Review of literature on state and institutional financial aid programs

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Introduction

Financial aid plays a crucial role in student success, with research showing that grant aid can increase enrollment, persistence, and completion. Students rely on a diverse ecosystem of financial aid, including federal, state, institutional, and private grants.

While federal grant aid, such as the Pell Grant, follows transparent uniform eligibility guidelines, state and institutional aid is allocated through 50 different state systems and varies between individual colleges.[1] As a result, there is less clarity and predictability of who receives state and institutional aid.

Our report examines this diverse landscape of state and institutional aid, analyzing how amounts have changed over time, what criteria determine eligibility, and how allocation mechanisms shape racial equity in college affordability for undergraduate students. The purpose of these appendices is to provide additional insight and context on sources cited in the accompanying report, including academic articles, policy briefs, and other articles of interest organized by the following topics: impacts of financial aid, net price, state grants, institutional aid, and wealth implications.

Impacts of Financial Aid

Decades of research confirm that financial aid—particularly grants—can be a key driver of student success. When students receive help completing the FAFSA, they are more likely to complete the form, receive aid, and enroll in college—especially high school seniors and adults with no prior college experience.[2] Furthermore, receipt of aid impacts enrollment decisions, with an additional $1,000 in grant aid increasing college attendance by approximately 4 percentage points.[3]

Financial aid does more than just get students in the door—it helps them stay and succeed. Recent research finds that grant aid boosts college persistence and completion by 2 to 3 percentage points at both two- and four-year institutions, with some studies suggesting enrollment gains could be as high as 6

[1] "Student Aid Index (SAI) and Pell Grant Eligibility | 2024-2025 Federal Student Aid Handbook." n.d. https://fsapartners.ed.gov/knowledge-center/fsa-handbook/2024-2025/application-and-verification-guide/ch3-student-aid-index-sai-and-pell-grant-eligibility.

[2] Bettinger, Eric P., Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. 2012. "The Role of Application Assistance and Information in College Decisions: Results From the H&R Block Fafsa Experiment." *The Quarterly Journal of Economics* 127 (3): 1205–42. https://doi.org/10.1093/qje/qjs017.

[3] Deming, David, and Susan Dynarski. 2011. "College Aid." In *Targeting Investments in Children: Fighting Poverty When Resources Are Limited*, edited by Phillip B. Levine and David J. Zimmerman, 283–302. University of Chicago Press. https://www.nber.org/system/files/chapters/c11730/c11730.pdf.

percentage points.[4] These findings reinforce earlier comprehensive reviews of causal studies, which also found similar gains in persistence and completion from an additional $1,000 in grant aid.[5]

While the eligibility criteria, allocation, and amount of financial aid vary widely across states and institutions, these studies underscore that financial aid is not merely a state or institutional budget item—it is a critical, high-impact investment that helps expand access to higher education and promote student success.

Net Price

Understanding the difference between sticker price and net price is critical for students and their families to accurately assess the affordability of college. These perceptions can play a powerful role in shaping whether students apply, enroll, or persist.

The sticker price refers to the total cost of attendance (tuition, housing, food, books, transportation, and other expenses) *before* financial aid is factored in. In reality, few students actually pay the *full* sticker price: about 25% of dependent students at in-state public 4-years and 16% at private non-profit institutions end up paying the total amount.[6] Even among high-income students, the share paying full price at public institutions dropped from 79% in 1995–96 to 47% in 2019–20.[7]

Still, sticker prices can heavily influence student's college aspirations and behavior. High school graduates who perceived college as unaffordable were 20-percentage point less likely to enroll within 3 years of graduation compared to those who deemed it affordable.[8] In a survey of over 21,000 high school seniors, 81% said high sticker prices discouraged them from applying to a college.[9] This hesitancy has real implications, where one analysis suggests that a 10 percent increase in sticker price can generate a 1-2 percentage point decrease in applications—even at institutions that would have met the full demonstrated need of their in-state residents.[10]

These cost concerns extend beyond high schools to working-age adults who could potentially enroll. A nationwide survey found that 56% of individuals who never enrolled in college or left without completing a degree cited cost as a "very important" factor in their decision to pursue or continue in

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[4] LaSota, Robin R., Joshua R. Polanin, Laura W. Perna, Melissa A. Rodgers, and Megan J. Austin. 2024. "Does Aid Matter? A Systematic Review and Meta-Analysis of the Effects of Grant Aid on College Student Outcomes." *Review of Educational Research*, April. https://doi.org/10.3102/00346543241239955.

[5] Nguyen, Tuan D., Jenna W. Kramer, and Brent J. Evans. 2019. "The Effects of Grant Aid on Student Persistence and Degree Attainment: A Systematic Review and Meta-Analysis of the Causal Evidence." *Review of Educational Research* 89 (6): 831–74. https://doi.org/10.3102/0034654319877156.

[6] Levine, Phillip. 2024. "Ignore the Sticker Price: How Have College Prices Really Changed?" Brookings, April 12, 2024. https://www.brookings.edu/articles/ignore-the-sticker-price-how-have-college-prices-really-changed/.

[7] Ibid.

[8] U.S. Department of Education. 2022. "College Affordability Views and College Enrollment." NCES 2022-057. https://nces.ed.gov/pubs2022/2022057.pdf.

[9] Niche.Com. 2022. "The New Normal: 2022 Niche Senior Enrollment Survey." https://www.niche.com/about/wp-content/uploads/2022/09/2022-Niche-Senior-Enrollment-Survey.pdf.

[10] Levine, Phillip B., Jennifer Ma, and Lauren C. Russell. 2022. "Do College Applicants Respond to Changes in Sticker Prices Even When They Don't Matter?" *Education Finance and Policy* 18 (3): 365–94. https://doi.org/10.1162/edfp_a_00372.

college.[11] The concern persists among current students as well—nearly one-third say they had contemplated discontinuing their education due to costs, with bachelor's degree seekers expressing these concerns more frequently than those in associate degree or certificate programs.[12]

A more realistic picture of what students are responsible to pay would be net price, which is what students must pay *after* grant aid is applied. Increasing transparency on college costs can shift perspectives: in one study, 50% of adults who had never enrolled in college stated they would be more likely to pursue a bachelor's degree after learning more about the true cost of college.[13]

However, net price can still be burdensome—especially those from low-income households. A 2023 analysis of 2,300 public and private 4-year institutions revealed a disturbing trend: approximately 700 colleges have increased net prices more for lower-income students than for their higher-income peers over the past decade.[14] This disparity is glaringly apparent in two-thirds of the colleges where net prices rose for both income groups; at these institutions, net prices increased at a *faster rate* for lower-income students (70%) compared to those with higher incomes (27%).[15] A more recent analysis had a different finding[16]: inflation-adjusted net prices have, on average, decreased at public 4-year institutions over the past decade for almost all students.[17] Yet whether this decrease makes college more affordable still depends on household finances. For families earning $40,000 or less, they are still expected to cover over $14,000 at public institutions—a substantial portion of their total household income.[18]

This affordability gap reflects a broader structural shift in how higher education is financed and paid for. Since 1975, the share of higher education expenditures has been shifting to students and families, who now pay the largest portion of college costs at nearly 46%, while federal (10%) and state/local (44%) expenditures make up the rest.[19] This is especially true for low-income students, where the average gap

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[11] Lumina Foundation—Gallup State of Higher Education. 2024."Cost of College: The Price Tag of Higher Education and Its Effect on Enrollment."https://www.luminafoundation.org/wp-content/uploads/2024/04/Cost.of_.College.pdf#page=6.

[12] Ibid.

[13] Ibid.

[14] Marcus, Jon and Fazil Khan. 2023. "Why Are Prices Rising More for Lower-income College Students Than Their Higher-income Peers?" The Hechinger Report. April 17, 2023. https://hechingerreport.org/colleges-are-raising-prices-faster-on-their-lower-income-than-their-higher-income-students/.

[15] Ibid.

[16] One potential reason for the different findings is the data being used. Marcus & Khan (2023) used IPEDS data from 2010-11 through 2020-21, and only included institutions that a) reported net price for "lowest and highest of five income categories" in 2020-21 and b) whose overall average enrollment was at least 500 students over the past decade. This left 1,508 institutions in the sample. Levine (2025) used net price calculator data from 2019-20 to 2024-25 stemming from College Scorecard.

[17] Levine, Phillip. 2025. "College Prices Are Falling for Everyone (Almost)." Brookings, March 10, 2025. https://www.brookings.edu/articles/college-prices-are-falling-for-everyone-almost/.

[18] Ibid.

[19] Cahalan, Margaret W., Marisha Addison, Nicole Brunt, Pooja R. Patel, Terry Vaughan III, Alysia Genao, Laura W. Perna. 2022. "Indicators of Higher Education Equity in the United States: 2022 Historical Trend Report." The Pell Institute for the Study of Opportunity in Higher Education of the Council for Opportunity in Education (COE), and Alliance for Higher Education and Democracy, University of Pennsylvania (PennAHEAD). https://coenet.org/wp-content/uploads/2022/10/publications-Indicators_of_Higher_Education_Equity_in_the_US_2022_Historical_Trend_Report.pdf.

between the cost of college and the financial aid they receive was 2.4 times higher in 2015 than in 1990 (adjusted for 2020 dollars), resulting in an average net price that is 94% of their family income.[20]

State Grants

The landscape of undergraduate financial support continues to evolve, with state grants now comprising 11% of total undergraduate grant aid—a slight decline from their position in 2003-04.[21] Despite this, the most recent calculations report that $14 billion state grants were awarded to undergraduates in 2023-24.[22]

Yet state grant aid varies dramatically nationwide, both in amount and allocation approach. For instance, full-time undergraduates received an average state grant of $1,180 in 2022-23, but this ranged from $3,720 in New Mexico to $20 in Montana.[23] While 74% of all state grant aid was allocated based on need, the national percentage masks significant differences: 22 states allocate nearly all aid based on financial need, while 12 states and Washington D.C. direct less than half their aid using need-based criteria.[24] Notably, need-based state grant aid as a share of all state grant aid has decreased by 17 percentage points since 1982 (from 91% to 74%)—a contributing factor to the decline in both the number of recipients and the amount of need-based aid.[25] Adding further complexity to the state grant landscape, 30 states operate grant programs with eligibility requirements that consider both need and merit criteria.[26]

There are also differences in state grant aid receipt by college segment (e.g. public, private, 2 vs 4-year) and student financial need (e.g. expected family contribution). In 2017-18, only 23% of undergraduates with an EFC under $6,000 at public 2-years received need-based aid, compared to 45% at public 4-years and 46% at private nonprofit 4-years.[27] In some states, the gap across college sectors is even wider: for example, the gap in need-based aid between low-EFC students at public 2-year versus four-year institutions varies by state—from just 7 percentage points in New York 63% vs. 70% to 54 percentage points in Ohio (9% vs. 63%).[28] These differences have equity implications, as over half of Latinx students

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[20] Ibid.

[21] Ma, Jennifer, Matea Pender, and Meghan Oster. 2024. "Trends in College Pricing and Student Aid 2024." College Board. https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf#page=32.

[22] National Association of State Student Grant and Aid Programs. 2023. "54th Annual Survey Report on State-Sponsored Student Financial Aid 2022-2023 Academic Year." https://www.nassgapsurvey.com/survey_reports/2022-2023-54th.pdf#page=4.

[23] Ma, Jennifer, Matea Pender, and Meghan Oster. 2024. "Trends in College Pricing and Student Aid 2024." College Board. https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf#page=49.

[24] Ibid.

[25] Ibid; Baker, Dominique J., Kelly Rosinger, Justin Ortagus, Robert Kelchen, Annie Everett, Mitchell Lingo, and Junghee Choi. 2023. "A National Analysis of Variations in State Financial Aid Program Design and Student Success."InformEd States Higher Education Policy Initiative. https://static1.squarespace.com/static/5d9f9fae6a122515ee074363/t/644befc68481f53a7ab812e9/1682698183066/ISPaper_StateFinAidProgramDesignStudentSuccess.pdf#page=12.

[26] Ibid.

[27] Baum, Sandy, Kristin Blagg, Leonardo Restrepo, and Fanny Terrones. 2023. "Race, Ethnicity, and the Design of State Grant Aid Programs." The Urban Institute. https://www.urban.org/sites/default/files/2023-02/Race%2C%20Ethnicity%2C%20and%20the%20Design%20of%20State%20Grant%20Aid%20Programs%20Fact%20Sheet.pdf#page=2.

[28] Ibid.

attend public 2-year colleges.[29] Although these public 2-year systems typically have lower tuition compared to four-years, students often face significant unmet need to cover non-tuition expenses such as housing, food, and transportation.[30]

State grant eligibility requirements can often reflect outdated assumptions about today's college students, creating barriers for those who do not fit the traditional mold.[31] A common assumption is that the vast majority of students attend full-time, even though more than a third of undergraduates enrolled part-time in 2017-18.[32] When states restrict grant aid to full-time students, they effectively exclude part-time learners—disproportionately impacting Black and Latinx students, who are more likely to enroll part-time than their White and Asian peers.[33] Another misconception is that students enroll in college immediately after high school—but in reality, only about 62% of high school graduates did so in 2022.[34] This assumption can have racial equity implications, as states that limit grant aid to recent high school graduates disproportionately disadvantages Black students, who tend to begin their college journey at older ages.[35]

Moreover, state grant eligibility rules that require a Social Security Number restrict college affordability to the nearly 1 in 50 college students who are undocumented—most of whom are Latinx, Asian, and Black.[36] Despite contributing over $37 billion in state and local taxes, this population navigates a complex web of state policies: from actively barring them from enrolling at public universities to being denied

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[29] Ibid.

[30] Ma, Jennifer, Matea Pender, and Meghan Oster. 2024. "Trends in College Pricing and Student Aid 2024." College Board. https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf#page=11.; Szabo-Kubitz, Laura and Ana Fung. 2020. "What College Costs for Low-Income Californians: 2020." The Institute for College Access & Success (TICAS). https://ticas.org/wp-content/uploads/2020/08/what-college-costs-for-low-income-californians-2020.pdf

[31] Williams, Brittani. 2024. "Who Deserves State Financial Aid? Eligibility Criteria for Students Entering College." The Education Trust. https://edtrust.org/wp-content/uploads/2014/09/State-Financial-Aid-V7.pdf.; Education Strategy Group. 2024. "Aiding Attainment: Leveraging State Financial Aid for Success and Success, State Aid Scenarios." https://edstrategy.org/wp-content/uploads/2024/09/Aiding-Attainment-Student-Scenarios.pdf.

[32] Baum, Sandy, Kristin Blagg, Leonardo Restrepo, and Fanny Terrones. 2023. "Race, Ethnicity, and the Design of State Grant Aid Programs." The Urban Institute. https://www.urban.org/sites/default/files/2023-02/Race%2C%20Ethnicity%2C%20and%20the%20Design%20of%20State%20Grant%20Aid%20Programs%20Fact%20Sheet.pdf#page=2.

[33] Ibid.

[34] National Center for Education Statistics. 2023. "Percentage of Recent High School Completers Enrolled in College, by Race/Ethnicity and Level of Institution: 1960 Through 2022." Digest of Education Statistics. https://nces.ed.gov/programs/digest/d23/tables/dt23_302.20.asp.

[35] Baum, Sandy, Kristin Blagg, Leonardo Restrepo, and Fanny Terrones. 2023. "Race, Ethnicity, and the Design of State Grant Aid Programs." The Urban Institute. https://www.urban.org/sites/default/files/2023-02/Race%2C%20Ethnicity%2C%20and%20the%20Design%20of%20State%20Grant%20Aid%20Programs%20Fact%20Sheet.pdf#page=3.

[36] President's Alliance on Higher Education and Immigration. 2024. "Undocumented Students in U.S. Higher Education." https://www.higheredimmigrationportal.org/research/undocumented-students-in-higher-education-updated-march-2021/.

in-state tuition or aid.[37] In fact, only 18 states and D.C. offer access to both in-state tuition and grant aid for undocumented students.[38,39] When aid eligibility hinges on documentation status, states systematically deny a historically marginalized population the financial resources to access and obtain a postsecondary education, despite the fact that many students have lived in the U.S. the majority of their lives.[40]

Setting academic criteria for state grant aid is also widespread, with at least 31 states implementing some form of merit-based financial aid program between 2004 and 2020.[41] The goals for this shift to merit aid vary, ranging from motivating high school achievement and degree progress to encouraging high-achieving students to stay in their home state for college and the workforce.[42] But this shift to merit aid can end up disproportionately benefiting White students and those who need aid the least. One reason is that White students are more likely to attend well-resourced schools—which can offer more academic support, more experienced teachers, or smaller class sizes for better academic

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[37] Davis, Carl, Marco Guzman, and Emma Sifre. 2024. "Tax Payments by Undocumented Immigrants." Institute on Taxation and Economic Policy. https://sfo2.digitaloceanspaces.com/itep/ITEP-Tax-Payments-by-Undocumented-Immigrants-2024.pdf.; President's Alliance on Higher Education and Immigration. n.d. "Data Tools: Tuition & Financial Aid by State | Higher Ed Immigration Portal." https://www.higheredimmigrationportal.org/undocumented-daca-students/data-tools/#:~:text=Two%20states%2C%20Alabama%20and%20South,state's%20public%20colleges%20and%20universities.

[38] President's Alliance on Higher Education and Immigration. n.d. "Tuition and Financial Aid Equity for Undocumented Students." https://www.higheredimmigrationportal.org/states/tuition-financial-aid-equity-for-undocumented-students/.

[39] The number cited in-text differs from the total listed on the source webpage for a number of reasons. Arizona is not counted as providing in-state aid, but Proposition 308 provides undocumented individuals access to state grant aid. Utah and Connecticut are excluded because they only offer access to institutional—not all state—aid to undocumented individuals.

[40] Batalova, Jeanne. 2024. "Explainer: Who Are Immigrants in the United States?" Migration Policy Institute. https://www.migrationpolicy.org/content/who-is-us-immigrant#:~:text=The%20unauthorized%20immigrant%20population%2C%20which,immigrants%20may%20have%20returned%20home.; FWD.US. 2025. "Dreamers By the Numbers." https://www.fwd.us/news/dreamers-by-the-numbers/.; Van Hook, Jessica. 2025. "Analysis: Who are the immigrants who come to the U.S.? Here's the data." PBS News. https://www.pbs.org/newshour/nation/analysis-who-are-the-immigrants-who-come-to-the-u-s-heres-the-data#:~:text=Duration%20of%20residence,within%20the%20previous%20five%20years.&text=That%20means%20many%20of%20the,term%20members%20of%20American%20society.

[41] Baker, Dominique J., Kelly Rosinger, Justin Ortagus, Robert Kelchen, Annie Everett, Mitchell Lingo, and Junghee Choi. 2023. "A National Analysis of Variations in State Financial Aid Program Design and Student Success."InformEd States Higher Education Policy Initiative. https://static1.squarespace.com/static/5d9f9fae6a122515ee074363/t/644befc68481f53a7ab812e9/1682698183066/ISPaper_StateFinAidProgramDesignStudentSuccess.pdf.

[42] Carruthers, Celeste K., and Umut Özek. 2016. "Losing HOPE: Financial Aid and the Line Between College and Work." *Economics of Education Review* 53 (May): 1–15. https://doi.org/10.1016/j.econedurev.2016.03.014.; Dynarski, Susan, Lindsay C. Page, and Judith Scott-Clayton. (2022). College Costs, Financial Aid, and Student Decisions." National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w30275/w30275.pdf#page=20.; Ordway, Denise-Marie. 2020. "Brain Drain: Does Tying College Aid to Residency Keep Graduates in State?" The Journalist's Resource. https://journalistsresource.org/economics/brain-drain-college-student-aid/#:~:text=Overall%2C%20this%20study%20provides%20evidence,on%20reducing%20state%20brain%20drain.%E2%80%9D.

outcomes—while students of color often enroll in districts with large funding gaps.[43] When states set a minimum 3.0 GPA requirement, White students gain a significant advantage, with 80% meeting this threshold in comparison to only 72% of Latinx and 63% of Black students (in 2017-18).[44] State grants like Louisiana's TOPS program exemplifies aid going to those with less financial need, where in 2019-20, nearly 75% of its funding went to White students and families earning over $100,000.[45] Similar racial disparities characterize merit-based programs in Georgia and Florida, highlighting how seemingly neutral merit-based requirements can reinforce existing privileges while systemically excluding historically marginalized student populations.[46]

Free college programs represent a promising evolution of state grant aid, with documented benefits for loan reduction, enrollment, transfer, and graduation outcomes.[47] Yet their design often undermines their equity potential. According to a report that analyzed 23 statewide free college programs, at least half of these programs limited their coverage to two-year institutions—blocking affordable pathways to bachelor's degrees—and excluded large populations, such as adult learners, returning students, part-time enrollees, undocumented students, and justice-impacted individuals.[48]

Institutional Aid, Policies, and Practices

While private grants' share of total financial aid has stayed roughly the same for undergraduate students since 2003-04, institutional grants' share has actually increased, making up 49% of grant aid awarded in

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[43] The Century Foundation. 2020. "Closing America's Education Funding Gaps." https://tcf.org/content/report/closing-americas-education-funding/; The Education Trust. 2022. "Equal Is Not Good Enough: An Analysis of School Funding Equity Across the U.S. and Within Each State." https://edtrust.org/wp-content/uploads/2014/09/Advocacy-Brief-Equal-Is-Not-Good-Enough-December-2022.pdf; Jackson, Krabo C. and Claire Mackevicius. 2021. "The Distribution of School Spending Impacts." National Bureau of Economic Research (NBER). https://www.nber.org/system/files/working_papers/w28517/w28517.pdf

[44] Baum, Sandy, Kristin Blagg, Leonardo Restrepo, and Fanny Terrones. 2023. "Race, Ethnicity, and the Design of State Grant Aid Programs." The Urban Institute. https://www.urban.org/sites/default/files/2023-02/Race%2C%20Ethnicity%2C%20and%20the%20Design%20of%20State%20Grant%20Aid%20Programs%20Fact%20Sheet.pdf.

[45] Louisiana Board of Regents. 2021. "Final Approved 2021 TOPS Report (as Required by R.S. 17:5067)." https://www.laregents.edu/wp-content/uploads/2022/03/Final-Approved-2021-TOPS-Report.pdf.

[46] Harris, Naomi. 2022. "How Popular Merit College Scholarships Have Perpetuated Racial Inequities." The Washington Post. https://www.washingtonpost.com/education/2022/05/07/merit-scholarships-college-racial-inequities/.

[47] Bell, Elizabeth, and Denisa Gándara. 2021. "Can Free Community College Close Racial Disparities in Postsecondary Attainment? How Tulsa Achieves Affects Racially Minoritized Student Outcomes." *American Educational Research Journal* 58 (6): 1142–77. https://doi.org/10.3102/00028312211003501.; Gándara, Denisa, and Amy Li. 2020. "Promise for Whom? 'Free-College' Programs and Enrollments by Race and Gender Classifications at Public, 2-Year Colleges." *Educational Evaluation and Policy Analysis* 42 (4): 603–27. https://doi.org/10.3102/0162373720962472.; Odle, Taylor K., Jason C. Lee, and Steven P. Gentile. 2021. "Do Promise Programs Reduce Student Loans? Evidence From Tennessee Promise." *The Journal of Higher Education* 92 (6): 847–76. https://doi.org/10.1080/00221546.2021.1888674.

[48] Jones, Tiffany, Jaime Ramirez-Mendoza, and Victoria Jackson. 2020. "A Promise Worth Keeping: An Updated Equity-Driven Framework for Free College Programs." The Education Trust. https://edtrust.org/wp-content/uploads/2014/09/A-Promise-Worth-Keeping_An-Updated-Equity-Driven-Framework-for-Free-College-Programs_October_2020.pdf.

2023-24.[49] Notably, the percentage and amount of institutional aid granted to first-time, full-time undergraduates differs across sectors. In 2021–2022, students at public two-year institutions received the least aid (22% of students, averaging $520).[50] Students at public four-year institutions received more (62% of students, averaging $4,170), while those at private nonprofit four-year institutions received the most (83% of students, averaging $20,860).[51]

Although institutional grants have increased, so have college costs. Adjusted for inflation, average tuition and fees at public two-year colleges are nearly 1.5 times higher than they were 30 years ago; at public four-year institutions, they have doubled; and at private, nonprofit four-year institutions, they are 1.75 times higher.[52] These figures do not include non-tuition expenses, which comprise nearly 80% of total cost at public 2-years and 60% at public 4-year institutions, and can be larger in states with higher costs of living.[53] Even well-intentioned policy interventions can trigger unintended consequences: when states freeze or cap how much colleges can increase tuition, four-year institutions often respond by reducing institutional aid awards, effectively reducing potential savings for students.[54]

Some institutions view the high-cost, high-aid model as an enrollment management tactic to offset stagnant state funding. The reasoning, according to Burd, is that with a projected decline in high school graduates, public colleges began practicing financial leveraging, using all their institutional aid for a new set of strategic purposes.[55] This is partially done by targeting out-of-state students who pay higher tuition—filling classrooms and boosting campus prestige by attracting affluent, high-achieving students.

Part of the success of financial aid leveraging is the framing and calculation of aid options, which can significantly influence student's decision making.[56] For example, some students would be more attracted to a $5,000 institutional grant at a school costing $15,000 than to a school with a $10,000 sticker price—despite identical final costs. While institutions frame these practices as necessary adaptations to funding challenges and eventually rerouting aid resources to low-income students, the evidence suggests otherwise. Growth in institutional merit aid has outpaced that of need-based aid in recent years: from

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[49] Ma, Jennifer, Matea Pender, Meghan Oster, and College Board. 2024. "Trends in College Pricing and Student Aid 2024." College Board. https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf.

[50] Ibid.

[51] Ibid.

[52] Ibid.

[53] Ibid; Rothstein, Robin. 2024. "Examining the Cost of Living by State in 2024." Forbes. https://www.forbes.com/advisor/mortgages/cost-of-living-by-state/.

[54] Miller, Lois, and Minseon Park. 2025. "Unintended Costs: The Hidden Consequences of Tuition Freezes and Caps." Postsecondary Education and Economics Research Center at American University. https://www.american.edu/spa/peer/upload/peer_unintended-costs_final.pdf.

[55] Burd, Stephen. 2020. "Crisis Point: How Enrollment Management and the Merit-Aid Arms Race Are Derailing Public Higher Education." New America. https://www.newamerica.org/education-policy/reports/crisis-point-how-enrollment-management-and-merit-aid-arms-race-are-destroying-public-higher-education/.

[56] Dynarski, Susan, CJ Libassi, Katherine Michelmore, and Stephanie Owen. 2021. "Closing the Gap: The Effect of Reducing Complexity and Uncertainty in College Pricing on the Choices of Low-Income Students." *American Economic Review* 111 (6): 1721–56. https://doi.org/10.1257/aer.20200451.; Baum, Sandy and Saul Schwartz. 2013. "Student Aid, Student Behavior, and Educational Attainment." The George Washington Graduate School of Education and Human Development. https://gsehd.gwu.edu/sites/g/files/zaxdzs4166/files/2023-11/barriers-aid-behavior-educational-attainment.pdf#page=5

2001-17, public four-year colleges directed nearly $32 billion in institutional aid toward students without demonstrated financial need.[57] At more than half of these institutions, non-need based aid spending doubled after adjusting for inflation, while the average financial need met actually decreased.[58] Only a few outliers—mainly in California, Texas, and North Carolina—have bucked this trend.

But this pricing strategy—such as presenting four identical $5,000 scholarships to attract four high-income students, instead of spending the same $20,000 on one low-income student who can't enroll without it— creates vastly different decision-making scenarios across income levels. By strategically distributing financial aid to entice higher-paying students, institutions inadvertently create a system where the ability to afford college becomes increasingly dependent on family income.For low-income students, the amount of institutional aid may determine whether college is possible, while more affluent students—who are more likely to afford college without aid— get enticed by a "discounted" price. Burd argues this is by design, as the goal of financial aid leveraging is to calculate the "price point to offer and enroll different groups of students and not a dollar more"—prioritizing maximizing revenue and prestige over allocating aid equitably to low-income students.[59]

Financial aid packaging is more than just the money—it is also about crafting clear, accessible aid offers that help students understand the true cost of college and make informed enrollment decisions. Yet there is no standardized, required format for these critical communications, leaving institutions broad discretion in how they present costs and aid.[60] Rather than resulting in transparency, this institutional flexibility often muddles key costs and financial aid information. One analysis of 515 unique award letters found that 7 out of 10 did not clarify the distinctions between grants and loans—with 136 unique terms for unsubsidized student loans—and frequently lumped all financial aid types together, making it more difficult for students to discern grants from loans or work study.[61] Similarly, the Government Accountability Office evaluated award letters from a nationally representative sample and discovered that 91% of colleges either omitted or underestimated net prices in their award letters, and over half did not have actionable steps in their aid offers for students to know how to accept or deny their aid.[62] Without clear and detailed aid offers, institutions risk obscuring true college costs—especially for families with the least experience and support navigating higher education.

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[57] Burd, Stephen. 2020. "Crisis Point: How Enrollment Management and the Merit-Aid Arms Race Are Derailing Public Higher Education." New America. https://www.newamerica.org/education-policy/reports/crisis-point-how-enrollment-management-and-merit-aid-arms-race-are-destroying-public-higher-education/.

[58] Ibid.

[59] Ibid.

[60] Federal Student Aid. n.d. "How to Evaluate Your Aid Offers." https://studentaid.gov/articles/evaluating-financial-aid-offers/#:~:text=Understand%20What%20an%20Aid%20Offer,where%20step%201%20comes%20in

[61] Burd, Stephen, Rachel Fishman, Laura Keane, and Julie Habbert. 2018. "Decoding the Cost of College: The Case for Transparent Financial Aid Award Letters." New America & uAspire. https://www.uaspire.org/getattachment/fdc6e2a5-e4fc-4390-ae17-de4b9b9df9da/Decoding-the-Cost-of-College.pdf

[62] U.S. Government Accountability Office. 2022. "Financial Aid Offers: Action Needed to Improve Information on College Costs and Student Aid." https://www.gao.gov/products/gao-23-104708.

The consequences of financial aid leveraging and confusing financial aid award offers often fall hardest on those from lowest income backgrounds. Even after grants and scholarships, these students would need to contribute nearly 150% of their total household income to cover the cost of a 4-year college.[63] Students of color are also disproportionately impacted, as they are more likely to encounter gaps between their financial aid, what their families can afford, and what they are required to pay. For instance, nearly 9 in 10 Black students have unmet financial need, with an average gap of nearly $9,000—the highest of any racial or ethnic group.[64] In contrast, nearly a third of White students have enough aid and family resources to cover their college costs, and on average, actually have about $300 in resources left over.[65]

Students facing funding gaps are often advised to seek outside scholarships, yet this is an incomplete solution for most. Only about 11% of students receive private source grants,[66] and much like state grant aid programs, eligibility requirements can inadvertently exclude historically excluded populations.[67] Even for the fortunate few who secure these scholarships, an institutional practice called scholarship displacement can neutralize their benefit.[68] This occurs when colleges reduce a student's financial aid package by the exact amount of their private scholarship to ensure the student does not exceed their calculated financial need—essentially nullifying what should be additional key financial resources. Though comprehensive research remains limited, the practice appears to be common: a 2013 survey of 61 colleges revealed half practiced scholarship displacement, while a 2021 student survey found half of over 500 scholarship recipients had their institutional aid reduced accordingly.[69]

The Role of Wealth

The income and wealth of households matter significantly. While individuals from low-income and low-wealth backgrounds are less likely to enroll in college compared to their more affluent peers, data suggests that higher amounts in one bucket can help protect against the effects of having less in the other.[70] And there are stark differences in economic starting points: 48% of White young adults (ages 18-28) come from high-income, high-wealth households, while 26% of Black young adults face the

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[63] Vargas, Marián and Kim Dancy.. 2023. “College Affordability Still Out of Reach for Students With Lowest Incomes, Students of Color.” Institute for Higher Education Policy. https://www.ihep.org/college-affordability-still-out-of-reach-for-students-with-lowest-incomes-students-of-color/.

[64] Ibid.

[65] Ibid.

[66] Author’s analysis of National Postsecondary Aid Study, 2019–20 via NCES Datalab, table retrieval code qdzorw.

[67] Santana, Paola. 2023. “The requirements for handing out state financial aid can impact students of color negatively, but we can change that.” The Lumina Foundation. https://www.luminafoundation.org/news-and-views/the-requirements-for-handing-out-state-financial-aid-can-impact-students-of-color-negatively-but-we-can-change-that/

[68] Nesbit, Joanna. 2023. “Yes, Colleges Really Can Cut Your Financial Aid if You Win Other Scholarships.” uAspire. https://www.uaspire.org/news-events/yes,-colleges-really-can-cut-your-financial-aid-if

[69] Kantrowitz, Mark. 2013. “NSPA Scholarship Displacement Survey.” National Scholarship Providers Association. https://www.edvisors.com/media/files/edvisors-site/student-aid-policy/20130916-nspa-scholarship-displacement.pdf; Kantrowitz, Mark. 2021. “Half of Scholarship Recipients Experience Scholarship Displacement.” Forbes. https://www.forbes.com/sites/markkantrowitz/2021/10/04/half-of-scholarship-recipients-experience-scholarship-displacement/.

[70] Sanchez, Charles, Eleanor Eckerson Peters, Diane Cheng, and Sean Tierney. 2024. “Breaking the Cycle of Racial Wealth Inequities and Higher Education Outcomes: How Data-Driven Insights Can Inform Policy Solutions That Address the Racial Wealth Gap.” Institute for Higher Education Policy. https://www.ihep.org/wp-content/uploads/2024/05/IHEP_RWG_FINAL.pdf.

compounding challenge of low income and low wealth.[71] This economic divide contributes to persistent college enrollment and completion disparities that affect even affluent students of color, highlighting systemic barriers beyond finances.[72]

The FAFSA, while helping facilitate access to federal and state aid, can overlook key wealth indicators that provide "implicit subsidies" to well-off households. The current FAFSA methodology excludes home equity within primary residence and retirement savings when calculating Student Aid Index (SAI), —giving these households, which are disproportionately White, an implicit subsidy that can qualify them for more grant aid.[73] One estimate suggests that approximately 850,000 students benefit from this implicit subsidy, totaling nearly $2.3 billion.[74] Not only is this twice the budget of federal work-study, but nearly 80% of this implicit subsidy goes to White students.[75]

Conclusion

With college costs rising and a postsecondary degree becoming increasingly necessary to access a good job, it is crucial to understand how the ecosystem of state and institutional aid operates.[76] Some state and institutional practices focus their resources on students with the greatest financial need. However, others allocate funds based on eligibility requirements that can exclude today's student population and prioritize merit aid, institutional prestige, and revenue generation—where financial need is often overlooked, if it is considered at all. These practices disproportionately affect historically underserved students and those from low-income backgrounds, undermining higher education's potential as a pathway to economic mobility.

While this brief focuses on key trends, there are other important considerations beyond the appendices that state policymakers and institutional leaders should factor into their aid allocation decisions. This includes:

- how to leverage the new federal Student Aid Index to better target the lowest-income students[77];
- re-evaluating how financial aid beyond tuition and fees is treated as taxable income, which can penalize the very students it aims to support[78];

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[71] Ibid.
[72] Ibid.
[73] Levine, Phillip and Dubravka Ritter. 2022. "The Racial Wealth Gap, Financial Aid, and College Access." Brookings. https://www.brookings.edu/articles/the-racial-wealth-gap-financial-aid-and-college-access/.
[74] Ibid.
[75] Ibid.
[76] National Center for Education Statistics. 2023. "Average undergraduate tuition, fees, room, and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: Selected academic years, 1963-64 through 2022-23." Digest of Education Statistics. https://nces.ed.gov/programs/digest/d23/tables/dt23_330.10.asp.; Carnevale, P. Anthony, Nicole Smith, Martin Van Der Werf, and Michael C. Quinn. 2023. "After Everything: Projections of Jobs, Education, and Training Requirements through 2031." Georgetown University McCourt School of Public Policy Center on Education and the Workforce. https://cew.georgetown.edu/wp-content/uploads/Projections2031-National-Report.pdf#page=21.
[77] McKibben, Bryce. 2025. "During Financial Aid Season, Colleges Should Support Students with the Greatest Needs." The Hope Center for Student Basic Needs. https://hope.temple.edu/the-hope-blog/financial-aid-season-we-should-support-students-greatest-needs.
[78] Internal Revenue Service. N.d. "Topic no.421, Scholarships, fellowships grants, and other grants." https://www.irs.gov/taxtopics/tc421.

- address exclusionary criteria that disproportionately affect undocumented students, justice-impacted individuals, adult learners, and those with some college but no degree;
- beyond policies, ensure that aid processes themselves are accessible—such as minimizing administrative burdens for students while addressing the staffing challenges faced by financial aid offices that are essential to implementing these policies on the ground.[79]

As states and institutions design and revise their grant aid programs, they must ask themselves: are financial aid policies and practices expanding opportunity, or reinforcing barriers? To truly live up to the promise of higher education as a public good, leaders must center equity to ensure aid reaches the students who need it most—especially those low-income individuals who have been historically overlooked and underserved.

[79] Fuesting, Melissa and Charlotte Etier. 2024. "The Higher Education Financial Aid Workforce: Pay, Representation, Pay Equity, and Retention." College and University Professional Association for Human Resources. https://www.cupahr.org/surveys/research-briefs/higher-ed-financial-aid-workforce-may-2024/.