Using Innovations in Financial Aid to Support College Success

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

Bottom Line

The country faces three problems in higher education: increasing costs, increasing student debt, and low completion rates. Although most students receive financial aid, many are left with unmet financial needs and may take on loans or drop out of college as a result. But promising innovations in financial aid could help students pay for college *and* accelerate their studies.

What Is the Problem?

The cost of college has been rising for decades. In 2016-2017, the average tuition and fees for American community colleges were about $3,520, a 140 percent increase over the inflation-adjusted price in 1986-1987. For public four-year colleges, average tuition and fees were about $9,650, a 200 percent increase since 1986-1987.

Access to college has increased since the Higher Education Act of 1965 extended financial aid to all, but completion rates remain low. Only 59 percent of students entering four-year schools graduate in six years, and 31 percent of students entering two-year schools graduate in four years. The completion rate for low-income students is even lower, often for financial reasons. Many students must work while enrolled, juggling work, school, and other obligations. Financial aid programs can be designed to address these challenges and improve college completion.

Most college students receive some financial aid, but it rarely covers all expenses. About two-thirds of full-time students receive some type of grant aid from the federal government, states, or private sources. The Pell Grant program is the largest such source of grant aid. Yet even with financial aid, many low-income students have to work while attending college, and many struggle to afford rent, food, and transportation to and from school. Students increasingly rely on loans to cover the cost of college, which can leave them in debt for many years.

What Does the Research Say?

Year-round financial aid can boost enrollment and credit accumulation in the summer and help students accelerate their studies. Congress recently reinstated year-round Pell Grants, which will provide additional aid to students who want to take courses in the summer. Research suggests that undergraduates who attend school in the summer have better retention rates thereafter and are significantly more likely to complete degrees. Findings from several MDRC studies also suggest that encouraging students to enroll in summer and winter intersessions and providing them with financial support to do so leads to increased intersession enrollment and greater credit accumulation.

MDRC's evaluation of the City University of New York's Accelerated Study in Associate Programs (ASAP), a comprehensive program for low-income students, found that it nearly doubled graduation rates after three years — at a lower cost per graduate than usual college services. A large part of the impact could be traced to ASAP's effect on students' performance during summer and winter intersessions. During the fall and spring semesters, ASAP boosted enrollment by between 4.6 and 9.6 percentage points. Yet ASAP's effects on intersession enrollment were far larger, peaking at 25.2 percentage points. The rise in intersession enrollment is responsible for students earning on average 2.4 more cumulative total credits over six semesters — about a quarter of the program's total impact on credits earned.

MDRC's Encouraging Additional Summer Enrollment (EASE) project in Ohio will also provide evidence on the impact of summer enrollment on student persistence, credit accumulation, and degree completion. The project provides targeted messages and financial incentives that encourage students to enroll in summer.

Performance-based scholarships can improve students' academic progress. MDRC's Performance-Based Scholarship Demonstration — which included 12,000 students in six states — evaluated the impact of scholarships that were contingent on students meeting certain academic benchmarks, such as completing a certain number of credits with a "C" or better. In some cases, the scholarships also required students to take advantage of other services, such as advising or tutoring. The scholarships were provided on top of existing financial aid and ranged from a few hundred dollars to $1,500 each term. Overall, the program resulted in modest but long-lasting improvements in students' academic progress: the scholarships increased credit accumulation, improved graduation rates by 3.3 percentage points, and in some cases reduced students' loan debt. These results show that even relatively moderate investments in low-income students' education can improve their academic outcomes. Other MDRC studies have found that providing financial incentives such as monthly transportation passes can increase participation in advising and other services.

Disbursing financial aid refunds (the aid that remains after tuition and fees are paid) in small increments throughout a term may be a better way to support low-income students than the typical delivery of aid refunds — a large lump sum at the beginning of the term. MDRC's Aid Like A Paycheck evaluation is testing whether providing refunds to students in increments every other week can help students improve their financial and academic outcomes. Early results show that biweekly disbursements reduced students' use of federal loans and debts to colleges after one semester. So far there is little consistent evidence that biweekly disbursement improves students' academic outcomes. At one of the schools in the study, biweekly disbursements led to a 6 percentage point increase in students' persistence to the second of semester, but there was no impact on persistence at the other school. Final study results will be available in 2018.

What's Next?

The Department of Education should collect data on year-round Pell Grants and evaluate the impact of the program when it is reinstated. When year-round Pell Grants were discontinued in 2011, it was partly because of fears that the costs outweighed the benefits; however, there was little firm evidence available to support this claim. An evaluation of the policy will help avoid the uncertainty associated with the first iteration.

States and the federal government can encourage financial aid innovation designed to increase completion, paired with rigorous research. Ideas include:

- **Enhancing College Promise programs with proven strategies for college success.** Promise programs — which typically cover tuition and fees for students in a particular geographic area — allow more students to attend college by reducing the financial barriers that could keep them out. These programs can be enhanced by adding support strategies that help students stay in school and graduate. MDRC has partnered with the Detroit Regional Chamber to create the Detroit Promise Path, which provides coaching and financial incentives to students receiving Detroit's existing promise scholarship. Early findings from the project will be released this summer.

- **Providing emergency aid.** Many colleges offer emergency aid, based on the theory that small grants can help students overcome challenges that might otherwise force them to drop out. There is no firm evidence regarding the impact of these programs.

- **Awarding additional aid for 15 credits.** Some states and colleges give students financial incentives to enroll in 15 credits a semester (rather than the standard 12 many full-time students take). Although there is evidence to suggest this practice might help students speed up their academic progress, there has not been a rigorous test of its long-term impact.

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