2009

Financial Aid and College Enrollment

Laura W. Perna

*University of Pennsylvania, lperna@gse.upenn.edu*

---

Follow this and additional works at: [http://repository.upenn.edu/gse_pubs](http://repository.upenn.edu/gse_pubs)

Part of the [Education Economics Commons](http://repository.upenn.edu/gse_pubs), [Higher Education Commons](http://repository.upenn.edu/gse_pubs), and the [Social and Cultural Anthropology Commons](http://repository.upenn.edu/gse_pubs)

---

**Recommended Citation**


---

Review of Laura Perna's research.

This paper is posted at ScholarlyCommons. [http://repository.upenn.edu/gse_pubs/359](http://repository.upenn.edu/gse_pubs/359)

For more information, please contact repository@pobox.upenn.edu.
Financial Aid and College Enrollment

Abstract
Financial aid is a critical lever for increasing postsecondary attainment in the United States, and perhaps the most useful tool in the kit of policymakers for increasing college access and choice among Blacks, Hispanics, low-income students, and other groups underrepresented in higher education.

Disciplines
Education | Education Economics | Higher Education | Social and Cultural Anthropology

Comments
Review of Laura Perna's research.

This review is available at ScholarlyCommons: http://repository.upenn.edu/gse_pubs/359
FINANCIAL AID AND COLLEGE ENROLLMENT

By Laura Perna

Financial aid is a critical lever for increasing postsecondary attainment in the United States, and perhaps the most useful tool in the kit of policymakers for increasing college access and choice among Blacks, Hispanics, low-income students, and other groups underrepresented in higher education.

Each year, federal and state governments, colleges, universities, foundations, and other organizations invest substantial resources in programs designed to eliminate financial barriers to college enrollment. In 2007-08 alone, more than $162.5 billion was poured into higher education aid programs to offset student expenses. But, even with this investment, rates of college enrollment continue to increase with family income and are lower for Blacks and Hispanics than for Whites.

Despite recent scholarly work on the effects of various financial aid programs on student outcomes, the research base remains incomplete. In the context of persistent gaps in educational opportunity, limited public resources, and calls for accountability, developing a better understanding of how to maximize the effectiveness of available financial aid dollars is more important than ever before.

THE CHALLENGE

Improving college enrollment and degree attainment is central to ensuring the nation's economic and social prosperity. According to the U.S. Bureau of Labor Statistics, for example, jobs requiring a college degree comprised 29 percent of all employment in 2000 and are expected to account for 42 percent of projected new job growth during
the coming decade. At the same time, educational attainment in the U.S. has fallen behind that of other developed nations. In this climate, government and private organizations are increasingly focused on how to raise attainment rates.

One obvious approach is to enroll and graduate more students who are academically prepared for college but do not attend. The data consistently point to money as a primary barrier for academically qualified students who do not enroll in college, and the positive relationship between family income and enrollment persists even after controlling for differences in academic achievement. The magnitude of the gap has fluctuated since the mid-1980s, but through this period, college enrollment rates have been at least 25 to 30 percentage points lower for high school graduates in the lowest family income quintile than for those in the highest. College choices are also stratified by family income, as college students from lower-income families are relatively concentrated in public two-year and private for-profit institutions and underrepresented at public and private four-year doctorate-granting universities.

Some note that money still matters to college enrollment because existing financial aid resources are insufficient to completely meet students' financial need. While available data support this argument, federal and state governments are hard pressed to increase their investment in student aid programs, especially during the current economic recession.

Moreover, federal and state governments are increasingly calling for accountability of financial aid expenditures. For example, the federal government's Program Assessment Rating Tool has designated some student financial aid programs as "adequate" (e.g., Federal Family Education Loans, Federal Pell Grants, William D. Ford Direct Student Loans), another as "ineffective" (Federal Perkins Loans), and others as "results not demonstrated" (e.g., Byrd Honors Scholarships, Federal Work Study, Leveraging Educational Assistance Partnerships).

Together, the scarcity of public resources and demands for accountability underscore the need to better understand the role of financial aid in eliminating financial barriers to college enrollment. Although many researchers have examined the effects of various financial aid programs on student outcomes, gaps in knowledge remain. Based on their
comprehensive review of research for their "rethinking student aid" project, Baum and McPherson (2008) concluded that existing research on the effects of financial aid on students' college opportunities is "inconclusive."

WHAT WE KNOW

Aid comes from many sources (federal and state governments, colleges and universities, employers, foundations, and other organizations) and in many different forms (loans, grants, work-study, tax credits and deductions). Perhaps because of this complexity, research examining the effectiveness of student financial aid devotes "strikingly uneven" attention to the effects of different types of aid programs on student outcomes (Baum and McPherson, 2008).

Because current aid programs are designed to achieve a variety of goals (access for low-income students, affordability for middle-income students, rewarding achievement), they often lack coherence: "...[I]nstead of an array of clearly discrete programmatic efforts addressing in distinctive fashion a set of overarching policy objectives, constituents for the programs ...confront an array of overlapping efforts with rather vaguely differentiated objectives" (Hearn, p. 270, 2001). State approaches also vary in the extent to which they attend to financial barriers, recognize the role of K-12 schools in promoting enrollment, limit eligibility for aid based on need or achievement, and attempt to influence students' decisions to enroll in college. Although the majority of state grant aid is still need-based, the faster rate of growth for merit-based state aid raises concerns about the extent to which scarce public resources are being invested in ways that increase financial access for low-income students.

Research demonstrates that the effects of aid on college enrollment vary by the type of aid offered. Grants have a positive effect on college access and choice, loans have minimal effect, and we know little of the effects of work-study. The effects of aid on enrollment also vary based on family income and race/ethnicity—with changes in tuition and financial aid having a larger effect on students from lower income families than from higher-income families and for African Americans and Hispanics than for Whites (Avery & Hoxby, 2004; Heller, 1997; Kane, 1999; Mundel, 2008).
Nonetheless, existing research has important limitations, including the inability to determine student outcomes in the absence of the aid, the tendency to consider a particular type of financial aid in isolation from other programs designed to promote college enrollment including other aid programs, the practice of considering actual amounts of aid rather than students' knowledge or perceptions of aid, the failure to consider how financial aid may indirectly promote college enrollment, and the lack of attention to why perceptions and use of financial aid vary across groups.

THE IMPORTANCE OF CONTEXT

In my view, the reason we know so little about these issues is that researchers have not devoted sufficient attention to the contexts in which aid programs operate. There is every reason to believe that the effect of financial aid on college attainment is mediated by family background, by the high school a student attends, by higher education institutions themselves, and by the broader social, economic, and policy environment.

Most financial aid research relies on the economic theory of human capital. It assumes that students make decisions about college enrollment based on an assessment of the lifetime benefits and costs of enrollment in ways that maximize their utility. But human capital theory alone is insufficient for understanding how financial aid influences students' college enrollment decisions: the models do not, for example, explain why students "react differently to various forms of financial aid and tuition changes, even if the economic value of each is the same" (Heller, 1997).

From a sociological perspective, McDonough (1997) uses Bourdieu's notion of habitus to illustrate the ways that bounded rationality influences college-related decision making. This perspective assumes that college-related decisions reflect an individual's habitus, or the internalized system of thoughts, beliefs, and perceptions acquired from the immediate environment. Rather than consider all possible alternatives, habitus defines and limits the alternatives that are considered, how different alternatives are perceived and valued, and the choices that are made (McDonough, 1997; Paulsen & St. John, 2002). Other sociological theories, such as cultural and social capital, may also be useful for understanding differences in students' perceptions and use of financial aid. Consideration of cultural and social capital provides a more complete assessment of the resources that students have available from their social contexts to inform college-related decisions.
These theories, and the research that tests them, illustrate the ways that various aspects of context influence postsecondary access and choice. Specifically, students' postsecondary access and choice decisions are determined largely by the norms and values embedded within their family and high school, as well as influences from the higher education and broader economic, social, and policy context.

Several aspects of the student and family context may help explain differences in students' perceptions and use of financial aid: social values and cultural norms against borrowing; familiarity with college-related processes; and parental willingness to pay and involvement in decision-making. The school context is another key determinant, with the availability of financial aid and other college-related counseling playing an important role in structuring students' perceptions of financial aid—particularly when parents lack the resources to guide their children. Looking at the higher education context, we see wide variation in the prevalence of institutional grant aid and the criteria for awarding it, with private four-year institutions outpacing their public counterparts in the granting of need-based aid (70 to 44 percent). Finally, in the broader social, economic, and policy context, vicissitudes of politics and the economy shape both the availability and characteristics of financial aid programs.

In short, greater attention to context may help identify structures and processes to improve the utility of financial aid resources.

**WHAT WE NEED TO DO BETTER**

*Understand How Perceptions Influence Aid:* The growth in student loans in recent decades suggests that more and more families are turning to loans to finance their children's college education.

But research also tells us that certain socioeconomic groups are reluctant to incur this type of debt. Using data from the High School and Beyond longitudinal survey of 1,980 high school sophomores and seniors, Ruth Ekstrom found that students who were willing to borrow $1,500 for college costs were more likely than others to enroll in college within four years of graduating from high school, enroll in a four-year than a two-year institution, and enroll full-time than part-time. Likewise, a survey of 2,000 prospective higher education students in Britain found that the likelihood of applying
to a university increased with students' tolerance for debt—even after controlling for educational achievement, social class, ethnicity, age, and mother's educational attainment. Even more relevant to this discussion, the British study found that debt-averse students from low-income families were less likely to apply for admission than were their high-income peers (Callender & Jackson, 2005). If that is indeed the case, our system may in effect limit college opportunity for precisely those students that aid programs are, in theory, designed to help.

As suggestive as these findings are, we need to know more about the ways that students' perceptions of financial aid influence their college-related behaviors. In particular, researchers should examine how those perceptions are informed by a whole range of factors—including family background, support from school staff, the characteristics of available aid programs, and other forces like the media. *Study Information Flow:* In January 2007, the American Council on Education, Lumina Foundation for Education, and the Ad Council joined forces to launch the KnowHow2Go campaign, explaining the steps required to enroll in college, including how to "put your hands on some cash." But when Lumina evaluated KnowHow2Go, it concluded that such public awareness campaigns alone are insufficient to ensure that students know what they need to know about college. The truth is that most students and parents remain poorly informed about the availability of financial aid.

Clearly, we know very little about the most effective ways of delivering messages about financial aid. What types of information do students and families need? When should information be delivered? From which sources?

Some of the questions we face resemble chicken-or-egg riddles: Do students need accurate information, or do they more simply need an infusion of confidence that, when the time comes, they will be able to afford the cost of attending college? Likewise, what comes first? Knowing about financial aid (and thus engaging in other college-related behaviors), or knowing that you want to go to college (and thus seeking out information about aid)?

We also need to understand more about how various sources provide financial aid information—and with what consequences. For example, we know little about what school counselors—the very people guiding students through the financial aid system—
know about that system (McDonough, 2004). What the research does tell us, however, is alarming: findings from a study of five states (California, Florida, Georgia, Maryland, and Pennsylvania) suggest that the more complicated a particular program is, the less likely school staff is to provide guidance on it. For federal, state, and local providers, such findings argue for the need to simplify the process—and make it more transparent. Programs like the Georgia Career Information System represent a step in the right direction: That model provides students with a single source for information about all available scholarship dollars and matches students to those dollars.

Finally, what about the colleges themselves? Colleges and universities typically "market" financial aid in response to student initiatives (taking the SAT, applying for admission). Do these strategies exclude low-income students? Do students' perceptions of institutional financial aid lead them to self-select out of particular college choices? How can colleges and universities work with high schools to intervene earlier in the process to counter student perceptions that college is out of reach?

*Reconsider the Structure and Goals of Aid Programs:* Of course, money is not the only barrier to college. Inadequate preparation can be as much of an obstacle as inadequate financial resources. We need to learn how to construct aid programs that address both issues—encourage academic achievement *and* eliminate financial barriers.

In recent years, several federal and state grant programs have targeted both academic merit and financial need. Many of these efforts are so new that little is known about their effects on student outcomes. Good intentions aside, some programs have mixed results. In an exploratory study of Georgia's HOPE Scholarship program, my fellow researcher Patricia Steele and I found that, while the program may indeed motivate students to achieve the academic requirements of the state grant award, it also had some negative consequences: increasing pressure on teachers to inflate grades and encouraging students to take less-rigorous courses to increase their chances of meeting the grade point average requirement for the merit aid.

Another commonly voiced concern about state merit aid programs is that they disproportionately benefit students from upper-income families and others who would have attended college even without the aid. No surprise then that, in 2008, the College
Board's Commission on Access, Admissions and Success in Higher Education declared that "merit aid, particularly when financed publicly by regressive taxes or lotteries, has to clear a very high bar before it can justify itself as appropriate merit aid."

Such cautions notwithstanding, federal and state merit aid has grown in recent years. For example, in 2006, President George W. Bush established the Academic Competitiveness Grant and Smart Grant programs, which award funds to financially needy students who complete a rigorous curricular program in high school or major in mathematics or science in college. Clearly, policymakers are interested in using financial aid to promote college readiness.

Few would argue that preparing students for academic success at the college level is other than an admirable goal. Still, we must beware the law of unintended consequences, and the research community should heed the call. We need to explore ways to construct financial aid programs that succeed at both promoting academic preparation and eliminating financial barriers.

*Laura Perna, an associate professor at Penn GSE and chair of its Higher Education division, focuses her research on access, choice, and equity in higher education.*

**REFERENCES**


>>> also from Laura Perna (/node/796)