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# Institutional Grant Aid in the United States and England: A Comparative Analysis

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November 2010

Working Paper No. 8

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## **Institutional Grant Aid in the United States and England: A Comparative Analysis**

Institutional grants, or bursaries, now are a central feature of the student financial aid systems in the United States and England. In some instances they are a student's sole source of financial aid, for others they supplement aid available from other sources. Unlike aid available from government sources, these grants are under the control of individual institutions of higher education and thus are often used for purposes different than promoting access for low- and moderate income students, as many government-funded financial aid programs in the two countries do. This paper provides a brief history of institutional financial aid in the two countries to establish the historical and policy context in which institutional aid is situated. It then uses data from surveys of students in the two countries, as well as government data, to analyze what kinds of grants are being offered to students along with the distributional impact of this form of financial aid.<sup>1</sup>

### **A History of Institutional Financial Aid in the United States**

Colleges and universities in the United States have awarded scholarships and other student financial assistance since the colonial era. Holtschneider (1997) described one college's efforts at ensuring affordability this way:

As affordable as the founders had tried to make the new college [Harvard College], they discovered a cohort of candidates eager to attend the college but unable to afford its charges. To assist these young men, scholarships were sought from wealthy friends back in England. These scholarships closely resembled the scholarships many of the founders themselves had observed or received as students in the colleges of Cambridge and Oxford. A few college jobs were instituted as well, helping a few needy students to pay their living expenses. Almost from the beginning, then, Harvard College had created financial assistance structures for its students that both attempted to keep the institutional [sic] affordable for a broad range of Massachusetts residents, and offered additional financial help to a few students who could not raise the necessary funds themselves (pp. 3-4).

Note that Harvard offered not just scholarships to needy students, but also offered an early version of work study – jobs on campus as a means for students to work their way through college.

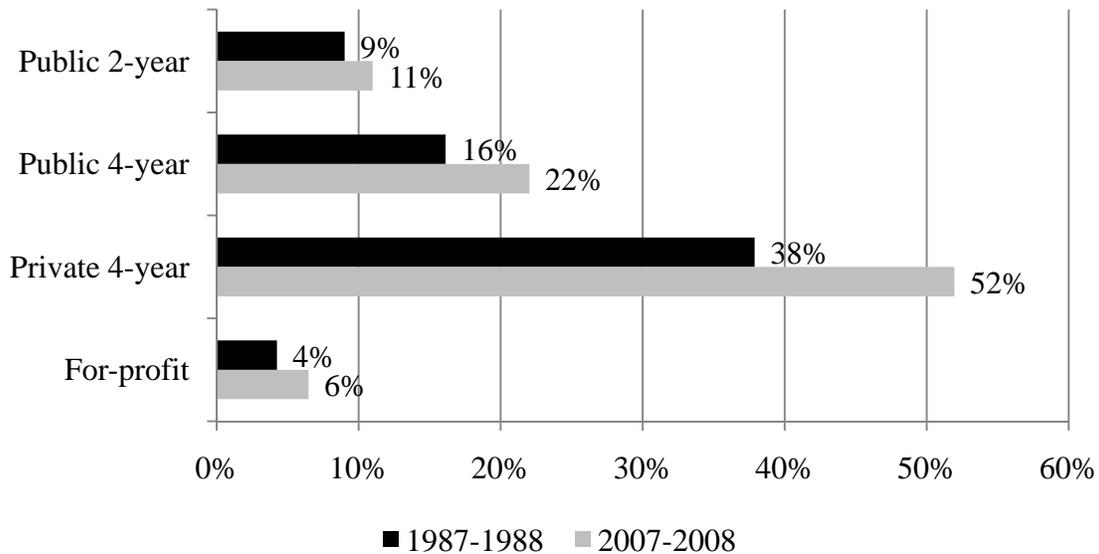
It was not just private colleges that offered scholarships, but also their public counterparts, even though they attempted to maintain policies of low tuition charges in their earliest days. The University of Virginia, founded by Thomas Jefferson in 1819, had provisions

for free tuition for poor students in the Commonwealth, and Iowa State University offered 50 scholarships of free tuition when it opened in 1855 (Brubacher & Rudy, 1976; Sears, 1923).

Over the years, both public and private colleges developed financial assistance programs that focused both on students with financial need, as well as those who were deemed academically meritorious. Lemann (1999) describes how Harvard’s decision to introduce scholarships based on merit in the 1930s helped lead to the creation of the Scholastic Aptitude Test, as a mechanism for identifying high-achieving public school students.

There have been few detailed studies analyzing the amount of financial aid provided by institutions throughout history. However, in 1987 the U.S. Department of Education began a national survey representative of all college students, the National Postsecondary Student Aid Study (NPSAS), to gather data on the tuition and other charges faced by students along with how they were financing their college educations. Conducted every three or four years since that time, the NPSAS surveys provide detailed data on the topic of student financing of higher education.

The data from the 1987-1988 survey (Figure 1) show that students in private four-year colleges and universities were more than twice as likely to receive institutional grant assistance than were their counterparts in public institutions, and approximately four times more likely to receive grants than community college students. The most recent 2007-2008 survey shows that the proportion of students receiving institutional grants has increased in every sector.



Source: Authors’ calculations from National Center for Education Statistics (2010a, 2010b)

**Figure 1: Proportion of undergraduates receiving institutional grants, by sector**

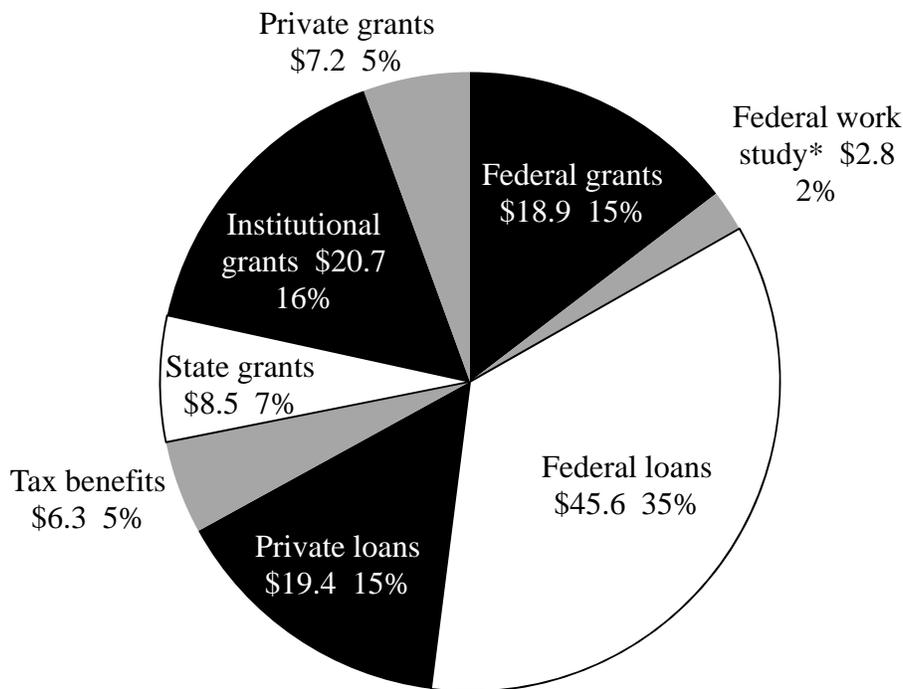
In the 1987-1988 academic year, higher education institutions awarded a total of \$3.1 billion in institutional grant aid to undergraduates; two decades later, this amount had grown 560

percent to \$20.7 billion (authors' calculations from National Center for Education Statistics, 2010a, 2010b).

### The Current Status of Institutional Financial Aid in the United States

Having provided a history of the institutional financial support provided to students, we now present an overview of the current status of that support. Unless otherwise indicated, the source of the estimates in this section are the authors' calculations of data from the National Postsecondary Student Aid Study (NPSAS) for the 2007-2008 academic year (National Center for Education Statistics, 2010b).

To understand the role that institutional grants play in the financial aid system in the U.S., it is important to situate it compared to the other primary sources of support. Undergraduate students in the 2007-2008 academic year received \$130 billion in financial assistance for paying for college. Figure 2 shows the amounts and sources of that aid. Half of the aid was in the form of loans, 43 percent was grants, and the remaining 7 percent was from tax benefits or work study.



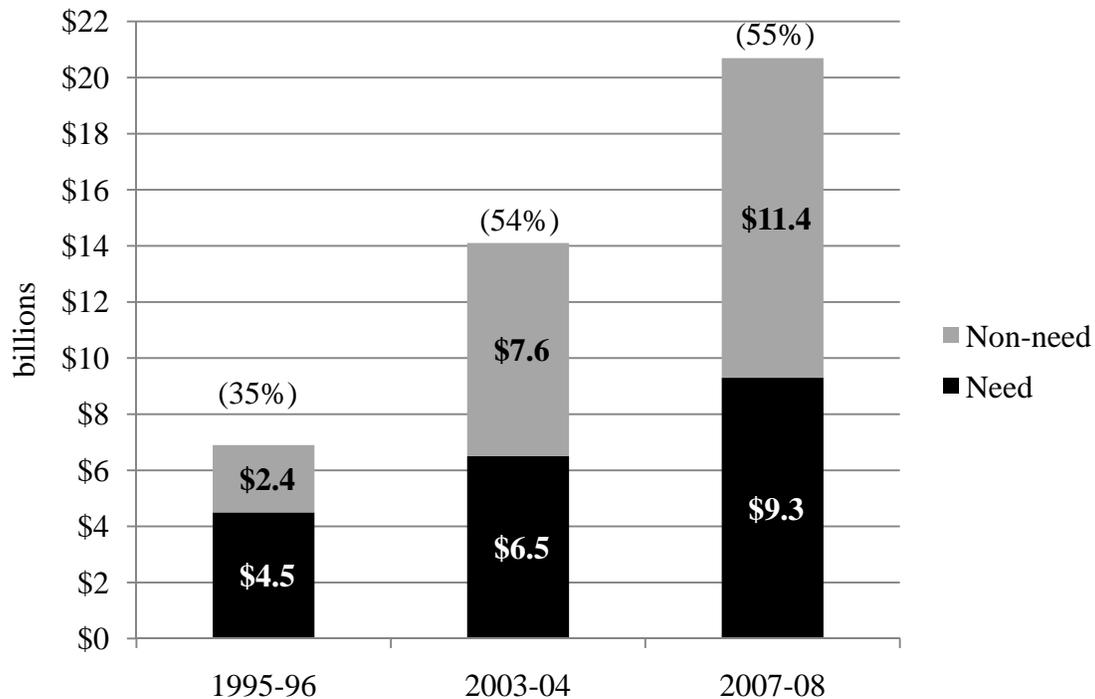
\* Includes institutional matching funds  
Source: National Center for Education Statistics (2010b)

**Figure 2: Financial aid to undergraduate students by source, 2007-2008**

Federal grant aid is predominantly in the Pell Grant program; 78 percent of the federal grants awarded were from the Pell program, with the remainder in other federal grants including Supplemental Educational Opportunity Grants, as well as veterans' and active duty military grants. The Pell program is highly targeted at students from low- and moderate-income families; 90 percent of dependent Pell Grant recipients (i.e., those under the age of 24, unmarried, and not military veterans) had parents with family incomes below \$47,000 in 2006.<sup>2</sup> In contrast, the 90<sup>th</sup> percentile for all dependent students that year was an income level of approximately \$150,000. It is important to note that over half, 58 percent, of all Pell recipients however, were older, independent students.<sup>3</sup>

Approximately one-third of all undergraduates borrowed in the federal loan programs in 2007-2008 (including those with parents who borrowed through the Parental Loan for Undergraduate Students program), totaling \$45 billion in borrowing. Fourteen percent of students reported also borrowing from private (non-federal) lenders.<sup>4</sup> A recent report from the College Board (Baum & Steele, 2010) examined the cumulative debt levels of students completing bachelor's degree programs in 2007-2008. Approximately two-thirds of all bachelor's recipients had borrowed money to pay for college at some point in their undergraduate career, and for those who did borrow, the median cumulative amount borrowed at graduation was \$20,000.<sup>5</sup> One-quarter of all graduating students reported that they borrowed a total exceeding \$30,500, a level the report designated as a "high debt level." The proportion with high debt levels varied quite a bit by sector, however. Among students graduating with bachelor's degrees from public colleges and universities, only 12 percent incurred a high debt level. In private, not-for-profit institutions, 24 percent had a high debt level. And in the proprietary, or for-profit sector, 53 percent of the students graduated with cumulative borrowing above this threshold. Twenty-four percent of independent students overall had debt above this level, a rate twice that of dependent students.

Grants awarded by colleges and universities are of two forms: need-based grants, those awarded taking into consideration the financial circumstances of the student and her family (if a dependent student, or the student alone if an independent student), and non-need grants, usually awarded based on such characteristics as academic merit, artistic or athletic ability, or the like. Figure 3 shows the distribution of institutional dollars awarded in the form of need-based and non-need grants in three waves of the NPSAS survey. In the 1995-96 academic year, institutions awarded a total of \$6.9 billion in grants to undergraduate students, with a little over a third of this awarded without means testing. By the 2003-04 academic year, this figure had more than doubled to \$14.1 billion, with over half of the money now being awarded without means testing. By four years later, this sum had grown almost by half once again, to \$20.7 billion, with the proportion awarded without considering the financial need of the student and her family staying constant at approximately 55 percent.



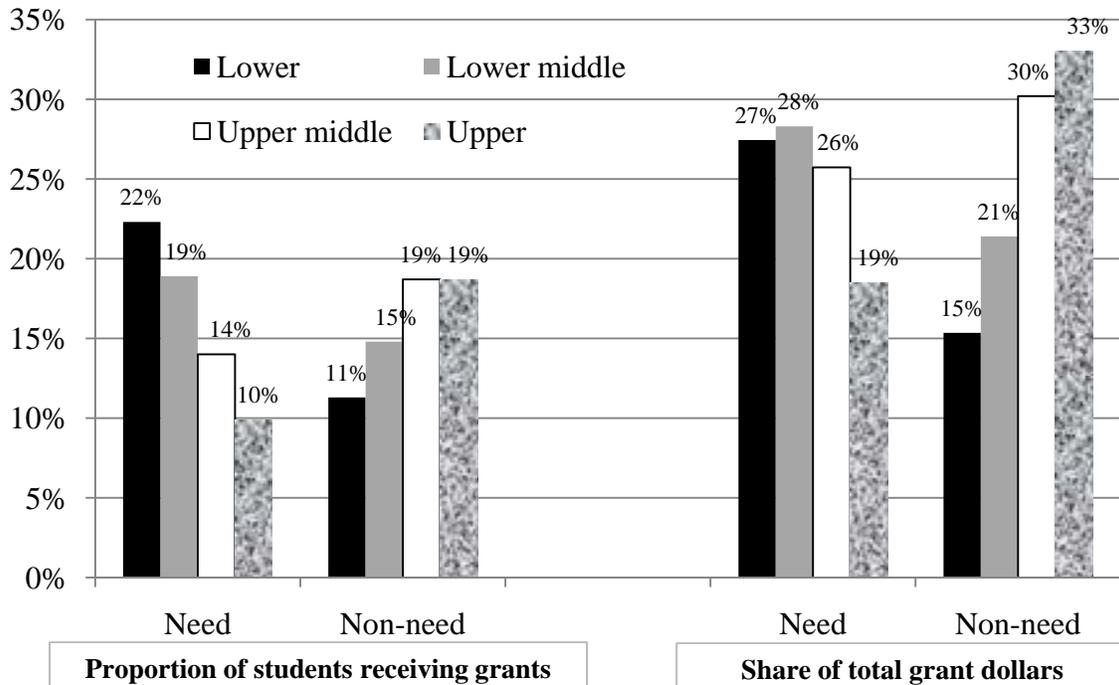
Non-need grants as proportion of all grants shown in parentheses  
 Source: Heller (2006); National Center for Education Statistics (2010b)

**Figure 3: Institutional grants by type**

The awarding of these different forms of aid varies across income groups. To examine this, I divided all dependent students in the NPSAS survey for 2007-2008 into income quartiles, based on their parents' income in 2006.<sup>6</sup> The income groups are:

- Lower income: less than or equal to \$37,888
- Lower middle income: \$37,889 to \$67,754
- Upper middle income: \$67,755 to \$105,240
- Upper income: greater than or equal to \$105,241

Figure 4 shows the proportion of dependent students in each income quartile receiving institutional need-based and non-need grants, as well as the distribution of those grants among the four groups. Because of the means-testing, the lower the income, the higher was the probability a student would receive a need-based grant. Ten percent of students in the top income group – those with incomes in the top one-quarter of all families - received a means-tested grant, indicating that even those students with relatively high incomes can still receive this form of grant aid.

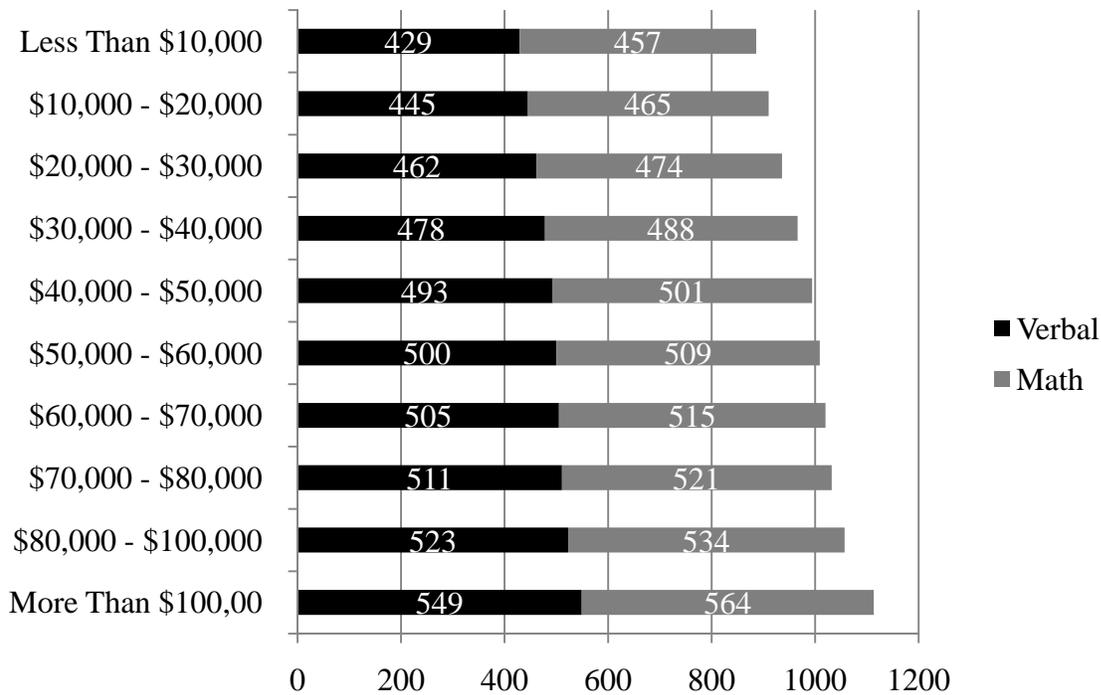


**Figure 4: Institutional grant awards to dependent students in 2007-08, by income quartile**

Colleges and universities, in awarding grants from their own resources, can use whatever rules they want. Thus, institutional need-based grants, even though they are means-tested, are distributed further up the income ladder than are either federal or state need-based grants. Many institutions have more liberal definitions of financial need than do the federal or state governments. For example, in 2007 Harvard University announced that it would begin awarding need-based grants to students from families with incomes up to \$180,000 (a level that placed a family in the top 5 percent of all earners in that year); Yale quickly followed suit, announcing it would give need-based aid to students from families with incomes up to \$200,000 ("Colleges and sticker shock," 2008; Hoover, 2007). Thus, even for those institutional grants that are based on need, they tend to be awarded to students further up the income ladder than are publicly-funded grants, where the means-testing is much tighter.<sup>7</sup>

The proportion of students receiving non-need, or merit grants, shows a reverse pattern to that of need-based grants. Students in the higher income groups were more likely to have received one of these grants. This is likely due to the correlation in the United States between socioeconomic status and measures of academic merit (Heller & Marin, 2002; Lemann, 1999; Zwick, 2002). An example of this relationship can be seen in Figure 5, which shows the average SAT verbal and math scores by income. The SAT is the most common standardized test used colleges in the admissions process. As income rises, both math and verbal SAT scores rise (the correlation coefficient of income and each test score is .98 and .95, respectively). Students who received a non-need grant in the 2007-08 NPSAS survey had average SAT scores approximately

one-half standard deviation greater than students who did not receive one of these grants (authors' calculations from National Center for Education Statistics, 2010b).



Source: Sathy, Barbuti, & Mattern (2006)

**Figure 5: Mean SAT verbal and math scores by income group, 2006**

Figure 4 also shows the distribution of institutional grant dollars awarded to each of the income quartiles. Forty-five percent of all need-based grants were awarded to students from incomes above the median, or \$67,754, and 63 percent of all grant dollars awarded without considering financial need went to students in the upper two income quartiles.

### History of Institutional Financial Aid in England

England, like the US, has a very long history of universities awarding financial aid to their students.<sup>8</sup> For instance, Oxford and Cambridge, established in the late 1200s, offered scholarships and exhibitions awarded on academic merit and reduced fees via means-tested bursaries, as did the universities opening in England's main cities during the nineteenth century. However, the significance of such scholarships and bursaries as a source of financial support, especially for low-income students, declined with the introduction of government funded means-tested grants for maintenance by the 1962 Education Act.

The 2004 Higher Education Act, which came into force in 2006-07, put institutional aid firmly back on the student funding map, and for the first time, integrated it into the statutory system of financial support. The Act signaled a radical shift in student financing in England. Universities were allowed to charge tuition fees of up to £3,000 (\$5,610 at the time) for their full-time undergraduate courses, which students could repay on graduation via government-funded student loans. This variable tuition replaced the previous policy in which the government required all higher education institutions to charge a uniform flat rate of £1,200 (\$2,244) for their undergraduate courses and gave means-tested discounts to low-income students, which were also set by the government. Under the old system, tuition costs were paid up front by students and their parents, although most low-income students paid no fees because of the means-tested discounts. In contrast, now all new full-time English undergraduates, irrespective of their family's income, are required to pay the new variable tuition amount. Nearly all higher education institutions have set their tuition at £3000 for a Bachelor's degree which has led to a threefold increase in tuition fees.. Consequently, the new variable tuition in reality, has become a new uniform flat rate.

Concerns about the effect of this reform on widening HE access, social mobility, and social class differentials in HE prompted various changes specifically aimed at supporting undergraduates from low-income backgrounds. First, government-funded means-tested grants of up to £2,700 were re-introduced (alongside existing loans for maintenance). Secondly, institutional-funded bursaries were set up. Higher education institutions charging over £2,700 tuition had a statutory obligation to provide low-income students with bursaries of up to £300 (\$561) to supplement these students' government-funded grants and maintenance loans.<sup>9</sup>

£300 was the maximum bursary higher education institutions were obliged to pay low-income students. However, the government encouraged higher education institutions to provide additional discretionary financial support, exceeding this level to low-income and other students to promote widening participation and greater access. These bursaries and the financial support a university offers form part of an Access Agreement that institutions must submit to the Office for Fair Access (OFFA). OFFA is an independent public body established by the 2004 Act to ensure that the introduction of higher tuition fees did not have a detrimental effect on widening student participation (OFFA, 2007). The Access Agreements set out how each university will "safeguard and promote fair access" (OFFA, 2007), especially for low-income students.

It is important to distinguish between the mandatory and non-mandatory bursaries introduced by higher education institutions in 2006-2007. Higher education institutions charging tuition of more than £2,700 must provide mandatory bursaries of up to £300 to students entitled to a full government maintenance grant of £2,700.<sup>10</sup> Originally, the grant and mandatory bursary together covered a low-income student's tuition fees in full. However, this relationship will be severed from 2010-11 and instead mandatory bursaries will be worth 10 percent of the maximum tuition fee. These criteria and the specified sums are set centrally by government; they are universal and fixed.

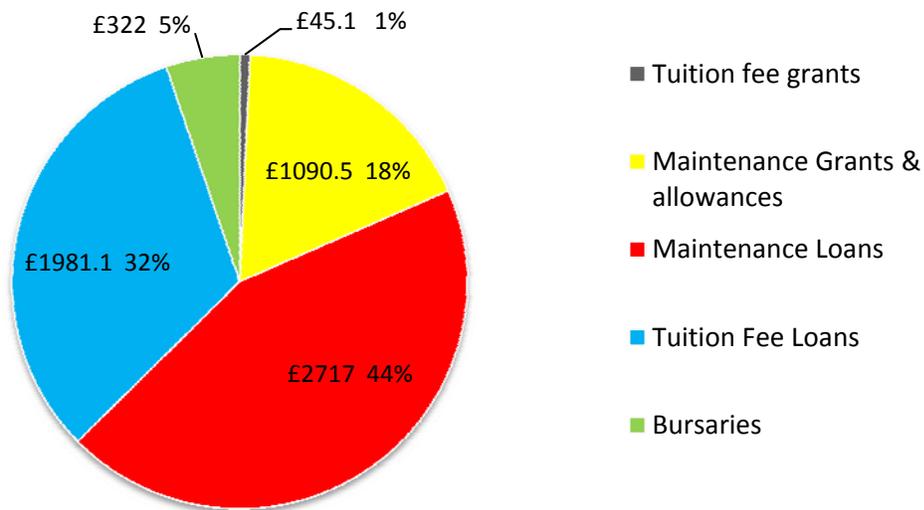
By contrast, non-mandatory bursaries and scholarships are not compulsory, nor does the government stipulate their eligibility criteria. Higher education institutions choosing to offer them are free to design their own disbursement schemes and set their own terms and conditions,

including the income thresholds for eligibility and sums allocated. As a result, a market has grown up in non-mandatory bursaries and scholarships with stark disparities in the amount of money universities are investing in them and in the nature and scope of support offered.

It is clear, therefore that the history of the institutional aid currently available in England and the way it is regulated is different from such aid in the U.S. Particularly important in the English context is the role of the central government in promoting and monitoring the development of institutional aid for low-income students. This is in contrast to the U.S., where higher education institutions have, for the most part, full discretion over their policies regarding their own grants.<sup>11</sup>

### The Current status of Institutional Financial Aid in England

To understand the role of institutional aid in the English financial aid system it is important to locate it within this system and to compare it with other sources of student funding. Apart from institutional bursaries, all the loans and grants shown in Figure 6 are funded directly by the federal government. Unlike, the U.S., to date no private market in financial aid has developed in England, and England has no equivalent to the role of the 50 states which also provide financial aid to students in addition to that provided by the federal government and individual higher education institutions.



Source: Student Loans Company/Department for Innovation and Skills (2009); OFFA (2010)

**Figure 6: Financial aid awarded to undergraduate students by source, 2008-2009 (£million)**

In 2008-2009, a total of £6,156 million was spent on student support schemes in England (Student Loans Company/Department for Innovation and Skills, 2009; OFFA, 2010).<sup>12</sup> Over three-quarters of all expenditure was absorbed by student loans for maintenance (44 percent)

and for tuition (32 percent). These loans are heavily subsidized by government because they are income-contingent and attract a zero real interest rate. All undergraduate students are eligible for both these loans. However, 28 percent of the maximum maintenance loan is income assessed. Approximately, 80-85 percent of all full-time undergraduates take out maintenance and tuition loans (Student Loans Company/Department for Innovation and Skills, 2009).

As a result of the high student loan take-up, 93 percent of students graduate with some form of debt, mostly (88 percent) consisting of student loan debt (Johnson et al, 2009). No reliable data are currently available on the average debt of graduating students who started university after the introduction of variable tuition fees in 2006-07. However, the availability of loans to repay the higher tuition has led to considerable increases in student borrowing. For example, the mean borrowing of full-time undergraduates in their first year at university rose by 33 percent between 2004-05 and 2006-07 (Johnson et al, 2009). The government estimates that average student loan debt for students subject to the new funding regime will be around £15,000 and take an average of 11 years to repay (16 for female graduates) (House of Commons 2007). More recently, the figure of £16,000 total personal debt was suggested for students starting in 2008 (House of Commons 2008). Others (e.g. Push, 2009) believe that these figures are an under-estimation, and debt on graduation is more likely to be around £20,000. However, levels of student debt vary considerably with those from routine and manual socio-economic backgrounds having significantly higher debts levels than students from professional/managerial backgrounds, once other characteristics were controlled for (Johnson et al, 2009).

Around 18 percent of the total amount awarded to student support schemes is spent on means-tested grants which are targeted at low and moderate-income families. In 2008-09, 60 percent of grant recipients received a full grant and came from families with residual household incomes below £25,000 per annum who made up around 42 percent of the undergraduate student full-time population.<sup>13</sup> The remaining 40 percent of grant recipients who received a partial grant were from families with residual household incomes of between £25,000 and £60,005, which represented around 29 percent of the student population. Consequently, only about 29 percent of all full-time undergraduates were not in receipt of a government grant. It is estimated that this figure will rise to 44 percent in 2009-10 because the upper threshold for the receipt of a partial grant has been reduced to £50,020.

In 2008-09, according to OFFA, universities spent about £322 million on institutional aid which represented on average 23.8 percent of the £1,349 million additional income higher education institutions gained from the 2006 rise in tuition fees (OFFA, 2010). However, the monitoring data collected by OFFA on bursaries are limited. They only cover bursaries falling within their remit, namely, those specifically aimed at low -income students. Therefore, it is not possible to calculate the proportion of all full-time undergraduates in receipt of institutional aid. Nor do the data include the eligibility criteria used by higher education institutions for disbursing their bursaries, or information on the number of recipients and their socio-economic characteristics. Consequently, it is not possible to analyze institutional aid by whether it is need-based or non-need based, nor how the value of bursaries varies by the eligibility criteria or student characteristics. For these we have to turn to ad hoc surveys.

Although there is no market in tuition fees, there is considerable variability in bursaries. Table 1 shows how the proportion of additional tuition fee income different types of higher education institutions devoted to bursaries in 2008-09 varied (Column 1), while the proportion allocated by each institution ranged from 7 percent to 51 percent (Column 2). The higher education institutions most successful at attracting low-income students allocated more of their additional tuition fee income to promote even greater access than higher education institutions with less successful records of widening participation. Post -1992 universities - higher education institutions incorporated since 1992 many of which were previously polytechnics or colleges – devoted the highest share at 26 percent while the Russell Group, which represents 20 major research-intensive universities with reputations of being the most prestigious and selective, allocated 23 percent. This difference is contrary to OFFA’s philosophy as outlined by the Secretary of State for Education and Skills in his 2004 letter of guidance to the Director of OFFA (DfES, 2004). His expectation was that higher education institutions with the least diverse student populations would plough more of their extra tuition income back into bursaries and other financial support than those higher education institutions that already had diverse student bodies.

**Table 1: The average bursary expenditure by type of university, 2008-09**

	Average proportion of additional tuition income spent on bursaries	Range of additional tuition income spent on bursaries	Average amount spent on bursaries (£000s)	Average value of bursary for students in receipt of full grant (£)
<b>Russell group</b>	23.4%	13.5% - 31.5%	£4,087	£1,505
<b>Pre-1992 universities</b>	20.7	9.4 - 32.3	2,347	864
<b>Post-1992 universities</b>	25.5	6.9 - 51.3	3,356	687
<b>Small/specialist universities</b>	21.5	7.1 - 31.2	533	784

Source: Authors’ calculations from National Audit Office (2008)

However, as is also clear from Table 1 (Column 4), higher education institutions with the smallest proportions of low-income students offer more generous financial support than those with a higher proportion of low-income students. The poorest students attending Russell Group universities received more than twice as much bursary on average as their peers at the less prestigious Post-1992 universities. Consequently, despite Russell Group universities having far fewer students who are eligible for needs based institutional aid, they spent more in absolute terms on institutional aid than Post-1992 universities (Column 3). Therefore, students with the same financial needs have access to very different amounts of financial support depending on where they study – reflecting the OFFA philosophy and the Government’s desire to create a market in higher education. According to OFFA in 2008-09, 79 percent of the higher education institutions charging full tuition fees offered students in receipt of a full government-funded

maintenance grant a bursary above the statutory level of £310 and these students obtained an average of £871 a year. However, the eligibility criteria for such bursaries and the amount awarded varies from one university to another, ranging from £310 to £3,150. On top of these mandatory bursaries, 94 percent of higher education institutions in 2008-09 also provided other discretionary bursaries and scholarships with additional or separate eligibility criteria. Particularly, 38 per cent of these higher education institutions had some sort of scholarship scheme, most of which were not means-tested and were typically worth £1,000 (OFFA 2009).

Survey data give us further insights into the beneficiaries of institutional aid. For example, the government sponsored 2007-08 Student Income and Expenditure Survey found that around a third of all full-time undergraduate students under the new funding regime benefited from a bursary (compared with just 4 percent subject to the pre-2006 funding arrangements), receiving an average of £980 each (Johnson et al 2009). This increased to around half (49 per cent) for students from routine/manual social class backgrounds. A logistic regression model confirmed that: “being from a routine/manual or intermediate socio-economic background, and living at home with parents both had an independent positive effect on the likelihood of receiving an institutional bursary, once other characteristics were controlled for. Doing a degree in medicine/dentistry or subjects allied to medicine had a strong negative association with the likelihood of receiving an institutional bursary.” (Johnson et al 2009, p 62).

To date, the most comprehensive study that focuses exclusively on institutional aid in England was commissioned by OFFA. It includes a survey of a nationally representative sample of just under 5,000 full-time university entrants from low and moderate-income families (under £60,005 per annum) all of whom were in receipt of a government-funded maintenance grant who are the key (but not the sole) beneficiaries of bursaries (Callender, 2009; Callender et al, 2009). The survey, therefore, was designed specifically to focus on those students most likely to receive bursaries, and in essence, reflects some 71 percent of the student undergraduate population.

Supplementary data provided by the Student Loans Company and added to the OFFA survey data, revealed that 73 percent of students in receipt of a maintenance grant benefited from a university bursary and received a mean of £865 in 2008-09 (Table 2). This proportion rose to 86 percent for students from households with residual incomes of £5,000 or under per annum and fell to 47 percent for students from families with residual household incomes of between £25,000 and £60,005 per annum. The mean value of the bursary for the poorest students was £882 while for the wealthiest in the survey it was £613, and the median was £1000 and £500 respectively. Thus it appears that the system of institutional aid in England is progressive with students from low-income backgrounds being both more likely to receive financial support and higher levels of aid than their more wealthy peers. However, the type of institution a student attended also mattered. The OFFA research re-iterated the findings in Table 1 above, that students attending Russell Group universities gained the most valuable bursaries, a mean of £1,283 and median of £1,050 while those attending Post-1992 gained below average (Table 2). Multivariate analysis confirmed that attending a Russell Group university, being aware of bursaries, and finding out which universities would give the student the largest bursary all had an independent positive effect on the amount of bursary a student received, once other characteristics and behavior were controlled for. A student believing that they did not qualify

for a bursary and coming from a family with an income of between £25,000 and £60,005 per annum both had a strong negative association with the value of a student's bursary.

**Table 2: Proportion of new entrant students receiving a bursary and value of bursary by household income and type of university, England 2008-09**

	Proportion of students receiving bursaries	Mean value of bursary	Median value of bursary	N
<b><u>HOUSEHOLD INCOME</u></b>				
<b>&lt;=£5,000</b>	86%	£882	£1,000	1,157
<b>&gt;£5,000 - &lt;=£25,000</b>	84	953	1,000	1,397
<b>&gt;£25,000- =£60,005</b>	47	612	500	1,232
<b><u>TYPE OF UNIVERSITY</u></b>				
<b>Russell group</b>	59	1,283	1,050	595
<b>1994 universities</b>	63	964	1,005	335
<b>Pre-1992 universities</b>	82	792	800	417
<b>Post-1992 universities</b>	76	773	750	2,439
<b>ALL</b>	<b>73</b>	<b>856</b>	<b>867</b>	<b>3,786</b>

Note: Population included those students receiving a government-funded maintenance grant

Source: Authors' calculations from Callender et al (2009)

While it is difficult to make precise comparisons between the U.S. data and the data from England, the National Postsecondary Student Aid Study (NPSAS) from the U.S. can be utilized to make some approximations. Table 3 presents roughly comparable data for the U.S. (from the 2007-08 academic year) to the English data shown in Table 2.

**Table 3: Proportion of first-year students receiving an institutional grant and value of grant by parental income and type of university, U.S. 2007-08**

	Proportion of students receiving inst. grants	Mean value of grant	Mean value of tuition fees	Grant as % of tuition fees
<b><u>HOUSEHOLD INCOME</u></b>				
<\$10,000	44%	\$6,389	\$9,737	66%
>=\$10,000 - <=\$50,000	44	6,912	10,384	67
>\$50,000 - \$120,010	46	7,683	12,018	64
<b><u>TYPE OF UNIVERSITY</u></b>				
Public non-doctorate	25	3,046	5,173	59
Public doctorate	34	4,031	7,152	56
Private non-doctorate	78	9,617	20,840	46
Private doctorate	67	11,461	25,361	45
<b>ALL</b>	<b>44</b>	<b>7,384</b>	<b>12,105</b>	<b>61</b>

Note: Population includes only full-time, dependent students (see note 3). The category of “All” includes students from families with incomes above \$120,010.

Source: Authors’ calculations from National Center for Education Statistics (2010b)

In the middle of the 2007-08 school year, the conversion rate of dollars to pounds sterling was approximately two to one (XE.com, 2010), so the income categories shown in Table 3 correspond to the categories for English students shown in Table 2. American students in the bottom two income categories were only approximately half as likely to have received an institutional grant as were their English counterparts. This difference is likely due to the fact that the English universities had to offer a bursary to all students receiving the full maintenance grant, which included students in the bottom two categories. American universities, as noted earlier, have much more flexibility in how they allocation their own grant aid.

The average value of bursaries, as compared to the cost of tuition fees, is lower in England than in the U.S. While the English survey on which Table 2 is based did not include the fees students were paying, all but four higher education institutions in 2008-09 set their fees close to or at the fee cap of £3,145 (Callender & Heller, 2009). Based on this level, the mean value of the bursary for the three income groups (from lowest to highest) represented 28, 30, and 19 percent of fees. This is in comparison to American students, whose institutional grants represented from 64 to 67 percent of tuition fees. This difference is most likely due to differences in how American higher education institutions award grant aid; this is done based not just on the tuition fees students pay, but on their total cost of attending university, which includes besides tuition fees, living (maintenance) costs, books, transportation, and the like.

Comparing types of institutions, the range in the proportion of English students receiving bursaries was fairly narrow, from 59 (Russell Group) to 82 (pre-1992) percent. In the U.S. the large difference is between public (state-owned) universities and private institutions, with the latter awarding grants to proportionally more than twice as many students. The value of bursaries awarded by private universities in the U.S. is also much larger than in public institutions, reflecting the higher tuition fees charged by private universities. The proportion of tuition fees covered by institutional grants was larger in public institutions, however.

### **Conclusions and Postscript – the Browne Review in England**

While the history of financial aid in England and the U.S. is different, both countries have evolved to the point that support provided to students by higher education institutions has become an important part of the financing scheme. In the U.S., the average institutional grant exceeds the size of grants received by students from either the federal or their state governments. In England, institutional bursaries do not yet approach the size of the government maintenance grant most low-income students receive. Consequently, the federal government rather than higher education institutions meet most of a low-income student's university costs while the reverse is generally the case in the U.S. As noted earlier, institutional grants are the single largest source of grant aid for undergraduate students in the U.S., and the importance of these grants is unlikely to change in the future. Tuition prices and the total cost of attending postsecondary education in the U.S. have risen at approximately twice the rate of inflation over the last two decades, and there is little indication that this trend will abate in the future. Demand for postsecondary education remains high, providing cover to universities to be able to continue to increase prices. Thus, if students (and their families) are going to be able to afford to pay the increasing prices – particularly those students from families with more moderate incomes – institutions are going to have to continue to offer discounts in the form of institutional grants.

In England, the political and social environment is quite different. As described in note 9, the government is about to reform student finances, but any changes are unlikely to be implemented until 2012/13 at the earliest. The previous Labor government launched a review of the funding of the higher education sector in November 2009– headed up by Lord Browne of Madingley - with all political party support. The review reported on 12 October 2010. Its report, entitled *Securing a Sustainable Future for Higher Education: An Independent Review of Higher Education Funding and Student Finance*, proposes radical reforms. Its recommendations have to be understood within a new political and ideological context as well England's fiscal crisis and the substantial cuts in public expenditure – the higher education budget, excluding research funding, is to be cut by 40% by 2014/15.

The review proposes that the current government imposed cap on tuition fees of £3,290 should be removed entirely, so that universities have the freedom to charge whatever the market will bear. It also suggests that most of the government funding received by universities for the instruction of arts, humanities and social sciences subjects (but not science, technology, engineering and medicine) should be withdrawn and replaced solely by income from tuition. Universities, therefore, would have to charge tuition of around £7,000 to recoup the loss of the

government funding for instruction. In essence, this change privatizes the costs of tuition for students studying selected subjects. The review also recommends a government levy on tuition. Where a university charges more than £6,000 in tuition, a proportion of the tuition over £6,000 would be clawed back by the government. This very clever (and very English) policy device is seen as a means for curbing excessive levels of tuition, as a way of funding student financial support, and of ensuring that it is progressive.

As is currently the case, all students irrespective of their family income would continue to qualify for government-funded and administered income-contingent student loans to cover all of their tuition, alongside loans for living costs. On top of these loans, low-income students would still receive means-tested government-funded grants towards their maintenance costs. However, the repayment conditions of the student loans would change in order to reduce the level of government subsidy, and to make the system more progressive whereby higher earning graduates would make larger contributions. Mandatory institutional bursaries would be abolished, but it is envisaged that universities would continue to pay non-mandatory institutional bursaries. Thus, higher education in England would continue to be free at the point of access.

It is doubtful that the current coalition Conservative-Liberal Democrat government will implement all of the review's recommendations, or that Parliament will vote in favor of them. Specifically, it is unlikely that the cap on tuition will be removed completely, and far more likely that a new government imposed cap on fees will be introduced – although the level of the cap is unknown. Nor is it likely that the levy on tuition will survive either in its current form, or at all. However, it is expected that the withdrawal of government funding for instruction will be enforced. This will lead to a substantial increase in tuition levels and student loan debt. It is unclear if all of the review's proposals concerning student loans and grants will be introduced, or how university policies on institutional bursaries might change following the implementation of the final reforms.

Despite all the uncertainty in England about exactly which changes might finally enter the statute book, it is clear that some of our conclusions about the differences between the United States and England still hold. In England, student loans and grants subsidized by the federal government and the taxpayer will continue to be the main sources of student financial support for students from low-income families, rather than institutional bursaries as is the case in the US. However, unlike in the United States, all students in England rely upon government-provided support in the form of loans for fees and living costs.

In England, institutional bursaries are likely to continue to be targeted at low-income students. Poorer students will remain the main beneficiaries of this form of student support because of ongoing concerns about widening participation and the impact of higher tuition on access to HE. And the most selective universities will carry on offering the most generous awards, as they will charge the highest tuition. However, in other respects, England's institutional aid of the future is likely to mimic that of the US. For instance, the average value of institutional aid in England is likely to rise in line with increases in tuition, and consequently to represent a larger share of the cost of tuition. And like universities in the US, universities in England will have more freedom about how they allocate their own grant aid and to whom, although there still may be some monitoring by federal government agencies.

What is unclear in the new world of student finances and higher variable tuition in England, is just how extensive institutional bursaries might be – whether they will be the preserve of the most selective and expensive universities which charge the highest tuition, or whether they will be used extensively as a price discount for universities finding it hard to recruit enough students. That will depend largely on the changes finally introduced by the government, and the level of the tuition fee cap. Specifically, it will depend upon whether the reforms create a market in tuition, or whether the vast majority of universities - except for a handful – charge the same tuition. There is a strong possibility that there will be limited variability in the tuition universities charge, and instead we will see a new uniform flat rate of tuition, just as we did following the 2004 Higher Education Act. If that happens again, then variable institutional bursaries will play an important role in student financial support and the price of higher education in England.

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## Notes

- <sup>1</sup> The focus of this paper is on institutional aid to undergraduate, or first-degree students.
- <sup>2</sup> Eligibility for means-tested financial aid is based on income in the year prior to attending college. So for students in the 2007-2008 NPSAS survey, income data from 2006 are used.
- <sup>3</sup> By federal rules, students are considered dependent students unless they fall into one or more of the following categories:
- Age 24 or older on December 31 of the academic year
  - Enrolled in a graduate or professional program beyond a bachelor's degree
  - Married
  - Orphan or ward of the court
  - Have legal dependents other than a spouse
  - A veteran of the U.S. Armed Forces or U.S. Armed Forces active duty personnel (National Center for Education Statistics, 2010b)
- <sup>4</sup> The credit crisis and recession that began in 2008 had a large impact on the private student loan markets, with many lenders leaving the market. The College Board (2010) reported that overall (graduate and undergraduate combined) borrowing from private lenders, which had been growing steadily over the prior decade, dropped by over half between the 2007-2008 and 2008-2009 academic years, from \$21.8 billion (in constant 2009 dollars) to \$10.1 billion, and then fell by another 24 percent in the 2009-2010 year.
- <sup>5</sup> This total is only for the borrowing incurred by the student, and excludes parent PLUS loans, or other borrowing by parents such as through home equity loans.
- <sup>6</sup> In the American financial aid system, students are considered for means-tested grants based on their (and their family's, if appropriate) income in the calendar year prior to college. Thus, students attending college in 2007-08 would use their income from calendar 2006.
- <sup>7</sup> An income in this level would not qualify students for federal means-tested grants or most state need-based grant programs. Students and parents can estimate their eligibility for need-based federal grants and loans at: <http://www.fafsa4caster.ed.gov/F4CApp/index/index.jsf> or <http://www.finaid.org/calculators/finaidestimate.phtml>.
- <sup>8</sup> The following discussion only applies to the funding of full-time undergraduates in England. Since devolution in the late 1990s, Scotland and Wales have developed their own systems of student finance. In England, financial support for undergraduates studying part-time differs from support for full time undergraduates while there is no statutory support for the majority of postgraduates.
- <sup>9</sup> At the time of writing, the current system of student financial support is under review. The Independent Review of Higher Education Funding and Student Finance, headed up by Lord Browne, issued its report on 12 October 2010. The Review arose from a commitment made by the Labor Government during the Commons stages of the Higher Education Act 2004 to review the operation of variable tuition fees for full-time students after these had been in force for three years. Specifically, it was 'tasked with making recommendations to Government on the future of fees policy and financial support for full and part-time undergraduate and postgraduate students' (BIS 2009). The recommendations of the Review, if implemented, would radically change student finances in England.
- <sup>10</sup> All figures quoted here apply to the 2006-2007 academic year. In 2006-07, the income threshold for receipt of a full maintenance grants was £17,500 but was raised to £25,000 from 2008-2009.
- <sup>11</sup> While some states regulate certain aspects of institutional grant aid for public colleges and universities in their states, these regulations are generally fairly weak.
- <sup>12</sup> These sums do not include the costs to the government of funding student loans or the administrative costs.
- <sup>13</sup> In 2008-09 the UK median household income was around £30,000 (Office for National Statistics, 2010).