Merit-Based Aid in Higher Education

Hilary Chubb

Grand Canyon University: EDU 805

February 20, 2017

Merit-Based Aid in Higher Education

For most students and families, the expenses of attending college cannot be paid out-of-pocket. As the cost of higher education has grown four times the amount of inflation over the past thirty years (Tarasawa & Dahlin, 2013) various types of financial aid have become more imperative in funding students’ higher education. One type of financial aid is merit-based aid, and the most relevant history of this type of aid has developed over the past twenty-five years with Arkansas and Georgia’s state programs (Domina,2014). The impact of merit-based scholarship is vast and includes the choices students make for the college they attend and their major (Sjoquist & Winters, 2015; 2016), as well as college access due to the way merit aid is awarded and the inequalities in K-12 education (Tarasawa & Dahlin, 2013). Now, and into the future, the ethical and other implications of merit-based aid must be taken into consideration. By studying how and why this type of aid has developed, as well as the current impact, researchers can design and execute important explorations into best practices for financial aid design in higher education.

**Development of Merit-Aid Practices**

In 1991 Arkansas implemented the first contemporary state funded merit-based scholarship (Domina, 2014). Two years later Georgia began their HOPE program, which is one of the most well-known (Domina, 2014) merit-based scholarship program. The southeastern states are well known for their merit-aid programs (Ingle & Petroff, 2013), but many states have followed the example of Arkansas and Georgia (Pingel, 2014; Sjoquist & Winters, 2015), and the goal of these programs has been to reward students’ high school academic efforts and simultaneously attract high achieving students to remain in the state as future intellectual assets (Domina, 2014; Sjoquist & Winters, 2015). One of the ways colleges have used merit-based aid internally has been to offer financial aid to high achieving students as an incentive to attend their institution, rather than another institution (Selingo, 2014). This practice supports college rankings, but over time most colleges have implemented this practice, making it an overall less effective and an unsustainable strategy (Selingo, 2014). Merit-aid has not developed as an altruistic means of support or reward, whether it is state governments or individual institutions providing the financial support, the main purpose is to attract the best and brightest in order to help the state or institution in the long run.

**Current and Future Effects**

Two major implications of merit-based aid practices are major choice and college choice for students. State provided merit aid has been shown to increase the likelihood that a student will stay in state for college as well as the type of instate institution they choose (Sjoquist & Winters, 2015; 2016. Merit-based aid may influence students to attend less prestigious institutions in-state rather than more prestigious out-of-state institutions, although it has little impact on attending top fifteen ranked institutions (Sjoquist & Winters, 2016). Sioquist and Winters (2015) examined the impact that state merit-based aid had on the percent of students pursuing STEM degrees and found that it was reduced by merit-based aid provided by the state. Research on Georgia’s HOPE program has even shown that it increases the probability of students majoring in education, although not on any other majors (Sjoquist & Winters, 2015). Although state merit aid is a method of increasing K-12 education accountability, research suggests that it may entice students to take easier courses in high school in order to earn a higher GPA, which lead them to be less prepared for college courses (Ingle & Petroff, 2013) and limits their choice of major as well.

Another major implication of merit-based aid is that it may limit college access. There is a well-established achievement gap between high and low poverty schools, and based on that high achievers in high poverty schools do not earn the same college entrance exam scores as high achieving students in low poverty schools (Tarasawa & Dahlin, 2013). Tarasawa and Dahlin (2013) also found that the difference in eligibility grew as the required entrance exam scores for aid increased. The larger scale impact of the influence of merit-based aid on college access goes to the argument of the United States’ higher education system as a meritocracy or on which is open access. Merit-based aid implies a meritocracy but has been proven to limit access.

**Ethical Considerations and Future Progress**

One of the largest criticism of merit-based aid is also an ethical matter because the practice has consequences for low income students (Selingo, 2014). The disparities that exist in K-12 education are a well noted ethical issue, and the issues are directly carried over into access to higher education. Since the biggest barrier for students from low income families to higher education is cost, and merit-based financial is awarded based on high school GPA and SAT or ACT scores, therefore high achieving students from high poverty schools are less likely to have access to college, financially, than high achieving students from low poverty areas (Tarasawa & Dahlin, 2013). It is unethical for a student to be denied an education due to their family’s economic status, and for that situation to be not only not improved but amplified by the practice of merit-based aid rather than need-based aid. An example of how colleges have attempted to ameliorate this issue is the Top 10% Program in Texas, which applies the same benefits to students having graduated in the top ten percent of their in-state high school class (Tarasawa & Dahlin, 2013).

Universities and state governments must consider the changing populations in colleges. There will be less college aged students, and even less well prepared and affluent students in the coming years (Selingo, 2014), and transfer students are growing population in higher education (Pingel, 2014). Once any of these students start college, the type of aid they do, or do not, receive has great potential to impact their experience. Currently, there is little research on the impact on academic performance (Domina, 2014). Additionally, the longer term question of the impact on degree completion and future earnings which merit-based aid could have (Sjoquist & Winters, 2016). Cowan and White (2015) have studied potential impacts of merit-based aid on drinking behaviors and found that it leads to an overall increase in heavy drinking, and that those effects are most concentrated amongst male students, students with parents of lower educational backgrounds and students with high GPAs. Future research on this should include why merit-based aid has that impact.

Institutions such as University of Kentucky (Seltzer, 2017), Macalester, and Franklin & Marshall (Selingo, 2014) have each moved away from merit-based aid in favor of need-based aid. While they did make those moves gradually and strategically, they have thus far encountered no negative impact on their rankings or enrollment (Selingo, 2014; Seltzer, 2017).

**Conclusion**

The first major, state funded, merit- aid program was established in 1991 by Arkansas, and in 1993 Georgia’s HOPE program was implemented and is now one of the best known programs of its kind (Domina, 2014). State governments choose to implement these programs under a number of economic conditions, in an effort to encourage gifted young citizens to remain in the state and contribute in the future (Domina, 2014). Individual institutions also utilize merit-based aid to encourage students to choose their intuition to better their student body, and ultimately, their rankings (Selingo, 2014). Merit-based aid practices have been shown to influence where students choose to attend college, and what major they choose, for some majors (Sjoquist & Winters, 2015; 2016). A more ethic-based implication of this type of aid is the issue of access, due to the nature of K-12 education and the eligibility requirements of the merit-based aid programs (Tarasawa & Dahlin, 2013). Researchers must rethink the unethical practice of denying students an education based on their economic status, since finances is the largest barrier to higher education for low-income students (Tarasawa & Dahlin, 2013). Additionally, changing populations need to be considered because the coming generations of students will have different financial needs which must be met in order to continue higher education in the United States. Research on how and why merit-based aid has evolved and on the current implications of the practice, researchers can explore best practices for the financial aid structure in American higher education which will be ethical and serve the changing populations.

References

Cowan, B.W. and White, D.R. (2015). The effects of merit-based financial aid on drinking in college. Journal *of Health Economics, 44*, 137-149.

Ingle, W.K., and Petroff, R.A. (2013). Public entrepreneurs and the adoption of broad-based merit aid beyond the southeastern United States. *Education Policy Analysis Archives, 21*(58), 1-26.

Domina, T. (2014). Does merit aid program design matter? A cross-cohort analysis. *Research in Higher Education, 55*(1), 1-26.

Leeds, D.M. and DesJardins, S.L. (2015). The effect of merit aid on enrollment: A regression discontinuity analysis of Iowa's national scholars award. *Research in Higher Education, 56*, 471-495.

Pingel, S. (2014) Trends in state financial aid; Actions from the 2013 and 2014 legislative sessions. *Education Commission of the States.*

Selingo, J. (2014). Merit aid won't help colleges survive. *The Chronical of Higher Education, 60*(34), 23-23

Seltzer, R. (2017). Kentucky's need-based aid gamble. *Inside Higher Education.* retrieved from [www.insidehighered.com/news/2017/01/024/university-kentucky](http://www.insidehighered.com/news/2017/01/024/university-kentucky).

Sjoquist, D.L. &Winters, J.V. (2015). State merit aid programs and college major: A focus on STEM. *Journal of Labor Economics, 33*(4), 973-1006.

Sjoquist, D.L. and Winters, J.V. (2016). The effects of state merit aid programs on attendance at elite colleges. *Southern Economic Journal, 83*(2).

Tarasawa, B. and Dahlin, M. (2013). For whom the pell tolls; How financial aid policies widen the opportunity gap. *Northwest Evaluation Association.*