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Office of the President

TO MEMBERS OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

DISCUSSION ITEM

For Meeting of November 18, 2020

ALTERNATIVE APPROACHES TO FINANCIAL AID

EXECUTIVE SUMMARY

Regents Policy 3201: The University of California Financial Aid Policy is implemented through a strategy called the Education Financing Model (EFM). In November 2019, the Academic and Student Affairs Committee reviewed the key elements of the EFM. This item will review several alternative approaches to each of these key elements.

BACKGROUND

Presented here is an abbreviated version of the background provided to the Academic and Student Affairs Committee in 2019. Links to the items from July and November are available 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 across campuses; and
- guide campuses in making 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. UC estimates the total cost of attendance using campus data for direct charges (e.g., on-campus housing) and survey data for indirect expenses (e.g., groceries).

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 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 school year, full-time during the summer • Loan debt such that repayments are 5 to 9 percent of average income	• Cal Grants ($950M) primarily cover tuition. • Federal Pell Grants ($400M) • UC Grant ($800M) fills in gaps: two-thirds cover living costs.

The expectation of parents is a progressive model based on the federal financial aid need analysis. The lowest-income parents are not asked to contribute anything. Students who are independent of their parents for financial aid purposes, and therefore do not have an expected parent 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.

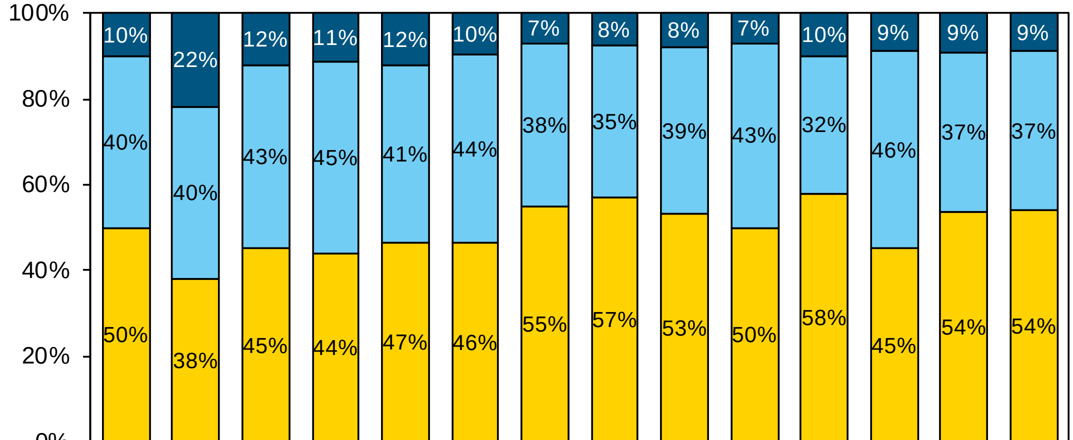
The Regents Policy 3201 states that,

> *[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 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 shows the share of students reporting work hours from a variety of surveys over time. A significant portion of students chose not to work in the given survey year, but a portion of students in every survey also report working more than 20 hours per week.

Figure 1: Manageability of Student Employment (Recent Surveys, All Undergraduates)[1]



	UCUES 2004	NPSAS 2004	COAS 2006	UCUES 2006	SEARS 2007	UCUES 2008	UCUES 2010	COAS 2010	UCUES 2012	COAS 2013	UCUES 2014	COAS 2016	UCUES 2016	UCUES 2018
> 20 hours per week	10%	22%	12%	11%	12%	10%	7%	8%	8%	7%	10%	9%	9%	9%
1 to 20 hours/week	40%	40%	43%	45%	41%	44%	38%	35%	39%	43%	32%	46%	37%	37%
Did not work	50%	38%	45%	44%	47%	46%	55%	57%	53%	50%	58%	45%	54%	54%

Similarly, UC debt figures on average show that students graduate with less debt than students at comparable institutions. Figure 2 is from the Accountability Report and shows that the average debt for a UC student who entered as a freshman is $21,100, below the national average.

Figure 2: Average cumulative loan debt (UC and national comparison institutions, 2016–17 graduates)

Berkeley	$18,197
Davis	$19,124
Irvine	$19,745
Merced	$19,551
Santa Barbara	$20,665
UC AVERAGE	$21,100
Riverside	$21,104
San Diego	$21,430
Los Angeles	$22,013
Santa Cruz	$22,804
Public 4-year	$27,293
Private nonprofit 4-year	$32,810
National Average	$28,350

[1] Acronyms in this chart refer to UC Undergraduate Experience Survey (UCUES), National Postsecondary Student Aid Study (NPSAS), Student Expenses and Resources Survey (SEARS) and Cost of Attendance Survey (COAS).

The Academic and Student Affairs Committee reviewed how average debt can vary for underserved groups in July 2019. Figure 3 below was presented to the Regents in July. It shows that, even controlling for income, the amount of average student loan debt at graduation is greater for African American, Chicano/Latino, and American Indian students than for non-underrepresented students.

Figure 3: Cumulative Student Loans Debt at Graduation among CA Undergraduates by Ethnicity and Income, 2017–18

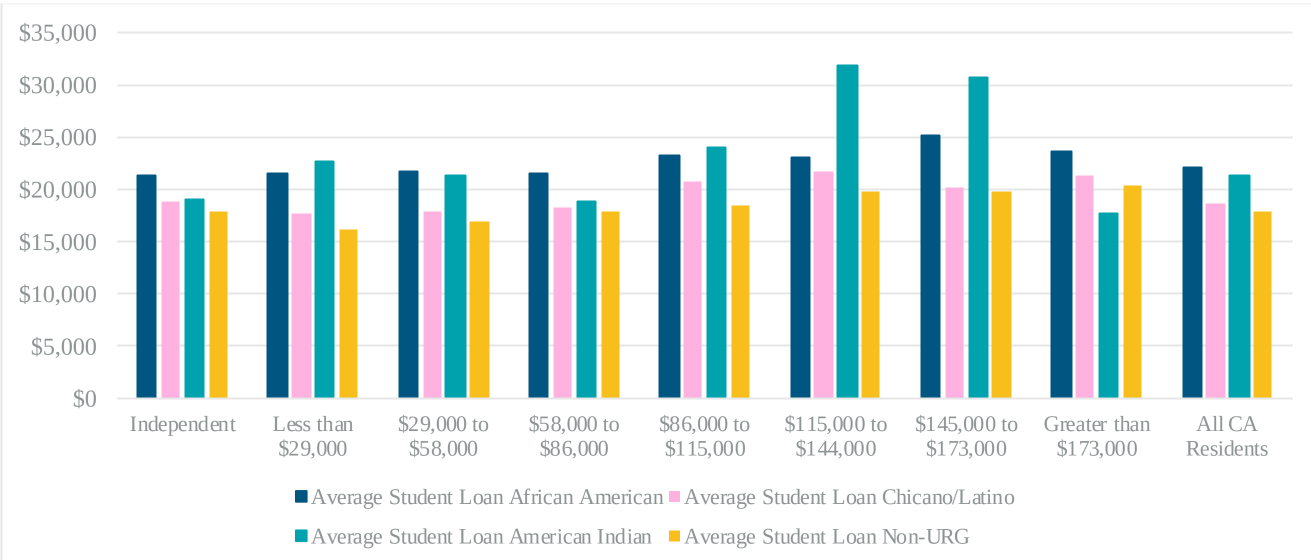
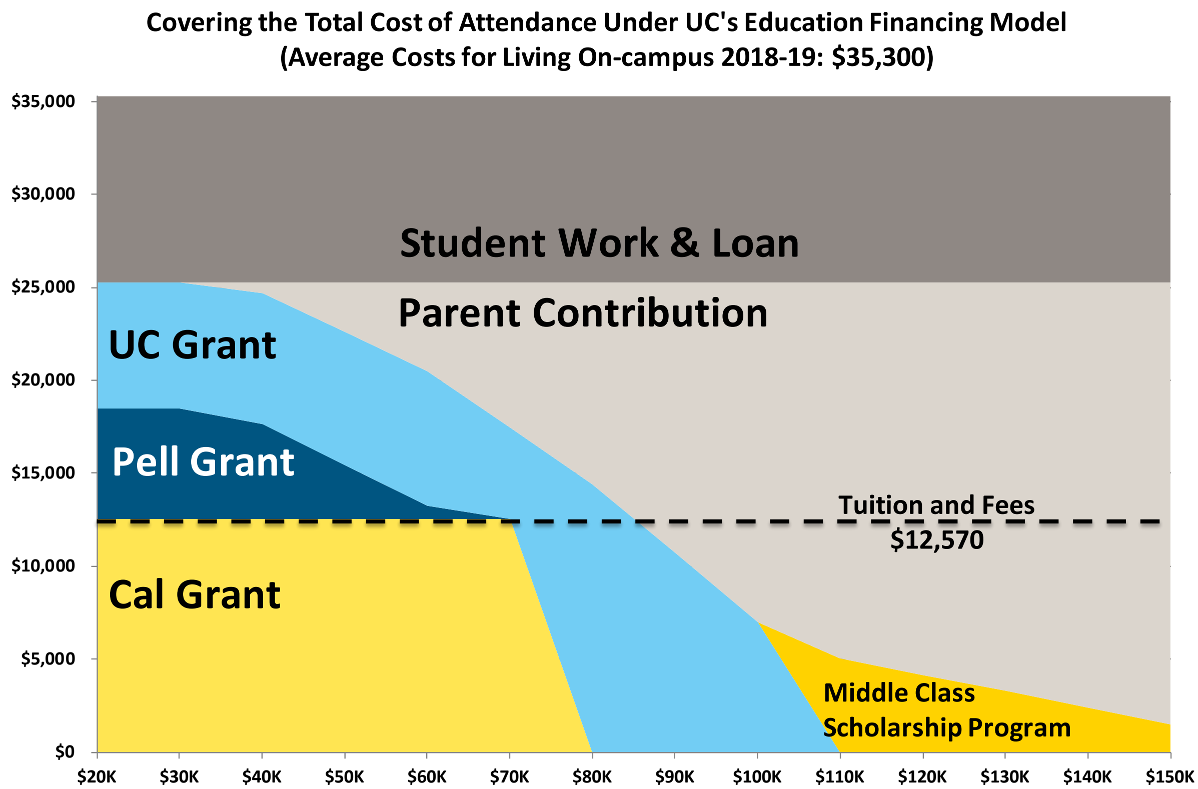


Figure 4 presents a stylized view of how the EFM works based on income.

Figure 4: Visualization of Current EFM



ALTERNATIVE APPROACHES

Measuring the Total Cost of Attendance

Turning to the policy levers that can be adjusted, the first is how the University sets the total cost of attendance. This policy element has received the most attention in recent years, which has resulted in the following changes:

- **Administrative Data for Miscellaneous Fees:** Beginning in 2018–19, the Student Expense Budgets began replacing student survey data on miscellaneous campus fees with direct administrative data provided by the campuses.
- **Food Allowance:** Beginning in 2016, the Cost of Attendance Survey (COAS) began asking students about weekly food expenses rather than monthly. This was based on focus group feedback from students who said that they were more likely to accurately remember how much they spent per week than per month. UC's Student Expense Budgets now include a food allowance that is squarely in the USDA recommended daily allowance.

In general, the following considerations should be kept in mind when reviewing options for adjusting the total cost of attendance:

- Accurate estimates for the cost of attendance are important to target aid, but also to provide transparency for students and their families.
- Increasing the total cost of attendance without commensurate increases in grant support does not improve affordability, but does increase access to additional loan eligibility.
- Increasing the total cost of attendance for one group (e.g., off-campus students) will, all things being equal, shift financial aid away from others to meet that increased need.
- As a reminder, UC currently sets 27 different student expense budgets: commuter, off-campus, and on-campus budgets for each of the nine undergraduate campuses.

<table>
<tr><th colspan="2">Option 1: Identify New Source of Data for Off-Campus Living Expenses</th></tr>
<tr><td colspan="2">Proposal: Based on an endorsement from the Council of Chancellors, this option would rely on a study by UCOP rather than student surveys to set the largest element of student budgets for those living off-campus—rent.</td></tr>
<tr><td colspan="2">Rationale: Increasing the living allowance for students may help address basic needs concerns by 1) measuring with more confidence off-campus housing expenses and 2) if the approach results in a higher living allowance, redirecting financial aid to off-campus students unless additional sources of aid are identified.</td></tr>
<tr><th>Benefits</th><th>Challenges</th></tr>
<tr><td>The UCOP Housing Study will be conducted by a third-party vendor and will incorporate elements of the quality of the housing. This should produce a living allowance that comes with additional confidence.</td><td>Increasing the cost of attendance without additional resources will raise the loan/work expectation for all students.</td></tr>
<tr><td>May help address basic needs concerns, particularly for upper-division students and those living off-campus.</td><td>Without additional resources, this will result in redirecting financial aid away from needy on-campus and commuter students.</td></tr>
<tr><td>Provides more transparency.</td><td>Is a one-time survey, so future adjustments to the housing allowance will need to be estimated.</td></tr>
<tr><th colspan="2">Modeling and Next Steps</th></tr>
<tr><td colspan="2">Since the study has not yet been conducted, UCOP cannot model the impacts. However, as a rule of thumb, every $1,000 increase in the estimated yearly off-campus living allowance is the equivalent of an increased financial need of $55 million. In other words, if the systemwide off-campus living allowance increased by $1,000, students' need to work and borrow would go up by about $550 without additional grant assistance to offset the need.

The next step will be to review the outcomes of the study and to implement an adoption and/or phasing in of the new estimated costs.</td></tr>
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<tr><th colspan="2">Option 2: Cost of Attendance Increase with Additional Grant Aid for Targeted Populations</th></tr>
<tr><td colspan="2">Proposal: Increase the total cost of attendance for groups deemed to have extraordinary costs not recognized in the standard budgets. Redirect grants to cover these costs. (Note: The University already does this for students who request an adjustment, e.g., student parents.)</td></tr>
<tr><td colspan="2">Rationale: Certain students have expenses that are systematically ignored within the standard cost of attendance. Examples could include:
▪ Low-income students, who have greater “start-up” costs than their peers.
▪ Independent or older students, who routinely report much higher expenses.</td></tr>
<tr><th>Benefits</th><th>Challenges</th></tr>
<tr><td>This delivers additional grant dollars to targeted students without fundamentally disrupting the rest of the EFM (e.g., parent contribution, student self-help).</td><td>UC’s own COAS provides neither an evidence-based way to show that low-income students have “start-up” costs—which could be a result of the survey instrument—nor the appropriate dollar amount of the adjustment.</td></tr>
<tr><td>Allows UC to continue to have a relatively simple message regarding self-help and affords campuses flexibility in packaging, while still delivering more grant aid to needy students.</td><td>Independent students’ higher expenses are theoretically addressed in need analysis, and additional steps need to be taken to ensure compliance with federal financial aid rules.</td></tr>
<tr><td></td><td>If funded by University Student Aid Program (USAP), it would cut into the funding available for other needy students to cover increases in non-tuition costs.</td></tr>
<tr><th colspan="2">Modeling and Next Steps</th></tr>
<tr><td colspan="2">About 45 percent of UC need-based grant recipients (52,000) are either independent of their parents or have an expected parent contribution of zero. Therefore, increasing the cost of attendance for this group by $1,000 would generate an additional financial need of approximately $52 million.

In other words, if $52 million in additional grant support was identified, the students with an augmented cost of attendance would see an additional $1,000 in grant aid. However, as with Option 1 above, if no additional resources are identified, the self-help would go up for all students by about $520. For the targeted population, then, an increase of $1,000 in their cost of attendance without additional resources would net $480.

The next step would be to more fully develop a data-driven target amount for changes to students’ cost of attendance.</td></tr>
</table>

Assessing Parents’ Ability to Pay

National reports have found differential debt burdens by race and ethnicity similar to those observed at UC, particularly as they relate to African American students. At UC, the reasons for higher borrowing among students from underrepresented groups is not that they are receiving less in grants and scholarships. Across income levels, UC underrepresented students have a lower net cost, both systemwide and at each campus.

Therefore, it is worth exploring possible shortcomings of the Free Application for Federal Student Aid (FAFSA) and federal needs analysis. Like most colleges and universities, UC relies on the FAFSA as the means for assessing the financial resources of a family. This is required for federal and State financial aid by statute and by Regents Policy 3201.

The FAFSA collects the data used to award financial aid, and the Education Department uses its "federal methodology" (FM) to assess a family's ability to pay, called the Expected Family Contribution (EFC). The EFC represents what a family should contribute to covering the total cost of attendance. FM balances trade-offs between keeping the form simple and maintaining accuracy. In other words, it could more accurately measure a family's ability to pay if it gathered more information, but doing so would further complicate an already bureaucratic form and process. Figure 5 below highlights what is and is not part of FM.

Figure 5: Primary Elements of Wealth Used—and Not Used—in Federal Methodology (FM)

Elements of Wealth Used	Elements of Wealth NOT Used
Adjusted gross income of custodial parent(s) and students	Income of other family members (i.e., non-custodial parents, grandparents)
Assets of custodial parent and student, excluding primary residence	Primary home
Number of students currently in college	Students who will be in college in the future
Size of family	Different costs of living by region
Current contributions to retirement accounts	Retirement assets

To the extent that the elements of a family's wealth are distributed differently in society for students who come from underrepresented families versus those from non-underrepresented families, the federal methodology may be providing a flawed picture of a family's wealth. For example, since home equity is not considered in determining a family's wealth, a family that pays rent for its primary residence would be assumed to have the same financial resources as a family with substantial home equity and the same income. If underrepresented students' families are less likely to own a home, FM may systematically overestimate their ability to pay relative to a non-underrepresented student with the same family income.

Furthermore, the FAFSA, in an attempt to simplify the process for low-income students, reduces the number of questions asked of those with the lowest adjusted gross income. This can make students whose families have a low adjusted gross income (AGI) but sizeable assets appear needier than they are. The University takes some measures to mitigate this, but on a limited scale.

Finally, FM fails to differentiate among the neediest students. An intermediary step in the methodology changes negative values for available income to zero. This has the effect of flattening out the calculated EFCs and creating a large pool of undifferentiated "zero EFC" students, some of whom would have a "negative EFC" if the intermediary step were eliminated. In other words, not all "zero EFC" students are equally needy.

In general, the following considerations should be kept in mind when reviewing options for adjusting the way that UC assesses a family's ability to pay:

- There is a trade-off between accuracy and simplicity. The more accurate a needs analysis, the more questions must be asked, which can become a barrier to first-generation students.
- A UC Parent Contribution would not change a student's eligibility for State or federal financial aid, but it would help better target UC aid.
- There is a sizeable administrative burden with any UC-specific needs analysis, since the campus financial aid office would need to essentially "keep two sets of books" on each student, one used to award UC aid and one used to award State and federal financial aid.
- Moving to a separate needs-analysis formula could make it difficult to align UC financial aid with increased State interest to serve students based on the federal methodology.

<table>
<tr><th colspan="2">Option 3: Adopt the Use of the College Board PROFILE</th></tr>
<tr><td>Proposal:</td><td>UC would use the Institutional Methodology (IM) developed by the College Board and would require students to file the PROFILE to be considered for UC aid.</td></tr>
<tr><td>Rationale:</td><td>The PROFILE is the only major alternative to the FAFSA, and IM is the only major alternative to FM. It may be superior for the following reasons:
Includes several elements in Figure 5 above that the FAFSA misses
Places more emphasis on assets and less on income, which may help to ascertain a family's wealth more effectively
Is used by many leading colleges and universities, which means UC applicants may already be completing the form</td></tr>
<tr><th>Benefits</th><th>Challenges</th></tr>
<tr><td>Would help UC better target its aid, perhaps helping to mitigate the differential outcomes by race and ethnicity.</td><td>Very high administrative burden for campuses to administer two different needs analyses (FM for State and federal aid; IM for UC aid).</td></tr>
<tr><td>Provides a more robust picture of a family's financial profile.</td><td>The burden to file the PROFILE may dissuade low-income students from applying to UC unless they are also planning to apply to another college that requires the PROFILE.</td></tr>
<tr><td></td><td>Optics of charging students to apply for financial aid and confusion with having multiple family expectations (although waivers are available for low-income applicants).</td></tr>
<tr><th colspan="2">Modeling and Next Steps</th></tr>
<tr><td colspan="2">The outcomes of IM are proprietary, so engaging with the College Board would be required to model changes with UC's students.</td></tr>
</table>

The next step with this option would be to approach the College Board and sister universities that use its financial aid tools.

Option 4: Develop a UC Parent Contribution that Does a Better Job Assessing Wealth	
Proposal:	Add questions to the Application for Undergraduate Admission and/or develop a separate UC financial aid application that collects more data to better target aid. This could—but does not have to—include a feature that allows for negative expectations.
Rationale:	The University would collect key data elements to help it better target its financial aid, shifting the primary focus on Adjusted Gross Income to a broader picture of a family's wealth.
Benefits	**Challenges**
Would allow UC to better target its financial aid in an attempt to address the differential outcomes cited above.	UC would be fully responsible for developing the methodology, which has few precedents, and for defending its outcomes.
Avoids the use of the PROFILE, which is complex and costs applicants to file.	Similar administrative burdens for campuses, which would have to keep track of both the UC and federal needs analyses.
Allowing for negative expected contributions would allow UC to differentiate among the lowest-income students.	Negative EFC has an optics problem, because it appears to suggest financial aid is being awarded to cover family—not educational—expenses.
	Could contribute to confusion by students, parents, and State policymakers.
Modeling and Next Steps	
Next steps would be to identify a group of UC professionals with experience in needs analysis to develop a new methodology, the required data elements, and a means of collecting the data.	

Option 5: Expand Efforts to Target Aid by Requesting Tax Documents, Disallowing Business Losses	
Proposal:	Campuses would request tax documentation from applicants who appear low-income "on paper" and disallow certain tax write-offs in its own assessment of a family's ability to pay.
Rationale:	Families who appear low-income may in fact have resources hidden by the tax code and the FAFSA's focus on Adjusted Gross Income. Freeing up UC grants that would otherwise go to these families can be used to support needier students.
Benefits	**Challenges**
Does not require a new application.	Does require asking some families to submit tax documents.
Some campuses do this on a small scale already.	The administrative burden and small benefit explain why some campuses have stopped this practice.
Modeling and Next Steps	
Campuses that engage in this practice now would need to measure the amount of aid that is freed up as a result, as well as address the administrative cost of conducting the reviews.	

Setting the Student Self-Help Expectation

The EFM currently assumes that all students, regardless of family background, should contribute to covering the cost of their education by part-time work and student loan (see Figure 4 above). The long-standing principle of the EFM—that students should contribute to the cost of the education—is not particularly controversial, but the consistent self-help across incomes has raised questions among the Regents and policymakers more broadly.

How much students need to work and borrow is a function of how much grant aid is available. In theory, the University could start by setting a target self-help amount and then fund it accordingly. In practice, UC uses a "rule of thumb" funding mechanism—the one-third return-to-aid on tuition and fees—and tries to keep the working and borrowing within a "manageable range." As described above, this includes some combination of working between six and 20 hours per week and borrowing that represents between five and nine percent of the average post-graduation salary.

One of the challenges in assigning differential self-help is selecting a rationale that resonates with students. It can be difficult to tell one student that they must work ten hours per week to make their financial aid package work and another that they need to work 15 hours per week because their parents make less money. The self-help portion is often seen as the "equality" or "fair-share" portion of the EFM, while the parent contribution is the "equity" portion.

Possible rationales for a differential self-help include the facts that low-income students 1) are more likely to be low-income after graduation (and therefore should have a lower loan burden), 2) may be more likely to struggle to find well-paying jobs while in school because they have less social capital, and 3) have other family financial obligations. Even after a rationale for the differential amount is decided, the amount of the differential requires a further set of judgments and rationales, e.g., should it be based on a percent, assume different work hours, etc.

Figure 6 below models the cost of lowering the self-help for two sets of students: those with zero expected contribution from parents (independent students and those with the lowest income) and those with expectations of up to $6,000, or roughly all Pell Grant-eligible students. The Model 1 "Zeroes Only" would require approximately $52 million in additional funding, and the Model 2 "All Pell" would require $83 million. Models 3 and 4 below show how these could be made cost neutral by increasing the self-help for all other grant recipients. Because UC enrolls so many low-income students, this can only be achieved by raising the self-help for all other grant recipients by $1,000 in Model 3 or by nearly $4,000 in Model 4.

Figure 6: Modeling Differential Self-Help by Expected Parent Contribution

Expected Parent Contribution:	0 + Indep.	1-2,000	2,001-6,000	6,001-10,000	10,001-20,000	Greater than 20,000	All
Typical Income	**$17,000**	**$36,000**	**$81,000**	**$67,000**	**$80,000**	**$143,000**	**$54,000**
Current Self Help	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**
CA Residents with UC Grant	44%	18%	19%	7%	9%	3%	100%
Current Dollars Spent	$367M	$127M	$146M	$49M	$73M	$10M	$772M
Model 1: "Zeroes Only"	**-$1,000**	**$0**	**$0**	**$0**	**$0**	**$0**	**varies**
Model 1 Self-Help	**$9,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$0**
Cost	$46M	$0	$0	$0	$0	$0	$46M
Model 2: "All Pell"	**-$1,000**	**-$1,000**	**-$1,000**	**$0**	**$0**	**$0**	**varies**
Model 2 Self-Help	**$9,000**	**$9,000**	**$9,000**	**$10,000**	**$10,000**	**$10,000**	**$0**
Cost	$46M	$19M	$20M	$0	$0	$0	$85M
Model 3: Cost Neutral - "Zeroes Only"	**-$1,000**	**$800**	**$800**	**$800**	**$800**	**$800**	**varies**
Model 3 Self-Help (Cost Neutral)	**$9,000**	**$10,800**	**$10,800**	**$10,800**	**$10,800**	**$10,800**	**$0**
Cost	$46M	-$15M	-$16M	-$5M	-$7M	-$2M	$0
Model 4: Cost Neutral - "All Pell"	**-$1,000**	**-$1,000**	**-$1,000**	**$4,550**	**$4,550**	**$4,550**	**varies**
Model 4 Self-Help (Cost Neutral)	**$9,000**	**$9,000**	**$9,000**	**$14,550**	**$14,550**	**$14,550**	**$0**
Cost	$46M	$19M	$20M	-$31M	-$41M	-$13M	$0

The following considerations should be kept in mind when reviewing options for adjusting the self-help:

- The current self-help level is not a target, but rather is what is left given costs, estimated parent contributions, and all available grant aid. Adding more grant funding lowers the self-help.
- Lowering the self-help for low-income students raises the self-help for other students.
- Campuses currently have flexibility to award a lower self-help. If this were to be explicitly built into the EFM, then allocations would need to be adjusted accordingly, which could possibly constrain some of the current campus flexibility.
- The current single self-help is easy to explain to policymakers. It also allows for clear messaging in the face of tuition increases, since the EFM will automatically cover that tuition increase for needy students. A rationale and basis for a differential self-help should be clear.
- In statewide discussions of Cal Grant reform, policymakers have expressed an interest in targeting additional support for students with a zero “Expected Family Contribution.” If Cal Grant reform results in more funding for UC students, this could be a source of funding for lowering the self-help for the zero EFC students without redirecting tuition-generated UC need-based aid.

Option 6: Differential Self-Help by Income	
Proposal:	Establish different self-help levels, with lower expectations of students from the lowest-income families, i.e., those with zero expected contribution from parents.
Rationale:	Students with zero contribution should be asked to work and borrow less than their peers because they have challenges not faced by the middle- or upper-income students.

Benefits	Challenges
Satisfies the intuitive sense that these students need more grant assistance.	Redirects funds from middle-class students, who already feel pressures of college affordability.
Could lower the borrowing differentials by income status.	A clear and sound rationale for why and how are difficult to establish without 1) using a prediction of low-income students' success in the workforce and 2) potentially arbitrary cutoffs.
Since low-income students are more likely to also come from an underrepresented group, this would help address some of the differential outcomes by race and ethnicity identified above.	As described above, the differential impact by race and ethnicity is true across income levels, so this would only partially address those concerns.
	Explicitly calculating differential self-help within the EFM would be more prescriptive in how campuses award aid than the current model.

Modeling and Next Steps
See Figure 6 above for examples of how a differential self-help would either require additional funding or a redirection of funds. Once Cal Grant reform legislation is drafted, it may be possible to model the impact of increased need-based financial aid from the State and how that could fund a lowering of the self-help modeled above.

Road to a Debt-Free UC

A more ambitious reimaging of the Education Financing Model would be to create the goal of a debt-free path to a UC degree. This would redefine the desired proportion of post-graduation salary available for loan repayment as zero and start with the assumption that students work about 20 hours per week and full-time during three of four summers. Students could still borrow if they so choose, to reduce those work hours.

Current financial aid funding does not allow the University to make this a realistic path now, but adopting this goal would achieve several important things:

- Provides a compelling message to low-income students, perhaps even before full funding of the promise is achieved. Steps could be taken now to demonstrate how close to a debt-free path students can get through part-time employment.
- Provides a compelling message for fundraising.
- Lays the groundwork for closing any gaps as new grant funding (i.e., increased Pell, Cal Grant, or UC grant) becomes available. Setting the goal now helps the University prioritize targeting new funding when it becomes available.

The current funding from Pell Grants, Cal Grants, and UC's own need-based grants allow the University to package students with a self-help expectation of about $10,000. Since the EFM assumes that students should work and borrow, roughly half of the self-help is assumed to be work and half is assumed to be loan. The current $5,000 in assumed wages is roughly 13 hours of work per week during the academic year and roughly seven percent of post-graduation earnings. At first pass, one might think that eliminating the loan portion of the self-help for UC's 100,000 grant recipients would therefore require $500 million ($5,000 x 100,000 students).

However, using the EFM's assumptions about part-time work and average wages ($14/hour), students could work 20 hours per week and cover approximately $8,000 in educational costs, close to the current $10,000 self-help. With current funding levels, the University could, under this option, begin messaging to families that they can financially afford a UC education with part-time work and cumulative debt of only $8,000 if they graduate within four years.

The University could identify further steps to take in order to close the $2,000 gap:

- An aggregate increase of $200 million in Pell, Cal Grant, and/or UC grants could be used to close the gap.
- Alternatively, additional funding to raise the wages of on-campus workers to $16.50 per hour could close the gap.
- UC could target the debt-free path to a smaller group of students, e.g., Pell Grant recipients, and prioritize campus jobs for these students.
- Some combination of the above.

In order to ensure that a debt-free path is a feasible reality for students, UCOP would need to work with campuses to ensure that jobs and hours are available to allow students to achieve the goal. About half of UC undergraduates work and about half of those work on-campus. In other words, only about 25 percent of students are in employment that campuses control. Prioritizing low-income students for these jobs would be an initial priority. Figure 7 below shows that non-Pell students earn about $122 million systemwide from on-campus employment (including Federal Work Study), while Pell Grant recipients earn about $115 million.

Furthermore, as Figure 7 below shows, students are currently earning on average about half of the $8,000 targeted above. That may be due to limited hours available for part-time work by the hiring department, or it could be a result of student choice.

Figure 7: Average On-Campus Earnings for Pell and Non-Pell Recipients, 2018–19

	PELL			NON PELL		
	Students	Average Earnings	Total Earnings	Students	Average Earnings	Total Earnings
Berkeley	3,321	$4,467	$14,833,407	6,009	$4,002	$24,046,075
Davis	3,605	$4,240	$15,284,223	5,192	$3,696	$19,190,198
Irvine	3,188	$3,971	$12,659,649	2,848	$3,528	$10,046,485
Los Angeles	3,909	$5,113	$19,988,230	4,935	$4,058	$20,027,123
Merced	1,237	$4,763	$5,889,540	650	$4,685	$3,043,036
Riverside	2,309	$4,378	$10,110,305	1,490	$4,382	$6,527,962
San Diego	3,569	$4,720	$16,846,708	4,847	$4,139	$20,062,180
Santa Barbara	3,040	$3,551	$10,796,794	3,859	$3,016	$11,640,146
Santa Cruz	2,367	$3,777	$8,939,322	2,674	$3,068	$8,204,740
System	**26,544**	**$4,345**	**$115,348,179**	**32,503**	**$3,778**	**$122,787,945**

The debt-free path would require periodic review. The amount of funding required to achieve the goal would change over time as the total cost of attendance increases.

Option 7: Road to a Debt-Free UC	
Proposal:	Change the stated goal of the EFM to fund UC students so that they could work to meet their self-help expectation and avoid borrowing if they so choose.
Rationale:	Student debt limits choices after graduation. For California's lowest income students, the fear of debt may also dissuade them from applying to the University.

Benefits	**Challenges**
Provides for a concise, compelling message to low-income students.	Current average wages mean that students could earn about $8,000 of the $10,000 current self-help.
Would reduce overall indebtedness of UC students if they choose the identified path of working 20 hours per week.	Additional grant dollars or additional wage subsidies would be required to close the $2,000 gap between current self-help and a true debt-free option.
Provides for a compelling fund-raising message: To help UC eliminate student debt.	UCOP would need to work with campuses to ensure on-campus jobs are available to make the debt-free path a reality.

Modeling and Next Steps
Additional and detailed discussions with Systemwide Human Resources and Chancellors about how on-campus employment can be modified to make a debt-free option realistic.

LINKS TO PREVIOUS REGENTS ITEMS

- July 2019 report to the Regents on debt by income, race and ethnicity
- November 2019 primer on the EFM presented in advance of the March discussion
- Total Cost of Attendance Working Group Final Report

KEY TO ACRONYMS

AGI	Adjusted Gross Income
COAS	Cost of Attendance Survey
EFC	Expected Family Contribution
EFM	Education Financing Model
FAFSA	Free Application for Federal Student Aid
FM	Federal Methodology
IM	Institutional Methodology
NPSAS	National Postsecondary Student Aid Survey
SEARS	Student Expenses and Resources Survey
UCUES	UC Undergraduate Experience Survey