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Office of the President

TO MEMBERS OF THE BOARD OF REGENTS:

DISCUSSION ITEM

For Meeting of May 24, 2018

A REVIEW OF THE UNIVERSITY OF CALIFORNIA'S UNDERGRADUATE FINANCIAL AID STRATEGY

EXECUTIVE SUMMARY

The University of California's undergraduate financial aid policy has the stated goal of "maintaining the affordability of the University for all the students admitted within the framework of the Master Plan" (Regents Policy 3201: The University of California Financial Aid Policy). UC's strategy for implementing this policy is the Education Financing Model (EFM).

The EFM has been revised periodically over the past 20 years and was most recently reviewed by the Total Cost of Attendance Working Group in 2017. The Office of the President is in the process of implementing all eight recommendations from the Working Group to improve the EFM.

Critical to the success of the EFM are the State Cal Grant Program, the Federal Pell Grant Program, and the University's institutional aid program, the latter being funded largely by returning a portion of systemwide tuition and fee revenue to financial aid. Critically, when systemwide tuition and fees increase, return-to-aid on tuition plus automatic increases to Cal Grants offsets the additional tuition burden born by financial aid-eligible students and helps mitigate other costs of attendance that are increasing.

UC's undergraduate financial aid program enables:

- UC to enroll a higher percentage of Pell Grant recipients than similarly competitive universities – 40 percent versus 21 percent for other public Association of American Universities members.
- UC students to generally work fewer than 20 hours per week while enrolled, regardless of income.
- UC students to limit their borrowing such that half (50 percent) of undergraduates and somewhat more than half of California undergraduates (57 percent) borrow while at UC. Those who do borrow and entered as freshmen graduate with average student loan debt of $21,000, far less than the national average of $30,100.

- Students with similar academic preparation levels from low-, middle-, and high-income families to persist at similar rates and have similar six-year graduation rates.

However, students face challenges as the range of attendance costs increase. Whether or not tuition increases in any given year, non-tuition costs climb annually. Even for financial aid recipients, the additional aid generated by a fee increase will offset tuition increases but only part of the increase in non-tuition costs.

BACKGROUND

The Policy: Financial Accessibility

The University's undergraduate student support policy is guided by the goal of maintaining the affordability of the University for all the students admitted within the framework of the Master Plan. (UC Regents Policy 3201)

The Regents Policy on undergraduate financial aid clearly states that the goal is "maintaining the affordability of the University for all the students admitted within the framework of the Master Plan." The policy goes on to state that maintaining the affordability of a UC degree is in service of the undergraduate admission goal to enroll "a student body that...demonstrates high academic achievement or exceptional personal talent, and that encompasses the broad diversity of cultural, racial, geographic, and socio-economic backgrounds characteristic of California."

The Strategy: The Education Financing Model

The University's strategy to implement its undergraduate financial aid policy, called the Education Financing Model (EFM), is an integrated framework that is used to judge the adequacy of the University's funding for its financial support programs, determine how undergraduate financial aid is allocated across campuses, and guide campuses in awarding aid to individual students and their families.

EFM Principles

The EFM framework is rooted in four principles:

1. **Total Cost of Attendance:** UC must acknowledge the student's total cost of attendance: resident student fees, along with costs related to living and personal expenses, books and supplies, transportation, and health care.

2. **Partnership:** Financing a UC education requires a partnership between students, parents, federal and State governments, and the University.

3. **Manageable, Consistent Student Contribution:** To maintain equity among undergraduate students, the University expects all students to make a similar, manageable contribution from student loans and employment to help finance their education.

4. **Flexibility:** Flexibility is needed for students in deciding how to meet their expected student contribution and for campuses in implementing the EFM to serve their particular students bodies.

The first principle of the EFM is that all educational costs – not just tuition and fees – must be recognized. Figure 1 below shows the systemwide average costs recognized under this principle for students living on-campus in 2017-18. The University derives campus-specific student budgets from known institutional charges (e.g., tuition, on-campus room-and-board charges) and results from the systemwide Cost of Attendance Survey. Based in part on recommendations from the Total Cost of Attendance Working Group, UC will begin surveying its students every other year starting in 2019 rather than every three years.

Figure 1: Average Academic Year On-Campus Undergraduate Student Budget for California Residents, 2017-18

Student Tuition and Fees:	$12,630
Campus Fees:	$1,270
Books and Supplies:	$1,200
Living:	$15,400
Personal Expenses:	$1,400
Transportation:	$500
Healthcare Allowance:	$2,300
TOTAL:	$34,700

While Figure 1 shows the average total cost of attendance for students living on campus across the system, UC develops three budget types – on-campus, off-campus, and commuting while living with parents/family – for each of its nine undergraduate campuses. In other words, 27 unique budgets are developed using this standardized methodology to reflect differences in local costs.

In 2017, the President and the Chair of the Board of Regents jointly appointed the Total Cost of Attendance Working Group to review how the University estimates educational costs and how effective the policies are in helping families to cover those costs. The Working Group recommended eight improvements to the EFM, including better measurement of certain costs. It also reaffirmed that differences in campus costs and the financial need of student bodies should continue to be taken into account when allocating financial aid resources across the system.

The second principle is that covering the total cost of attendance requires a partnership between students, parents, the federal and State governments, and the University. Under the EFM,

- **Parents** are expected to contribute to the cost of their child's education based on their financial resources according to a federal needs analysis methodology.

- **Students** are expected to contribute through some combination of manageable part-time work and manageable borrowing.

- **State of California** not only invests in the cost of education for all California students, but its Cal Grant program is the single greatest source of grant support for UC undergraduates. In 2016-17, UC students received $888 million in Cal Grants compared to $746 million in UC grants and $370 million in Pell Grants. Since 2014-15, UC students have also benefited from State investment through the Middle Class Scholarship Program. See table below.

- **Federal Government** plays a role in the EFM through support of their financial aid programs – most specifically the Federal Pell Grant program and federal student loan programs.

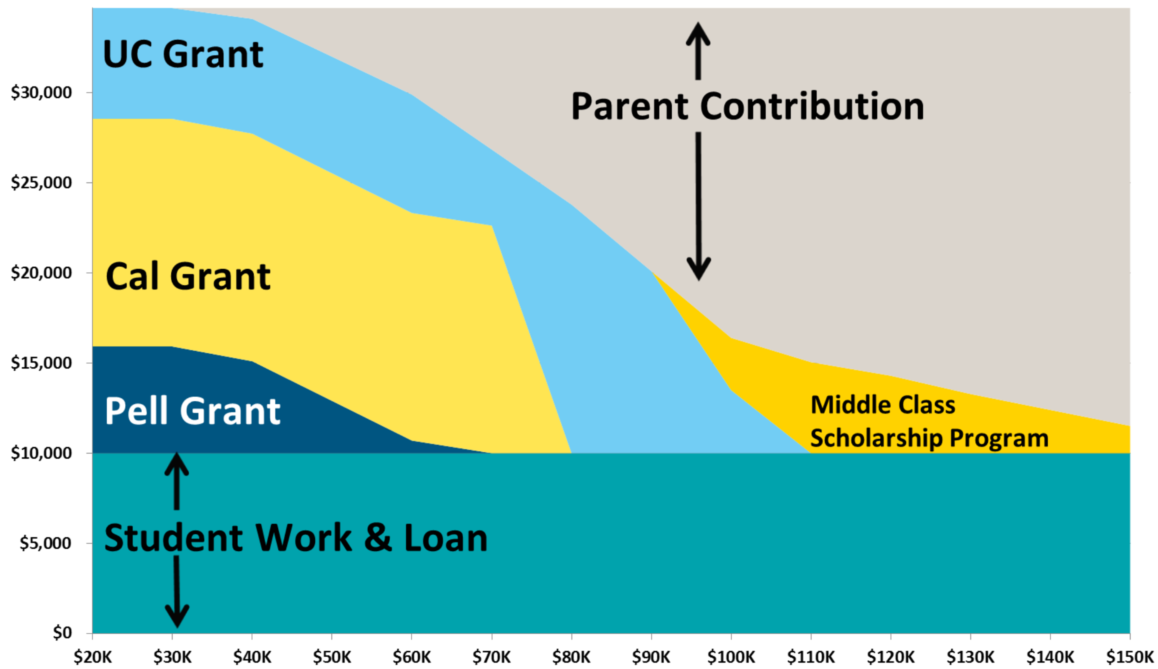
- **The University** uses the EFM not only to award financial aid to students, but also to determine appropriate institutional financial aid funding levels systemwide and to allocate grant dollars across campuses. The University coordinates State and federal grant assistance and fills in any gaps with its own UC need-based grant. UC aims to provide a sufficient University grant to maintain a manageable self-help (work and borrowing) expectation for students.

2016-17 Select Sources of Grant and Scholarship for UC Undergraduates

Source	Dollars	Recipients
Cal Grants	$888M	74,000
UC Grant	$746M	100,000
Pell	$370M	80,000
MCS	$18M	9,000

Figure 2 below presents a stylized view of how the EFM works. The height of the chart represents the 2017-18 systemwide average total cost of attendance described above for on-campus students – $34,700. Moving from left to right, the chart shows students from lower- to higher-income families along with how much of the cost of attendance is covered by Federal Pell Grants, Cal Grants, and UC Grants. As expected, grant dollars decrease and the parent contribution increases as family income rises.

Figure 2: Covering the Total Cost of Attendance Under the EFM
(Average Costs for Living On-campus 2017-18: $34,700)



The third principle of the EFM – that all students, regardless of income, are expected to contribute through a manageable amount of working and borrowing – is seen in the section shaded in green at the bottom of Figure 2. The State's Middle Class Scholarship Program eases the burden on middle class parents as seen by the gold section on the right.

At the level of individual students, the flexibility in campus awarding and the complexity of need analysis, which takes into account more than family income, mean that the awarding of grant assistance does not match exactly the visualization of the policy above. For example, some students whose families make more than $110,000 might qualify for UC grant assistance because family size and the number of students currently in college are part of the analysis of their ability to pay.

Relationship Between Tuition and Financial Aid

While many college students nationally benefit from either a strong state grant program or a strong university grant program, UC students benefit from both: the Cal Grant Program and

UC's own need-based grant. Furthermore, when tuition rises, funding available through both programs increases.

The Cal Grant program covers tuition and Student Services Fee charges. UC returns one-third of new undergraduate tuition and Student Services Fee revenue to undergraduate financial aid. Since both rise with systemwide fees, needy UC students collectively received more in new grant support than the increase in tuition and fees paid by them. As a result, different students will have different experiences of a tuition increase:

- Need-based Grant Recipients: About 56 percent of California undergraduates – those who qualify for Cal Grants and UC grants – would as a group receive augmentations to financial aid programs in excess of the tuition increase. Thus, these students would have a lower self-help expectation with a fee increase than without a fee increase.

- Middle Class Scholarship Recipients: An additional eight percent of students who qualify for a Middle Class Scholarship award would see financial aid partially offset tuition increase.[1]

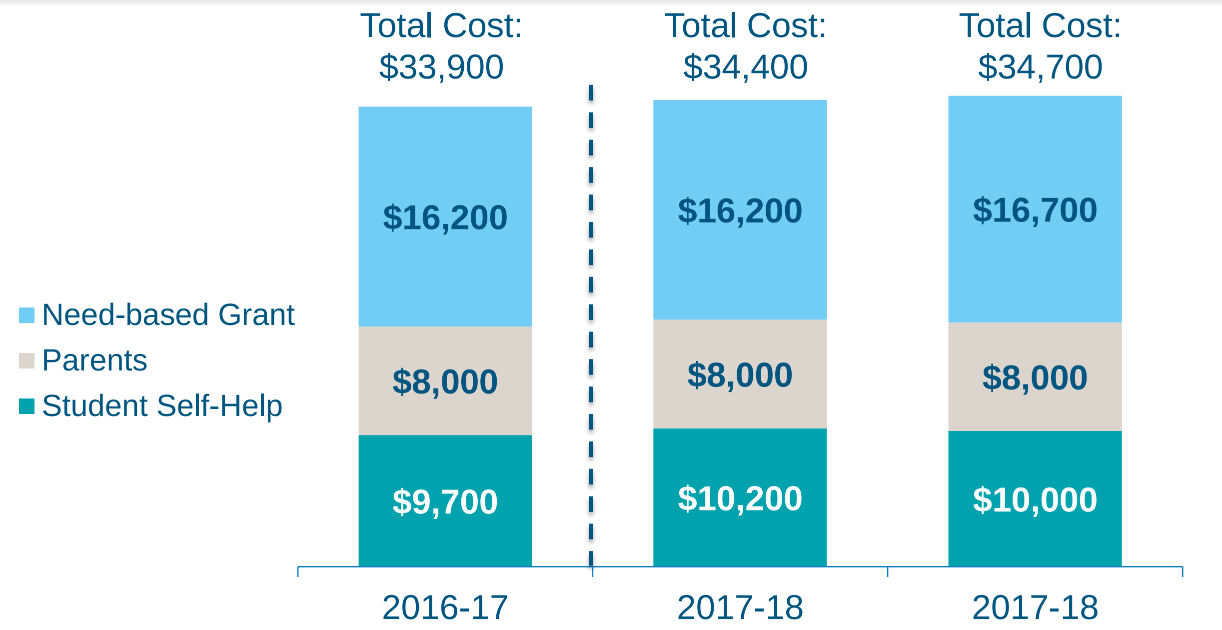
- Students Not Qualifying for Need-based Grant or Middle Class Scholarship: The remaining one-third of students and their parents would likely not receive financial aid to mitigate the tuition (or other cost) increases. It is this last group of students and their parents that would bear the full cost of any tuition or fee increase.

Need-based Grant Recipients

In order to understand the impact of a tuition increase on affordability, it is important to remember that other educational costs that students need to cover – like books and supplies, living expenses – increase without additional financial aid to cover them fully. UC estimates that in 2017-18, the self-help burden for needy students increased by about $300 across the system. However, without the tuition increase and the associated financial aid, the 2017-18 increase in self-help would have been about $500. Figure 3 below shows a financial aid package for a need-based aid recipient to demonstrate the difference with and without a tuition increase and the associated financial aid in 2017-18.

[1] Note: In 2017-18, these students would have seen their Middle Class Scholarship award increase by more than the tuition increase on a one-time basis as the program was being fully phased in.

Figure 3: Impact of the 2017-18 Tuition Increase on Illustrative Financial Aid Packages for Needy Students (~56 percent of California Resident Undergraduates)



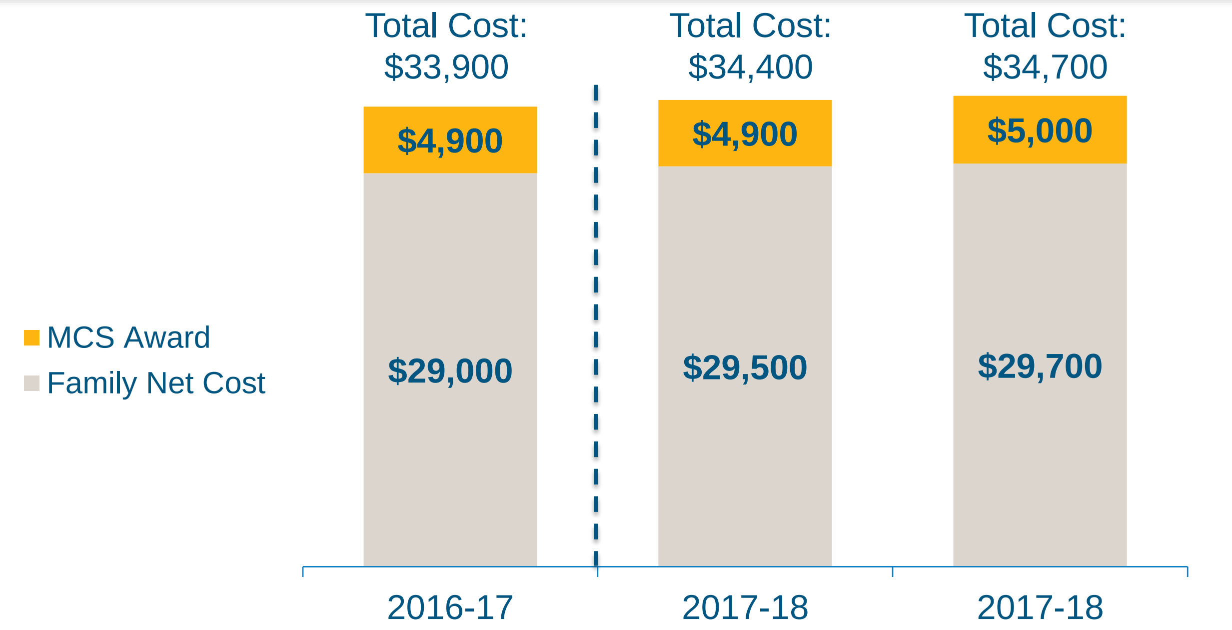
	NO Tuition Increase	**With** Tuition Increase
Increase in Non-Tuition Costs	$500	$500
Increased Tuition	-	$300
Increased Aid	-	*-$500*
Increased Self-Help	**$500**	**$300**

Note that in both scenarios, increases in non-tuition costs increased the financial burden or self-help expectation for financial aid recipients in 2017-18, but that the financial burden with a fee increase is less than it otherwise would have been without a tuition increase (and the associated financial aid increases). Put another way, this group of students would have collectively been charged $34 million in additional tuition, but UC and the State added more than $57 million in need-based grant support.

<u>Middle Class Scholarship Recipients</u>

For middle-class students who qualify for the State's Middle Class Scholarship Program, tuition increases would normally be partially covered by increases in the Middle Class Scholarship award. The maximum award covers 40 percent of systemwide tuition and fees at UC, so 40 percent of any tuition increase could also be covered. In other words, when tuition and fees increase, these students and their families will see their net cost rise because their increase in financial aid (i.e., the Middle Class Scholarship) would only partially cover the tuition increase and would not cover non-tuition cost increases.

Figure 4: Impact of Tuition Increase on Example Financial Aid Package for Middle Class Scholarship Recipients in 2017-18 (~8 percent of California Resident Undergraduates)



	NO Tuition Increase	**With** Tuition Increase
Increase in Non-Tuition Costs	$500	$500
Increased Tuition	-	$300
Increased Aid	-	*-$100*
Increased Net Cost to Family	**$500**	**$700**

Unique circumstances in 2017-18 meant that some Middle Class Scholarship recipients actually saw their award increase by more than the tuition increase, assuming their financial circumstances did not change. The Middle Class Scholarship Program was phased in over four years and 2017-18 was the final year of the phase-in. The $4,900 example award in Figure 4 above would have actually been $3,700 in 2016-17 (75 percent of implementation), but to convey the typical experience for Middle Class Scholarship students in normal years with a tuition increase, the full award was used in the figure above.

<u>Students Not Qualifying for Need-based Grant or Middle Class Scholarship</u>

Finally, as mentioned above, the one-third of students not qualifying for need-based financial aid or the State's Middle Class Scholarship Program bear the full weight of any tuition and fee increase.

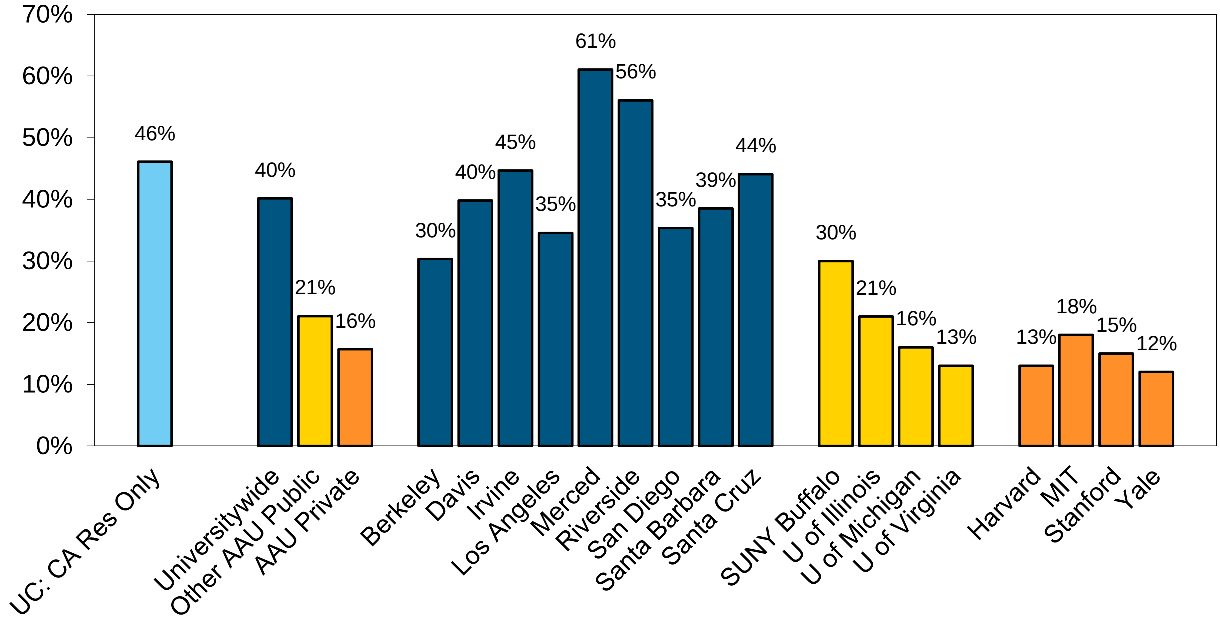
Outcomes

The financial aid strategy that is in place results in the following outcomes.

<u>The University continues to be accessible to students with low family incomes.</u>

UC continues to enroll more low-income students than similarly competitive public and private universities. Figure 5 below compares UC campuses to comparison research universities as well as other Association of American Universities member institutions. UC's success at enrolling low-income students is due, in part, to a combination of two strong need-based aid programs: the University's own institutional aid program and the State's generously supported Cal Grant program.

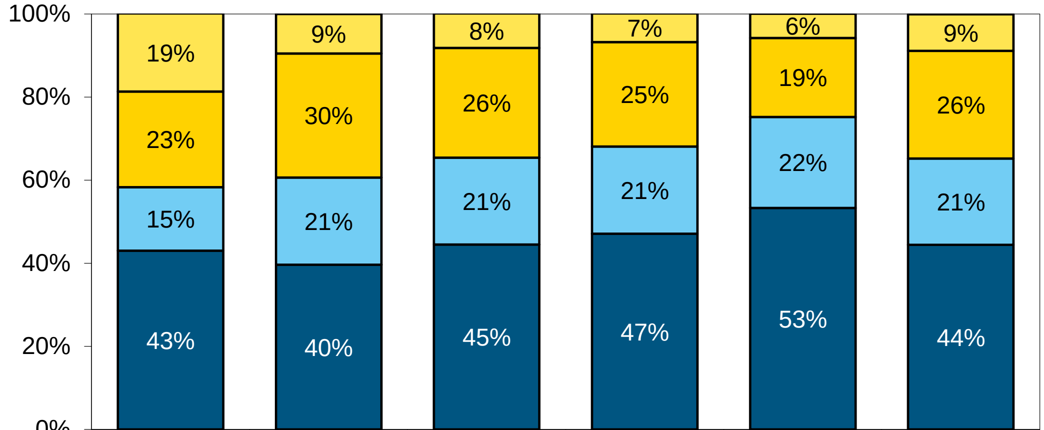
Figure 5: Pell Grant Recipients at UC and Other Research Universities, 2015-16



UC students with a job during the academic year generally work a manageable number of hours.

Under the EFM, the University expects each student to make a manageable contribution from employment toward financing the cost of the student’s education, not to exceed 20 hours per week during the academic year. Findings from a spring 2016 survey are shown in Figure 6.

Figure 6: Hours of Student Employment by Income, 2016 University of California Cost of Attendance Survey



	Independent	Less than $56,000	$56,000 to $112,000	$112,000 to $169,000	$169,000 and above	All Students
> 20 hours per week	19%	9%	8%	7%	6%	9%
11-20 hours/week	23%	30%	26%	25%	19%	26%
1-10 hours/week	15%	21%	21%	21%	22%	21%
Did not work	43%	40%	45%	47%	53%	44%

As Figure 6 shows, many students at every income level do not work. This is consistent with the flexibility inherent in the EFM as to how students actually cover their expected contributions. One reason why some parents perceive UC’s costs as burdensome may be that they are covering not only their expected share but also part of the student’s expected contribution from work.

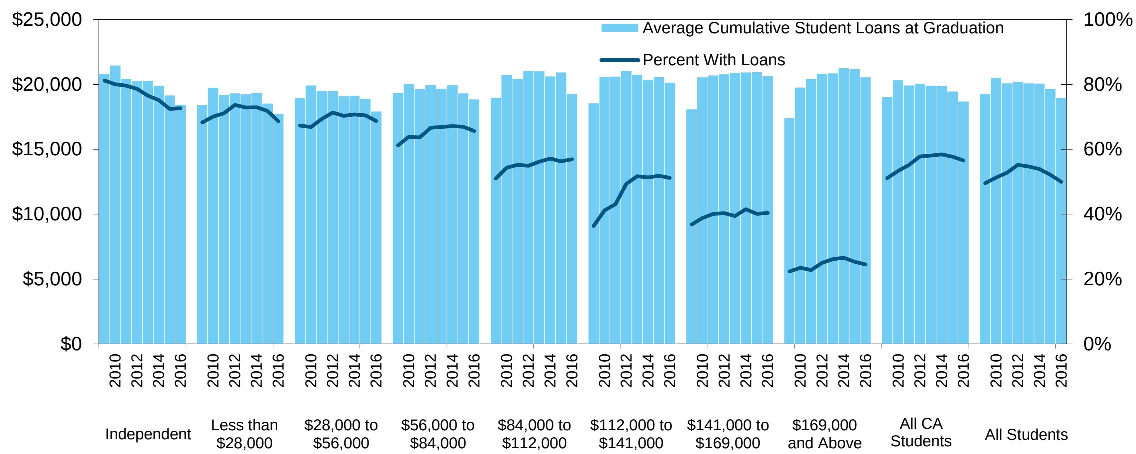
Some students at every income level report working more than 20 hours per week, which is beyond the upper bound of the University’s manageable range. Many factors may account for this, such as parents who are unable or unwilling to contribute the amount expected of them, a reluctance or unwillingness on the part of the student to borrow, or extraordinary expenses (higher than average discretionary expenses, family obligations, etc.).

UC student borrowers graduate with manageable debt levels – levels that are, on average, substantially below national average debt levels.

UC’s average student debt at graduation remains low by national standards. Nationally, 68 percent of the graduating class of 2015 had student loan debt, with an average cumulative debt of $30,100 per borrower, according to The Institute for College Access and Success. By contrast, UC students who entered as freshmen and took out student loans graduated with an average cumulative debt of $21,000.

As seen in Figure 7 below, the incidence of postgraduate debt for all undergraduates declines with parent income: students from higher-income families are less likely to graduate with debt than are students from lower-income families or independent students. (See the dark blue lines below.) However, it is also true that rates of borrowing and amounts borrowed increased the most for students in the middle-income ranges during the Great Recession. The share of students borrowing has declined since then for most groups. For all undergraduates graduating in 2016-17, 50 percent had some student loan debt, slightly less than in 2015-16. The average cumulative student loan debt at graduation for all borrowers was $19,669. California resident undergraduates were more likely to borrow (57 percent) than the national average, but borrowed less on average ($18,771).

Figure 7: Trends in Cumulative Debt at Graduation by Parent Income, 2016 Dollars



<u>Persistence and graduation rates are similar regardless of family income levels.</u>

Historically, four-year graduation rates for higher-income students have generally exceeded those of lower-income students with similar levels of academic preparation. Six-year graduation rates, however, show much less difference by parental income level. Small differences do persist – particularly among students who are less well prepared academically.

The same pattern is observed when looking at one- and two-year retention rates: When controlled for academic preparation, UC students across all income groups persist at the University at very similar rates. Overall, these patterns strongly suggest that the University's financial aid programs allow low-income students to persist and complete their degrees.

Conclusion

The University of California continues to be a leader nationally in enrolling and graduating a socio-economically diverse undergraduate student body. UC undergraduates benefit from support through multiple financial aid programs coordinated by the University. In particular, the State's generously supported Cal Grant program and UC's strong commitment to its own undergraduate grant program create opportunity for financial aid-eligible California students.

Even so, all UC students face increasing costs – even if tuition is flat – as non-tuition costs increase. Financial aid recipients as a whole see a smaller increase in their net costs if tuition also climbs. Students and families who receive a Middle Class Scholarship award have to bear the full cost of growth in non-tuition costs, but only a part of any tuition increase that is not offset by a Middle Class Scholarship award. Students and families ineligible for need-based grant assistance or a Middle Class Scholarship award have to bear the full cost of any increases in the total cost of attendance.

Key to Acronyms

EFM	Education Financing Model