

*Today's News*

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## Keeping Needy Students in College Hinges More on Academic Success Than Financial Aid, Study Finds

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Colleges that assume they can improve undergraduate retention rates by giving low-income students more financial aid may be wrong, according to a working paper by Serge Herzog, director of institutional analysis at the University of Nevada at Reno.

In his paper, Mr. Herzog also concludes that students from higher-income families are more likely to persist in college when given grants or scholarships than are their counterparts from lower-income families when given those forms of aid.

"Most other research concludes that financial aid helps low-income students the most," said Mr. Herzog in an interview. "My findings suggest the opposite is true."

In [his paper](#), "Estimating the Influence of Financial Aid on Student Retention," Mr. Herzog analyzes data collected on 5,000 students at the University of Nevada, whose standardized test scores and levels of high-school preparation are representative of those at other moderately selective public research universities.

According to Mr. Herzog, his study uses a unique methodology. He studied two groups of students - those who received grant and loan aid and those who received grant aid only and compared each of those with groups of students who did not receive any aid, but would have been just as likely to qualify for aid, given their financial resources and academic preparation, among other factors. He further separated each group into three income levels, based on the amount their families were expected to contribute to their college costs. That approach, he said, eliminated many variables that he believes have skewed the findings of similar studies.

Freshmen with an expected family contribution of \$10,000 or more who were most likely to receive merit aid were 18 percent more likely to return for their sophomore year than

similar students who did not receive merit aid, the study found, after controlling for performance in mathematics courses and overall grade-point average. And for every additional \$1,000 those students received in grant aid, their likelihood of retention rose by 3 percent.

Students in the two lower-income groups, with expected family contributions below \$10,000, did not show an increased likelihood of staying in college when granted similar aid, Mr. Herzog found, even though he controlled the same variables of math grades and overall grade-point average in that analysis.

### **Grades Matter**

He found that academic success, however, had a greater influence on the likelihood that lower-income students would stay in college than it did for higher-income students. For each one-letter grade increase in their grade-point average, students from families with expected contributions of \$4,000 or less were 15 percent more likely to stay in college, he found. Students with an expected family contribution between \$4,000 and \$10,000 were 10 percent more likely to return for a second year for each one-letter grade rise in their grade-point average.

Students from higher-income families were only 7.5 percent more likely to persist in corresponding measurements, Mr. Herzog found.

**Based on those findings, Mr. Herzog states in his study: "If freshman retention is an important institutional goal, a dual strategy that emphasizes academic success for low-income students coupled with greater financial assistance to higher-income students is estimated to maximize overall retention."**

Why are students with fewer financial resources less influenced by the amount of aid they receive than their richer peers? Mr. Herzog said his findings were consistent with the "moral hazard" theory.

"Lower-income students get a large proportion of their aid in form of need-based grants that are not tied to academic performance and thus reduce the potential cost of failure," he explained in an e-mail message. "Conversely, high-income students have more of an investment risk because most of their aid is merit-based," and they may lose that aid "in the event of academic failure."

Despite his findings, Mr. Herzog was careful to say that he was not suggesting that colleges should reduce aid amounts for low-income students. Rather, he proposes that in lieu of increasing aid in the form of grants for those students, colleges should allocate that money to improving academic-support services. That would be a more effective way to improve the likelihood of retention among low-income students, he said.