Improving Student Aid Needs Assessment - Issues and Options

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Facts and Gaps

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Post-secondary access concerns

- Restricted government budgets
- Rising post-secondary costs ($50,000 BA)
- Stagnant family income

Trends

- Shift from grants to loans – increased debt
- Widening SES gap in universities
- Rural students choosing colleges
- Cost recovery tuitions – professional programs
- Rising credit card use

Factors which impact access

- Parent's family background & education
- Student's motivation
- Academic preparation
- Finances

The CMSF needs to know

- The financial needs of students
- If current needs assessment is effective
- Are there better ways of assessing need?

Review of Canada's Student Aid Need Assessment Policies

- Questions under review
  - Do major differences in needs assessment methodology exist between Canadian & USA student aid programs? Between student aid and other social programs?
  - How effective are current student aid needs assessment procedures, and allowance levels? Do they recognize actual costs?

- Questions (cont.)
  - Do biases exist against certain student groups?
  - Are there better ways of assessing need for certain student categories?

Programs Reviewed

- Canada Student Loans Program
- USA Student Aid
- Welfare – N. Scotia
- Welfare – USA (incl. food stamps, medicaid)
- Canada Child Tax Benefit
- Childcare – Sask.
- Skills Training – Alta
- OAS
- GIS

General Findings

- Many social programs use means testing, not needs testing
- Canadian and USA student aid needs assessment methods are similar
  - Both use needs testing
    - Costs include tuition, books & supplies, living costs, & transportation
    - Resources include contributions from students, parents, and spouses, & other income
    - Need = costs - resources

General Findings – cont.

- Living allowances generally adequate
- Few issues with spouse contributions
- Some students may have difficulty with meeting expected contribution requirements from summer employment
- Program generally working, but pressure points have developed

Issues

- Contributions from in-school income
- Parental contributions
- Unrecognized need
- Unfunded need
- Program complexity
- Lack of appropriate funding mechanisms

Issue #1 – in-school income

- Student’s contribution from income while in school = (net income - $600) x 80%
  - If income < $601 – then benefit to student
  - If income > $600 and need <= ass. limit, then most benefit > $600 goes to government, as award is reduced
  - If need > ass. limit, then benefit goes to student as need is reduced but award is not

Contribution formula

- May be a disincentive to work
- May not allow student to fund legitimate costs

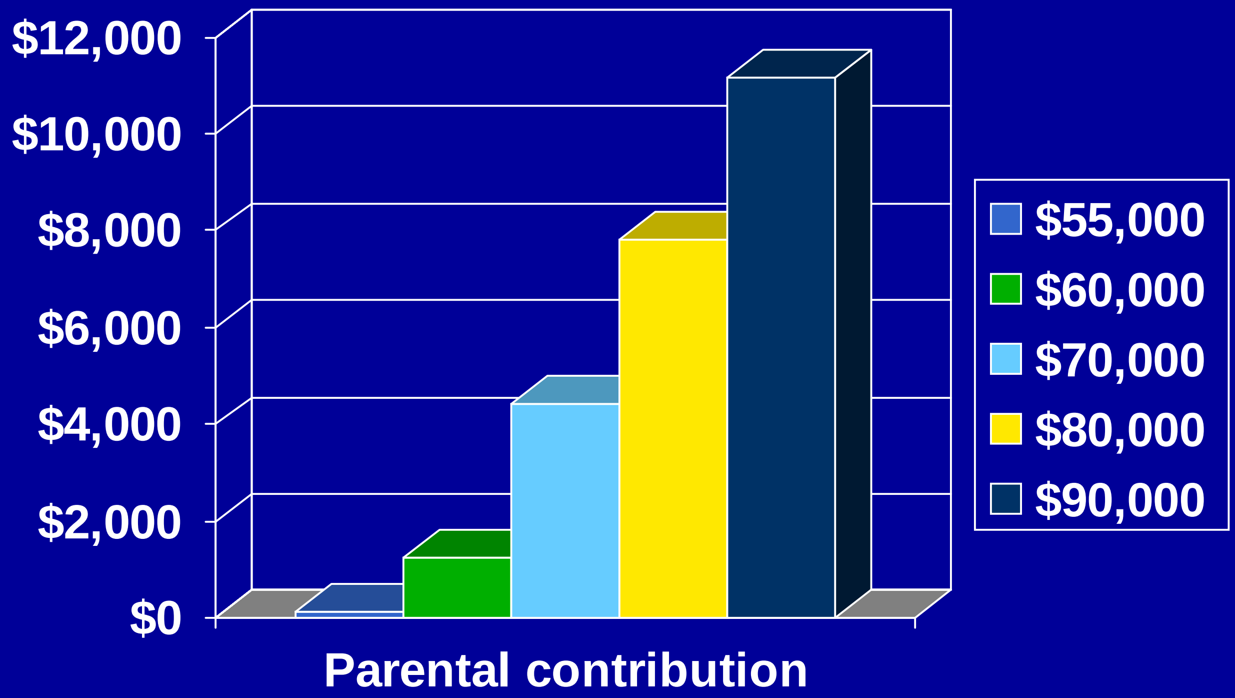
Option

- Amend the policy basis for the in-school income exemption
  - Increase exemption to perhaps 10% of an away-from-home student budget, less expected savings (approx. $1,300)
  - Would provide students with a more effective option to cover unfunded expenses

Issue #2 - Parental contribution levels

- Family savings patterns
  - Only 41% of families are saving for college
  - More than 1/3 of students <22 are not receiving support
- Assumed contributions do not take place in many cases

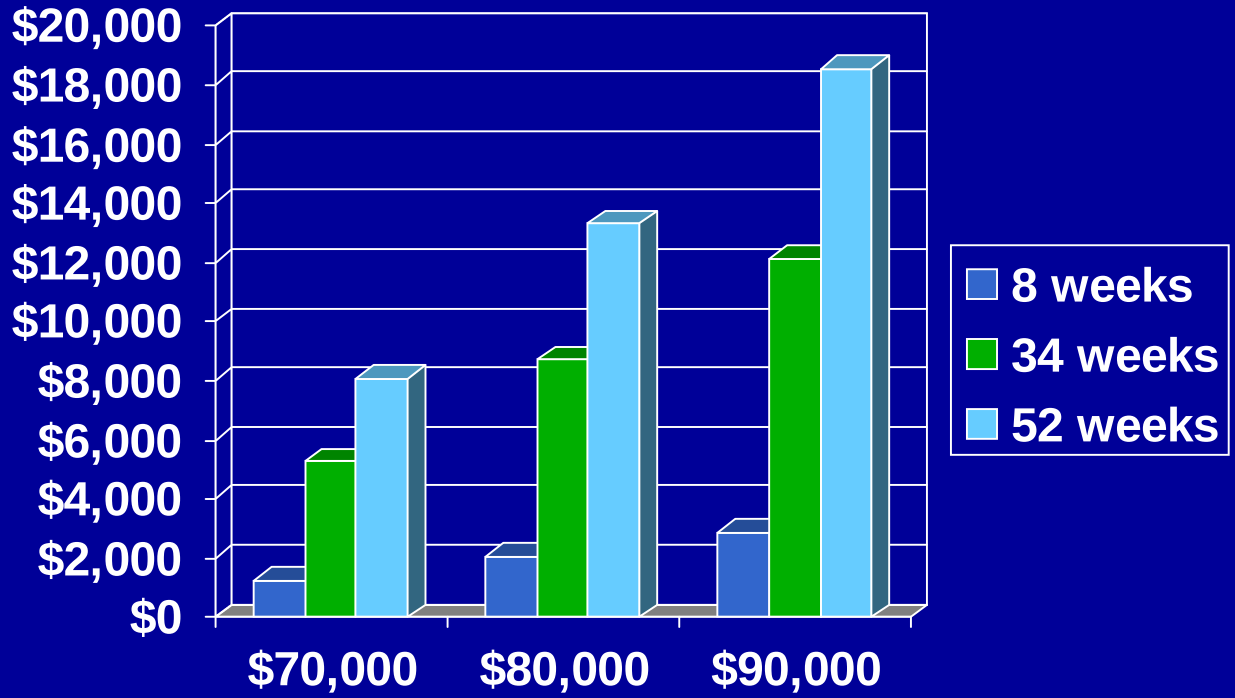
Contribution = Income - (taxes + living allce.) x ass. rate



Parental contribution methodology issues

- Allowed family standard of living is low
- Contributions based on <u>current</u> weekly income
- Contributions increase with program length
- Up to 75% tax rate on discretionary income
- Contributions based on # attending

Parental Contributions – by length of program



Children attending separately

- A family of 4 earning $90,000 in Nova Scotia with two children to educate would contribute:
  - $48,500 if the children attend university together
  - $97,000 if the children attend separately

Options

- Reduce contribution levels by increasing family living allowances, decreasing the tax rate on discretionary income, capping contributions at a selected level, or <u>all of the above</u>
- Provide unsubsidized loans for parents with liquidity problems
- Move to an annual or lifetime contribution system, based on family income/expenditure models

Unmet need

- 130,000 students had unmet need in 1996/97 (HRDC – 1998)
- Unmet need can arise from:
  - Unrecognized need (legitimate costs which exceed allowance limits)
  - Unfunded need (recognized costs not funded because of assistance limits)

Issue #3 – unrecognized need

- Maximums are placed on certain cost items (books, childcare, etc.)
- Some legitimate costs may not be included in need calculation (e.g. computer purchases)

- OPTION – allow actual & reasonable costs in assessment

Issue #4 – unfunded need

- Implied assistance limits at $9,350 for 34 weeks have not been changed since 1994. Attendance costs now $5000+ above assistance available
- Bias against low-income students living away from home, and mature students
- OPTION – amend the policy basis for limits to recognize the costs of a single undergraduate student, (about $13,000 net of savings) and index limits to inflation

Issue #5 – program complexity

- Applications are long & complex
- Early applications include estimates by students, to which detailed formulas are then applied
- Self-assessment can be difficult

- The process is repeated each year

Option – means testing?

- Define benefits in terms of income
  - This would involve conversion/combining most income categories (student, parent, spouse) to annual amounts
- Would make communication and self-assessment easier
- Some challenges exist, but feasibility should be examined

Means tested eligibility

Annual Family Income	Program Costs			
	$3000	$4000	$5000	$6000
$0-$55,000	XXX	XXX	XXX	XXX
75,000	XXX	XXX	XXX	XXX

Option – multi-year assessments?

- Need in 1st year could be projected to all years in the program
- Essentially a line of credit, with onus on student to report changes in financial circumstances
- Could simplify system, promote long-term planning, & reduce admin. overload

Multi-year assessment challenges

- Items subject to change include:
  - Dependency status
  - Marital status
  - Living arrangements
  - Parental incomes

- More research is needed

Issue #6 – lack of funding mechanisms

- Appeals for taxpayer subsidized funds may be the only option for
  - students who lack expected savings
  - parents with liquidity problems
  - Students who need to purchase capital assets (computers)
- Private bank loans do not work for all students

Option – unsubsidized loans

- Would allow students & parents to retain responsibility for contributions
- May be more appropriate for asset acquisitions (computers, photography equipment, etc.)
- Could be limited to those currently eligible

In conclusion

- Programs doing a reasonable job, but pressure points have developed that should be addressed
- Assistance limits are the greatest concern
- How awards are calculated is less important than the amount of assistance provided
- New approaches may have merit