
College Affordability in Maryland

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College Affordability in Maryland

The second goal of the 2013 State Plan for Postsecondary Education, *Maryland Ready*, is Access, Affordability, and Completion. This is a slight shift from the previous 2009 plan, as there is now a focus on completion. The Maryland Higher Education Commission (MHEC) writes that these three concepts are “the linchpins for an education citizenry and an innovative and productive workforce for the State’s 21st century knowledge-based economy.” Thus, linking up the State’s various initiatives in access (college readiness), affordability (tuition moderation and financial aid), and completion (graduation rates) is going to be the top priority for MHEC and the State’s many educational institutions to reach the Governor’s 55% degree attainment goal. This paper will focus, in particular, on linking financial aid programs to completion, which remains the central goal for college students.

Traditionally, breaking down financial barriers to higher education has focused primarily on comparisons of tuition between institutions and pricing discounts for students with financial need. However, research indicates that financial aid is an invaluable tool for incentivizing completion by not only allowing access to institutions but also promoting certain types of enrollment and focusing students in workforce shortage areas. This analysis will walk through how financial need is determined, describe State and federal programs, and present new ideas in financial aid studies. To study these concepts, several key assumptions will be made:

- university costs, which are mainly derived from personnel, will increase over time;
- small to moderate tuition increases and individually tailored financial aid packages are likely to be the norm for the foreseeable future; and
- many students have unmet financial need after receipt of all available scholarships and grants, and this unmet need likely influences personal decisions made while enrolled and after they have graduated, even more so if they incur student debt without completing a degree.

The Cost of Education

Historically, the largest cost for operating any university has been in the salaries, pensions, healthcare, and other fringe benefits for faculty and administrators. A full explanation of all the factors contributing to the rising cost of university tuition is beyond the scope of this analysis. Whether higher costs are being driven by the decisions of universities (that also set the tuition rates that enable salaries and the size of the workforce to be increased) is a long running debate that will be reviewed in a future analysis.

In response to rapidly increasing operating costs, as well as growing capital projects, institutions turn to the simplest measure for raising revenue – increasing tuition and mandatory

fees. Strictly speaking, tuition goes toward academic-related expenses, while fees cover specific purposes, such as information technology upgrades, transportation benefits, or athletics. While access is a primary goal of public institutions, when state support decreases year over year, many public institutions balance budgets by raising tuition and fees. Maryland is unusual in that direct public support to institutions has mostly grown over the past decade and funding has been provided to moderate tuition increases. Many of Maryland's regional competitor states have not been as generous.

Exhibit 1 shows the tuition and fee rates and national rankings for Maryland and select nearby competitor states for the 10-year span of fiscal 2005 to 2014. The sectors under review in this analysis are public two-year institutions, public four-year institutions, and independent colleges and universities.

At the two-year level in fiscal 2005, Maryland ranked relatively poorly, having the ninth most expensive community colleges in the country. Maryland's community colleges became relatively more affordable over this time period, falling to the nineteenth position. The competitor states all have higher tuition rates than Maryland, but the overall spread across the four states decreased from about \$900 to about \$400. Maryland provided funds specifically to reduce tuition increases at community colleges only in fiscal 2012. Over the past five fiscal years, Maryland and New Jersey's tuition increased by 20%, while Pennsylvania's increased 32%, and Virginia's by 52%.

At the public four-year level in fiscal 2005, Maryland's tuition and fees were also high, ranking seventh in the nation. To reduce this high cost burden on students, Maryland froze tuition from fiscal 2007 through 2010 and has implemented tuition buy downs at most four-year institutions since fiscal 2011. Due to these actions, Maryland now ranks twenty-seventh for tuition prices in the country, whereas Maryland's competitor states in the region remained expensive or became relatively more expensive. For a student enrolling in fall 2010 and entering the senior year in fall 2013, costs have increased 9.2% in New Jersey and 9.5% in Maryland, but 13.0% in Pennsylvania and 17.7% in Virginia.

Maryland is home to prominent national independent institutions, which collectively moved from the eighth most expensive to the sixth over the same time period. The actual dollar difference between Maryland's schools and Pennsylvania's schools, which are only a few spots further down the list, is relatively small given the greater total cost. Most of Maryland's private, nonprofit schools are represented by the Maryland Independent College and University Association (MICUA) and receive State funding through MHEC's Sellinger Aid Program. MICUA reports almost 90% of Sellinger aid is used for need-based financial aid for Maryland residents. The State's only other ability to influence affordability at independent institutions comes through its student financial aid programs.

Exhibit 1
State Tuition Rankings for Public and Independent Institutions
Fiscal 2005 and 2014

2005			2014		
<u>Ranking</u>	<u>State</u>	<u>Cost</u>	<u>Ranking</u>	<u>State</u>	<u>Cost</u>
Public Two-year Institutions					
9	MD	\$2,978	9	PA	\$4,407
12	PA	2,868	12	VA	4,349
15	NJ	2,802	15	NJ	4,274
30	VA	2,081	19	MD	3,988
Public Four-year Institutions					
2	PA	\$8,249	3	PA	\$12,802
5	NJ	7,979	4	NJ	12,715
7	MD	6,770	13	VA	10,366
18	VA	5,579	27	MD	8,475
Private Nonprofit Four-year Institutions					
8	MD	\$23,956	6	MD	\$36,802
11	PA	22,709	10	PA	35,189
12	NJ	22,620	17	NJ	33,588
30	VA	17,684	32	VA	27,642

MD: Maryland
 NJ: New Jersey
 PA: Pennsylvania
 VA: Virginia

Note: This ranks institutions from highest to lowest tuition and fees using dollars unadjusted for inflation. The four-year institutions' rankings include the District of Columbia and Puerto Rico.

Source: *Trends in College Pricing 2013*, The College Board

While the buy down program for public four-year institutions has been very effective at keeping tuition increases predictable, the benefit of such moderation at many institutions primarily flows to those who arguably could already afford or nearly afford a college education. For students who already struggle with the financial accessibility of higher education, other steps are necessary. However, over the course of the most recent recession, students from all income levels have come to rely on greater levels of financial aid and debt financing to pay for postsecondary education.

Determining Financial Need

Financial aid is a very broad term encompassing grants, scholarships, work study, waivers, and loans. Aid can also be broken down by how a student qualifies for it, as well as by the organization that disburses it. Aid is used to pay for the cost of attendance (COA), which is the cost of all enrollment-related expenses: tuition, mandatory fees, room, board, textbooks, and other incidentals, such as transportation. The cost of attendance, also called the sticker price, is thus the total upfront annual cost of education.

Because the COA is generally large and intimidating for most students and especially low-income students, most students apply for and receive some grants or scholarship support from the federal government, state government, or the institution, so that the actual price that the student pays is reduced. The exact makeup of a student's financial aid package is greatly influenced by the results from the Free Application for Federal Student Aid (FAFSA). This online form compiles tax and savings information to estimate how much a student and the student's family should contribute to the total cost of attendance. This amount is called the Expected Family Contribution (EFC). In a perfect situation, the EFC and financial aid package cover the entire COA. In economics, price discrimination (or tuition discounting) is the strategy of matching financial aid packages to just reach the edge of a particular student's willingness to "purchase" education, and thus enroll. This practice also involves institutional merit aid as a university attempts to expend the minimum financial aid necessary to enroll a student and is particularly common at institutions with more competitive admissions processes.

Exhibit 2 shows the number of FAFSAs reported in MHEC's Financial Aid Information System (FAIS) received by segment compared to total headcount enrollment. Most MICUA institutions do not report data for non-Maryland residents. The data reflects Maryland residents at MICUA institutions who filed a FAFSA. Headcount enrollment has been adjusted for independent institutions. Concerns have previously been raised that low-income students are not filling out FAFSAs and thus passing up on significant levels of aid. In total, a little over half of all students at Maryland public institutions appear to file a FAFSA, which opens the door to federal and State aid and generally is required for institutional aid. Out of this sample, about 55% of community college students filed FAFSAs versus 61% at public four-year institutions. The data for Maryland students at MICUA institutions is consistent with the public institutions, with 57% filing a FAFSA. FAFSA filing rates vary by institution. Among the public four-year campuses, approximately 98% of students at the University of Maryland Eastern Shore (UMES) filed a FAFSA compared to 47% at the University of Maryland, College Park (UMCP). Community colleges' rates vary from a low of 29% at Carroll Community College to a high of 94% at Garrett College.

Filing is dependent on whether students know about the FAFSA and whether they expect the application process to be worth their time. While some more affluent students may see little benefit in filing a FAFSA, encouraging more students to file FAFSAs represents one of the simplest ways Maryland can help its students access more financial resources, as well as provide

better data about students' financial need. The FAFSA form itself may also be intimidating to student and parents. Organized events like "College Goal Sunday" that provide students and their parents with assistance filling out the FAFSA help encourage more students to file.

Exhibit 2
FAFSAs Submitted by Segment and Headcount Enrollment
Fiscal 2012

	<u>Two-year Institutions</u>	<u>Four-year Institutions</u>	<u>MICUA</u>
FAFSAs Received*	81,064	101,473	8,274
Headcount Enrollment	148,670	165,781	14,429
% Filing FAFSA	54.5%	61.2%	57.3%

FAFSA: Free Application for Federal Student Aid

MICUA: Maryland Independent College and University Association

*Public institutions include all students filing a FAFSA with a valid Expected Family Contribution. Most MICUA institutions only reported data for Maryland residents.

Source: Maryland Higher Education Commission

The federal Higher Education Opportunity Act of 2008 requires universities to post a net price calculator prominently on admissions and financial aid websites for first-time, full-time students to provide out-of-pocket cost comparisons between institutions. This calculator is shown for a single 18-year-old enrolling at Morgan State University (MSU) coming from a household with \$30,000 or less in income in **Exhibit 3**.

As shown in Exhibit 3, the COA for this hypothetical student is over \$20,000, but the expected aid package cuts the price by 42%. While this is a large reduction off of the sticker price, the cut in total cost to the student is roughly equivalent to just the expected cost of room and board, leaving the unmet need for the cost of tuition, fees, and supplies to be covered through other means. So while the sticker price may be misleading because aid is available, this high financial need student has a very large need remaining relative to family income (at least 39%). Additionally, the information on the net price calculator is not necessarily timely, as evidenced by the use of fiscal 2011 data. Finally, COA varies by institution so net prices are difficult to compare.

Exhibit 3
In-state Cost of Attendance at Morgan State University
Fiscal 2011

	<u>Cost</u>	<u>% of COA</u>	<u>Notes</u>
Tuition and Fees	\$6,928	34.2%	
Books and Supplies	2,000	9.9%	
Room and Board (On Campus)	8,380	41.4%	Accommodations and meals
Other Miscellaneous	2,945	14.5%	Personal expenses and transportation
Cost of Attendance	\$20,253	100.0%	
Grant and Scholarships Aid	\$8,550	42.2%	Includes federal, State, local, and institutional awards
Net Price	\$11,703	57.8%	Remaining cost to student

COA: cost of attendance

Note: Computed for an 18-year-old student from a household of \$30,000 or less in income and no other adjustments.

Source: *Net Price Calculator*, Morgan State University

The net price shown in Exhibit 3 could also be considered misleading, as the majority of financial need met in Maryland comes from federal student loans, not grants or scholarships. There is some debate as to whether student loans should be considered as true financial aid to a student, since there is no cost to the institution to offer these loans, as the administration of such loans is managed by the U.S. Department of Education (ED), and loans represent a considerable burden on students after graduation.

Income and Ability to Pay

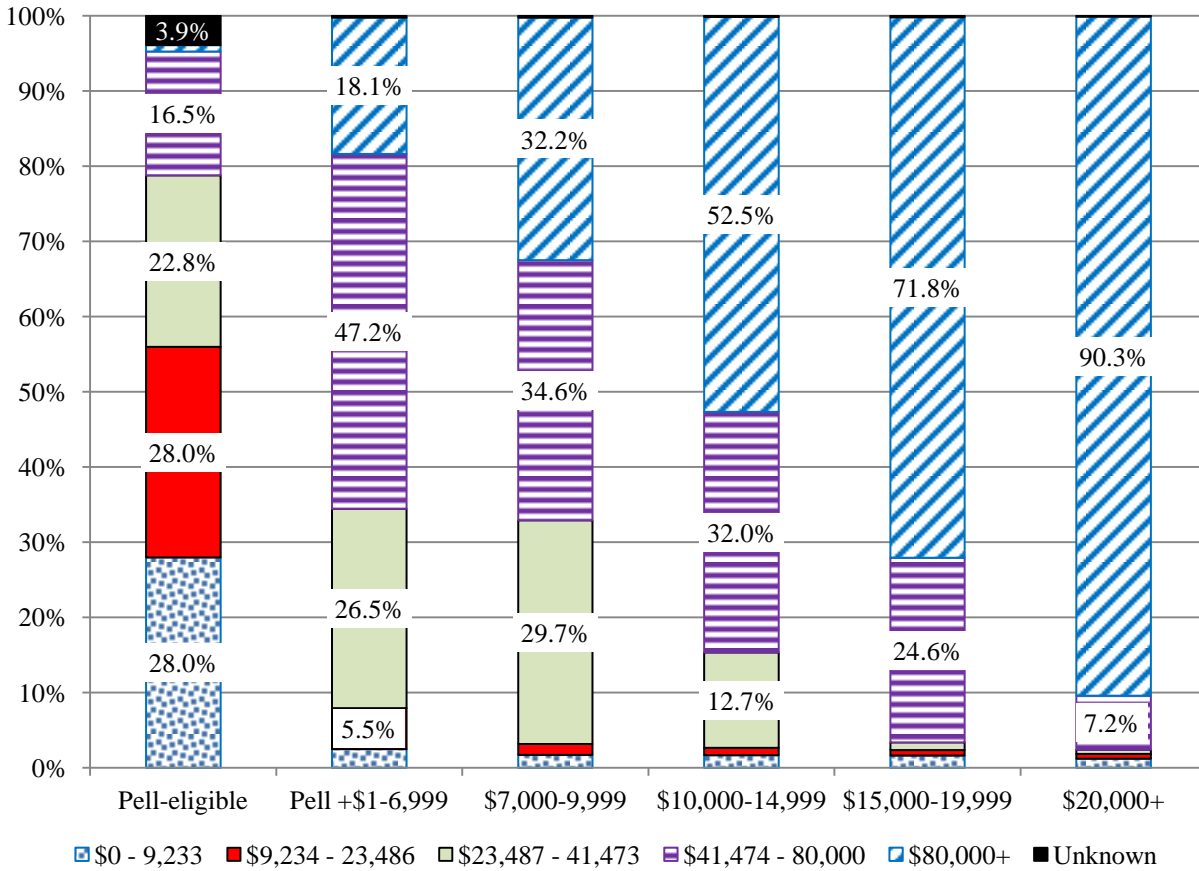
Before continuing, it is important to note the difference between the EFC and the adjusted gross income (AGI), as computed for annual federal income taxes. While the EFC is related to family income, it is derived from other factors, such as other members of the family in postsecondary education, other dependents, and invested assets. For this reason, a student from a family with a high AGI may still qualify for the Pell grant and other forms of need-based aid. In this analysis, AGI is divided into five ranges of equal population, or quintiles:

- \$0 to \$9,233 (lowest quintile);
- \$9,234 to \$23,486 (second lowest quintile);
- \$23,487 to \$41,473 (middle quintile);
- \$41,474 to \$80,000 (second highest quintile); and
- \$80,001 and higher (highest quintile).

Because these ranges are based upon FAFSAs received by MHEC, they are likely lower than the actual AGI quintiles of Maryland because many high income families, expecting little or no financial aid, likely did not bother to fill out a FAFSA.

Exhibit 4 shows EFC bands divided into the percent of each AGI quintile, mentioned prior, that make up each respective EFC category in fiscal 2012. Pell recipients in Maryland show representation from all the first five quintiles of income, although it skews toward the two lower quintiles. More than one-half of Pell recipients have an AGI below \$24,000. The students who just miss the Pell cutoff, the Pell+\$1 to \$6,999 EFC band, are mostly from the second highest quintile. This means that despite coming from what may well be a middle-income family, the student is not that far removed from the same level of financial need as the Pell-eligible students. It is interesting that the Pell+\$1 band also includes 5.5% of students from the second lowest AGI quintile and 18.1% from the highest quintile, which indicates the wide range of students who may just be missing out on Pell grants. The remaining four EFC bands are dominated by the two highest AGI bands. Overall, this exhibit demonstrates that the EFC spectrum does not directly relate to family AGI.

Exhibit 4
EFC Bands Divided by AGI
Fiscal 2012



AGI: adjusted gross income
 EFC: Expected Family Contribution

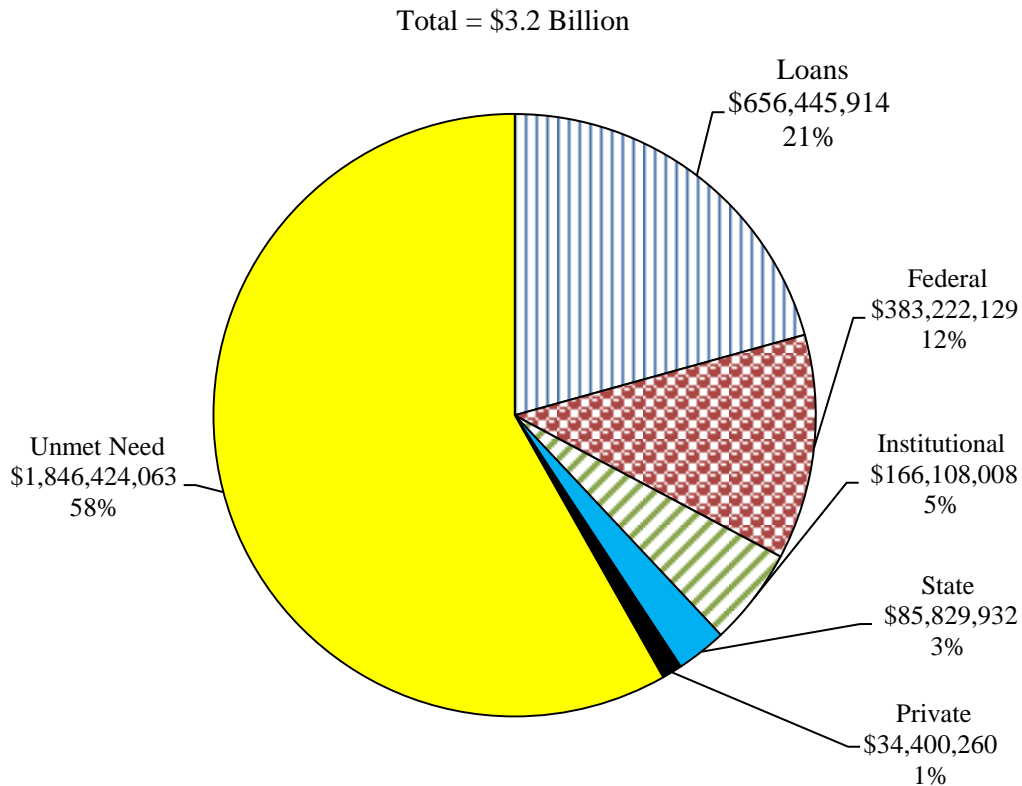
Note: Bars not labeled with a percentage less than 6%. Unknown reflects students with reported EFC and unreported AGI.

Source: Maryland Higher Education Commission

Financial Aid Supply Does Not Meet Demand

Total financial need in fiscal 2012, as measured by FAFSAs received by MHEC, was \$3.2 billion. As shown in **Exhibit 5**, educational loans from any source covered 21.0% of need, or the equivalent of all nonloan aid from federal, State, institutional, and private sources. MHEC's financial aid programs, about \$86 million, covered 2.7% of need. Overall, 58.0% of demonstrated financial need went uncovered by traditional aid sources, but these students still enrolled. Although data is lacking, it is likely many students use some mixture of home equity loans, retirement plan loans, and credit cards to cover unmet need. The amount of unmet need also reflects students who may live at home or otherwise have lower costs than included in the COA. Also, COA is based on the institution a student lists first on the FAFSA, which may not be where the student enrolls.

Exhibit 5 Maryland Student Financial Need Met and Unmet by Source Fiscal 2012



Source: Maryland Higher Education Commission

Federal Student Financial Aid Programs

Broadly, the federal government provides three sources of financial aid: grants and work study; subsidized and unsubsidized loans; and tax benefits. Research is especially lacking on the tax benefits piece, although it is widely assumed that it provides the greatest benefit to more affluent students whose parents have enough income to pursue tax reductions like the American Opportunity Credit or Lifetime Learning Credit. Given the limited data available and the indirect nature of the benefit to students, this analysis will exclude discussion of federal tax programs related to higher education, although it would be an excellent topic for further analysis.

Of the two remaining components, Pell grants and student loans are the most significant sources of aid. Pell awards are given to students who could not otherwise afford college and have an EFC of less than a specified amount, which was \$5,273 in 2012 (the year of most of the MHEC financial aid data in this analysis) and \$5,081 for the current academic year, fiscal 2014. This means a student with an EFC of \$5,200 would have been eligible for a Pell award in fiscal 2012 but not in the current year due to federal funding restrictions. For students at or near the Pell EFC cutoff, financial aid packages can potentially change significantly from year to year even if the student's own finances do not change. For academic year 2013-2014, the maximum Pell grant is \$5,645, which is the first time in four years that the Pell grant increased.

From fiscal 2008 to 2010, the amount of mandated Pell grant funding increased rapidly at institutions nationwide. ED estimated that about 40% of this growth was due to the recession creating more financial need, 25% came from an increase of \$619 in the Pell grant in fiscal 2010, and the remainder came from various rule changes, such as adding the Automatic Zero EFC provision. This last change means that a student with an EFC below a certain amount automatically gets a full Pell award.

As noted in prior analyses, Maryland institutions are still recovering from fiscal 2012 federal actions that significantly restricted Pell eligibility retroactively by reducing the time a student may receive a Pell grant from 18 to 12 semesters and dropped the Automatic Zero EFC threshold from \$30,000 to \$23,000 adjusted family income. Additionally, Congress eliminated the "double Pell grant" wherein students could receive a second Pell award within a single calendar year to pursue summer coursework to expedite graduation. Students must also now have a high school diploma or general education diploma, and Pell will only pay for a student to retake a class once. All rule changes went into effect on July 1, 2012, impacting the fall 2012 enrollment cycle. Institutions that serve needier student populations, such as Maryland's four historically black colleges and universities (HBCU), are concerned that these changes have harmed many students and contributed to moderate enrollment declines. While not an HBCU, Baltimore City Community College (BCCC) especially noted a decline in returning students after the changes were made. Whether these students ever return to complete academic studies is an ongoing concern, although, as will be discussed later, there are programs to capture these "stop outs."

Maryland's State Financial Aid Programs

As previously mentioned, Maryland has several strategies to improve college accessibility. These include tuition moderation, financial aid programs, and the College Savings Plan of Maryland (CSPM). Similar to federal tax credits, research is lacking on the outcomes of CSPM, although it is again likely that it favors families with more financial resources who are able to invest money tax-free many years prior to a young adult enrolling in college. For this reason, the remaining analysis will focus on State financial aid programs.

At the State level, Maryland offers several financial aid programs through MHEC that are primarily targeted to students with financial need and unique populations, such as veterans and students in certain high-demand healthcare fields. Per the Budget Reconciliation and Financing Act of 2011, MHEC is phasing out the Distinguished Scholars program, which had been the State's sole merit-based program, in order to focus limited State resources on need-based aid. As of 2012, Maryland is the only state to continue funding a legislative scholarships program. (For more information on State financial aid programs, see the Department of Legislative Services' (DLS) budget analysis entitled MHEC – Student Financial Assistance.)

In Maryland, the largest programs in terms of number and amount of awards are in need-based programs, totaling \$90.9 million in fiscal 2014 (this number is inflated by \$10.0 million because MHEC is spending down prior unspent financial aid in 2014). As shown in **Exhibit 6**, Maryland ranks seventeenth on a per student basis in the dollar amount of need-based undergraduate grants going to undergraduate students. The national average is heavily skewed by a number of states, like Pennsylvania and New Jersey, that focus more aid at the state level, rather than at the institutional level. However, as a percentage of overall state support for higher education, Maryland falls to thirty-second in the country for the amount of funding for need-based state grants, the same as the prior year. In this exhibit, Pennsylvania and New Jersey are ranked much higher (better) than Maryland. This reflects both Maryland's high support for higher education funding in total and nearly flat funding for need-based aid.

Exhibit 6
Need-based Aid Per FTES by State
Fiscal 2012

	Need-based Undergraduate Grant Dollars Per Undergraduate FTES		State Grants as Percent of Total Higher Education Support	
	<u>\$ Amount</u>	<u>Ranking</u>	<u>% of Spending</u>	<u>Ranking</u>
United States Average	\$482	–	13.0%	–
Maryland	380	17	5.8%	32
New Jersey	1,061	1	17.6%	9
Pennsylvania	817	5	25.4%	3
Virginia	392	16	13.8%	15

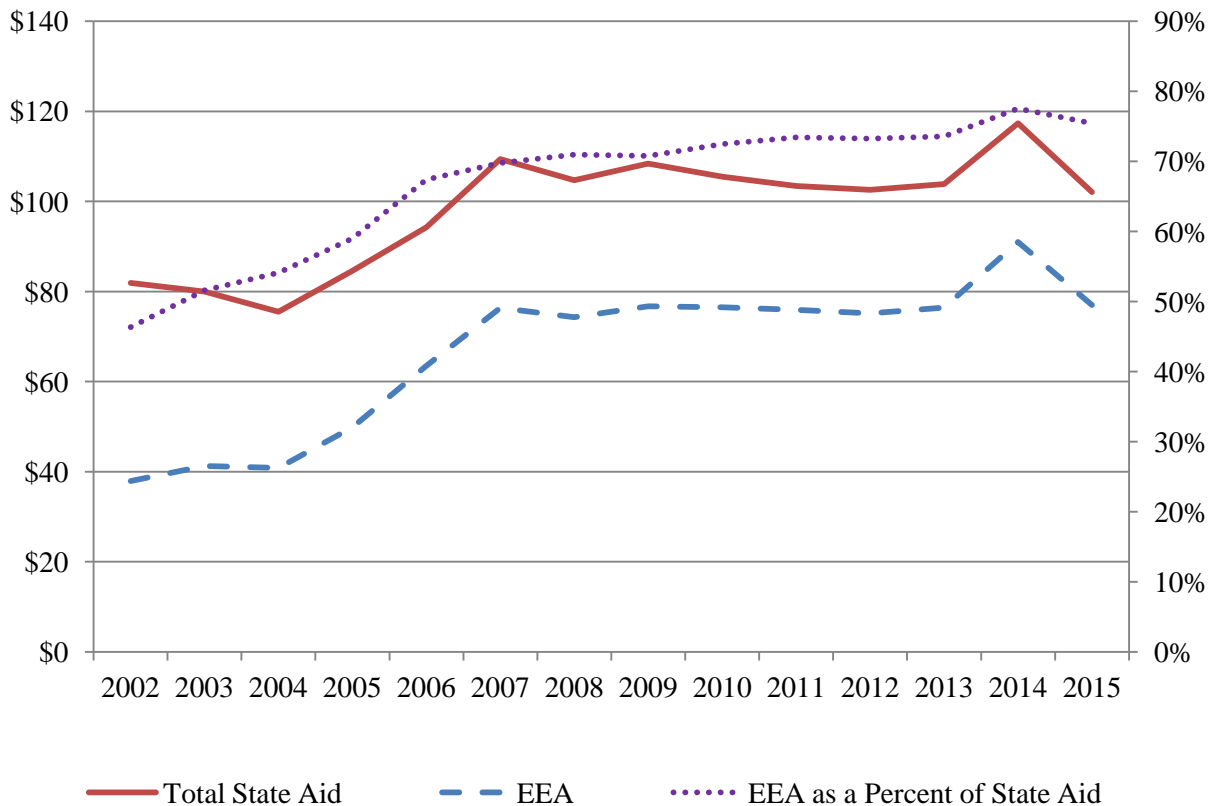
FTES: full-time equivalent students

Note: Undergraduate awards and students only.

Source: 43rd Annual Report, National Association of State Student Grant and Aid Programs

As shown in **Exhibit 7**, funding for the State's largest need-based financial aid program, Educational Excellence Awards (EEA), grew rapidly between fiscal 2004 and 2007 due to the beginning of the policy to shift away from merit-based aid to need-based. However, since EEA funding reached \$76.7 million in fiscal 2009, it has remained level funded with the exception of fiscal 2014. MHEC transferred \$14.0 million in unspent prior year financial aid to make new awards in fiscal 2014. It has about \$4.1 million remaining in fund balance and will likely add funds at the close of fiscal 2014 that will be available for recycling in fiscal 2015. Because State need-based programs such as the EEA are applied to student need *after* the federal Pell grant is considered, federal eligibility changes to the Pell grant program have a significant impact on how far State need-based financial aid will stretch in any fiscal year.

Exhibit 7
State Financial Aid Funding
Fiscal 2002-2015
(\$ in Millions)



EEA: Educational Excellence Award

Source: Governor's Budget Books, Fiscal 2004-2015

To date, in fiscal 2014, MHEC has awarded EEA grants to students with EFCs up to \$10,709, compared to only \$2,000 a year ago. This is similar to the EFC threshold in fiscal 2009 when MHEC reached students with EFCs up to \$10,300. Total applicants with \$0 in EFC rose to over 50,000 in fiscal 2014. As it is spending down accumulated fund balance, MHEC's waitlist has declined to just under 9,800 applicants, from about 35,000 applicants a year ago. Most waitlisted students, despite having some financial need and thus being eligible for an award, will not receive any aid from programs in MHEC scholarships. Some waitlisted students still enroll in postsecondary education, although some may not enroll full time or may delay entry. In addition, some waitlisted students have very high EFCs (EFC maximum of \$65,000 in fiscal 2014).

Need Met (and Unmet) by Financial Aid

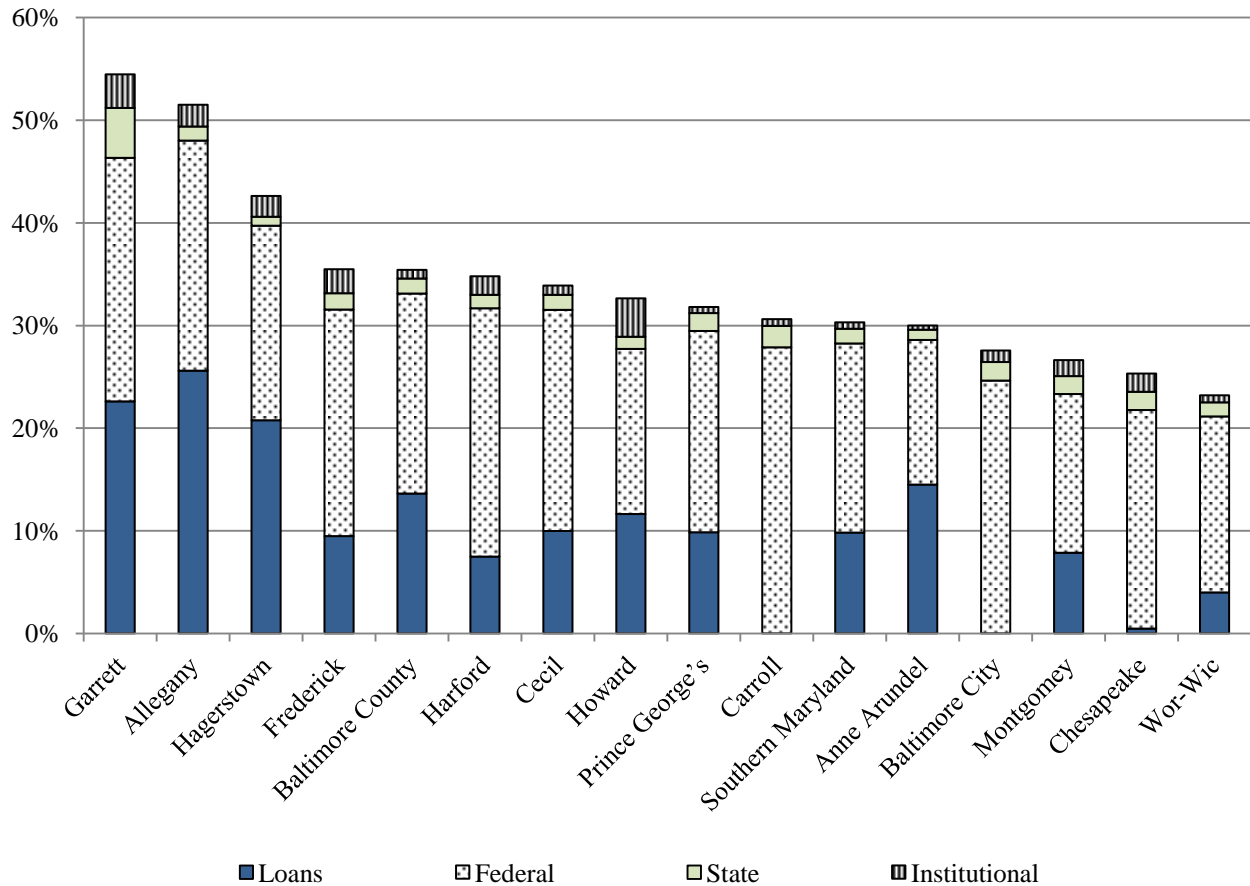
MHEC's FAIS, which is part of the Maryland Annual Collection (MAC) II system, tracks data on total student aid at Maryland's public institutions and Maryland residents at independent institutions (data from nonresidents is also collected now). The extensive information allows for analysis of awardees by EFC level and how much need is being met by certain categories of aid. MAC II is currently being upgraded to bolster the timeliness and analytical capabilities of MHEC so as to provide better information to the Maryland Longitudinal Data System (MLDS) Center. MLDS receives education and workforce data on each individual student in the State to determine how students are performing and to what extent they are prepared for higher education and the workforce. It was established jointly by the Maryland State Department of Education, the Department of Labor, Licensing, and Regulation, and MHEC, along with the higher education institutions. It is physically located at the University of Maryland, Baltimore (UMB) and is to be fully operational by December 31, 2014. In next year's analysis it should be possible to pull higher-level data from MLDS, which will be based upon MAC II/FAIS data. Aligning MHEC's resources with MLDS is the newest goal added to *Maryland Ready*, and MLDS updates will inform StudentStat, which follows in the footsteps of StateStat and BayStat.

This year's analysis is limited to fiscal 2012 FAIS data for undergraduate students who received any aid while *enrolled* at Maryland's public institutions and Maryland residents who received State aid at independent institutions. This data excludes students who had more than 100% of their total need met. It is important to remember that these students enrolled in college despite not having all their need met.

Need Met at Community Colleges

Exhibit 8 shows the percentage of financial need met for community college by funding source: federal, State, institutional, or loans. Overall, Wor-Wic Community College students have only about 23% of need met, while students at only two community colleges have more than 50% of total need met. It is important to note that BCCC and Carroll Community College do not participate in federal loan programs, so their rates for loans are 0%; the rate is nearing zero at Chesapeake, as no new loans are being offered. Although most schools rely heavily on loans, there is significant variation in the amount of need met and in the sources used to meet that need across the 16 community colleges. Anne Arundel, Garrett, and Hagerstown community colleges in particular rely on a very high use of loans to meet student need.

Exhibit 8
Need Met by Community Colleges
Federal, State, and Institutional Aid and Loans
Undergraduate Students
Fiscal 2012



Note: This includes undergraduate students only and federal, State, and institutional aid only. Loans include federal subsidized and unsubsidized loans and private and institutional loans.

Source: Financial Aid Information System, Maryland Higher Education Commission

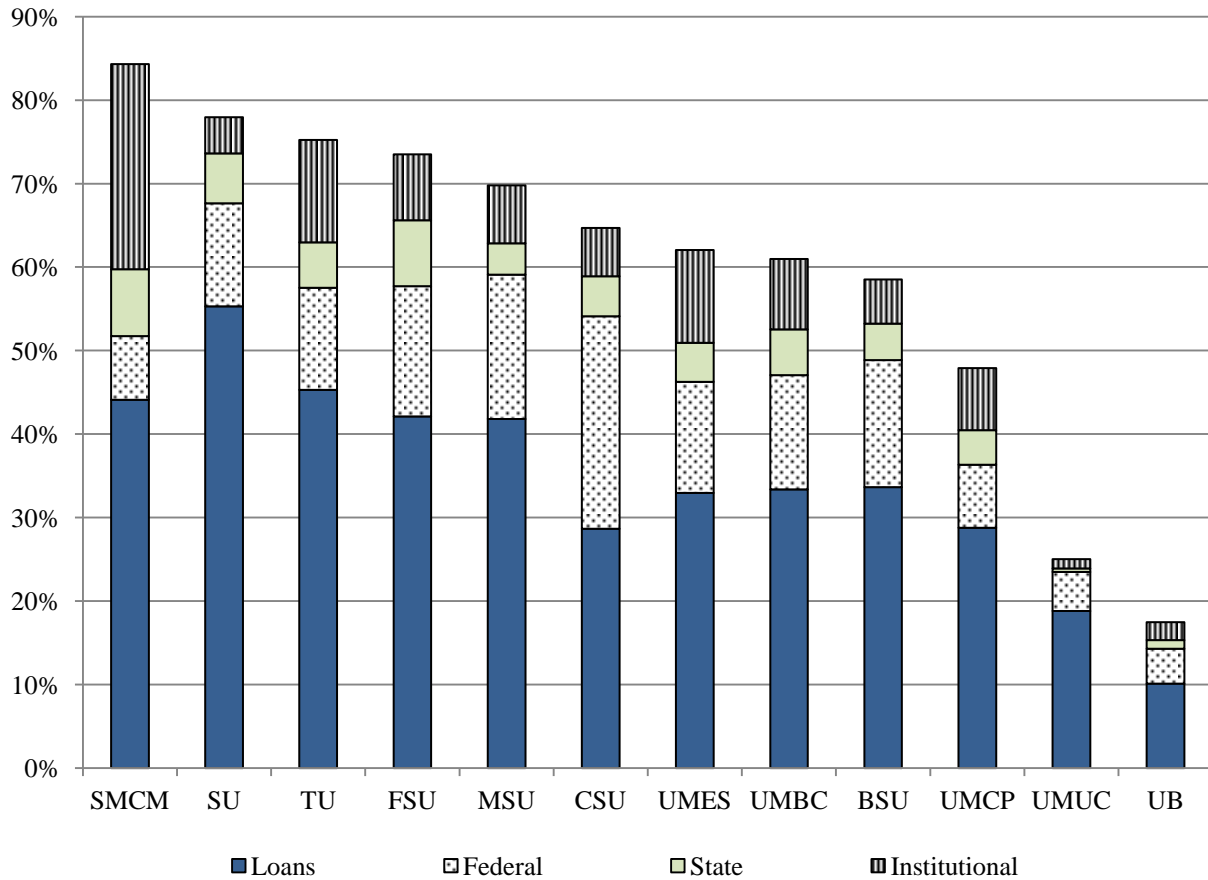
In general, State aid is not a significant part of need met. State aid meets 4.9% of student need at Garrett Community College but less than 1.0% at Hagerstown Community College. Federal aid, which is mostly made up of Pell grants, meets 27.9% of need at Carroll Community College, whereas at most schools only 20.0% of need is met through nonloan federal sources. Institutional financial aid, the only aid community colleges have control over in this exhibit, meets very little student need at most community colleges.

Need Met at Public Four-year Institutions

Exhibit 9 shows the same breakout of financial aid for public four-year institutions. Overall, at least 17.0% of student need is met (the lowest at UB) and up to 84.0% at St. Mary's College of Maryland (SMCM). At least 10.0% of student need is met at all institutions through loans, with Salisbury University (SU) reaching 55.0% of need met through loans. Federal aid is the next largest category meeting need, with Coppin State University meeting over 25.0% of student need with federal aid alone, most likely from Pell grants. Institutional and State grants and scholarships are generally a small portion of need met at each school, although SMCM is an exception, as it meets 24.6% through institutional aid. State aid as a percent of need met is especially low at the University of Maryland University College and UB, whereas it is relatively higher at SMCM and Frostburg State University.

Exhibit 10 shows need met by institutional aid and any type of loan. Overall, SMCM is the only institution where institutional aid is at least half of the need met by loans. Most institutions meet 30 to 40% of need through loans, although SU is especially high at about 55%. This data suggests that loans remain, by far, the largest resource for meeting need and that, other than SMCM, most institutions do not approach the level of need met with their own institutional resources. Although institutional aid as a percent of need met declines from left to right in this exhibit, there is not a particularly clear link between the percent of need met through institutional aid and the percent met through loans.

**Exhibit 9
Need Met by Public Four-year Institutions
Federal, State, and Institutional Aid and Loans
Undergraduate Students
Fiscal 2012**



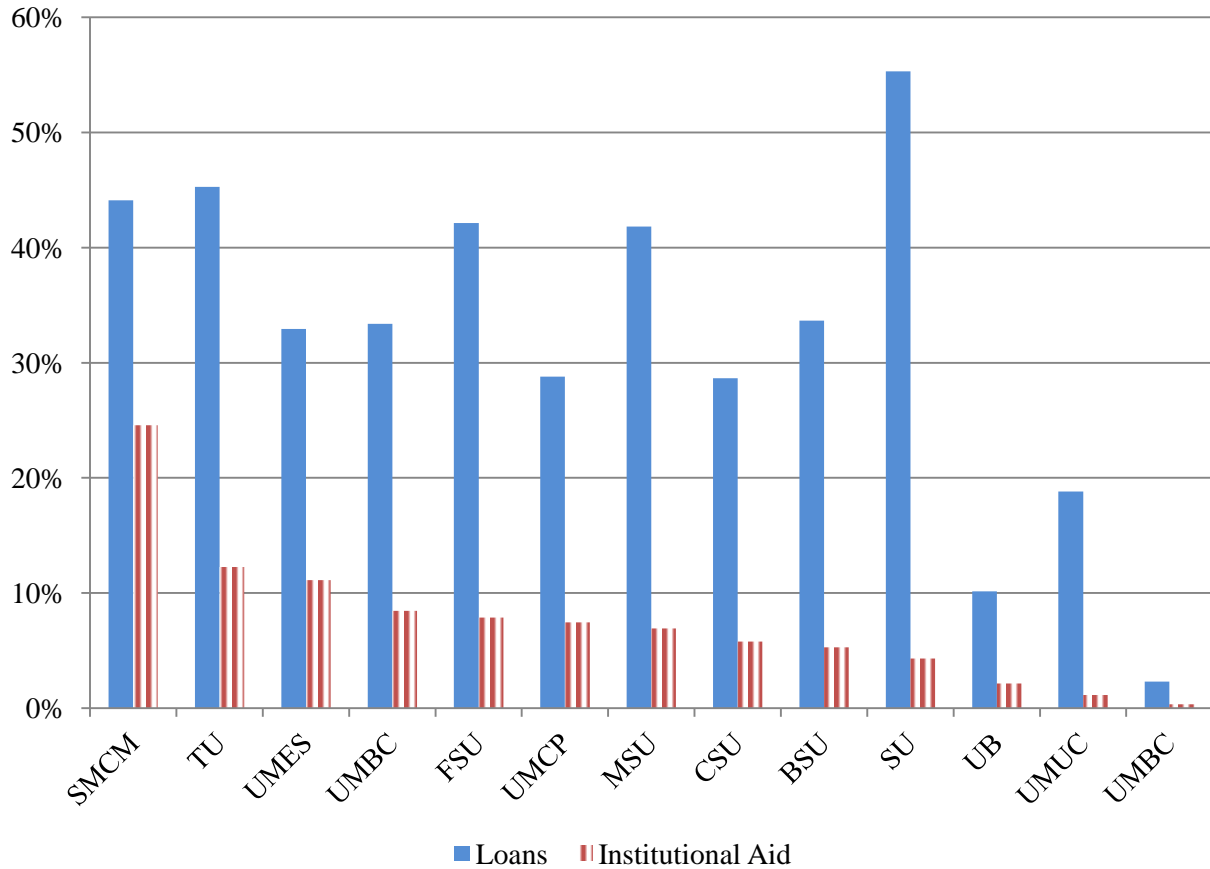
BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 MSU: Morgan State University
 SMCM: St. Mary's College of Maryland
 SU: Salisbury University

TU: Towson University
 UB: University of Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore
 UMUC: University of Maryland University College

Note: This includes undergraduate students only and loans and federal, State, and institutional aid only. Loans include federal subsidized and unsubsidized loans and private and institutional loans. The University of Maryland, Baltimore is excluded from this exhibit.

Source: Financial Aid Information System, Maryland Higher Education Commission

**Exhibit 10
Need Met by Public Four-year Institutions
Loans and Institutional Aid
Fiscal 2012**



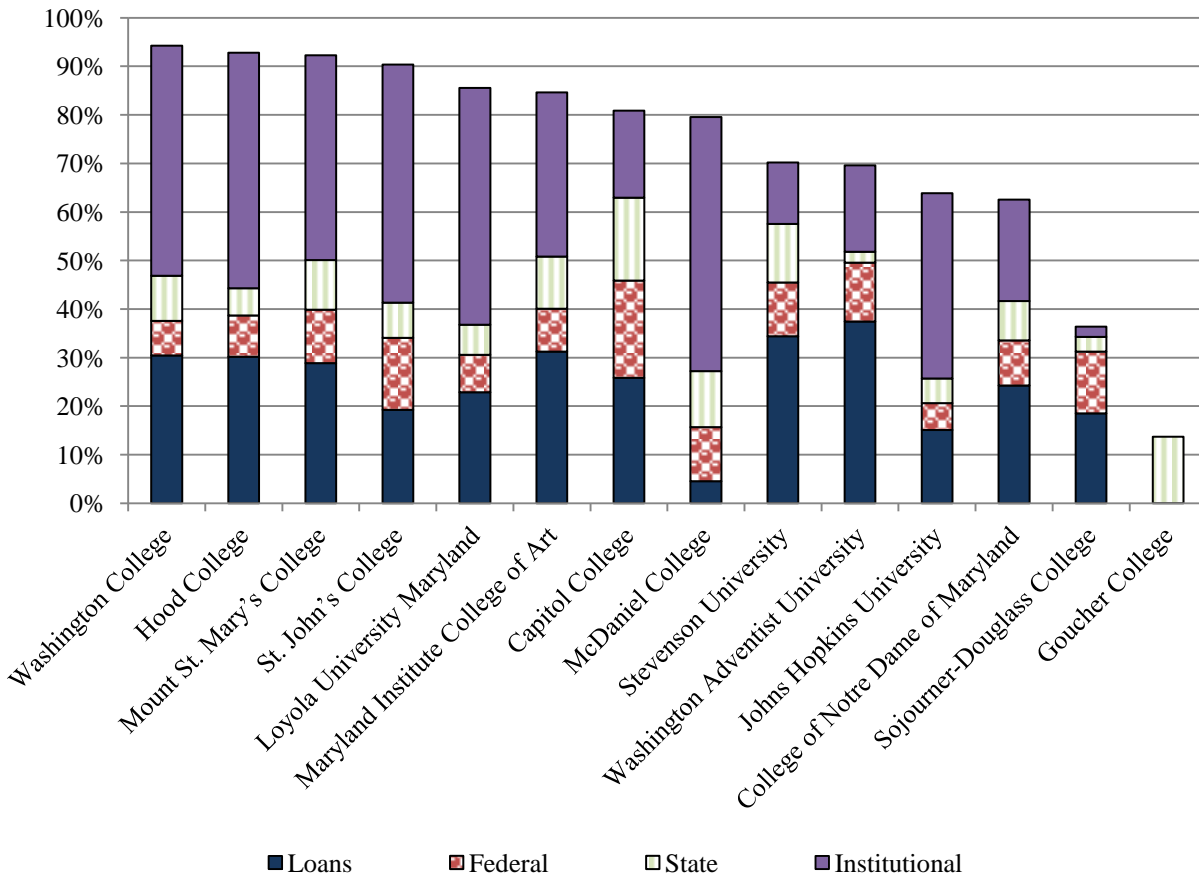
BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 MSU: Morgan State University
 SMCM: St. Mary’s College of Maryland
 SU: Salisbury University
 TU: Towson University

UB: University of Baltimore
 UMB: University of Maryland, Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore
 UMUC: University of Maryland University College

Source: Financial Aid Information System, Maryland Higher Education Commission

Exhibit 11 shows needs met by independent institutions in Maryland. Overall, there is a much greater mix of financial aid sources than at the public four-year institutions shown in Exhibit 9. The independents reach an overall higher percentage of need, despite generally having higher COAs than the public institutions. Additionally, while loans met the majority of need for public institutions, at the independent institutions, the largest source of need met by percentage comes from institutional awards. This could be for two reasons. First, because COA is higher, students at the independent institutions are likely hitting the annual limits on federal student loans quicker than their public school counterparts, so the federal component of loans is not able to meet as much need. Second, independent institutions often have higher tuition and fee rates and use those revenues to engage in aggressive price discounting for students, as previously mentioned.

Exhibit 11
Need Met by Independent Institutions
Federal, State, and Institutional Aid and Loans
Fiscal 2012



Source: Financial Aid Information System, Maryland Higher Education Commission

Federal Student Loans

Federal student loans began with the 1958 National Defense Education Act, which demonstrates the decades-long push to increase student participation in science, technology, engineering, and mathematics. However, it was Title IV of the 1965 Higher Education Act that established many of the federal aid programs widely known today such as Pell Grants, Perkins Loans, and Stafford Loans. Perkins and Stafford loans allow students to borrow money with relatively low interest rates and flexible repayment options. According to the Consumer Financial Protection Bureau, by the end of the 2012-2013 school year, the federal government had issued about \$1.0 trillion of the \$1.2 trillion in total outstanding student loans. From December 2011 to May 2013, federal student loans grew 20%. It is important to note that total outstanding student loans include all active student loans, so much of this figure is made up of currently enrolled students who have deferred payment because they are in school full time. On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not currently tracked by ED or any other agency.

The biggest change at the federal level in higher education in 2013 occurred in July, when Congress pegged Stafford and Parent PLUS loans to the interest rate of the 10-year Treasury bill, effective June 1. This settled a long-running concern over how student loan interest rates would be set. Rates increased slightly across-the-board. Subsidized Stafford loans had been 3.4% and rose to 3.86% for academic year 2013-2014. Unsubsidized loans went to 5.1% and PLUS loans to 6.41%. Overall, caps are set at 8.25, 9.5, and 10.5%, respectively. This is meant to be a more permanent solution and provide stability and predictability to students.

Exhibit 12 shows the maximum amount of loans that may be taken out by student type and federal loan program. These rates are unchanged from the prior year. Parent PLUS loans are excluded from this exhibit because PLUS loans are only capped by the total COA, minus any other aid. Overall, students have a tremendous amount of financial credit readily available to them, generally at least \$31,000 for undergraduate studies. However, considering that the hypothetical student in Exhibit 3 was already receiving Stafford loans in the expected financial aid package, it is quite possible to exhaust Stafford eligibility at public institutions, especially if a student does not graduate in four years.

Exhibit 12
Maximum Federal Aid Possible

		Dependent	Independent	
		<u>Undergraduate</u>		<u>Graduate</u>
Stafford	Maximum	\$31,000	\$57,500	\$138,500
	Subsidized*	23,000	23,000	65,500
Perkins	Loan Maximum**	\$27,500	\$27,500	\$60,000
Pell	Grant	\$33,000	\$33,000	
Total Loans Possible		\$58,500	\$85,000	\$198,500
Total Federal Aid Possible		\$91,500	\$118,000	\$198,500

*This is the total amount of the maximum Stafford loan amount that may be subsidized.

**Not all schools offer Perkins Loans or Perkins Loans up to this amount.

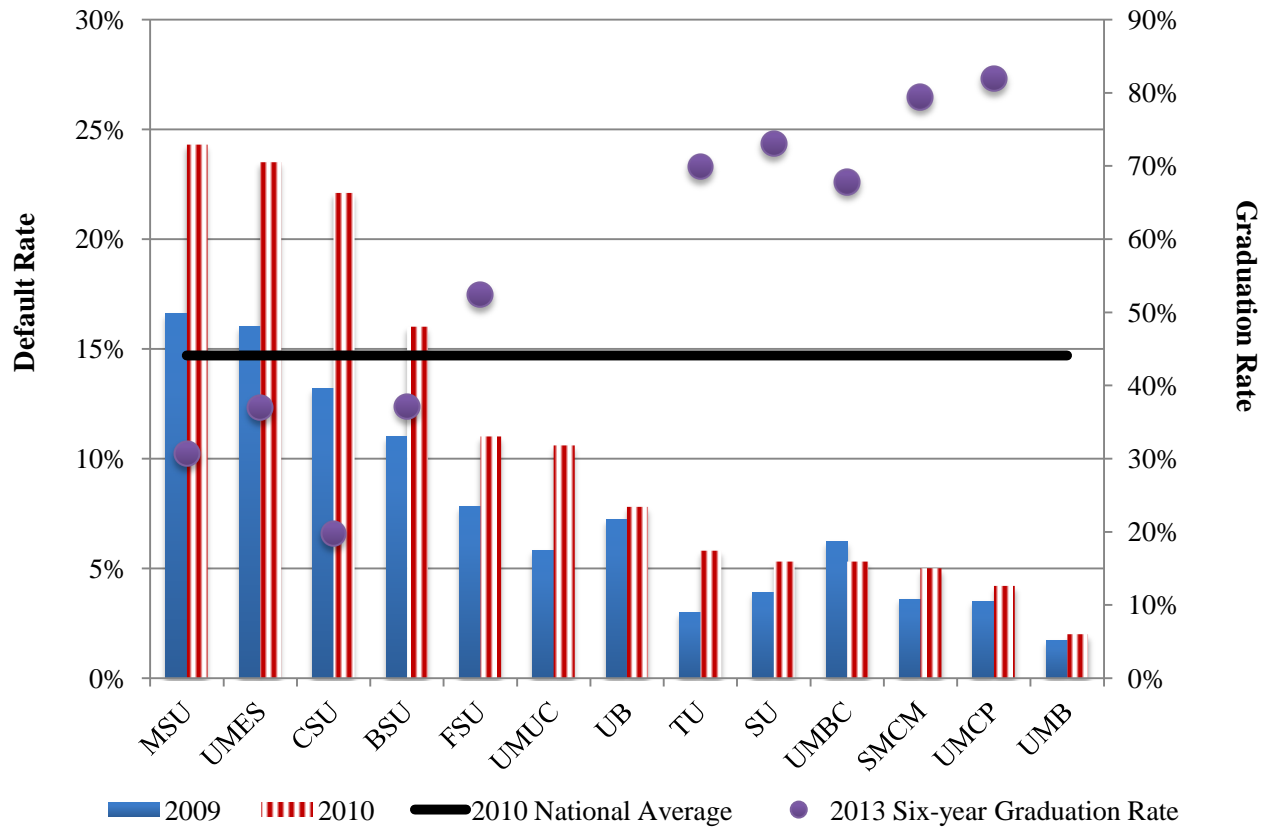
Note: Graduate amount includes undergraduate loans. Limits are as of academic year 2013-2014. Excludes Parent PLUS loans which are only limited by total cost of attendance.

Source: U.S. Department of Education

Similar to concerns highlighted during the recent mortgage crisis, many student loan borrowers have difficulty refinancing their debt to take advantage of low-interest rates due to a lack of refinance options and difficulty securing employment in the current labor market. Moreover, some defaulters stop out or drop out of school, meaning they bear all the responsibility of repaying the loan and have no credentials to improve their employment prospects. Another concern is that student loans, like mortgages, can be sold to other third parties for servicing and collections. This can make tracking and consolidating loans confusing and difficult.

The most extensive data available on default rates is the three-year cohort default rate (CDR) for federal fiscal 2009 and 2010, as reported by ED. This measures how many undergraduate and graduate students have not made a single payment in at least 270 days on a federal loan issued in a particular federal fiscal year. Older ED data only gave a two-year rate, but this was determined to undercount default rates significantly, so three-year rates are now the norm for reporting. **Exhibit 13** shows Maryland institutions' CDR compared to the State average and the 2010 national average, which is 14.3%, as well as the most recent six-year graduation rates. Maryland's HBCUs have significantly higher default rates than the current national average and the equivalent State average of 9.7%. Each HBCU's default rate rose at least 5 percentage points in 2010. Overall, SMCM, UMCP, and UMB have significantly lower CDRs despite these institutions having higher COAs relative to other State schools. UMBC was

**Exhibit 13
Federal Loan Default and Six-year Graduation Rates**



BSU: Bowie State University
 CSU: Coppin State University
 FSU: Frostburg State University
 MSU: Morgan State University
 SMCM: St. Mary’s College of Maryland
 SU: Salisbury University
 TU: Towson University

UB: University of Baltimore
 UMB: University of Maryland, Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 UMES: University of Maryland Eastern Shore
 UMUC: University of Maryland University College

Source: U.S. Department of Education; Maryland Higher Education Commission

the only institution to actually see its default rate drop in 2010. If a school hits 30% in its default rate for one year, it must take corrective actions. If it hits 30% or higher in successive years, ED may take punitive sanctions against the institution. For this reason, some institutions choose not to participate in federal loans so as not to jeopardize future receipt of Pell grants. This is the case for BCCC and Carroll and Chesapeake community colleges.

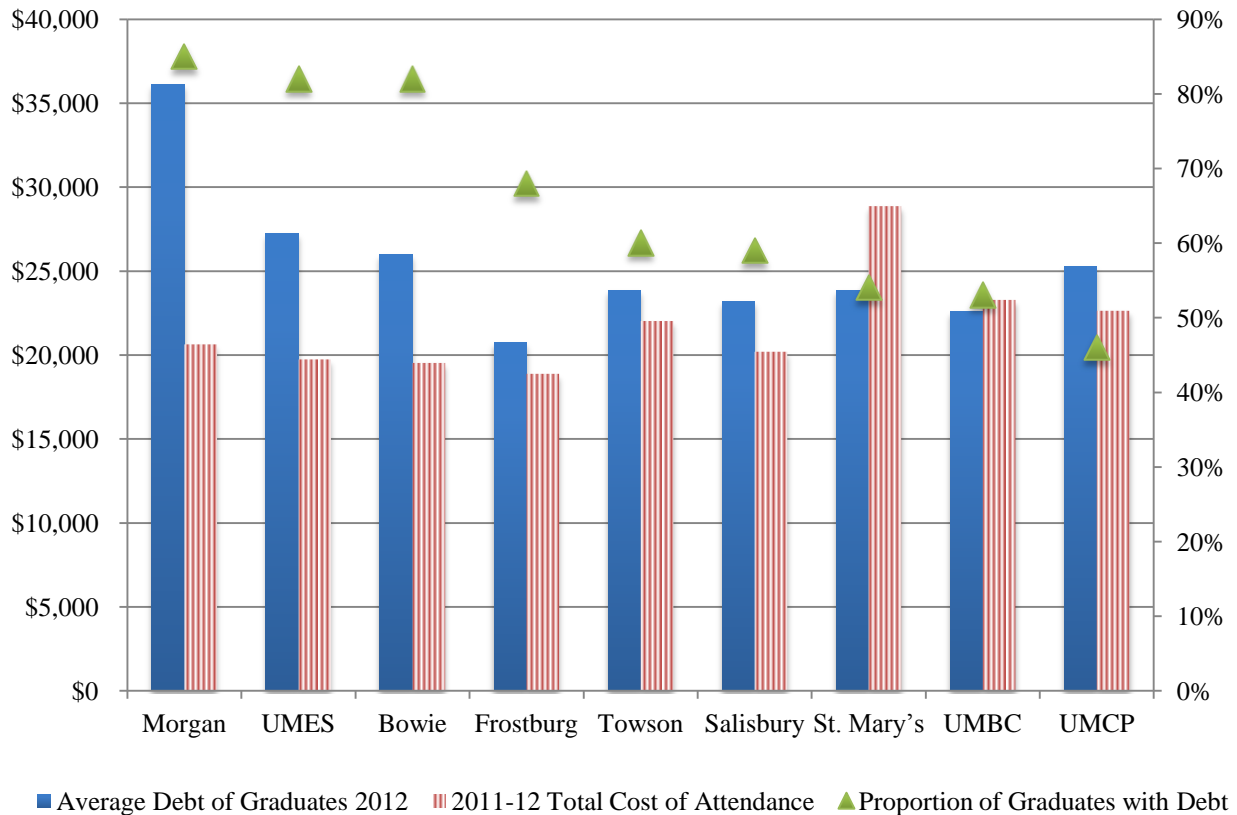
For students who enroll in higher education, but do not graduate, there is a tremendous burden to make student loan payments. The federal CDR accounts for anyone who has taken out a federal loan, except for Parent PLUS loans. In Exhibit 13, there appears to be a strong negative correlation between six-year graduation rates and CDR. In other words, if a student graduates, the degree conferred does a good job of ensuring income adequate to pay off the loan. Conversely, for students who do not graduate, but still have to make monthly loan payments, there is a higher risk of default. For this reason, it is a concern that students at institutions with historically low graduation rates, those on the left hand side of the exhibit, take out so much in loans, given the likelihood that so many students will not complete a degree. While it may be that low-income students finish over a longer time period than is traditionally measured for graduation, loan payments will still become due and interest will compound.

Since the total outstanding federal debt includes loans in deferment due to many borrowers being current students, the actual default rate of student loan debtors in repayment is likely significantly higher than rates currently calculated for this cohort.

Student Debt Burden

The most recent Maryland data reported by the Project on Student Debt (PSD), covering 2012 graduates, reports 58% had student debt with the average debt totaling \$25,951. This source places Maryland twenty-ninth in the country for the percent graduating with debt and twenty-sixth for the per capita amount of debt. Loan debt by institution varies greatly, as shown in **Exhibit 14** for institutions that have data available. The average graduate from MSU has \$36,000 in debt, compared to only about \$21,000 at FSU. UMB, which is not shown in Exhibit 14, has tremendously expensive graduate programs. For example, dental students graduate with over \$200,000 in debt from just that program. Exhibit 14 also shows COA and the proportion of students with debt. It appears that institutions where students take on debt well above the annual COA are also the institutions that have a greater proportion of students taking on debt.

Exhibit 14
Student Loan Debt and Cost of Attendance by Public Four-year Institution
Fiscal 2012



UMBC: University of Maryland Baltimore County

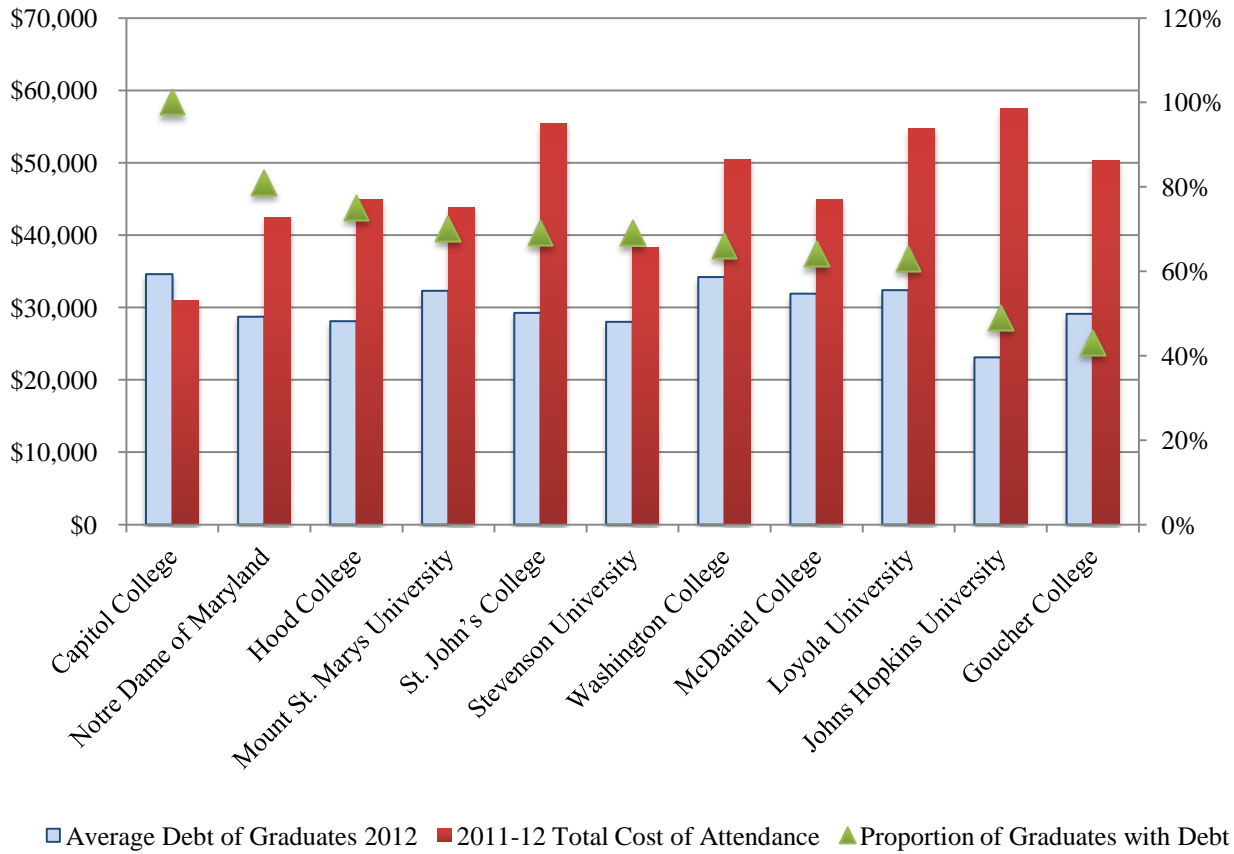
UMCP: University of Maryland, College Park

UMES: University of Maryland Eastern Shore

Source: Project on Student Debt

Exhibit 15 shows the same data for the independent institutions. Whereas seven of the public institutions had average debt surpassing COA, only one of the independents has average debt greater than COA, despite the independents having higher COA. Additionally, none of the independents surpass the \$36,000 average debt set by MSU, although many are between \$28,000 and \$34,000. Finally, it appears that the independent institutions with higher COA have fewer students graduating with debt, which shows the degree to which price discounting likely occurs through institutional aid.

Exhibit 15
Student Loan Debt and Cost of Attendance by Independent Four-year Institution
Fiscal 2012



Source: Project on Student Debt

Recent data from the Federal Reserve Bank of New York (Fed) ranked Maryland as having the highest average student debt in the nation at \$28,330, at least \$2,000 higher than the competitor states noted earlier in this analysis: New Jersey, Pennsylvania, and Virginia. The Fed's average for Maryland is about \$2,700, or 10.7%, greater than the average from the PSD data used in Exhibit 14. While the PSD data relies on institutional surveys, which are known to be incomplete, the Fed's results come from anonymized survey data procured from Equifax, a private credit firm. For this reason, the Fed's data measures all Maryland residents' student loans. This is interesting because it may also capture some student loans that may not be visible or known to an institution (*i.e.*, the loans that do not flow through an institution's financial aid office). Additionally, the Fed's data accounts for migration into Maryland. In this sense, the marker of high debt may be partly because Maryland attracts many mobile, recent college

graduates. The next two states with the highest average student debt in the Fed's data, Georgia and New York, also have large net in migration rates.

SB 632 of 2014 has been introduced in Maryland to create a taxpayer credit of up to 50% for certain student loan payments and caps the overall credit at the lesser of \$2,500 or 20% of average in-state tuition. Students who take out large loans and have the ability to pay off these loans would benefit the most. However, students who have fewer financial resources and rely on loans to fund studies will also benefit from the tax credit, as well as students who pursue graduate studies such as in law and medicine and accrue very large personal loan debts.

Pay It Forward, Pay It Back

The Oregon state legislature made national headlines in July 2013 when it passed HB 2838 which gave Oregon's higher education institutions two years to study whether a "Pay It Forward, Pay It Back" (PIF) plan should be piloted. Under this model, rather than paying tuition to attend public institutions, students would pay a fixed percentage of AGI for a set amount of time after graduation into a trust fund. Essentially, the state or university system would function as a bank.

This dramatic restructuring of higher education finance comes from a 2012 policy paper entitled "Pay It Forward" by the Economic Opportunity Institute (EOI). The report was specific to the state of Washington, but received more attention in Oregon. PIF is similar to the Student Investment Proposal floated earlier in 2012 in California by the student group Fix UC and also shares characteristics with the funding mechanism used at a national level in Australia.

As of February 2014, pilot study legislation has been proposed in Maine, Michigan, New Jersey, Washington, and Maryland (SB 626/HB 853 of 2014). Proponents of the PIF model highlight that it opens access to higher education for more students, as the COA is dramatically lowered and students may pursue any career option with less concern over making student loan payments. From a performance-based budgeting standpoint, there is appeal in that universities' budgets will be tied to the outcomes of graduates, which creates a new and very direct form of financial accountability.

There is currently no active PIF program, although EOI has generated a lot of discussion through its advocacy. The closest real world example to PIF in the United States may be Yale University's Tuition Postponement Option (TPO), which Yale ran for students enrolled from 1971 to 1978. During that time, a total of 3,300 alumni participated in the program and were required to pay back 4% of their annual income. Unlike the PIF model, the TPO model pooled each class' total student debt and the cohort would continue paying back until either the entire debt was paid off or 35 years had passed. Many alumni became very concerned that, as a class, the cohort's debt was not being paid off very quickly. Although enrollment in TPO ended in 1978, Yale had to partially bail out the program in 1999 and cancel all further payments

prematurely in 2001 due to alumni backlash. While the pooled debt mechanism was unique to TPO, the long time period for planning and payback illustrates the complexity of operating similar alternative financial aid programs, even at a single, wealthy, private institution.

Implementing PIF

From a budgeting perspective, two concerns arise from enacting the PIF model. First, the model requires the state or universities to front all of the tuition revenue for the duration of the start-up period of the plan. The Oregon bill's text suggests 15 or 20 years, while the original EOI report and federal student loan repayment plans generally use 20 or 25 years. This would be a long-term and very large financial commitment for Maryland. Although the State could end the PIF model and revert to charging tuition to students, the benefits of the PIF model would be greatly reduced if it was not fully implemented.

The second concern is that the fixed rates set in the payback contracts with students may generate revenue that is both highly variable and insufficient to cover a higher education system's operating costs in the future. This would be similar to the State having to adjust to changes in the general income tax on Maryland residents every year. If revenues fail to meet operating needs, universities may expect hold harmless clauses which would still leave the State responsible for a portion of expected revenue. As shown in Exhibit 12, some Maryland institutions have relatively high default rates on existing debt vehicles. In addition, no data is readily available from the Department of Labor, Licensing, and Regulation, or MHEC, on income of graduates from Maryland institutions. In the future, such information may be available through MLDS, which could inform decisions on setting contract rates for students.

Modeling outcomes of PIF is difficult because numerous assumptions must be made regarding contribution rates, default rates, and the time value of money since this involves planning decades into the future. Annual funding for the program would grow until the fifth year of operation and then decrease annually as successive graduating cohorts begin paying back. Because bachelor's degree students would only start paying after graduation, the breakeven point is not until year 25 of the program, and it would require a guaranteed endowment to carry university finances for that period of time. This assumes a 5% payback rate on graduates' wages over 10 years so as to be similar to the federal government's 10 year debt forgiveness under the Public Service Loan Forgiveness program

Complications to the PIF Model

Numerous details would need to be worked out for the PIF model that are noted in the original EOI report and would presumably need to be addressed by the various proposed state task forces:

- Is a state simply foregoing federal financial aid and replacing it with state funding?
- How will tuition repayments be recovered for students who do not graduate or are not employed?
- How will graduate, credential-seeking, out-of-state, or remedial education students be handled in this model?
- How will online or competency-based learning fit into this model?
- What administrative authority will monitor repayments from alumni, and how will noncompliance be addressed?
- How would the state or universities front the funding to start the program?
- Should different contract rates be set by, for example, different majors?
- Could students opt out of PIF and pay regular tuition?
- Can this model combat or contain rapidly increasing education costs?

Federal Student Loan Repayment and Forgiveness

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. In terms of having students pay for higher education after graduation at a set rate of personal income, the PIF model is very similar to programs run by ED. Federal loans made directly to the student have, compared to privately sourced loans, very generous repayment terms, although a student must apply to each of the below.

Federal loans, by default, enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by ED, the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size:

- **Income Contingent Repayment (ICR):** original loan amount forgiven after 25 years of on-time payments, but must pay all accrued interest on loans.
- **Income Based Repayment (IBR):** payments are capped at 15% of any income beyond the poverty level; any remainder is forgiven after 25 years of payments.

- **Pay as You Earn (PAYE):** only for loans made on or after October 1, 2011; payments are capped at 10% of any income beyond the poverty level; any remainder is forgiven after 20 years of payments.

A further layer to these plans was added with a public service component for loans made after October 1, 2007:

- **Public Service Loan Forgiveness:** must be enrolled in a qualifying repayment plan (ICR, IBR, PAYE, or default 10-year plan); must work for a qualifying public service organization (generally, anything tax-exempt); any remainder is forgiven after 120 monthly on-time payments.

The IBR plan offers many of the features of the PIF model, with the notable exception that a partial financial hardship must be shown for IBR (otherwise a debtor can still opt for ICR). Going forward, the IBR plan is more generous to graduates with student loans. Many of the benefits of these federal repayment programs and others are similar or overlapping, causing some confusion for students. One concern may be that if someone has a mixture of private loans, federal loans, and a PIF obligation, sorting out personal finances may be more difficult, rather than less difficult, for students.

Maryland Loan Assistance Programs

Although Maryland has not offered student loans since the 1980s, the State funds several loan assistance repayment programs (LARP) for physicians, dentists, and other occupations, such as teaching and law. LARPs provide loan repayment assistance in exchange for certain service commitments to help ensure that those areas have sufficient numbers of skilled professionals working in underserved areas of the State or on behalf of low-income families. However, funding has been relatively flat, at about \$1.8 million, for several fiscal years, and the number of students receiving awards has remained relatively low. As shown in **Exhibit 16**, in fiscal 2012, non-medical LARP awards (under the Janet L. Hoffman program) averaged about \$6,000 and went to fewer than 200 recipients. In comparison, MHEC makes almost 60,000 total financial aid awards every year. Additional funding in the LARP would have a similar impact as the PIF model and still allow students to benefit from ICR and IBR payment plans, so that may be one avenue of approach to increase funding within existing State programs. Another idea is to limit LARP awards to the minimum payments required for the federal Public Service Loan Forgiveness program to maximize the impact of State financial aid dollars.

Exhibit 16
Janet L. Hoffman Awards
Fiscal 2012-2013

	<u>2012</u>	<u>2013</u>
Awards Made	192	124
Average Annual Amount	\$5,860	\$6,142

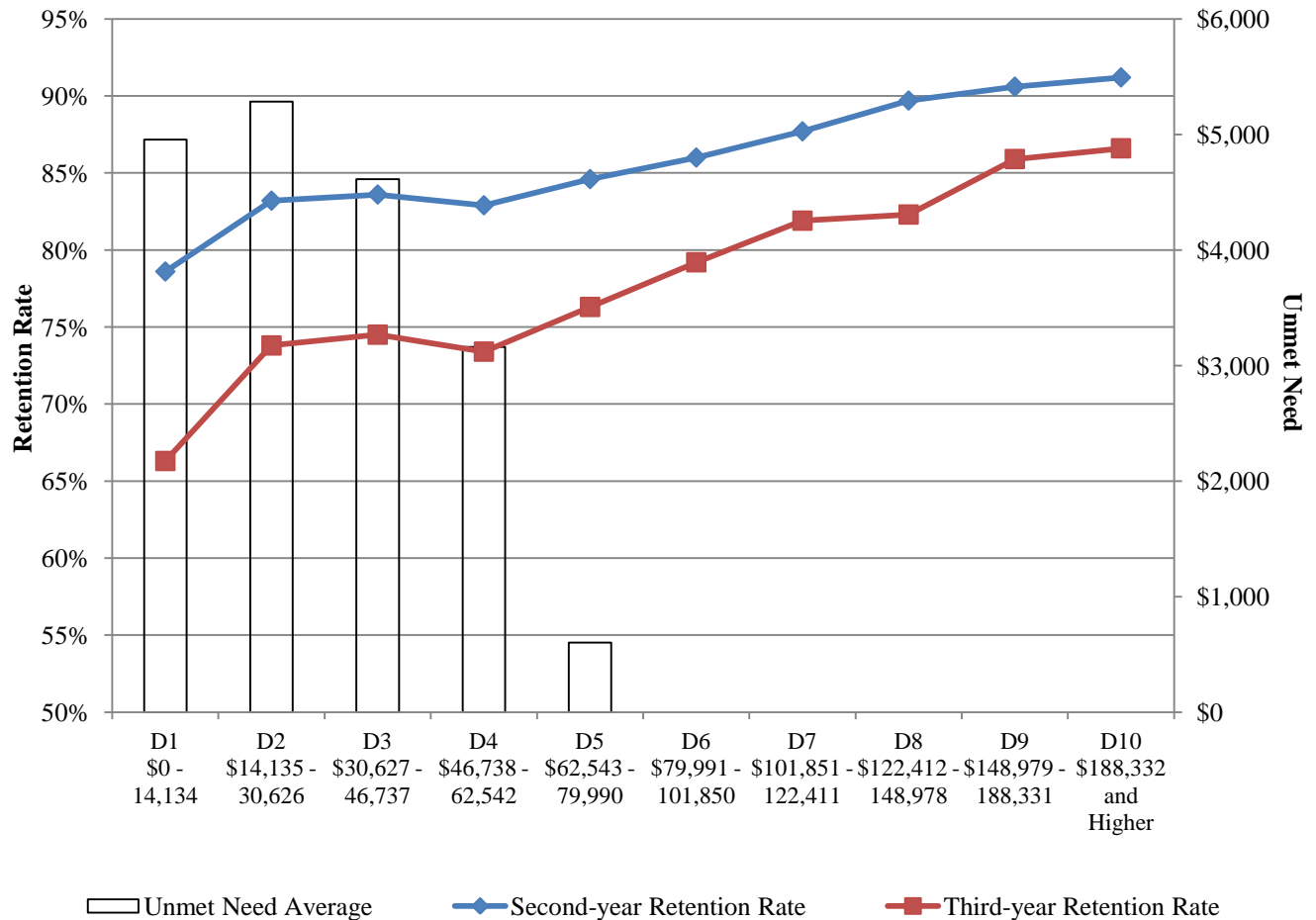
Source: Maryland Higher Education Commission

Using Financial Aid to Increase Completion Rates

A pressing application for financial aid research lies in determining how much aid is necessary to incentivize retention and graduation. In response to the 2013 *Joint Chairmen's Report* request, MHEC pursued a line of research examining how unmet need impacts the odds that a student will return (persistence) and complete a degree (graduation).

Running a regression analysis for students enrolled in fall 2010, MHEC found a very strong relationship between retention rates and family incomes. **Exhibit 17** shows the range of the students' family income split into 10 equal segments, or deciles, labeled D1 through D10. When second- and third-year retention rates are shown across these deciles, it becomes clear that higher income students have significantly higher retention rates. Additionally, the dropout rate, or the loss of students between the second- and third-year retention rates is much more pronounced among lower income students. In D1, the gap is 12.3 percentage points, but beginning with D5, the gap between the rates rapidly diminishes to only 4.6 percentage points for the highest income students. This is interesting because it suggests that the issue is not just access to institutions, but rather sustaining necessary financial aid for the duration of enrollment, especially for students in the lowest deciles, or incomes. The exhibit also shows average financial need by decile. Given that the lowest decile is more likely to receive Pell grants, it is not surprising that D2 students have a slightly higher unmet need than D1 students. By D5, unmet need is only \$600, and D6 and up actually have, on average, negative unmet need. In other words, the higher deciles are receiving financial aid benefits in excess of the cost of attendance. This is due to many students receiving various forms of merit aid.

Exhibit 17
Unmet Need vs. Retention Rates
Cohort 2010



Source: Maryland Higher Education Commission

Retention of low-income students is an ongoing problem for many institutions, as these students are more sensitive to annual price increases at institutions. Most institutions focus aid on enrolling students, rather than retaining students. One exception to this came about recently when changes to PLUS loans dramatically reduced enrollment at HBCUs, which disproportionately relied upon no-cap PLUS loans. Due to the decline in enrollment, MSU launched a campaign to raise funds for emergency short-term student financial aid for continuing students who had expected to receive PLUS loans but were denied. This raises the issue of whether institutions should focus more resources on retaining students that are already enrolled, rather than on first-time, full-time students. Exhibit 17, above, indicates that in many cases, the average unmet need may be small, especially for the low- to middle-income students, and given

limited institutional resources, it may make more sense to focus aid on students who have already accumulated credits toward a degree.

In the same study, MHEC then compared the strength of unmet need versus other variables, such as grade point average (GPA), Scholastic Aptitude Test (SAT) scores, and gender, in predicting retention and graduation. Families with incomes from about \$47,000 to \$122,000 used loans to finance 35 to 38% of college costs, higher than other income ranges under the study. This represents the range of families who generally just miss out on need-based awards but do not have enough income to simply pay for college out of pocket. After review, MHEC determined that unmet need is statistically significant for predicting retention for students in the lowest two income quintiles, but the effect size was small, especially compared to first-year GPA and SAT scores, both strictly academic indicators. Another model was run for graduation rates, and MHEC found GPA, SAT scores, and gender had stronger explanatory power than unmet need. So, while unmet need has a negative correlation to both persistence and four-year graduation rates, it is only significant for the two lowest income quintiles, or the lower 40% of AGI.

MHEC suggests a multi-year study may yield more powerful conclusions. Student loans complicate the analysis, so MHEC did not review loans in this report but suggested further study using a different analytical framework to include loans. In conclusion, MHEC supports further work on examining student debt and academic progression. As DLS is also recommending that MHEC rethink many of its financial aid programs, this is an excellent opportunity to apply the lessons learned in MHEC's research.

The University System of Maryland's (USM) own research findings from October 2013 discuss the quest to find the financial aid "levels sufficient to incentivize greater student retention and graduation." Ideally, there is a perfect size of award to cause a student to enroll. MHEC currently has \$250,000 in funding called Complete College Maryland, which is part of a One Step Away program to re-enroll near completers. These grants are generally quite small, but enough to get a student to pursue education again. USM notes that 12% of seniors, roughly 4,000 students with at least 90 credits, fail to graduate each year. Institutional and State funding should look to those students to realize the best bang for the buck.

DLS has, in prior analyses, suggested looking at changing the definition of a full-time student from the current federal standard of 12 credit hours to the average credits a student would need to actually graduate on time, 15 credit hours. So, for example in Maryland, a Pell-eligible student would receive no additional federal funds for enrolling in more than 12 credits, even though the institution may charge the student for additional credits. Minnesota currently scales financial aid this way. An alternative model comes from West Virginia, where two- and four-year institutions charge flat full-time tuition rates. In other words, a student pays the same price for 12 credits as for any number of credits beyond 12. Both models encourage students to enroll in the credits necessary to graduate on time. In Maryland, community colleges and the University of Maryland University College charge on a per credit basis. Data Maryland submits to Complete College America indicates that community college students graduate in

4.0 academic years and public four-year students in 4.2 years. Emphasizing to students that 15 credits are required to finish on time is a message that must be spread to Maryland institutions that struggle to graduate students within four or five years.

Recommendations

Most students rely on financial aid to afford postsecondary education. Demographics indicate that future higher education enrollment will include more minority and first generation students who are less likely to be prepared for the rigor of college academics and who will need greater financial assistance to enroll. While compared to many other states in recent years, Maryland has provided considerable support for higher education institutions, generally, and has held tuition at public four-year institutions down, the amount of financial aid has not kept pace with the financial need of Maryland students. Increasingly, students are turning to loans to fulfill financial need that is not met by grants and scholarships.

As the original EOI report concluded, more research is needed to address how the PIF model would work in practice, where the massive amount of necessary startup funding would come from, and how the model would coexist alongside existing federal and State financial aid programs. As mentioned, a number of states are proposing or actively engaging in white paper studies of PIF, including Maryland. SB 626/HB 853 would require USM to study, among other things, the creation of a PIF pilot program and report to the budget committees by December 31, 2014. A “wait and see” approach may be the most beneficial strategy for Maryland to determine how best to respond to PIF as much of the data required to analyze this model is not yet available. Ongoing dialogue between MHEC, the institutions, and the General Assembly will be critical for improving Maryland’s higher education institutions and achieving the three-part goal in the State plan for higher education: Access, Affordability, and Completion.

As MLDS comes online by the end of 2014, there will be better data and analysis available to policymakers and educators. Determining how financial aid can be used to incentivize enrollment, persistence, and graduation will be a critical early task for MLDS. Recently, in a series of discussions, MLDS proposed a number of far-reaching financial aid queries to begin this process, including how financial aid influences enrollment behavior. The following recommendations are intended to encourage discussion of the policy issues raised in this paper.

- **MHEC should coordinate with institutions to inform students about the FAFSA and ensure that all students fill out the FAFSA who are likely to benefit from it.**
- **MHEC, with MLDS, should develop performance accountability metrics for institutional aid, student loan debt, and/or default rates that will be tracked by institution and could be incorporated into performance-based funding.**

- **The State and institutions should consider incorporating progression metrics into scholarship renewal eligibility for State and institutional aid. For example, providing financial aid incentives for full-time students to take 15 credits, instead of the current 12 credits. This will increase on-time graduation and get the students (and the State) more “bang for the buck.”**
- **Institutions should establish best practices for reducing student loan burdens and set benchmarks for average loan debt and debt for lower-income students.**
- **The State and all public institutions should continue to prioritize the moderating of tuition increases and also closely consider how rapid increases in mandatory fees, especially for activities not crucial to an institution’s mission, such as intercollegiate athletics, impact students.**
- **MHEC should continue its analysis of the impact of State financial aid awards on student progression and completion and submit its findings and recommendations to the budget committees by October 1, 2014.**