

## Does Federal Financial Aid Facilitate Social Mobility? How Could It Do Better?

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The federal financial aid system is designed to bring a college education into reach for recent high school graduates and older adults who do not have the resources to pay for that education. But is handing money to students after they make the decision that it is time to enroll in college an adequate strategy for addressing inequalities in educational opportunity?

The basic premise behind the financial aid system is that a lack of money makes it difficult or impossible for many people to pursue appropriate postsecondary opportunities. There is strong evidence that college education significantly increases the chance that adults from low-income backgrounds will move up the economic ladder.<sup>1</sup> Yet billions of dollars of federal student aid over about half a century have not made much of a dent in the correlation between socioeconomic status and educational outcomes.

Can we do better?

### *The current system*

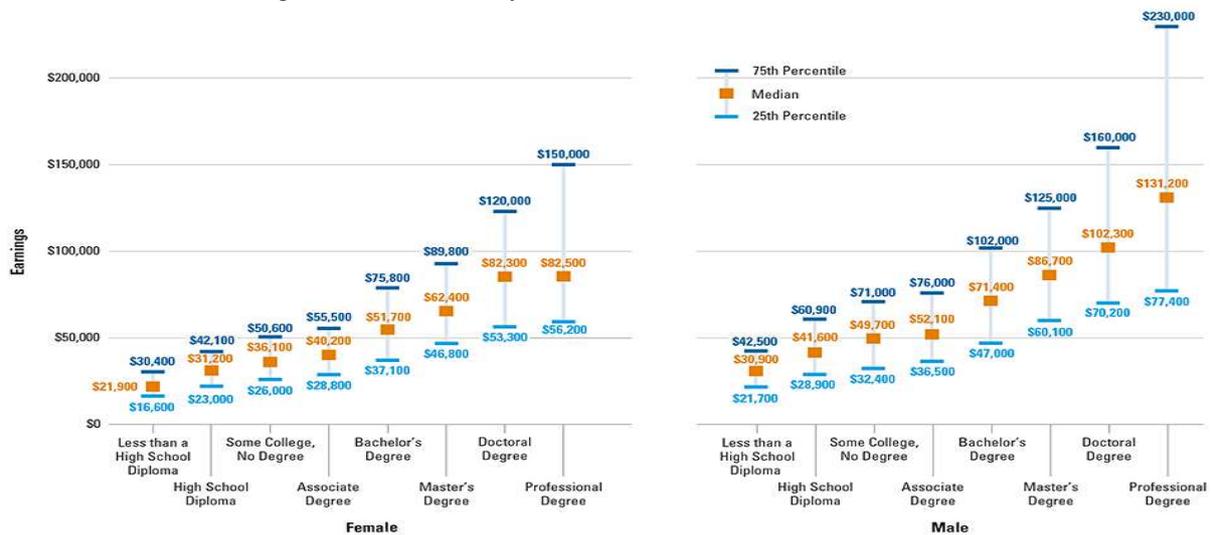
The financial aid system is rooted in the understanding that higher levels of education are associated with higher earnings, more career options, and a range of nonmonetary benefits. In 2015, median earnings for males ages 25 and older with associate degrees working full-time year-round were 25 percent higher than the median for high school graduates. The median male whose highest degree was a bachelor's degree earned 67 percent more than the median high school graduate. For females, these gaps were 22 percent and 68 percent, respectively.<sup>2</sup> Despite variation in earnings within education groups, the differences across groups are stark (figure 1).

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<sup>1</sup> Ron Haskins (2016), *Education and Economic Mobility*, The Brookings Institution ([https://www.brookings.edu/wp-content/uploads/2016/07/02\\_economic\\_mobility\\_sawhill\\_ch8.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/02_economic_mobility_sawhill_ch8.pdf)).

<sup>2</sup> Source: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement, PINC-03.

Figure 1:  
 Median, 25th Percentile, and 75th Percentile of Earnings of Full-Time Year-Round Workers  
 Age 25 and Older, by Gender and Education Level, 2015



Source: Jennifer Ma, Matea Pender, and Meredith Welch (2017). *Education Pay 2016: The Benefits of Higher Education for Individuals and Society*, figure 2.5.

In addition to these individual benefits, society as a whole benefits from a more educated population. There are economic benefits—wages are higher for all workers when a larger fraction of the workforce has college degrees; college graduates pay higher taxes because of their higher earnings; college graduates are less likely than others to be unemployed or to depend on social support systems such as TANF, SNAP, or Medicaid. There are also non-economic benefits. College graduates are more likely to vote and to volunteer; they are more likely to exercise regularly and less likely to smoke; they are more likely to read to their children and engage in other family activities that increase children’s chances for success in school.<sup>3</sup>

These benefits underlie both the equity and the efficiency arguments for the federal student aid system. It is unfair for lack of ability to pay to prevent people from investing in themselves and their futures. It is a waste of resources to deny people access to the educational opportunities that will make them more productive workers and increase their contribution to society.

But the federal financial aid system is basically a voucher system. It puts money in people’s hands to cover part of the cost of education at the institutions and programs of their choosing. Certainly, these dollars—both grants and loans—have changed many lives. They have allowed people who could otherwise not pay tuition or pay the rent while they are in school to go to college, earn degrees, and move up in the world. But we have a long way to go before children

<sup>3</sup> Source: Jennifer Ma, Matea Pender, and Meredith Welch (2017). *Education Pay 2016: The Benefits of Higher Education for Individuals and Society*,

growing up in lower socioeconomic groups will have the same chances for success as their more privileged peers.

### *Before college*

The financial aid system alone cannot come close to removing the barriers to social mobility through education. Financial barriers at the time of the college enrollment decision tell a small part of the story.

If young people arrived at age 18 in similar circumstances but with varying amounts of money in their pockets and in their parents' bank accounts, handing out money to equalize opportunities for higher education might come close to solving the problem. But, of course, this is not the reality. Dramatic differences in parenting, neighborhoods, early childhood education, health care, K-12 education, exposure to the arts, travel, etc. etc. generate a very high level of inequality among young adults at age 18.

This inquiry into the potential for financial aid to increase social mobility cannot tackle these fundamental issues. Setting the goal of the system as equalizing outcomes is unrealistic. Some children grow up surrounded by books and conversations about ideas. They travel and discover that there are exciting worlds beyond their immediate surroundings. They come to understand that learning is satisfying and that asking questions brings rewards. For others, life is about meeting daily needs.

Most children in middle- and upper-income families and those whose parents went to college grow up hearing about college as a reasonable and likely path, if not a clear expectation. They know they have to do well in school if they want to be accepted in college. They are confident that even though college is expensive, there will be a way to pay for it. But children growing up under severe financial constraints and without college-educated role models have no such expectations. Why work hard in school if it isn't going to lead anywhere? Why not just try to get school over with and get a job as soon as possible?

Providing money for college through the financial aid system can't change all this. But reaching down to children at early ages, increasing their optimism about future opportunities, could help. Letting kids know that the money will be there—that college will be financially accessible if they choose this path—would be a step in the right direction. And combining the promise of funding with more information about what college is and about the value of education and how it can transform people's lives would be an even bigger step.

Programs for children won't help those who have already reached adulthood and are not prepared for college. Many people go to college later in life, and their postsecondary success is also a critical component of the role of higher education in facilitating social mobility. But the majority of them would not find themselves in the circumstance of struggling to build a secure life without a college education if they had had better opportunities when they were younger, so focusing on the circumstances facing young people is useful. At the same time that we solve

problems for today's potential college students, we should be putting resources into preparing the next generation.

What kinds of financial aid policies should we consider?

Designing a system that comes as close as possible to mimicking for low-income students the circumstances of those from more privileged backgrounds is a promising way to narrow the gaps. A system of education accounts could allocate public funds to children each year as they are growing up. Imagine, for example, that when parents file their federal income taxes, they receive a letter—as do their children—informing them that the government has made a deposit to an account in the child's name. The annual award might be equal to 15 or 20 percent of the Pell Grant college students from similar families would receive. If that money accrued interest, a child receiving a credit of \$1,000 a year would end up with about \$24,000—about four full Pell Grants under current policy.<sup>4</sup>

When they reach college age, young people whose families have had very low incomes for their whole lives would have larger accounts than those whose families had seen more ups and downs. The size of the account would not depend much on whether the most recent year was an up or a down year, so it would be hard for families to “game” the aid calculation by moving earnings from one year to another. Having received notices every year about the value of their accounts, about tuition prices at public colleges in their state, and about the payoff to a college education, many of these young people would have thought about college. They would have understood much more about their options than they do now.

They would not have to fill out a complicated application form and wait anxiously to find out about their financial aid at the same time they are trying to figure out what they want to do after high school. Instead, they would know how much money they would be leaving on the table if they didn't go to college. They would, of course, be able to postpone college and use the money a little later.

Proposals for universal grants to children have been around for a long time. Thomas Paine proposed that all citizens should be paid a fixed sum when they reached the age of maturity.<sup>5</sup> Bruce Ackerman and Anne Alstott grounded their concept of asset-based egalitarianism in a universal stakeholder grant to those reaching adulthood.<sup>6</sup> The Child Trust Fund provided accounts for children in the United Kingdom from 2005 to 2011.<sup>7</sup> The idea of college accounts is related, but distinct from, these broader proposals, which do not tie grants to college attendance.

Whatever the merits of universal accounts available for a wide range of expenditures, a smaller scale program that targets young people with limited means and focuses only on postsecondary

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<sup>4</sup> This idea is based on the proposal made by the Rethinking Student Aid study group in 2008. See Rethinking Student Aid Study Group (2008), *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid*, The College Board (<http://media.collegeboard.com/digitalServices/pdf/advocacy/homeorg/rethinking-student-aid-fulfilling-commitment-recommendations.pdf>).

<sup>5</sup> Thomas Paine (1797), *Agrarian Justice*. Social Security Administration: Social Insurance History (<https://www.ssa.gov/history/paine4.html>).

<sup>6</sup> Bruce Ackerman and Anne Alstott (2000), *The Stakeholder Society*. New Haven: Yale University Press.

<sup>7</sup> <https://www.gov.uk/child-trust-funds/overview>.

education would be most likely to encourage enrollment—and would be most feasible from a budgetary perspective. The program described here could supplement Pell Grants—but it could also be designed as early commitment of existing Pell Grant funds.

Several design issues merit discussion. One is the question of matching funds. A number of states match contribution to 529 savings plans for some or all participants. Individual development accounts have, in some cases, proven effective at encouraging some low-income households to save small amounts of money.<sup>8</sup> But whatever the advantages of saving, conditioning subsidies for college on parental savings is problematic. Many parents simply will not save. Some will not save because they really have no discretionary income and asking them to choose between skipping meals and putting a few dollars away hardly seems appropriate. Some will not save because they have no interest in sending their children to college. Some will not save because they suffer from substance abuse or are incarcerated. Do we really want children whose parents are in these circumstances to receive smaller public subsidies for college than those whose parents are more able or more motivated to save?

Another question is whether these accounts should be only for postsecondary education or should also be available to start a business or buy a house or take another step toward an independent future. It is certainly reasonable to argue in favor of these asset-building grants. But even if we had such a policy it would still make sense to design education-specific accounts. The goal is for kids to grow up understanding something about the unique role education can play in their lives and knowing that whatever other choices they make, education will be within reach.

There are less ambitious ways to increase academic, psychological, and financial preparation among disadvantaged youth. All involve ensuring that the financial aid system reaches farther down than the last year of high school. It would be possible to lock in Pell Grant funding at the beginning of high school and to promise funding for multiple years without requiring that all students reapply each year. Age-appropriate information campaigns for school children and improvement in the high school guidance systems that should help students to choose courses that will prepare them for college could also make a difference. But to have a significant impact, the efforts will require resources, evidence-based design, and rigorous testing.

### *Helping students choose: Decisions about college*

The federal financial aid system was designed to increase access to higher education. It was not designed to address student success—unless the only thing impeding success is immediate financial circumstances. A meaningful concept of helping students succeed requires more than a voucher. Choosing a postsecondary path is a complex and difficult undertaking. Students from upper-middle-class families, whose parents went to college and whose guidance counselors understand the differences among institutions, find the process stressful. They don't know whether to choose a large university or a small liberal arts college, an urban or a rural campus, a public or a private non-profit institution. They may debate whether it is better to go to the most selective college to which they can be admitted or to aim lower in the hope of facing fewer academic challenges.

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<sup>8</sup> CFED (accessed 4/12/2017), "Individual Development Accounts" (<https://cfed.org/programs/idas/>).

But the questions facing students who do not have strong support systems and who don't know many people who have graduated from college are much more fundamental. Should they look for a job, join the military, go to the local community college, or believe the ads for the for-profit institutions they see on the bus every day? If they do go to college, should they opt for a short-term credential in a clearly-defined occupation or a broad general education?

Much discussion of the failure of colleges and universities to disrupt class hierarchies focuses on getting more low-income and first-generation students into selective colleges. But even very successful efforts in this direction will help only a small sliver of students from disadvantaged backgrounds. The federal financial aid system should focus on supporting the decision-making process of a much broader groups of students. A voucher system detached from constructive guidance has proven to leave many students who receive funding behind. Many students miss the opportunity to enroll in the institutions most likely to help them achieve their goals. Worse, too many enroll in institutions that predictably leave them with debt, no degree, and shattered dreams. We should focus at least as much on keeping students out of the *worst* institutions as we do on increasing access to the most selective institutions. Students have to understand how misleading the recruitment materials of some institutions can be, how difficult it is to successfully transfer from two-year to four-year colleges, and how important their classmates are. A system that provides funding without appropriate restrictions on how that funding can be used and without supporting the complex decision making necessary for pursuing successful postsecondary pathways is not doing its job.

The Pell Grant system could incorporate personalized counseling. That counseling could be tailored to the different needs of recent high school graduates and older adults returning to college after time in the labor force. Recent high school graduates would receive light touch, technology-facilitated guidance from the time they apply for aid until they enroll, as well as academic coaching services through the first year. Older independent students would participate in one-on-one information and guidance sessions. It is important that they receive this guidance from an impartial third party before they commit to a specific institution or program.<sup>9</sup> These programs would cost a small fraction of the amount disbursed in Pell Grants and could significantly increase the productivity of the investment, both for students and for taxpayers.

### *Information is not enough*

Personalized guidance is likely to be much more effective than just making information generally available. But even a strong program of this sort does not obviate the need for consumer protection. The federal government cannot and should not make detailed rules about the structure and processes of higher education institutions. But as long as it provides a significant share of the funding that allows colleges and universities to enroll and educate students and allows students to make the investments that increase their prospects for productive

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<sup>9</sup> See Sandy Baum and Judith Scott-Clayton (2013), *Redesigning the Pell Grant Program for the Twenty-First Century*. The Hamilton Project ([http://www.hamiltonproject.org/assets/legacy/files/downloads\\_and\\_links/THP\\_BaumDiscPaper\\_Final.pdf](http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/THP_BaumDiscPaper_Final.pdf)).

lives, it has a responsibility to protect both students and taxpayers from fraud, abuse, and extreme waste.

The differences between the market for higher education and textbook cases of perfectly competitive markets leading to efficient outcomes are well documented. If college choices involved perfect information, many small suppliers providing undifferentiated products or services, and easy entry of new providers and exit of those not offering the same quality as the rest of the market, perhaps there would be no need for active government involvement. This is quite clearly not the case. The Obama administration's short-lived idea that the federal government could rate all institutions and even link students' financial aid to the ratings of their colleges exaggerated both the government's capacity and its appropriate role.<sup>10</sup> A pass-fail judgment makes a lot more sense. The current restrictions limiting which institutions qualify for federal student aid are weak, and will get weaker if the federal government backs off on its efforts to regulate the for-profit sector of higher education. The Gainful Employment regulations, which require that the graduates of for-profit programs and non-degree programs at nonprofit colleges and universities have average loan payments not exceeding specified percentages of their incomes, have the potential to prevent students from taking their federal aid to some of the most problematic programs.<sup>11</sup> Efforts to develop the most equitable and efficient approach to eliminating the most egregious violators from the system should continue.

### *Promoting student success*

Distributing funds to students in the form of grants and loans as they enroll is an important step in diminishing the financial barriers to college. But providing financial aid in a way that both guarantees access for low-income and at-risk students and maximizes their chances for success is not simple. A range of characteristics can limit the effectiveness of aid dollars. On one hand, "merit-based" aid that is allocated on the basis of test scores or high school performance goes disproportionately to more affluent students who would enroll in college even without this assistance and can widen enrollment gaps across socioeconomic groups.<sup>12</sup> On the other hand, there is strong evidence that grant programs that incorporate incentives for full-time enrollment and credit accumulation increase success rates among vulnerable students.<sup>13</sup>

Under the federal Pell Grant program, students who enroll for 12 credits in a semester receive twice as much funding per term as those who only enroll for six credits. But those who enroll for 15 credits—the average number needed to complete an associate degree in two years or a bachelor's degree in four years—do not receive additional funding to support the extra course.

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<sup>10</sup> Michael Shear (2015, September 12), "With Website to Research Colleges, Obama Abandons Ranking System," *New York Times* (<https://www.nytimes.com/2015/09/13/us/with-website-to-research-colleges-obama-abandons-ranking-system.html>).

<sup>11</sup> U.S. Department of Education (accessed 4/14/2017), "Gainful Employment Information," Federal Student Aid (<https://studentaid.ed.gov/sa/about/data-center/school/ge>).

<sup>12</sup> Susan Dynarski (2000), "Hope for Whom? Financial Aid for the Middle Class and Its Impact on College Attendance," *National Tax Journal*, Vol. 53 no. 3 Part 2 pp. 629-662; Victor Chen (2004), "The Georgia HOPE Scholarship," *Policy Perspectives*, Volume 11, pp. 9-19.

<sup>13</sup> Susan Dynarski and Judith Scott-Clayton (2013), "Financial Aid Policy: Lessons from Research," *Future of Children*, 23(1), pp. 67-91.

Not surprisingly, many students enroll for 12 or 13 credits per semester—and take at least five years to earn their bachelor’s degrees. A student who takes 12 credits each semester for five years receives five full Pell Grants. A student in the same financial circumstances who takes 15 credits each semester for 8 semesters receives four full Pell Grants for exactly the same course of study. Allowing students to receive extra Pell funding if they enroll for a third term during the year (“summer Pell”) is certainly better than the current system. But a better plan is to award all students who enroll for 30 credits over the course of the year the same funding, however they choose to distribute those credits across terms. A number of organizations have made proposals along these lines.<sup>14</sup>

The evidence about student responses to financial incentives suggests that a policy of supplementing Pell Grants with extra awards for academic progress could increase timely completion of degrees.<sup>15</sup> Students could, for example, receive an incremental award after they successfully complete each 15 credit hours.

Another promising approach is the development of emergency aid programs. A financial aid system based solely on financial circumstances before the academic year begins cannot address unanticipated problems that arise later. While more rigorous analysis is needed, there is growing evidence that providing students with grants or even loans when they run into difficulties with transportation, child care, or other life events can make the difference between dropping out and staying in school, particularly for students who have already made considerable progress toward completing their degrees.<sup>16</sup>

But money is not the only effective incentive. Students—like other people—respond to “nudges.” Reminders about registering on time, going to class, and renewing aid applications can have a significant impact on outcomes. With the low cost of strategies such as text messaging, the Pell Grant program could incorporate this sort of approach.<sup>17</sup>

## **Conclusion**

Higher education will meet its goals for providing social mobility and reducing inequality only if there are fundamental changes in the way society addresses the unequal opportunities facing children. Because of inadequacies in support for families; early childhood, elementary,

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<sup>14</sup> Sandy Baum, et al (2013), *Rethinking Pell Grants*, The College Board (<https://secure-media.collegeboard.org/digitalServices/pdf/advocacy/policycenter/advocacy-rethinking-pell-grants-report.pdf>); NASFAA (2013), *Reimagining Financial Aid to Improve Student Access and Outcomes*, National Association of Student Financial Aid Administrators (<https://www.nasfaa.org/uploads/documents/ektron/67439aeb-419d-4e9c-9035-4278d0bbbed61/d19119911e864c39abb555e99f130d122.pdf>).

<sup>15</sup> Susan Dynarski and Judith Scott-Clayton (2013), “Financial Aid Policy: Lessons from Research,” *Future of Children*, 23(1), pp. 67-91.

<sup>16</sup> EAB (2016, February 23), “How microgrants help retain students,” (<https://www.eab.com/daily-briefing/2016/02/23/how-microgrants-help-retain-students>).

<sup>17</sup> Ben Castleman, Saul Schwartz, and Sandy Baum, eds. (2015), *Decision Making for Student Success: Behavioral Insights to Improve College Access and Persistence*.

and secondary education; access to health care; housing; and other aspects of the circumstances in which children grow up, young people from different backgrounds reach college age with widely divergent prospects for successful postsecondary education. Higher education alone cannot solve these problems. Certainly, the financial aid system cannot. But even in this context, the financial aid system could do more.

The system could help young people prepare for college both academically and financially by awarding aid and providing better information from the time children are in elementary school. Instead of just providing vouchers, the financial aid system could incorporate personalized guidance about the different likely outcomes associated with choices about institutions and programs. And grant aid could be structured to provide more incentives for timely completion of programs. Taken together, these reforms would create a financial aid system that provides a structure that supports students throughout their educational careers and decreases the correlation between socioeconomic backgrounds and postsecondary education outcomes.