



Financial Aid Packaging Philosophies

Given a student's demonstrated financial need, the college's packaging philosophy dictates how much of each type of financial aid will be awarded to the student.

Financial aid packages contain different types of aid from a variety of sources. Financial aid includes gift aid and self-help aid. Gift aid includes grants, scholarships and other money that does not need to be repaid. Self-help aid includes loans and student employment. Thus, financial aid packages are based on the following equations:

Financial Aid = Gift Aid + Self-Help Aid

Gift Aid = Grants + Scholarships + Tuition Waivers

Self-Help Aid = Student Loans + Student Employment

The most common sources of financial aid include the federal government, the state governments, private scholarships, employers and colleges and universities. Each funding source has its own rules concerning the allocation of its financial aid funds.

There are many components to a college's packaging philosophy, and each college has a different packaging philosophy. None of these components are mutually exclusive. Some colleges use a combination of several of these approaches. Some of the major components include:

- **Unmet need.** Many colleges do not have enough financial aid resources to meet the full demonstrated financial need of every eligible student. These colleges leave some or all students with a gap between the student's demonstrated financial need and the financial aid package.
- **Skin in the game.** Some colleges require every student, even students with exceptional financial need, to contribute something to their college costs. Sometimes, this manifests itself in a minimum student contribution or summer work expectation, and sometimes, in a self-help (work/loan) level.
- **Minimum student contribution.** Colleges and universities with a minimum student contribution assume that every student, no matter how poor, is capable of contributing something to the costs of his/her college education. Often the minimum student contribution is based on assumptions concerning the amount of money a student can earn during the summer break or vacation periods.
- **Self-help level.** The self-help level is a dollar threshold of demonstrated financial need that is met with student loans and student employment, as opposed to grants. Demonstrated financial need above the self-help level is met with grants and/or scholarships. Effectively, every student receiving financial aid is expected to borrow or earn to help pay for his or her education.
- **First dollar vs. last dollar.** First-dollar funding is awarded before all other aid and is not reduced when the student receives other financial aid funding. The Federal Pell Grant is an example of first-dollar funding. It is never reduced, not even when the student wins private scholarships. Last-dollar funding is awarded after all other aid and will be reduced if the student receives additional financial aid later, such

as a private scholarship. Some state grant programs require colleges to reduce the state grants when a student is overawarded, ahead of all other financial aid funding. Many colleges treat their own grants as last-dollar funding.

- **Preferential packaging.** Preferential packaging leverages the mix of grants vs. loans in the financial aid package as a recruiting tool. Some colleges will award more grants to students who have are more academically talented, with higher grades and admissions test scores. Others will award more grants, especially non-need-based grants, to wealthier students. These “full pay” students still pay more after subtracting the grants than low-income students.
- **Prioritization of financial aid.** If a college has limited funds, it can choose to meet the full demonstrated financial need of some students and leave other students with larger amounts unmet need, or it can leave all students with a smaller gap. Likewise, a college can choose to give every needy student a small grant or to concentrate the grants among the neediest of students (e.g., students with a zero EFC, students with very low income or first-generation college students).
- **Front-loading of grants.** Some colleges award larger grants to incoming first-year students and smaller grants to sophomores, juniors and seniors. This reduces the net price during the first year, making the college look less expensive. Effectively it is a form of bait and switch. It also reduces the debt of students who drop out.
- **Rewarding persistence and completion.** Some colleges award larger grants to students who are closer to graduation, to encourage success. This reduces the average debt at graduation for the students who graduate.
- **“No Loans” financial aid policy.** About six dozen elite colleges have generous financial aid policies that do not include any loans in the financial aid package. Loans are replaced with grants and student employment.
- **Packaging PLUS.** Some colleges include non-need-based loans, like the unsubsidized Federal Stafford loan and the Federal Parent PLUS loan, in the financial aid package. Strictly speaking, only need-based aid should be included in the financial aid package. The non-need-based loans are intended to help the family pay for its share of college costs. But, some financial aid administrators argue that including these forms of financing in the financial aid package will help direct the family to less expensive forms of education loans. Including loans in the financial aid package, however, also has a tendency to mask unmet demonstrated financial need and low levels of gift aid, making the college seem less expensive.
- **Limiting aid to direct costs.** Some colleges limit their grant funding to just direct costs, such as tuition and fees (and in some cases, textbooks and housing), due to concerns about students over-borrowing for living expenses. These colleges treat the grants as a discount on the money paid to the college.
- **Administrative simplicity.** Some colleges award grant funding on a first-come, first-served basis, until the money runs out. Others limit grants to students who apply for financial aid by a priority deadline. This helps spread out the workload in processing financial aid applications.