

The Shifting Role of Institutional Aid: What About Need? Fact Sheet

While obtaining a postsecondary education increasingly is necessary for economic opportunity, colleges and universities face mounting financial pressures of their own. Many colleges and universities have long used merit-based aid awards as a strategy to attract and enroll academically competitive students and out-of-state students who often pay higher tuition rates — a boon for institutions that, in some cases, are struggling to survive. With shrinking federal support, higher education institutions are finding themselves under pressure to use financial aid as an enrollment management tool, rather than a college-access lever for students with the greatest need.

This research examines the distribution of institutional need-based and merit-based grants by income and race/ethnicity in both public and private institutions. It also analyzes the changes in institutional aid patterns over time, as well as the remaining amount of need that's left for families to cover through loans and work.

Key Findings

1. Higher income students receive more merit-based aid.

- Merit-based grant awards are largest for the highest income students at both public and private four-year institutions.
- The highest income students are also the most likely to receive merit-based aid at public institutions.

2. Higher income students receive need-based aid.

At private institutions, one-quarter of the highest income students receive need-based grants, indicating that some private colleges and universities use a very expansive definition of financial need, one that goes well beyond the definition used for federal Pell Grants and most state need-based grants. In addition, the median need-based grant awards are roughly the same amount for both the lowest and highest income quartiles.

3. White students receive the most merit-based aid.

- Looking at race and ethnicity, White students are more likely than any other groups to receive merit-based grants in both sectors, and Black and Latino students are the least likely to receive merit-based grants at public institutions.

4. Merit-based grants have increased significantly more than need-based grants.

- Over the last 20 years, both public and private four-year institutions saw increases in the proportion of students receiving institutional grants, with the exception of need-based grants at private institutions.
- Students also saw increases in the size of median grant awards, even after controlling for inflation – particularly among merit-based groups at private institutions.

5. The lowest income students have the highest unmet need.

- Taking into account student budgets (total cost of attendance including tuition and fees, room and board, books and supplies, and other expenses), grants from all sources, and expected family contribution (EFC), students from families in the highest income quartile have little to no unmet need in both sectors, while those in the bottom half of the income distribution have the highest remaining need.
- The unmet need distribution is particularly noteworthy when considering how grants are distributed. Families in the lowest income quartile have an EFC of 0, meaning they must fill in the remaining gap with loans or work earnings.
- Given the high levels of unmet need identified among the lowest income quartiles, it is unclear how these students are able to pay for the remainder of their budgets. Even after the median loan amount, work earnings, family contributions, and grants are taken into account, low-income students at private four-year institutions still fall short of paying for colleges and associated expenses.