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Packaging Student Financial Assistance: The Case for the Private Donor

by John H. Munger

Historically, foundations and other private benefactors have perceived their mission as that of providing supplemental funds where provisions from other sources are insufficient to provide a service or to meet a societal need. And so it is with donors whose objective is to provide needy and worthy individuals with gift assistance to meet educational expenses. Certainly, no one would argue against the need for supplemental funds, or that the services of such donors fill a genuine need. And yet collegiate financial aid officers have resorted to a practice, in the handling of donor awards, which thwarts donors' very efforts to provide assistance for selected recipients. Understandably, foundation executives and other fund administrators, indignant over such cavalier treatment, have united in common accord to voice their disapproval. This paper, as an expression of that disapproval, will delineate the practice in its various forms and articulate donors' objections to it. Finally, an alternate approach to packaging gift assistance will be proposed which, if not universally accepted, should at least provide a basis for further discussions between donor and collegiate communities.

The Problem

The practice which prompts such strong reactions among private donors is the use by collegiate administrators of donor funds to replace institutional gift assistance — the arbitrary reduction, dollar-for-dollar, of institutionally controlled gift money upon notice of private donors' awards to specific students. In this case, the problem is not that too many cooks spoil the soup. Rather, it is that college aid officers, too long, have assumed the position of chief cook and bottle washer, arbitrarily establishing their own recipe for student aid without regard for the tastes of private donors. Unless all the cooks in the financial aid kitchen, working as partners, resolve their differences over control and appropriate, proportionate ingredients, the soup may well spoil.

When an institution reduces or cancels its assistance to a student who receives a donor award, the effect is to subvert the donor's objective by diverting funds away from the recipient into institutional coffers. Nor does the reassignment of these funds to other students remedy the damage, for this simply forces the recipient to share with others or forfeit altogether an award named for his or her use. To tell a student that an award named for his or her exclusive use must be shared with others seems unfair to the student and an affront to the sponsor. Moreover, since foundations and many other donor organizations are bound by charter and bylaw restrictions, this diversionary tactic, at the very best, places donors on the horns of a moral dilemma; and by obstructing the fulfillment of the donor's charitable purpose may even place the donor in jeopardy with the law. Thus, foundation administrators and

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their officers are obligated to mount a forceful resistance to college administrators on this matter.

In truth, this is no more than a maneuver, in the guise of packaging policy, to boost gift funds under the direct control of the institution. A more appropriate means through which to generate money from the private sector would be to approach selected donors directly for funds to augment institutional dollars. Valuable assistance in proposal preparations and selection of appropriate, prospective donors should be available from the institutional development office.

The Pullman Program

In the population served by the Pullman Foundation, as the following figures attest, colleges and private donors are much closer to being equal partners in providing gift funds than many may have thought. Of the $728,917 received by members of the Foundation's current freshman class, the State of Illinois provided 27%, the Foundation and other similar private donors, 25%, and colleges and the federal government, each 24%. Accordingly, donors' expectation that awards will work to the advantage of designated recipients seems a reasonable one. Furthermore, many donor organizations possess staffs with professional expertise similar to that of institutional aid offices. These staffs devote considerable time, energy and money to the selection of scholarship recipients. This point can be illustrated with a brief description of the Pullman Foundation's scholarship programs.

The George M. Pullman Educational Foundation, incorporated as a not-for-profit corporation in Illinois in 1949, for the purpose of providing scholarship assistance to needy and worthy residents of Cook County, Illinois, awarded fewer than $1,300 in its first year. However, by 1966, a total of almost $341,000 was paid to colleges across the country in behalf of 718 undergraduate collegiate students. Although in more recent years the number of annual recipients has leveled off to around 600, the budget has shown gradual growth. Thus, in the current year approximately $487,000 will be expended in the operation of two distinct scholarship programs; one for baccalaureate students and the second for students of post-secondary, non-degree vocational and technical schools. The Foundation's full-time staff consists of two administrators and two secretaries. Three part-time counselors assist with interviews and the selection process; part-time clerical assistance is sometimes used, particularly during busy summer months.

Recipients are selected from an applicant pool of approximately 1400 students, including freshmen and upperclassmen, collegiate and vocational students. Based on calculated need, a Pullman Scholarship is generally intended as a supplement to assistance received from other sources either to fill an unmet need or to reduce amounts a student will need to borrow or earn through term-time employment. Payment of Foundation awards is made through collegiate aid offices with the instruction that adjustments to institutionally controlled financial aid resulting from the award be made only in loan or work portions of the package. Institutions whose policy prevents the handling of adjustments in this manner are expected to return the check and/or to contact the Foundation immediately.

Institutional Models

A discussion of current practices regarding the packaging of institutional money and subsequent treatment of donor awards may be helpful. Although, for purposes of this discussion, only four models have been identified, there are many variations on these basic themes.

Institutional Model A. Institutionally controlled gift assistance is routinely over-awarded in an amount equal to anticipated attrition and anticipated donor scholarships. Institutionally available loan and work dollars are distributed to depletion in accordance with packaging policy, and when applicable, students are advised that the institution will approve a guaranteed loan for an amount equal to any unmet need.

This model compels the institution to reduce institutional gift assistance, dollar-for-dollar, upon the announcement of donor awards to individual students in order to recoup overdrawn institutional gift dollars.

Institutional Model B. The institution over-awards its funds in all aid categories (gift, loan and work) anticipating attrition and donor scholarships in accordance with prior experience, thus, creating deficits in all three categories. Guaranteed loans may be approved for an amount equal to any unmet need.

This model creates an overdraft of institutional aid in all categories, dictating a dollar-for-dollar revision, upon notice of donor awards, to an individual student's financial aid package with reductions in all categories: gift, loan and work. While amounts a student must borrow or earn are reduced and total gift assistance increased, institutional commitment to the student is reduced and the student may be left with unmet need.

Institutional Model C. Institutionally controlled funds in all categories (gift, loan and work) are distributed to depletion among all recipients in accordance with the institutional packaging formula giving no consideration to possible donor awards. Students are advised of the availability of guaranteed loans to cover unmet need.

This model requires a dollar-for-dollar adjustment if the institutional aid package meets need, but permits considerable latitude and discretion in the specific practice adopted for the treatment of donor awards. Practices range from that requiring a 100% reduction in institutional gift aid upon notice of donor awards to that which would utilize such awards to absorb in order: unmet need, awarded loan assistance, awarded work opportunities and finally institutional gift aid. A not uncommon practice is to utilize the first three hundred to five hundred dollars of donor awards to reduce a student's debt or workload requiring that additional dollars be applied toward the reduction of institutional gift aid.

Institutional Model D. Institutionally controlled loans and/or work funds are over-awarded in anticipation of donor scholarships and attrition creating deficits in these categories only. Institutionally controlled gift aid is distributed to depletion in accordance with institutional packaging policy.

This model requires that individual financial aid packages be revised, dollar-for-dollar, upon notice of donor awards, but leaves institutional gift aid intact. Revisions occur in loan and work portions of the package only, permitting the student to realize the full advantage of his or her donor award. Also, a more efficient use of institutional loans and work opportunities is achieved.

Impact of Institutional Models

In summary, and to clarify the distinctions between the models, the following is a description of the fate of a Pullman scholarship arrayed against each of the four institutional types:

Type A - An $800 Pullman scholarship would be utilized to replenish overdrawn institutional gift funds, and thus, the recipient would receive no benefit from the Pullman scholarship even if total assistance received from the institution did not meet calculated need.

Type B - An $800 Pullman scholarship would be utilized by the college to replenish overdrawn institutional funds in all aid categories: gift, loan and work. The recipient would receive some benefit from the Pullman scholarship, with a partial increase in total gift assistance and a reduction in loan and work, but not in total aid which would remain constant even if need were not fully met by the aid package.

Type C - An $800 Pullman scholarship might be utilized in various ways depending on institutional policy and whether the aid package met calculated need. If need had been met, an $800 adjustment would be necessary to avoid an over-award. However, considerable latitude could be exercised in the adjustment since institutional funds would not have been overdrawn. A student whose need had not been met could receive the full benefit of the Pullman scholarship. Others, depending on institutional practice, might receive full or partial benefit or no benefit at all.

Type D - An $800 Pullman scholarship would be utilized to replenish overdrawn institutional loan and/or work funds. The recipient would benefit from the Pullman scholarship through an $800 increase in total gift assistance, but not in total aid which would remain constant whether or not the student's need had been fully met.

Institutional Model D (and depending on specific institutional policy, sometimes C) appears to permit a student receiving a donor award to realize the full benefit of the award, and often that is the case, as already indicated. However, some institutions, because funds are limited or for other reasons, establish inflexible rules for the calculation of self-help components (loan and work) of the financial aid package, refusing to permit donor awards to reduce self-help below these arbitrary levels. Thus, the impact of donor scholarships on an individual award package is minimized in a manner similar to that of the other models cited.

There is one additional example of an institutional type which, although atypical, adds an interesting flavor to the problem. Institutions utilizing this model distribute institutionally controlled funds including gift, loan, and work to depletion in accordance with the institution's packaging formula, leaving an explicit gap between need and aid which the student is instructed may be filled with assistance from other sources. In this manner students are encouraged to undertake their own private expedition in search of donor funds. This is a model rarely observed in the field, and should not be considered in any greater detail.

A Solution

A fifth model is proposed here: *the student model*. If universally accepted it would avoid the pitfalls of all the above models and would permit institutions and donors alike to maintain program integrity and also to retain a sensitivity for individual circumstances among student populations.

Student Model. This model would require that a nationally agreed upon twelve-month student contribution figure be established based upon an economically, philosophically and empirically reasonable standard. This contribution, required of all students, would be provided either from the student's personal earnings (summer and term-time), or borrowing, or a combination thereof. Possibly a single standard would prove untenable. High, moderate and low standards based on variables such as socioeconomic background, race, future earnings potential, college type, etc., might permit a more flexible and sensitive recognition of individual circumstances.

With this model, the first step in the packaging process would be the calculation of a scholarship or Gift Eligibility Index (G.E.I.) utilizing the following formula: college cost minus parents' contribution minus student's twelve month self-help contribution equals G.E.I. Within the framework and limits prescribed by the G.E.I. concept, an institution would then proceed to allocate funds under its control in accordance with its own policy and practices.

Any students whose institutional gift assistance matched their G.E.I. would be ineligible for additional gift aid from any source. Others, however, could be told that institutional scholarships and grants fall short of their eligibility and encouraged to seek out additional scholarships. In fact, the G.E.I. could become a figure reported to all applicants as an aid to their own assessment of possible resources. Also, notifying students of their maximum eligibility for gift aid could help to eliminate the confusion and bad feelings sometimes created by repeated award-revisions.

Thus, a student's G.E.I. would become the standard against which eligibililty for donor scholarships, or any gift assistance, would be calculated. Colleges would utilize outside or donor scholarships to replace in order: unmet need, excess student self-help (loans, and/or jobs) and, finally, gift assistance once the student's gift eligibility index had been met.

The Benefits

This model provides a standard which puts to rest such questions as: How much must a student borrow or earn? Can a student be excused from summer earnings? What is the proper balance between gift and self-help components of a student financial aid package? The model does not prevent institutions with limited gift assistance from utilizing self-help components exceeding the twelve-month standard. Nor does it prevent donors' funds from being utilized to supplement institutional funds when those funds are insufficient to meet a student's need, or to provide the agreed upon balance between gift and self-help components. Institutions and private donors become partners, eliminating the adversary relationship which sometimes exists under present operating procedures.

In fact, if the G.E.I. concept is accepted, the central issue of this discussion turns from the question of who has the final authority in determining a student's financial aid package to that of reaching accord on what constitutes an equitable balance between gift and self-help components of the aid package with, it is hoped, particular focus on appropriate debt level.[1]

One thesis, with regard to loans, is that students ought to be required to borrow as little as possible. The sometimes explicitly expressed and often implicit argument that educational borrowing builds character or that there is some inherent societal and individual benefit to be gained from the requirement that poor students borrow is perplexing. The thesis seems to be that this makes the student a participating partner with those providing gift assistance. Everyone can agree that students should be asked to accept reasonable financial responsibility for their own educational expenses, a concern reflected in the model recommended for consideration. However, it is suggested that, except for a modest student contribution based primarily (if not totally) on anticipated current annual earnings, it is sufficient to ask only that students achieve an academic record in accord with their capacities. That should be the student's principal role in the partnership created between benefactor and recipient.

Of course, given the current economic outlook and societal attitudes, there is little or no hope that sufficient funds will ever again be available to achieve this ideal. Thus, in the real world a compromise with regard to loans becomes an operational necessity. And certainly, whether for convenience or from financial necessity, borrowing has become an established means of financing higher education and will remain a significant component in the financial aid package for many students.

Few can quarrel with an institution's right to establish whatever criteria might be necessary to distribute institutional funds, including loans, in an equitable manner. However, these same criteria are not always appropriate for the determination of eligibility for donor scholarships meant to supplement other funds.

A rationing formula is certainly a sound solution for use under the circumstances of limited institutional resources, but the imposition of the formula on donor funds

[1]This topic is one identified by the National Commission on Student Aid as a major concern, and has been assigned to a subcommittee on Appropriate Balance for recommendations. Commission reports are expected out in late spring or early summer, 1983.

as well, locking all students into the established "equity" package, seems an indefensible extension of the rule.

Conclusion

The evidence is clear. To the unfortunate disadvantage of individual students caught in the crossfire, private donors and institutions often are at odds with one another. Colleges seek desperately the means through which to provide an equitable distribution of funds to all needy students within the budgetary constraints of prudent fiscal policy. Foundations and other private donors, on the other hand, must provide for their own defined constituencies keeping to the limits of charter and board imposed restrictions. Experience would suggest that the two parties are frequently at an impasse. However, it need not be so. The concept of maximum gift assistance set forth in this paper is a means through which agreement between colleges and donors might well be achieved and the various student constituencies best served. With agreement on a common recipe, the quarrel over control of the ladle is put to rest, giving all cooks a turn at stirring the pot without fear of being shoved aside.

May the dialogue begin.