MARKET INTELLIGENCE FOR HIGHER EDUCATION

*student*POLL

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Even though *parents subscribe to* some of the *ideals underlying financial aid*, they believe *awards do not meet* their *needs*, are *unhappy* about the *aid process*, and are *wary of* taking on *educational debt* and *anxious* about their children's *ability to repay it.*

PUBLISHER'S NOTE

Several decades ago, I began my first job in higher education as an intern in Princeton University's financial aid office. Given where the world of financial aid is today, it might as well have been a different century. Then, regulatory and compliance requirements consumed only a small fraction of staff time (today's complicated web of federal loan and grant programs was only beginning to evolve). True, there was much paperwork and it was handled with very little help from computers, but our priorities were focused almost wholly on serving students and their families. Need, for most institutions, was the sole determinant of award qualification and size. The funds available for aid from all sources, particularly government, were rising dramatically. And the idea that aid was a "discount" was unthinkable. It was, in short, an age of idealism, rooted in the post-war and post-Sputnik goals of providing access to higher education for all talented and able students, whatever their means.

Almost everything about financial aid today defies the assumptions of that era. For many reasons, not the least of which are good intentions and sound accounting and planning practices, more and more institutions manage aid as a discount on revenue, optimizing the use of awards based on a variety of goals ranging from net tuition revenue to class composition and quality. Awards, particularly at private institutions, are now as much a weapon of competition as they are a means of providing access. Need is increasingly overshadowed by merit as the basis for making awards. Compliance demands a major share of staff time and resources, often at the expense of service to students and their families. With real per capita federal aid expenditures in steady decline, state support stagnant, and institutional support rising at a near geometric rate, the resources available for aid are in scarcer and scarcer supply.

Clearly, as the findings reported in this issue of *student*POLL confirm, families are feeling the pinch, and they're not happy about it. While aid remains a major factor in college choice, a very high majority of parents are dissatisfied with the size of the award and believe the aid process is not adequately sensitive to their individual circumstances. More than half want to avoid borrowing, and a majority of those who do plan to borrow are concerned about their child's ability to repay the loans after college. In short, for the people paying the bills, financial aid is far from being the panacea for college costs that much college and government promotional literature portrays it to be.

On the other hand, worries that parents will see aid as a form of crass marketing appear to be unfounded. In fact, they strongly support the ideals of access and need-blind admission. For financial aid hands steeped in the ideals of the halcyon years, that provides some comfort that the world hasn't been turned completely upside down.

Yet the findings reported here also suggest that the time for another financial aid revolution has arrived. We are making do with a patchwork of federal and state programs, and the whole of the problem of the affordability of higher education is much greater than the sum of the parts that now exists to deal with it.

Richard A. Hesel
Publisher

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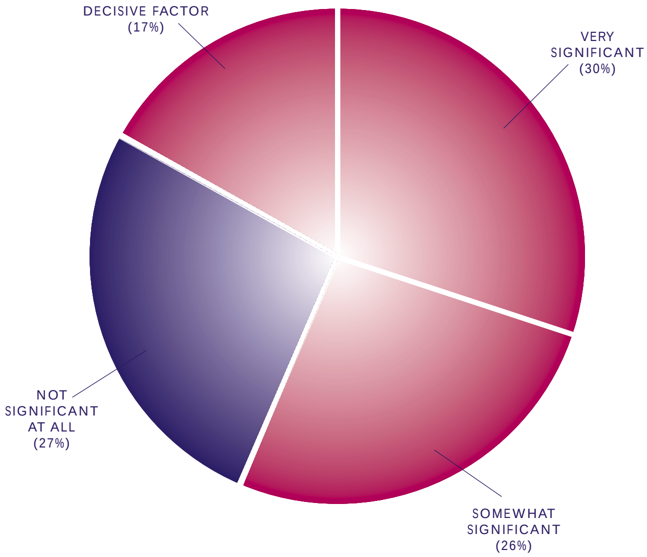
1. Financial aid is a *key factor* in *college choice* for nearly half of families applying for assistance.

Three-quarters of the parents we surveyed had applied for financial assistance. Overall, 82 percent of those who applied for aid received some form of assistance from the institution their child selected. Not surprisingly, the likelihood of receiving aid varied with income, but even two-thirds of families with incomes of $100,000 or more who applied were awarded aid.

Among those who applied for aid, nearly half indicated that it was a *decisive* or *very significant* factor in the final selection of a college. Another quarter indicated that it was "somewhat significant" (Table 1). Again, the impact of aid on choice was related to income. Sixty-five percent of parents with household incomes under $50,000 said it was a decisive or very significant factor, compared with only 20 percent of those with incomes of $100,000 or more.

Table 1.
Impact of financial aid
(among those who applied for financial aid)



2. *Merit and need-based* awards *account for similar proportions* of the awards received.

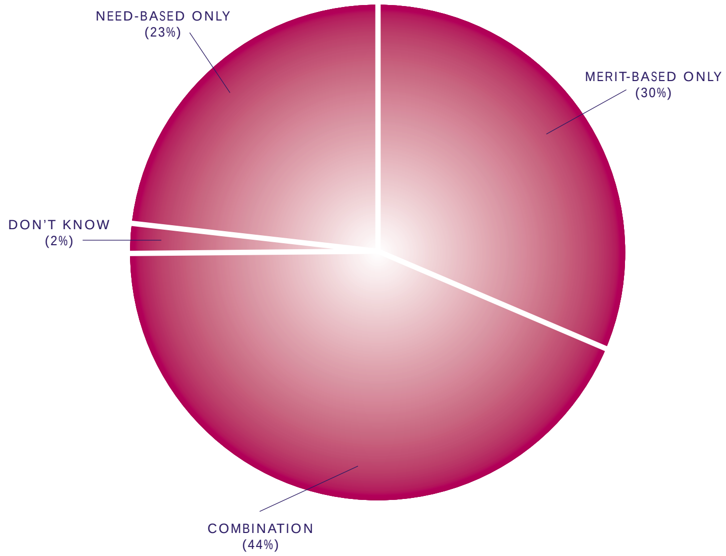
Recognizing that parents tend to see merit awards as a form of "bragging rights," we carefully worded our questions about the nature of the aid families received. Among all families who received aid from the institution their child selected, only 23 percent said their awards were based on need alone. Thirty percent indicated that the awards were based "entirely on their son or daughter's ability or talent," and 44 percent said the awards were based on some combination of need and merit (Table 2). The incidence of merit awards was highest among African-Americans (45 percent) and households reporting incomes of $100,000 or more (42 percent); it was lowest among those with incomes under $50,000 (19 percent). At first glance, this pattern may seem to be explained by the well-known positive correlation between income and SAT scores. However, there was no significant variation in the incidence of merit awards on the basis of SAT score. These findings suggest several conclusions: 1) an institution's ability to use merit awards to enroll students within certain SAT score ranges varies widely with institutional stature and drawing power (one college's average student is another's honors scholar); 2) colleges are using merit awards as an incentive to enroll students from affluent families. Based on the institutional behavior we have observed, both conclusions seem highly plausible.

ADVISORY

CONSIDER BOTH THE ABILITY TO PAY (NEED) AND WILLINGNESS TO PAY (PRICE OR DEMAND ELASTICITY) OF EACH PROSPECT OR STUDENT IN YOUR DECISIONS ABOUT THE SIZE AND PACKAGING OF AID AWARDS, BOTH MERIT- AND NEED-BASED.

Avoid making the basis for awards rigidly formulaic, and develop analytical methods, both anecdotal and mathematical, that take specific individual factors into account.

Table 2.
Type of award received
(among those who received financial aid)



3. *Parents' attitudes* about financial aid *demonstrate* both *altruism and strong self-interest.*

To measure their general attitudes about financial aid, we asked parents to what extent they agreed or disagreed with statements that reflected some of the current conventional wisdom and criticisms. First, we presented them with paired statements representing opposite points of view and asked them to choose the statement that best represented their own point of view. When asked whether "financial aid is a discount used to recruit students" or "financial aid is intended to make college accessible," a large majority (75 percent) chose the latter. When asked whether "ability to pay should be a factor in admission" or "admission should be need-blind," 71 percent chose need-blind (Table 3).

A whopping majority completely or mostly agreed that financial aid *does not* meet the needs of the middle class. High majorities in all income segments, reaching 89 percent among those with incomes between $50,000 - $75,000, felt this way, undoubtedly because they see themselves as "middle class."

Additionally, more than half mostly or completely agreed that families who can afford to pay the full cost of a college education are subsidizing those with need (Table 4). Not surprisingly, two-thirds with incomes of $100,000 or more felt this way, but even 44 percent of parents in the lowest income group completely or mostly agreed that the affluent are subsidizing the needy.

Still, 57 percent of the parents we surveyed also completely or mostly

Table 3.
Agreement with statements about financial aid

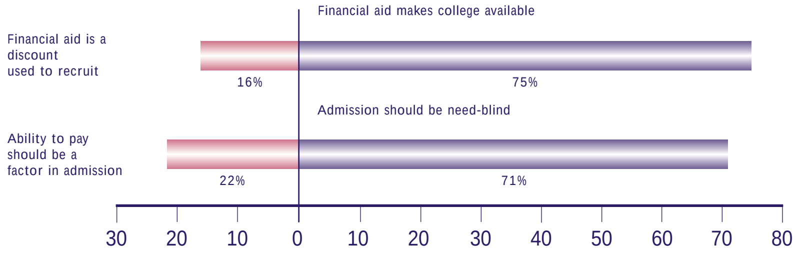
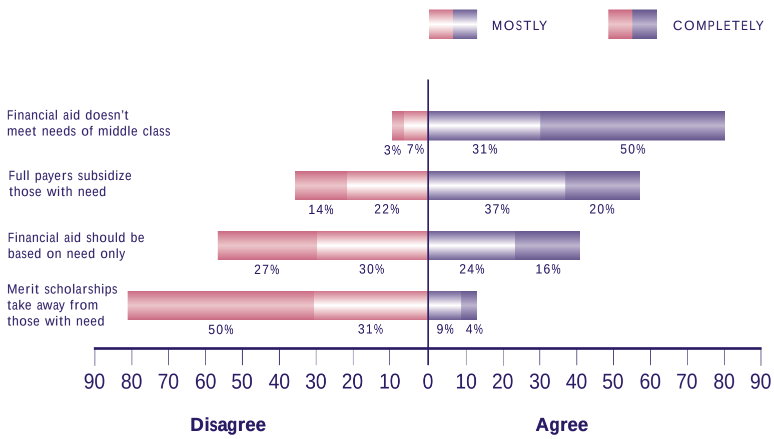


Table 4.
Agreement with statements about financial aid



ADVISORY

CUT-THROAT MERIT AND DISCOUNTING PRACTICES, PARTICULARLY IN THE PRIVATE SECTOR, ARE THREATENING THE VIABILITY OF MANY INSTITUTIONS AND CREATING PROBLEMATIC DISTORTIONS IN THE ALLOCATION OF LIMITED AID RESOURCES THAT UNDERMINE THE GOALS OF ACCESS AND ENCOURAGE PUBLIC CYNICISM.

Consider allying with peer institutions or creating consortia to develop innovative financing and repayment plans and the development of award methodologies and aid practices that are less predatory.

disagreed that financial aid should be based solely on need. Responses here were related to income: 71 percent of parents with incomes of $100,000 or more took this position versus only 46 percent of those with incomes under $50,000. Caucasian parents were also far less likely than their African-American counterparts to believe that aid should be based on need only. Given these attitudes about need-based aid and the frequency of merit-based awards reported above, self-interest would appear to account for the fact that a very high majority of parents (81 percent) completely or mostly *disagreed* that "merit scholarships take money away from needy families." Here there were no statistically significant variations by income, academic ability, race, or any other factor.

4. While *more than half* of parents *believe* a financial aid *award is negotiable*, only a *small percentage actually negotiates.*

Fifty-five percent of the parents we interviewed said they mostly or completely agreed that the financial aid offer an institution makes to a family is negotiable. Only 13 percent completely *disagreed* that a financial aid offer is negotiable (Table 5).

But, apparently, these convictions did not result in action: fully 70 percent of parents whose son or daughter received a financial aid offer from the chosen institution told us they did not attempt to negotiate a change in the award. Of those who did seek to negotiate a better aid offer, 16 percent asked for a larger total award, 7 percent asked for a larger proportion of grant or scholarship in the aid package, and 6 percent asked for both a larger amount and redistribution of the aid package (Table 6). Attempts to negotiate worked less than half the time: 48 percent of parents who attempted to increase the size of the award and 40 percent of those who attempted to change the package were successful.

Table 5.
Agreement that financial aid is negotiable

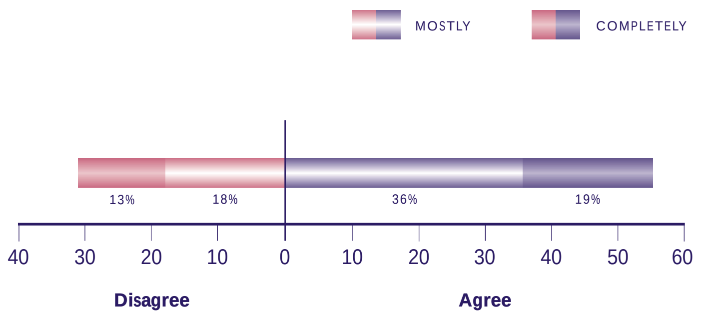
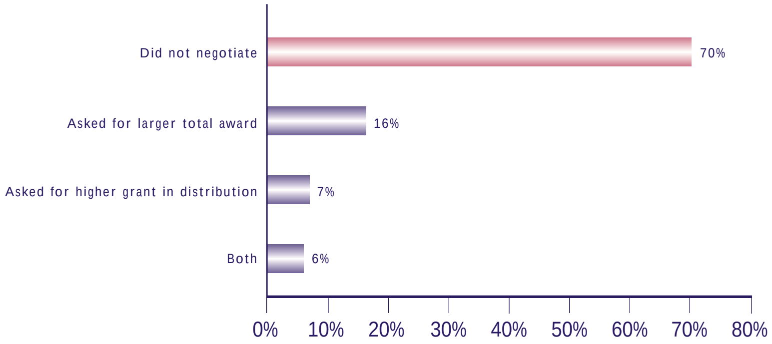


Table 6.
Negotiation of award
(among those who received financial aid)



5. *Actual* financial aid *awards meet* the perceived *needs of a minority* of families.

The median financial aid award (including grants and loans) received from the chosen institution by the families we interviewed who received aid was about $8,000 - $5,500 in grant and $2,500 in loan - with substantial variations by demographic subgroups (Table 7). Total awards were highest among parents who are: Caucasian; from the Northeast or West; with incomes under $50,000; and with children who posted combined scores of 1200 or more on the SAT. Even though their reported household incomes were substantially lower than those reported by Caucasian parents, African-American parents received less total aid than their white counterparts, a difference partially explained by the lower median loan amounts received by African-Americans ($875 versus $2,500 for Caucasians).

Grants, apparently, are easier to come by than loans. In all, 12 percent of the parents who received aid had no grant awards in their aid package. In comparison, 30 percent of those who received aid were not awarded loans.

Among the families that received financial aid, 61 percent believed the awards were inadequate: 33 percent of parents said that the awards were "a lot less than needed" and another 28 percent said they were "a little less than needed." Only 31 percent were satisfied with the award (Table 8). Dissatisfaction with awards was consistent: no notable variations in award adequacy were observed across any of the major subgroups studied.

Table 7.
Amount of financial aid received
(among those who received financial aid)

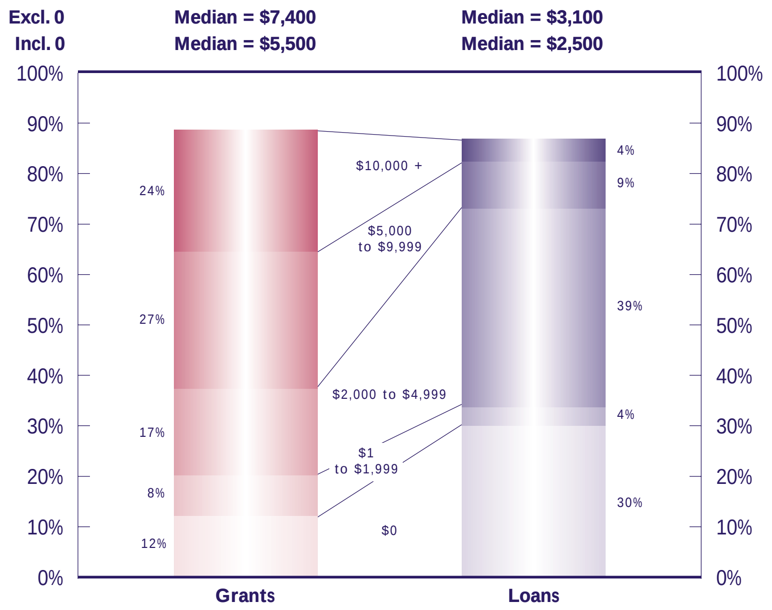
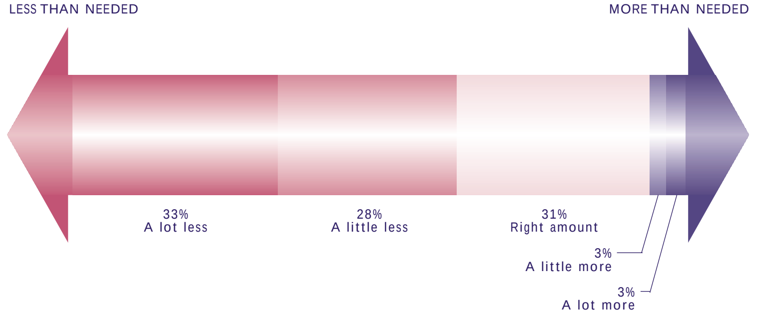


Table 8.
Adequacy of award
(among those who received financial aid)



6. A *majority* of parents *believe* the *aid process* itself is *insensitive* to their family's circumstances. *Better counseling* is seen as the *best way to improve* the *sensitivity* of the financial aid process.

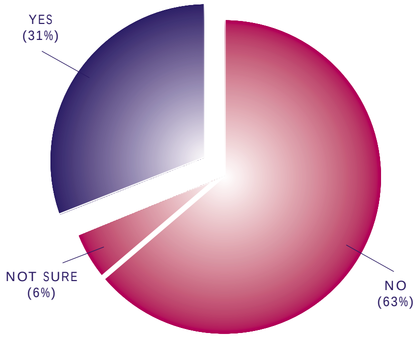
The financial aid process itself is even less satisfactory to parents. Nearly two-thirds of those surveyed agreed that the process was not adequately sensitive to their individual circumstances (Table 9). Parents from the South, as well as those with a daughter entering college, were even more likely to be dissatisfied with the process.

We asked those parents who believed the financial aid process was insensitive to their circumstances to tell us how the process could be improved. Fifty-seven percent wanted more opportunities to discuss their circumstances with college representatives and/or better counseling and advice (Table 9).

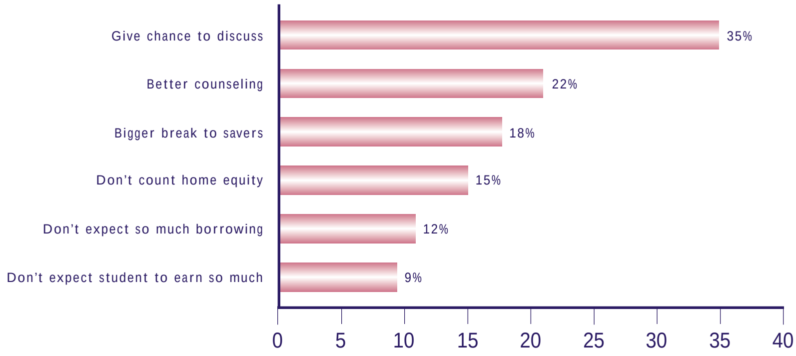
Notably, almost a fifth of parents believed that the aid process could be improved by rewarding families who have saved for college.

Table 9.
Sensitivity to individuals' financial needs

ADEQUATELY SENSITIVE



SUGGESTIONS TO IMPROVE PROCESS



ADVISORY

Carefully review the scope, nature, and quality of the financial aid advisement and counseling services you provide to students and their parents before and after they enroll.

Treat these services as an essential part of the recruitment and student life services you provide, and staff and fund them accordingly.

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7. *Half* of parents *do not intend to borrow* to pay for college. *A* majority of those who do are *very concerned about* their *child's ability to repay his or her* educational debts.

Our findings reveal a reluctance to assume debt for college costs among a significant number of parents, with 51 percent telling us they did not plan to borrow to help pay for their child's education over the next four years (Table 10). Loan intentions varied with income: 53 percent of those with household incomes under $50,000 said they intended to borrow, but only 27 percent with incomes of $100,000 or more. Parents from the Northeast, where average college costs tend to be higher, were also more likely to report an intention to borrow.

We then asked those who intended to borrow to tell us both the maximum amount of educational debt they were willing to incur over four years and the actual amount they anticipated borrowing. The median *maximum* indebtedness was $20,000 for all respondents. The median *anticipated* indebtedness was the same, a finding that indicates parents expect to borrow to their personal limit to pay for college (Table 10). The maximum indebtedness parents told us they were willing to assume varied widely by income, from $15,000 for those in the lowest income category to $50,000 for those with incomes of $100,000 or more (Caution: these findings were based on a small sample size).

Finally, we wanted to know who would be responsible for loan repayment during and after college and the extent to which parents were concerned about their child's ability to repay his or her educational loans. Not surprisingly, parents will assume the major role for loan repayments that have to be made during college, with the child assuming the major

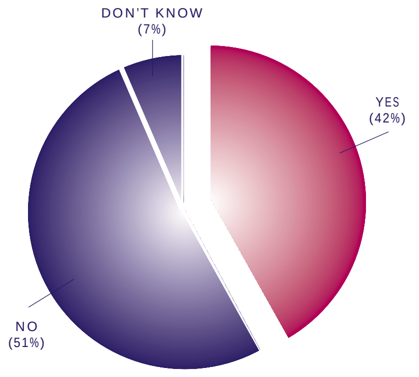
ADVISORY

GIVEN PARENTS' RELUCTANCE TO BORROW, DEVELOP LOAN AND PAYMENT PACKAGES THAT REDUCE THE COST OF BORROWING AND OF MAKING DEFERRED OR INSTALLMENT PAYMENTS.

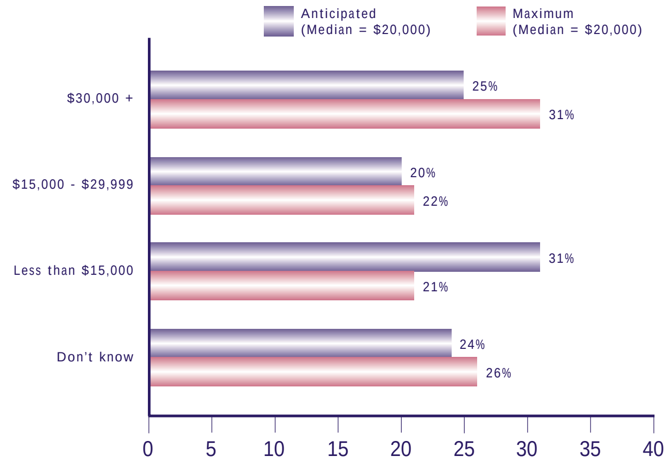
These might include reduced-rate loans, no- or low-cost installment plans, innovative repayment plans, and reduction or elimination of fees or penalties for late payment. Seek competitive terms from lenders for your loan portfolio and avoid lenders charging high commercial rates.

Table 10.
Willingness to borrow

PLAN TO TAKE OUT LOANS



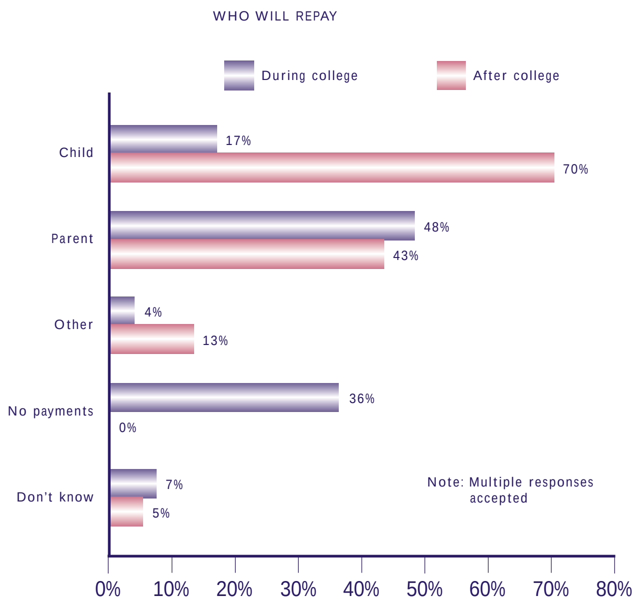
LOAN AMOUNT

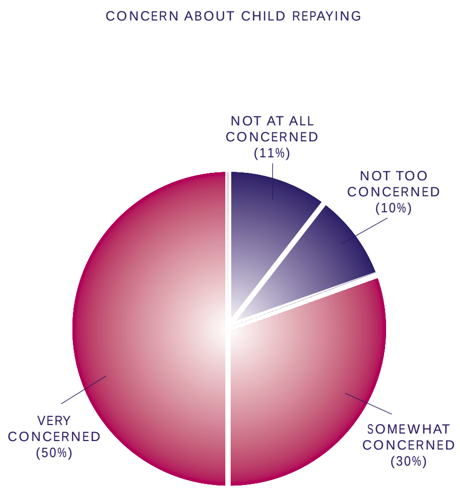


role afterward. Seventy percent of parents said the child would make repayments after graduation. Still, many parents will continue to share the burden: over 40 percent said they would also make loan repayments when their child's college studies were completed (Table 11).

Perhaps most important, parents appear to be very anxious about their child's ability to repay college loans: 50 percent indicated they were "very concerned" and nearly 30 percent said they were "somewhat concerned" (Table 11).

Table 11.
Loan repayment
(among those who plan to take out loans)





HIGHLIGHTS OF UPCOMING ISSUES OF *student*POLL

Winter 1997: Update on Communications Technology. An update of our widely cited winter 1996 benchmark issue on students' access to and use of communications technologies in college information-gathering, application, and choice.

Spring 1997: Student Diversity and Internationalism. Multiculturalism has become an article of faith in the marketing of many colleges. This issue will focus on parents' and students' perceptions and attitudes regarding the importance of student diversity and internationalism on college campuses.

Summer 1997: Crime and Safety. We will report on student and parent perceptions and concerns about crime and safety, focusing on the type of information they use to evaluate the safety of a campus and the extent to which parents are concerned about drinking, physical violence, sexual abuse, gender bias, and other risks.

Fall 1997: Parents update on the *US News & World Report* rankings. The premier issue of *student*POLL, published in the fall of 1995, produced much-discussed findings documenting that newsmagazine rankings do not strongly influence students' college choices. At the time, many in higher education claimed that the rankings have much greater influence on parents. This issue will determine whether the claims are right.

SURVEY METHODOLOGY

The findings reported in this issue of *student*POLL are based on in-depth telephone interviews with a random national sample of 400 parents of high school seniors who enrolled in four-year colleges in the fall of 1996. To qualify for an interview, respondents' sons or daughters must have achieved a combined, re-centered SAT score of 1,050 or higher. The study sample was drawn and weighted to represent the national distribution of students with qualifying SAT scores by geography, gender, intended major, and income. The study included an oversample of 100 African-American parents whose children had qualifying SAT scores. Questions about survey methods, findings, and other matters should be addressed to Art & Science Group, Inc.

8. *A high majority* of parents *has saved* for college, with *median savings* almost enough to pay for *one year's average costs* at a private institution.

Nearly two-thirds of the parents we surveyed said they had saved or invested specifically for the purpose of paying for college (Table 12). Savings incidence varied with income, from a low of 45 percent for those with household incomes under $50,000 to 81 percent of those with incomes of $100,000 or more. No statistically significant differences in savings rates were found by region, race, or gender. Most parents who saved did so over a long period of time, nearly 14 years on average.

A relatively low-yield vehicle - savings accounts - was the most frequently used form of investment: 65 percent who have saved for college did so in this way, with no differences by household income. Fifty-four percent invested in stocks or bonds and 43 percent in mutual funds, with the latter reaching to nearly 60 percent among those with incomes of $100,000 or more. Only 3 percent had invested in college savings plans sponsored by their state governments (Table 12).

Median savings overall totaled about $18,000, not quite enough, based on current national averages, for one year as a resident student at a private university, but nearly enough for two years at a public university (based on data reported by the College Board for the current average cost of attendance at public and private colleges and universities). Again, median savings varied by income, from a low of $13,000 for households with incomes under $50,000 to a high of $30,000 for those with incomes of $100,000 or more.

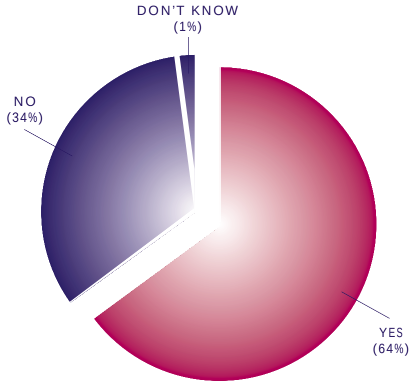
A word of caution: our experience with research of this kind suggests that respondents, to put themselves in a more favorable light as parents, may exaggerate what they tell us about their savings behavior. Therefore, it is quite possible that both savings rates and savings amounts are lower than reported.

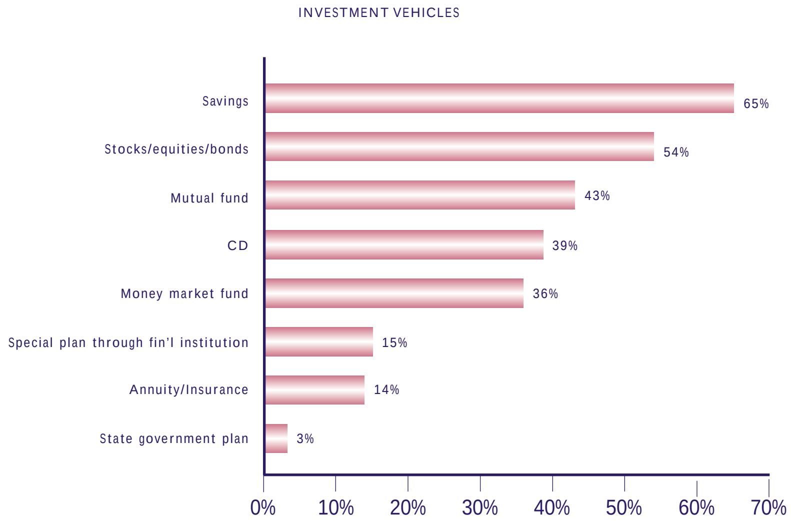
ADVISORY

MANY FAMILIES ARE SAVING FOR COLLEGE, BUT MOST NEEDS METHODOLOGIES "PENALIZE" THEM BY GIVING LARGER AWARDS TO FAMILIES WHO HAVEN'T SAVED.

Make special considerations in your needs methodology for parents who have saved for college and publicize them. For example, you might package them without loans, reduce student self-help expectations, or increase grant size.

Table 12.
Saved or invested for college





FINANCIAL AID AND TUITION REVENUE MANAGEMENT

For most colleges and universities, financial aid has come to function as a discount. But few have learned to manage it as such. In many instances, institutions increase tuition or enrollment to generate additional revenue, but aid commitments climb even more rapidly. The result: net tuition revenue rises only modestly, or actually declines.

Or, fearing this, some institutions place arbitrary constraints on institutional aid — caps or reductions on the tuition discount rate or the dollar value of aid awards — thereby depressing enrollment and net revenue.

Still others issue directives to the admissions staff insisting they somehow find more full-paying students, or make public statements abandoning long-standing policies of need-blind admission and meeting full need.

The best solution lies in determining a beneficial discounting strategy for each institution. In fact, our work demonstrates that there is no "right" discount rate or packaging strategy that can be applied to every institution. Refining the precise awarding of aid in the near term, and strengthening institutional positioning strategy over the long run, are decisions particular to each college or university.

In the early 1990s, we recognized that the financial aid crisis confronting higher education called for new, more powerful analytic tools. We pioneered the application of econometric and marketing techniques to help institutions manage financial aid and tuition revenue more effectively. Through our Tuition Revenue Management (TRM) service, we work closely with senior staff of an institution to create a reliable basis for setting strategy on issues such as:

- **Targeting of aid awards:** adjustments to the size of aid awards in various student cohorts; configuration of awards to advance the institution's enrollment and financial objectives.
- **Strategic and marketing issues:** policy implications of over- or under-discounting; repercussions for longer-term market positioning of the institution; communication and "packaging" of aid.
- **Management issues:** operational and structural adjustments in the financial aid function, policy, and practices; trade-offs among the sometimes competing goals of net revenue, enrollment, student quality, diversity, and majors; management implications of a net-revenue orientation.

Each TRM engagement is founded in sophisticated statistical analysis, mathematical modeling, and simulation of prospective students' behavior, paired with a review of the institution's marketing circumstances and operational practices.

ABOUT *student*POLL

*student*POLL is an authoritative national survey that measures the opinions, perceptions, and behavior of high-ability, college-bound high school students and their parents. Available only by subscription, it is published quarterly by Art & Science Group, Inc., leading institutional marketing consultants to higher education and the non-profit sector. Information about Art & Science Group and how to order subscriptions to *student*POLL can be found on pages 7 and 12 of this report.

ABOUT ART & SCIENCE GROUP

*student*POLL is published by Art & Science Group, Inc., a national leader in providing market intelligence to higher education and the non-profit sector. The firm provides services in the following areas:

- Student recruitment marketing and enrollment management
- Tuition pricing, financial aid, and net tuition revenue management
- Planning and communications for capital campaigns, other large fundraising efforts, and alumni relations programs
- Overall institutional advancement and marketing

Within these broad areas, the firm provides a number of supporting services:

- Strategic marketing and communications planning
- Quantitative and qualitative market research
- Econometric analysis of financial aid awards
- Predictive mathematical modeling of student and prospect behavior
- Operations assessment and re-engineering
- Creation of print and electronic communications tools

To inquire about our services, call, write, e-mail, or log on to our Web site.

ART & SCIENCE GROUP INC.

190 West Ostend Street, Suite 216
Baltimore, MD 21230
410-962-1300
Fax 410-962-1315

112 Swift Avenue
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