




## 5 Elements to Consider When Setting Your School's Financial Aid Policy

Many schools have questions when it comes to setting their tuition and financial aid policies. They aren't sure if they're using the correct guidelines, and want to ensure they're offering fair and appropriate aid to prospective students as well as current families.

Setting the correct financial aid policy for your school allows you to more consistently and accurately award the right amount of aid to mission-appropriate families. Your school's financial aid policy should be mission-focused, just like your programs. An ideal financial aid system awards the right amount of financial aid for the need demonstrated by each mission-appropriate student.

ISM has worked with thousands of private-independent schools for more than 40 years. While every school must work to support its own unique mission, we have found common elements that every school should consider when setting its financial aid policy to ensure alignment. We've outlined five below.

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## 1. Understand the three types of need-based financial aid.

Need-based financial aid involves understanding a family's ability to pay the tuition your school charges, and then working to find a tactic to meet as much of the need as possible. But understanding need is complex. No two families' needs are exactly alike. Therefore, ISM has identified three types of need-based aid.

### Rainy Day

This type of aid is given to families that were formerly full-pay but have suffered a hardship, such as job loss, a pay cut, divorce, medical issues, or other unexpected financial burdens. Rainy day aid allows you to create a sense of security for your current families, illustrating that they're valued members of your community. This type of aid is typically considered temporary, meant to help a family in a time of need, anticipating that they'll return to full-pay status when their circumstances allow.

### Diversity

Aid for diversity should be strategic, helping create a student balance that would not naturally occur. However, this aid is still very much need-based. It should be used to attract students who support your school's mission but would otherwise not be able to attend. This aid is typically ongoing and should be expected to be awarded throughout the student's time at your school.

### Empty Seat

Once you've determined that you've filled all seats possible with full-pay, mission-appropriate students, consider your openings. An empty seat provides no revenue. However, it's best to consider this type of aid last, after rainy day and diversity students. The best strategy is to fill low-need seats—students who need less aid—first. Also consider that if a student is brought in on a reduced tuition load, that student will require continuing aid throughout his or her time at your school. It might be financially worthwhile to keep that seat empty for a year or two if you can reasonably expect to fill it with a full-pay family later.

## 2. Avoid “competitive” financial aid.

While the types of aid outlined above can help further the mission of your school, there’s a fourth type of financial aid that can degrade the status and function of a private-independent school: competitive financial aid used as a tool against other schools in the marketplace.

When a school offers financial aid as a means of competing to win a family’s attention—for instance, if a competing school offers a family \$2,000 in financial aid, your school offers \$4,000—it signals that money is more important than the mission. The mission should be the center of every financial decision at your school. When a family chooses a school merely on the bargain offered, the mission is no longer the focus. Schools should compete based on the excellence of their value proposition related to mission, not on financial manipulation.

## 3. Understand your financial aid formula and assess student need appropriately.

It’s vital to understand how your school’s financial aid formula works. If you use a formula devised by someone at your school, know who devised it and the theory behind the formula. If you use an outside vendor, ask to see the formula they use and ensure they answer any questions you have about it.

Once you understand your school’s financial aid formula, decide if you agree with how it works. Financial aid determination is about serving the school’s mission and strategic objectives, and assessing a mission-appropriate applicant’s ability to pay. It’s as much an art as it is a process. Schools that keep these concepts at the forefront serve their families well, providing a reasoned, fair, and consistent process that supports the school’s overall objectives.

There are two categories that schools should understand when it comes to assessing eligibility for financial aid: the applicant family’s income and the applicant family’s expenses. With this information, you can determine family’s effective income (defined as available money after fixed expenses). This, along with location-specific cost of living data can give you what you need to create your school’s financial aid formula.

A keen understanding of your school’s selected formula and setting reasonable thresholds are the keys to feeling comfortable about the awards you offer families. The formula may not always be correct, but you will be in a much better position to defend or adjust awards accordingly.





#### 4. Ask the right questions about your financial aid budget.

When was the last time you really looked at your school's financial aid budget?

The financial aid budget is often a sticky subject among school finance professionals. For the vast majority of schools, financial aid is the second biggest budget line, only behind compensation. But because its inner workings are carried on behind closed doors to protect the identity of families, it can be difficult to talk about or truly understand if your school is on the right path.

Decisions about financial aid will always vary from school to school, and even by division and grade level. To help you determine what course your school should take, keep your mission and Board policy on financial aid in mind, and ask the following questions.

##### Question 1

After total financial aid is granted, what is the net tuition revenue (actual cash) available to pay per-student cost? What percentage of cost does this represent, and how has it increased or decreased in the past five years?

##### Question 2

What increase must there be in our financial aid budget to allow us to meet the needs of current families and new families we wish to enroll?

##### Question 3

What are the long-term financial effects of providing financial aid to a student in the early grades and “carrying” that aid into the upper grades?

Use these questions to take a hard look at your financial aid program. Weigh your alternatives—keeping in mind the particular needs of your school and its families—and decide accordingly.

## 5. Reconsider your stance on category discounts.

Once you've determined your financial aid formula, policy, budget, and needs, you can look at category discounts. Category discounts are often automatically given if an enrolling student falls into a predetermined group, such as being the child of a faculty or staff member. These types of discounts can include tuition remission, sibling discounts, and full-pay discounts.

ISM cautions against category discounts. Offering an automatic discount when the family doesn't necessarily require assistance necessitates hiking tuition levels for others to "charge what it costs."

Automatic discounts can also be inequitable. In the example of employees' children receiving discounts, teachers with no eligible children do not receive this benefit and therefore are treated unequally. In this case, ISM recommends forgoing tuition remission and instead using financial aid to assist employee families that need it to cover tuition, with two caveats:

1. Employees' children should be admitted with priority, provided the class isn't full and the child meets the admission criteria.
2. Financial aid should be granted to employees' children in whatever amount a recognized needs-assessment system determines to be necessary—up to 100%.

This approach assures the school does not subsidize those who can afford tuition, yet gives deserving employees real priority and addresses their needs.

When it comes to automatic discounts of any kind, such as sibling discounts or full-pay discounts, ISM recommends eliminating them in favor of offering only need-based financial aid.

Enrollment management is a powerful tool in building the overall value perception of your school. A school's discount program is part of that strategy. Building value for the tuition you charge is a complex equation involving perceptions and is a process that school administrators must manage. Category discounts reduce the dollars your school receives, decreasing income and the overall impression of your school.

Instead, use a discount strategy that is accessible to every student and is mission-appropriate, without awarding more financial assistance than needed. A need-based discount program assesses every applicant equally and meets—but does not exceed—demonstrated need. By changing to a need-based program, the school increases (or even maximizes) yearly income.

## Conclusion

Only your school's decision-makers can set the right financial aid policy to support your school's mission. Consider these points to ensure your financial aid policy falls in line.

ISM's book, *Tuition and Financial Aid: A Guide for Private Schools*, takes a deep dive into the theory covered above, including sample situations and forms, as well as an in-depth look at tuition. If this PDF has you thinking about your school's tuition and financial aid policy, ISM's book can help you ask the right questions and create an action plan to ensure your policies align with your school's mission.

