

Financial Aid: A Brave New World

Patricia Reilly, Director of Financial Aid, Tufts University

Charles W. Puls, Director of Financial Aid, University of Rochester

Sally Donahue, Director of Financial Aid, Harvard College

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Financial Aid: A Brave New World

Today's Discussion

- Political and Professional Landscape
- Harvard Initiatives
- Impact on the Workplace

Political Landscape

Executive Branch

- Obama: eliminate FFELP and create a refundable \$4,000 tax credit
- McCain: drastically change aid by consolidating the myriad programs

Legislative Branch

- A Democratic Direct loan agenda vs. a Republican FFELP agenda?
- A Republican proprietary support agenda?
- Reauthorization, in its attempt to simplify, added 27 new programs

Department of Education

- Spellings Commission

With the election outcome, will any of the past activities matter?

Professional Landscape

Growing Reform Movement

- National Forum on Educational Loans
- Rethinking Student Aid Study Group: “Fulfilling the Commitment: Summary of Principles and Recommendations for Reforming Federal Student Aid”
- Institute for College Access and Success: “Going to the Source: A Practical Way to Simplify the FAFSA”
- Hamilton Project: “College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid”
- Project on Student Debt lists over 50 colleges that have developed initiatives to reduce student debt

Summary of Reform Movement

Access

- Early Awareness
- Transparency

Process

- Application
- Grants
- Loans

Impact on the Financial Aid Industry

Push for Financial Aid Estimators

- National and state level initiatives

Shift in family expectations

- Expect all schools to reduce family contributions
- Expect all schools to eliminate loans
- The historical concept that the family has the primary role in financing a student's education, to the extent that they are able, is faltering.

Growing discrepancy between the “have” and “have not’s”

- Not students, but schools who don't have the resources to keep up

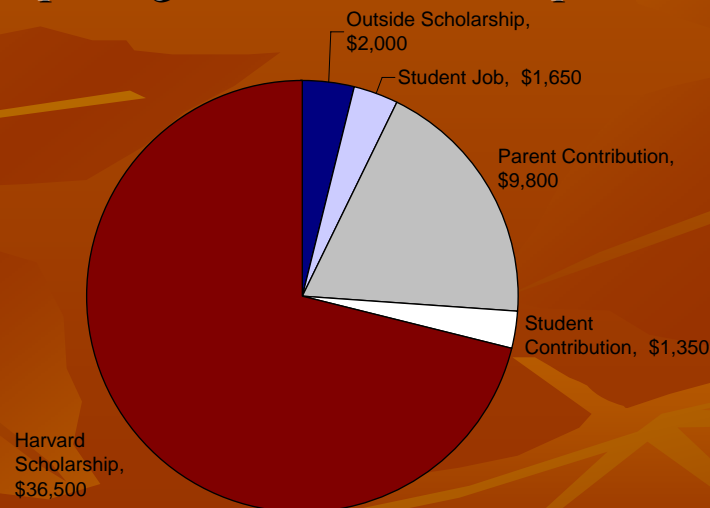
Recent Initiatives in Admissions and Financial Aid at Harvard College

Between FY2004 and FY2008, Harvard made the following policy changes:

- The introduction of the Harvard Financial Aid Initiative (HFAI) for low-income students (FY2004 and FY2006)
- The elimination of early action (FY2008)
- The introduction of the “Zero to 10 Percent Standard” for students from middle-income families (FY2008)
- The elimination of student loans from all financial aid packages (FY2008)
- The elimination of home equity from the financial aid calculation (FY2008)

The basic facts about undergraduate financial aid at Harvard College in FY2009

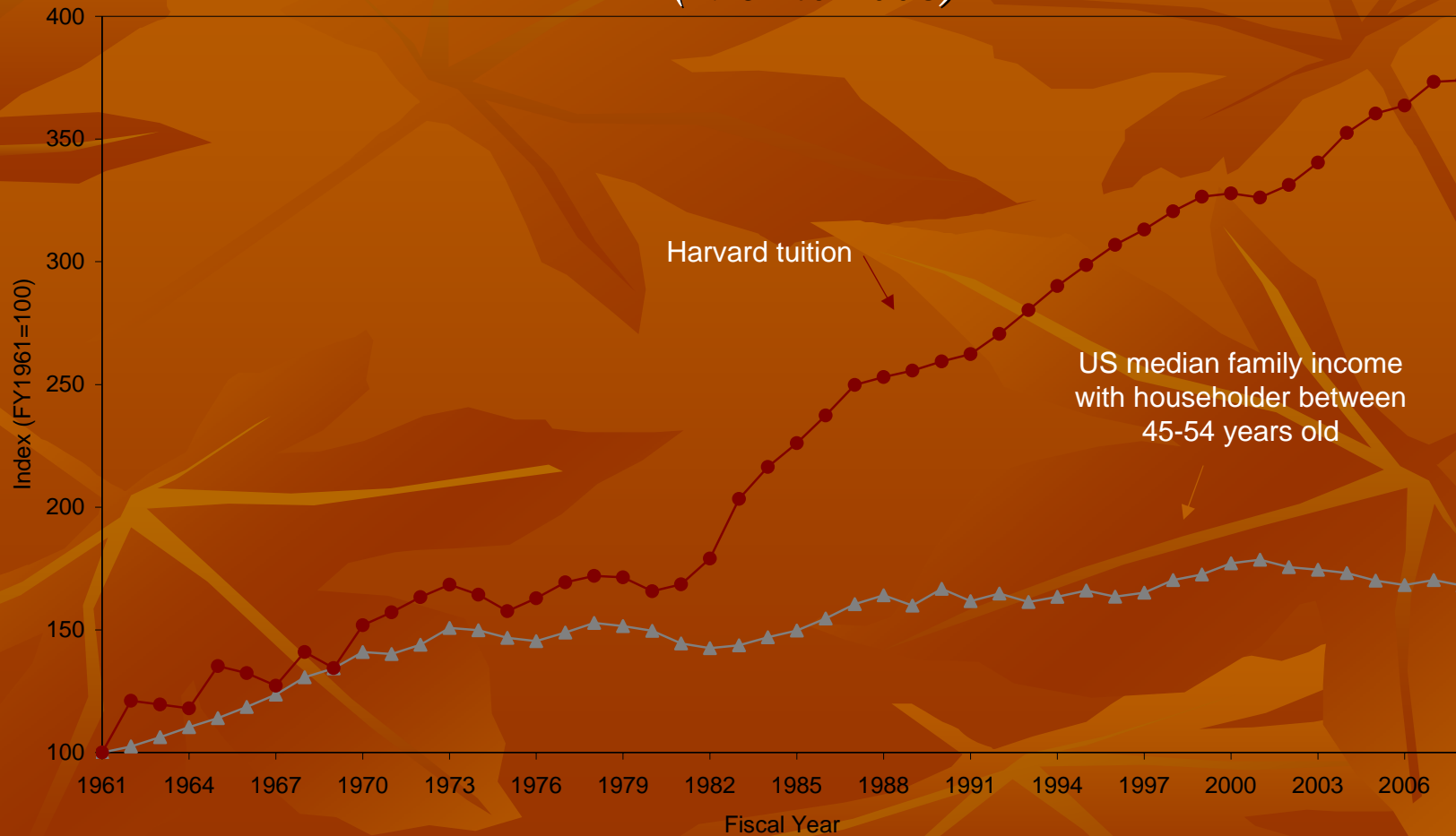
- The cost of attendance for FY2009 is \$50,250 including tuition, room, board, other mandatory fees, books and personal expenses*
- All financial aid awarded by Harvard College is need-based, and grant eligibility is determined in the same manner for all admitted students
- Two-thirds of all undergraduates receive some form of scholarship, loans and/or jobs
- Over half (55%) receive need-based Harvard Scholarship aid, totaling ~\$130 million
- 60% of the Class of 2012 will receive need-based grant aid
- A typical financial aid package** for a scholarship holder in the Class of 2012 is:



- The median educational debt for members of the graduating Class of 2007 was \$6,766

Reasons for Implementing the Initiatives: Growth in Harvard tuition has outpaced growth in US family incomes

Growth in Harvard Tuition vs. Growth in Median Family Income (1961 to 2008)



Tuition (2008 \$'s)

1961: \$8,411

2008: \$31,456

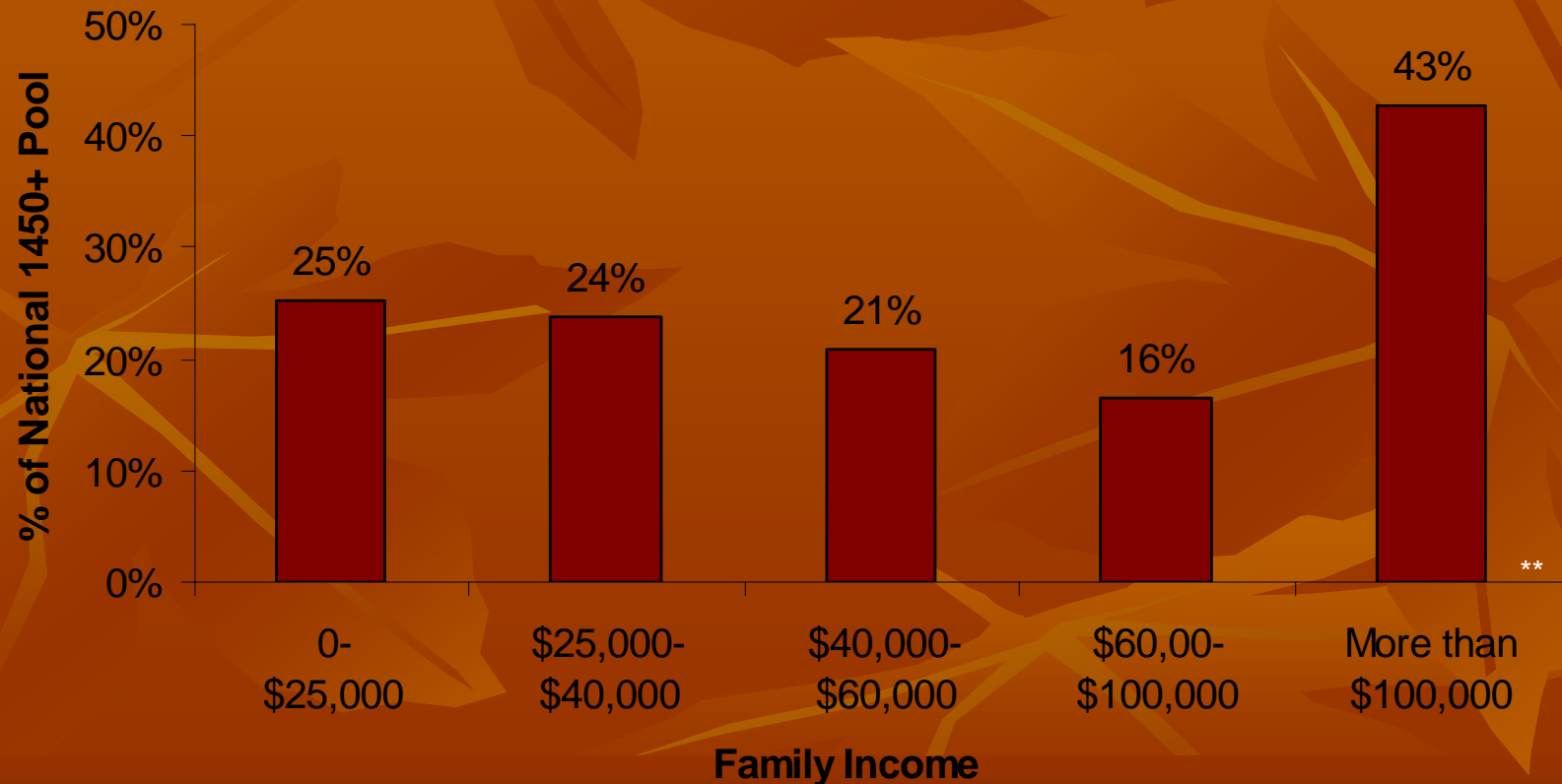
US median family income with householder between 45-54 year olds (2008 \$'s)

1961: \$46,098

2008: \$77,440

Reasons for Implementing the Initiatives: Harvard is underrepresented among middle-income students

*Harvard College applicants (Class of 2009) as a share of
national test takers with SAT Scores of 1450+**



Harvard's Middle Income Initiative: The Zero-10% Standard decreases the average parental contribution (PC) for families with incomes of \$60-180K

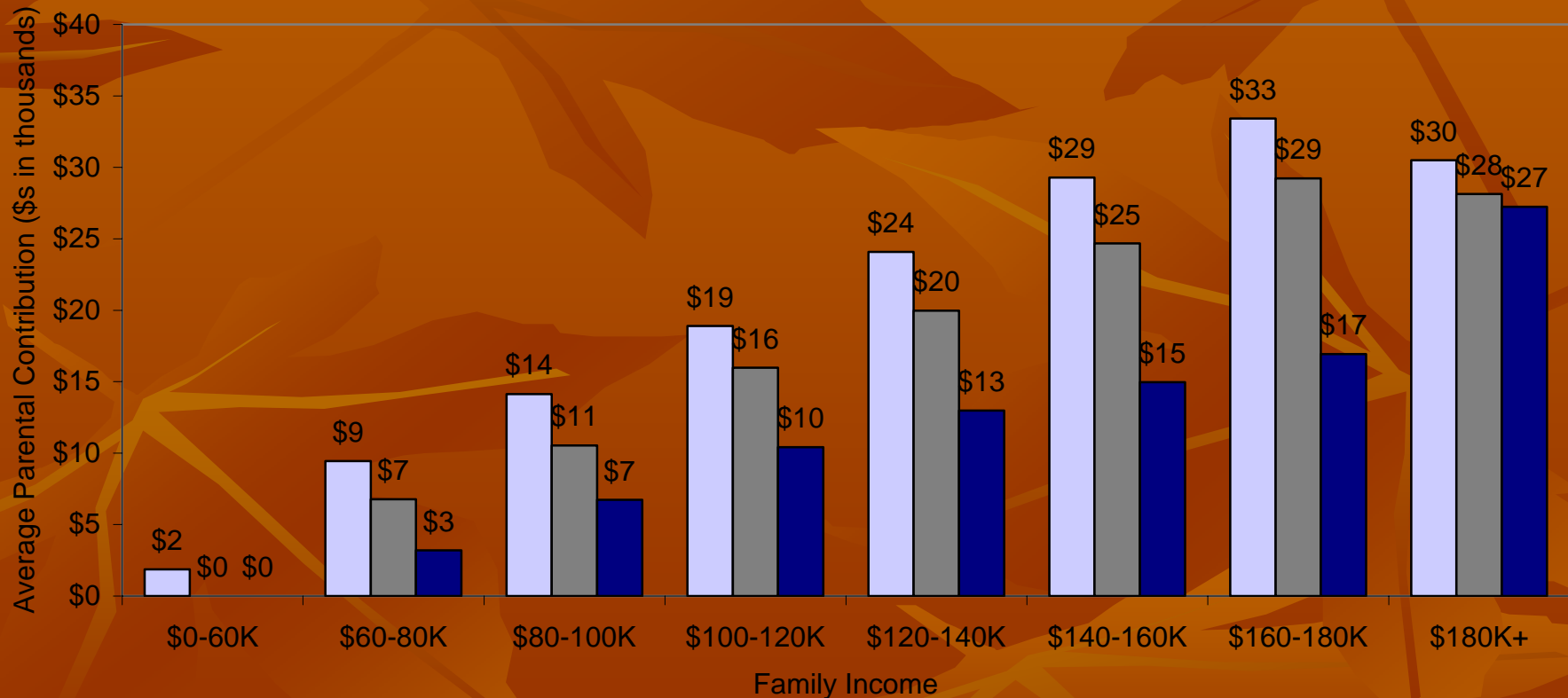
Income (\$000s)	No. of grant holders	Current Average PC (\$s)	Under Middle Income Initiative		
			New Average PC (\$s)	Change in PC (\$s)	New PC as % of income
0-60K	1092	0	0	0	0%
60-70K	228	5,952	2,600	-3,352	4%
70-80K	247	7,514	3,750	-3,764	5%
80-90K	233	9,321	5,950	-3,371	7%
90-100K	209	11,899	7,600	-4,299	8%
100-110K	178	14,710	9,450	-5,260	9%
110-120K	163	17,361	11,500	-5,861	10%
120-130K	177	19,261	12,500	-6,761	10%
130-140K	169	20,695	13,500	-7,195	10%
140-150K	120	23,313	14,500	-8,813	10%
150-160K	107	26,197	15,500	-10,697	10%
160-170K	108	28,355	16,500	-11,855	10%
170-180K	82	30,358	17,500	-12,858	10%
180K +	227	variable	variable		
Total	3340				

Impact on families:

- Average PC <10% of income up to \$110K
- Average PC 10% of income up to \$180K

The middle-income initiative significantly decreased the parental contribution relative to the federal methodology and previous Harvard methodology and previous Harvard policy

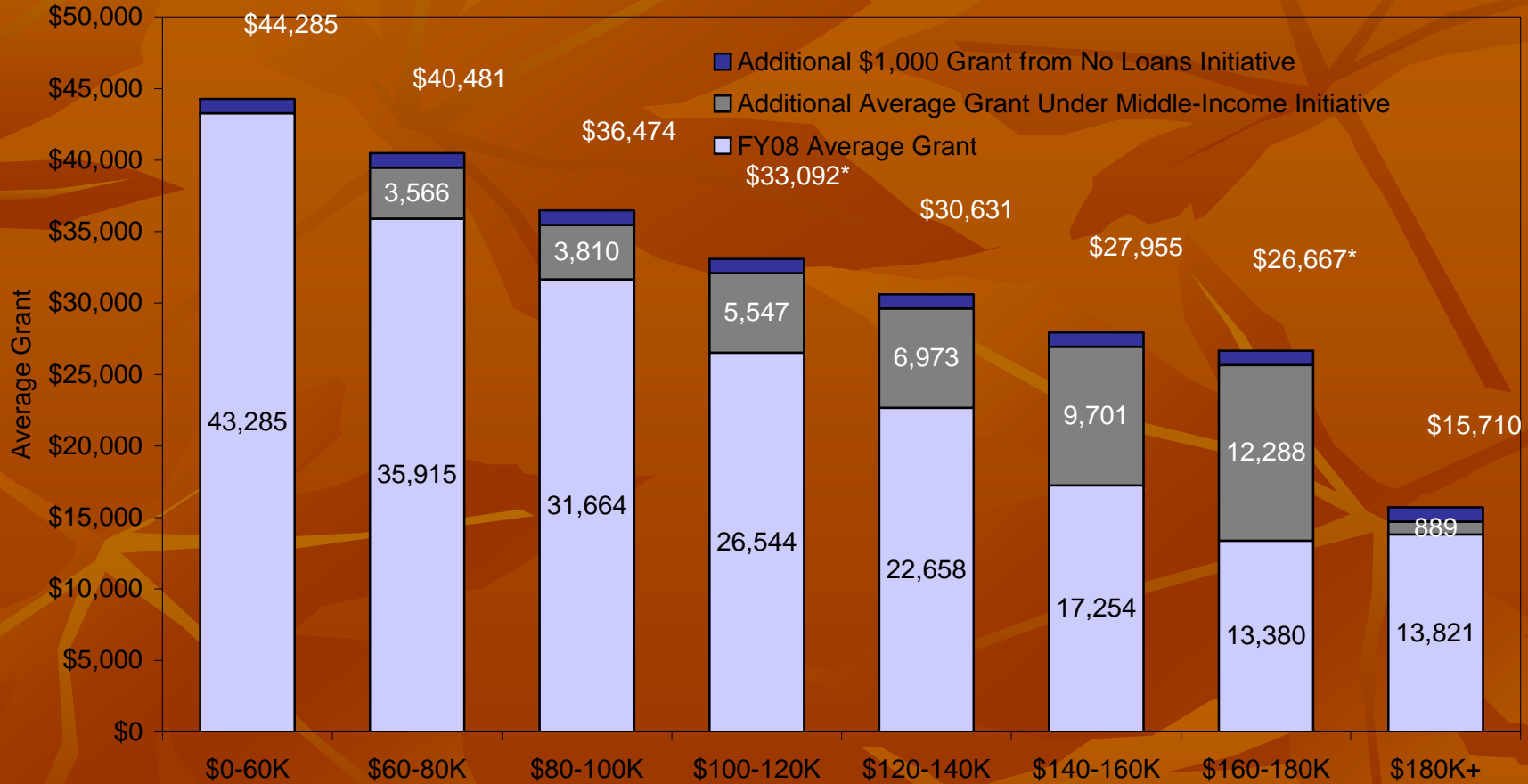
Parental Contribution (PC) by Family Income Under Federal Methodology, Harvard's FY2008 Methodology, and Methodology with New Initiatives (FY2009)*



- Average PC Under Federal Methodology
- Average PC Under FY08 Harvard Methodology
- Expected Average PC Under New Initiatives

The middle-income initiative significantly increased the average grant for middle-income families

Change in Average Grant as a Result of Financial Aid Initiatives



Current Grant as % of Total Package

95% 79% 69% 58% 50% 38% 29% 30%

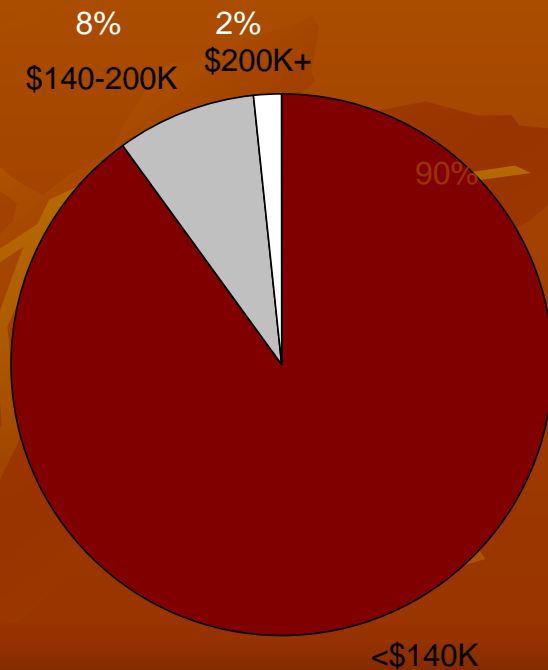
New Grant as % of Total Package

97% 89% 80% 73% 67% 61% 58% 34%

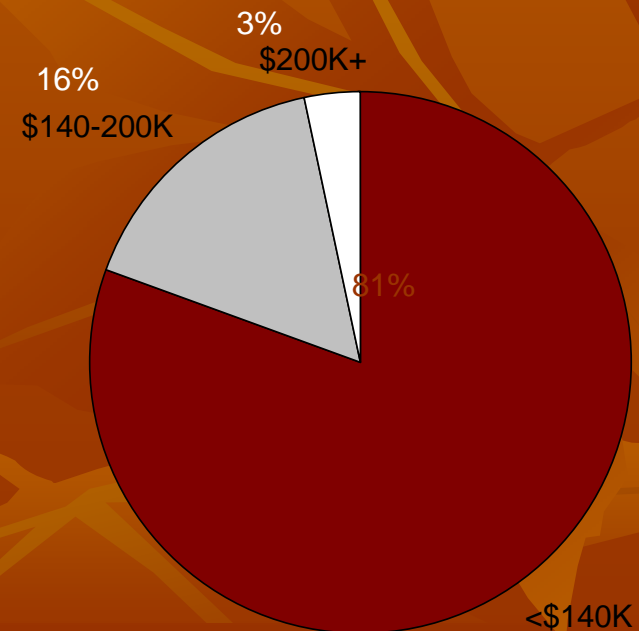
Impact of Initiatives: Grant holders with incomes of less than \$140K receive a majority of institutional grant aid

Percent of Institutional Grant Aid Budget Given to Each Income Group, FY08 versus FY09

FY08 Grant Budget
100% = \$100 million*

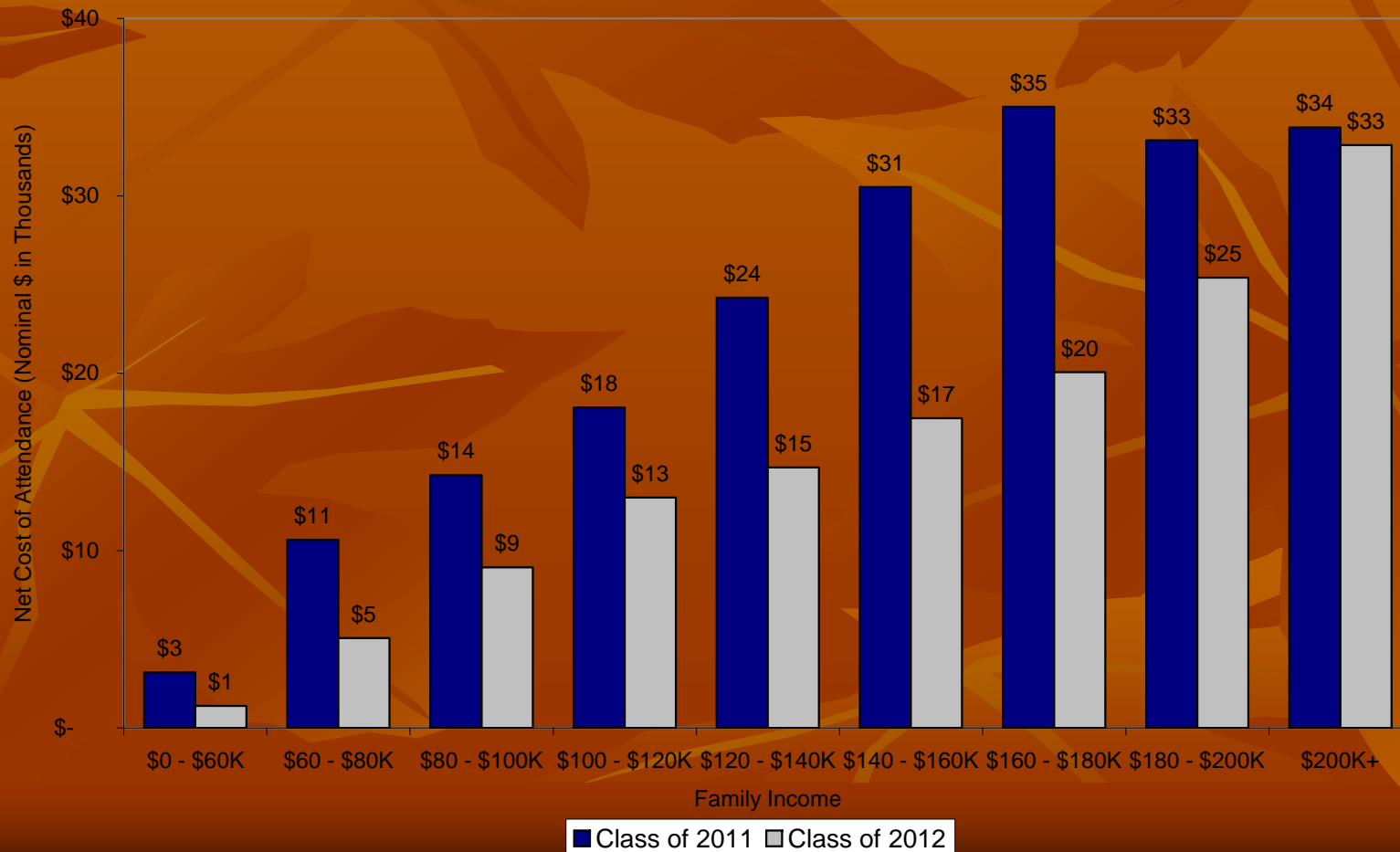


FY09 Grant Budget
100% = \$127 million*



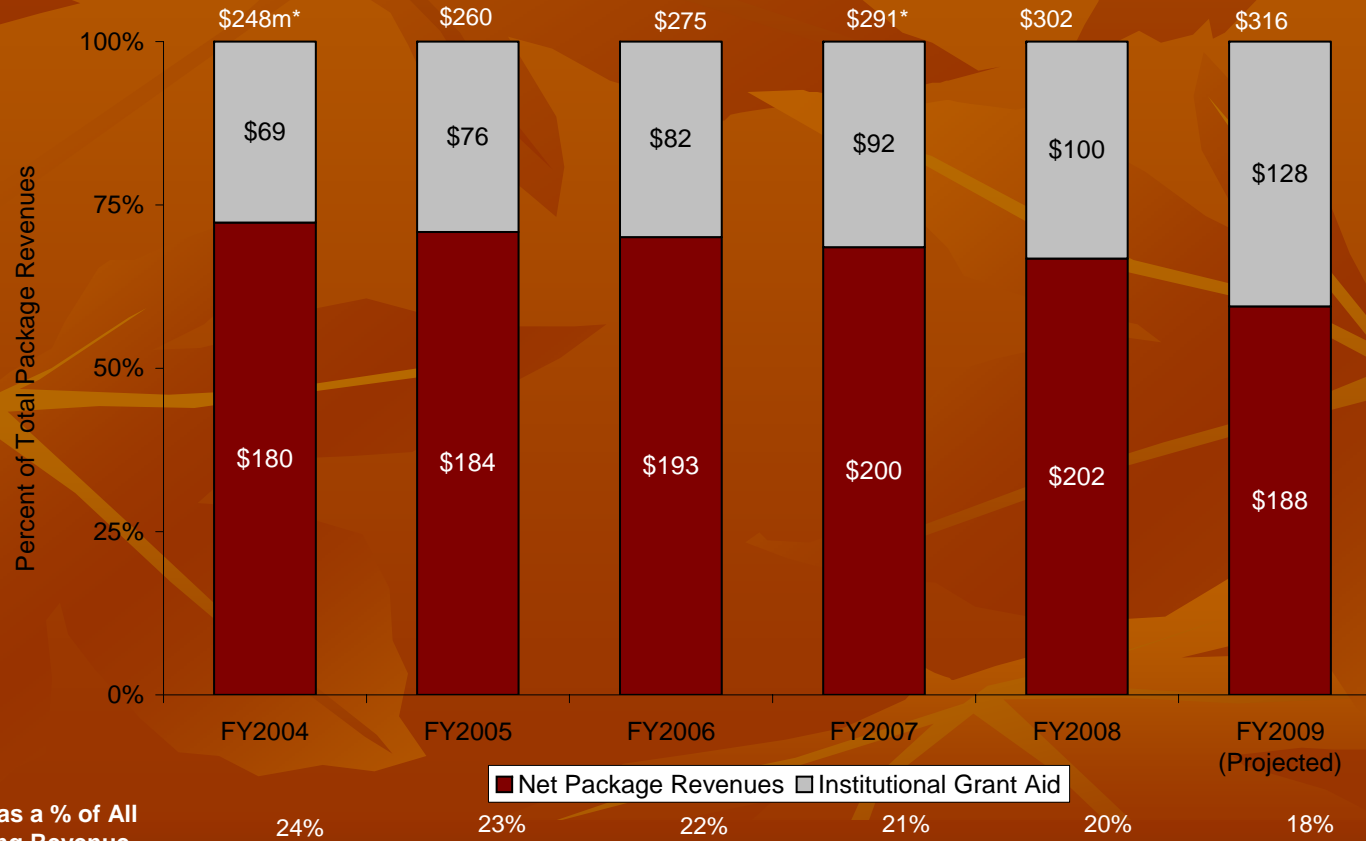
Impact of Initiatives: Under the Zero to 10 Percent Standard, net costs are reduced at every income level

*Average Net Cost for Incoming Freshman Scholarship Recipients,
By Parent Income Group



Impact of Initiatives on FAS Budget: Changes in Package Revenues for Harvard College

Total Package Revenues, Institutional Grant Aid, and Net Package Revenues for Harvard College, FY2004 - FY2009
(100% = Total Package Revenues, \$ millions)



Net Package as a % of All FAS Operating Revenue

The Brave New World of Need Analysis

- Howard Johnson's 28 Flavors of Ice Cream
- Heinz 37 Varieties of Ketchup
- How many flavors of needs analysis are there?

There must be 50 ways to get a PC

- Use IM, Clem
 - With the New AI, Guy
 - Ignore the home, Jerome
 - Just get a PC
-
- Try 568, Nate
 - Or the Harvard Plan, Stan
 - Go back to FM, Jem
 - Just get a PC

The Brave New World of Need Analysis

- **Harvard's 0-10% Standard**
- **The 568 Analysis**
 - Cost of living, home equity, student assets
- **568 with discounted home equity**
 - 2 times income, 1 times income, exclude entirely
- **IM with new tables**
 - New assessment rate for AAI over \$70k income
- **IM with old tables**
- **Federal Methodology**
 - Change in the definition of untaxed income & independence

What's an Aid Director to Do?

- **Look at the competitive landscape**
 - Read the Chronicle, talk to colleagues, listen and ask questions
- **Model**
 - Use simulations in test bases if available
 - Use sample cases and extrapolate
 - Listen some more, ask, guess
- **Get the decision makers together**
 - Give them the data
 - Make them decide –that's their job!
 - Your job is to implement

How Can We Help Families Understand All This?*

*Especially when we don't always understand it...

- **Shocking Fact #1:** Families don't care about need analysis
- **Shocking Fact #2:** For a student who is applying to more than two schools, there is NO WAY for anyone to estimate how much aid they will get
- **Shocking Fact #3:** it doesn't matter. All that matters to families is the bottom line –how much and what kind of aid will you give me?

How Can We Help Families Understand All This?*

***Especially when we don't always understand it**

If you believe these three shocking facts, you should:

- Not spend a lot of time and energy on financial aid calculators
- Spend a huge amount of time and energy to make sure that your award letters are clear and understandable
 - › Cost of attendance broken out
 - › Family contribution shown explicitly
 - › Clear distinction between need based aid and non-need based loans
 - › Specific information about renewability