordable, other things equal, but it carries several risks if it were to be considered in California. For one, as noted, setting tuition is a separate process from distributing financial aid with different rules and actors that vary by sector. While California's state government has significant authority over tuition for the California Community College and California State University systems, it has no direct control over tuition at the University of California, though it does exert influence through the appropriations process. The state government has essentially no influence over what private institutions charge. To the extent that tuition revenue is used to provide financial aid, needy students might receive less institutional aid at lower tuition levels. There is also no guarantee that institutions can maintain the same quality of education or serve the same number of students when tuition increases are restricted.

¹⁵ Korean Ministry of Education. (2016.) *Happy education for all: Creative talent shapes the future* (2016 Education Policy Plans). Sejong City, Korea: Author. Retrieved from <http://english.moe.go.kr/boardCnts/list.do?boardID=276&m=040102&s=english#contents>.

¹⁶ Morgan, J. (2014, May 13). Tuition fee caps removed in Australian federal budget. *Times Higher Education*. Retrieved from <https://www.timeshighereducation.com/news/tuition-fee-caps-removed-in-australian-federal-budget/2013293.article>.