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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE AND FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of March 17, 2022

FINANCIAL AID UPDATES ON DEBT FREE AND ADDITIONAL POTENTIAL REFORMS

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 provide updates about advancing debt-free pathways at UC and about two other avenues for reform:

- President Drake has approved a debt-free pathways program for a set of new students for fall 2022. This is possible because of financial aid reforms at the State level, anticipated increases in federal financial aid, and expanded return-to-aid on UC tuition approved by the Regents.
- Financial aid reforms at the federal level enable UC to provide additional grant support to students with the greatest need.
- At the University level, adding the student experience as a metric for success to Regents Policy 3201 provides a way to formally recognize the work of meeting student basic needs within financial aid policy.

BACKGROUND

Presented here is an abbreviated version of the background already 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 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 approaches 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 hours) 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.

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

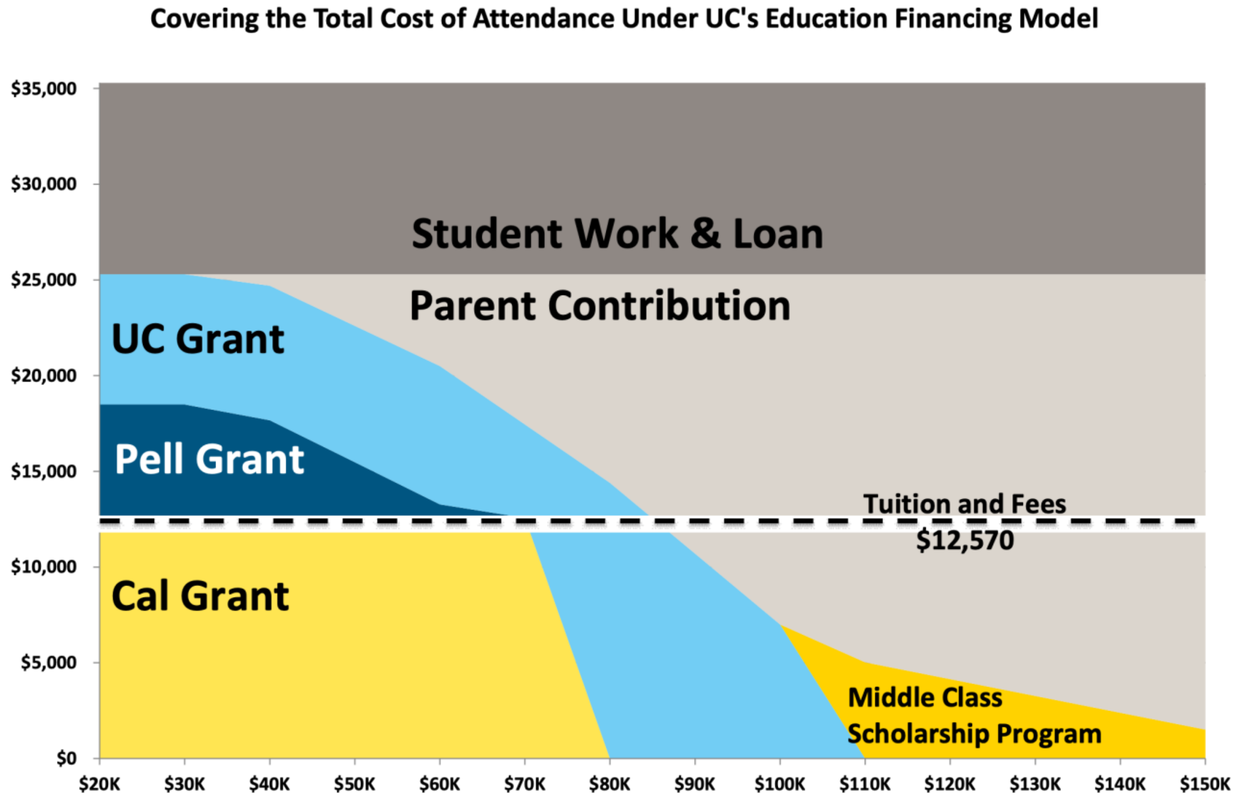
The Regents Policy 3201 states that,

> [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 work (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



HIGHLIGHTS OF A CHANGING LANDSCAPE

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

Starting in 2024–25, the federal Expected Family Contribution (EFC) will be replaced by a Student Aid Index (SAI). 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, in recognition of some families' even lesser 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 most disadvantaged 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.

State Policy Changes: Middle Class Scholarship

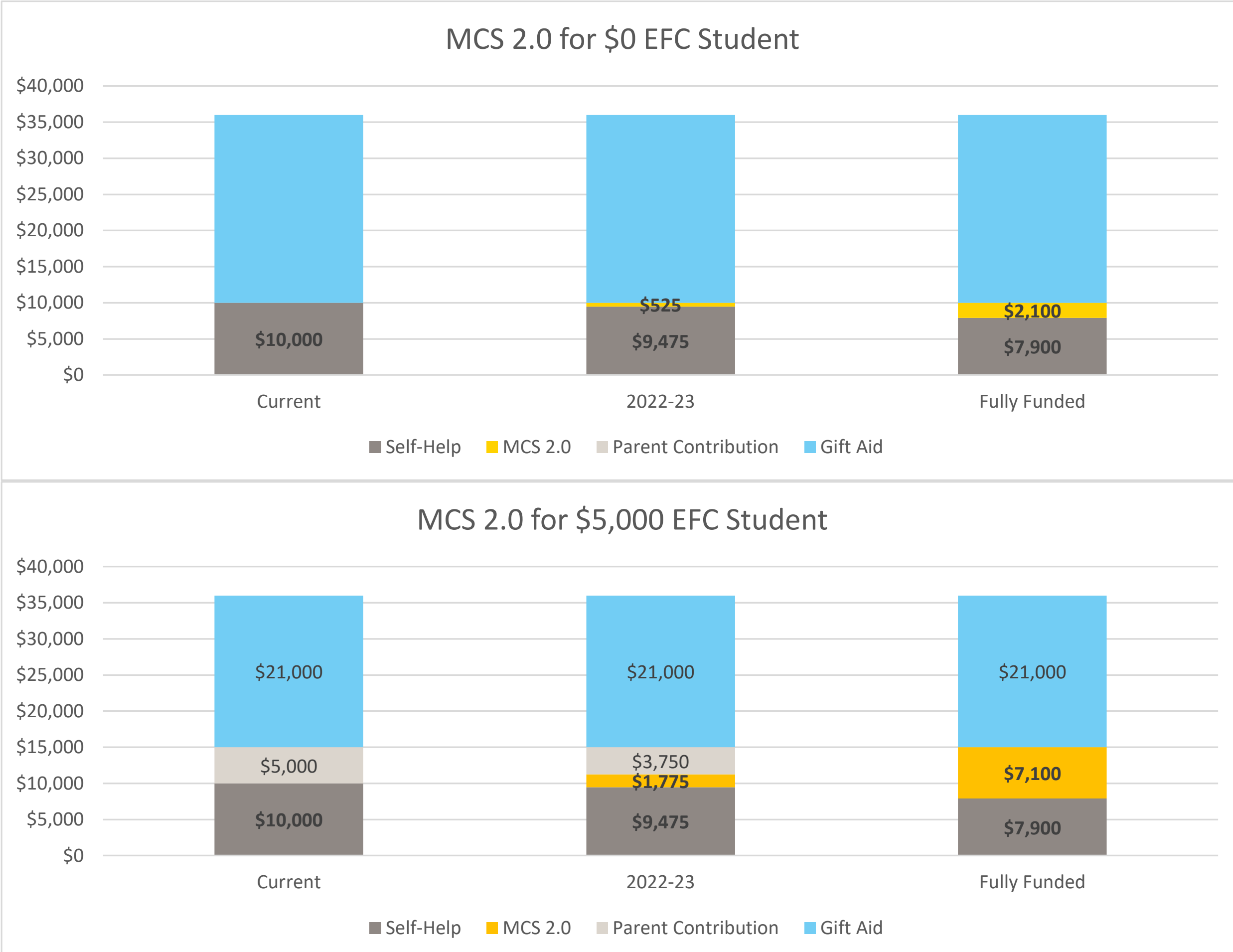
The current Middle Class Scholarship (MCS) program covers up to 40 percent of tuition for those not receiving tuition coverage at California State University (CSU) or UC. The reformed program will instead address the total cost of attendance, with the goal of creating a debt-free education at both of these public university systems.

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

The MCS 2.0 program goes even further, by covering the Expected Family Contribution/Student Aid Index for families making up to $100,000 per year and also providing some assistance to families making over $100,000.

Governor Newsom has proposed increasing the program from $117 million to $632 million in 2022–23, which does not provide enough funding to achieve debt-free status on its own. This will advance CSU and UC somewhere between one-fifth and one-third of the way toward debt-free status (estimates vary). Figure 2 below shows how the new program would affect a low- and middle-income student in 2022–23 and once the program is fully funded, compared with the status quo.

Figure 2: MCS 2.0 Lowers Parent Contributions and the Need to Borrow



University-Level Changes: Debt-Free for Some Students in 2022–23

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. Furthermore, the Governor made providing debt-free pathways a goal for the University to achieve for all California undergraduates by 2030 and half of all undergraduates by 2025–26.

The President has therefore approved a debt-free program for new students in 2022–23 as a “down payment” on the promise of a debt-free CSU and UC through MCS 2.0. While the State ramps up funding for MCS, the University will do the following:

- UC will package a targeted group of new students with $7,900 in self-help (State’s debt-free definition).
- The Office of the President (UCOP) will allocate a portion of University Student Aid Program (USAP) to campuses to augment financial aid packages for a designated number of participants.

- Campuses may leverage existing programs to meet their participation requirements as long as the selection criteria align with the Debt Free UC Program (see below).

A debt-free path means that qualifying students will receive financial aid packages and work-study opportunities such that they could afford a UC degree through part-time work alone, at normal work-study commitments. Students retain the option to borrow, but could graduate without borrowing if they so choose.

The Debt Free UC Program is meant to align with Regents Policy 3201 on undergraduate financial aid, which means that its primary goals are access and affordability.

POTENTIAL REGENTAL ACTIONS

1: Endorse using UC Grant to offset negative Student Aid Index.

As mentioned above, the federal change to a Student Aid Index (SAI) will provide a way for colleges and universities to distinguish between some of their most economically disadvantaged students. Those with the fewest family resources will have a “negative SAI” that can qualify a student for additional grant money.

The University can provide additional UC grant money to these students without making a change to Regents Policy 3201. Nevertheless, a clear direction from the Regents will allow the Education Financing Model Steering Committee, the systemwide committee responsible for advising on the implementation of Regents policy, to implement the change.

2: Amend Regents Policy 3201 to recognize the goal of reducing student borrowing.

Current Regents Policy 3201 expresses no policy preference for work over borrowing. With the emphasis at the State and University levels on pathways that allow students to work part-time to avoid borrowing, an update is appropriate. See below for example of textual updates.

3: Amend Regents Policy 3201 to add the student experience as a formal metric.

Current Regents Policy 3201 also does not incorporate the student experience as a metric for assessing the University’s undergraduate financial aid strategy. See below for examples of textual updates. The strike-through text indicates a deletion and bolded text indicates additions.

> **Regents Policy 3201: The University of California Financial Aid Policy with Possible Updates Tracked Below**
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> Approved January 21, 1994
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> A basic value of the University of California is that the University should serve a diverse student body. Inherent in such a value is a concern that financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree.

This basic value is at the heart of the University's Financial Aid policy for all of its student body, but varies in its expression for undergraduate and graduate students.

Undergraduate Financial Aid Policy

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. As such, the student aid policy complements the goals of the University's undergraduate admissions policy, which was adopted by the Board of Regents in May of 1988, 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."

Specifically, the University's financial aid policy for undergraduates calls for the University, in partnership with the State, to seek to maintain the affordability of a University education for eligible California resident undergraduates who are regularly enrolled. The policy has the following provisions:

1. The University's goal is that the cost of attending the University will be met through a combination of the following:

- a manageable contribution from family resources, based on the family's financial strength;
- a manageable contribution from the student in the form of ~~loan and/or~~ **part-time** work;
- **a contribution from the student in the form of loan (if necessary);** and
- grant support from a combination of federal, State, University, and private sources.

2. The University will employ standard criteria set by the federal government and other funding agencies in the determination of financial aid eligibility but will maintain a commitment to be sensitive to extraordinary individual circumstances through the availability of appeals processes and other opportunities for individual case reviews.

3. The University will provide a financial aid delivery process that is as efficient as possible. Opportunities to simplify and improve delivery will be pursued both within the University and at the State and federal levels.
The funding of the University's need-based grant aid programs in support of this policy will take into consideration a combination of the following factors:

- the manageability of projected parent contributions, student debt levels, and student employment expectations;
- analysis of support levels and the composition of aid awards (i.e., the balance between grant, ~~and~~ ~~loan/~~work, **and loans**) at various income levels over time;

- changes in the diversity of the undergraduate student population along economic lines;
- **the student experience of financial aid to meet their needs as measured through surveys;** and
- the undergraduate aid packages and support levels at comparable institutions.

Basic to the funding policy is the principle that the parents of undergraduates have the responsibility to pay for the educational costs (i.e., fees plus living expenses) associated with attending the University to the extent of their capacity to pay. In addition, funding 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. **Student loans are a valuable educational financing tool that will be made available to all eligible students, although the University will endeavor to provide financial aid packages that minimize their need.**

In addition, the University will work to provide adequate employment opportunities, both on- and off-campus, for students to fulfill their work expectations. Emphasis will be placed on providing jobs that have higher pay and that are related to students' academic and career interests.

It is recognized that the actual awards students receive will vary across campuses and across categories of students in response to local conditions and priorities. As a result, some students (e.g., late applicants) will have more than the calculated manageable expectation for loan and work, while others (e.g., scholarship recipients) will have less.

LINKS TO PREVIOUS REGENTS ITEMS

- 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

CSU	California State University
EFC	Expected Family Contribution
EFM	Education Financing Model
FAFSA	Free Application for Federal Student Aid
MCS	Middle Class Scholarship
SAI	Student Aid Index
USAP	University Student Aid Program