

## **Connecticut Debate Association**

**February 2, 2013**

**Glastonbury High School and Greenwich High School**

**Resolved: College financial aid should be based on merit and/or expected future earnings.**

---

### **Student Financial Aid in the United States**

From Wikipedia, the free encyclopedia

Student financial aid in the United States is funding that is intended to help students pay education-related expenses including tuition, fees, room and board, books, and supplies for education at a college, university or private school. General government funding for public education is not called financial aid, which refers to awards to specific individual students... A scholarship is sometimes used as a synonym for a financial aid award, although grants and student loans are also components of financial aid packages from students' intended colleges.

The United States government and all U.S. state governments provide merit- and need-based student aid including grants, work-study, and loans. As of 2010 there are nine federal and 605 state student aid programs and many of the nearly 7,000 post-secondary institutions provide merit aid...

State governments also typically provide some types of need- and non-need based aid, consisting of grants, work-study programs, tuition waivers, and scholarships. Individual colleges and universities may provide grants and need- and merit-based scholarships. Students requiring financial aid beyond what is offered by their institutions may consider a private (alternative) education loan, available from most large lending institutions. Typically, education loans obtained through the federal government have lower interest rates than private education loans...

Merit-based grants or scholarships include scholarships awarded by the college or university and those awarded by outside organizations. Merit-based scholarships are typically awarded for outstanding academic achievements and maximum SAT or ACT scores, although some merit scholarships can be awarded for special talents, leadership potential and other personal characteristics. Scholarships may be given because of group affiliation (such as YMCA, Boys Club, etc.). Merit scholarships are sometimes awarded without regard for the financial need of the applicant...

Need-based financial aid is awarded on the basis of the financial need of the student. The Free Application for Federal Student Aid application (FAFSA) is generally used for determining federal, state and institutional need-based aid eligibility. At private institutions, a supplemental application may be necessary for institutional need-based aid.

A recent trend shows that what is purely need based aid is not entirely clear. According to the National Postsecondary Aid Survey (NPSAS), SAT scores have an impact on the size of institutional need-based financial aid. If a student has a high SAT score and a low family income, they will receive larger institutional need-based grants than a student with a low family income that has a low SAT score...

---

### **Who qualifies for need-based aid?**

By Kim Clark @Money, CNNMoney.com, College 101, un-dated

Even if your family earns too much money to qualify for federal need-based aid, there is plenty of other aid you might qualify for that's based on need.

While families earning more than \$45,000 a year typically don't qualify for need-based federal aid, some elite schools -- like Yale -- give their own need-based grants to families earning \$225,000 (or even more) a year.

Here's how to determine what you qualify for:

The government and colleges assess "need" by looking at the total cost of attendance, minus what they estimate your family can afford.

That estimate, which is referred to as your Expected Family Contribution (EFC), is determined based on the information you provide when you fill out the Free Application for Federal Student Aid (FAFSA).

Among the information they'll ask for is your family's earnings, as well as the amount you have in savings or

investment accounts. The only students who don't have to provide the financial information about their parents are those who are over 23, married, parents themselves, or soldiers or veterans.

There are calculators and worksheets that can help you determine your EFC. (For more information, read [What is the EFC?](#) or visit the web sites of the U.S. Department of Education and the College Board.)

For the 2012-13 academic year, the U.S. Department of Education expects to award Pell grants to students with an EFC below \$4,995.

College aid officials adjust your federal EFC and determine how much financial aid to award you depending upon their own review of your finances. Many colleges will calculate their own EFC for use in awarding their own financial aid. You may even be asked to fill out the College Board's CSS/Financial Aid Profile, which asks for even more financial information than the FAFSA.

Just keep in mind that no matter what EFC the college or government calculates, no college or university is required to offer you enough grants to meet your "need."

In fact, only a few dozen colleges in the U.S. -- mostly expensive elite colleges, such as Harvard, Amherst and Vanderbilt -- promise to provide enough grants to meet their estimate of your "need."

The rest, including most public universities, leave a "gap" that students must fund through loans, work, merit scholarships or family contributions. The average "gap" between the average student's EFC and the total amount of grants the student receives was about \$5,800 in 2008, the most recent year for which data is available, according to the U.S. Department of Education.

---

## **Should More College Financial Aid Be Based on Need, Not Merit?**

The Wall Street Journal, Updated June 24, 2012, 2:21 p.m. ET

With tuition costs soaring, it's harder than ever for families and students to afford college. And that situation is fueling debates in governments, in policy groups, and at kitchen tables across America.

Should more money go to students who show they are best qualified for college, regardless of their ability to pay? Or should more go to the neediest students, who might not be able to attend school at all without financial assistance?

Aid based on merit generally outgrew need-based aid over roughly the past decade, as colleges competed more and more for high-achieving students. By 2008, a bigger portion of students were receiving merit aid than need-based grants.

But more recently, need-based aid again became more prevalent at all but the least-exclusive schools, in the face of continuing tuition increases and a weak economy.

The debate is far from over. Some say that without large amounts of need-based aid, many will be unable to attend college. Others say too much aid is what has made college unaffordable.

Mark Kantrowitz, a publisher of websites about scholarships and financial aid and a board member at the National Scholarship Providers Association and the Center for Excellence in Education, says yes to more need-based aid.

Greg Forster, a senior fellow at the Friedman Foundation for Educational Choice in Indianapolis, takes the opposite position.

### **Yes: It Gets the Biggest Bang**

By Mark Kantrowitz

The most effective use of college grant money is need-based aid. It helps those with the most to gain, and it makes our society stronger in the process.

Without some form of aid, the cost of a four-year college is beyond the reach of most low-income families. Even taking grants into account, the average annual cost is more than one-half the average annual family income for low-income students.

For many, aid is the difference between graduating or dropping out. Among low-income students, the six-year graduation rate is 45% when grants cover less than a quarter of college costs, and 68% when grants cover more than three-quarters of costs, based on 2009 data. For middle-income students, the rate jumps to 88% from 65% with more aid.

But for high-income students, the increase is negligible: a bump to 79% from 78%, suggesting that aid is not a factor in whether they graduate.

## Big Hurdle

Millions of students never even enter college due to their own limited financial resources, inadequate need-based grants or both. In a 2006 report by a congressional advisory committee on student financial aid, only 54% of college-qualified low-income students enrolled in a four-year college and 21% in a two-year college. For high-income students, the comparable figures were 84% and 11%.

Claims that there is no gap in college access for low-income students are based on a flawed analysis that understates college readiness and overstates enrollment figures. College-readiness figures like the ones my opponent cites look only at 17-year-old high-school graduates who satisfy minimal entrance requirements for four-year colleges. But people also qualify who are older than 17, some of whom didn't graduate from high school but possess the high-school equivalency credential known as the GED.

In reality, more than half of low-income college-ready students don't enroll in four-year bachelor's degree programs because they can't afford the cost.

Despite these gaps, colleges have been shifting funding from need-based to merit-based aid—effectively providing welfare for the wealthy. It may make sense for the colleges: They are leveraging merit aid to compete for high-income and talented students. The high-income students bring in more revenue than low-income students, even after taking grants into account. And recruiting talented students can, in theory, help boost a college's rank and reputation. But talent, intelligence and creativity aren't limited to wealthy students. A low-income student who succeeds academically despite adversity is much more impressive than a high-income student who had every opportunity handed to him or her. Some of our most brilliant scientists, political and business leaders were raised in impoverished families. The constraints of poverty often stimulate innovation. As a nation, we need to invest in our greatest asset, which is our people. We should provide an opportunity for all college-capable students to pursue a college education, regardless of ability to pay.

There is no credible evidence that student aid is driving up college tuition rates. Such claims confuse cause and effect. From 1992 to 2006, there were no increases in federal student-loan limits, yet tuition steadily climbed. There were no increases in the maximum Pell Grant for four years during the Bush administration, yet tuition continued to increase.

Does anybody believe that a \$5,550 maximum Pell Grant causes elite colleges, where only about 10% of undergrads qualify for the grant, to charge \$50,000 or more a year? Similarly, to say that grants encourage wasteful spending—on superfluous amenities, for example—appears to argue neither in favor of merit-based grants nor against need-based grants so much as it argues against all grants.

## Behind Rising Costs

Inflation in public college tuition is driven primarily by cuts in state appropriations. More than 40 states cut their support of postsecondary education last year, by an average 7.6%. Tuition increases are also heavily driven by two costs that have risen faster than inflation: energy and health care.

In a time of strained public budgets and high unemployment, need-based aid is more important than ever. Bachelor's degree recipients, on average, have one-half the unemployment rates and twice as much income as people with just a high-school diploma. A study has shown that the federal government earns about a 14% return on the college aid it dispenses, in the form of additional income-tax revenue from college graduates.

Need-based grants are not just an investment in the student. They are an investment in the country.

Mr. Kantrowitz is publisher of Fastweb.com and FinAid.org, websites about scholarships and financial aid. He is a board member of the National Scholarship Providers Association and the Center for Excellence in Education. He can be reached at reports@wsj.com.

## **No: It's Middle-Class Welfare**

By Greg Forster

For 60 years, we have been pouring more and more money into collegiate financial aid with little or no regard to the academic merit of the recipients. Unlimited, unmerited college financing has produced skyrocketing tuition rates, lower academic standards, and runaway spending on collegiate administration and services that deliver no visible academic benefits.

The way tuition rates have soared, it seems natural to think it isn't just the poor but the middle class who "need" financial aid to get to college. But tuition keeps rising because we keep jacking up aid without regard to academic merit.

The great success of welfare reform in 1996 showed that limitless, meritless handouts for the poor created unnecessary dependency and fueled social dysfunction. Similarly, limitless, meritless handouts for the middle class have legitimized skyrocketing tuition and administrative bloat, which in turn has generated demand for ever more handouts and dependency.

Two-thirds of all undergraduates receive some type of aid. A majority receive grants, averaging more than \$7,000 per student per year, which don't have to be repaid. (All my data come from the U.S. Department of Education.) Yet almost none of our collegiate financial aid involves expansion of opportunity to the truly needy. We're talking about middle-class welfare.

#### No Lack of Access

Free college for everyone except the very rich, on the taxpayer's dime, would be a bad idea even if the handouts really did increase college access. But they don't. Access to college isn't hindered by financial need, and hasn't been for a long time.

Proponents of need-based aid cite studies suggesting there is a big gap in college-enrollment rates between low-income and high-income students with the same qualifications. But those studies are misleading because the qualifications they cite don't match up with the real entrance requirements of colleges. They omit transcript requirements, for example, like numbers of years of English and math.

In fact, virtually all low-income students who aren't going to college aren't qualified to go to college. Empirical research by myself and others has consistently found that the number of high-school graduates who meet the academic requirements to attend a traditional four-year college and the number of students actually entering traditional four-year colleges is almost identical.

The problem for low-income students isn't a lack of aid—it's a lack of quality education at the K-12 level. Almost the only way to expand educational opportunity to the truly needy is through academic, not financial, reform. Too many kids at the K-12 level never have a chance to become college-ready.

My opponent cites data showing students who receive larger grant payments are more likely to stay in college. But that doesn't bolster his case that financial aid should be need-based. Students who attended better K-12 schools and are thus better prepared academically are more likely to have the social tools necessary to secure financial aid. His data may only show a correlation that more aid is going to better-prepared students who are more likely to complete college anyway.

Almost everyone who qualifies for college can already go, so there are no economic benefits for increasing need-based aid. And just like with welfare, the ocean of aid has legitimized wasteful and irresponsible behavior. The clearest symptom is skyrocketing tuition rates.

#### Driving Prices Higher

Of course colleges jack up their tuition. They're capturing the subsidies we provide. Like any other service provider, colleges will raise prices until the market clears. Flooding the market with subsidies gives customers more purchasing power. The market clears at a higher price.

But higher tuition is only the obvious symptom; putting all that financial aid on the table with no connection to academic merit creates a huge incentive to dumb down academics. Colleges can pick up a lot of free money by relaxing admission standards. This helps explain why more than a third of freshmen now take remedial courses.

And since colleges no longer compete on price, they compete on amenities. That's why we see so many new buildings and services on campuses, but so little improvement in educational results. From 1993 to 2007, according to a study by Jay Greene, an education professor at University of Arkansas, college administrative spending per student grew at twice the rate of instructional spending.

Governments must choose what to prioritize. Georgia is debating how best to scale back a major state-funded scholarship program. Some say the program should target financial need, others academic merit.

That debate will be happening in a lot more places soon. We need to quit throwing good money after bad.

Mr. Forster is a senior fellow at the Friedman Foundation for Educational Choice in Indianapolis. He can be reached at reports@wsj.com.

	Number receiving aid	Percent receiving aid	Average amount of aid received
2007-2008	Any student financial aid	1,330,000	79.6%
	Grant or scholarship	1,129,600	67.6
	Student loan	878,400	52.6
2009-2010	Any student financial aid	1,492,400	85.0
	Grant or scholarship	1,292,100	73.6
	Student loan	1,030,000	58.7

Source: National Center for Education Statistics, Department of Education  
The Wall Street Journal

## Help for the Not So Needy

By CHRISTOPHER DREW, The New York Times, July 17, 2012

MIDDLE-INCOME parents are being squeezed more than ever these days — higher property taxes and cost of living, lower home equity, frozen salaries. Many no longer have enough savings and borrowing power to keep up with rising education costs.

Consider this run-through of the federal financial-aid form: a family making \$75,000 a year might have to pay about \$10,000 a year toward the cost of college before qualifying for need-based aid. With income of \$150,000, the expected family contribution is \$35,000 to \$40,000. Student loans loom.

“We certainly have found that with the recession in recent years, many middle-income families and even some higher-income families are looking for more aid,” says Earl D. Retif, vice president for enrollment management at Tulane University in New Orleans.

Rather than lose bright students to less-expensive public colleges, universities like Tulane offer sizable amounts of aid based mainly on academic promise.

While there are no national statistics post-recession, an Education Department study released last fall showed that the percentage of students receiving merit aid grew so rapidly from 1995 to 2008 that it rivaled the number of students receiving need-based aid.

Recent College Board data from more than 600 nonprofit colleges and universities show that some are giving fewer students more money or stretching their dollars by handing smaller amounts to more students. But others are expanding the number of recipients as well as the amount of their awards.

“Merit aid is one of the few bright lights in college financing now,” says Bonnie Kerrigan Snyder, a college counselor in Lancaster, Pa., whose new book is titled “The New College Reality: Make College Work for Your Career.” She describes how students are allowed to fall in love with a campus, and only later do parents figure out how they will pay for it, if they can. She advises putting financials in the forefront, sprinkling schools that offer generous merit aid on your college wish list. “Consider the schools that will want you,” she says. “That’s how you will uncover the best deals.”

Advocates for low-income students have long criticized merit aid, contending that money is more fruitfully spent on those who wouldn’t otherwise be able to afford college.

The most exclusive colleges and universities — the Ivy League, Massachusetts Institute of Technology, and liberal arts colleges like Amherst — don’t offer merit aid at all. Grants go only to those deemed to have “need.”

“Need,” of course, can be defined in various ways. Last year, families making \$180,000 to \$200,000 got an average \$23,750 in need-based financial aid from Princeton. Harvard is almost as generous.

But for those not getting into Princeton or Harvard (and most of you are not), it’s useful to review how much a college awards in average merit aid, and your chances of getting it.

The biggest scholarships come from the most expensive schools, where tuition and fees hover around \$40,000 and other costs can add \$15,000 or more. But just as critical is the number of recipients. Only about 1 percent of freshmen at Boston College, Skidmore and Johns Hopkins, for example, get merit aid.

The University of Miami, however, awards merit scholarships averaging more than \$23,000 a year to almost a quarter of its freshmen, while Tulane promises an average of more than \$20,500 annually to a third of its new students. The University of Southern California offers 100 full-tuition scholarships, more than 200 half-tuition scholarships and more than 250 awards equal to one-quarter of its tuition to freshmen each year. The University of Chicago, which often competes with the Ivies for students, gives scholarships that average \$10,600 to 16 percent of its freshmen.

Even public universities, despite state budget cuts, continue to offer merit aid to try to build an accomplished student body. Though it is awarding fewer small scholarships, the University of Alabama still provides automatic full-tuition scholarships to both in-state and out-of-state students who hit high levels on their standardized admission tests.

“A lot of it is done by computer programs to calculate how much aid they need to offer to each student so they can get the maximum number of desirable students without going over their financial aid budget,” says Mark Kantrowitz, the publisher of FinAid.org and FastWeb.com.

Many regional and religious colleges, he says, also try to “optimize their revenue” by offering partial scholarships to the students who can pay the rest of the tuition — even “B” students with an SAT verbal and math score of 1200 or less. Caution: You’ll have to maintain a grade-point average of about 2.7 to 3.0 to renew most scholarships after

your first year.

Searching with cost in mind means students can't set their hearts on just any college.

"They need to be more realistic in some respects," says Deanna L. Voss, the executive director of admissions at the University of Miami, "and this is so tough for somebody who is 17 years old." But, she notes, graduating with less debt will certainly make students happier in the long run.

---

## Need vs. Merit

By Libby A. Nelson, Inside Higher Ed, [www.insidehighered.com](http://www.insidehighered.com), April 29, 2011

When Wentworth Institute of Technology crunched the numbers for its incoming freshman class last fall, administrators knew they had a problem.

Wentworth, a Boston college of about 4,000 students that focuses on engineering and technology, usually aims for a freshman class of about 1,000 students; last fall, only 945 committed to attending, a blow to an institution that depends largely on tuition for its operating budget.

So Wentworth pivoted quickly, commissioning a study to find out why admitted students didn't enroll and taking steps to adjust those factors. Administrators added new engineering programs to existing degrees in engineering technology and planned a \$3.3 million expansion of need-based aid -- aiming to almost double the number of recipients -- at an institution that previously used merit to determine who received the bulk of its grants. As the traditional May 1 deadline for committing to a college looms, they're hoping that the changes will be enough to make this year's numbers quite different.

As the recession has caused more students to seek financial aid while college budgets have been shrinking, institutions have grappled maintaining enrollments while balancing the use of aid based on need versus merit. "If they can't afford it, they're just not going to be able to come," said Sandy Baum, a senior associate at the Institute for Higher Education Policy and an expert on financial aid. "At many schools, they're saying, 'Look, before we could stand to lose the people who can't afford it.'" Now, she said, they no longer can.

At Wentworth, the gap between students who were admitted and students who enrolled had been growing for three years, since the recession began. The discrepancy was small at first, but clearly need-based, said the vice president of finance, Robert Totino. The issue came to a head when enrollments for the class of 2014 fell disappointingly short last fall.

The institute hopes the measures it has taken are enough to turn the situation around in less than a year. "We believe we are meeting this head-on, strategically," Totino said. "It is a big change, but it's also a necessary change to be in tune with our customers' needs."

After last fall's enrollment trouble, Zorica Pantić, the president of Wentworth, ordered a survey of all admitted students who turned down the offer to figure out why they had chosen not to enroll. Two factors were at the forefront of the 300 responses the university received, Totino said: either Wentworth did not offer the specific engineering programs the student was interested in, or the student could not afford the cost of attendance.

Including tuition, room and board, a year at Wentworth costs about \$34,000 -- well below what students would pay to attend the best-known private institutions in the area, but far more than the costs at public institutions. About one-quarter of students pay the full price, while the rest receive some form of financial aid, including grants and loans, with a package of about \$7,500 on average according to the institution's website. Historically, the bulk of the aid provided by Wentworth -- and not by federal programs like the Pell Grant or subsidized student loans -- has been merit-based, Totino said. All students who apply are automatically considered for academic achievement scholarships.

"We have not abandoned that," Totino said of merit-based scholarships; in fact, the plan that would increase the number of recipients of need-based aid would also make more merit aid available. "But we did put aside a significant amount of money for the first time to meet need-based initiatives" for this fall's freshman class, he said: the total financial aid budget will increase from \$20.4 million for the current academic year to \$23.7 million next year.

About 1,000 students at the college currently receive some kind of need-based aid, he said. Beginning with the 2011-12 school year, administrators hope to almost double that number. The average grant will be about \$1,000, and the expansion will be paid for from a surplus in the operating budget that came about when the school adjusted enrollment projections -- and, accordingly, its budget -- after the freshman shortfall first became apparent, said Jamie Kelly, director of public affairs and institutional advancement.

Institutions can opt to emphasize merit over need in distributing financial aid for several reasons, said Baum, who said she was not specifically familiar with Wentworth or its decision. Merit aid can be used to boost reputation, attracting students with better test scores who might otherwise opt for a more prestigious institution. And it can serve as an additional incentive for students to choose a particular college or university. But often merit aid is also meeting students' financial need, since it tends to be distributed before need-based grants, she said.

"I think a lot of schools call aid 'merit aid' but really it's going to meet need," Baum said. "They'll give out their merit aid first, so they distribute all their merit aid, and for a lot of people they've already met their need."

The shift in aid was not the only step Wentworth took in response to the survey: The institute will also begin offering more engineering degrees this fall. Most programs previously offered engineering technology degrees, which prepare students to work with engineers in the field but not for professional certification.

Those programs were approved in August, just three months after the enrollment shortfall. The financial aid plan was presented at a special Board of Trustees meeting in October.

And although final numbers are not yet in for the fall 2011 freshman class, initial response has been good, Totino said.

"We have seen some preliminary results," he said. "From some anecdotal feedback we've gotten from families, they're excited with the packages that Wentworth is offering."

---

## **Colleges taking another look at value of merit-based aid**

Mary Beth Marklein, USA TODAY, March 15, 2007

Good grades and high test scores still matter — a lot — to many colleges as they award financial aid.

But with low-income students projected to make up an ever-larger share of the college-bound population in coming years, some schools are re-examining whether that aid, typically known as merit aid, is the most effective use of precious institutional dollars.

George Washington University in Washington, D.C., for example, said last week that it would cut the value of its average merit scholarships by about one-third and pare the number of recipients, pouring the savings, about \$2.5 million, into need-based aid. Allegheny College in Meadville, Pa., made a similar decision three years ago.

Now, Hamilton College in Clinton, N.Y., says it will phase out merit scholarships altogether. No current merit-aid recipients will lose their scholarships, but need-based aid alone will be awarded beginning with students entering in fall 2008.

Not all colleges offer merit aid; generally, the more selective a school, the less likely it is to do so. Harvard and Princeton, for example, offer generous need-based packages, but plenty of families who don't meet need eligibility have been willing to pay whatever they must for a big-name school.

For small regional colleges that struggle just to fill seats, merit aid can be an important revenue-builder because many recipients still pay enough tuition dollars over and above the scholarship amount to keep the institution running.

But for rankings-conscious schools in between, merit aid has served primarily as a tool to recruit top students and to improve their academic profiles. "They're trying to buy students," says Skidmore College economist Sandy Baum.

Re-evaluating aid

Studies show merit aid also tends to benefit disproportionately students who could afford to enroll without it. That's where demographics enter the picture.

"As we look to the future, we see a more pressing need to invest in need-based aid," says Monica Inzer, dean of admission and financial aid at Hamilton, which has offered merit scholarships for 10 years. During that time, it rose in US News & World Report's ranking of the best liberal arts colleges, from 25 to 17.

Merit aid, which benefited about 75 students a year, or about 4% of its student body, at a cost of about \$1 million a year, "served us well," Inzer says, but "to be discounting the price for families that don't need financial aid doesn't feel right anymore."

Need-based aid remains by far the largest share of all student aid, which includes state, federal and institutional grants. But merit aid, offered primarily by schools and states, is growing faster, both overall and at the institutional level.

Between 1995-96 and 2003-04, institutional merit aid alone increased 212%, compared with 47% for need-based

grants, a study by Pennsylvania State University professor Donald Heller says. At least 15 states also offer merit aid, typically in a bid to enroll top students in the state's public institutions.

But in recent years, a growing chorus of critics has begun pressuring schools to drop the practice. Recent decisions by Hamilton and others may be "a sign that people are starting to realize that there's this destructive competition going on," says Baum, co-author of a recent College Report that raises concerns about the role of institutional aid not based on need.

A fast 'merry-go-round'

David Laird, president of the 17-member Minnesota Private College Council, says many of his schools would like to reduce their merit aid but fear that in doing so, they would lose top students to their competitors.

"No one can take unilateral action," says Laird, who is exploring whether to seek an exemption from federal antitrust laws so member colleges can discuss how they could jointly reduce merit aid. "This is a merry-go-round that's going very fast, and none of the institutions believe they can sustain the risks of trying to break away by themselves."

A complicating factor, he and others note, is that merit aid has become so popular with middle-income families, who don't qualify for need-based aid, that many have come to depend on it. And, as tuitions continue to increase, the line between merit and need blurs.

That's one reason Allegheny College doesn't plan to drop merit aid entirely.

"We still believe in rewarding superior achievements and know that these top-notch students truly value the scholarship," says Scott Friedhoff, Allegheny's vice president for enrollment.

Emory University in Atlanta, which boasts a \$4.7 billion endowment, meanwhile, is taking another tack. This year, it announced it would eliminate loans for needy students and cap them for middle-income families. At the same time, it said it would expand its 28-year-old merit program.

"Yeah, we're playing the merit game," acknowledges Tom Lancaster, senior associate dean for undergraduate education. But it has its strong points, too, he says.

"The fact of the matter is, it's not just about the lowest-income people. It is the average American middle-class family who is being priced out of the market."

---

## When It Comes to Earnings Potential, Major Choice Plays a Key Role

by Gail Buckner, Fox Business, September 10, 2012

If you've just packed one (or more!) kids off to college, you're probably still reeling from the aftershock of writing that hefty tuition check.

And possibly wondering if the money's really worth it.

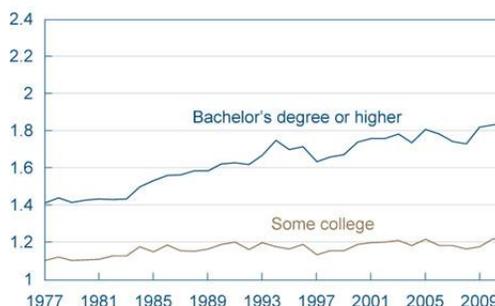
The short answer: yes. Individuals who graduate with at least a four-year college degree earn on average 84% more than workers with a high school diploma. Taking it a step further, recent research by Jon James, an economist at the Federal Reserve Bank of Cleveland illustrates that a student's choice of a major is a significant factor in determining her earning power after graduation.

Not surprisingly, his research also showed students with an advanced degree are even further ahead salary-wise once they enter the workforce.

The graph below tracks the so-called "college premium," which compares average hourly wages for those with bachelor's degrees or higher to the income earned by those who dropped out of college. Both are compared to the average wage of individuals who only completed high school, which is represented on the horizontal line labeled "1."

There are a few things to note: First, while the wage premium for a college degree has fluctuated over the past 30-plus years, it began taking off in the mid-1980s. Second, attending college without graduating doesn't do much good. Going back as far as the late 1970s, an individual who only took "some" college-level courses has earned just 20%

Figure 1. Wage Premiums for College



Notes: Premiums are calculated as the ratio of median hourly wages for those holding a bachelor's degree or those with some college and the median hourly wages for those who have only completed high school. Data include workers who worked full-time (35 hours or more) and for a full year (40 weeks or more).  
Source: Census Bureau, Current Population Survey; author's calculations.

more than a high school grad. In contrast, individuals with a B.A. or higher were earning at least 80% more than a high school graduate and 60% more than someone who didn't complete college.

As James writes, "...over the last three decades, the value of college has increased substantially, with all of the gains going to those who actually complete [a four-year] degree." In other words, the income premium goes to those who graduate.

Why is having a college degree so much more important to employers today? One reason might be the fact that the workplace uses much more technology today than 40 years ago. As James points out, "Highly-skilled workers are more valued in the workplace." You're more likely to have used or been exposed to technology if you've graduated from college, and in the eyes of an employer, that should make you a more productive worker.

While the economic value of having a college degree has been known for some time, James' work takes the research two steps further--breaking down the numbers to examine how someone's income potential is impacted by earning an advanced degree and major.

The chart below breaks out the earnings premium of those with a four-year undergraduate degree and those who went on to earn an advanced college or professional degree, such as Masters, PhD, M.D., etc. (Again, the horizontal line labeled "1" represents the average income of those with just a high school diploma.)

This clearly illustrates that for the past 10 years, the average income premium for those with "only" a bachelor's degree has been relatively flat. The main reason the college earnings premium has increased since 2000 is due to the higher income earned by those who hold advanced degrees.

"Those with advanced degrees really pull away," says James. "If technology is changing such that people are more productive with these higher degrees, the market's going to reward them."

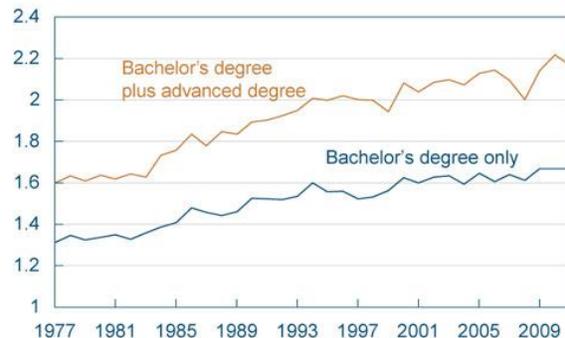
Still, it's important to note that not all advanced degrees are created equally. As James points out, someone with a PhD in English literature "is making about the same premium as an economics major with a bachelor's degree."

However, the biggest eye-opener in the report is how much a student's major influences lifetime income.

The next graph compares average earnings- not only in terms of four-year degree vs. advanced degree- but also by one's chosen field of study. The height of each bar indicates the percentage of students who went in to a particular major. Thus, "Business" is the most popular, followed by "Education."

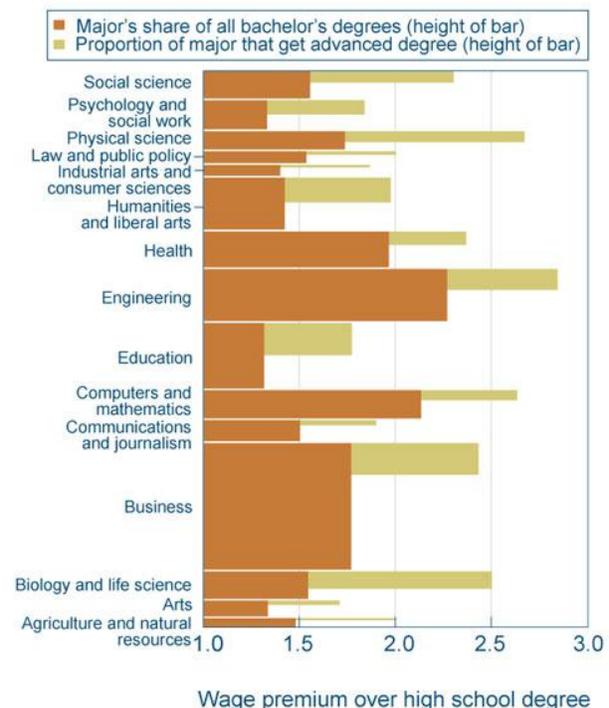
The width of the bars corresponds to the income premium. For example, individuals with a bachelor's degree in "communications and journalism" earned, on average, one and a half times (1.5) more than the average wages paid to everyone with just a high school education. Earning a higher degree translated into an earnings premium of roughly 1.85 times more income. (Notice that this graph is turned 45-degrees from the previous ones. The average income of a high school

Figure 3. Wage Premium by Terminal Degree



Notes: Premiums are calculated as the ratio of median wages for those with only a four-year degree or those who additionally have an advanced degree, to the median wages of high school graduates. Data include workers who worked full-time (35 hours or more) and for a full year (40 weeks or more). Source: Census Bureau, Current Population Survey; author's calculations.

Figure 4. Wage Premiums for Four-Year and Advanced Degrees in Categories of Majors



Sources: Census Bureau, American Community Survey, 2009 and 2010; authors' calculations.

graduate is still represented by “1,” except that this line runs vertically instead of horizontally.)

The surprise, says James, is that the choice of one’s major can make a bigger difference in your income than going to college. “There are larger gaps between the majors people choose once they’re in college than the gap between high school versus college graduates.” For instance, on average, someone who gets a four-year degree in “engineering,” will earn nearly twice as much as the student who graduates with an undergraduate degree in “psychology and social work.”

So, should parents try to steer their children into more lucrative career paths? James, a father of two, doesn’t advocate that. He points out that a lot of factors go into the choice of a major and that “there’s only so much a parent can do.” In fact, it’s typical for a college student to change majors several times before graduating.

A major factor in whether a student is attracted to and sticks with a major is the amount of preparation a s/he gets in high school. “If you’re not sure what major you want to pursue,” says James (and what 17 year old is?), “You might be limiting yourself” if you don’t take more than the bare minimum requirement for high school math. Since most of the careers with the highest earnings premiums involve mathematics, a solid foundation in algebra and calculus is essential.

This suggests that one of the most important things parents can do is to encourage their children to take these courses before they head to college. If she hasn’t taken these courses, even a student who might want to pursue engineering would have a tough time doing so.

Still, at the end of the day, money isn’t everything. While it’s easy to quantify income, job satisfaction is tough to measure. Would you rather have your child earn a ton of money but hate going to work every day? In addition, there are factors such as job security, tenure, working conditions and benefits that should be taken into account when making career decisions.

In the end, perhaps all parents can do is encourage their children to explore different subjects in college and let them know that, regardless what field they choose, you respect their decision and will do everything you possibly can to help them succeed.

Ms. Buckner is a Retirement and Financial Planning Specialist and an instructor in Franklin Templeton Investments’ global Academy. The views expressed in this article are only those of Ms. Buckner or the individual commentator identified therein, and are not necessarily the views of Franklin Templeton Investments, which has not reviewed, and is not responsible for, the content.

---

## **Department of Education, National Center for Education Statistics**

### **Financial Aid**

Sixty-six percent of all undergraduates received some type of financial aid in 2007-08. For those who received any aid, the total average amount received was \$9,100. Fifty-two percent received grants averaging \$4,900, and 38 percent took out an average of \$7,100 in student loans. Seven percent received aid through work-study jobs averaging \$2,400 in wages, 2 percent received an average of \$5,400 in veterans’ benefits, and 4 percent of students had parents who took out an average of \$10,800 in Parent PLUS loans. Parent PLUS loans are included in total aid but are not included in student loans because they are loans for parents of dependent students.

Forty-seven percent of all undergraduates received federal student aid in 2007-08, the average amount of which was \$6,600. Sixteen percent received an average of \$2,500 in state-funded grants and 20% received an average of \$5,000 in grants funded by the postsecondary institution they attended.

### **Expenditures**

In 2009-10, average total expenditures per full-time-equivalent (FTE) student at public degree-granting colleges were \$26,000...In 2009-10, public 4-year colleges had average total expenditures per FTE student of \$35,700, compared with \$11,900 at public 2-year colleges....

In 2009-10, total expenditures per FTE student at private not-for-profit colleges were \$45,900; they averaged \$46,100 at 4-year colleges and \$19,000 at 2-year colleges.

The expenditure per FTE student at private for-profit institutions were \$12,400 in 2009-10.

### **Tuition Costs of Colleges and Universities**

For the 2010-11 academic year, annual current dollar prices for undergraduate tuition, room and board were estimated to be \$13,600 at public institutions, \$36,300 at private not-for-profit institutions, and \$23,500 at private for-profit institutions.