

College Affordability in Kentucky

Prepared for:

Kentucky Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, KY 40601

Prepared by:

JBL Associates, Inc.
6900 Wisconsin Avenue, Suite 606
Bethesda, MD 20815
www.jblassoc.com

Educational Policy Institute
2345 Valle Rio Way
Virginia Beach, VA 23456
www.educationalpolicy.org

**The complete report can be found at:
<http://cpe.ky.gov/about/cpe/meetings/20050918.htm>**

September 18, 2005

Executive Summary

Kentucky is not alone in grappling with the question of affordability. Concern about college affordability is on the agenda in many states and is of long standing. The reason for the concern is simple: college costs are increasing faster than families' ability to pay and are for the most part outstripping the resources of student aid programs. At a time when a college degree is ever more important, the financial effort required to attend college is becoming greater.

As financing for higher education becomes more complicated, it becomes more important to know the actual price that students pay. Measuring affordability includes the following considerations.

- First is the student's and his or her family's ability to pay for college.
- Second is the tuition and other costs associated with attending college.
- Third is the amount of student financial aid that is available to help students pay for their education.

All three must be considered in any analysis of affordability. The most meaningful measure of affordability is the net price, which is the amount the student and the family have to pay after grant aid is distributed. The majority of full-time students in Kentucky receive grant aid, so the minority actually pays the published price.

By our measures, most full-time students in Kentucky can pay for college without undue effort. The exception to this is independent students. We do not have direct evidence as to whether students have been dissuaded from enrolling because college is unaffordable or they have dropped out of college because of affordability issues. National research provides us with some insights that are applicable to Kentucky.

Do current Kentucky funding strategies influence postsecondary education access, retention and completion?

We are not able to comment directly on the effect of affordability on access in Kentucky. No longitudinal student data exist that would allow us to estimate the choices that students with different ability to pay made about attending college in Kentucky. The same lack of longitudinal data limits the ability to understand the relationship between affordability and retention.

National research is consistent in showing that low-income families are more sensitive to the price of attendance than are higher-income families. The national research also concludes that low-income students are more likely to drop out of college for financial reasons than are their higher income peers

Our survey of Kentucky high school seniors shows that finance is an important part of students' planning for college. Over three-quarters of students have talked with their parents about the cost of college and believe their parents are willing to help pay for college. One-half of the students indicated that their families have saved for college, and 43 percent said that they themselves had saved for college. Two-thirds of students planning to go to college anticipated that they would require student aid. Four in five students planned on working while in college. Three-quarters were willing to borrow to pay for college, of which one-half were willing to borrow over \$2,000 a year.

Students often undermine their potential to succeed in college by the choices they make about how to save money. These money-saving decisions include putting off enrolling in college to earn money,

attending part-time and working full-time and living at home while going to college in order to save money. Research shows that these choices all reduce a student's chance of graduating. These enrollment decisions represent compromises that many older students find necessary in order to support their families.

What changes to the state's postsecondary policies other than financial aid programs would enhance access for underserved populations of Kentucky students?

We do not have any direct measure of how price of attendance affects the decision of Kentucky high school graduates or returning adults to attend college. Evidence does show that choice of college varies by county. Counties with a high proportion of high school graduates with financial need are less likely to send students to either of the state research universities compared with counties where the graduates have less financial need.

Findings from our high school survey lead us to believe that outreach and information are important factors in helping students and families make postsecondary plans.

Outreach efforts should make sure that parents and counselors in all high schools have timely information about the cost of attending college in Kentucky and how student aid can help them pay the bill. Special efforts should be made to supplement information for families without college experience.

Federal/State programs such as Kentucky GEAR UP provide the type of resources to help students, especially those from lower-income backgrounds, gain a better understanding of what going to college requires. This includes academic preparation, paying for education and succeeding at the college level.

Helping low-income families save for college and helping parents who have not gone to college understand that their children can succeed in college and should aspire to getting bachelor's degrees could help more students make the transition to college.

Special efforts should be made to provide adult students with educational options that meet their needs. Colleges, especially community colleges, should provide suitable enrollment options for adult students who need to balance work, family and school. Institutions should offer short-term certificate programs that provide stepping stones to associate and baccalaureate degrees.

Community colleges in Kentucky should take leadership in designing an integrated approach to serving the educational needs of adults. For example, Arkansas is taking leadership on finding ways to bring a larger share of adult students into postsecondary education. They have identified structural and personal barriers to education that go beyond student aid to help bring adults into education and help them succeed.

Is College Affordable in Kentucky?

Based on data for those Kentucky students who completed the Free Application for Federal Student Aid (FAFSA), Kentucky higher education is within reasonable range of affordability for most full-time students. The biggest exception to this is lower-income independent students who do not receive as much state aid as dependent students and face a higher net price, which requires more borrowing. Independent students are generally over 24 years of age; their need for student aid is calculated based on their income, not the income of their parents.

Some dependent students in the lowest income quartile attending 4-year public or private institutions are also at the margins of affordability. Community colleges are well within the affordable range for students in all income groups with the exception of the lowest-income independent students.

Many full-time students and most part-time students do not complete the FAFSA form; as a result, we have no data on their incomes or how they pay for college. It may be that some students who would be eligible for student aid do not complete the application. Every effort should be made to see that students make at least a preliminary application to make sure they receive all the financial aid to which they are entitled.

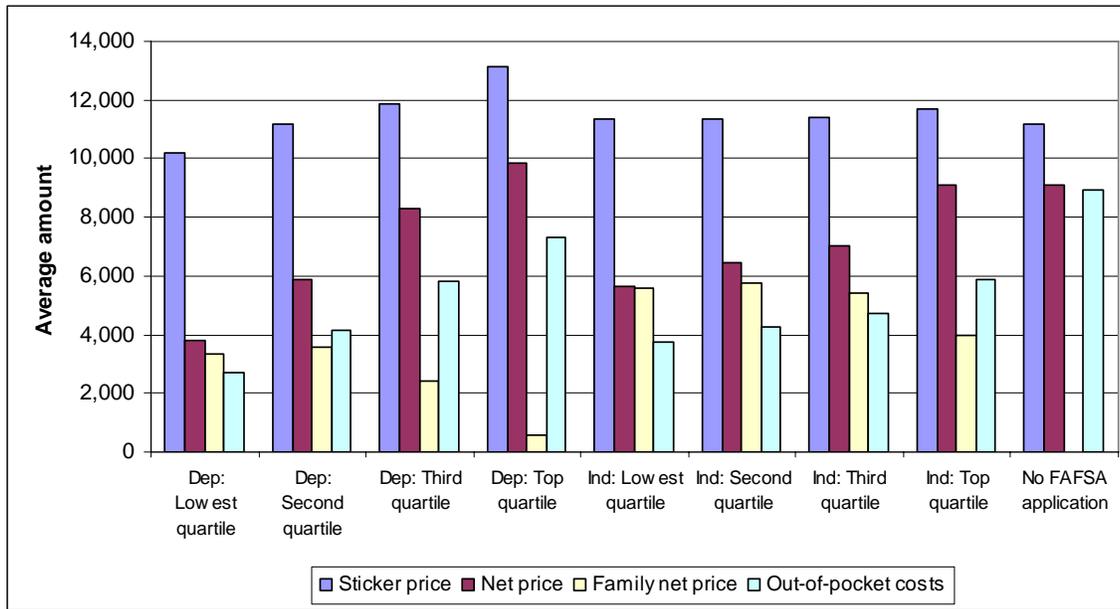
Chart A shows different definitions of prices paid by full-time undergraduates in Kentucky. The first price is the published price, or “sticker price,” of attending college. The second price is the net price of attendance, which is the sticker price minus all grant aid. The third price is the “family net price,” which is the sticker price minus the combination of grant aid and expected amount provided by the family. The final price, or “out-of-pocket cost,” is the sticker price minus the combination of grants and loans.

The family net price is the best measure of affordability. If the resulting family net price of attendance exceeds \$4,000, which represents a reasonable amount that would allow a student to work part-time and earn that much, or borrow an amount that would not result in excessive debt.

The results show that in Kentucky, lower-income students pay lower net prices than do those with higher incomes. Most of this difference is due to federal grants; state and institutional grants help students across the income spectrum. Students attending higher-priced institutions are paying more than those attending lower-priced institutions. The results suggest that the basic conditions of equity have been met.

Affordability affects the choice of institutions within the state. Higher-income students are more likely to attend higher-priced institutions than are lower-income students. The average price of attendance increases with income.

Chart A.—Average sticker price, net price (sticker price-grants), family net price (sticker price-grants-family contribution) and out-of-pocket costs (sticker price-grants-loans) for all full-time Kentucky undergraduates by income group: AY2004¹



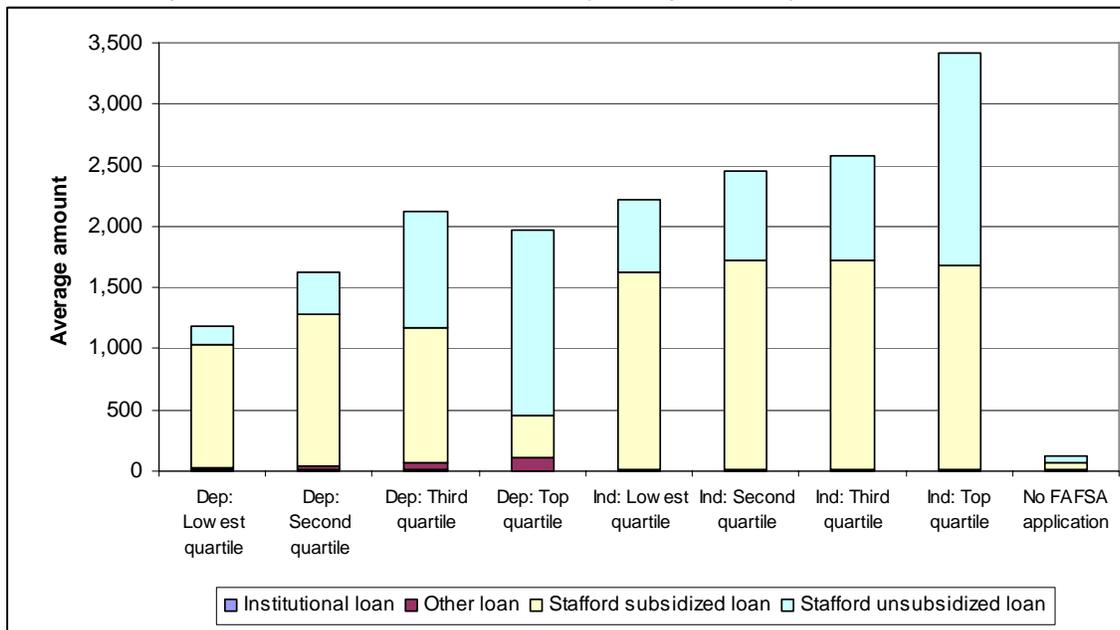
NOTE: Family net price cannot be computed for students with no FAFSA.
(See Table C9 in Appendix C for data.)

Chart B shows the amount borrowed by Kentucky students in the different income groups. Kentucky students do not appear to borrow too much on average. Annual borrowing by Kentucky students falls below national averages. Since these results are based on averages, it should be noted that individual students may face very different circumstances than those suggested by the average. The results do not include private borrowing or credit card debt.

Middle- and upper-income students borrow the most among dependent students. The extra money may allow them to attend more expensive colleges or spread the cost of college out over several years (Chart B). Independent students are more likely than dependent students to borrow to attend college. The percentage of students borrowing and the amount they borrow is found in the appendix.

¹ Unless otherwise specifically noted, the source for all charts and tables presented in this report is a combination of one or more of the following: Project database created with Kentucky Council for Postsecondary Education student unit record data for 2004; financial aid data provided by participating Kentucky colleges and universities; FAFSA data provided by the Kentucky Higher Education Assistance Authority; and the U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS), Institutional Characteristics data file, AY2004.

Chart B.—Average loan amounts for all full-time Kentucky undergraduates by income: AY 2004



(See Table C7 in Appendix C for data.)

Are there gaps in relative affordability for certain students identifiable by institutional choice and by socio-economic, demographic or regional variables?

Independent students face the most daunting financial barriers when they enroll in college full-time. Generally, they are older, often have family obligations and are more likely to work full-time compared with traditional-age students. Most are not eligible for the KEES program because of age. The result is that independent students are more likely to attend college part-time than are younger students. Independent students are most likely to attend community colleges, but represent a significant share of enrollment in all three sectors.

African American students are generally at greater financial risk than other ethnic/racial groups in the state. State programs aimed at low-income students attempt to provide the financial safety net that African American students need to keep college affordable. Most other racial/ethnic minorities in the state represent such small statistical groups that it is hard to evaluate their need.

To what extent do these gaps influence access, continuing success, and completion?

It is not possible to isolate one policy when developing programs to improve access, retention and graduation. Kentucky needs to develop an integrated approach to solving these problems. Providing students with adequate resources to pay for college is necessary, but it is not by itself a sufficient solution. The state needs a systematic approach that will allow barriers to student access and success to be identified.

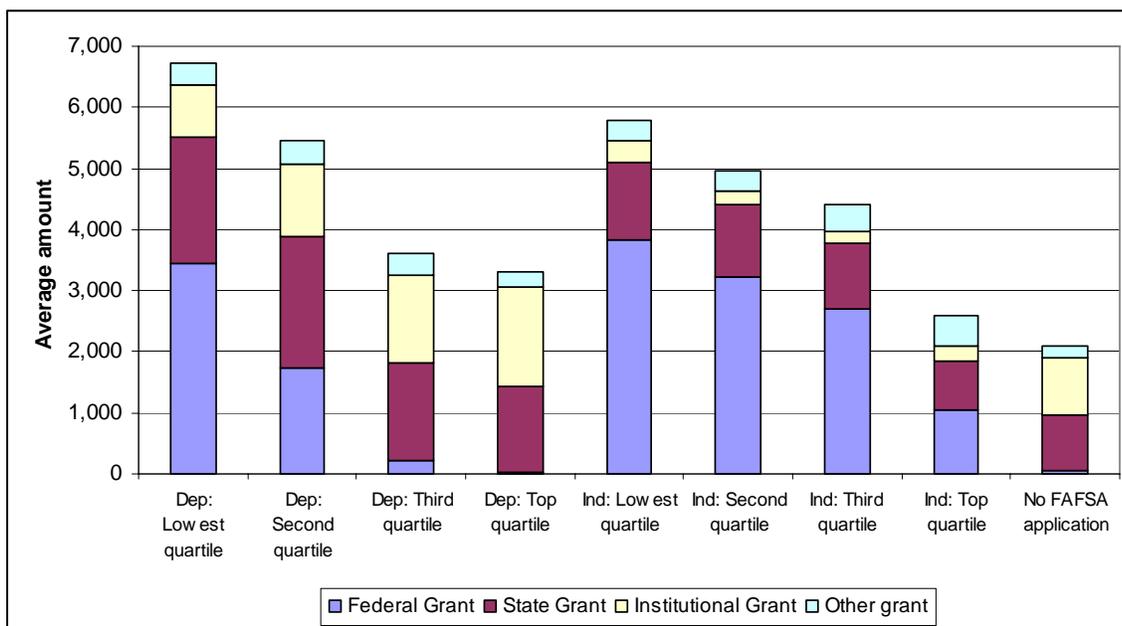
Solutions include reducing the financial barriers identified in this report, but it is also necessary to consider bureaucratic, academic and geographic barriers that reduce the chances for students to enter college and succeed. Providing a clear and simple application process that is convenient for the student is one example of a step that can improve access. Providing adequate tutorial and advising

support, especially for first-year students, will have a direct payoff in improved persistence. Using branch campuses and distance learning to bring a college education closer to students in rural areas can make college possible for more students. Institutions in the state are already reviewing many of these options with an eye to improving access. These areas of operation require continuous fine-tuning to make sure that students' needs are being met.

Aid is Distributed Equitably in Kentucky

Most of the equity in the price of attendance results from federal grants, which are largely in the form of Pell Grants that are awarded based on ability to pay (Chart C). Even though funds available through the College Access Program and the Kentucky Tuition Grant are awarded to students with financial need, Kentucky state grants are not distributed as equitably as are federal grants. This is largely due to the effects of the Kentucky Educational Excellence Scholarship (KEES), which tends to help higher-income students.

Chart C.—Average grant amounts for all full-time Kentucky undergraduates by income: AY2004



(See Table C7 in Appendix C for data.)

The chart does not include any of the tuition tax benefits that are provided by the federal and state governments. These benefits are most generous to middle-income students because low-income families pay little or no taxes and programmatic income ceilings prevent higher income families from participating. They could add several hundred dollars to a middle-income family's income while the student is in college.

What changes to current student financial aid programs could accomplish the system's goal of access, continuing success, and completion?

One of the reasons that older students face higher net prices is because they are generally excluded from the Kentucky Educational Excellence Scholarship (KEES) Program. Consideration should be given to designing measures of educational excellence that would be appropriate for older students.

Examples include the grades they receive in their first enrollment period in their current institution or grades received from previous periods of enrollment prior to their return to college.

What other financial aid programs would enhance effectiveness, efficiency and access for Kentucky's students?

The evidence suggests that families that save for college are more likely to anticipate going to college. Kentucky should consider providing incentives for lower income families to save for college with a match of family savings.

College work-study programs provide effective connections between students and colleges. Kentucky should make every effort to help students find employment on campus as a way to keep marginal students connected with the college and improve their chances of persisting to a degree, while still giving them a chance to earn a living.

Financial aid programs should be modified to help part-time students. This will help older students who cannot afford to attend full-time, but find the costs of even a part-time program overwhelming.

What innovative approaches or ideas are available from other sources that provide insight to affordability issues in Kentucky?

We recommend that Kentucky take a close look at Minnesota's Shared Responsibility Model. It provides a systematic way to link decisions about tuition and student aid with consideration for federal student aid programs and the ability of families and students to pay for college. It also provides a sensible policy for awarding financial aid to independent and part-time students.

This model provides a systematic way to connect decisions about tuition with support for student aid programs. When tuition increases, financial aid for low-income students should also increase to maintain affordability

As David Longanecker noted in our preliminary presentation: "If Kentucky wants to double the number of college degree holders in the state as stated in the strategic plan, it will be necessary to increase funding for higher education. Students and taxpayers will both have to pay more to realize this goal. However, if tuition is increased, it will be necessary to protect affordability for low-income students with adequate need-based student aid."

Out-of-State Tuition

In general, enrolling undergraduates from other states is beneficial. But steps should be taken to make sure the tuition is fair to the taxpayers. One benchmark is the average tuition charged to Kentucky students attending college in neighboring states, which is \$11,900. This is higher than the average out-of-state tuition charged by Kentucky's four-year universities.

Future Study Recommendations

Issues of access and retention could be tracked using the current student unit record system with two additions:

- First, an access measure could be generated by producing a valid and reliable count of high school graduates by high school. Doing so would allow a college-going rate to be calculated for each high school.
- Second, continue to add financial information from the FAFSA to the student unit record. This will help evaluate the relationship between affordability and persistence and graduation rates for students who receive need-based aid. It is necessary to develop a longitudinal data set that will track students from the time they begin college through their graduation and entry into the labor market.

Agree on a Measure of Affordability

A standard, measurable definition of affordability should be agreed upon in Kentucky. For example, one such measure identifies a ceiling on the amount that a student and his or her family are left to pay after the distribution of financial aid and the expected family contribution. The ceiling would be defined as the amount a student can earn by working part-time at minimum wage – generally, \$4,000 annually. The \$4,000 could come from a combination of borrowing or work.

This measure has been criticized by some policymakers because very low-income students may utilize their part-time earnings to contribute to their family's expenses and thus cannot keep the money for their own use; however, even with this reservation, the measure provides an understandable and easily calculated definition of affordability.

XII. Summary and Recommendations

A. Do current Kentucky funding strategies influence postsecondary education access, retention and completion?

We are not able to comment on the effect of affordability on access and retention in Kentucky. Longitudinal data does not exist that would allow us to estimate the choices that students with different ability to pay made about attending college or continuing in college once they enroll.

Access: Our survey of high school seniors shows that finance is an important part of students' planning for college. Over three-quarters of students have talked with their parents about the cost of college and believe their parents are willing to help pay for college. One-half of the students indicated that their families have saved for college and 43 percent said that they themselves had saved for college. Two-thirds of students anticipated that they would require student aid to afford college. Four in five students planned on working while in college. Three-quarters of students were willing to borrow to pay for college, of which half were willing to borrow over \$2,000 a year.

Retention: Many students are not clear about the types and amounts of aid available to them to help pay for college; this anticipated lack of money may cause them to make decisions that can jeopardize their eventual graduation. These choices include working too much or attending part-time and continuing to live at home to save money. Institutions should make every effort to ensure that students apply for aid. Some students may not identify themselves as being eligible for aid and thus not apply, especially in community colleges—as the research shows, receiving aid will improve their chances of graduating. Colleges should make every effort to find on-campus employment opportunities for their students. This helps keep students connected with the institution and also provides them with income. Efforts should be made to moderate tuition increases once a student enrolls, as sharp increases in costs during their enrollment will result in some students leaving.

B. What changes to the state's postsecondary policies other than financial aid programs would enhance access for underserved populations of Kentucky students?

Pre-College Outreach. Access to college is not evenly distributed around the state. Outreach efforts should make sure that parents and counselors have timely information about the cost of attending college in Kentucky and how student aid can help them pay the bill. Special efforts should be made to supplement information for families without college experience. Findings from our high school survey lead us to believe that outreach and information are important factors in helping students and families make postsecondary plans.

Federal/State programs, such as Kentucky GEAR Up, provide students, especially those from lower-income backgrounds, with the type of resources and information to help them better understand the nature of higher education and what is involved in academic preparation, paying for education and succeeding at the college level. Helping families save for college and helping parents understand that their children can succeed in college and should aspire to getting a bachelor's degree could help more students make the transition to college.

Special efforts should be made to make sure that information for adult students speaks to their needs. Colleges, especially community colleges should provide enrollment options that are appropriate for adult students who need to balance work, family and school. Institutions should provide short-term certificate programs that can be used as steppingstones to associate and baccalaureate degrees.

Arkansas is taking leadership in finding ways to bring a larger share of adult students into postsecondary education. They have identified structural and personal barriers to education that go beyond student aid to help bring adults into education and help them succeed. Community colleges in Kentucky should take leadership in designing an integrated approach to serving the educational needs of adults.

C. Is college affordable for Kentucky students?

By most measures, Kentucky higher education is within reasonable range of affordability for most full-time students. The biggest exception to this is independent students in the lowest income group, who do not receive as much state aid as dependent students. In addition, independent students face a higher net price that requires more borrowing. Some dependent students in the lowest income quartile attending 4-year public or private institutions are at the margins of affordability. With the exception of low-income independent students, community colleges are well within the affordable range for students in all income groups.

The results suggest that the basic conditions of equity have been met. Lower income students have lower net prices than those with higher incomes. Most of this difference is due to federal grants; state and institutional grants do not contribute as much to equity. Students attending higher-priced institutions are paying more than those attending lower-priced institutions. Kentucky students do not appear to have an unreasonable debt load. Since these results are based on averages, it should be noted that individual students may face very different circumstances than those suggested by the average.

D. Are there gaps in relative affordability for certain students identifiable by institutional choice and by socio-economic, demographic or regional variables?

Students of Color. African American students are at greater financial risk than other ethnic/racial groups in the state. State programs aimed at low-income students provide the financial safety net that African American students need to keep college affordable.

Independent Students. The group that faces the most daunting financial barriers are independent students. Generally, they are older, often have family obligations and are more likely to work full-time compared with traditional-age students. The result is that they are more likely to attend college part-time. These students are most likely to attend community colleges, but represent a significant share of enrollment in all three sectors.

E. To what extent do these gaps alone impact access, continuing success, and completion?

It is not possible to isolate one policy in a discussion about access, retention and graduation. Kentucky needs to approach the issues holistically. Having adequate resources to pay for college is necessary,

but not a sufficient solution. The state needs a systematic approach that will allow barriers to student access and success to be identified. Solutions include reducing financial barriers identified in this report, but it is necessary to consider bureaucratic, academic and geographic barriers that reduce the chances for students to enter college and succeed.

F. What changes to current student financial aid programs could accomplish the system's goal of access, continuing success, and completion?

Develop a Systematic Policy. Kentucky should find a systematic way to connect decisions about tuition with support for student aid programs. When tuition increases, financial aid for low-income students should increase. As David Longanecker noted in our preliminary presentation, "If Kentucky wants to double the number of college degree holders in the state it will be necessary to increase funding." There is no denying this truth. It will take funding from students or the states to realize this goal, which can only be done by increasing either state appropriations (public) or tuition and fees (private). The solution will probably include both. However, when tuition is increased, it will be necessary to protect affordability for low-income students with adequate need-based student aid."

Include Older Students in the KEES Program. One of the reasons that older students face higher net prices is because they are generally excluded from the KEES Program. Consideration should be given to designing measures of educational excellence that would be appropriate for older students. Examples include the grades they receive in their first enrollment period or grades received from previous periods of enrollment prior to their return to college.

Stabilization of Pricing Structure. The research on persistence suggests that once students start college, sharp changes in price can dissuade them from continuing. Sudden increases in tuition or drops in student aid make it difficult for low-income students to continue college, especially when these changes happen mid-year between semesters. To the degree possible, the price of attendance should be predictable over the educational career of a student and his or her family.

G. What other financial aid programs would enhance effectiveness, efficiency and access for Kentucky's students?

Family Savings. The evidence suggests that families that save for college are more likely to anticipate going to college. Kentucky should consider providing incentives for lower-income families to save for college with a match of family savings.

Increase Student Work Opportunities. Work-study programs provide effective connections between students and colleges. Kentucky and the institutions should make every effort to help students find employment on campus as a way to keep marginal students connected with the college and improve their chances of persisting to degree while still giving them a chance to earn a living.

Financial aid for Part-Time Students. Financial aid programs should be modified to help part-time students. This will help older students who cannot afford to attend full-time, but find the costs of even a part-time program daunting.

H. What innovative approaches or ideas are available from other sources that provide insight to affordability issues in Kentucky?

We recommend that Kentucky take a close look at Minnesota's *Design for Shared Responsibility*. It provides a systematic way to link decisions about tuition and student aid with consideration for federal student aid programs and the ability of students and their families to pay for college. It also has provisions for distributing financial aid to independent and part-time students.

Modifications in Out-of-State Tuition are Warranted. In general, enrolling students from other states is beneficial. But steps should be taken to make sure the tuition is fair to the taxpayers. The average tuition charged to Kentucky students attending college in neighboring states is \$11,900, which is higher than the out-of-state tuition charged by Kentucky's four-year universities.