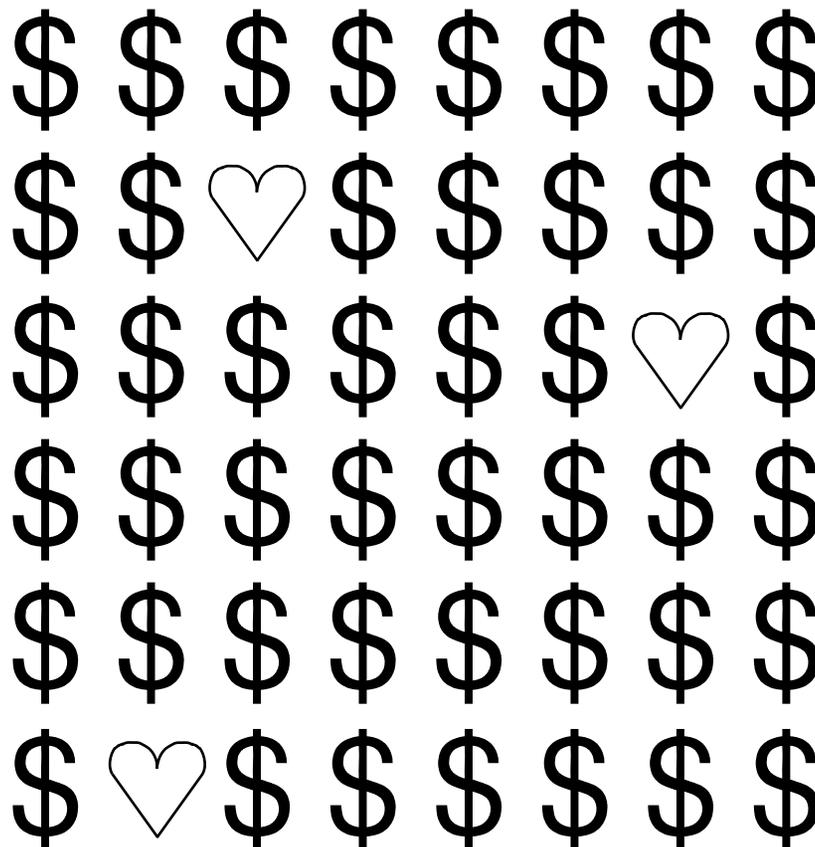


las Hillman, a professor of education at the University of Wisconsin, put it this way in a 2012 article published in the academic journal *Research in Higher Education*: “By enticing students *and their associated tuition dollars to enroll*, colleges can strategically leverage aid to maximize (or at least enhance) the amount of net tuition revenue generated per aided student.”⁷

By following this model, the financial managers at the University of Michigan have decided to **leverage financial aid dollars to craft a student body made up of increasingly wealthy and white students** while at the same time **bringing in as much unrestricted revenue as possible**. From their perspective, the “high tuition/high aid” model is a complete success. For those of us who do not want to see another public university transformed into a privatized, profit-seeking institution, however, it has failed. In the corporate university, financial aid has become just another tool of privatization and exclusion.

Notes

1. The administration has put together a slick new website focused on challenging the “myths and misconceptions” of financial aid. Unfortunately, it leaves out the information we present here. <http://www.admissions.umich.edu/affordability-families>. Also see University of Michigan Public Affairs, “Understanding Tuition,” June 2014. <http://www.vpcomm.umich.edu/pa/key/understandingtuition.html>.
2. See CIRP’s “University of Michigan Student Profile Ten-Year Comparison” for 1997-2007 (available here: <http://studentunionofmichigan.files.wordpress.com/2014/09/um-ten-year-comparison-1997-2007.pdf>) and 2000-2010 (available here: <http://studentunionofmichigan.files.wordpress.com/2014/04/um-ten-year-comparison-2000-2010.pdf>) for the data used in this analysis.
3. For the most recent data, see SUM, “How Different is the Public University of Michigan from the For-Profit University of Phoenix? Ask Tim Slottow,” April 6, 2014. <http://studentunionofmichigan.wordpress.com/2014/04/06/how-different-is-the-public-university-of-michigan-from-the-for-profit-university-of-phoenix-ask-tim-slottow/>
4. Marian Wang, “Public Universities Ramp Up Aid for the Wealthy, Leaving the Poor Behind,” *ProPublica*, September 11, 2013. <http://www.propublica.org/article/how-state-schools-ramp-up-aid-for-the-wealthy-leaving-the-poor-behind>
5. Stephen Burd, “Undermining Pell: How Colleges Compete for Wealthy Students and Leave the Low-Income Behind,” May 2013, p. 24. http://newamerica.net/publications/policy/undermining_pell
6. Maggie McGrath, “The Invisible Force Behind College Admissions,” *Forbes*, July 30, 2014. <http://www.forbes.com/sites/maggiemcgrath/2014/07/30/the-invisible-force-behind-college-admissions/>
7. Nicholas W. Hillman, “Tuition Discounting for Revenue Management,” *Research in Higher Education* 53 (2012), p. 264.



UNPACKING THE MYTHS OF FINANCIAL AID

Like many public research universities around the country, the University of Michigan has raised tuition significantly over the past two decades. But administrators argue that in the end tuition hikes don’t make it harder for low-income students to attend.¹ Through financial aid, they claim, the high tuition paid by wealthier students who can afford it is used to offset tuition for lower income students. The argument is that the “high tuition/high aid” model works like a kind of progressive taxation, so paradoxically what those who criticize the university’s high tuition are in fact advocating is punishing the poor.



Student Union of Michigan

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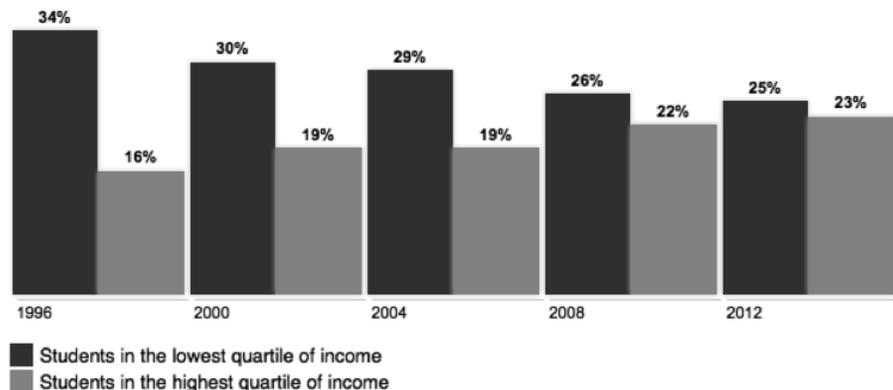
Blog: <http://studentunionofmichigan.wordpress.com>

Facebook: [facebook.com/SUMichigan](https://www.facebook.com/SUMichigan)

Twitter: @SUMichigan

THE DECLINE IN GRANTS TO LOW-INCOME STUDENTS

Portion of institutional grants given to students in the lowest and highest income quartiles.



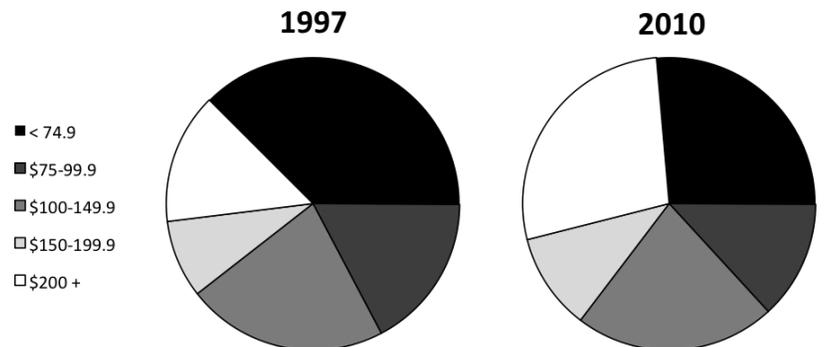
Source: ProPublica analysis of data from the U.S. Department of Education National Postsecondary Student Aid Study

Unfortunately, the administration's theory has some serious problems. It is true that the poorest students at U-M receive excellent financial aid packages made up primarily of grants instead of loans or work-study, which means they aren't forced into debt or exploited to pay tuition. However, **the number of students who meet these qualifications is steadily decreasing** in both absolute terms and relative to the entire student body. Looking at the class composition of the student body, we can see some major changes over the past 15 years. Between 1997 and 2010, the percentage of the student body whose family income is under \$75,000 a year dropped from 38.5% to 26.5% (a decrease of 12%), while the percentage whose family income is over \$200,000 a year rose from 14.8% to 27.6% (an increase of 12.8%).² The growth in the richest sector of students was so significant that they actually added an extra income category to the list—instead of the maximum being \$200,000 and above, they bumped it up to \$250,000 and added another in between. The latest data only confirm this trend. As of 2014, a full 31% of admitted students have a family income of \$200,000 and above.³ These changes in the socioeconomic status of the student body have also intensified the ongoing exclusion of underrepresented minority students on campus. The implication is that **even as the university brings in more tuition money**—and therefore, according to the “high tuition/high aid” model, more aid—**the number of students who actually need this aid is shrinking significantly.**

This problem is further compounded by another aspect of financial aid management. **Public universities around the country are dedicating ever greater portions of their financial aid resources to**

“merit” aid, rather than “need-based” aid. In other words, less and less financial aid is going to low income students who truly need it. A recent exposé published by ProPublica tracks the decline in grants to low-income students between 1996-2012, and as the following graph shows this trend continued even through the financial crisis of 2008, which hit lower income brackets hardest.⁴ (See the graph at the left.) Likewise, a recent report from the New America Foundation specifically highlights the University of Michigan's record on financial aid as “disappointing.” **Even as the percentage of students with financial need is decreasing, U-M is dedicating more and more money to financial aid.** In 2010-2011, the university gave “merit” scholarships averaging \$6,000 per student to 46% of its freshman class.⁵

Why would the university award aid in this way? Couldn't it just adjust the ratio of merit aid to need-based aid? Unfortunately, the “high tuition/high aid” model only “works” when it's organized like this. That's because, for many university administrators, **financial aid is not so much a form of charity as it is an instrument for maximizing tuition revenue.** If that seems hard to believe, consider a recent article published in *Forbes* magazine about a new trend in the field of higher education finances: “**financial aid leveraging.**”⁶ While in the past university executives thought of financial aid strictly as an expense, as public universities search for new sources of revenue they have begun to see it as a way of boosting not only the university's prestige but also its tuition revenue. According to this new decision calculus, for example, they might choose to give “four well-heeled applicants with high SAT scores a 10% discount from its \$50,000 tuition—rather than give one high-achieving, lower-income applicant the \$20,000 scholarship she needs. The award of an extra \$5,000 to rich kids might provide an ego boost that moves the needle—and bring in four students sure to pay the remaining \$45,000 each year. That same \$20,000 generated an additional \$150,000 in relatively stable net tuition revenue.” Nicho-



Class composition of U-M student body by annual family income (in thousands)