



Opening the door: exploring ways to expand financial aid

This document aims to provide context for a discussion of financial aid at Reed College at the first meeting of Strategic Planning Partners (SP2).

The Ad Hoc Committee on Strategic Planning and Working Groups with Related Questions

Reed has established an ad hoc committee on strategic planning. This committee has been defining working groups and outlining the questions that they will address. The committee has suggested 11 working groups. One working group will investigate the following group of questions related to financial aid:

Whom do we want to educate?

What kinds of students do we think most benefit from a Reed education, and are they choosing to apply and come to Reed? What is our desired student body composition? What kind of financial aid is required to meet our goals? Do we want more applications, and if so, from what kind of students? (Intellectuals, performers, scientists, leaders, world-changers, international students, students who have room for growth or need a second chance?) Are we receiving enough applications from these students? How will demographic and market changes impact our admission and financial aid strategies?

Your Task

We invite you to reflect on a related question:

Should we expand the financial aid program at Reed, and if so, how?

History and Current Status

Throughout the history of the college, Reed has been committed to accessibility. Funding, however, has been an ongoing challenge. Scholarships have been available since the founding of the college, but this generous support could not always meet the full need of students. For a period of time, the college practiced a “come anyway” policy, offering admission to students it couldn’t fully support (described more fully in the following pages).

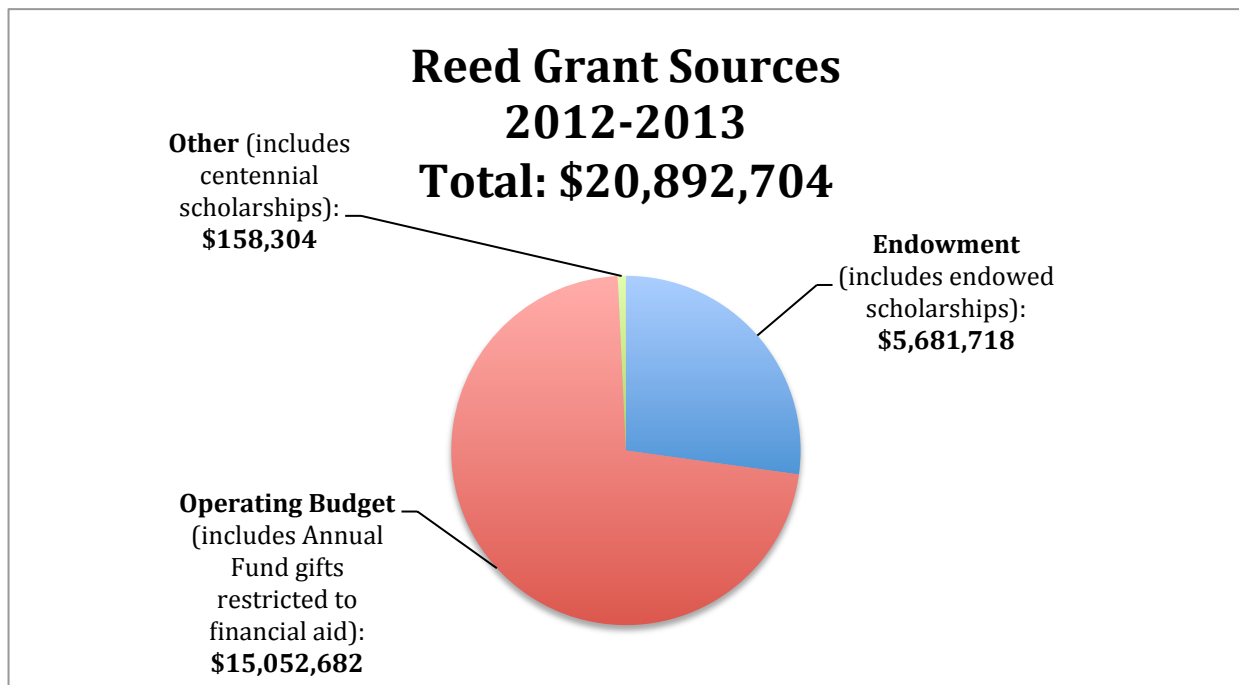
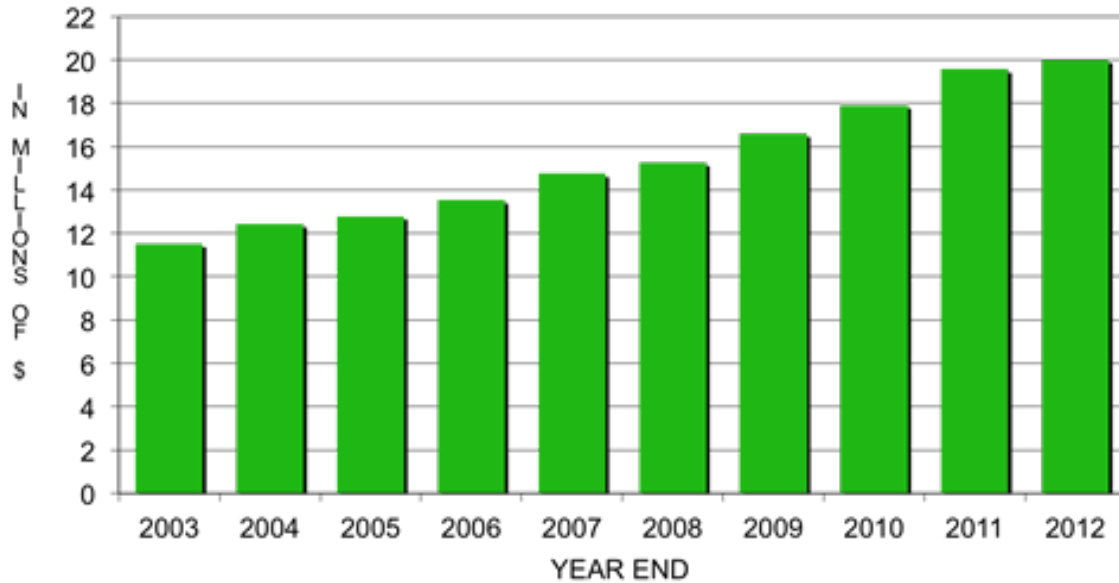
By the start of the Centennial Campaign, Reed’s policies offered full support to its students for a full eight semesters. During the campaign, the college was able to increase its financial aid budget every year in the midst of the greatest economic downturn since the Great Depression (see historical expenditures chart, below). In 1975, 35% of students received aid. Now that total is over 50%. Funding streams that support the financial aid budget include funds flowing from the endowment and the operating budget (which includes Annual Fund dollars).

An influx of support from donors continues to enable our stunning success in supporting student access. Reed set an ambitious goal of \$50 million—a quarter or the entire campaign—for financial aid. Donors eclipsed this goal for a total of \$74.4 million.

Financial Aid at a Glance (2012-2013)

•53%	Percentage of students who received aid
•\$36,625	Average aid package (includes federal loans and work-study)
•\$33,314	Average Reed Grant
•\$65,176	Median parental income of students on aid
•\$20,079	Average loan burden for 2013 graduates
•49%	Percentage of students who graduate with loans
•\$20.9 M	Financial aid budget (institutional grant aid, does not include federal and state grants, loans and work-study, or outside scholarships)

**REED COLLEGE
FINANCIAL AID EXPENDITURES
OPERATING BUDGET PLUS ENDOWMENT
YEAR END 2003 THROUGH 2012
(IN MILLIONS OF DOLLARS)**



**In addition to Reed Grant money, the college annually provides approximately \$1 million in need-based campus employment and about \$200,000 in Reed Loans. Externally, federal dollars that flow through Reed total roughly \$6 million per year in Pell Grants, federal work-study and loans, and FSEOG grant funds. State and private support that flows through Reed totals approximately \$900,000 per year.*

Strengths

1) Financial Aid Students Are Fully Supported

Once Reed commits to a student by offering admission, the college guarantees that it will meet 100% of that student's demonstrated need for a full eight semesters (which need not be consecutive), even if the student's need changes from year to year. This commitment of aid encourages students to complete their Reed education.

Come Anyway

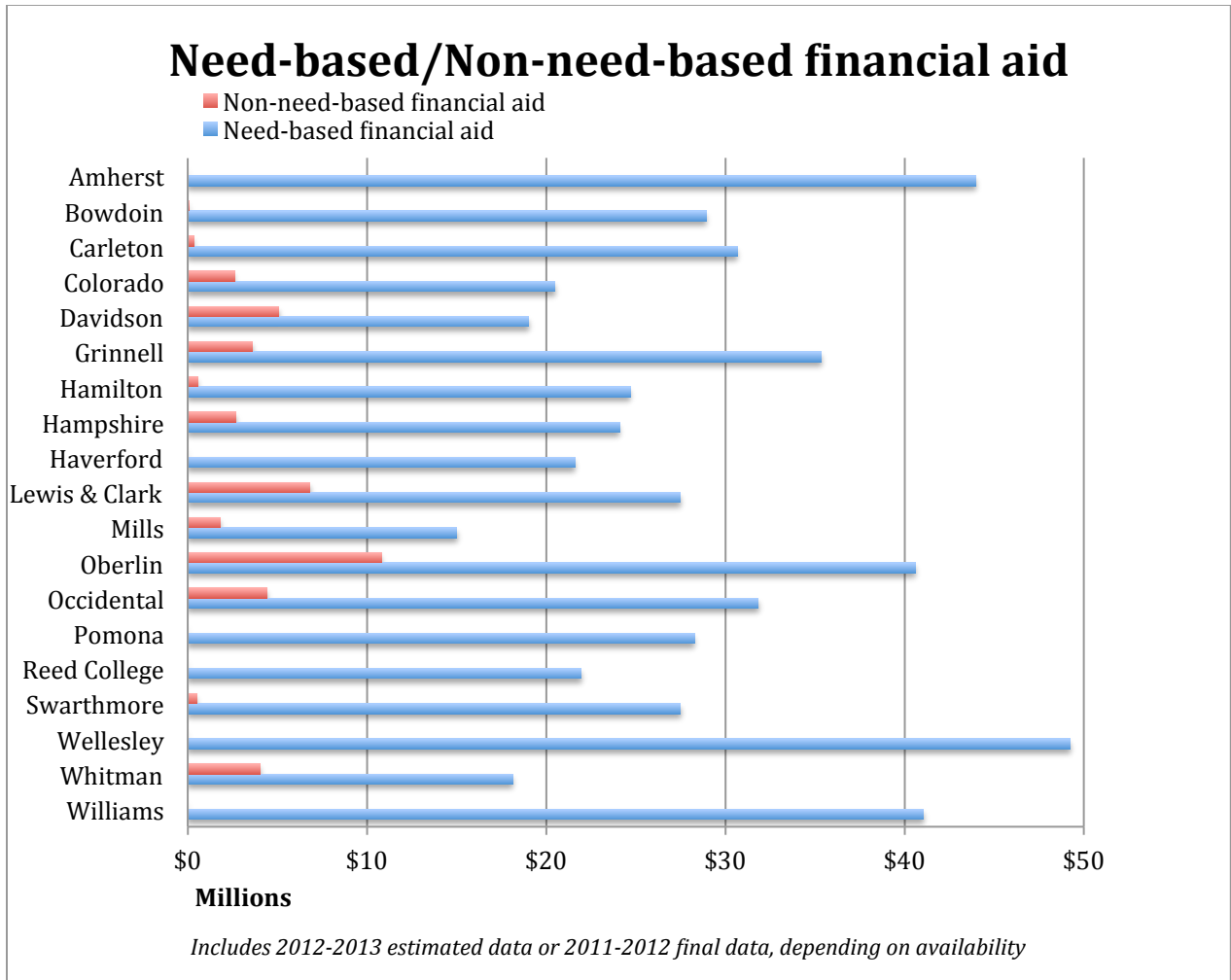
For many years, Reed followed an unusual practice known internally as “come anyway.” Once the college had exhausted its financial aid budget for any given year, it told needy admitted students they could come anyway, as long as they could find a way to pay their first year's tuition in full; in subsequent years, Reed would meet their demonstrated need.

This policy was abandoned for many reasons: it was confusing to many applicants and counselors; it favored applicants with wealthy grandparents or other hidden resources; it tended to discourage minority applicants; it encouraged students and families to incur high loads of debt; it created visible tiers of merit within financial aid students—those who “deserved” aid and those who didn't; and it created the misimpression that Reed did not offer financial aid to freshmen.

2) *Aid Goes to Those With Demonstrated Need*

Reed offers financial aid based on demonstrated need only. The college has avoided offering financial aid beyond demonstrated need, so-called merit aid, such as scholarships for strong academic achievement or robust participation in extracurricular activities. Instead, Reed prefers to employ those funds to meet the demonstrated need of additional students.¹

The following chart shows a snapshot of how Reed compares to peer institutions in this regard.



¹ Reed was recently lauded for its practices by a New American Foundation study that pointed out the growing use of merit-based financial aid.

http://education.newamerica.net/publications/policy/undermining_pell

3) *Work and Loan Components Are Kept Low*

The average graduating indebtedness of Reed students in 2013 was \$20,079 (includes need-based and non-need-based loans). The national average is \$26,600². According to CollegeInSight (college-insight.org), Reed's average graduating debt burden ranked the lowest of all Oregon colleges and universities reporting for 2011 graduates (most recent information available). By keeping debt burden low, Reed makes post-graduate possibilities like doctoral studies, nonprofit work, and volunteerism more feasible for students with financial need. In fact, a higher percentage of Reed graduates go on to earn PhDs than almost any other undergraduate institution in the country (Reed ranks fourth). Lower debt burden also helps to attract a greater number of applicants from low-income families, for whom debt burdens can seem incredibly daunting.

Challenges

Need Sensitive

Applications are evaluated on their merits but because funds are limited, the admission process does consider need.

The number of applicants with need roughly equals that of full-pay applicants in any given year, but matriculation rates for students with need are significantly higher than full-pay applicants (35% of those with need vs. 24% of those without for fall 2012). There are many factors that influence this trend: Reed offers a strong financial aid package, with low work-study and loan components, and full need is satisfied for eight semesters regardless of changing family circumstances; and full-pay students weigh admission offers against others that include merit aid or other non-need-based aid.

Many alumni hope that the college will adopt a need-blind admission policy. Need-blind admission is a challenging policy to define, implement, and fund. Among the small number of colleges that do claim a need-blind policy, definitions and practices of need-blind admission vary significantly. Need-blind institutions do not necessarily spend more on financial aid or fund a higher percentage of students. Some schools claim to be need-blind, but don't fund 100% of demonstrated need, and some place a larger debt burden on their graduates than need-sensitive institutions. See the attached 2009 New York Times article, "How Sensitive Are They?," for an illustration of the complexity of financial aid offerings.

Funding projections are complicated by the expectation that once an institution announces a need-blind admission policy, it will continue that practice indefinitely. Yet the costs of financial aid are dependent on many factors, each highly changeable and unpredictable, making the prospect of such an indefinite commitment sobering.

There are many unknowns: How will unforeseen market swings affect the endowment strength? To what degree would an economic downturn put pressure on the financial aid budget through increased family need? Will declaring a need-blind policy increase the percent of students with need in your applicant pool, thus putting increased pressure on the financial aid budget in a

² projectonstudentdebt.org

“normal” economic landscape? Will changes in federal and state law necessitate increased financial aid packages?

For these reasons, declaring a need-blind policy would be both risky and extremely expensive. The recent recession demonstrated the cost and risk for institutions that had taken this step. In fact, some institutions have stepped away from their need-blind commitment.³ It is very difficult to estimate the cost of confidently adopting a need-blind policy, but estimates range between \$100 and \$250 million in additional endowment.

Giving Opportunities

1) Endowed Scholarships—A Permanent Legacy of Access

Endowing a named scholarship creates a permanent legacy of opportunity and access. Endowed scholarships can be created with a gift of \$100,000 or more. Meeting the full average financial need of a Reed student today requires an endowment of over 500,000. (This amount generates roughly \$25,000 per year; the average financial award in 2012–2013 was \$36,625.)

2) Centennial Scholarships—Spendable Scholarships for Immediate Impact

Some donors prefer to focus the impact of their gift with a Centennial Scholarship, a minimum of \$10,000 per year for four years. Unlike an endowed fund, Centennial Scholarship funds are flexible and immediately expendable. This type of responsive financial aid is a vital component of the college’s annual aid award process. Whereas a gift of \$100,000 to an endowed scholarship would supply a yearly award of about \$5,000, the same amount for a Centennial Scholarship would provide nearly twenty times the immediate impact.

³ Macalester College switched from a need-blind policy to a need-sensitive one in in the last decade, and Grinnell College, one of the wealthiest liberal arts colleges in the country, recently put its need-blind policy up for discussion.
<http://www.insidehighered.com/news/2013/02/25/grinnell-will-stay-need-blind-seek-more-students-ability-pay#ixzz2LudQ3zAU>

Questions for Further Thought

1) Should Reed enhance the financial aid budget to address the “middle class squeeze”?

Because Reed offers need-based aid only, there are families for whom the required family contribution presents a considerable burden. To simplify the issue, these families are earning too much to receive aid, but not so much that the required family contribution seems less burdensome. Reed currently uses the nationally standardized need analysis formula developed by the College Board (a national nonprofit known for developing the SAT and AP tests) to determine eligibility for institutional financial aid.

Should Reed alter its formula or adopt merit-based scholarships to provide greater support for families whose income falls between \$100,000 and \$200,000 who currently may not qualify for aid?

2) Should Reed enhance the financial aid budget to offer preferential packaging for more students with the highest need?

Financial aid packages consist of three parts: grant money (including scholarships), work-study, and loans. Lower debt burden helps attract a greater number of applicants from low-income families, for whom debt burdens can seem incredibly daunting. It would be possible to continue to offer need-based aid packages but modify the way the demonstrated need is met through higher grant components and lower loan requirements. In this way, Reed could hope to attract more students in the highest-achieving/lowest-income category.

Currently, 19 percent of Reed students qualify for Pell Grants, federal aid that supports the neediest domestic students from low-income families.

3) Should international students continue to be eligible for financial aid and should such aid be expanded?

International students receiving financial aid currently make up 3 percent of the student body. Reed’s commitment to satisfying 100 percent of demonstrated need for all undergraduate students offered admission results in very large awards for international students. These students do not qualify for any of the federally funded education assistance programs (such as Pell and FSEOG grants, Stafford and Perkins loans, and federal work-study). International students without family resources must rely solely on Reed to enable them to accept an offer of admission. Currently, Reed grants institutional loans to international students as part of a typical aid package, and students from developing countries must (as a practical matter) take on a leaner payment schedule than domestic students. Reed funds campus employment programs for these students as well. These factors limit Reed’s ability to offer aid to international students.

How Sensitive Are They?

About 80 percent of private colleges assess applicants for admission without regard to their ability to pay, according to a new report from the National Association for College Admissions Counseling. But don't confuse "need blind" and "need met." Only 18 percent say they provide a package of loans and/or grants covering the full cost of attendance for students with demonstrated need. "Many schools hide behind the fact that they're need-blind, need-blind being a proxy for providing access," says Jennifer Rickard, Bryn Mawr's dean of admissions and financial aid. Colleges like Bryn Mawr are "need sensitive." They consider finances, but usually only for the academically marginal. For less wealthy institutions, being need-sensitive can mean more money for those they do admit. Below are responses to an Education Life questionnaire on the subject.

KEY: I-All or most international students; W-Wait-listed; T-Transfers

Need-Blind

	— INCOMING FRESHMEN, FALL 2008 —				Avg. Debt, Class of 2007**
	Excluded From Policy	Tuition, Fees, & Bd.	% With Need Fully Met	Avg. % of Need Met*	
Adelphi (N.Y.)		\$34,350	2%	52%	\$26,047
Agnes Scott (Ga.)	W I	38,910	94	93	24,070
Albright (Pa.)		39,240	23	78	31,253
Amherst (Mass.)	I	47,430	100	100	11,655
Babson (Mass.)		48,116	86	97	28,902
Bard (N.Y.)	I	49,240	60	89	19,507
Barnard (N.Y.)	I	43,501	100	100	17,149
Barry U. (Fla.)		34,200	11	69	17,210
Baylor (Tex.)		33,842	41	85	n/a
Bloomfield (N.J.)		29,580	70	68	21,402
Boston College		49,560	100	100	18,799
Bowdoin (Me.)	I T	48,700	100	100	18,300
Brown (R.I.)	I T	47,740	100	100	18,610
Caltech (Calif.)	I	44,583	100	100	6,268
Carnegie Mellon (Pa.)		49,804	37	81	29,346
Centre (Ky.)		37,000	37	90	17,600
Claremont McKenna (Calif.)	I	48,990	100	100	11,026
College of Holy Cross (Mass.)	I T	47,502	100	100	17,000
College of Wooster (Ohio)	I	42,420	54	98	25,044
Columbia (N.Y.)	I	49,306	100	100	17,144
Cornell (N.Y.)		48,144	100	100	23,936
Dartmouth (N.H.)		47,955	100	100	20,926
Davidson (N.C.)	I	42,950	100	100	28,100
Denison (Ohio)		44,130	80	97	14,863
Duke (N.C.)	I	48,165	100	100	23,162
Duquesne (Pa.)		34,363	60	91	29,616
Earlham (Ind.)	I	40,844	60	90	18,064
Emory (Ga.)		47,908	100	100	23,374
Fairfield (Conn.)		46,925	14	86	31,984
Furman (S.C.)	W	43,554	47	85	24,512
George Washington (D.C.)	W	50,357	64	94	30,817
Grinnell (Iowa)	I	43,700	100	100	18,340
Harvard (Mass.)		50,250	100	100	9,290
Harvey Mudd (Calif.)	I	48,606	100	100	16,078
Haverford (Pa.)	I	49,155	100	100	15,291
Iona (N.Y.)		37,006	24	26	19,451
Juniata (Pa.)	I	38,700	35	87	21,426
Lawrence U. (Wis.)	I	40,221	76	97	25,374
Lehigh (Pa.)	I	47,320	52	96	26,768
M.I.T. (Mass.)		47,250	100	100	15,051
Middlebury (Vt.)	I	48,830	100	100	20,808
Mills (Calif.)		46,460	42	85	27,676

N.Y.U.		50,182	26	72	34,850
Northwestern (Ill.)		48,051	100	100	18,860
Notre Dame (Ind.)	I	46,680	99	99	27,569
New School, Lang College (N.Y.)		48,320	12	80	19,880
Pepperdine† (Calif.)		48,000	18	85	33,234
Pomona (Calif.)	I	47,845	100	100	11,300
Princeton (N.J.)		45,695	100	100	5,592
Rice (Tex.)	I	41,236	100	100	9,361
Sewanee (Tenn.)		42,120	83	98	15,885
Stanford (Calif.)	I	47,212	100	100	15,724
Swarthmore (Pa.)	I	47,834	100	100	13,196
U. of Chicago	I	50,639	100	100	25,971
U. of Denver		43,480	9†	78	24,905
U. of Pennsylvania	I	48,148	100	100	18,800
U. of Rochester	I	48,060	100	100	29,800
U. of Southern Calif.		48,905	100	100	25,578
Ursinus (Pa.)	I	45,710	28	80	22,000
Vassar (N.Y.)	I T	44,730	100	100	20,589
Villanova (Pa.)		47,600	24	81	28,107
Wake Forest (N.C.)	I	43,245	100	100	23,397
Wellesley (Mass.)	I	47,976	100	100	11,902
Wesleyan (Conn.)	I	49,570	100	100	14,147
Whitman (Wash.)	I W	44,012	92	97	16,108
Williams (Mass.)		47,530	100	100	9,727
Yale (Conn.)		46,000	100	100	12,237

Need-Sensitive

	— INCOMING FRESHMEN, FALL 2008 —				Avg. Debt, Class of 2007**
	Approximate % Assessed Need-Blind	Tuition, Fees, & Bd.	% With Need Fully Met	Avg. % of Need Met*	
Bates (Me.)	97%	\$49,350	100%	100%	\$13,947
Bentley (Mass.)	95	45,808	40	95	31,665
Bryn Mawr (Pa.)	95	48,060	100	100	19,049
Bucknell (Pa.)	97	48,380	95	95	17,700
Carleton (Minn.)	98	48,039	100	100	19,185
Colby (Me.)	96	48,520	100	100	19,222
Dickinson (Pa.)	95	47,834	98	90	22,853
Franklin & Marshall (Pa.)	23	48,500	100	100	27,057
Gettysburg (Pa.)	90	47,110	100	100	16,999
Johns Hopkins† (Md.)	98	49,278	95	95	18,447
Kenyon (Ohio)	90	46,830	100	100	19,489
Lafayette (Pa.)	98	47,338	100	100	18,452
Mt. Holyoke (Mass.)	90	48,686	100	100	22,270
Muhlenberg (Pa.)	95	43,435	98	99.7	22,655
Occidental (Calif.)	90	47,341	100	100	19,756
Pitzer (Calif.)	20	48,800	100	100	24,790
Pratt (N.Y.)	99	42,466	0	68	17,794
Reed (Ore.)	98	48,110	100	100	17,296
Sarah Lawrence (N.Y.)	90	53,454	67	88	16,332
Skidmore (N.Y.)	90	49,266	88	95	17,967
Smith (Mass.)	95	48,108	100	100	15,692
Trinity (Conn.)	80	48,624	100	100	19,835
Tufts (Mass.)	100	49,358	100	100	20,668
Union (N.Y.)	93	48,552	100	100	23,690
Wheaton (Mass.)	90	48,010	58	98	23,222

*For students the institution deems to have need.

**Per-student total indebtedness.

†For freshmen fall 2007.