

# Item 20

## Information Item

Presentation of recent commission reports and other data

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This item provides Commissioners with the timely or informative reports and other data.

Item 20.1 is a report from the Public Policy Institute of California, authored by Hans Johnson, Marisol Cuellar Mejia and Sarah Bohn, and entitled *Will California Run Out of College Graduates?*

Item 20.2 is a report from the Education Commission of the States, authored by Sarah Pingel and Brian A. Sponsler, entitled *Redesigning State Financial Aid: Principles to guide state aid policymaking.*

# Will California Run Out of College Graduates?

Hans Johnson | Marisol Cuellar Mejia | Sarah Bohn

## Summary

California's higher education system is a critical driver of the state's economic progress. As the state's economy continues to change, will its workforce be ready for the jobs of tomorrow?

This report updates and extends projections of California's workforce skills through 2030, focusing on the supply and demand for workers with a bachelor's degree. We find that the state will fall about 1.1 million college graduates short of economic demand if current trends persist—a problem we call the *workforce skills gap*. Even the arrival of highly educated workers from elsewhere is unlikely to be large enough to fill this gap.

Today's college graduates have better economic outcomes than those who do not hold a bachelor's degree. Over time, college graduates have seen lower rates of unemployment and higher wages than other workers—even through the Great Recession—suggesting that college degrees have become increasingly valuable in California's labor market.

The future workforce skills gap looms large. But California and its higher education institutions can take several practical steps to close it. The core of a new plan for higher education should include increasing access to the state's four-year institutions, improving college completion rates, expanding transfer pathways from community colleges, and being smart about aid programs.

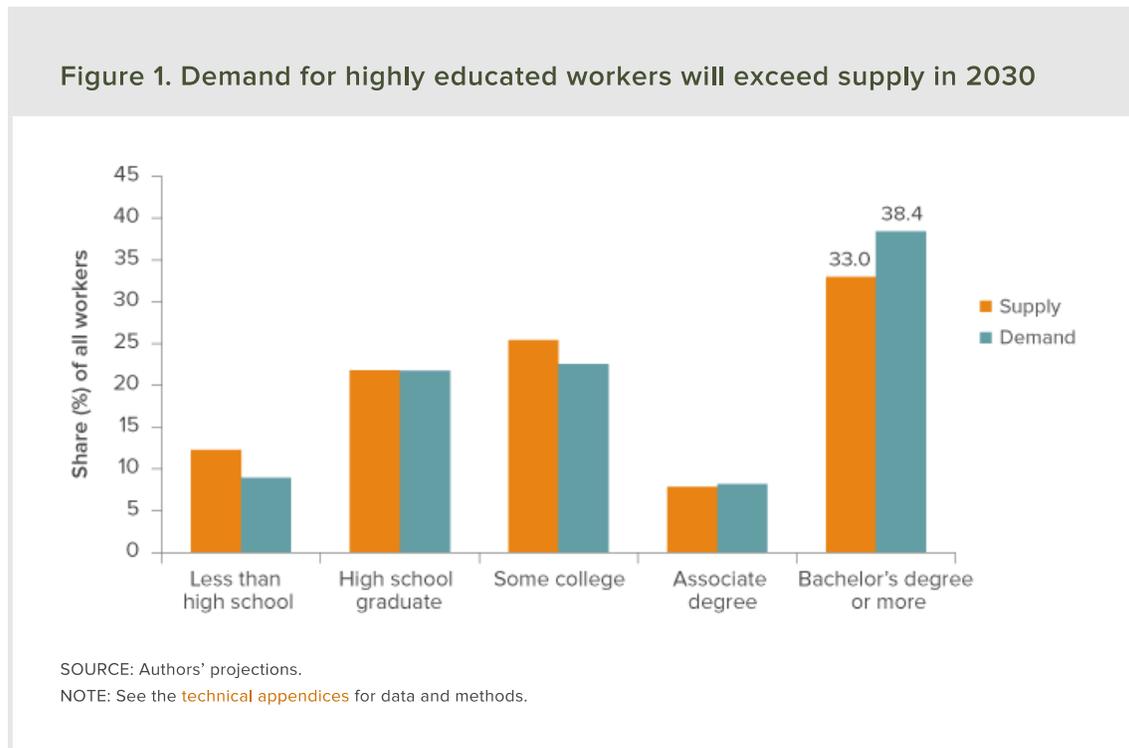
## Introduction

PPIC has produced a number of reports on the workforce skills gap (Johnson 2009; Reed 2008; Johnson and Reed 2007). Since then, the state has endured the worst recession since the Great Depression; the Great Recession generated both a substantial decline in employment and a change in the composition of jobs and occupations in California. The recession also triggered dramatic decreases in funding for the state's public colleges and universities, leading to restrictions on enrollment and increases in student debt (Johnson et al. 2013).

New projections are needed to estimate how the recession and subsequent recovery have changed the trajectory of both the California economy and the educational attainment of Californians. In addition, extending the projections to 2030 incorporates the retirement of the numerous and highly educated members of the baby boom generation—a major population shift that will have significant effects on California's labor force. Finally, with these new numbers in hand—and with increased attention to higher education issues in Sacramento—the time is right to consider a new plan for the future of higher education in the state.

## The Workforce Skills Gap in 2030

If current trends in the labor market persist, by 2030 California will have a shortage of 1.1 million workers holding a bachelor's degree.<sup>1</sup> This projection is based on recent economic trends and on forecasts that show a continued increase in the demand for highly educated workers, a demand that is not going to be met by expected increases in the supply of college graduates. We project that 38 percent of all jobs will depend on workers with at least a bachelor's degree, but only about 33 percent of workers will have one in 2030 (Figure 1).<sup>2</sup>



We do project small improvements in Californians' educational attainment levels, with declines in the share of high school dropouts and increases in the share of college graduates. By 2030, the share of workers with a bachelor's degree will be 33 percent, an increase from 32 percent in 2013.<sup>3</sup> This relatively slow increase in the number of highly educated workers stems from the retirement of the highly educated baby boom generation. Replacing this large and well-educated group will be a tremendous challenge, as we discuss below.

The arrival of new highly educated workers from elsewhere will not close the gap. To be sure, the share of international immigrants arriving with college degrees—especially in the technology sector—has played an important role in increasing the share of young workers who hold at least a bachelor's degree. But much larger increases in international migration will be necessary for the supply of highly educated workers to meet the demand, and it is unlikely that further increases will be sufficient.<sup>4</sup>

It is important to note that our projections of the distribution of workers by educational attainment are based on a continuation of recent trends, and our outcomes are sensitive to the period we use to generate these trends. Depending on the period, our projections can vary by several hundred thousand workers. But no matter what period we use to develop our projections, we find a large deficit in the supply of workers holding at least a bachelor's degree, ranging from about 1 million to 1.4 million (see [Figure 4 in Technical Appendix C](#)).

## The Economy, Jobs, and a College Education

Projecting California's future economy, a difficult task under any circumstance, has been made more challenging by the Great Recession (December 2008–January 2009). All sectors of the economy were affected, and the state lost nearly 8 percent of its jobs. These changes led economists to

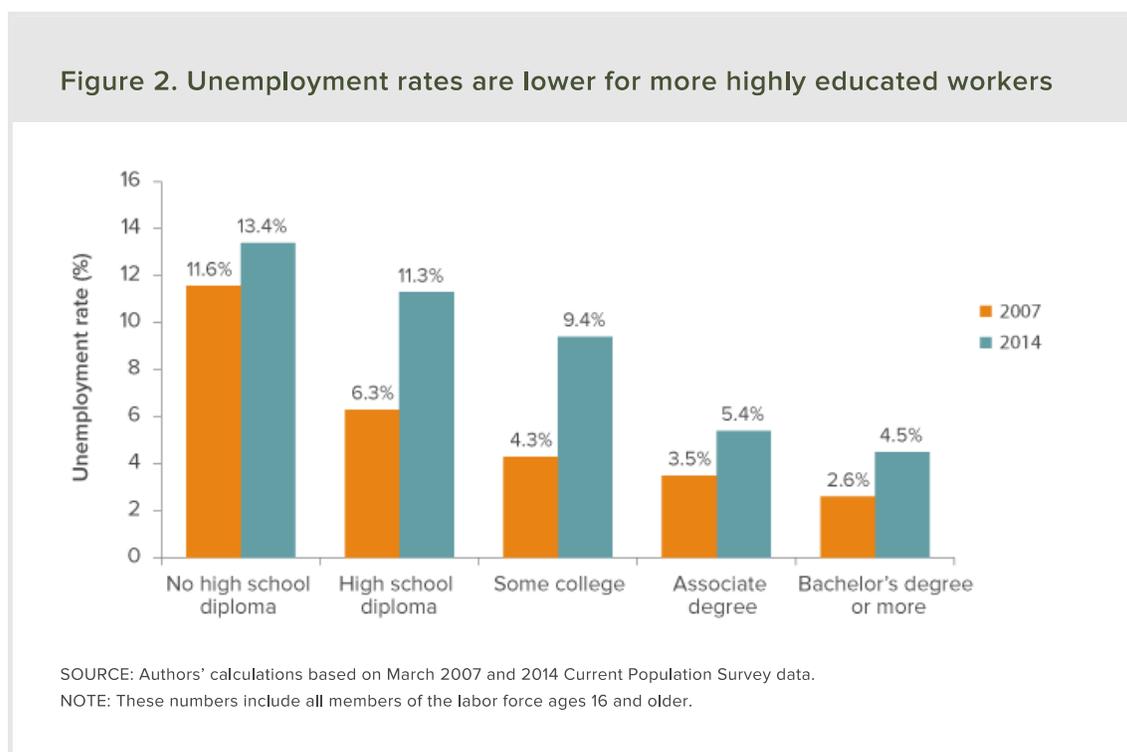
lower their long-term forecasts of job growth in the state.<sup>5</sup>

Some jobs lost during a recession are recovered as the economy improves, but other jobs do not return at all. In addition, different, new jobs are created during recoveries. As we shall see, the projected increase in demand for highly educated workers is not driven by a broad economic shift toward particular occupations that require greater levels of education. Instead, we expect to see growth in the demand for highly educated workers within broad occupational categories.

#### THE GREAT RECESSION AND THE VALUE OF A COLLEGE DEGREE

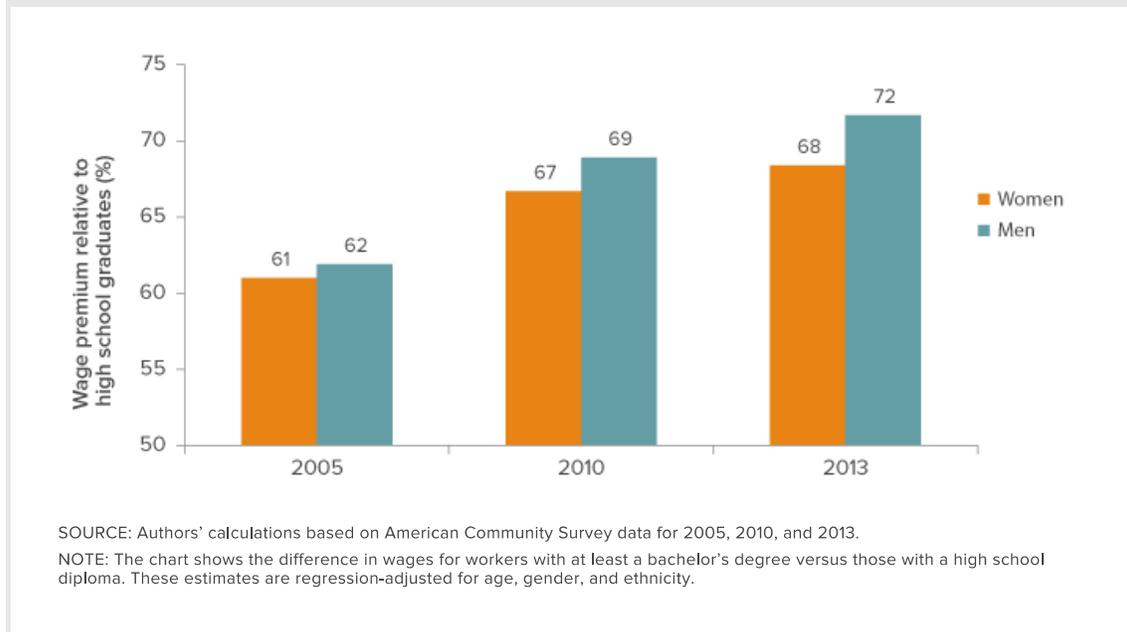
The Great Recession led to increases in unemployment rates and declines in labor force participation rates across every segment of the state's population. But—as with most recessions—it hit less educated workers especially hard.

Even now, after several years of job growth, unemployment rates remain far higher than they were before the recession (Figure 2). The greatest increases in unemployment have been among workers with only a high school diploma or with some college education but no bachelor's degree.<sup>6</sup> Even for workers with a bachelor's degree, unemployment rates were higher in 2014 than in the pre-recession year of 2007. But they remain far lower than the rates for other, less educated workers—evidence of a continuing strong demand for highly educated workers.



Workers with more education not only are more likely to be employed but are also, on average, gaining ground in terms of pay. Economic returns to a college degree have steadily increased over the last several years (Figure 3). In 2005, college-degree holders earned slightly above 60 percent more than similar workers who held only a high school diploma; by 2013, they earned about 70 percent more. These wage gains suggest that college degrees are increasingly valuable in the labor market.

Figure 3. Wage premiums for highly educated workers are increasing



Of course, the labor market does not value all college degrees equally. For degrees in highly lucrative fields, such as engineering and computer science, the lifetime wage premium—that is, the expected present value of the gain in wages by completing college, even after accounting for college costs—can total more than \$1 million; but even for degrees with the lowest economic returns, the lifetime wage premium totals more than \$200,000 (Johnson et al. 2013).<sup>7</sup>

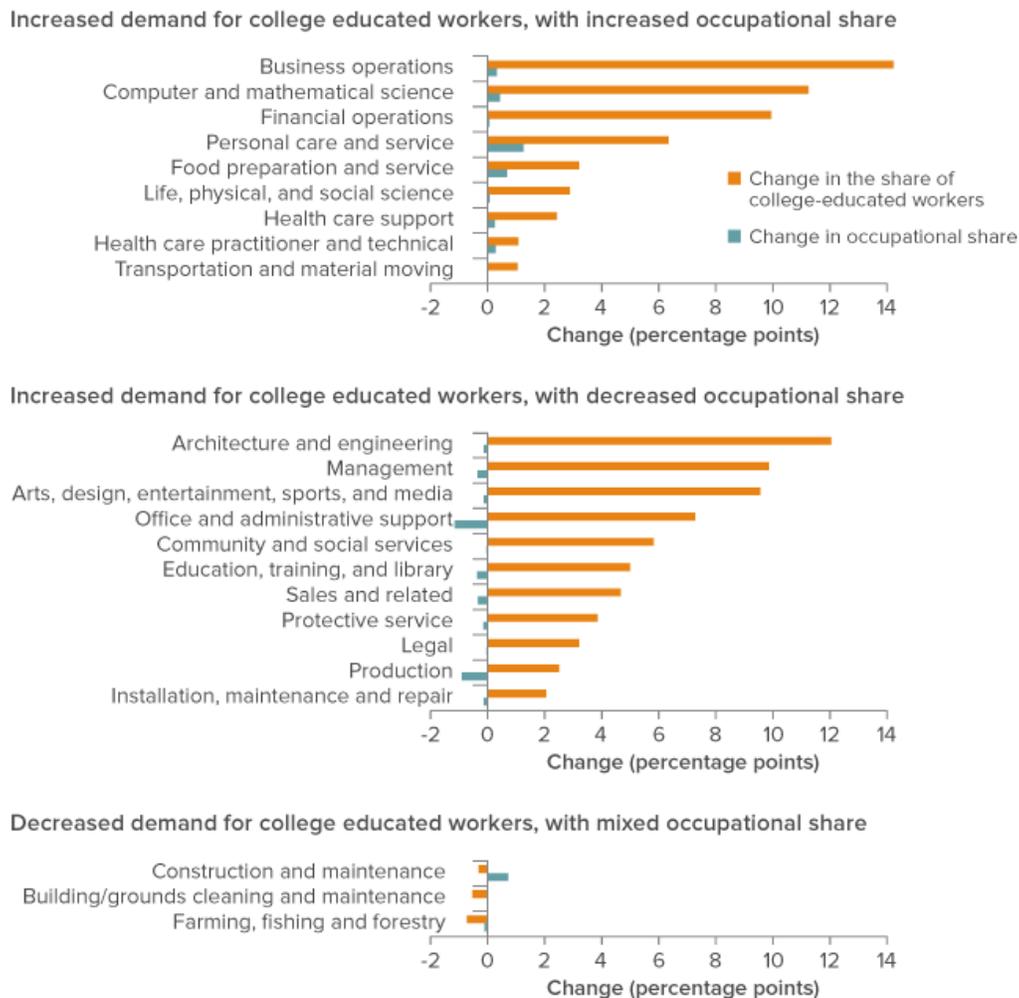
#### FUTURE JOBS

To assess California's future job market, we rely on long-term occupational projections from the state's Employment Development Department (EDD).<sup>8</sup> Here, we are concerned not just with changes in the state's overall occupational mix but also with changes in skills requirements within occupational categories. Understanding these changes helps to provide a clearer picture of where the growth in demand for college degrees is likely to occur. To do so, we look at both broad occupational categories, such as business operations, and jobs within those categories, such as marketing specialists.

The projections suggest that the mix of occupational categories in California's labor market is not going to change drastically over the next decade or so. The fastest-growing occupational categories will include both high-skilled and low-skilled categories.<sup>9</sup> For example, of the three fastest-growing categories, only one (computer and mathematical science) has a high share of college graduates.<sup>10</sup> Among the ten fastest-growing categories, five require high levels of educational attainment, and five do not. The strongest job growth will occur at either end of the education spectrum, with the largest increases in occupational categories that require only a high school diploma on the one end and those that require at least a bachelor's degree at the other end. In other words, the bifurcation of California's occupational mix, an important component of wage inequality, is expected to continue.<sup>11</sup>

Because the demand for highly educated workers within occupational categories has been growing over the past decade, even though the mix of these categories is not shifting much, we expect the economy to require a higher share of educated workers by 2030. In most occupational categories, the share of workers holding at least a bachelor's degree is projected to increase by 2030 (Figure 4).

Figure 4. Demand for college educated workers will increase in most occupational categories by 2030



SOURCE: Authors' estimates and projections based on EDD and American Community Survey data for 2013–30.

NOTE: See the [technical appendices](#) for methods and detailed estimates underlying this figure.

These shares are projected to increase in most occupational categories, from those regarded as high skill (such as management) to those regarded as low skill (food preparation). Some of this increase will be caused by a shift toward specific occupations within broader occupational categories. But the larger shift is likely to be an increase in educational attainment within specific occupations themselves.

Business operations is a case in point. In 2000, about half of the workers in the business operations occupational category held a bachelor's degree; by 2013, this share had increased to 60 percent. If these trends continue, 74 percent will have a bachelor's degree in 2030—a 14 percentage point increase over 17 years. But as an overall occupational category, business operations will make up a similar share of the economy as it does today—3.0 percent in 2030, compared with 2.7 percent in 2013.

The increase in educational attainment within this occupational category is occurring because its fastest-growing specific occupations include some with high levels of education—for example, among market research analysts and marketing specialists, 75 percent have at least a bachelor's degree. In addition, some specific occupations have seen a large increase in the share of workers

with college degrees—for example, the share of fundraisers with a bachelor’s degree increased from 44 percent in 2000 to 84 percent in 2013.

Overall, there are no indications that the rocky economic landscape of the recent recession has shifted the trend in demand for highly educated workers. In the past, a strong demand for highly educated workers occurred as the economy shifted toward occupational categories and industries that demanded these workers. But in the 1990s and—based on our current analysis—through the 2000s, the strong demand for highly educated workers has reflected growth in education levels within industries and occupations (Reed 2008).

Do these projections indicate a real demand, or are they simply evidence of a trend toward overeducating the workforce? One way to distinguish between these two possibilities is to examine the wage premium paid to college workers—that is, the extra wages employers are willing to pay college workers compared with less educated workers—in the same occupational category. Positive and increasing wage premiums for college-educated workers reflects the economic demand for skills. As Figure 3 showed, the college wage premium is large and increasing economy-wide; moreover, we find that within occupational categories, the same is generally true. College-educated workers enjoy positive and significant wage premiums within almost every occupational category (see Table 5 in Technical Appendix C). These findings indicate that the strong demand for highly educated workers is likely to continue because employers and the economy require the skills associated with more highly educated workers.

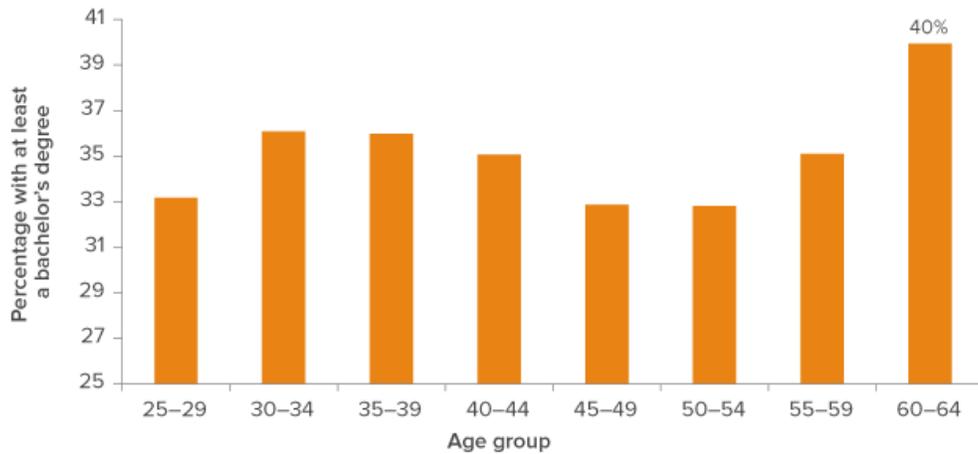
### Population Change and the Workforce Skills Gap

Over the next 15 years, California’s population will change in ways that will significantly affect its workforce. The state’s recent population-growth rates have been relatively low, averaging only about 1 percent per year, and these slow growth rates are likely to continue.<sup>12</sup> Overall, we project that the labor force will only grow about 9 percent between 2013 and 2030. This is partly because of the tremendous growth we expect to see in the senior population—the group of Californians age 60 and older will grow 41 percent, while the group ages 20 to 59 will grow only 5 percent.

The share of adults in the workforce with a bachelor’s degree or more will increase only slightly—about 1 percent—by 2030. To a great extent, this slow growth stems from the retirement of the numerous and very highly educated members of the baby boom generation. Today, the best-educated age group in California consists of adults ages 60 to 64 (Figure 5). By 2030, these adults will be retired.

In the past, retirees tended to be less educated and relatively few in number—and they were replaced by younger, more-numerous, and more-educated young adults. Going forward, this will no longer be the case. Indeed, the retirement of the baby boomers represents the first time in California’s history that such a large and well-educated generation is exiting the labor force. This loss helps to explain the size of the skills gap we see in 2030.

Figure 5. Older Californians are more likely to be college graduates

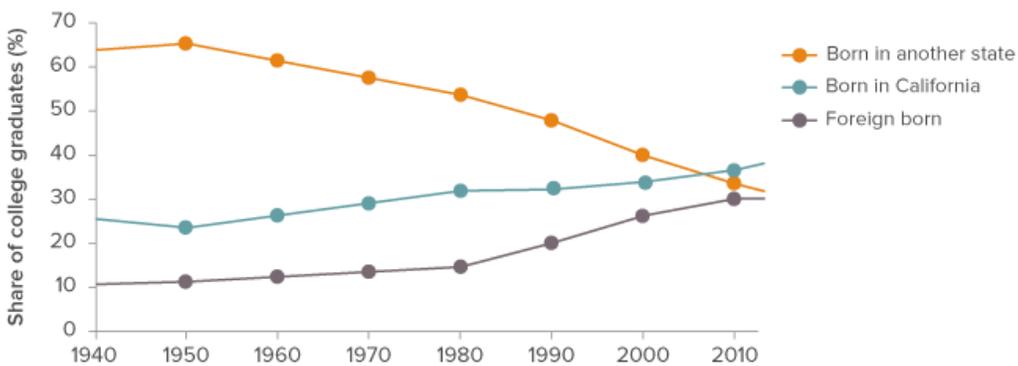


SOURCE: American Community Survey 2011, 2012, and 2013 (combined).  
 NOTE: See the [technical appendices](#) for data and methods.

California is unlikely to attract enough highly educated migrants from elsewhere to close the skills gap. For a long time, the state has relied on migrants to supply employers with the college graduates they need. Before 2010, more of California’s college graduates, by percentage, were born elsewhere in the United States (Figure 6). Since 1980, however, the share of college graduates from other countries has increased quickly, a reflection of the globalization of the state’s economy—and we expect this to continue. Were it not for these increases, the size of the skills gap would be even larger.

California residents are making slight improvements in educational attainment. Indeed, in 2010, for the first time in the state’s history, more of California’s college graduates were born in the state (37%) than in other states (33%) or internationally (30%). Going forward, California’s best approach to closing its skills gap will be to concentrate on improving the educational attainment of its residents.

Figure 6. California’s college graduates are increasingly likely to be born in the state



SOURCE: Authors’ calculations based on decennial censuses and American Community Survey data.  
 NOTE: “Born in another state” includes U.S. territories and those born of American parents outside the United States. Last year of data is 2013.

## Policy implications

Improving college enrollment and completion has multiple, wide-ranging benefits. Individuals benefit from higher wages and less unemployment—in fact, wage premiums for college graduates in California are at all-time highs, and unemployment rates are far lower than for less educated workers. The state benefits from increased tax revenues and less demand for social services (Stiles, Hout, and Brady 2012). Of course, improving educational attainment has other societal benefits as well, including the creation of a more knowledgeable and engaged citizenry.

Our projections indicate that the demand for college graduates will outpace the supply by 2030, if current trends continue. The gap is substantial, with the economy needing 1.1 million more college graduates than the state will produce. But if the state, its educational institutions, and its people are able to improve educational outcomes, California and its residents will experience a much more successful future, with higher incomes, greater tax revenues, and lower use of social services.<sup>13</sup>

Closing the workforce skills gap will require improvements in several important areas. Here, we touch on a few key strategies for the state and its higher education institutions to pursue:

**Increase access.** Students are much more likely to earn a bachelor’s degree if they first enroll in a four-year college, as opposed to a community college, even accounting for differences in academic preparation (Long and Kurlaender, Grosz 2008; Johnson 2015). Therefore, one way to increase the number of college graduates in California is to increase the share of high school graduates eligible for the University of California (UC) and the California State University (CSU). Doing so would also improve access for students from low-income and underrepresented groups.

**Improve completion and time to degree.** At CSU, only 19 percent of students earn a bachelor’s degree within four years, and just over half (54%) do so in six years; at UC, about 60 percent graduate in four years and 80 percent do so in six years.<sup>14</sup> Both systems have used multiple strategies to increase these rates, including mandatory advising for at-risk students, eliminating bottlenecks by redesigning courses with high failure rates, increasing capacity for high-demand required courses, and using data to develop an early-warning system. These and other efforts should continue to be assessed to identify which are most effective. One new approach would be to provide fiscal incentives to colleges for increasing the share of students taking a full load (15 units). Much could be learned from the private, nonprofit colleges in the state, which have high four-year completion rates.

**Expand transfer degrees.** Because of the state’s heavy reliance on community colleges, improving transfer pathways from those colleges to four-year institutions is essential. The vast majority of community college students do not earn a degree or certificate, leading to the large pool of California adults who have some college education but no degree. For new and current students, programs such as the associate degree for transfer should be expanded. These degrees guarantee access to CSU for community college students who fit the required criteria. However, these degrees still depend on individual agreements between specific campuses and specific majors. Expanding the program to include more majors and more campuses (including UC) should lead to increases in the number of students who transfer from the community colleges and ultimately earn bachelor’s degrees.

**Be smart about aid.** Compared with other states, California has done a fairly good job at keeping college costs down, but more could be done. Grant and aid programs, including Cal Grants and institutional grants and scholarships, mean that most low-income, and even some middle-income, students do not have to pay tuition at the state’s public colleges and universities. But other education costs are not well covered, and student debt has been rising—raising questions about whether Cal Grants should cover more than just tuition at public colleges. The state should also consider whether to increase the size of Cal Grants to students at private colleges with good graduation track records and whether to further decrease Cal Grants to institutions with low graduation rates and high loan-default rates. Improved evaluation of the effects of grant aid on student outcomes would help answer these questions.

These strategies should form the core of a new state plan for higher education—and they illustrate the need to coordinate across institutions and issues. Any new plan should include ambitious goals, to ensure that enough high school graduates are ready for college, enough slots are available for new college students, more community college students are able transfer to four-year institutions, and more students complete college in four years. Most important, California and its higher education institutions must strengthen access to college for low-income and underrepresented students.

It is a tall order—but not impossible. PPIC’s Statewide Surveys show that Californians place a very high priority on higher education and are eager to find ways for students and the state to succeed.<sup>15</sup> And if California is able to pull it off, the economic and societal benefits will be significant.

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## NOTES

1. This number is based on the education distributions reported in Figure 1, applied to a 2030 employed labor force estimate of 20.0 million.
2. To be consistent with employment projections, our analyses include all workers age 16 and over. However, in the [technical appendices](#), we restrict our analyses to 25- to 64-year-olds and find similar results.
3. American Community Survey 2011, 2012, and 2013 combined.
4. In 2007, a PPIC report estimated that the flow of international migrants with a bachelor’s degree would have to increase by almost threefold to close the skills gap (Johnson and Reed 2007). Since then, average annual flows have increased, but only by about 10 percent for the period 2006–13 compared with 2001–05. Net flows of interstate migrants with a bachelor’s degree are near zero in the most recent period. In sum, we see no evidence that migration will appreciably close the skills gap.
5. New post-recession economic projections produced by both the Employment Development Department (EDD) and the California Department of Transportation (CalTrans) show lower overall growth than pre-recession projections. Previous EDD projections for 2006 to 2016 showed average annual job growth of 1.66 percent, while post-recession projections for 2012 to 2022 showed average growth of 1.40 percent. Compounded over time, this difference amounts to hundreds of thousands of jobs.
6. Workers who have attended college but not earned a bachelor’s degree are a highly diverse group, ranging from those that have only taken one course in a college to those who have earned a technical certification. Unfortunately, our data do not allow us to differentiate among these workers. Recent research confirms that labor market outcomes across this diverse group also are wide-ranging (Huff Stevens, Kurlaender, and Grosz 2015)
7. These lifetime wage premiums take into account the costs of going to college, including foregone income while in school instead of working.
8. Sources of economic projections are limited. We rely primarily on those developed by EDD. See the [technical appendices](#) for a discussion of those and other projections.
9. These skill-level estimates are based on education levels of workers currently in such jobs (using the American Community Survey), rather than EDD or U.S. Bureau of Labor Statistics estimates of job requirements. See the text below and the technical appendices for further detail.
10. The other fast growing occupations are personal care and service and construction and maintenance.
11. This bifurcation also leads us to project an excess of workers who have attended college but not earned a degree. The relatively large share of adults with some college experience is a direct consequence of the state’s higher education system, with disproportionately high enrollment rates in community colleges and low enrollment rates in four-year universities, compared with other states. In this context, improving transfers from community colleges to four-year universities could substantially lower the projected size of the skills gap.
12. See the technical appendices for a full description of the methods we used to generate projections of the labor force by educational attainment.
13. More college degree holders would mean that employers would be able to hire enough workers to fill jobs at an optimal level (depending, perhaps, on the type and quality of college training). Wages for these workers depend on many factors—including their excess supply or demand—but primarily on their level of productivity. So even in an economy with an increasing share of college-educated workers, if productivity continues to increase (as it has for many decades), and even in a California economy with more skilled workers, the college wage premium is likely to persist.
14. See “[First-Time Full-Time Freshmen](#),” California State University Graduation Rates Consortium for Student Retention Data Exchange, 2013; and “[Undergraduate Student Success](#),” in Annual Accountability Report: 2015, Oakland: University of California, 2015.
15. For example, see Baldassare et al 2014.

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OTHER PUBLICATIONS

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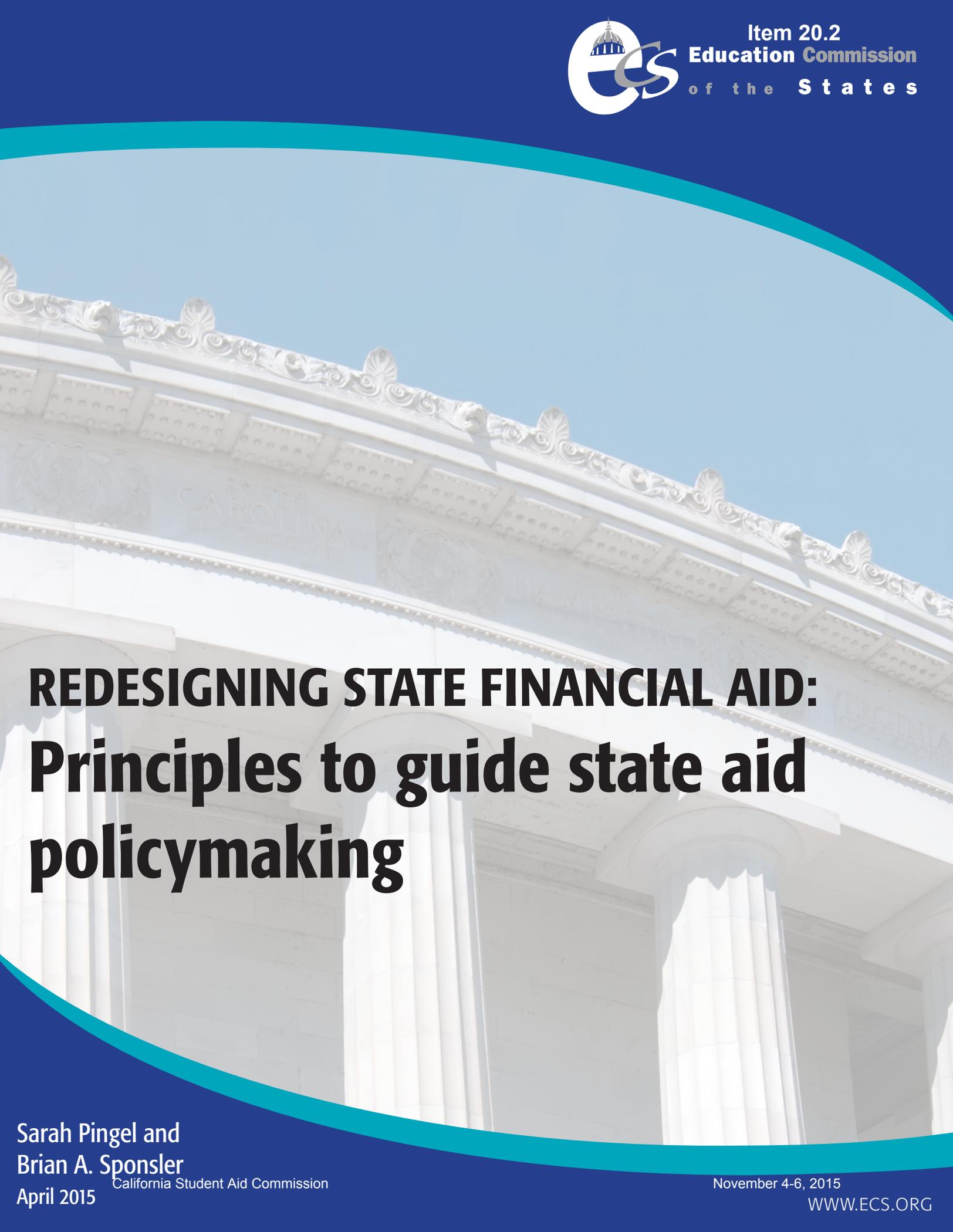
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# REDESIGNING STATE FINANCIAL AID: Principles to guide state aid policymaking

Sarah Pingel and  
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California Student Aid Commission

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## About the Partner Organizations

Support for this paper and this initiative was provided by USA Funds, a nonprofit corporation that supports Completion With a Purpose, building a more purposeful path for America's students to and through college and on to rewarding careers and successful lives. USA Funds pursues its nonprofit mission through philanthropic activities and partnerships, policy research, and programs and services that enhance preparation for, access to and success in higher education. Learn more at [www.usafunds.org](http://www.usafunds.org).

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## About the State Financial Aid Redesign Project

A college education is more important than ever. And yet students are facing unprecedented challenges in financing the cost of completing a meaningful degree or postsecondary credential. Education Commission of the States, in partnership with USA Funds, is addressing this challenge in part through a two-year project focused on state financial aid programs. In addition to the present brief, a 50-state database of financial aid policies will be released in early summer, and ECS will facilitate targeted technical assistance to states addressing aid redesign over the course of the 2016 legislative sessions. For more information on this project, please visit [www.StateFinancialAidRedesign.org](http://www.StateFinancialAidRedesign.org).

The authors would like to thank USA Funds for their support of this paper and ongoing work with state financial aid programs. They would also like to thank each of the experts convened as part of the Education Commission of the States' State Financial Aid Redesign Thinkers' Meeting, who provided valuable expertise and feedback on this brief.

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# Introduction & Overview

**P**aying for college is difficult for many individuals and families. College prices continue on an upward trend, wages and earnings for many families have been flat or only have shown marginal growth over the past several decades, and concerns about student indebtedness are on the rise. Taken together, these factors create a challenging environment for individuals seeking financial support to complete a postsecondary degree program.

In recognition of the challenges of paying for higher education, decision-makers at the federal and state levels support college-going with public policy. Through direct institutional allocations, need and merit-based financial aid programs, and the provision of student loans, government policy has provided access to funds to reduce the price of participating in postsecondary education for many individuals. This is particularly true at the state level.

States have a long history of making investments in individuals seeking postsecondary education and workforce training.<sup>1</sup> Before the federal government created broadly accessible financial aid programs through the passage of the Higher Education Act in 1965, several states had already begun funding aid for college students.<sup>2</sup> Two original state aid programs are still in operation – California’s Cal Grant (1955) and Illinois’ Monetary Award Program (1958).<sup>3</sup> Spurred in part by a federal matching incentive, a wave of state programs were developed throughout the 1960s and 1970s, including 20 states that are still awarding aid to students today.

Continuing the historical legacy of state financial aid, in 2013 state financial aid programs collectively invested more than \$11 billion in students,<sup>4</sup> providing a significant financial benefit for individuals, institutions and, ultimately, state economies. For example, in 2012, state aid covered 16% percent of tuition and fee expenses at four-year public research institutions. This aid adds to the power of federal, institutional and student resources in helping to meet the cost of attaining a degree or credential.<sup>5</sup>

## The benefit of state aid for students



In 2013, total state aid expenditures reached nearly \$11.23 billion and supported 4.5 million students.<sup>6</sup>



A function of their design and history, state financial aid programs tend to primarily serve students following what is often labeled a “traditional” postsecondary pathway: matriculating directly into a two- or four-year degree program in the fall following high school graduation. These students are more likely than their peers to attend credit-hour based postsecondary programs, pursue their education on a full-time enrollment basis and complete their program on time. Education Commission of the States research indicates that many of the largest aid programs in the states are explicitly designed to serve students following this traditional pathway. For example, among the 100 largest state-funded financial aid programs in the country:

- ◆ Twenty-nine programs will *only* fund students who enroll full time.
- ◆ Forty-three define the duration of the award by a set number of terms or years, as opposed to anchoring eligibility to the length of time needed to complete a program at varying enrollment intensities.
- ◆ Thirty-three programs link aid eligibility to college entrance exams like the SAT or ACT or a high school grade point average – traditional college readiness measures that are of little relevance for adults returning to higher education after time in the workforce.<sup>7</sup>

A focus on traditional pathways into and through higher education remains appropriate for a notable segment of today’s college-going population. However, as students increasingly are drawn from populations likely to be older, more diverse and further removed from secondary completion, it is critical that state financial aid programs work for this new majority of college students as well.<sup>8</sup>

A focus on the students whom aid is designed to support is a central tenet of aid redesign efforts. In addition to changing demographics, the nature of the relationship between higher education and state policymakers also has shifted over time. First, state leaders are focusing on higher education not only as a vehicle for individual socioeconomic mobility, but also as a driver of state economic growth. Second, policymakers are holding institutions increasingly accountable for outcomes prescribed by states – be those educational or economic. For example, the proliferation of performance-based funding policies has explicitly tied state support to state-defined metrics such as degree completion and student persistence.

Education Commission of the States believes changing student demographics and shifting expectations for higher education creates fertile ground for states to redesign and re-conceptualize financial aid programs. To advance this premise and support a state-based conversation focused on aid redesign, Education Commission of the States facilitated a meeting of state financial aid experts and challenged them to take a clean sheet approach to rethinking approaches to state financial aid that would best align to the needs of students and support state education goals. The group of experts proposed and debated perspectives on program redesigns that were both incremental and fundamental. After an iterative process, consensus emerged on a set of principles that optimistically seek to frame and advance state aid redesign conversations.

The pages that follow present four principles of financial aid redesign that emerged from the ECS-led thinkers' meeting. Principles are offered as guideposts for state policy leaders and other interested parties as they seek to adjust, modify or in some cases make wholesale changes to state financial aid policies and programs.

Redesign principles fall into four inter-related areas:

**Principle 1: Financial aid programs should be student centered.**

- ◆ Aid programs designed around students and their needs set students up for successful outcomes.

**Principle 2: Financial aid programs should be goal driven and data informed.**

- ◆ Aid programs should have a clearly defined and easily understood intent aligned with measurable state education and workforce goals.

**Principle 3: Financial aid programs should be timely and flexible.**

- ◆ Aid programs should provide financial support to students when it can have the greatest impact on enrollment and persistence decisions.

**Principle 4: Financial aid programs should be broadly inclusive of all students' educational pathways.**

- ◆ Aid programs need to respond to the diverse enrollment options available to students.

The policy environments within which state leaders will consider these principles are as diverse as the pathways students may take into and successfully through higher education. Yet it is our contention that while the specifics may differ, all state leaders are facing the necessity of finding more effective methods for providing financial support to individuals seeking the skills and knowledge necessary to lead productive lives in the 21st century. As leaders wrestle with decisions and policy options, we encourage them to utilize the collective and individual thinking of some of the nation's foremost experts on student aid as reflected in this brief.

Moving forward, this brief presents and discusses each principle and related considerations. Although each principle is discussed in isolation, we recognize that they overlap and intersect in important ways. A "Principle in Practice" box highlights top-line considerations for those seeking a general overview of the ideas under discussion. In each section a "Principle in Policy" box highlights states' actions or policy proposals that reflect the principle under discussion.

This brief is a call to action for state policymakers to be intentional about leading a redesign of state aid that results in greater access and success for today's college students – a necessary precursor to achieving state attainment and workforce goals.

A function of their design and history, state financial aid programs tend to primarily serve students following what is often labeled a "traditional" postsecondary pathway: matriculating directly into a two- or four-year degree program in the fall following high school graduation.

# Principle 1: Student centered

*Financial aid programs should be student centered:*  
Aid programs designed around students and their needs set students up for successful outcomes.

In designing state-funded aid programs, states' focus should be on students. This principle calls for program design decisions predicated by how states can utilize financial aid programs to support student access and success first, rather than employing student aid as a conduit for institutional support. This has specific implications for how funding flows from the state to institutions, as well as student application and awarding processes.

A student-centered approach to aid begins with how funds flow from states to institutions. Channeling state financial aid dollars based on an institutional allocation method frames state aid as an institutional benefit rather than a direct benefit to students. Through a "campus-based" program model, institutions generally have a significant role in defining eligibility requirements and prioritizing students for awards, while the state may prescribe several overarching directives for institutions in statute or regulation. Forfeiting direct oversight means that the state's investments in financial aid may be overshadowed by institutional priorities rather than state goals.

Under the campus-based model, states may also lack information about how state aid dollars interact with institutional aid in the aid packaging process. Additionally, campus-based aid is not portable from institution to institution – meaning that a student may receive different amounts of state aid depending upon the institution preparing the aid package. When states place institutions in a position to manipulate net price<sup>9</sup> through campus-based programs without clear state goals, they delegate the authority to define which students deserve state support to institutional aid administrators; actors that may or may not have alignment with state education goals.

Re-envisioning state aid as a student benefit rather than institutional benefit necessitates redesigns of aid application cycles. Currently, the process of identifying eligible students for state aid often begins when a student is admitted to a postsecondary institution. However, other behaviors or data sources can assist states in identifying students likely to benefit from state financial aid without requiring an express intent to enroll. In many states, eligibility information can be obtained through state income tax

data or state longitudinal data systems. Participation in state workforce programs or public assistance programs also may serve as meaningful proxies for state aid eligibility. These options allow states to proactively notify students of their eligibility for funds, regardless of any previously expressed intent to seek postsecondary enrollment. Leveraging new sources of data to identify eligible aid recipients streamlines application processes that pose barriers for students and decouples application deadlines from revolving around a traditional fall semester start date.<sup>10</sup> State aid is subsequently positioned to reduce affordability barriers and encourage targeted students to enroll or re-enroll in postsecondary education.

Key components of financial aid redesign include refocusing state financial aid programs on student needs. Defining students as the primary beneficiaries of state financial aid allows for alignment of state goals and institutional practice to best serve students. A clear definition of the state goals for the program is critically important to a student-centered approach to state financial aid, as is a detailed understanding of how data can inform and direct goal development and monitor progress toward desired outcomes.

## Principle in Practice

### Student-centered financial aid programs:

- ◆ Support students first, not institutions.
- ◆ Proactively notify eligible aid recipients.

## Principle in Policy

### Proactive recipient identification in California

One of the oldest state financial aid programs, the Cal Grant program, is California's main need-based aid program. Assembly Bill 2160, signed into law in 2014, requires high schools to electronically send student grade point averages at the end of the junior year to the California Student Aid Commission (CSAC). This information enables the commission to match student GPAs with financial need information from the Free Application for Federal Student Aid (FAFSA). These two data points provide CSAC with all of the information needed to determine Cal Grant eligibility without requiring students to supply information beyond the FAFSA.

Through re-thinking the channels by which CSAC could receive Cal Grant eligibility information, this policy enables early and proactive identification of Cal Grant eligible students. Armed with this knowledge, students are empowered to make more informed postsecondary application and enrollment decisions.

“Defining students as the primary beneficiaries of state financial aid allows for alignment of state goals and institutional practice to best serve students.”

## Principle 2: Goal driven, data informed

*Financial aid programs should be goal driven and data informed:* Aid programs should have a clearly defined and easily understood intent aligned with measurable state education and workforce goals.

**G**oal setting and effective use of data to monitor progress toward stated goals is an integral principle of state financial aid reform. Goals for state financial aid programs are intended to inform the direction of statewide aid policy development, adoption and change. A clear state goal creates common ground and presents an opportunity for state leaders to set the stage for institutional and student actions.

Drafting a strategic goal for financial aid programs should involve the input of a variety of stakeholders, such as state legislators, representatives from higher education governing bodies, institutional administrators, higher education researchers and diverse student perspectives. A review of policies in light of statewide postsecondary enrollment trends, statewide demography and workforce needs may yield important opportunities to realign policy. As states conduct this type of analysis, it is imperative that strong leadership emerges from offices responsible for higher education, the legislative branch and governor's offices.

Goals for state financial aid programs should consider all state aid programs aimed at postsecondary student enrollment and success. A global view of funding streams dedicated more broadly to education or workforce preparation, whether through a postsecondary aid program, funding for returning military veterans or workforce investment programs, reveals the variety of ways in which states provide funding for postsecondary students. Looking at these funding streams holistically may enhance their overall coordination. Additionally, organizing the efforts of segmented state programs that target similar populations of potential postsecondary students may improve the student application process and increase awareness of aid availability.

State data systems can assist in monitoring progress toward established goals. In crafting data systems that can assist in monitoring progress toward goals, states should give particular consideration to institutions in two specific ways.

First, states will need institutions to provide data for all students as well as disaggregated data for financial aid recipients. Monitoring and analyzing access, persistence or completion metrics for state aid recipients serves as an important accountability feedback to

states. Leveraging existing data sources to monitor progress is essential; however, setting innovative goals also may call for states and institutions to collect and track new types of data. In this way, the process of setting goals also may create the opportunity for states to push for new or innovative ways to measure student progress and success.

Second, states should employ data to ensure a baseline-level of institutional quality and accountability. Analyzing data by institution can identify the pathways that most contribute to state goals and may assist states in defining where students can use their state aid dollars. In setting institutional participation standards, states have the opportunity to define benchmarks for institutions to meet, such as access indicators for underserved populations, persistence rates or completion targets. They also may incorporate post-graduation measures such as sector employment and wages, graduate school enrollment or student loan default rates. In Minnesota, for example, data drove the development of a proposed institutional eligibility framework for state financial aid. Each state's eligibility metrics will likely vary for a local context, but every state should seek to ensure that institutions receiving state aid dollars are meeting specified performance targets, serving students, and contributing toward state interests and objectives. More information about Minnesota's approach is detailed in the Principle in Policy sidebar.

Finally, progress toward goals should be monitored through intermediate milestones. Recognizing that reaching goals takes time, identifying progress or momentum points will provide valuable opportunities to identify problems early and make mid-course corrections. Policy change is an inherently iterative process; missteps and misalignments between student needs and policy design should be expected and addressed as soon as possible. Policy should be nimble and flexible to allow for these realignments. Additionally, monitoring progress allows for celebration and public recognition of policy success; something done all too infrequently in our estimation.

Defining strategic goals and directions for state financial aid programs not only makes clear what ends states will achieve through investments in state aid, it also entails a call for effective data systems and analysis. Together with a student-centered approach to aid, designing state aid programs around goals concentrates state aid policy on how to best respond to the needs of students and states. Additional opportunities to redesign state financial aid policy rely on principles of timeliness, flexibility and inclusivity.

## Principle in Practice

### Goal-driven, data-informed financial aid programs:

- ◆ Seek broad input and support in crafting goals for state aid programs from key constituents, including institutions, students, business leaders and policymakers.
- ◆ Take a holistic view of all funding sources designed for workforce preparation.
- ◆ Hold institutions accountable to maintain eligibility for state aid dollars.
- ◆ Make explicit links to data systems and commit to monitor milestones.

## Principle in Policy

### Using data to monitor goals and institutional eligibility in Minnesota

Minnesota Statute 136A.095 establishes that the goal of state-funded financial aid is to encourage educational development among economically disadvantaged students in eligible institutions. To this end, S.F. 1236, passed in 2013, called upon the state's Office of Higher Education (OHE) to employ data to specify an updated institutional eligibility framework.

In response to the legislative mandate, OHE issued two reports detailing existing criteria that institutions must meet, new metrics that may be considered, the limitations of the metrics and possible implementation steps for the future. Current institutional eligibility criteria specify that institutions must be located in Minnesota, governed by a specific state board, eligible to participate in federal student aid programs and offer academic programs leading to certificates or degrees of a specified length. The reports explore the opportunities and challenges present in expanding the institutional participation framework to include data points such as enrollment of key populations, student debt, persistence, time to degree, completion, employment and return on investment data.

## Principle 3: Timely and flexible

*Financial aid programs should be timely and flexible:*  
Aid programs should provide financial support to students when it can have the greatest impact on enrollment and persistence decisions.

**M**any states employ explicit time structures and deadlines as a means to project budgetary needs and streamline administration. However, structuring programs around the passage of time has consequences such as limiting the program's reach into nontraditional student populations and new postsecondary delivery models. Time currently dominates the eligibility equation for state aid in several ways: the initial eligibility determination and subsequent awarding process, the duration of a state financial aid award and the required schedule for drawing down disbursements of state aid.

In many two- and four-year programs across the states, students can make enrollment decisions within a matter of weeks of beginning coursework. For example, institutions utilizing modular course scheduling offer the opportunity for students to begin their program at many points throughout the year. For institutions offering courses on academic terms such as semesters or quarters, students can be admitted and choose to enroll within a short time of beginning classes. While these students may meet the established eligibility criteria for state aid, they likely will not receive funding after a state's priority filing deadline has passed.<sup>11</sup> In this case, the time that a student's enrollment decision is made is the deciding factor for funding eligibility. However, rather than framing time as a penalty for students to avoid, states can approach the timing of aid awards and disbursements as a lever to influence student enrollment and persistence decisions.

Generally, many students will not know what types of financial aid they are eligible to receive until they have received a financial aid award letter from the institution or institutions that have accepted their admission application. However, states have the opportunity to join the affordability conversation much sooner. The optimum time to make awards varies by student population but, in general, promises of aid should be made as early as possible, even before a student chooses to enroll.

For students matriculating directly from high school, early commitment scholarship programs set the expectation that state support for higher education will be available during a student's K-12 enrollment. This promise is intended to alleviate college affordability concerns at a key time when students still have the opportunity to translate college aspirations into college readiness. A Principle

in Policy box features an approach to early award notification in Oklahoma, where students have the opportunity to apply for state financial aid as early as eighth grade.

For adult students enrolling in degree programs or seeking new job-specific skills later in life, time between the decision to pursue postsecondary education and the start of the academic term or module course is usually limited. To appropriately address the variability in the timing of adult student enrollments, states need to be intentional to not commit all available aid funds by a deadline set early in the calendar year; doing so may leave little money on the table for students who seek aid later. In Oregon, for example (see sidebar), a proposed policy seeks to move away from a first-come, first-served approach to financial aid in favor of focusing on specific eligibility criteria to drive recipient selection.

Finally, once a student is awarded financial aid, the award amounts are often tied to traditional academic terms such as semesters or quarters, generally dividing funds over each term while excluding the summer. This practice synchronizes aid disbursements with traditional models of student enrollment and may limit student access to attend year-round. As a consequence, students may not be able to access aid dollars for the summer term. However, granting students the flexibility to re-align their financial aid eligibility to alternative enrollment patterns ensures that students will be able to access aid when they are ready to enroll, as opposed to waiting for financial aid eligibility to renew in a subsequent term or school year. Eliminating the need for students to wait for financial aid to renew in a new school year means that students can complete requirements faster, gaining traction toward the graduation podium.

Redesigning state aid to leverage timing, both in terms of establishing initial student eligibility and awarding processes, provides opportunities for states to use financial aid as a tool to impact student enrollment decisions. State budget cycles and the need to accurately predict funding levels in advance are challenges that states will face in this effort. However, policy examples from Oregon and Oklahoma serve as examples of thoughtful ways to rethink timing to better serve students. State financial aid programs also may be redesigned to respond to the variety of educational pathways available to students today by becoming more broadly inclusive.

## Principle in Practice

### Timely and flexible financial aid programs:

- ◆ Avoid exhausting funds based on deadlines.
- ◆ Award financial aid as early as possible.
- ◆ Decouple award schedules from calendar or academic years.

## Principle in Policy

### Making early promises in Oklahoma

Created through the Oklahoma Higher Learning Access Act in 1992, the Oklahoma's Promise program provided more than \$60 million in assistance to Oklahoma students in 2013. The program establishes a student's state aid eligibility in eighth, ninth or 10th grade. Students who meet income criteria, complete a specific sequence of high school courses with a minimum GPA and complete other requirements earn free tuition at a public two- or four-year institution in the state through the program.

## Principle in Policy

### Rethinking deadlines in Oregon

Similar to many other states, the demand for state aid dollars outpaces the fiscal capacity of the program. Historically, students qualifying for Oregon Opportunity Grants have been prioritized by the date that their FAFSA is complete, with funds generally exhausted in February or March of each year.

Through a new proposal under consideration in the 2015 legislative session, H.B. 2407, the Office of Student Access and Completion would have the latitude to draft new rules that would prioritize students based on financial need throughout the year rather than exhausting all program funds at once. This new approach may open access for students whose enrollment plans change mid-year.

# Principle 4: Broadly inclusive

*Financial aid programs should be broadly inclusive of all students' educational pathways: Aid programs need to respond to the diverse enrollment options available to students.*

Students enrolling in postsecondary education have a broad array of enrollment options available to them. Under current policy, state aid generally privileges full-time enrollment in two- and four-year degree-seeking programs. Full-time enrollment in traditional programs works well for many students, but not for all. As the variety of educational delivery models and enrollment options available to students diversifies, aid programs should adapt to allow for students to select options best designed to meet their needs. Practical applications of this redesign principle may include allowing aid programs to serve students enrolled in competency-based or prior learning-based programs and allowing students to mix full- and part-time enrollment as a strategy to persist to program completion.

Although state financial aid programs need to measure progress to pace individual disbursements, the credit hour is no longer the only means available to students to complete the requirements for their degree or credential program. Despite this, the credit hour is a mainstay for measuring academic progress in state aid programs. States must appropriately take steps to ensure institutional and program quality, however, taking an expanded view of progress toward a credential would allow states and students the flexibility to fund competency-based programs, prior learning assessments and online course delivery – in addition to programs based on the credit hour. Granting greater flexibility to students to access state aid for a variety of delivery models means that aid no longer pays purely for credit accumulation, but more broadly for learning and progress toward a postsecondary credential.

Aid delivery should also be flexible to allow for a variety of enrollment intensities and patterns. Emerging data show that students returning to college who mix full-time and part-time enrollment may ultimately be more likely to complete their postsecondary credential.<sup>12</sup> However, current aid delivery models may deny aid from otherwise eligible students who opt to enroll part time for all or part of the year. Encouraging full-time enrollment is appropriate under many circumstances. However, it should not be done at the expense of aid eligibility for part-time students who are being intentional about their enrollment choices. Limiting aid exclusively to full-time enrollment has consequences for students facing course availability limitations or work and family

commitments. Including part-time and full-time students in financial aid program allows students the flexibility to synchronize the pace of their aid with the pace of their academic program when full-time enrollment is not an option.

State financial aid should not privilege certain postsecondary delivery models or enrollment intensities; rather, it should be adaptable and broadly inclusive. Funding progress toward a credential earned through competency-based degrees, prior learning assessments and credit-based programs aligns state aid with the broad variety of delivery models currently available to students. In this same vein, encouraging full-time enrollment is still possible while preserving eligibility for part-time students who do not have the option to enroll full time or who wish to enroll year round.

## Principle in Practice

### Broadly inclusive financial aid programs:

- ◆ Do not limit aid eligibility exclusively to academic programs measured by credit hours.
- ◆ Allow for full- and part-time student enrollment.
- ◆ Fund student progress when it occurs.

## Principle in Policy

### Flexibility for full- and part-time enrollment in Illinois

Students funded through the Illinois Monetary Assistance Program (MAP) have the flexibility to align aid disbursements with their unique enrollment patterns. The program measures progress through credit hours, allowing students to fund as few as three in any one term. The award amount is pro-rated based on the number of credit hours in which a student enrolls. The flexibility is matched with accountability; if students do not obtain junior or senior standing by the time 75 credits are funded, MAP eligibility is rescinded.

“As the variety of educational delivery models and enrollment options available to students diversifies, aid programs should adapt to allow for students to select options best designed to meet their needs.”

# Concluding Thoughts

Education Commission of the States, in consultation with leading experts on state-funded aid, find that state financial aid programs can be redesigned to respond to the contemporary needs of students and states. Much has changed since many state aid programs were conceived, including the students served by higher education, how they are served and what states expect from their investments in postsecondary students.

In this paper, we have advanced four principles for state aid redesign that seek to guide state aid policy formation:

## **Principle 1: Financial aid programs should be student centered.**

- ◆ Aid programs designed around students and their needs set students up for successful outcomes.

## **Principle 2: Financial aid programs should be goal driven and data informed.**

- ◆ Aid programs should have a clearly defined and easily understood intent aligned with measurable state education and workforce goals.

## **Principle 3: Financial aid programs should be timely and flexible.**

- ◆ Aid programs should provide financial support to students when it can have the greatest impact on enrollment and persistence decisions.

## **Principle 4: Financial aid programs should be broadly inclusive of all students' educational pathways.**

- ◆ Aid programs need to respond to the diverse enrollment options available to students.

Separately, each of the principles addresses a specific area for states to make incremental policy change. Taken together, they provide the opportunity for states to make fundamental shifts in how state financial aid programs are designed and awarded. A unified policy consistent with all four redesign principles employs state financial aid as a tool to serve state goals and student needs. Depending on the specific state context, integrating the four principles could take the shape of a variety of policy options, such as investing in early financial aid savings accounts, devising a system of student vouchers for higher education expenses or redesigning an existing grant program.

Finally, states have much to gain by realigning existing investments in state-funded financial aid to current student and state needs. Financial aid programs have the potential to transform the student experience in higher education and the outcomes that states seek from a credentialed workforce. Meaningful redesigns can ensure that existing investments made in financial aid maximize benefits for students and states alike.

## ***State Financial Aid Redesign Thinkers' Meeting Participants***

***December 4, 2014 ~ Las Vegas, Nevada***

With the support of USA Funds, Education Commission of the States convened twelve of the nation's leading experts on state financial aid to rethink the major components of a new system of state-funded aid. Over two days, experts discussed the promises and pitfalls of current models of student financial support in the states. The recommendations made in this paper are due in large part to their critical examinations of state financial aid and is a product of this ongoing collaboration.

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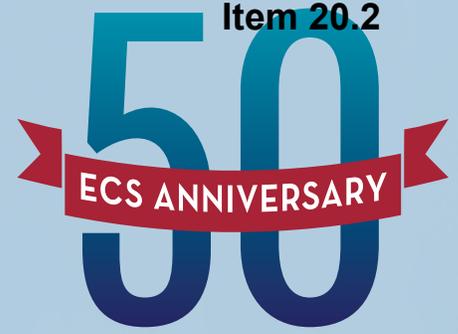
# Endnotes

- 1 For the purposes of this paper, we utilize the terms “higher education,” “postsecondary education” and “college” interchangeably.
- 2 National Association of State Student Grant and Aid Programs, *30th Annual Survey Report on State-Sponsored Student Financial Aid* (National Association of State Student Grant and Aid Programs, 1998), 27, 30.
- 3 Several state programs predate initiatives in California and Illinois; however, our focus is to highlight major state programs established prior to the passage of the HEA that are still operating today.
- 4 National Association of State Student Grant and Aid Programs, *44th Annual Survey Report on State-Sponsored Student Financial Aid* (National Association of State Student Grant and Aid Programs, 2014), 2.
- 5 National Center for Education Statistics, Integrated Postsecondary Education Data System, Institutional Characteristics, Finance, Student Financial Aid and Enrollment Surveys
- 6 Ibid, National Association of State Student Grant and Aid Programs, 2014. Students receiving aid from multiple state programs simultaneously in any given year are duplicated in the recipient count.
- 7 ECS compiled a 50-state database of state financial aid programs. We scanned for programs in the 50 states, District of Columbia and Puerto Rico. We identified the two largest expenditure programs in each jurisdiction, resulting in 99 programs. For harmony’s sake, we selected the next largest expenditure program in the choice set, resulting in three programs for the state of Texas.
- 8 *America as 100 College Students* (Bill and Melinda Gates Foundation, 2015), <http://postsecondary.gatesfoundation.org/student-stories/america-as-100-college-students/> (accessed March 25, 2015).
- 9 Net price refers to the difference between published tuition and grants and scholarships awarded in a student’s financial aid package. It is the price that a student is expected to pay out of their own resources or to finance.
- 10 Research on the federal student aid system illustrates this point, see: Susan Dynarski and Judith Scott-Clayton, “The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics,” *NBER Working Paper No. 12227* (2006).
- 11 According to NASSGAP data, in 2013, 57 percent of state aid programs were unable to fund all students meeting eligibility guidelines. In several states, priority filing deadlines are employed in order to prioritize eligible applicants for funding.
- 12 National study of non-first-time students shows full-time enrollment may not be appropriate for all (*Inside Track, NASPA: Student Affairs Administrators in Higher Education*, UCPEA, & the National Student Clearinghouse, 2015), <http://www.insidetrack.com/2015/01/20/national-study-of-non-first-time-students-shows-full-time-enrollment-may-not-be-appropriate-for-all>.

# Notes



Item 20.2



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