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DISPLACED PROMISES?: EXAMINING THE IMPACT OF FINANCIAL AID DISPLACEMENT

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Policy Brief No. 1

Background: This brief is one in a series aimed at providing higher education policymakers and advocates with an evidence base to address how to best serve students in light of the challenges facing higher education. This brief was authored by a University of Massachusetts Amherst graduate student in the M.Ed. in Higher Education Administration program as a course assignment for EDUC 674B: Higher Education Policy and was reviewed for accuracy by Professor Sade Bonilla.

CENTRAL TOPIC

Financial aid displacement, also known as ‘scholarship displacement’ or ‘award displacement,’ is the widely unregulated practice of reducing students’ financial aid after they report external scholarships. As of 2021, institutions in 48 states have the authority to implement displacement practices, and there’s a growing movement to increase transparency in institutional policies¹. Asymmetric information on financial aid is a documented barrier for students to access, afford, and complete higher education, especially for low-income students². While the goal of financial aid displacement is to promote college affordability for the collective good, the achievement of that goal is unclear and should be examined.

KEY INSIGHTS

Breaking Down the Issue

- Students seek to offset the cost of college by earning scholarships, but financial aid displacement leads to no net financial benefit for them despite the extra effort.
- Colleges argue financial aid displacement allows for equitable reallocation of funds to needier students, but there are no accountability metrics in place.
- Only two states regulate financial aid displacement: Maryland and New Jersey banned the practice at public institutions in 2016 and 2021, respectively¹.
- Given that most states have no standardized policy on financial aid displacement, students can face vastly different recalculations of their need-based grant aid.

Recommendations

- Every higher education institution—both public and private—should be required to state their financial aid displacement policy and methodology on students’ initial financial aid packages.
- State-wide and/or federal reviews of financial aid displacement are needed to better understand how different institutional policies impact students and if any student groups are disproportionately impacted.
- Standardized policy on financial aid displacement should be considered so that all constituents—students, parents, counselors, donors, organizations, etc.—have a clear understanding of how or if financial aid will be displaced at any given institution.

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ISSUE

In 2021, 56% of students reported using scholarships to help offset college costs, with 29% earning an average of \$1,922 in scholarships from companies and/or non-profits³. Evidence shows that half of students who receive scholarships experience financial aid displacement⁴, a practice that penalizes students by reducing their financial aid by the amount of scholarship dollars that they receive rather than having the private funds supplement their overall financial aid package. To prevent a students' financial aid from exceeding their estimated need or the cost of attendance, known as "overawarding," institutions are given full discretion to adjust students' financial aid packages as they see fit (except for the Federal Pell Grant, which can never be reduced)⁵. The financial impact on students largely depends on which type of aid—grants, student loans, and/or work-study—is displaced, and whether the displacement maintains any "gap," or unmet need, in their financial aid package. Students argue they are victims of financial aid displacement policies, which are both unclear and unfair⁶. Some students are advised to circumvent the system by not reporting scholarships, asking donors to negotiate with the college on their behalf, or avoiding scholarships entirely⁷. Other students who are unaware that they may be penalized for pursuing external scholarships face both unexpected financial and emotional burdens when their financial aid is displaced and are incentivized to take out last-minute loans to cover gaps in funding⁶.

Georgia

Georgia's flagship institution, the University of Georgia (UGA), monitors students' reported scholarships to make sure their financial assistance remains within their previously determined, need-based aid eligibility¹⁰. If scholarships do exceed a students' previously determined eligibility, UGA will reduce need-based federal and institutional aid that was awarded to students¹⁰. Emory University, a private research university in Georgia, adjusts loans and work-study before reducing grants¹¹. Spelman College, a historically black liberal arts college for women, only displaces aid if the student has reported more aid (of any type) than the cost of attendance¹². The state's top-ranked university, Georgia Tech, recalculates financial aid packages when outside scholarships are reported, but like many institutions across the country, does not publicly publish their methodology¹³.

Figure 1. Financial aid packages of Student A (Georgia resident)

Institution	COA*	EFC**	Grant Aid***	Scholarship(s)	Recalculated Grant Aid	Grant Aid + Scholarship(s)
University of Georgia	\$27,450	0	\$18,539	\$5,500	\$13,039	\$18,539
Spelman College	\$55,465	0	\$14,500	\$5,500	\$14,500	\$20,000
Emory University	\$75,700	0	\$70,700	\$5,500	\$70,200	\$75,700

*COA = Cost of Attendance; Calculations based on institutions' Net Price Calculators for in-state resident living on-campus

**EFC = Expected Family Contribution; With a 0 EFC, Students A and B would be expected to receive the maximum amount of need-based aid available

CASE STUDIES

Massachusetts

Massachusetts' flagship institution, UMass Amherst, will initially reduce need-based grant aid after a student reports an external scholarship¹⁴. UMass Amherst financial aid officers will work with students on a case-by-case basis to make the displacement as favorable as possible for the student, but this process requires students to discover independently that this is a possibility and to proactively set up a meeting with a financial aid officer¹⁴. UMass Boston, a public research university, prioritizes reducing loans before grants¹⁵. Massachusetts' top-ranked university, Harvard University, first replaces work-study (loans are optional for Harvard students), but if an external scholarship exceeds the work-study allotment, the scholarship will instead displace an equal amount of institutional aid¹⁶. Harvard does not allow external scholarships to reduce or replace parent contributions¹⁶.

Figure 2. Financial aid packages of Student B (Massachusetts resident)

Institution	COA*	EFC**	Grant Aid***	Scholarship(s)	Recalculated Grant Aid	Grant Aid + Scholarship(s)
UMass Amherst	\$33,223	0	\$19,650	\$5,500	\$14,150	\$19,650
UMass Boston	\$35,515	0	\$21,909	\$5,500	\$21,909	\$27,409
Harvard University	\$78,028	0	\$74,528	\$5,500	\$72,528	\$78,028

***Includes estimated federal, state, local, and institutional need-based grants (does not include federal loans or work-study, which students may use to cover unmet need)

POLICY LOGIC

The rationale for allowing institutions to practice financial aid displacement at their discretion is to provide them with the flexibility to creatively figure out which top students need aid the most and allocate it accordingly. Moreover, when institutions have the ability to drive their own policy, financial aid offices experience a decreased administrative burden in an already complicated, federally regulated financial aid process. Financial aid displacement policies also prevent overawarding aid, a practice that could result in institutions losing federal funding⁵.

Colleges argue that financial aid displacement policies are equity-minded, as they attempt to ‘spread the wealth’ over a larger number of students in need⁸. Indeed, when eligible students receive need-based grants, they are more likely to attend college and complete their degree⁹. Yet, without statewide policies, colleges are not held accountable to measurably break down barriers for low-income students through financial aid displacement. With institutions driving financial aid displacement policies, there is a disparity in the experience of students, creating inequity despite the stated goal of promoting equity.

EVIDENCE

Research shows that the type of financial aid awarded to students influences their likelihood of degree attainment, and grant aid is more effective than loans in increasing completion rates¹⁷. In theory, financial aid displacement can be effective in that institutions can use the displaced funds to award more of the most effective aid available—need-based grants—to the greatest number of students. Thus, institutions can increase the financial aid offered to its neediest students. However, without measurement standards in place, it’s unknown whether institutions are truly reallocating funds to needier students and how exactly they are determining which students are more deserving of additional aid. One recent study found that 20% of universities reduce institutional grants after students receive external scholarships¹⁸, meaning that 1 in 5 institutions are reducing the type of aid that is shown to be most effective in promoting college enrollment and persistence. There is little research on financial aid displacement policies and no wide-scale documented evidence that financial aid displacement is an effective and equitable tool for reallocating financial aid¹⁸.

It is clear that financial aid displacement policies must disproportionately impact lower-income students who qualify for need-based aid, as higher-income students who do not qualify for need-based aid do not experience

financial aid displacement. It is unclear, however, how significantly low-income students are impacted and whether financial aid displacement policies disproportionately impact student populations beyond low-income students, such as students of color, first-generation students, and/or rural students. A new bill recently introduced to Congress, Helping Students Plan for College Act of 2021 (H.R. 5380), is directing the U.S. Government Accountability Office to gather data on the demographics of private scholarship recipients and the impacts of financial aid displacement policies¹⁹.

An unintended outcome of financial aid displacement policies is that they disincentivize students from applying for scholarships and rather, incentivize borrowing in the form of student loans, exacerbating the rising debt burden in the United States²⁰. This consequence, when coupled with research indicating there are increased levels of loan aversion in low-income, first-generation, racial minority, and immigrant populations²¹, could be doubly damaging for the most vulnerable students in accessing, affording, and completing higher education. Other unintended outcomes that are more difficult to quantify but still important are the general unfairness and the emotional burdens on students who expend extra effort to secure external scholarships only to have them displaced⁶.

RECOMMENDATIONS

Students, parents, and donors in Georgia, Massachusetts, and beyond lack consistent information about how external scholarships affect financial aid packages. While financial aid displacement policies can be equity-minded, there needs to be accountability metrics in place and the policies should not cause excess harm to students through financial or emotional burden. At the minimum, a low-cost, low-effort action that every institution should be required to take is including a thorough disclaimer about their financial aid displacement policy and methodology directly on students' initial financial aid packages, in addition to publishing this information on the college's website and financial aid brochures.

State-wide and/or federal reviews of financial aid displacement policies and external scholarship recipient demographics are needed. Thereafter, states should implement a standardized policy on financial aid displacement which should allow external scholarships to fill any "gaps" in aid—including unmet need, student, and parental contributions—and then use scholarships to reduce other aid in the following order of priority before displacement: loans, work-study, and lastly grants. By maximizing and efficiently leveraging different types of aid, including external scholarships, students will be able to receive the full spectrum of financial assistance with college costs.

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The findings and conclusions contained within are those of the author and do not necessarily reflect the position or policies of the Center for Student Success Research, College of Education, or University of Massachusetts Amherst.