

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Committee: Finance, Facilities and Technology **Date of Meeting:** Nov. 17, 2009

Agenda Item: The Role of Financial Aid in the Cost of Attendance

- Proposed Policy Action Approval Required by Policy Other Approvals Monitoring
- Information

Cite policy requirement, or explain why item is on the Board agenda: The purpose of this report is to inform the Finance, Facilities, and Technology Committee about the role of financial aid in the cost of attendance. It is important that the Committee understands how financial aid interacts with tuition and fee rate increases as it begins tuition planning discussions in early spring 2010.

Scheduled Presenter(s): Laura King, Vice Chancellor – Chief Financial Officer
Judy Borgen, Associate Vice Chancellor Budget
Karen Kedrowski, System Budget Director
Mike Lopez, Associate Vice Chancellor for Student Affairs
Christopher Halling, System Director for Financial Aid

Outline of Key Points/Policy Issues: (1) Amount of financial aid received by students enrolled in the Minnesota state colleges and universities. (2) Student debt/borrowing trends. (3) Income distribution of dependent and independent students. (4) Illustration of determination of Pell and state grants. (5) Status of HR 3221 regarding direct lending program, Pell grant, Perkins loan program, and simplification of the federal aid application (FAFSA).

Background Information: Information will be provided that describes the Pell grant and State grant programs and the expected family contribution formula. This report will provide an update of House of Representatives 3221, Student Aid and Fiscal Responsibility Act of 2009.

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

INFORMATION ITEM
The Role of Financial Aid in the Cost of Attendance

BACKGROUND

The purpose of this report is to undertake a discussion with the Finance, Facilities, and Technology Committee about the role of financial aid in the cost of attendance and the implications for college and university enrollment and financial planning. Financial aid interacts with tuition and fee rate increases and family income. Pending changes in federal law could also substantially impact a broad portion of the system's target student population. It is expected that these events will have consequences for fiscal year 2011 tuition planning discussions which will begin in early spring 2010.

Information will be provided that describes the Pell and State grant programs and the expected family contribution formula. This report will also provide an update of House of Representatives 3221, Student Aid and Fiscal Responsibility Act of 2009. No action is requested with this report. It is expected that the discussion will generate some guidance for 2011 operating budget planning.

TOTAL AND NET COST OF ATTENDANCE

A student's total cost of attending a college or university includes tuition, fees, room and board, books, supplies, transportation, and miscellaneous expenses. The net cost of attendance is the amount a student pays after financial aid is subtracted from the cost of attendance. The net cost can vary depending on a student's full-time or part-time status, institution of attendance, academic program choice, income, assets, and financial aid.

Financial aid determination takes into account the cost of attendance and any expected family and student contributions to determine "need." After financial aid (i.e., grants, loans, work, etc.) is applied, the student may or may not have an unmet need. Information will be presented during the Committee meeting that explains the expected family and student contribution calculations, illustrates the distribution of state grants, shows the impact of state grant award calculation on a full- and part-time student, and identifies unmet need for dependent and independent students.

ESTIMATED NET IMPACT TUITION AND FEES AND STATE/PELL GRANT INCREASES

Annual tuition and fee rate increases are approved by the Board. These rates are considered the sticker price. When taking into account increases in state and Pell grants, many students experience a smaller increase or a net decrease in tuition and fees. The fiscal year 2010 average tuition and fee rate increase (after applying the tuition mitigation) for a full-year, full-time undergraduate student was \$130 at the colleges and \$182 at the universities. Table 1 shows the estimated net impact of tuition and fees when taking into account increases in state and Pell grants (as enacted by the Minnesota Legislature and the United States Congress).

Table 1

**Minnesota State Colleges and Universities
Estimated Net Impact of Tuition and Fees and State/Pell Grant Increases
Estimated Fiscal Year 2010**

	Average Tuition and Fee Increase	State Grant Recipients		Pell Grant Only	
		Average Grant Increase	Net Change in Tuition and Fees	Average Grant Increase	Net Change in Tuition and Fees
Colleges	\$130	\$500	(\$370)	\$619	(\$489)
Universities	\$182	\$528	(\$346)	\$619	(\$437)

Assuming the same proportion of students receiving grants based on fiscal year 2008 enrollments and financial aid, approximately 39 percent of students enrolled full-time for fall and spring terms in fiscal year 2010 would experience a net decrease in tuition and fees. Approximately 22 percent of students enrolled part-time or one term would experience either a net decrease or a small increase in tuition and fees.

FINANCIAL AID

Families are expected to bear the primary responsibility of paying for college. When they cannot pay all of the costs, need-based financial aid programs help with the difference between the cost of attendance and family resources. Financial aid comes in several forms: need-based federal and state grants which do not have to be repaid; loans from federal and state government or private banks that must be repaid with interest; scholarships and educational benefits for students with special circumstances (i.e., military benefits, child care assistance, and merit aid for academic achievement), and employment/ work-study jobs. Most financial aid is money provided to help students pay college costs that exceed the amount the federal government has determined they and their families can pay.

In fiscal year 2008 undergraduate students enrolled in the Minnesota state colleges and universities received \$793.2 million of financial aid. (Table 2) The financial aid data only includes the aid that flows through the system’s financial aid module; therefore, it would exclude private loans. Undergraduate students received a majority of financial aid through grants (\$246.0 million) and loans (\$491.5 million) with the balance in scholarships and employment/work study. Of the \$793.2 million in financial awarded in fiscal year 2008, students at the two-year colleges received \$450.8 million (57 percent) compared to \$342.4 million (43 percent) for undergraduate students at the four-year universities.

Table 2

**Minnesota State Colleges and Universities
Financial Aid by Type of Aid – Undergraduates
Fiscal Year 2008: End of Year Data**

(\$ in millions)	Amount	% of Total
Grants	\$246.0	31%
Scholarships	\$35.4	4%
Loans	\$491.5	62%
Employment/work study	\$20.4	3%
Total	\$793.2	100%

In fiscal year 2008, 52 percent (89,299) of the students enrolled at the colleges and 58 percent (46,149) of undergraduate students enrolled at the universities received at least one type of financial aid award (including loans that were accounted for in the system’s financial aid module). The average award for students enrolled at the colleges was \$5,053 and at the universities was \$8,087. Table 3 shows fiscal year 2008 average financial aid by type of aid for undergraduate students who received at least one type of financial aid award.

Table 3

**Minnesota State Colleges and Universities
Average Financial Aid Award by Type, by Sector – Undergraduates
Fiscal Year 2008**

(\$ in millions)	Colleges			Universities		
	# of Awards	% of Students Receiving Awards	Average Award	# of Awards	% of Students Receiving Awards	Average Award
Grants	59,961	35%	\$2,713	24,337	31%	\$3,669
Scholarships	15,018	9%	\$1,228	9,644	12%	\$1,827
Loans	52,824	31%	\$4,856	35,959	45%	\$7,192
Employment/work study	6,977	4%	\$1,894	3,550	4%	\$2,158
Average all awards	89,229	52%	\$5,053	46,149	58%	\$8,087

STUDENT BORROWING

The number of students enrolled in the Minnesota state colleges and universities who borrowed to pay for a portion of their higher education costs increased from 28 percent in fiscal year 2003 to 36 percent in fiscal year 2008. During that same time period, the average loan increased from \$4,441 to \$5,802; an increase of \$1,361 (31 percent). (Table 4)

Table 4

**Minnesota State Colleges and Universities
Borrowing Trends – System Totals**

	Fiscal Year 2003	Fiscal Year 2008	Change
Students borrowing	67,672	88,783	31%
Percent of all students borrowing	28%	36%	
Average loan	\$4,441	\$5,802	31%
Total loans	\$300,564,089	\$515,104,241	71%

During that same time period, the average cost of attendance for a full-time undergraduate student (12+ credits) increased from \$12,282 to \$16,645; an increase of \$4,363 (36 percent), as shown in Table 5.

Table 5

**Minnesota State Colleges and Universities
Trends in Average Cost of Attendance and Loan**

	FY2003	FY2008	\$ Change	% Change
Ave. Cost of Attendance	\$12,282	\$16,645	\$4,363	36%
Ave. Loan	\$4,475	\$5,802	\$1,327	30%
Ave. Loan of Cost of Attendance	36%	35%		

The above data indicates that although more students are borrowing, the average loan has remained proportionate to the cost of attendance (35-36 percent).

STUDENT INCOME DISTRIBUTION

A student income distribution analysis was conducted by the Office of the Chancellor Research and Planning Unit based on fiscal year 2006 data. The sample of undergraduate students that submitted a Free Application for Federal Student Aid (FAFSA) and for whom income was reported included 109,424 students or 51.4 percent of the population. Some of the findings of the analysis were:

- Approximately 48 percent of state college students and 59 percent of state university students applied for financial aid.
- A larger percentage of state university applicants were dependent students and a larger percent of state college applicants were independent students. Dependent students are students who parents have the primary responsibility to pay for their education, and family income is reported for dependent students which includes parental and student income. Independent students are students deemed to be independent of their parents for purposes of financial aid, and student income is reported for independent students which includes student and spouse income.

	<u>Percent Dependent</u>	<u>Percent Independent</u>
• State college	48.3%	51.7%
• State university	72.4%	27.6%

- The system’s dependent students had mean and median family incomes that were substantially higher than independent students.

	<u>Mean Income</u>	<u>Median Income</u>
• Dependent	\$69,669	\$64,542
• Independent	\$25,460	\$19,659

- The system’s independent students were concentrated in the three income categories ranging from <\$10,000 to \$29,999 while the dependent students’

family incomes were more widely distributed and resembled a normal distribution. The data below shows the cumulative distribution of the sample of undergraduate students by dependent and independent status and income clusters.

Dependent students: Total students with known income - 62,144

Income Level	Cumulative Student Count	Cumulative Percent
<\$40,000	14,804	23.9%
<\$70,000	34,737	56.0%
<\$90,000	46,655	75.2%

Independent students: Total students with known income - 47,280

Income Level	Cumulative Student Count	Cumulative Percent
<\$10,000	12,499	26.5%
<\$20,000	23,977	50.8%
<\$40,000	38,172	80.8%

Summary

The data indicates that the system's students are dependent on financial aid and increasingly independent, self supporting students. It further indicates that the student population is weighted toward middle to lower income households. These observations support the Board's commitment to low cost entry and a focus on access and opportunity.

Tuition planning will soon commence for fiscal year 2011. There will be continuing pressure on college and university budgets as efforts to maintain services with increasing enrollment are balanced against flat or declining state support and downward tuition pressure. Awareness of and attention to the dynamics of the financial aid program are critical to planning efforts.

HR 3221, STUDENT AID AND FISCAL REPOSIBILITY ACT OF 2009

On September 18, 2009 the United States House of Representatives passed HR 3221, the "Student aid and Fiscal Responsibility Act," which would, if enacted into law, make a number of significant changes to federal student financial aid programs. The Senate has not yet taken action on its version of the Bill. The most significant of the financial aid changes are in four areas:

1. Direct lending program: The legislation proposes to end the Federal Family Education Loan, or FFEL, program by July 2010, and requires all colleges to participate in the Direct Loan program. Under direct lending, capital is provided by the Federal government rather than banks. The Congressional Budget Office has projected a savings of about \$80 billion over 10 years with this change. The terms and provisions of the loans are identical and the change should be almost completely transparent to students. Ten of the Minnesota state colleges and universities are currently Direct Loan schools.
2. Pell grant: The legislation invests \$40 billion to increase the maximum annual Pell grant to \$5,550 in 2010 and to \$6,900 by 2019. Starting in 2010, the grant amount will be linked to match rising costs-of-living by indexing a portion of it to the Consumer Price Index plus one percent. The legislation increases the size of awards but not the number of recipients.
3. Perkins Loan program: The Bill eliminates the existing Perkins Loan program and replaces it with a new Federal Direct Perkins Loan, increases funding from \$1 billion to \$6 billion a year, and allows many more schools to participate in the program. However, it also requires an expensive “buy-in” from institutions by requiring them to pay interest on behalf of their borrowers, and it eliminates flexibility in awarding the loans. The legislation eliminates provisions that provide loan forgiveness to borrowers who enter specified fields of public service.
4. Simplification of the Federal Aid Application (FAFSA) and needs analysis formula: The Bill significantly reduces the number of questions asked on the FAFSA and will allow students and families to apply for aid using the information on their tax returns. The Bill also eliminates asset questions but imposes a \$150,000 asset cap for purposes of Pell and subsidized loan eligibility. There is no provision in the Bill for resolving these two conflicting asset treatments.

Date Presented to the Board: November 17, 2009



Minnesota
STATE COLLEGES
AND UNIVERSITIES

Financial Aid for Minnesota State Colleges and Universities Students: Current Status and Future Prospects

Presented to the Finance, Facilities and Technology
Committee - Board of Trustees
November 17, 2009

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.



Minnesota
STATE COLLEGES
AND UNIVERSITIES

Definition of Need

$$\begin{aligned} & \text{Cost of Attendance} \\ & - \text{Resources} \\ & = \text{Need} \end{aligned}$$

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EFC Formula - Parent Contribution from Income

$$\begin{aligned} & \text{Taxable Income} \\ + & \text{ Untaxed Income} \\ = & \text{ Total Income} \\ - & \text{ U.S. Income Tax} \\ - & \text{ State Tax Allowance} \\ - & \text{ Social Security Tax} \\ - & \text{ Income Protection Allowance} \\ - & \text{ Employment Expense Allowance} \\ = & \text{ **Available Income**} \end{aligned}$$

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EFC Formula - Parent Contribution from Assets

$$\begin{aligned} & \text{Cash, Savings, Checking} \\ + & \text{ Investments, Real Estate} \\ + & \text{ Adjusted Net Business/Farm Worth} \\ = & \text{ Net Worth} \\ - & \text{ Asset Protection Allowance} \\ = & \text{ Discretionary Net Worth} \\ \times & \text{ Asset Conversion Rate (12\%)} \\ = & \text{ **Contribution from Assets**} \end{aligned}$$

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EFC Formula - Parent Contribution

$$\begin{aligned} & \text{Available Income} \\ & + \text{ Asset Contribution } \\ & = \text{ Adjusted Available Income} \\ & \times \text{ Taxation Rate (22\% - 47\%)} \\ & = \text{ **Parent Contribution** } \end{aligned}$$

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EFC Formula - Student Contribution

$$\begin{aligned} & \text{Total Income} \\ & - \text{ Taxes} \\ & - \text{ Income Protection Allowance (\$3,750) } \\ & = \text{ Available Income} \\ & \times \text{ Assessment Rate (.5) } \\ & = \text{ **Contribution from Income** } \\ & \\ & \text{Net Worth} \\ & \times \text{ Assessment Rate (.2) } \\ & = \text{ **Contribution from Assets** } \end{aligned}$$

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Pell Grant Eligibility

$$\begin{aligned} & \text{Maximum Pell Grant} \\ & - \text{EFC} \\ & = \text{Pell Grant Award} \end{aligned}$$

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Minnesota State Grant Formula

$$\begin{aligned} & \text{Tuition and Fees (or Tuition Maximum)} \\ & + \text{Living and Miscellaneous Expense Allowance} \\ & = \text{Recognized Cost of Attendance (COA)} \end{aligned}$$

$$\text{Student Share} = \text{COA} \times .46$$

$$\begin{aligned} & \text{Family and Taxpayer Share (COA} \times .54) \\ & - \text{Expected Parent Contribution (EPC)} \\ & - \text{Pell Grant} \\ & = \text{State Grant} \end{aligned}$$

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State Grant Award Illustration: Fiscal Year 2010 – Full-time Student

	MnSCU College	MnSCU University	Private College
Tuition and Fees	\$4,836	\$6,816	\$10,488
LME	\$7,000	\$7,000	\$7,000
Cost of Attendance	\$11,825	\$13,816	\$17,488
x 54%			
Family/Taxpayer Share	\$6,391	\$7,461	\$9,444
Low Income Family (< \$ 20,000)			
Family/Taxpayer Share	\$6,391	\$7,461	\$9,444
Minus EPC	\$ - 0 -	\$ - 0 -	\$ - 0 -
Minus Pell Grant	\$5,350	\$5,350	\$5,350
State Grant	\$1,041	\$2,111	\$4,094
Upper Middle Income Family (\$ 68,000)			
Family/Taxpayer Share	\$6,391	\$7,461	\$9,444
Minus EPC	\$7,711	\$7,711	\$7,711
Minus Pell Grant	\$ - 0 -	\$ - 0 -	\$ - 0 -
State Grant	\$ - 0 -	\$ - 0 -	\$1,733

Illustration is based on 30 credits of enrollment; MnSCU tuition and fees are average of two actual MnSCU College and two actual MnSCU University State Grant Calculation budgets.
10/19/09 CJH

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State Grant Award Illustration: Fiscal Year 2010 – Part-time Student

	Full-time (15 credits)	Part-time (9 credits)
Tuition and Fees	\$4,836	
LME	\$7,000	
F-T Cost of Attendance (COA)	\$11,836	\$11,836
<u>x HESO pro-ration formula</u>	<u>x 100%</u>	<u>x 60%</u>
Pro-rated COA	\$11,836	\$7,102
x 54%		
Family/Govt. Share	\$6,391	\$3,835
Minus EPC	\$ - 0 -	\$ - 0 -
Minus Pell grant	\$5,350	\$4,012
State Grant	\$1,041	\$ - 0 -

Based on a MnSCU College State Grant Calculation Budget. Student EFC calculated using HESO estimator: unmarried independent student with one dependent child, AGI of \$18,500.
10/19/09 CJH

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State Grant Data – Fiscal Year 2007

System	Total Dollar Amount (in millions)	% of Total Dollars	Number of Recipients	% of Total Recipients	Average Grant Amount
MnSCU	\$60.8	39	45,819	57	\$1,326
State Universities	\$25.8	17	12,313	15	\$2,097
State Colleges	\$34.9	22	33,506	42	\$1,043
Univ. of Minnesota	\$33.1	21	9,415	12	\$3,511
Total Private	\$62.2	40	24,880	31	\$2,499
Private not For-Profit	\$41.0	26	12,505	16	\$3,276
Private for Profit	\$21.2	14	12,375	15	\$1,714
Total/Average	\$156.0		80,114		\$1,947

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Financial Aid Award: State and Federal

MnSCU State Colleges

(\$ in millions)

Year	Grants		Loans		Work		Total
	Amount	% of Total	Amount	% of Total	Amount	% of Total	
1991	\$69.1	56%	\$47.4	39%	\$6.5	5%	\$123.3
1993	\$82.2	58%	\$53.6	38%	\$6.6	5%	\$142.4
1995	\$75.9	51%	\$64.9	44%	\$7.0	5%	\$147.8
1997	\$68.9	45%	\$74.9	49%	\$7.9	5%	\$151.7
2005	\$106.9	36%	\$182.7	61%	\$9.8	3%	\$299.4
2007	\$134.9	38%	\$211.5	59%	\$10.3	3%	\$356.7
\$ Change 1991-2007		+95%	+346%		+58%		+189%

MnSCU State Universities

(\$ in millions)

Year	Grants		Loans		Work		Total
	Amount	% of Total	Amount	% of Total	Amount	% of Total	
1991	\$40.6	38%	\$60.9	57%	\$4.9	5%	\$106.4
1993	\$44.6	38%	\$68.4	58%	\$5.6	5%	\$118.6
1995	\$37.5	28%	\$88.6	67%	\$5.9	4%	\$132.0
1997	\$34.6	25%	\$96.1	71%	\$5.6	4%	\$136.3
2005	\$55.9	23%	\$181.5	74%	\$7.3	3%	\$244.7
2007	\$67.1	25%	\$195.2	72%	\$7.0	3%	\$269.3
\$ Change 1991-2007		+65%	+221%		+42%		+153%

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Source: HESO and OHE reports.



Financial Aid Award: Grant, Scholarship, and Loan Aid – All Sources

MnSCU State Colleges

(\$ in millions)

Year	Grants/Scholarships		Loans		Total
	Amount	% of Total	Amount	% of Total	
1991	\$71.6	56%	\$48.3	38%	\$119.9
1993	\$85.9	58%	\$53.7	36%	\$139.6
1995	\$79.2	52%	\$65.2	43%	\$144.4
1997	\$72.9	47%	\$74.9	48%	\$147.8
2005	\$148.3	44%	\$178.1	53%	\$326.4
2007	\$164.9	42%	\$210.9	54%	\$375.8
\$ Change 1991-2007		+130%	+337%		+213%

MnSCU State Universities

(\$ in millions)

Year	Grants/Scholarships		Loans		Total
	Amount	% of Total	Amount	% of Total	
1991	\$47.5	39%	\$61.3	50%	\$108.8
1993	\$54.1	39%	\$68.7	50%	\$122.9
1995	\$44.9	29%	\$89.2	58%	\$134.1
1997	\$44.4	28%	\$97.2	61%	\$141.6
2005	\$85.0	28%	\$215.6	70%	\$300.6
2007	\$99.6	29%	\$238.1	69%	\$337.7
\$ Change 1991-2007		+110%	+288%		+210%

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Source: Office of the Chancellor Research and Planning.



Examples of Financial Aid Award Packages

	Student A	Student B
COA	\$15,000	\$15,000
- EFC	\$- 0 -	\$10,000
= Need	\$15,000	\$5,000
Merit Award	\$- 0 -	\$3,000
Pell Grant	\$5,350	\$- 0 -
Work	\$2,240	\$- 0 -
Loan	\$2,625	\$2,625
State Grant	\$1,041	\$0
Total	\$11,256	\$5,625
Unmet Need	\$3,744	\$- 0 - (\$625 over need)

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Average Unmet Need

MnSCU System Totals by Income Quartiles 2007-2008 Full-time Students

After grants, scholarships and loans

	Lowest Quartile	Middle Quartiles	Upper Quartile
Dependent	\$7,831	\$5,312	\$3,483
Independent	\$6,945	\$6,061	\$5,094
All	\$7,521	\$5,584	\$4,420

After grants and scholarships

	Lowest Quartile	Middle Quartiles	Upper Quartile
Dependent	\$10,272	\$7,205	\$4,225
Independent	\$11,470	\$10,602	\$8,461
All	\$10,702	\$8,299	\$6,306

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Source: Office of the Chancellor Research and Planning.



Average Student Loan Debt of Graduates who Borrowed

INSTITUTION	2001	2007
Bemidji State University	\$13,462	\$18,850
Metropolitan State University	\$10,000	\$22,700
Minnesota State University Moorhead	\$16,584	\$23,842
St. Cloud State University	\$14,864	\$22,721
Southwest Minnesota State University	\$12,080	\$17,783
University of Minnesota, Duluth	\$7,063	\$21,933
University of Minnesota, Twin Cities	\$8,685	\$26,925
Winona State University	\$10,102	\$23,701
Augsburg College	\$21,456	\$25,750
Bethel College	\$18,741	\$28,363
Carleton College	\$14,882	\$19,185
College of St. Benedict	\$19,480	\$24,764
College of St. Catherine	\$22,642	\$27,519
St. Olaf College	\$15,490	\$25,501
University of St. Thomas	\$19,708	\$33,499

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