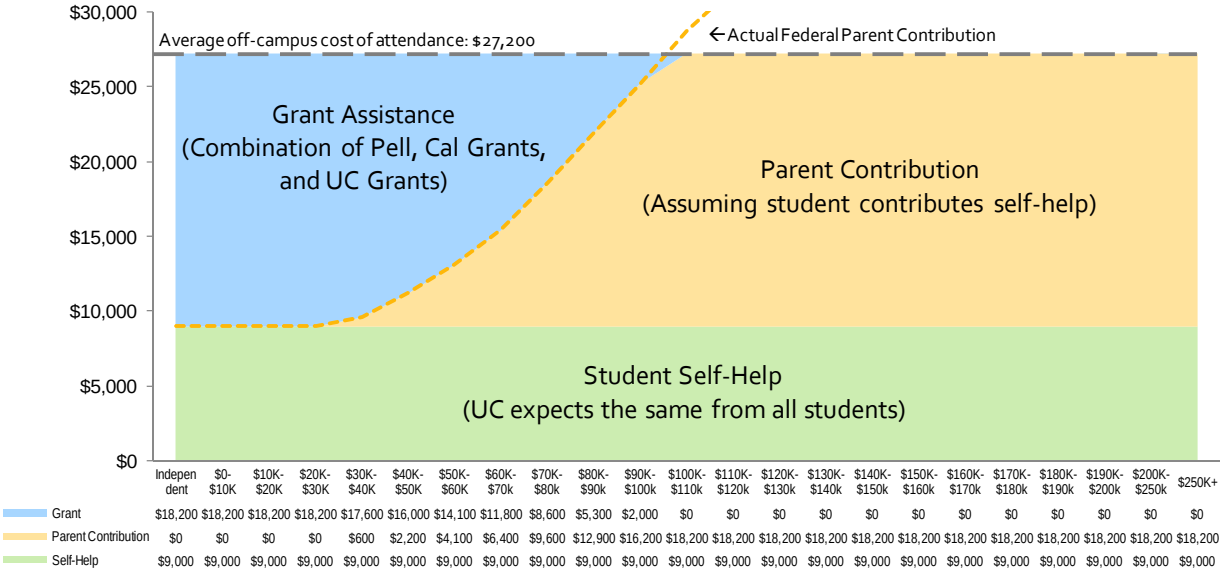
Options for Enhancing Financial Aid for Middle-Income UC Undergraduates

Context

UC's current strategy for awarding need-based grants has provided only partial relief to middle-income families, whose net cost has increased in recent years due to increases in fees and other costs. There is a growing perception that UC now expects middle-income families to contribute "too much" towards the total cost of attending UC. Three factors contribute to this perception:

- UC's financial aid strategy relies on the federal expected parent contribution (PC), combined with an assumed student self-help contribution from work and borrowing, to determine a student's need for grant assistance: if the student's self-help expectation (roughly $9,000 in 2010-11) plus the PC exceeds the student's total cost of attendance, the student generally does not qualify for a UC grant. Since the PC rises quickly with income, many middle-income families qualify for little or no grant. Display 1, below, shows the self-help, estimated median PC, and grant levels for various income categories for a student living off-campus.

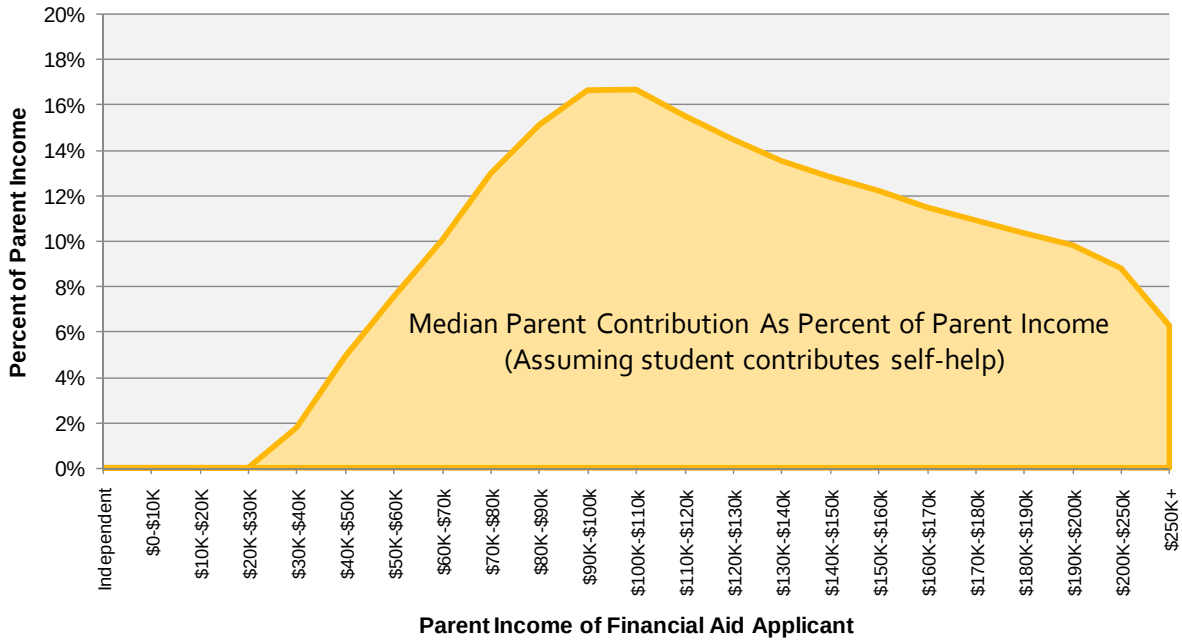
Display 1: Median Parent Contribution, Self-Help, and Grant by Parent Income, 2010-11



	Independent	$0-$10K	$10K-$20K	$20K-$30K	$30K-$40K	$40K-$50K	$50K-$60K	$60K-$70k	$70K-$80k	$80K-$90k	$90K-$100k	$100K-$110k	$110K-$120k	$120K-$130k	$130K-$140k	$140K-$150k	$150K-$160k	$160K-$170k	$170K-$180k	$180K-$190k	$190K-$200k	$200K-$250k	$250K+
Grant	$18,200	$18,200	$18,200	$18,200	$17,600	$16,000	$14,100	$11,800	$8,600	$5,300	$2,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Parent Contribution	$0	$0	$0	$0	$600	$2,200	$4,100	$6,400	$9,600	$12,900	$16,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200	$18,200
Self-Help	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000	$9,000

Expressed as a percentage of income, the PC is especially burdensome for middle-income families. Display 2, below, shows the median percentage of parent income represented by the parent contribution in each income category. The percentage peaks at 17% for families with parent incomes between $90,000 and $110,000 – families that, as shown in Display 1, often receive little or no grant assistance.

Display 2: Median Parent Contribution as a Percent of Parent Income by Parent Income, 2010-11



- Many parents do not want their children to work or borrow at the levels that UC expects them to. These parents feel they need to help cover some or all of their children's self-help contribution (roughly $9,000 in 2010-11) *in addition to* contributing their PC. For middle-income families, this desire makes an already challenging situation seem even worse.

- While UC has a clear public message regarding aid to low-income students (the Blue and Gold Opportunity Plan), UC lacks a clear public message aimed at middle-income students.

Evidence of a middle-income "problem"

Although the amount that middle-income families are expected to contribute to a UC education seems large, it remains unclear whether UC is approaching any "tipping point" in middle-class affordability.

- The income mix of UC students has remained stable through 2008-09 (the latest year available).
- Trends in yield among middle-income students are similar to trends among other students.
- While student borrowing among middle-income students has recently increased after several years of decline, middle-income use of federal parent loans has decreased. Fewer than 20% of middle-income parents borrow in any given year (although this percentage is higher than it is for other income groups, and the average parent loan is high: over $12,000 per year). Middle-income families typically have access to other forms of credit such as home equity loans or consumer loans, so borrowing through traditional loan programs may not fully capture their debt burden.
- Focus groups of parents of current and prospective UC students found that middle-income families often suffered the greatest stress in financing a UC education [NEED TO CONFIRM THIS].

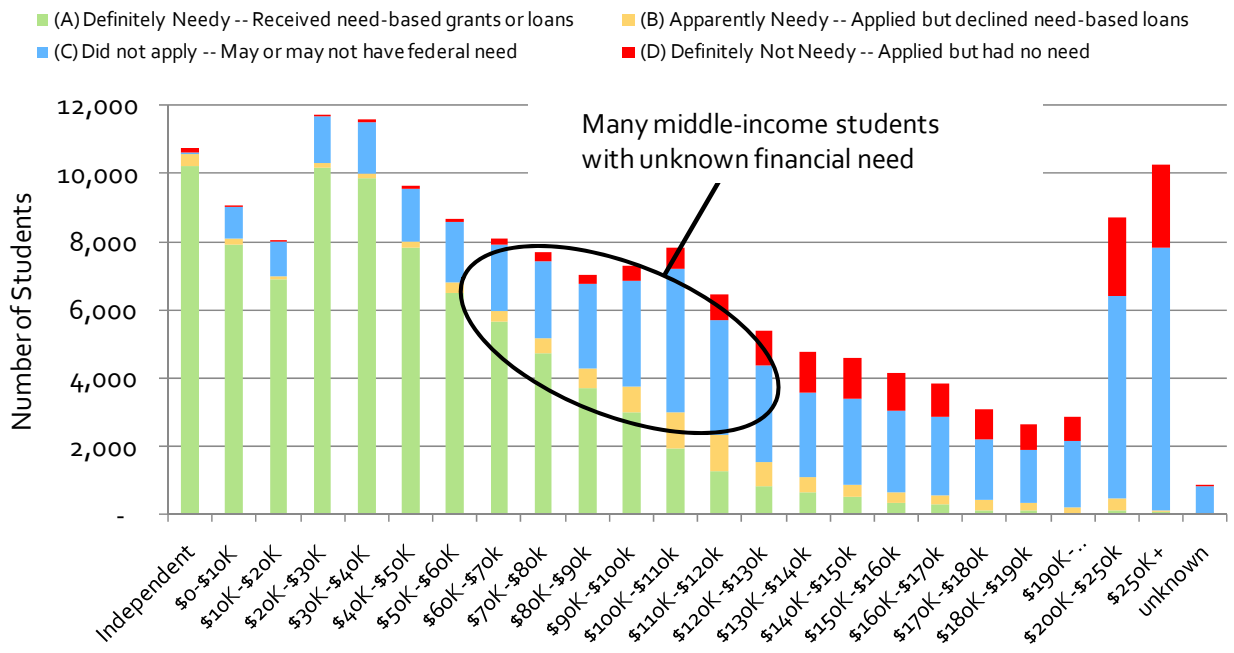
- Several of the people who have either spoken about against fee increases at a Regents meeting or expressed their frustration with UC fee increases, either to the media or in letters to the President, are middle-income students or parents.

Nevertheless, as UC fees continue to rise, it is reasonable to expect additional concerns regarding middle-income affordability and to consider measures to prevent them.

Options for Providing Increased Aid to Middle-Income Families

Because UC enrolls so many middle-income students who currently receive little or no need-based aid, a broad initiative directed at middle-income students can get very expensive, very quickly. The potential cost is especially high if the program is not limited to students with "financial need" under federal guidelines.[1] Display 3 illustrates why. A program limited to financial need would potentially benefit students shown in green and orange on the chart, plus a portion of the students shown in blue (i.e., students who may have need, but who did not apply for aid because they felt they would not qualify for grants under UC's current programs). In contrast, a program not tied to need would potentially benefit all students, including all who did not previously apply for aid (shown in blue) and those who did applied but had no need (shown in red).

Display 3: Students With and Without Financial Need by Parent Income, 2010-11



[1] Generally, a family has "financial need" under federal guidelines if the student's federal parent contribution exceeds the cost of attendance. UC currently limits eligibility for all need-based institutional aid programs, including the Blue and Gold Opportunity Plan, to students with financial need.

Potential options for an initiative aimed at middle-income students are described below and are summarized in Display 4.

Option 1: Maintain the Current Half-Fee-Increase Grant Program

Description: In most years since 2003-04, UC has provided grants to financially needy middle-income students that cover one-half of the Ed/Reg fee increase in a given year. The grant is for one year only; the following year, the student would receive a new grant to cover one-half of that year's increase. Eligibility is limited to students who don't already have Cal Grants and UC Grants, which typically increase to cover 100% of the fee increase. (Middle-income students generally exceed the income and/or asset ceilings for Cal Grants and generally do not qualify for UC Grants for reasons described earlier.) The income cap was originally $90,000 but was later increased to $100,000 and will rise to $120,000 for 2010-11.

Cost: Approximately $3M for 2010-11. May be larger or smaller in future years, depending on the size of the fee increase.

Rationale: Although families are deemed capable of contributing up to their expected federal contribution, large fee increases can be disruptive for middle-income families. The program delays one-half of the impact of the fee increase by one year to lessen this disruption.

Strengths: Easy to explain at a superficial level ("needy middle-income students will receive a grant to cover half of the fee increase"). Inexpensive.

Issues: In practice, provides only modest support (up to $672 per recipient in 2010-11). Restriction to students with financial need excludes most middle-income students (although more and more will qualify in the future as UC's costs rise). Does not make for a compelling public message. No conceptual link to either UC's overall financial aid strategy or to the Blue and Gold Opportunity Plan.

Option 2: Expand the Current Program to Cover the Full Annual Increase

Description: Same as Option 1, but cover the full annual increase for financially needy students instead of one-half the annual increase.

Cost: Approximately $7M for 2010-11 – potentially more if the program were communicated more broadly, resulting in more needy students applying for financial aid.

Rationale: Same as above, except the full fee increase would be delayed by one year.

Strengths: Easy to explain. Less expensive than more ambitious options.

Issues: Same as Option 1, although the maximum award would be higher ($1,344 instead of $672 in 2010-11).

Option 3: Expand the Blue and Gold to Cover Half of Ed/Reg Fees for Eligible Students With Incomes Between $70,000 and $120,000.

Description: Just as the B&G ensures that 100% of Ed/Reg fees are covered for eligible students with parent incomes up to $70,000, UC could extend a similar commitment to cover one-half of all Ed/Reg fees for eligible students with parent incomes between $70,000 and $120,000.

Cost: Approximately $15M for 2010-11 – more if the program resulted in more middle-income students applying for aid and those students had financial need.

Rationale: Concerns about fees should not deter middle-income students from enrolling at UC. If they meet the eligibility requirements (financial need, CA residency, enrolled in their first 4 years of college, etc.) , they can count on receiving a 50% "discount" on the fees they pay, capped at need.

Strengths: Builds on the Blue and Gold. Provides a meaningful benefit (up to $5,151) to some students. Allows UC to count outside grants and scholarships towards the commitment, reducing its cost.

Issues: Restriction to students with financial need, plus the other B&G requirements (CA residency, years enrolled, etc.), will exclude most middle-income students (although more and more will qualify in the future as UC's costs rise).

Option 4: Expand the Income Ceiling on the Current Blue and Gold to $100,000 or $120,000.

Description: Ensure that 100% of Ed/Reg fees are covered (capped at need) for students who meet the existing B&G eligibility requirements, but with a higher income ceiling (e.g., $100,000 or $120,000).

Cost: If ceiling raised to $100,000, approximately $23M for 2010-11. If ceiling raised to $120,000, approximately $37M – more if the program resulted in more middle-income students applying for aid and those students had financial need.

Rationale: Same as the Blue and Gold, but expanded to suggest that fees should not deter low-or middle-income students from attending UC.

Strengths: Builds on the Blue and Gold. Provides a large potential benefit (up to $10,302) to some students. Allows UC to count outside grants and scholarships towards the commitment, reducing its cost.

Issues: Same as Option 3, although fewer students would reap the full benefit of the program (since more award would be capped at need). Also, substantially higher cost would require more resources. For example, unless additional funding were identified, a $37M commitment would increase self-help for all other students by about $500.

Option 5: Cap UC's Parent Contribution to 10% of Income for Low- and Middle-Income Families

Description: Rather than expect parents to contribute their expected federal Parent contribution, UC would expect families to contribute the lesser of (a) their federal PC, or (b) 10% of their income. (This would be in addition to the student self-help contribution.) The policy would apply to families with incomes below a certain ceiling (e.g., $100,000 or $120,000). Federal need would no longer apply, since need would be calculated based on this new income-based parent contribution (which would not consider assets).

Cost: $87M if the policy extended to families with incomes up to $100,000. $120M if the policy extended to families with incomes up to $120,000. (Estimates assume that all students would apply for aid and would be eligible for this benefit, provided their income falls below the ceiling.)

Rationale: UC has long acknowledged that the federal Parent Contribution can be burdensome for middle-income families – particularly those living in high-cost parts of the country.

Strengths: Fully consistent with UC's current financial aid strategy – it just redefines what parents should be expected to contribute and expresses that as a simple percentage of income.

Issues: This option is expensive. The largest cost driver is the exclusion of assets in calculating the parent contribution. Many families with incomes of $70,000 to $120,000 have substantial assets that the federal Parent Contribution takes into account. Using a straight income-based calculation ignores those resources, resulting in much higher "need" for grant assistance.

Display 4: Summary of Options for Providing Increased Aid to Middle-Income Families

Option	Description		Cap @ Need?	Est. Cost 2010-11	New Beneficiaries		Pct. of Students Covered (New Beneficiaries + Current Recipients)
					# New Beneficiaries	Avg. $/New Beneficiary	
1	Cover ½ of annual fee increase for needy families up to $120,000		Y	$3M	4,636	$657	48% of all students between $70,000 and $120,000
2	Cover full annual fee increase for needy families up to $120,000		Y	$7M	5,118	$1,289	48% of all students between $70,000 and $120,000
3	Expand B&G: Cover half of all Ed/Reg fees for families between $70,000 and $120,000*		Y	$15M	5,025	$3,050	40% of all students between $70,000 and $120,000
4	Expand B&G: Cover all Ed/Reg fees for families up to ceiling*	$100,000	Y	$23M	5,233	$4,443	47% of all students between $70,000 and $100,000
		$120,000	Y	$37M	8,406	$4,352	40% of all students between $70,000 and $120,000
5	Cap Parent Contribution at 10% of Parent Income For Families Earning Up To Ceiling*	$100,000	N	$87M	15,024	$5,799	88% of all students between $0 and $100,000
		$120,000	N	$120M	20,081	$5,978	89% of all students between $0 and $120,000

*Assumes all other B&G constraints apply (normative time-to-degree, CA residents only, on-time applicant)