

Master Plan Partnerships: Undergraduate Student Financial Aid and Campus-Based Student Fees



Meeting of the Regents of
the University of California

March 2005

This presentation covers two important aspects of the University experience, both of which are grounded in the University's mission under the California Master Plan.

Master Plan Partnerships

- Undergraduate Financial Aid
 - Partnership between Students, Parents, the University, and State and Federal Governments to achieve affordability
- Campus-Based Student Fees
 - Partnership between students and the University to maintain and enhance the quality of the co-curricular, non-instructional aspects of the University experience

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The University's undergraduate financial aid program is a partnership between Students, their Parents, the University, and others that enables the University to remain affordable, consistent with the Master Plan.

Campus-based student fees are a partnership between Students and the University to provide services that greatly enhance the quality of student life.

Financial Aid: Then and Now

When the Master Plan was adopted in 1959,

- Fees were very low
 - \$120 systemwide, plus \$10-\$15 campus fees
- Many more UC students lived at home
- Little financial aid was available

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The context of financial aid has changed dramatically since the Master Plan was first adopted in the late 1950s.

Then, the University was “affordable” to students in the sense that fees were very low.

For the many students who lived nearby and commuted to UC in the late 1950’s, maintaining low fees was enough to remain affordable.

Very little state, federal, or institutional aid was available to them at that time.

Financial Aid: Then and Now

Today,

- Fees are higher
 - \$6,141 for 2005-06, plus campus fees
- 90% of students live away from home
 - Avg. on-campus budget is \$22,100 in 2005-06
- Much more financial aid is available
 - Federal, State, and UC

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Today the situation is different.

Average fees, including campus fees, are expected to be over \$6,700 next year. (The ratio between campus fees and systemwide fees remains about the same as it was in 1959.)

90% of UC students live away from home and, hence, have higher living expenses.

Fortunately, there has been a large increase in financial aid to help students meet these costs.

We estimate that UC undergraduates will receive over \$700 million in grants and scholarships in 2005-06, and about \$500 million in federal loans.

UC relies on this financial aid to maintain our affordability today.

Goal of UC Undergraduate Financial Aid is to Ensure Affordability

- Under the Master Plan, UC has a commitment to serve all eligible students (top 1/8th)
- This commitment is only meaningful if UC is affordable to students at all income levels
- 83% of all grants and scholarships received by UC students are awarded based on need

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While the context has changed, the goal has stayed the same.

The University has an obligation under the Master Plan to serve all eligible California students.

This commitment extends beyond offering admission to these students. We must also ensure that the University is affordable to students at all income levels. Otherwise it's an empty promise.

Consequently, our financial aid programs are designed to make the University financially accessible for all.

To that end, the vast majority of grants and scholarships received by UC students are awarded based on need.

What Do We Mean By “Affordable”?

We consider 3 aspects of affordability:

- Do we enable low-income students to enroll and graduate?
- Is our net cost (after financial aid) comparable with other institutions?
- Is the amount we expect students to contribute from work and borrowing manageable?

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There are lots of ways to define affordability. Here are 3 definitions that we use.

First, do we enable low-income students to enroll and graduate?

Second, is our net cost (after financial aid) comparable with other institutions?

Finally, is the amount we expect students to contribute from work and borrowing manageable?

Let's first look a bit more closely at what we mean by “manageable.”

What Do We Mean By “Manageable”?

- Work
 - Students’ work should not impede their academic performance & progress
 - Manageable Range: Between 6 and 20 hours/week, plus full-time in summer
- Borrowing
 - Students should be able to manage their debt upon graduation
 - Range: Loan payments requiring between 5% and 9% of starting salary

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In terms of work, students should not be expected to work so many hours that it impedes their academic performance and progress.

Based on this principle, the “manageable range” of work extends from 6 to 20 hours a week during the academic year, plus full-time during the summer.

In terms of borrowing, students should be expected to graduate with a level of debt that they can comfortably repay based upon the typical salary of UC graduates.

Credit industry standards suggest that the “manageable range” for loan payments is between 5% and 9% of gross salary.

How Do We Manage and Award Our Financial Aid to Achieve Affordability?

- Context is the student's total cost of attendance
- Involves a partnership of students, parents, State and Federal governments, and the University
 - Expect students to work and borrow, but at a manageable level
 - Expect parents to contribute according to their ability to pay (Federal standard)
 - Build in Federal and State grants
 - Provide UC Grant to meet remaining cost

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How do we manage and award our financial aid to achieve affordability?

First, we consider a student's total cost of attending the University – not just fees.

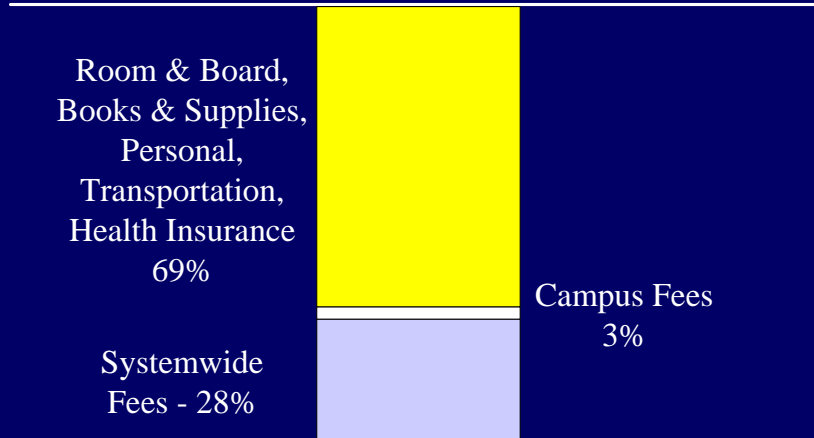
We then expect a partnership in helping the student finance that cost.

- We expect all students to contribute to their education through a manageable combination of work and borrowing.
- We expect parents to contribute according to their ability to pay, according to the Federal standard.
- We add federal and state grants for which the student is eligible.
- Any remaining need is filled in with a UC grant.

Let's look a little more closely at each step.

Must Consider the Total Cost of Attendance

Total On-Campus Cost for 2005-06: \$22,100



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We start with the total cost of attendance, which includes both fee and non-fee expenses.

For the average student living on campus in 2005-06, fees will be less than a third of the student's total costs.

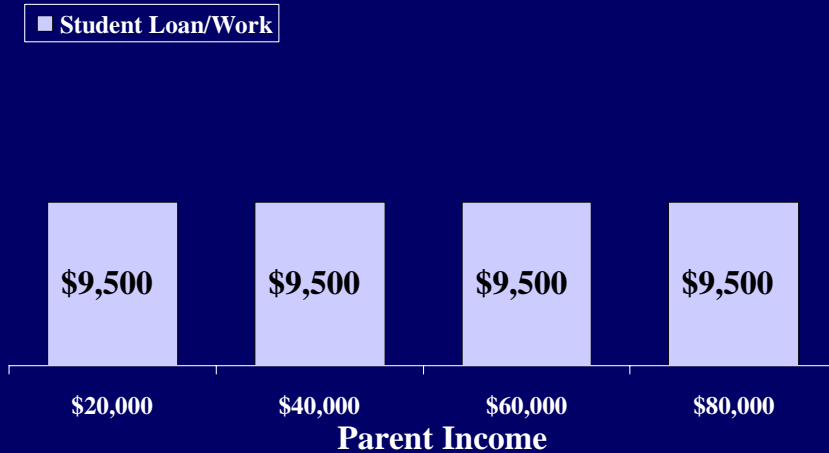
Students must also cover room and board, books and supplies, transportation and healthcare costs, and other personal expenses.

In 2005-06, the average total cost for a student living on-campus is expected to be about \$22,100.

Now we'll see how the University builds the components of the partnership for students at 4 different income levels to cover this cost.

Student's Role: A Manageable Contribution from Work and Loans

Total On-Campus Cost: \$22,100



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As part of the partnership, we expect students to contribute a manageable amount through work and loans.

For 2005-06, that amount is \$9,500, based upon the estimated costs that students will face and the grants and other resources that will be available to them.

Note that we expect the same from all students regardless of their parents' income.

Students can contribute \$9,500 through working 14 hrs/week and borrowing \$4,900 which, if borrowed annually, would require 7.3% of their salary to repay.

But that's only one possible way that students can meet this contribution.

How Students Can Meet Their Expected Contribution

- Students have flexibility in meeting their contribution
 - Can choose the right balance between work and borrowing
- Students can lower their expected contribution
 - Reduced spending on discretionary items
 - Scholarships
 - UC and outside sources

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Students have flexibility in deciding how much they contribute from employment versus how much they contribute through borrowing.

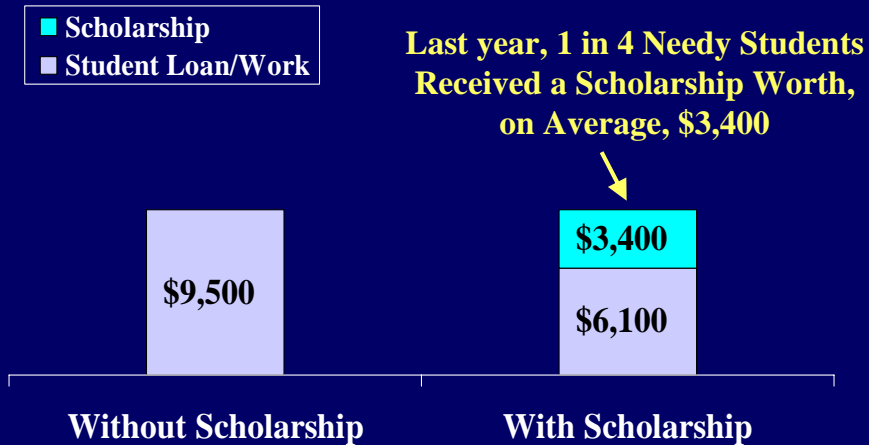
They can also lower their expected contribution in a number of ways.

For example, students can reduce their costs by spending less than the budgeted amount on discretionary items.

Students can also compete for UC scholarships and outside awards that effectively reduce their expected contribution.

Student's Role: A Manageable Contribution from Work and Loans

Total On-Campus Cost: \$22,100



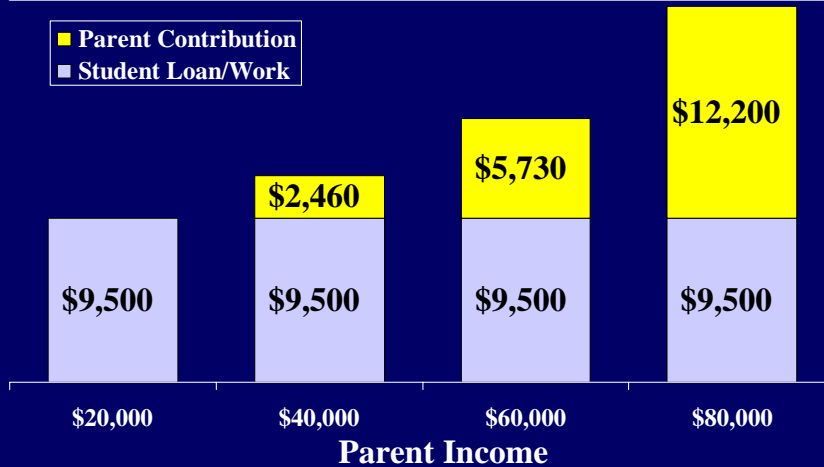
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For example, in 2003-04, 1 in 4 needy UC undergraduates received a scholarship in worth, on average, \$3,400.

A student who wins a scholarship for \$3,400 can significantly reduce his or her contribution from loan and work.

Parents' Role: Contribution Based on Ability to Pay

Total On-Campus Cost: \$22,100



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We next look at the Parent's role in the partnership.

UC expects parents to contribute based on their ability to pay under Federal guidelines.

This is the same standard used by all State and Federal aid programs.

This graph shows typical parent contributions for a family of 4 with 1 in college.

As you would expect, the size of the parent contribution increases with income: the family with \$20,000 of income is not expected to contribute anything; the \$80,000 family is expected to contribute just over \$12,000.

Just as students make different choices about how to finance their contribution, parents make different choices about how to finance their share of the partnership.

How Parents Can Finance Their Parent Contribution

- Over 30% of parents of needy dependent students had a parent contribution of \$0 in 2003-04
- Parents are not expected to finance their contribution from current income alone
 - Current income
 - Savings
 - Low-interest Federal PLUS loans
 - 4.17% interest rate for 2004-05
- Federal income tax credits and deductions are also available

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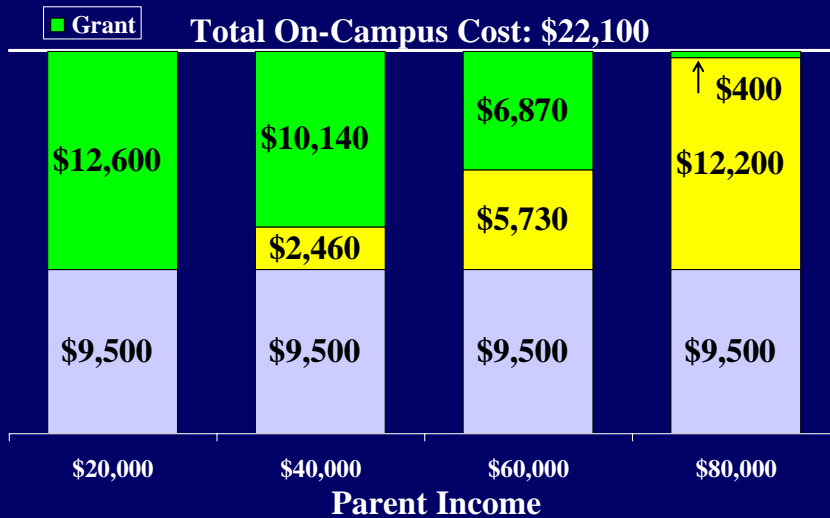
Over 30% of parents of needy dependent students were not expected to contribute anything to their child's education in 2003-04. That's over 20,000 needy families.

Parents who are expected to contribute are not expected to do so entirely from current income. They can finance it through a combination of

- Current income
- Savings
- Low-interest Federal PLUS loans, which have an attractive 4.17% interest rate for 2004-05

In addition, many families are also eligible for Hope or Lifetime Learning federal income tax credits or income tax deductions to help offset their expenses.

Federal, State, and University Role: Cover Remaining Gap With Grants



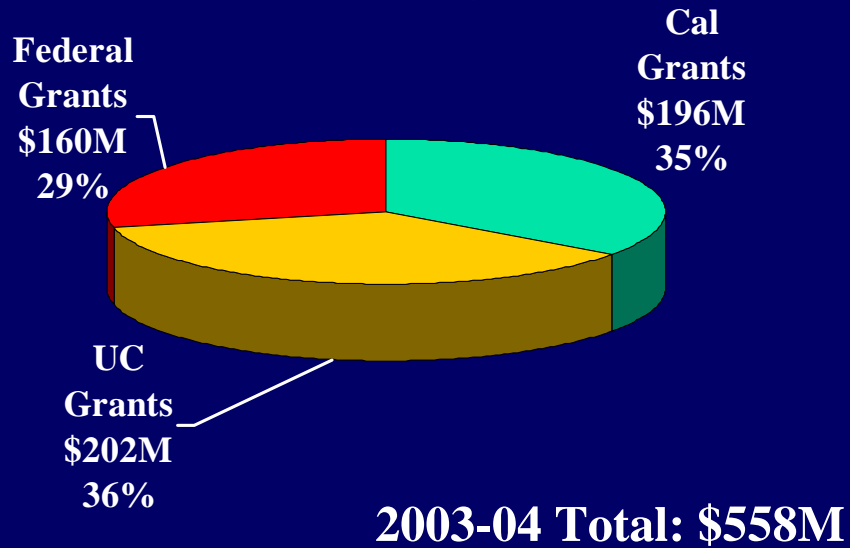
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The University then meets the remaining need of students using a combination of Federal, State, and UC-funded aid.

The more grant aid that is available from these sources, the lower the amount that students are expected to contribute from work and borrowing.

Let's briefly look at the primary sources of grant aid for UC students.

Grant Assistance: Where Does the Money Come From?



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Federal, State, and UC grants are all important sources of aid for UC students. Together, they represented almost \$560 million in 2003-04.

Undergraduate Scholarships and Other Benefits

- **UC Students received \$139M in Scholarships and Other Benefits in 2003-04**
 - **Over half were awarded to needy students**
- **Includes over \$60M in UC Scholarships**
 - **Over 85% from UC Gifts and Endowments**

2003-04 Total: \$139M

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Keep in mind that the GRANT figures above do not include the UC and outside scholarships that I mentioned earlier.

They also don't include the fee and tuition waivers that many students are eligible for – for example, the Cal Vet fee waiver.

Combined, these other programs contributed an additional \$140 million to UC students in 2003-04.

How Affordable Is the University?

- Are the actual amounts that students work and borrow really manageable?

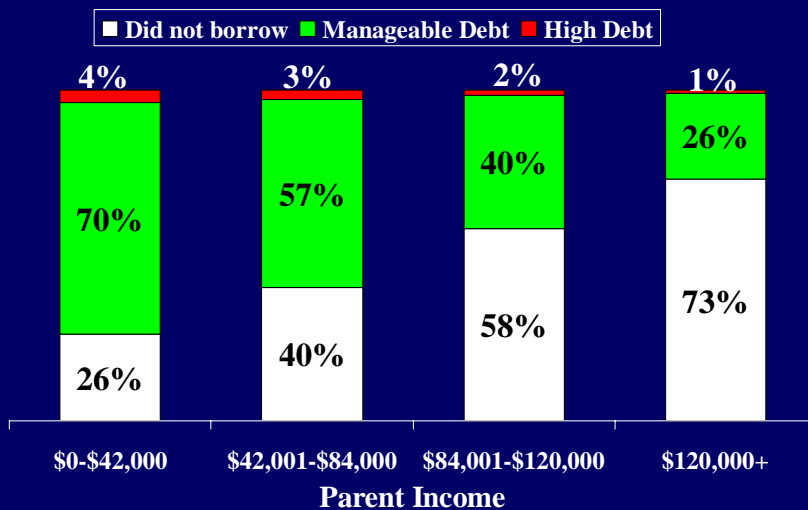
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We've discussed in a general way the terms of the financial aid partnership.

Now let's assess UC's affordability according to each of the three definitions that we described earlier.

First, we will look at the amount that students actually borrow and work, rather than just looking at what we expect them to borrow and work.

Actual Student Borrowing: Manageability of Debt at Graduation



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The chart depicts the percent of students who graduated in 2003-04 with no debt, with a manageable amount of debt, and with high debt at 4 parent income levels. (By high debt, I mean debt requiring more than 9% of the average student's starting salary.)

Many students choose not to borrow at all; these students are represented by bottom white portion of the chart.

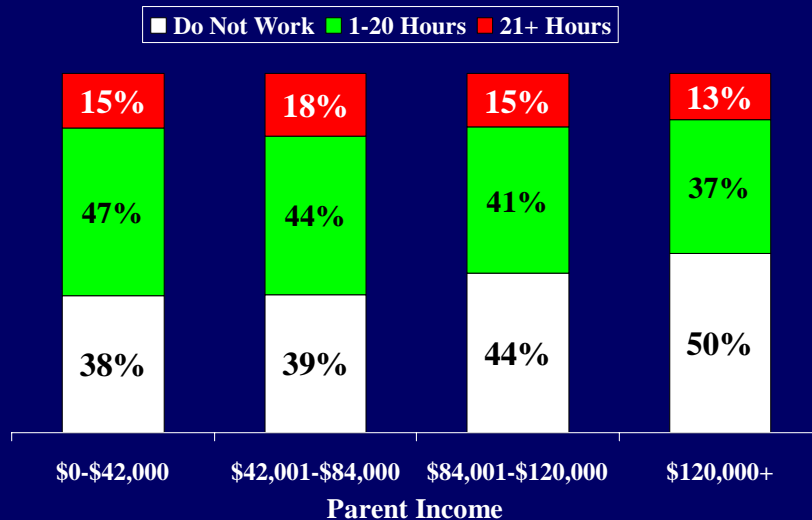
That's even true among students in the lowest income bracket.

Very few students graduated with high debt – less than 4%, for example, among students in the lowest parent income bracket.

For those graduating with high debt, repayment plans are available to help them manage their debt, including extended payment plans, graduated plans, and income-contingent plans.

Note that these repayment options are also available to students with less debt but who choose to enter especially low-paying careers right out of college.

Actual Student Work Hours: Hours Worked Per Week



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Next we look at students' work hours from Spring 2004. As with borrowing, many students at every income level choose not to work at all. At every income level, a smaller but significant number report working over 20 hours/week. Note, though, that low-income students are not more likely than others to work excessive hours.

Many factors probably contribute to students' working as much as they do.

For example, compared to students who work less, high-workers report spending more on just about every part of their budget, including transportation, entertainment, books/supplies/computers, and food.

Among low-income students, high-workers are more likely to have filed a late FAFSA. Hi-workers are also more likely to live off-campus or to be commuter students.

It may also be that these students' parents are contributing less than expected towards their education. This brings us back to the idea of a partnership: if parents don't do their part, one result is that students may have to do more.

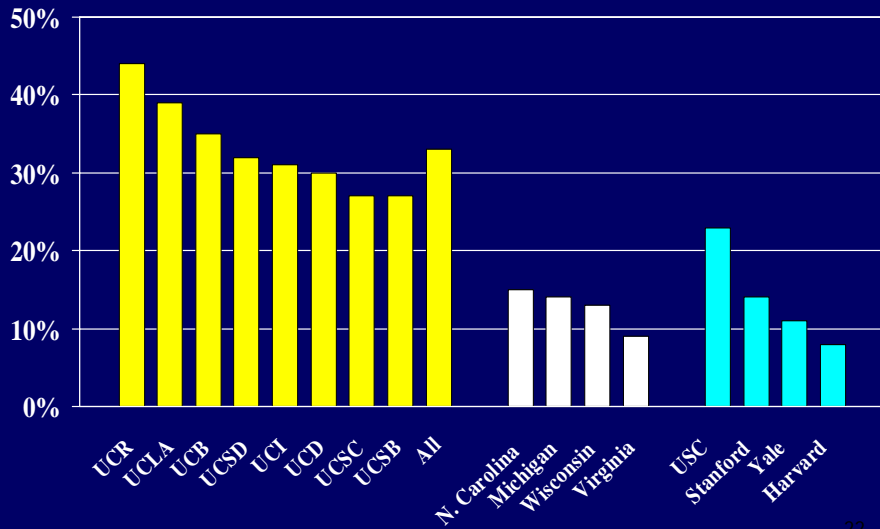
How Affordable Is the University?

- Are the actual amounts that students work and borrow really manageable?

- **Do we enroll and graduate a high percentage of low-income students?**

Next we'll examine the University's ability to enroll and to graduate low-income students.

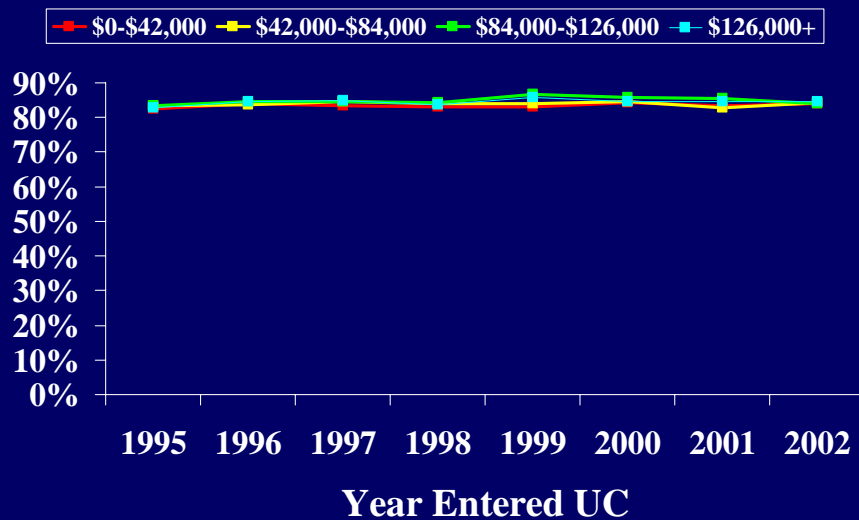
Enrollment of Low-Income Students: Pell Recipients as % of Students



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In each of the past few years, UC campuses have received national acclaim for enrolling a high percentage of Pell recipients, who are generally low income. This chart shows UC campus in gold, with other nationally ranked public and private institutions in white and blue, respectively.

Persistence After Two Years by Parent Income



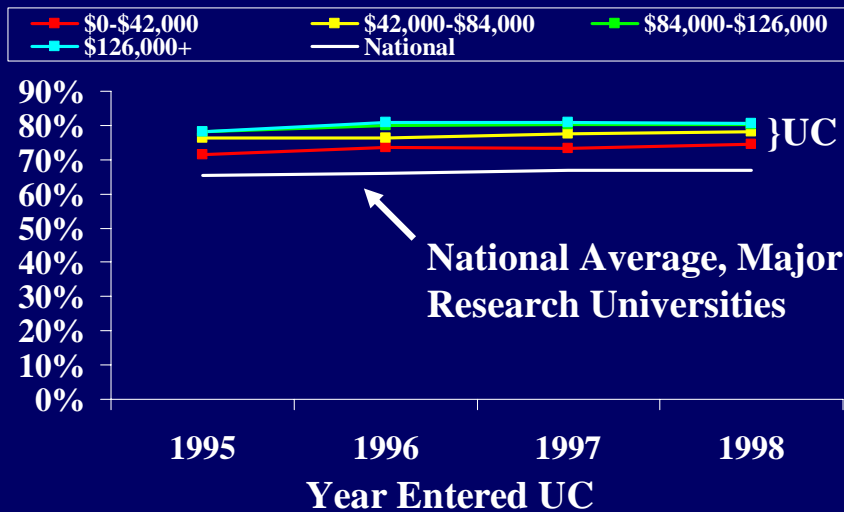
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We need to also ensure that financial barriers don't prevent students from staying enrolled once they get here.

This chart shows the rate at which students at different income levels persist into their third year at UC. Overall, there is some small difference in persistence between students at different income levels. This isn't surprising, since students' academic preparation is often correlated with parental income. Children with high-income parents, for example, tend to arrive at UC with better academic preparation because they often attended better quality high schools.

But the real point is that even as costs have climbed in recent years, the persistence "gap" between students at different income levels has closed, not increased. This is an encouraging sign that financial considerations are not imposing an unmanageable burden on low- or middle-income students.

Graduation Rate After Six Years by Parent Income



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We now turn to graduation rates.

Trends in the six-year graduation rate for UC undergraduates are shown here for 4 different income levels here, each using a different color.

You can see that higher-income students are more slightly more likely to graduate within 6 years than lower-income students, who are represented by the red line. This is not surprising since high-income students often arrive at UC with better academic preparation.

Note two things in particular.

First, our graduation rate for low-income students at six years is higher than the national average for all students at comparable research universities, as shown by the dotted line.

Second, the gap between students at different levels hasn't changed much over time despite changes in fees and other costs.

How Affordable Is the University?

- Are the actual amounts that students work and borrow really manageable?
- Do we enroll and graduate a high percentage of low-income students?
- **How does our net cost (after financial aid) compare with other institutions?**

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Finally, let's examine how our net cost including financial aid compares with that of other institutions.

Comparisons With Other Institutions: Some Challenges

- Limited to published information
- Information about aid at other schools is delayed
 - Most recent aid data are from 2003-04
- Other schools exclude items from published costs
 - E.g.: health insurance or transportation
 - UC includes everything

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When we compare our costs and financial aid programs with other institutions, we face some challenges in the information that is available to us.

In general, we are limited to published information.

Also, most information about aid at other schools is delayed. The most recent year for which financial aid data are available is 2003-04

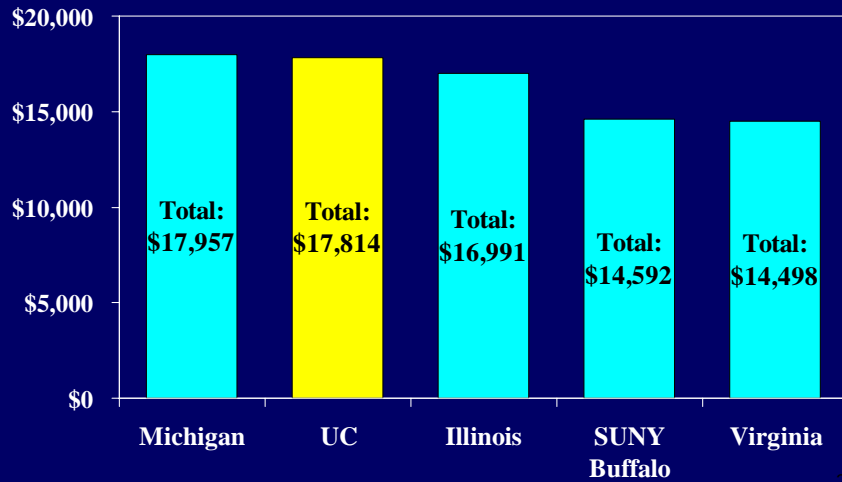
Other schools also exclude certain items from published costs

E.g.: health insurance or transportation

UC includes everything

Average In-State Cost Before Grants/Scholarships, 2003-04

Average across all housing types: on/off campus & commuters



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This chart depicts the average total cost and the average net cost for needy students at UC and its 4 public comparison institutions.

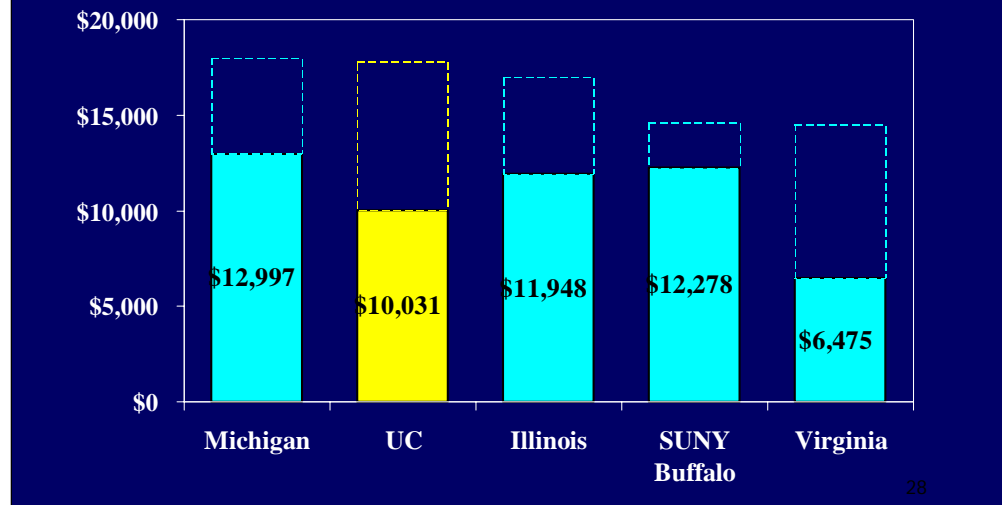
Each institution's total cost, or sticker price, for is represented by the total height of the bars.

You'll note that UC's sticker price is higher than 3 of the 4 comparison schools.

After need-based grants and scholarships are taken into account, however, a different picture emerges.

Average In-State Cost for Needy Families After Grants/Scholarships, 2003-04

Average across all housing types: on/off campus & commuters



After need-based grants and scholarships are taken into account, UC's net cost is actually lower than 3 of our 4 comparison schools.

These estimates are based on in-state costs. The true costs at Virginia and Michigan are probably much higher, since they enroll a much larger percentage of out-of-state students. (Domestic out-of-state students: 28% at Virginia, 31% at Michigan, 8% at Illinois, 2% at Buffalo, 4% at UC.)

Also, keep in mind that despite its lower cost, Virginia enrolls many, many fewer low-income students than UC. Last year, fewer than 9% (1,156) of Virginia students were Pell recipients; at UC, 33.1% (51,429) received a Pell.

Summary: Undergraduate Student Financial Aid

Generally,

- Students who borrow graduate with manageable debt
- Students who work are working manageable hours
 - Similar patterns across income levels
- Low-income students are enrolling in large numbers and graduating
- UC's net cost is below comparison publics

Data suggest that UC is meeting its Master Plan commitment to be financially accessible

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To sum,

We've seen that, in general, students who borrow graduate from UC with manageable debt.

Moreover, students generally are working manageable amounts. Among those who do work excessive hours, there seems to be little relation to the students' family income.

Low-income students are indeed able to enroll and to graduate.

Finally, UC's net cost is generally lower than that of comparable institutions.

The data suggest that we are meeting our commitment under the Master Plan to be affordable and accessible to students regardless of their financial circumstances.

Nevertheless, we acknowledge that it's not easy for parents and students.

Summary: Undergraduate Student Financial Aid

- Financing a UC education is not “easy”
 - Parent contribution is often demanding
 - Student contribution from loan/work has increased
- It is doable only if all partners do their share
 - Students
 - State & Federal Governments
 - Parents
 - UC
- Every element of the Partnership is critical to maintaining affordability

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We acknowledge that financing UC education is not “easy”.

The Federal parent contribution is often demanding. Planning can help a lot.

The amount we expect from students through borrowing and work has increased in recent years.

Nevertheless, it’s doable provided that all partners do their share.

That includes students and parents, but also the Federal government, the State, and the University.

Every element of the partnership is critical to maintaining affordability.

Communicating UC Affordability



Finally, we communicate the University's affordability to prospective students and their parents in several ways.

Financial aid is included in every counselor conferences that we sponsor throughout the state each year.

We include printed guides in English and Spanish in student outreach efforts and we make them available to prospective students by mail and on the web.

We've created a website to let kids and their families see profiles of actual students from different backgrounds and incomes describing how they finance a UC education.

These are just a few system-wide efforts. Each campus also holds its own financial aid events where UC counselors help students & parents complete and submit their FAFSA which can be a daunting task.

*End of Undergraduate Financial
Aid Portion of the Presentation*