



REGENT®

Best Practices in Financial Aid Packaging:
A Guide for Higher Education Leaders

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Executive Summary

This paper is intended for administrative leaders in higher education who are responsible for student services, finance, student financial aid, and/or enrollment services.

This white paper seeks to deepen an understanding of:

- I. What packaging is and how it works
- II. The important role of financial aid packaging in student recruitment and retention
- III. Various aid packaging models available to schools
- IV. The benefits of automation in packaging

What Is Packaging and How Does It Work?

Traditionally, the process of awarding aid without exceeding the student’s financial need is called packaging. The process involves evaluating each applicant's eligibility and communicating a student-specific offer of aid (i.e. the financial aid package).

Packaging aid, one of the most complicated business processes an institution undertakes, is integral to the success of the school. Schools administer various types of aid, which may include grants, scholarships, loans, work-study employment opportunities, and waivers of tuition. Federal, state, institutional, and private sources may provide these aid programs. To add to the complexity, aid programs may have different eligibility criteria (e.g. eligibility may be based on financial need, academic criteria, organizational affiliation, and/or participation in specific activities).

Schools may have different packaging philosophies, but they have a common goal of finding the best combination of aid to meet the financial need of the students they serve. In doing so, schools also seek to distribute limited resources fairly and equitably.

The packaging process varies from school to school depending on the characteristics of the student population and the types of grants, scholarships, loans, and other aid that is available at the school. Schools with a significant investment in institutional programs may seek to allocate these aid programs strategically to achieve specific goals.

How packaging works

Financial aid packaging seeks to provide resources to meet a student’s financial need. Financial need is defined as the cost of attendance (tuition, fees, books, living expenses, and transportation) less the student’s (or family’s for dependent student) contribution. The ability to contribute is determined by

analyzing financial information reported on an aid application, typically the Free Application for Federal Student Aid (FAFSA), or some other aid application.

$$\text{Cost of Attendance} - \text{Estimated Family Contribution (EFC)} = \text{Financial Need}$$

Need-based aid generally cannot exceed the financial need. Non-need based aid generally cannot exceed the cost of attendance. Students may use available non-need-based aid to cover part or all of their contributions.

Schools typically evaluate eligibility for aid by first determining what federal, state, or external source aid the student may receive, and then identifying institutional aid that may be available.

Technical considerations

Students are required to use the FAFSA to apply for federal student aid programs. Schools must use federal methodology (FM) and the EFC (calculated using the information contained in the FAFSA) to determine financial need and award federal student aid based on federal eligibility guidelines.

For institutional aid programs, it is up to the school whether to use FM or some other institutional methodology (IM) to determine eligibility for their institutional programs. For example, the school may want to consider resources that are not considered when using the FM, such as the income and/or assets of the parents of independent students. Schools are also free to award institutional programs based on their own guidelines.

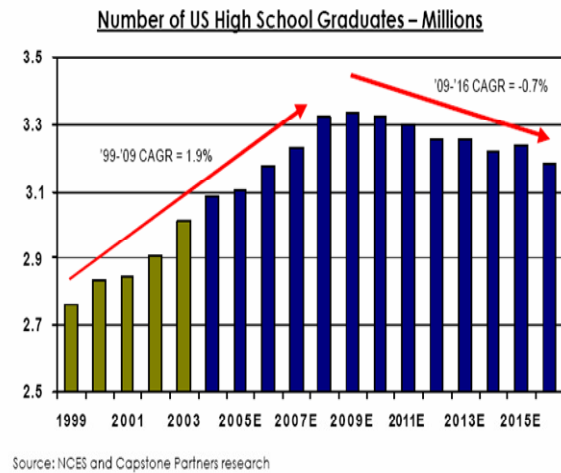
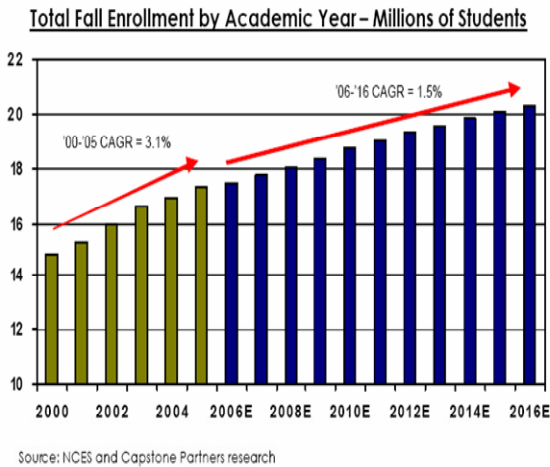
Why Packaging Is So Important

There are a number of factors present in today's higher education environment that extend the important role financial aid has traditionally held.

Competitive environment

Schools of all types operate in an increasingly competitive environment. Schools in sectors that traditionally were excluded from market competition now find themselves joining the fray. Many public and non-profit schools are asked to operate more like commercial businesses, competing for students in order to meet enrollment goals.

With the growth of the for-profit and online segment, competition for students has greatly increased as schools heavily market to diverse student populations. As shown in the graphs below, beginning in 2009, the number of high school graduates begins to decline; however, the growth in enrollments will continue to increase at a compounded annual rate of 1.5%. This decline in the number of high school graduates coupled with increased enrollment suggests the existence of more non-traditional students. This trend has led to the development of a diverse array of program offerings featuring non-traditional calendars and non-standard terms.



This will require institutions to look at whether their packaging philosophy is relevant for current AND future students and program offerings.

This change in student demographics is also accelerating the trends in distance learning and online delivery of instruction. These delivery methods are growing in popularity and are causing schools to consider new ways to serve students who physically do not attend school on campus, or those who may need administrative services outside of normal business hours. Driven by these enrollment needs and competitive factors, this move from the traditional institution-centric semester of the 20th century to a 21st century “on demand” or “termless” education means that schools now must have systems that can handle this type of packaging.

Packaging’s role in student recruitment and enrollment maximization

The increasing competition between schools to attract students to their institutions means that students will be dependent upon receiving adequate financial assistance to enroll. As such, financial aid is a major strategic factor in the recruitment and retention processes.

Timely evaluation and communication of students' eligibility for aid enables students to make informed choices regarding affordable access. This creates opportunities for the student and the school.

For students with financial need, financial aid likely will be an important component in school selection. Once an offer of admission is made and the school informs the student about specific aid eligibility, the student can assess the net cost after aid. This will enable the student to determine if he or she can accept the offer, as well as to begin planning to meet the cost.

Empowering such students to make informed decisions affords them greater access, expands their options, and helps them prepare. The more informed and better prepared students are, the earlier they can commit and the more likely they will persist, thereby boosting recruitment and retention rates.

Early packaging can also increase accountability to stakeholders to make informed budgeting and forecasting decisions, help provide better service, and increase student satisfaction.

Regardless of institution size, financial aid offices serve many students with a wide variety of needs. Technology has enabled greater communication among people; and college students, a generation that has been on the leading edge of technologies, are digital natives. Making use of methods such as text messaging, instant messaging, email, and social networking websites, college students regularly communicate with family, friends, classmates, and professors. Financial aid offices may be able to utilize these technologies to more effectively communicate with the students they serve about upcoming deadlines, award information, scholarship opportunities, and other financial aid matters, such as more quickly packaging and awarding them aid. This constant communication has a direct effect on retention rates, as students are more closely guided through their financial aid lifecycle.

Packaging Models

Six models of packaging financial aid typically are identified as standard throughout the industry. Some of the models relate to each other, and schools often employ variations, which might include one or more of these models.

A discussion of the characteristics of the various models, as well as their advantages and disadvantages, follows. This discussion should help determine which method, or combination thereof, is most appropriate for your school.

Individual

In the Individual model, financial aid is awarded based on individual circumstances, including specific student needs, individual costs, or resources of the student.

The customized financial aid packages that result from this method and the optimized use of available funds are among the advantages of this approach.

The time required for staff resources to manually review each file and determine the award package may preclude many schools from employing this method.

First come, first served

In this model, schools make financial aid awards from the time the applications are received up until the funds are exhausted. Early applicants receive maximum consideration for the school’s limited funds. Limited funds may include institutional grants or scholarships, as well as federal campus-based aid, such as SEOG or Perkins Loans.

This model may enable you to begin packaging early and can help ensure that funds are maximized. This model also encourages desired behavior from applicants, and may provide improved early projections of expenditures and revenues.

However, if applicants are not in a position to complete their tax returns early, there may be some error in the estimates used to complete their aid applications. When those estimates are corrected, subsequent adjustments to the aid offered might be required. Another disadvantage to this method is that any applicants who arrive later in the process might receive a less-desirable mix of aid types. For example, when grant funds are exhausted, more loans may be offered.

Student categories

In this method, the applicant pool may be organized into categories based on such factors as:

- Academic achievement
- Test scores
- Class standing
- Enrollment status
- Academic program
- Application date
- Residency

The school has wide flexibility to use categories in determination of awards. For example, the school may use categories to award all financial aid programs; to award a single financial aid program, but not others; or to award different aid programs.

Schools may also use categories to shape the student body in more creative ways, considering factors such as diversity, likelihood of enrollment, or desirability. Categories may reflect a school’s mission and philosophy, taking into account its unique student population. Each category is treated as a separate pool.

Whatever categories the school develops, it is important to note that those categories must not circumvent law or regulations.

A student’s placement within these categories may result in a different aid offer. Quite often, a combination of factors forms the basis of this analysis. For example, a matrix or grid columns reflecting academic criteria, and rows reflecting financial need, may be used. Each cell may have a different guideline for financial awards.

In the example below, academic achievement (categorized from 1-high to 4-low) is paired with 6 levels of financial need to create 30 categories. An additional four categories are needed to distinguish financial aid application filers with no financial need from applicants who did not apply for financial aid.

Financial Need	Academic Achievement			
	1	2	3	4
10,001 & Above	High Merit Very High Need	Medium Merit Very High Need	Average Merit Very High Need	Low Merit Very High Need
7,501-10,000	High Merit High Need	Medium Merit High Need	Average Merit High Need	Low Merit High Need
5,001-7,500	High Merit Medium Need	Medium Merit Medium Need	Average Merit Medium Need	Low Merit Medium Need
2,501-5,000	High Merit Low Need	Medium Merit Low Need	Average Merit Low Need	Low Merit Low Need
1-2,500	High Merit Very Low Need	Medium Merit Very Low Need	Average Merit Very Low Need	Low Merit Very Low Need
0 or Less	High Merit No Need	Medium Merit No Need	Average Merit No Need	Low Merit No Need
No Aid Application	High Merit Non-filer	Medium Merit Non-filer	Average Merit Non-filer	Low Merit Non-filer

Many schools perform financial aid leveraging analyses to maximize the effectiveness of financial aid awarded in each category to achieve a desired result. This involves developing statistical predictive models based on a comparison of financial aid offered to students in each category and whether or not they enrolled. These analyses are used to determine the packaging plan for each category and typically are developed by in-house experts using research, admissions, and financial aid departments and/or external consultants.

An advantage of this method is that it enables schools to leverage limited institutional aid resources in a highly targeted way to meet specific strategic enrollment goals. It also helps provide reliable projections of expenditures and net revenue.

There are, however, some challenges inherent in this method. One is the predictive value of models when individual cells have small data samples or contain outliers with behavior patterns that may attribute to other factors.

This method also requires an extensive, discreet analysis of past outcomes using reliable data. The school needs two or three years of data consisting of specific aid offers by fund, as well as the enrollment outcome of each offer, to develop a statistical analysis to create the model. For some schools this may require expertise provided by external consultants.

Ladder

Using this method, once financial need is determined, Federal Pell Grant, state grants, and other outside resources are applied first. Grants and scholarships generally are added next, with any remaining need being met by work and/or loans.

This model is very easy to automate and provides very consistent aid packages; however, there is little room for customization when using this method.

Self-help

This method is very similar to the Ladder model, with one exception. Work-study or loans are awarded before additional grants or scholarships, which are only awarded if additional need remains.

This method helps the school's limited institutional resources stretch further and/or reserves limited aid for students with the most financial need. Since loan eligibility typically increases in subsequent years, this method may further displace grant aid when used for continuing students.

Equity

This method assures that a certain level of grant assistance is awarded to eligible students. To the extent possible, students are awarded gift aid (grants or scholarships) to supplement EFC to the same level, either up to a fixed maximum amount (absolute equity), or up to a fixed percentage of the cost of attendance (fixed-percentage equity).

Absolute Equity: $EFC + \text{Gift Aid} = \text{Fixed Maximum Amount}$

Fixed-Percentage Equity: $EFC + \text{Gift Aid} = \text{Fixed Percentage of the Cost of Attendance}$

Automation

Automation can help schools effectively meet the challenges of packaging aid. Having a financial aid system that is configurable, allowing an institution to define its business rules and packaging model, will go a long way toward decreasing the manual workload and resultant headaches financial aid administrators currently experience.

Areas where automation can increase efficiencies and student service satisfaction include the following:

- Automation of workflows ;
- Automation of student communication (e.g. award letter generation and distribution);
- Communication in student's preferred format, typically electronic; and

- Provision of a secure environment for school and/or student to request and provide information.

By automating packaging methodology, a financial aid office can establish repeatability, helping to ensure compliance with the presence of fewer errors.

Summary

For students with financial need, aid is a critical component in their school selection process, extending their range of possible choices. As such, packaging plays a crucial role in the enrollment maximization of an institution. In addition, outside competitive pressure further increases the strategic role financial aid plays in affecting an institution’s enrollment goals.

In this changing environment, effectively managing the packaging and related processes can help schools shape and achieve a variety of goals, and positively impact recruitment and retention efforts.

Schools must effectively manage the increasingly complex financial aid process, while providing a consistent level of accountability and service to students and other stakeholders. Some factors to consider when identifying which method or combination of methods best meets the goals of your institution include the following:

- Your specific student populations;
- Federal and state programs in which your school participates;
- Which programs of study at your school are eligible to participate in federal and state aid programs;
- Your school’s investment, institutional grants, or scholarships; and
- Your institutional goals.

Financial aid should be a strategic imperative for every institution; and identifying and managing award packaging can be a key component in reaching institutional goals.

About the Author

Peter Brennan serves as Product Manager for Regent Enterprise, Carbon Edition. Peter has more than 20 years of experience in the financial aid profession, including administering student aid at colleges and universities, serving as an operating partner, designing and developing training for financial aid administrators provided by US Department of Education’s Federal Student Aid, and providing business domain expertise to software providers.

About Regent

Regent is a leading Software-as-a-Service provider of financial aid management software solutions with more than 30 years of industry experience. The company's web-based, easy-to-use solutions interoperate with any established student information system. Regent provides institutions with improved efficiencies, fewer errors, and enhanced services for students, equaling a positive return on investment within the first year.

Regent's management solutions are designed and built by and for members of the financial aid and enrollment management communities. Regent enables institutions to better craft and execute financial aid strategies. With its Student Self Service Portal, the company also offers 21st century access for students seeking financial aid information anytime, anywhere, from any device, in any language.

For more information, visit: www.regenteducation.com.

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