



**NEW EXPERIMENTAL EVIDENCE ON THE EFFECTS OF NEED-BASED FINANCIAL AID:
IMPACTS OF THE WISCONSIN SCHOLARS GRANT**

EXECUTIVE SUMMARY

Sara Goldrick-Rab and Douglas N. Harris
University of Wisconsin–Madison

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For the past three years, we have studied the private Fund for Wisconsin Scholars program, which provides need-based grants to a randomly chosen group of Pell Grant recipients attending the 13 Wisconsin public universities. This is the first experimental study of a program with income, enrollment, and grade requirements for renewal similar to the federal Pell Grant program, but with few paperwork requirements. Unlike Pell grants, the initial Wisconsin Scholars grants are awarded after students enroll in college and are exclusively focused on improving the number of students from low-income families earning college credits and degrees.

This document includes a brief description of the Wisconsin program and a summary on its impacts on students' educational trajectories. In addition, it includes a discussion of potential implications. Full details of the research summarized here can be found in a paper posted on the website of the Wisconsin Scholars Longitudinal Study (www.finaidstudy.org).

Program Description

The Fund for Wisconsin Scholars provides a \$3,500 per year grant to first-time, full-time, traditional-age Pell Grant recipients enrolled in the University of Wisconsin System. The program is simple. Potential recipients are selected during their freshman semester using administrative records. The only additional paperwork the selected students are required to complete is a short form used to confirm eligibility. Grants are automatically renewable for up to five years for students who continue to enroll full-time (12 credits) at the start of each term and receive a Pell. To remain eligible for the Wisconsin program, students do not have to complete a certain number of credits per term or maintain a grade point average higher than the standard required for the Pell. In 2008, 600 students were chosen to receive the new Wisconsin grant from a pool of more than 3,000 eligible students statewide.

Summary of Program Impacts

From 2008 thru 2011 we collected administrative, survey, and interview data on 1,500 students, including 600 Wisconsin Scholars Grant recipients and a random sample of 900 eligible non-recipients. Using these data, we observed the following impacts of the program *on the average*:

- The grant did not exhibit statistically significant impacts on the number of terms for which students enrolled, the number of college credits they attempted, or the number of credits they completed.
- However, the Wisconsin Scholars Grant affected the *distribution* of college credits students completed. Two years after initial assignment to treatment, recipients of the Wisconsin Scholars Grant were 28 percent more likely than other Pell Grant recipients to have earned at least 60 college credits (up 6.3 percentage points from a base of 22.2 percent). This was unexpected, since the grant required just 12 credits per term (48 credits over two years) and gave students five full years to finish a degree. On the other hand, another group of students offered the grant appeared to decelerate their rate of credit completion.
- While in theory the new grant should have provided students with \$3,500 in grant aid, in practice about one-third of those private dollars supplanted federal and state financial aid, reducing the amount of income students gained in the short-term. Supplanting occurred whenever the new aid package exceeded the institution's cost of attendance, regardless of whether students still had an expected family contribution to pay. The supplanting did, however, result in students accruing nearly \$2,000 less debt over the first two years of college.

These average program impacts are generally consistent with prior research, which identifies modest positive impacts of financial aid. However, we also investigated the possibility that the program exerted different effects for different groups of Pell Grant recipients.

By comparing the effects on students who had varying prospects of college persistence (before being offered the Wisconsin Scholars Grant), we uncovered evidence that suggests wide variation in program impacts. For example:

- Just 55 percent of students who were the least likely to persist in college and were not awarded the Wisconsin Scholars Grant persisted through the end of 2010-2011 (three years after they began college), compared to 72 percent of students in that same bottom third who were randomly assigned to receive the Wisconsin Scholars Grant. This implies the grant generated a 17 percentage point increase in college persistence for a very disadvantaged group of students.
- For those students who began college with a high probability of persistence, being offered the new grant appears to have *reduced* their chances of persisting through the end of the 2010-2011 academic year from 94 percent to 79 percent.
- Thus, effects of the grant program varied according to the levels of financial, academic, and familial disadvantage with which students entered college. Collectively, these differences in student responses to the grant amount to only a modest *average* program effect.

It is desirable, though difficult, to characterize students placed into these groups with differing propensities to persist in college based on their observable characteristics before receiving the grant. Compared with the students who were least likely to persist, students who were most likely to persist were more likely to be male, had higher than average ACT scores, and had parents who were well educated (a disproportionate share held a bachelor's degree or higher). However, the families of students who were most likely to persist (again, before receiving the new grant) had slightly less income and wealth overall. This might seem surprising, but there are many factors in our models, and the results suggest that within this sample of Pell-eligible students (who must have relatively little income and wealth in order to qualify), parental education and students' educational preparation were the more important predictors of persistence.

Implications

Federal financial aid programs have for decades been one of the nation's single largest educational programs. The recent exponential growth in costs associated with financial aid, and the Federal Pell Grant Program in particular, has led some policymakers to call for cuts in funding.

The Wisconsin Scholars Grant, which targets Pell Grant recipients and has similar rules to that program, appears to have done less than the funders had hoped in terms of putting additional cash in the hands of its recipients. Also, the grant's requirement of 12 credits per term does not appear to have affected students' behavior, at least not in the predicted ways; however, it substantially increased the share of students on track to graduate with a bachelor's degree within four years of starting college.

Since the current threshold for full-time enrollment (12 credits) associated with the Pell Grant does not put students on track for a four-year degree, other researchers have suggested that the federal government could save money on the Pell—and make it more effective—by revising the grant’s terms so that maximum awards instead correspond to 15 credits per term. From the evidence in this study, it is not clear whether such a requirement would improve the equity or efficiency of the program. Our results suggest that increasing the credit requirement associated with a full Pell Grant may have the unintended consequence of reducing enrollment among students who cannot handle 15 credits because they work or otherwise have less ability to handle a heavy course load. It also may encourage some students to switch to less challenging courses. Similar patterns have been observed in merit programs, such as the Georgia HOPE Program. Furthermore, adding additional complexity to the Pell Grant program with another rule may add to existing problems. Unfortunately, the decision about the credit hour incentive may have to be made in the face of ambiguous evidence.

Perhaps most importantly, our results suggest a need to better target financial aid programs. While it is not yet clear how and why these differential effects of the Wisconsin program arose (this is something we are still investigating) it seems evident that some students benefitted more than others from the additional financial aid. Targeting aid without introducing complexity to the application for financial aid is one of the major challenges. Another is identifying approaches to targeting resources that policymakers can support. Given the nation’s scarce resources, refining financial aid programs to serve the most needy students may be both the most equitable and cost-effective approach.