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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

DISCUSSION ITEM

For Meeting of January 19, 2022

THE CHANGING FINANCIAL AID LANDSCAPE

EXECUTIVE SUMMARY

The Academic and Student Affairs Committee has been reviewing alternative approaches to the University of California's existing undergraduate financial aid strategy. This briefing will summarize changes at the federal, State, and University levels that affect those discussions.

- At the federal level, the federal need analysis that assesses a family's ability to pay is changing for the 2024–25 academic year.
- At the State level, changes to the Middle Class Scholarship program will mirror and augment the University's current self-help model, while changes to the Cal Grant program promise to help more of UC's transfer students.
- At the University level, cohort tuition and an earlier determination process for residence, for tuition purposes, will help families anticipate their college costs. President Drake's path to a debt-free University education, along with insights from basic needs research, will also affect the deliberations.

Some of these changes align with the previously stated interests of the Regents, and some will put constraints on the University's ability to modify its financial aid strategy.

BACKGROUND

Presented here is an abbreviated version of the background previously provided to the Academic and Student Affairs Committee. Links to the previous items are at the end of this briefing.

The Education Financing Model (EFM) is the University's strategy for implementing Regents Policy 3201: The University of California Financial Aid Policy, which reads:

> *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 [California] Master Plan.*

The policy is systemwide, which means that cost should not be a deciding factor in a California student's choice of UC campus. The EFM is an integrated framework that is intended to:

- Measure the systemwide need for undergraduate financial aid
- Allocate resources across UC campuses to make the net cost similar for families in similar circumstances on any campus
- Guide campuses in creating individual student financial aid packages

The EFM has three critical principles, all of which draw directly from Regents Policy 3201.

Principle 1: Total Cost of Attendance is the Context for Measuring Affordability

Both Regents policy and the EFM recognize that affordability for California students and families must include all educational costs, including books, supplies, food, housing, transportation, personal expenses, health insurance, and tuition.

Principle 2: Covering the Total Cost Requires a Partnership

Regents Policy 3201 treats covering the total cost of attendance as a partnership between students, their parents/families, and State, federal, and University financial aid programs.

Parents/Families	Students	Grant Support
• Based on their ability to pay, using federal formula (income, assets, family size, etc.) • Expectations range from $0 to cost of attendance	• Work part-time (<20 hrs) during the school year, full-time during the summer • Take on loan debt such that repayments are five to nine percent of average income	• Cal Grants ($950 million) primarily cover tuition. • Federal Pell Grants ($400 million) • UC Grant ($800 million) fills in gaps: two-thirds cover living costs.

The expectation for parental contribution is a progressive model based on the federal financial aid need analysis, and provides an initial foundation for calculating financial aid. The lowest-income parents/families are not asked to contribute anything. Students who are independent of their parents for financial aid purposes, and therefore do not have an expected parental contribution, include student parents, veterans, foster youth, married students, formerly homeless youth, and students in a legal guardianship.

Principle 3: Student Work and Borrowing Must Be Manageable to be Affordable.

The Regents Policy 3201 states that,

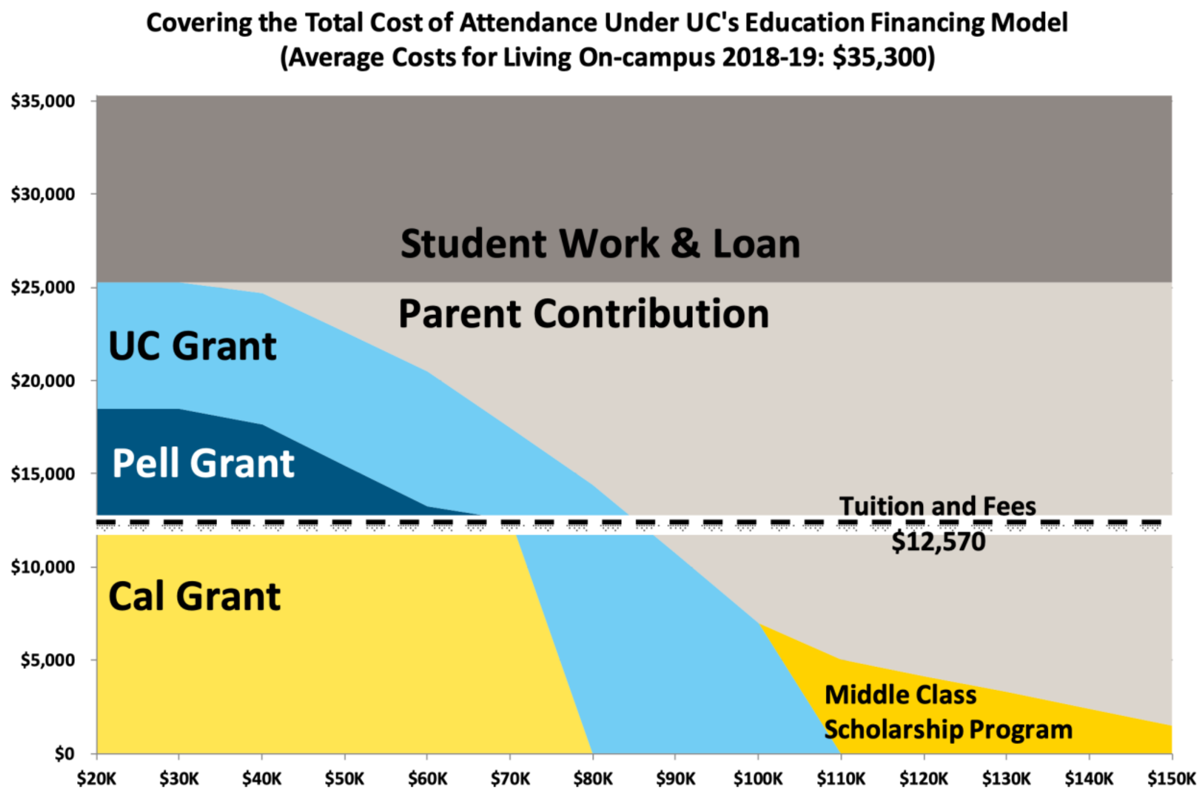
> *[F]unding levels for grants will assume manageable debt levels based on expected earnings after graduation relative to loan repayment obligations and manageable work expectations that reflect the number of hours per week that students can work while*

enrolled during the academic year or over the summer without any significant adverse impact on academic performance.

The EFM currently defines a range of manageable working (six to 20 hours per week during the academic year) and student debt (five to nine percent of postgraduate earnings). Students have flexibility in how they choose to meet the assumed part-time work and student loan. For example, they can choose to exchange part-time work for additional borrowing or vice versa. They can also reduce their need to work and borrow by earning outside scholarships or tapping into savings.

Figure 1 presents a visual depiction of how the EFM works based on income.

Figure 1: Visualization of Current EFM



A CHANGING LANDSCAPE

National Policy Change: Assessing a Family's Ability to Pay

In December of 2020, Congress passed the Free Application for Federal Student Aid (FAFSA) Simplification Act as part of a larger appropriations bill. The changes to the act will be implemented in 2024–25 and include some key modifications that the University will need to incorporate into its financial aid strategy.

Student Aid Index Replaces Expected Family Contribution

What seems to be the biggest change is the Expected Family Contribution (EFC), to be replaced by a Student Aid Index (SAI). UC anticipates that the SAI will operate like the EFC in terms of the calculation of federal need-based aid eligibility, although that remains to be regulated.

The SAI can be a negative number, as low as -$1,500, recognizing that some families have an even lower ability to contribute to their child's education than the current "zero EFC" would suggest. Colleges and universities should be able to provide $1,500 in additional financial aid to these families, even if it exceeds the total cost of attendance.

This is important because it provides a clear mechanism for offering additional support to the neediest students, lowering their need to work and borrow. The University could decide that its return-to-aid–funded, need-based grant awards will increase to fill the negative SAI. This aligns with Options 2 and 6 from the November 2020 Academic and Student Affairs Committee discussion item, *Alternative Approaches to Financial Aid*.

Change in Need Analysis

The need-analysis formula currently divides the Expected Family Contribution by the number of students currently enrolled in college. For example, a family that is assessed to be able to afford $10,000 per year, but has two students in college, will be asked to contribute $5,000 towards each student's education. Starting in 2024–25, that same family would have a Student Aid Index of $10,000.

The University could decide to use its own need-based grant to offset this change. Its ability to do so will be somewhat constrained by the size of the differential in SAI for an individual student.

Setting Total Cost of Attendance

Until the passage of this bill, the U.S. Secretary of Education was prohibited from defining how a college or university could set its total cost of attendance. That will now change. As noted below, the State also wants to define the total cost of attendance at UC and the California State University (CSU) for the purposes of administering the Middle Class Scholarship Program.

State Policy Changes: Cal Grant and Middle Class Scholarship

Both the Cal Grant and Middle Class Scholarship programs were significantly modified through the 2021 State budget process.

<u>Cal Grant Community College Entitlement</u>

The Community College Entitlement Program (CCEP) has the potential to benefit UC transfer students. About 10,000 UC transfers who could qualify for Cal Grants do not currently qualify because of the various rationing devices in the existing program (i.e., age caps).

Community college students with an adequate grade point average will be able to qualify for a Cal Grant while at a California Community College (CCC). Currently, students must qualify for a Cal Grant High School Entitlement when entering college or a Transfer Entitlement at the point of transfer. The CCEP will allow students transferring to UC to bring their already secured Cal Grant with them.

This will expand the amount of tuition coverage available to UC students through the Cal Grant programs, freeing up UC need-based grants to cover non-tuition costs.

<u>Middle Class Scholarship 2.0</u>

The current Middle Class Scholarship (MCS) program covers up to 40 percent of tuition for those not receiving tuition coverage at California State University (CSU) or UC. The reformed program will instead address the total cost of attendance, with the goal of creating a debt-free education at the two public university systems. In doing so, the Legislature proposed increasing the program from $117 million to over $500 million.

The approach conceptualizes a self-help component like UC's Education Financing Model, but it sets a goal of $7,898 in total self-help for students, an amount that the State thinks students can earn through part-time work during the academic year and full-time work during the summer.

MCS 2.0 goes even further, however, by covering the Expected Family Contribution/Student Aid Index for families making up to $100,000 per year.

There are opportunities and challenges presented by MCS 2.0 that constrain the University's ability to set its own financial aid policies.

The investment that would lower self-help to $7,898 will be welcome support for UC students, and the offset to the amount expected of parents will help those in the middle-income range for whom we currently ask for a contribution.

MCS 2.0 poses two challenges:

- The State will want to define the total cost of attendance for the administration of the program. This affects some of the reforms related to how the University currently estimates the cost of attendance under the EFM.

- More importantly, MCS 2.0 is a “last dollar” program, which means that awards to students would be reduced or eliminated if the University packaged a student with a self-help of anything less than $7,898. In other words, UC could not lower the self-help for students below the statutory floor without forgoing MCS 2.0 funds for its students.

<u>Other Programs</u>

The State has created a number of other financial aid programs that will benefit UC students. The programs include:

- $4 million in summer financial aid
- $15 million in State emergency grants
- The Learning Aligned Employment Program
- The Dreamer Service Incentive Grant
- Augmented Cal Grants for student parents and former foster youth
- California Volunteers (an AmeriCorps-like program)
- Expanded Golden State Teachers Grant Program

The Learning Aligned Employment Program, the Dreamer Service Incentive Grant, and California Volunteers will all help provide students with the means to achieve a debt-free path to a UC degree.

University-Level Changes: More Predictable and Understandable Costs for Families

Through both Regental and administrative action, the University has provided more predictable and understandable costs for families. These serve as a backdrop for the committee’s discussions but should not limit policy choices that have been discussed in the past (see the November 2020 discussion item).

<u>Tuition Stability Plan</u>

In July of 2021, the Board of Regents approved a multi-year tuition plan that holds tuition stable for students once they enroll at the University. Furthermore, the action taken in July incorporated a 45 percent set-aside of the increased tuition revenue.

For financially needy families, the higher tuition for incoming cohorts of students will be offset by increases in both Cal Grants and the University’s own need-based grants. With the increase in the return-to-aid to 45 percent, even more funds will be available to help students cover their non-tuition costs.

Residence Determination Process Improvement

The Office of the President is working with campuses to implement an earlier residence determination process, letting students know before they need to accept an offer of admission if they are considered California residents for tuition purposes. This is part of improved transparency for families.

uAspire Recommendations to Improve Financial Aid Offer Letters

As discussed at the September 2021 Regents meeting, the Office of the President will be working with campus financial aid offices to address recommendations from uAspire to improve communications with students.

Basic Needs Insecurity and Services

In fall 2021, Graduate, Undergraduate and Equity Affairs launched a research agenda to better understand how basic needs insecurity can be treated as a metric for improving financial aid policies. This work has just begun, but some hypotheses being tested include whether independent students need higher expense budgets and how student loan borrowing impacts food insecurity.

Debt-Free UC

President Drake has laid out the goal of providing debt-free paths to a UC degree where self-help might be covered though service learning or student work-learning opportunities, which can serve as the focus for continued deliberations by the Academic and Student Affairs Committee.

PREVIOUS REGENTS ITEMS ON FINANCIAL AID

- November 2020 alternative approaches to the Education Financing Model (EFM)
- July 2019 report to the Regents on debt by income, race, and ethnicity
- Total Cost of Attendance Working Group Final Report (November 2017)

KEY TO ACRONYMS

EFC	Expected Family Contribution
EFM	Education Financing Model
FAFSA	Free Application for Federal Student Aid
MCS	Middle Class Scholarship
SAI	Student Aid Index