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# THE RACIAL WEALTH GAP, FINANCIAL AID, AND COLLEGE ACCESS

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# OVERVIEW OF THE ISSUE

## Stated Goal of Financial Aid: Improve Equity

- Those with lower “ability to pay” expected to pay less
- First step: assess ability to pay (EFC)

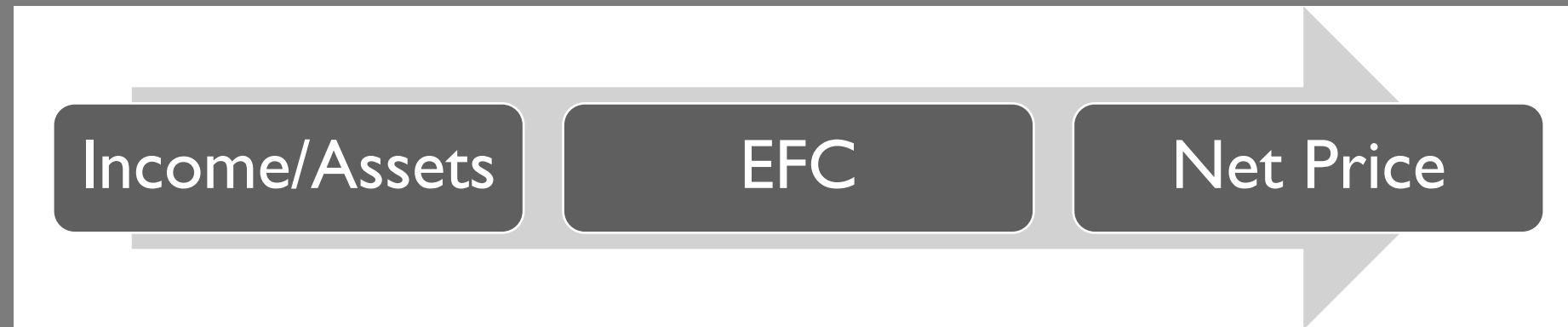
## Issue: “Uncounted Assets”

- Higher asset holdings mean greater ability to pay
- Some forms of assets are not “counted”
  - Home equity on primary residence
  - Retirement savings – 401k, pension, annuity (IRAs counted)
- Holdings of these assets differ by race/ethnicity  
→ Creates affordability gap

## Result: Disparate Impact by Race/Ethnicity

- Advantages students from families w/ uncounted assets
- Potential impact on college outcomes
- Potential impact on student/family finances

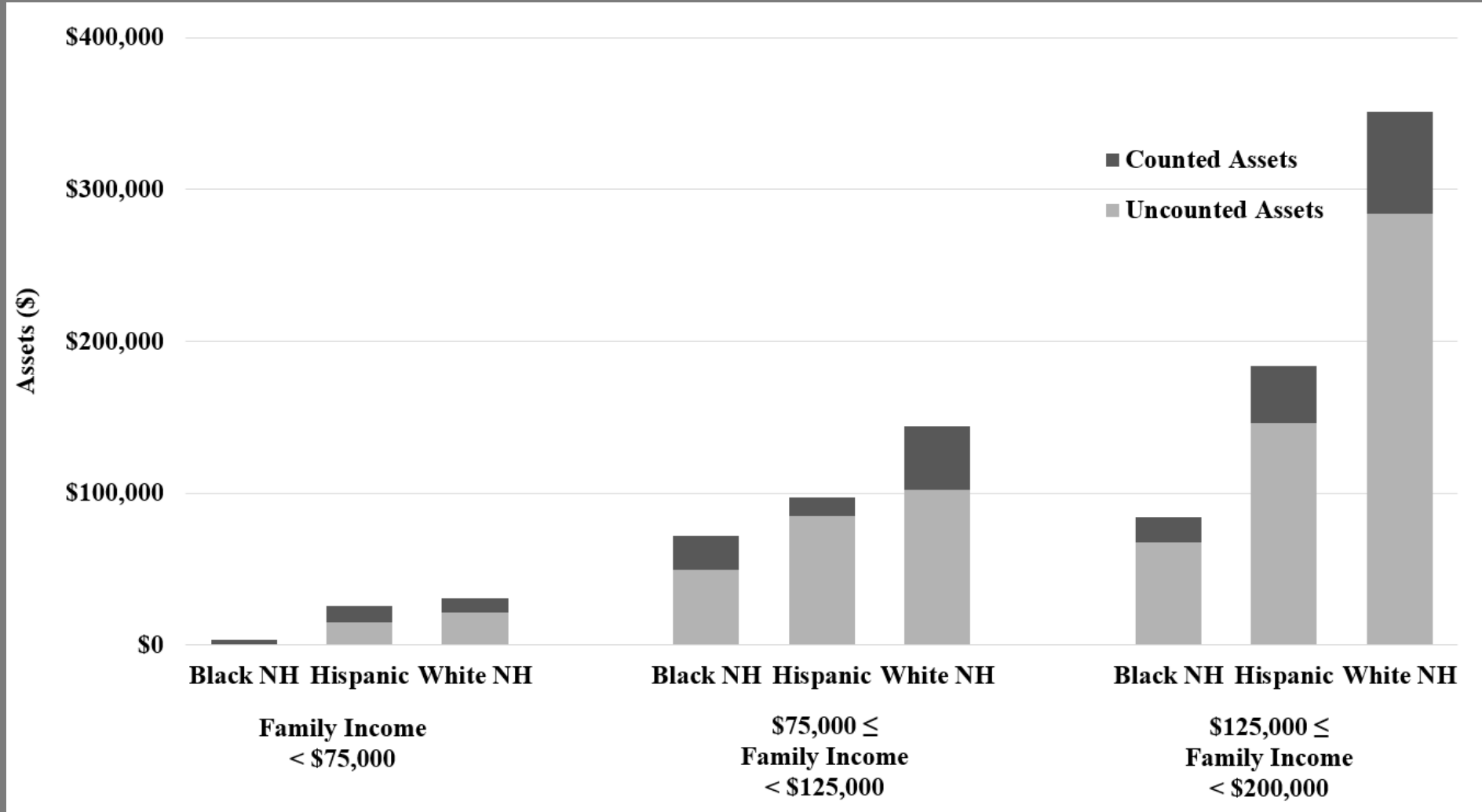
# HOW FINANCIAL AID WORKS



Rough Estimate of Income Eligibility for Aid at 4-Year Residential Colleges

- \$125,000 at public institutions
- \$250,000 at private institutions

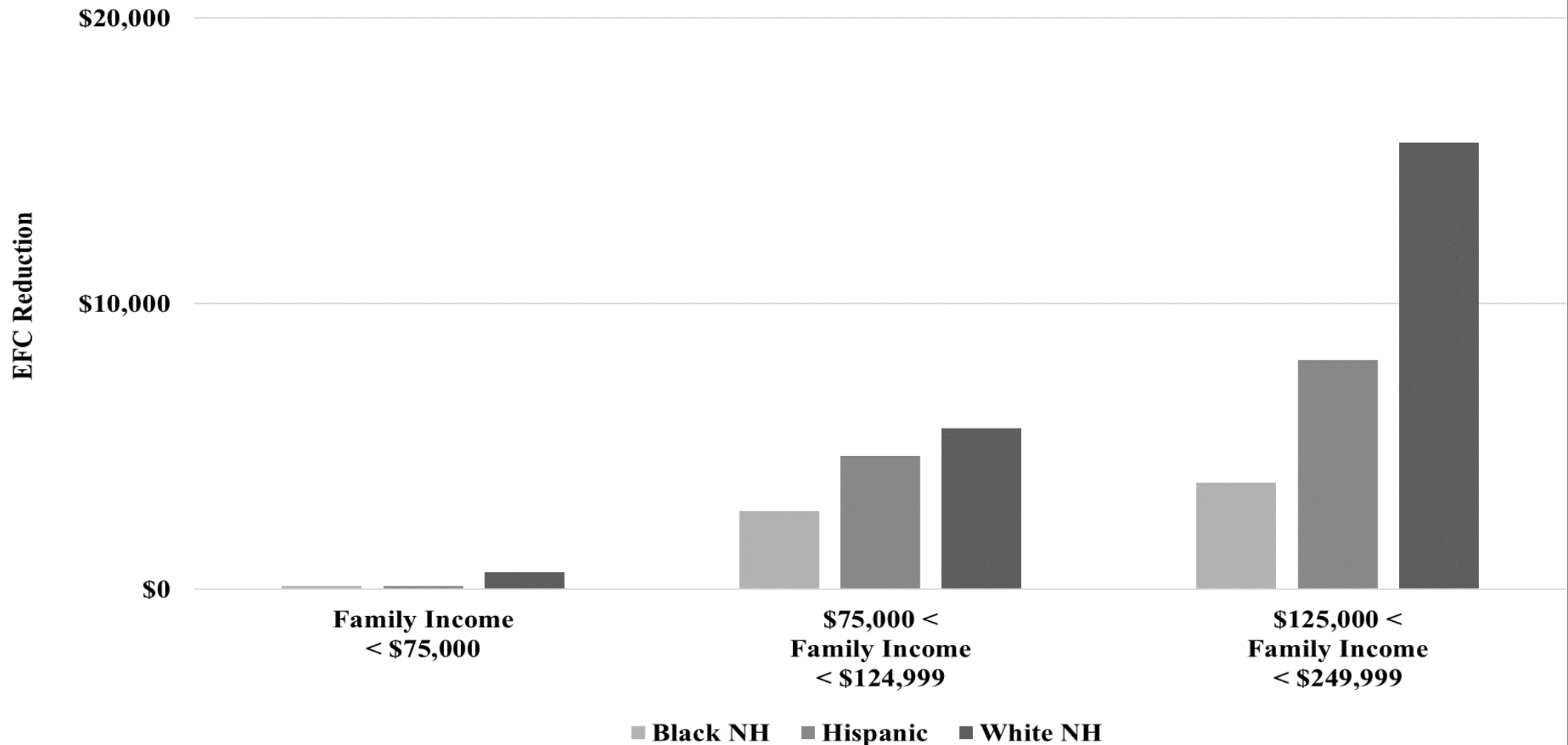
# MEDIAN FAMILY NET WORTH, STUDENTS APPROACHING COLLEGE AGE



Source: Authors' calculations using data from the 2019 SCF.

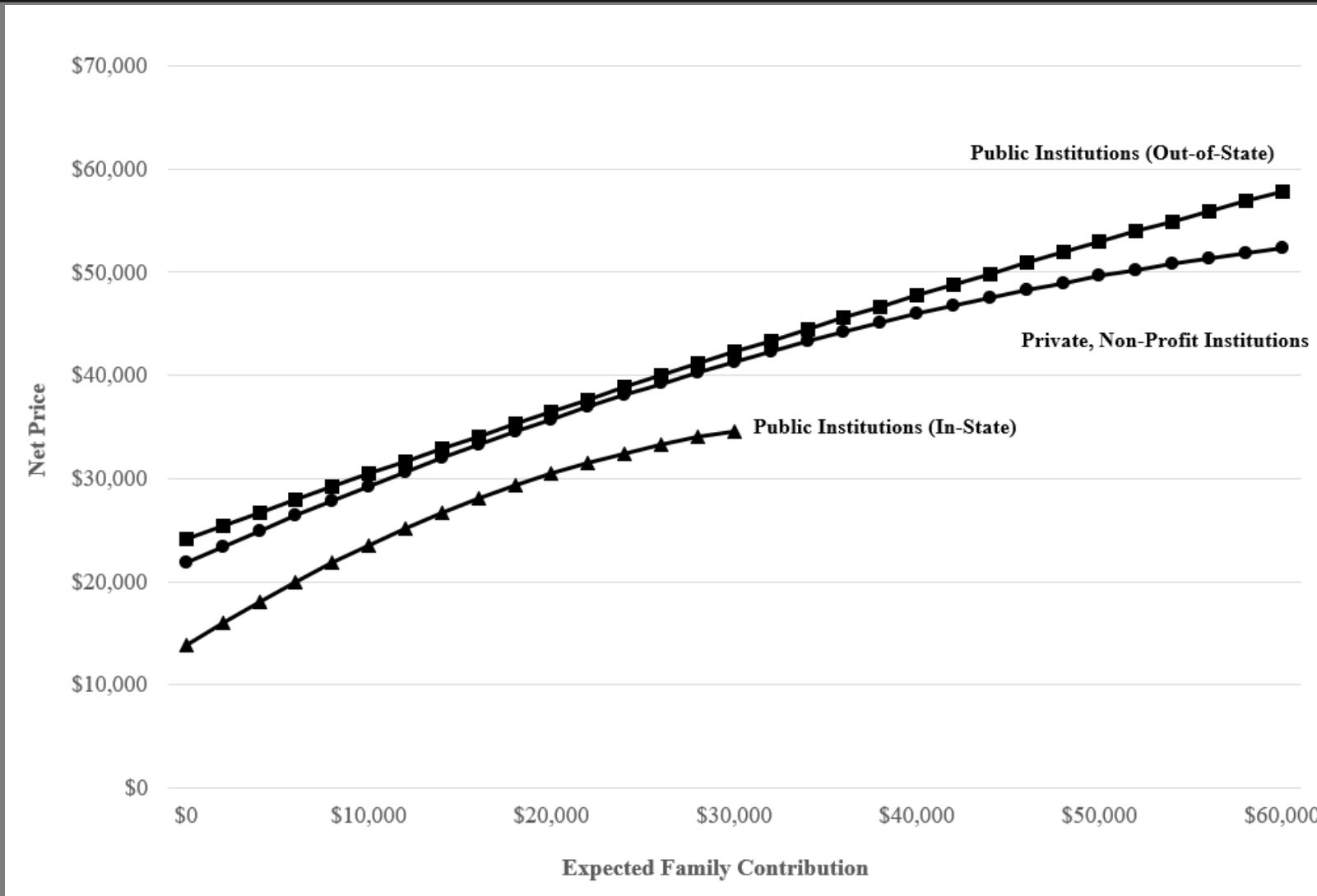
# EFC REDUCTION DUE TO UNCOUNTED ASSETS

(EFC REDUCTION = "FULL-ASSET EFC" - CURRENT EFC)



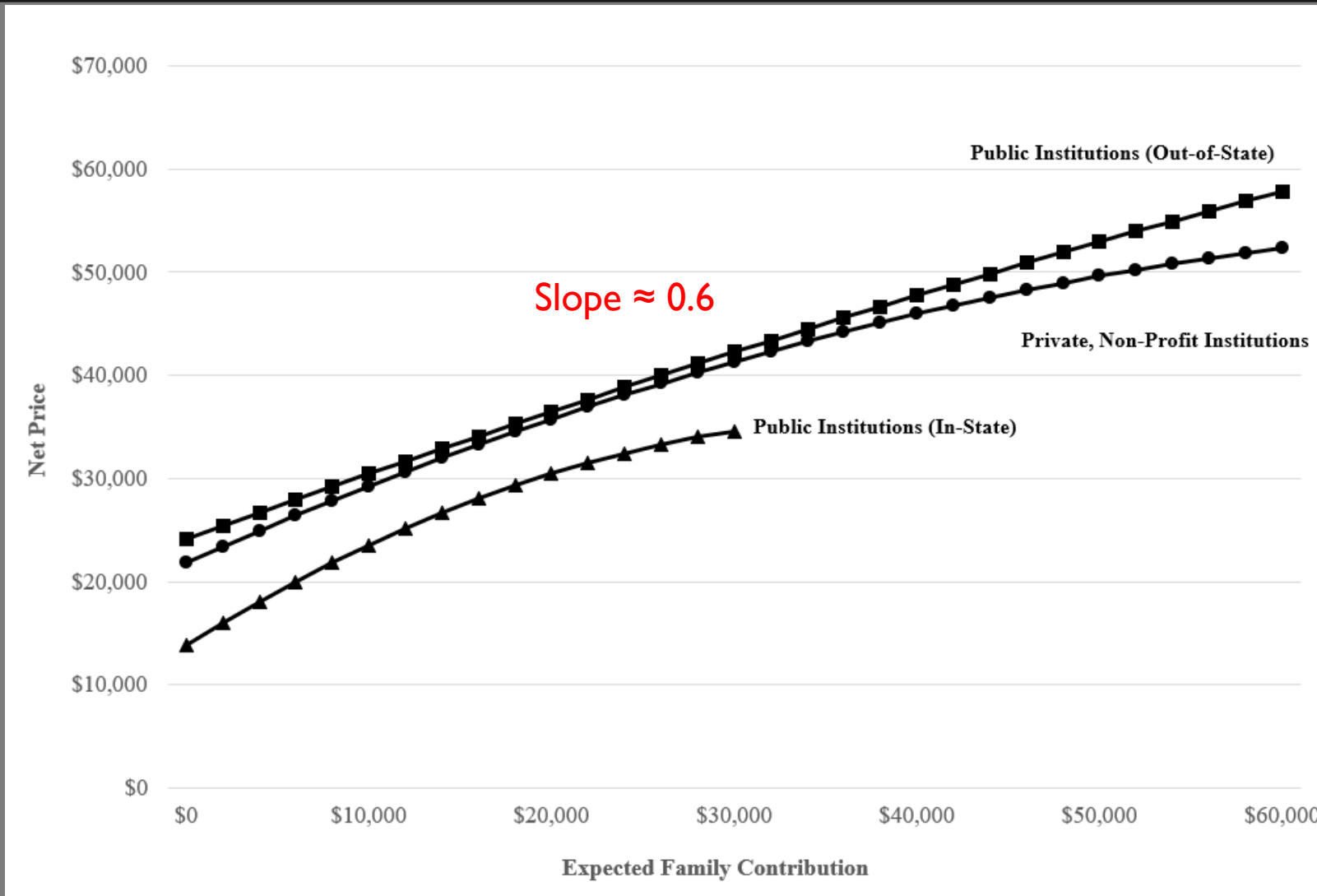
Source: Authors' calculations using data from the 2019 SCF.

# RELATIONSHIP BETWEEN EFC AND NET PRICE



Source: Authors' calculations using data from the 2015-2016 NPSAS.

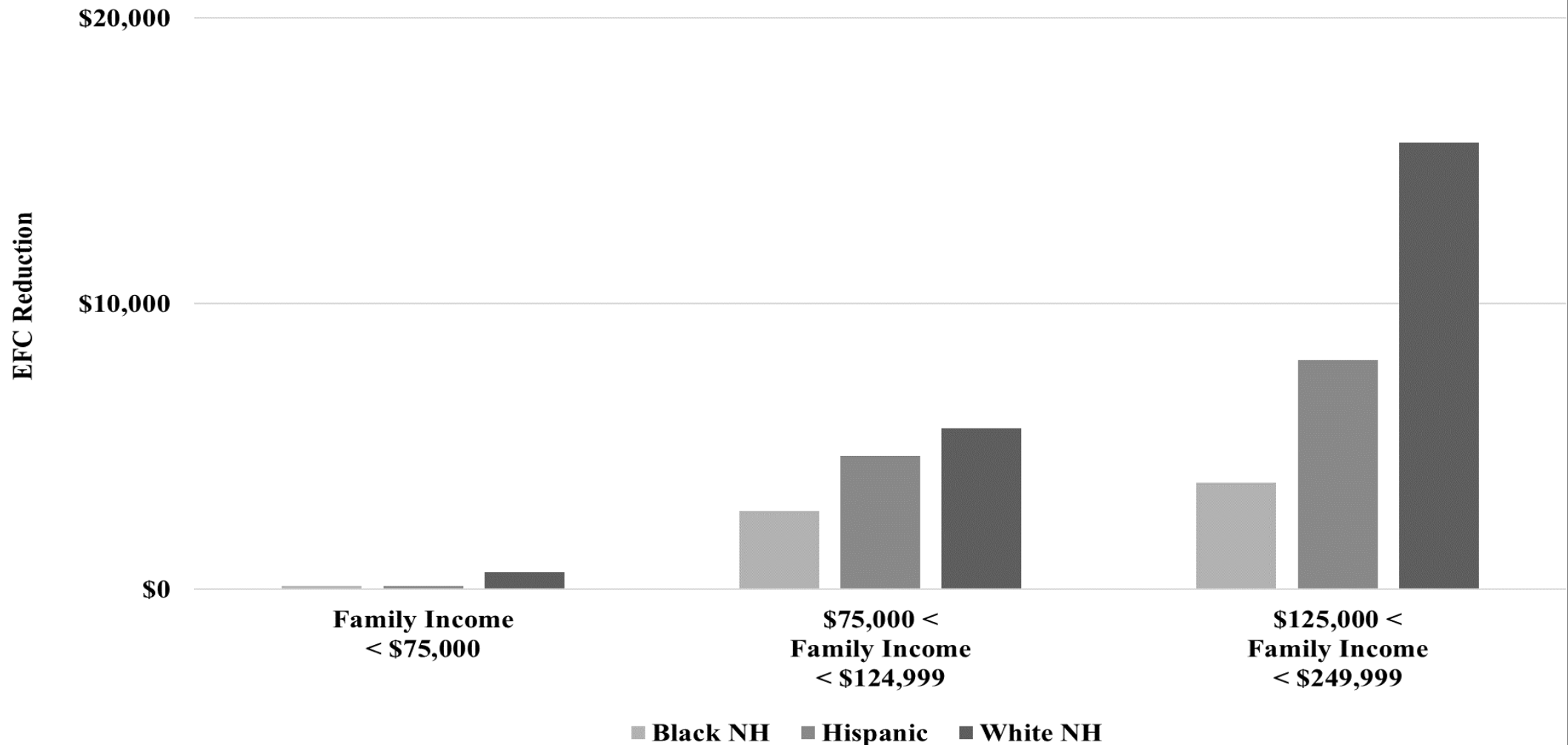
# RELATIONSHIP BETWEEN EFC AND NET PRICE



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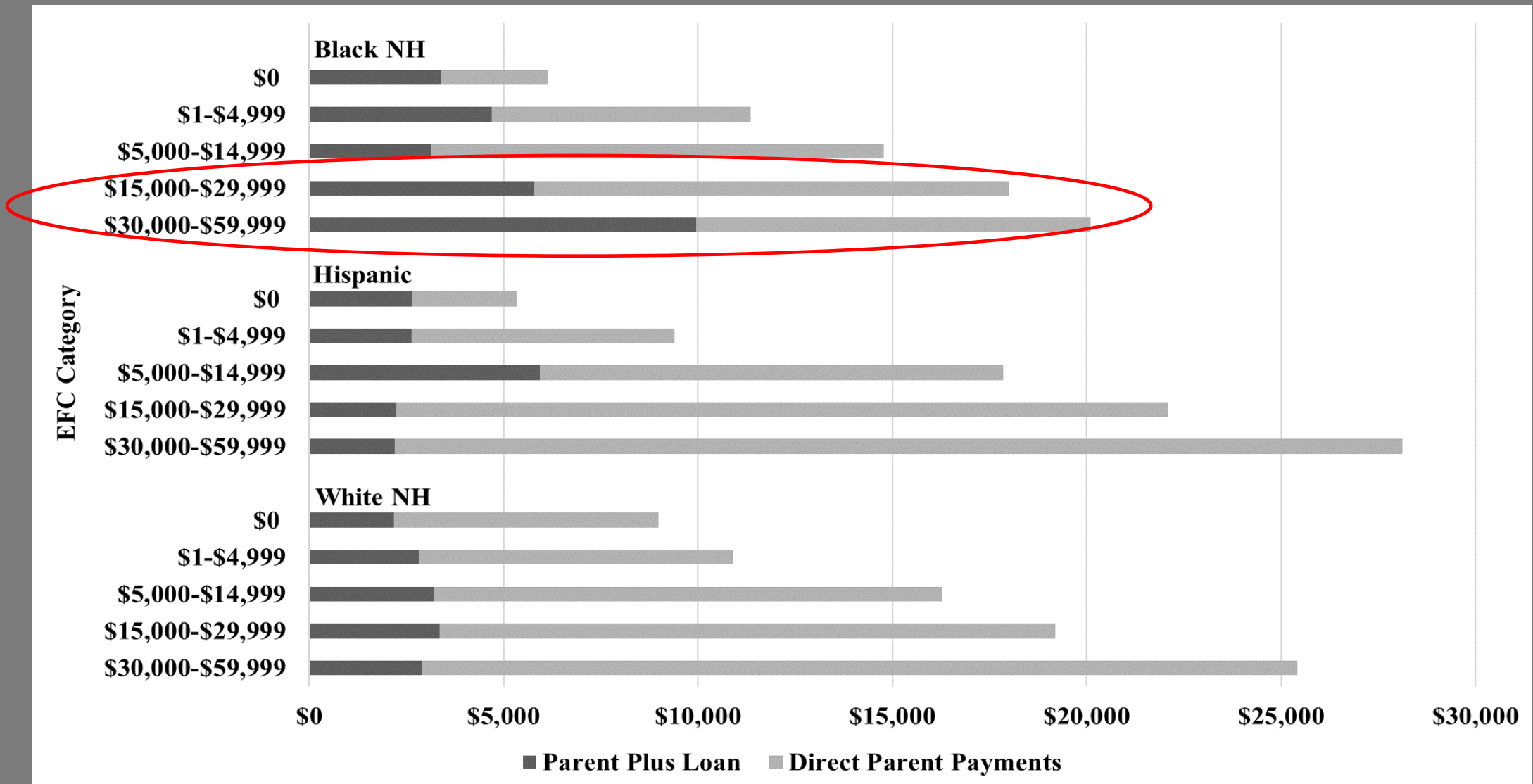
(EFC REDUCTION = "FULL-ASSET EFC" - CURRENT EFC)



Source: Authors' calculations using data from the 2019 SCF.

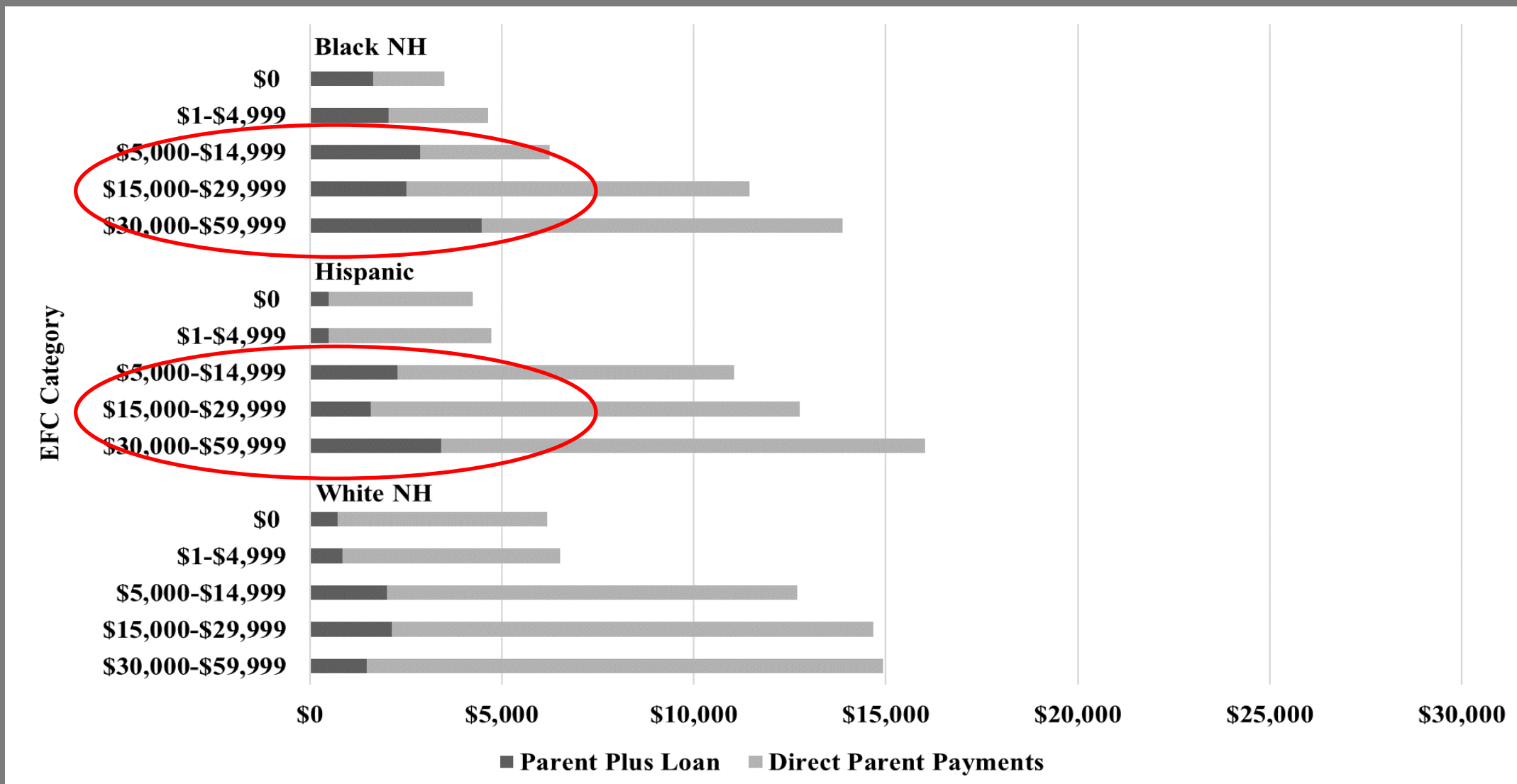


# Average Payments Made by Parents at Four-Year **Private** Institutions, by Race/Ethnicity, EFC, and Payment Type



Source: Authors' calculations using data from the 2015-16 NPSAS.

# Average Payments Made by Parents at Four-Year **Public** Institutions, by Race/Ethnicity, EFC, and Payment Type



Source: Authors' calculations using data from the 2015-16 NPSAS.

## BEHAVIORAL EFFECTS ON ENROLLMENT AND COMPLETION

### Educational and Student Debt Outcomes

- ↑ enroll in college (w/ substitution to 4-year from 2-year)
- ↑ complete degree conditional on enrollment
- ↑ graduate from college and 4-year degree overall
- ↓ student debt balances

### Simulated Changes in Outcome Gaps

- What would be the effect on educational outcomes of giving Black/Hispanic students the same net price reduction as white students?
- Resulting implicit subsidy:
  - ↓ gaps in educational and student debt outcomes  $\approx$  10-15%

SO WHAT?

## POLICY CONSIDERATIONS

### Implicit Subsidy Is Impactful

- Amounts to **\$2.3 billion per year** – twice the size of the federal work-study program
- Benefits between **600k and 1 million students** annually
- **Disparate impact** ← past structural/institutional barriers to wealth accumulation for non-white families
- Questions for Policymakers:
  - Subsidize home equity and retirement wealth building (again) at the financial aid award stage?...*
  - ... even if college access/success for non-white students is harmed?*
  - ... and even if the “bang for the buck” for the money is much less than alternate programs (e.g. Pell)?*

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# POLICY ALTERNATIVES

## Ignore Assets Entirely

- Prioritize simplicity (“FAFSA on a postcard”)
- Recognize existence of disparate impact

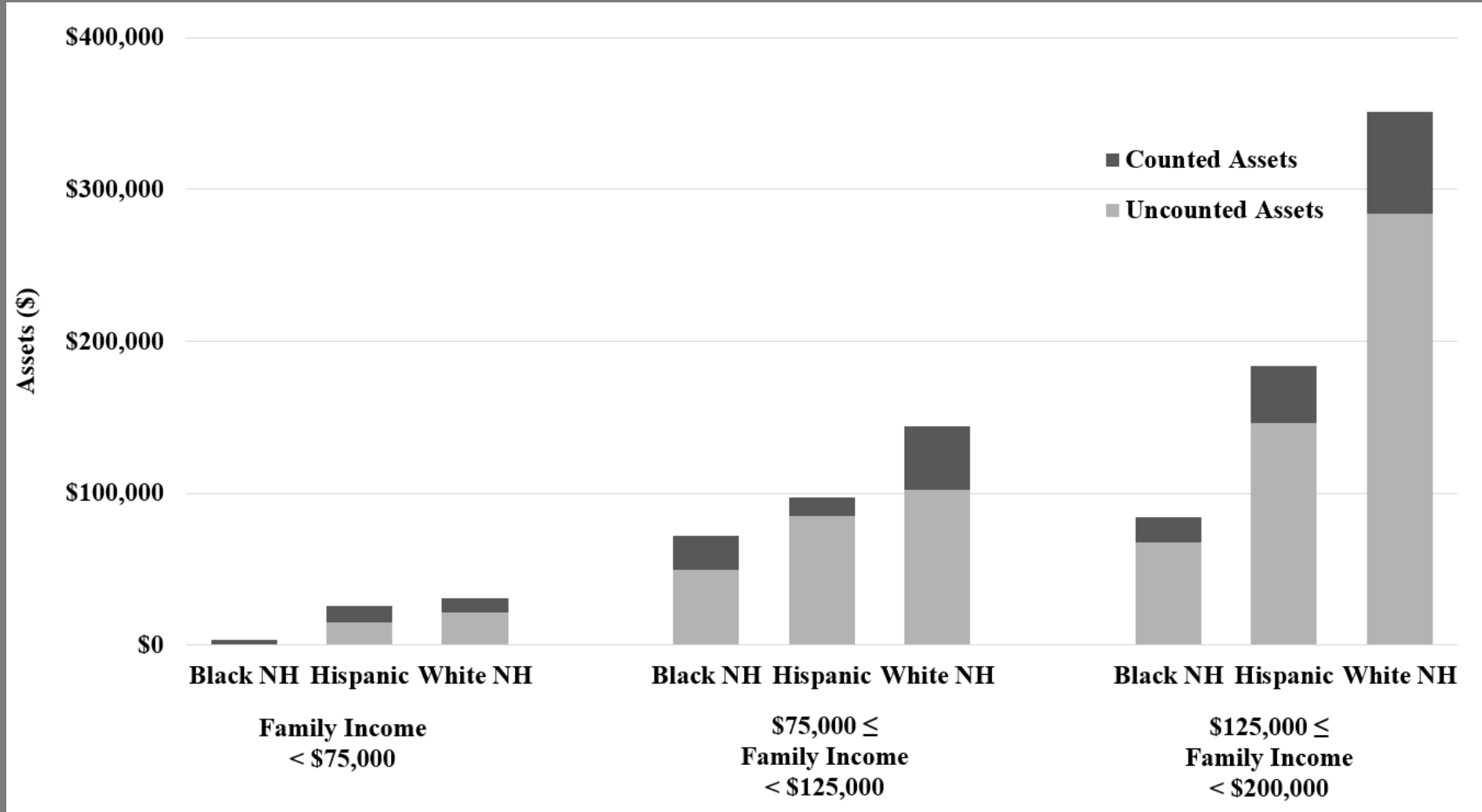
## Simplify Treatment of Assets

- No asset info for families with below median incomes
- Total assets only for families with above median incomes

## “Count” All Assets and Redistribute

- Broaden base, lower “tax” rate in revenue neutral fashion
- Recast HE/retirement savings as counted assets  
+ lower “tax” on assets and/or income
- Could be combined with asset simplification as above

# MEDIAN FAMILY NET WORTH, STUDENTS APPROACHING COLLEGE AGE



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