



For Those Without Billions: Navigating the Wave of Dramatic Aid Awarding Changes

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So, you're not Harvard or Yale. Most colleges and universities are unable to infuse an additional \$15 to \$20 million per class year into financial aid to reduce costs for families earning upwards of \$150,000 per year, as Harvard and Yale plan to do. Most are unable to devote an additional \$2.5 million per class to eliminate tuition entirely for families earning up to \$75,000 as Dartmouth plans to do. Since the reality is that nearly all institutions operate on considerably leaner budgets, it's a jaw-dropping combined endowment total that most inequitably separates the three venerable universities mentioned above from the vast majority of institutions within the nation's higher education community: *\$60 billion*. For the other 97% of colleges and universities in this country that don't have billions from which to draw (just 76 institutions of the 2,582 four-year colleges and universities have endowments of \$1 billion or more, according to NACUBO), comparisons with these elite institutions are utterly unrealistic and competition with them is inherently unfair.

Unfair or not, the dramatic shifts in financial aid awarding policies at many elite institutions are rippling through the entire higher education landscape. Whether by altering public perception and expectations of costs ("Do you offer the 'Harvard Plan'?"), or by influencing financial aid packaging at competing institutions, make no mistake, while only the elite and wealthy institutions can afford to enact such wholesale policies, the impact is not limited to institutions that breathe the rarefied air.

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After the dramatic December 10th announcement by Harvard University, the dominos started to fall. They continue to fall. There's a good chance that the trend won't end anytime soon. Here, we offer an analysis of the current state of affairs:

- What is happening in need-based financial aid awarding and why?
- What do the financial aid policy changes really mean and where are they headed?
- If your institution doesn't have millions of non-restricted endowment dollars at your disposal, what can you do?

It is possible to successfully navigate the rising wave of competition set into motion when more than two dozen of the nation's wealthiest colleges and universities elected to offer greater financial incentives for talented students to enroll at their institutions. As the wave gathers speed and power, fueled and supported by an endless stream of media attention and *billions* of dollars, it becomes increasingly important for all of us as higher education professionals to more deeply understand these critical changes in the undergraduate enrollment climate and how the new realities may eventually affect our institutions.

What Has Happened?

Throughout the decade of the 1990's, college tuitions skyrocketed well ahead of the rate of inflation. Aid officers struggled mightily to find ways to help families finance an education that, on average for a four year private school degree, soared past \$100,000 in total costs. Educational loans became an ever larger part of the packages being offered to families with demonstrated financial need.

In early 1998, Princeton University became the first college in the nation to buck that trend. The University eliminated loans from financial aid packages for low income families earning up to \$40,000 per year, and at the same time reduced the loan burden for families earning between \$40,000 and \$75,000. Scarcely a year later, Amherst College followed suit. Not to be outdone, in January 2001, Princeton expanded their program and eliminated loans entirely, replacing them in financial aid packages with grants and scholarships. According to their press release, "No undergraduate student will be required by the University to take out a loan to finance his or her education."

In the wake of the moves by Princeton and Amherst, other higher education institutions did not immediately react. It was three years before Harvard University, in 2004, announced their plan to eliminate contributions required from those earning \$40,000 per year or less. Over the next two years, a few scattered institutions introduced similar plans, including the University of Virginia, Rice University, and the University of Pennsylvania. The University of North Carolina at Chapel Hill created the "Carolina Covenant" to allow low income students to graduate debt-free. All in all, however, these aggressive financial aid changes were few and far between.

In March 2006, Stanford University eliminated parent contributions for families earning up to \$45,000 per year. Not to be outdone, Harvard responded just one week later by raising their program's income limit from \$40,000 to \$60,000, also reducing contributions for families earning up to \$80,000 per year. Then, in late September 2006, the Spellings Commission report on U.S. Higher Education was released. It was met with forceful rebukes by several prominent higher education officials and professionals. In addition to other critiques (regarding student learning outcomes), the report was

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scathing in its criticism of rising educational costs and insufficient access for the less privileged. The report opened a floodgate of media attention and lawmaker interest. In 2007, Congress began to take a keen interest in the national higher education accountability and affordability discussion, including endowment totals,

gains, and spending levels. The wealthiest colleges and universities heard the threat of legislative action loud and clear.

As 2007 progressed, Davidson College eliminated loans in March, Amherst College expanded their program to eliminate all loans in July, and Williams College followed suit in early November. However, it was Harvard that broke the dam with its December 10th announcement that the University would dramatically reduce contributions required of families earning *up to \$180,000* per year.

The Harvard announcement produced immediate reactions and overwhelming industry and media attention. A few praised the bold move, but many in the higher education community had mixed reactions. Articles in *The Boston Globe*, *The Washington Post*, *The Chronicle of Higher Education*, and *Inside Higher Ed* made it clear that many were frustrated by the attention that Harvard's

announcement received, since less-wealthy colleges and universities couldn't possibly enact similar policies. Some went so far as to say it creates a distorted view for future students.

But, it's the actions taken by competing well-endowed institutions that are most telling. Threats, both congressional and competitive, resulted in a stunning sequence of aid change announcements. Duke University jumped just in front of Harvard's announcement, but in the months to follow, The California Institute of Technology, Pomona College, Swarthmore College, Haverford College, Tufts University, Bowdoin College, Colby College, Cornell University, Northwestern University, Wellesley College, Washington University, Vassar College, Lehigh University, Claremont McKenna College, and Lafayette College *all* announced that they'd eliminate loans from their financial aid packages for some or all students. Dartmouth College, M.I.T., and Stanford University went a step further and eliminated tuition for families earning \$75,000 and \$100,000 or less, respectively. Not to be outdone, on January 15th, Yale University matched Harvard by dramatically cutting costs for families earning *up to \$200,000* per year.

Timeline of selected financial aid change announcements

DATE	INSTITUTION	ACTION	INCOME CAP	Current Endowment*
2/25/1998	Princeton University	Eliminates loans (and reduces loans)	\$40,000 (up to \$75,000)	\$15.8 billion
1999	Amherst College	Eliminates loans	\$40,000	\$1.7 billion
1/27/2001	Princeton University	Eliminates loans		\$15.8 billion
2003	University of North Carolina	Establish "Carolina Covenant"		\$2.2 billion
2004	Harvard University	Eliminates family contributions	\$40,000	\$34.6 billion
2/18/2005	Rice University	Eliminates loans	\$30,000	\$4.7 billion
3/16/2006	Stanford University	Eliminates family contributions	\$45,000	\$17.2 billion
3/23/2006	University of Pennsylvania	Eliminates loans	\$50,000	\$6.6 billion
3/30/2006	Harvard University	Eliminates family contributions	\$60,000	\$34.6 billion
9/15/2006	Columbia University	Eliminates loans	\$50,000	\$7.1 billion
3/19/2007	Davidson College	Eliminates loans		\$490 million
7/19/2007	Amherst College	Eliminates loans		\$1.7 billion
11/2/2007	Williams College	Eliminates loans		\$1.9 billion
12/8/2007	Duke University	Eliminates loans		\$5.9 billion
12/10/2007	Harvard University	Eliminates loans (and reduces contributions)	Up to \$180,000	\$34.6 billion
12/11/2008	Cal Inst of Tech	Eliminates loans	\$60,000	\$1.9 billion
12/12/2007	Pomona College	Eliminates loans		\$1.8 billion
12/13/2007	Swarthmore College	Eliminates loans		\$1.4 billion
12/18/2007	University of Pennsylvania	Eliminates loans		\$6.6 billion
12/19/2007	Haverford College	Eliminates loans		\$540 million
12/19/2007	Tufts University	Eliminates loans		\$1.5 billion
1/15/2008	Yale University	Reduces Contributions	Up to \$200,000	\$22.5 billion
1/18/2008	Bowdoin College	Eliminates loans		\$828 million
1/22/2008	Dartmouth College	Eliminates tuition	\$75,000	\$3.8 billion
1/24/2008	Colby College	Eliminates loans		\$599 million
1/31/2008	Cornell University	Eliminates loans	\$75,000	\$5.4 billion
1/31/2008	Northwestern University	Eliminates loans	High Need	\$6.5 billion
2/7/2008	Wellesley College	Eliminates loans	\$60,000	\$1.7 billion
2/19/2008	Stanford University	Eliminates tuition	\$100,000	\$17.2 billion
2/19/2008	Washington University	Eliminates loans	\$60,000	\$5.6 billion
2/23/2008	Brown University	Eliminates loans (and reduces contributions)	\$100,000 (\$60,000)	\$2.8 billion
3/7/2008	MIT	Eliminates tuition	\$75,000	\$10.0 billion
3/11/2008	Vassar College	Eliminates loans	\$60,000	\$870 million
3/11/2008	Columbia University	Eliminates loans		\$7.1 billion
3/13/2008	Lehigh University	Eliminates loans	\$50,000	\$1.1 billion
3/17/2008	Claremont McKenna College	Eliminates loans		\$474 million
3/17/2008	Lafayette College	Eliminates loans	\$50,000	\$734 million

*NACUBO 2007

In all, more than two dozen colleges and universities have dramatically reshaped their financial aid packaging in the past year. Soon, there are likely to be more.

But, how much does all this really matter? What does it have to do with the less wealthy colleges and universities that educate the vast majority of students in the U.S? What should those without billions do in this increasingly competitive climate?

What Does It All Mean?

Some are quick to minimize the impact of the recent changes. A number of industry professionals have offered quotations to the media, effectively saying, “We can’t all respond to every move a few colleges make.” Inequities aside, however, this is not a tempest in a teapot. Neither is it the end of higher education as we know it. While the truth lies in between, these *are* seismic shifts in the financial aid awarding environment.

So, the rest of us are left to make sense of the recent changes and figure out where higher education is heading. In doing so, there are several points to consider as we analyze this trend in student aid awarding:

1. **Institutions that have made changes so far can afford it.** None of the recently participating institutions are genuinely tuition-dependent institutions. The lowest endowment is Claremont McKenna College’s \$474 million. Bowdoin College, in their January 24th press release, proudly claimed at the time to be “one of only two colleges with endowments of *less than \$1 billion* to eliminate loans for both new first-year and current students,” along with Davidson College. Bowdoin’s endowment is approximately \$850 million, one good year from the magical \$1 billion mark. None can claim poverty. As for the top four (Harvard, Yale, Stanford, and Princeton), their combined endowments top \$90 billion.
2. **The number of students who will immediately benefit is minimal.** The NCES projects approximately 3 million high school graduates this year. Of these students, only a tiny fraction of carefully-chosen, top-notch students will be offered admission to the elite institutions that have recently changed their financial aid policies, and fewer still will enroll. Among those, only a fraction will fall below the income caps and benefit from the changes. In a nutshell, the policies themselves will benefit just a few elite students at the most selective schools—less than 1% of students entering college this fall.
3. **It’s a presidential election year.** This is no coincidence. The Spellings Report focused both media and public attention on education costs and accountability. Lately, governmental concerns have shifted to the gigantic *untaxed* values and gains of some college and university endowments. Many in Washington are asking why tuitions keep rising when colleges appear flush and are exempt from taxation. Many aid policy changes in late 2007 and early 2008 are preemptive strikes against government-mandated spending requirements. Although history suggests that political attention spans are notoriously short, the billions at stake are incentive for legislators to keep the issue in the forefront of public debate
4. **Money matters.** Even without a single additional formal awarding change, the competitive ripple is in motion. This spring, for example, some families will be required to finance \$3,500 or more in loans each year at one college and not at another. For them, the difference will be glaring. Research has shown that non-repayable money is an extremely influential factor in college choice for those with demonstrated financial need. The very families that are most sensitive to net cost also tend to be the most debt-adverse. The cost to fill the loan gap with institutional funds is far more difficult at institutions with fewer resources at their disposal. These institutions now face a greater challenge to enroll qualified, desirable students without placing themselves in financial peril.

5. **Perception matters.** Even though only a small fraction of college-going students will be immediately impacted by the changes to financial aid policies, the marketplace has started to internalize the messages: loans are bad, colleges are rich, they should make it less expensive, and families shouldn't have to sacrifice for a college education. If perception is reality, it may not matter that only two dozen of the nation's wealthiest and most exclusive institutions actually have official policies; families across the country are developing new expectations for

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all institutions. Recent research and polls of public perception suggest that families are already less willing to make sacrifices (i.e., loans and out-of-pocket payments) to finance higher education, and are not fully convinced that colleges give them their money's worth.

6. **Students matter.** Over a dozen colleges and universities, from all areas of the country, have jumped on board with more generous financial aid policies in 2008. This means there's geographical competition for students with their less-selective neighbors. They are engaged in battle on the grounds of net cost and perceived value. Whether or not they can afford to, nearby colleges are pressured to respond, either by adjusting their own financial aid awards or by restraining tuition increases. When either occurs, *their* competitors may be forced to respond, and so on. Competition breeds competition.

The unfortunate reality is that the competitors in this high-stakes playing field are not at all equal. Just because your institution is not in the billion-dollar club (or perhaps not even the hundreds-of-millions-of-dollars club) doesn't mean that you have no competitive options. Less-wealthy colleges and universities can indeed compete for students in this new paradigm; it's just that they'll have to play their hands more strategically than ever before.

What Can Everyone Else Do?

Even though your endowment may be short a zero or two, there are still many moves you can make to remain strong and viable in this time of change and competitive uncertainty. Adopting a more strategic approach requires that you stay focused and keep your eyes on the chess board at all times. To assume that competitors aren't making moves just because they don't announce a formal awarding policy change will be naïve and dangerous, both to your enrollment and your bottom line.

Much of the impact will be out of sight of the public, but it will happen just the same. Heaven help the institution that is caught completely unprepared this year, next year, or the year after when a surprisingly small percentage of their admitted students enroll and their traditional financial aid packaging strategy is suddenly rendered an ineffective relic.

Below we offer suggestions for navigating the waters in this uncertain time:

1. **Don't overspend just to keep up.** Before you jump into the fray- step back, look a little deeper, and consider all your options. Research your market (prospective students, applicants, admitted students, enrolled students) and carefully analyze your data. The processes are

indeed time-consuming, but they are the best tools at your disposal to stay ahead of a market that is making shifts out of plain view.

2. **Be smart about what your direct competitors are planning and *doing*.** Information matters now more than ever. Get to know your head-to-head competitors beyond anecdotes, student self-reports, or your institutional aspirations. Pay close attention to what is happening at competitor colleges, because what happens there will directly impact *your* institution. Continually reaching out for information is essential to quickly respond to changes that may impact your yield and enrollment.
3. **Be smart about what *your own* admitted students are doing.** In an uncertain time, it is critical to understand and evaluate your student responses, yield, and price-sensitivity tendencies. Using targeted market research and predictive modeling tools it's possible to learn about admitted students that are of particular interest to your institution. Do you want to know if your aid package is competitive? Do you want to know which other institutions they're considering? You'll never know if you don't ask. When you combine rigorous evaluation with timely student input, you put your institution in the best position to effectively solidify an institutional aid awarding strategy, taking new price dynamics and financial incentives in the marketplace into account.
4. **Be smart about using institutional aid dollars strategically.** It's best to think of institutional aid not as a budget expense but as a yield *tool*. Scholarship and grant aid can function as *incentives to enroll* rather than just as rewards for good academic behavior. If you routinely use the same institutional aid allocation approach you've used for years, you may see it become less and less effective over time. The bottom line is that your competitors are becoming increasingly strategic with their institutional aid dollars to craft their incoming classes and maximize their net revenue. So, if your institution is not using aid both to manage yield and optimize resources, your competitors will thank you for it.
5. **Build your classes from the ground up.** Market shifts alter the dynamics of student recruitment. The most effective recruitment operations constantly assess, experiment, evaluate, and adjust. Recruiting students to your institution is an expensive and time-consuming process that requires broad strategic management skills. What tactics work best will be unique to your institution, but there are best practices for how to *think about* the process. To be most effective, you need to capture every piece of data you can, then make it a priority to identify the actions and activities that yield applicants and enrolling students (and which do not). Don't settle for *believing* that certain marketing efforts work or you may well be sacrificing opportunities and wasting a lot of money. Merely reacting to either developing or well-established market trends leave you perpetually one step behind. Analysis allows you to work smart and truly *build* an incoming class.

During the next several years, as political forces and economic market changes ripple throughout higher education, a willingness to make regular adjustments will be an ever more valuable component of success. Targeted analysis, thoughtful planning, and frequent market research are the best tools to support continued progress *without* breaking the bank. Such a measured and proactive approach will allow many institutions to ride the wave and flourish, and avoid being caught by surprise or washed up on the beach.