

# Performance Requirements in Need-Based Aid: What Roles Do They Serve, and Do They Work?

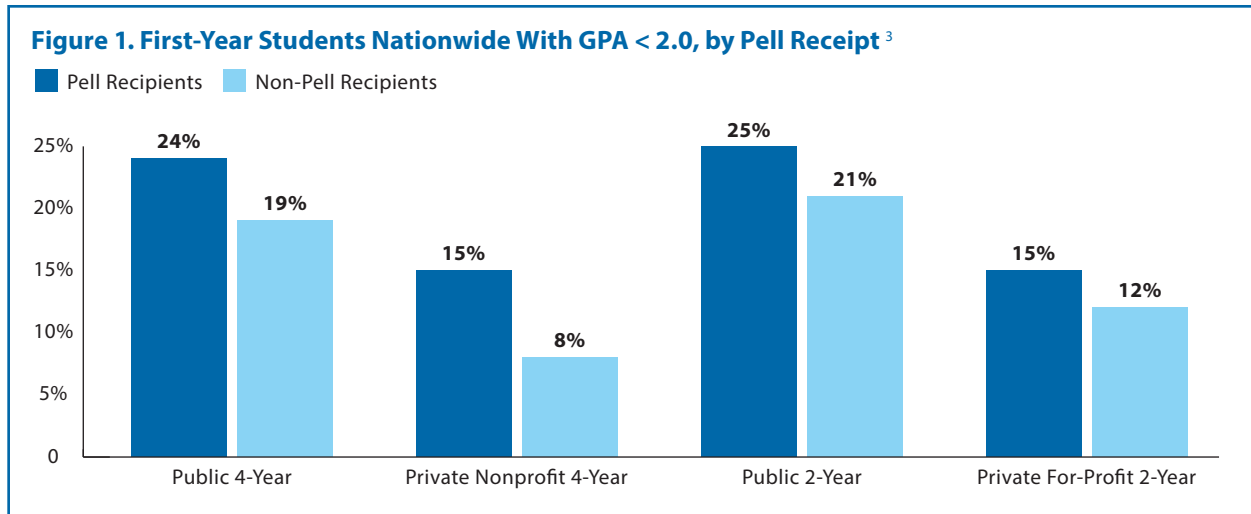
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Need-based financial aid programs are often considered the backbone of national efforts to ensure college access for students regardless of their family background. The federal government is the largest provider of such aid, delivering \$28 billion in Pell Grants and \$47 billion in Stafford Loans to undergraduates in 2015–16 (Baum, Ma, Pender, & Welch, 2016). More than half of all undergraduates benefit from one of these two programs in a given academic year.<sup>1</sup> Need-based aid, available to college students regardless of where they attend and without respect to prior achievement, is often discussed in contrast to merit-based aid, which is contingent upon students' academic performance.

But even need-based aid typically has performance requirements: while eligibility is *initially* based purely on financial need, federal aid recipients must meet satisfactory academic progress (SAP) requirements to maintain eligibility beyond the first year.<sup>2</sup> Institutions have flexibility regarding how they define and enforce SAP, but they commonly require students to maintain a cumulative GPA of 2.0 or higher and to complete at least two thirds of the course credits that they attempt. Students who fail to meet these standards are warned of their status and have at least a term to improve, but they can eventually lose their eligibility for aid (the specific timeline of warnings, enforcement, and appeals varies from school to school).

While these hurdles may seem modest, they affect a substantial portion of aid recipients; for example, Figure 1 shows that about 25 percent of first-year Pell recipients at public institutions are at risk of failing SAP based upon the GPA requirement alone. Analysis of state administrative data suggests that up to 40 percent may be at risk of failing SAP once the credit-completion standard is incorporated (Schudde & Scott-Clayton, 2016). Figure 1 also shows that Pell recipients are hardly the only students that struggle academically. But they arguably face the highest stakes for doing so.

These standards have existed in some form in the federal student aid programs for nearly 40 years—and have become increasingly strict—yet only limited research exists regarding their motivations and consequences. In this brief, we discuss two of our recent CAPSEE studies that examine the consequences of SAP policy for first-time community college students in two separate, anonymous states (Schudde & Scott-Clayton, 2016, and Scott-Clayton & Schudde, 2016). We discuss the underlying motivations for the policy, examine how students are affected, and assess the implications for program efficiency and equity.



## What Functions Does—or Can—SAP Policy Serve?

Academic performance standards can serve at least three functions. First, SAP policy creates a financial incentive for students, potentially encouraging them to increase academic effort early in college before problems become entrenched. In other contexts, performance based scholarships have been found to improve college students' performance (Barrow, Richburg-Hayes, Rouse, & Brock, 2014; Barrow & Rouse, 2013; Patel & Valenzuela, 2013; Scott-Clayton, 2011). Second, the policy may signal important information about performance expectations: some students may know their GPA but not realize that it places them at risk of not graduating. With better information, they may adjust their decisions accordingly. For some students, this could be discouraging, potentially leading them to drop out earlier than they would have otherwise.

A final motivation (which is the most plausible original purpose of federal SAP policy, based on regulatory wording) is simply to limit program expenditures on students who have a low likelihood of graduating. Even if SAP has no beneficial effect on students' own decisions regarding how hard to study or how long to remain enrolled, it may still improve the efficiency of aid expenditures by concentrating federal support on students with a higher likelihood of success.

Understanding the multiple functions of SAP policy is critical to interpreting the pattern of impacts that we discuss below. For example, it is quite possible—even expected—that the policy may positively impact the performance of some students, even while it leads other students to drop out (Lindo, Sanders, & Oreopoulos, 2010). Evaluation of the consequences of SAP policy requires analyzing aggregate impacts on both short-term and long-term student outcomes, as well as placing these impacts in the context of program expenditures.

## Methods

Both CAPSEE studies on SAP focus on community college students enrolling in college for the first time, using regression-discontinuity and difference-in-differences approaches (hereafter, RD and DD) to estimate the consequences of SAP failure. Considering students' GPAs at the end of their first year, the RD compares the subsequent enrollment and performance of aid recipients just above and below the 2.0 cutoff for SAP.<sup>4</sup> The DD analyzes whether the patterns above and below the GPA cutoff look different for aid recipients and non-recipients and determines the effect of falling below the cutoff for Pell recipients (including those further below the cutoff, rather than just at the margin) by comparing Pell recipients to students who are not subject to SAP standards (those without federal financial aid).

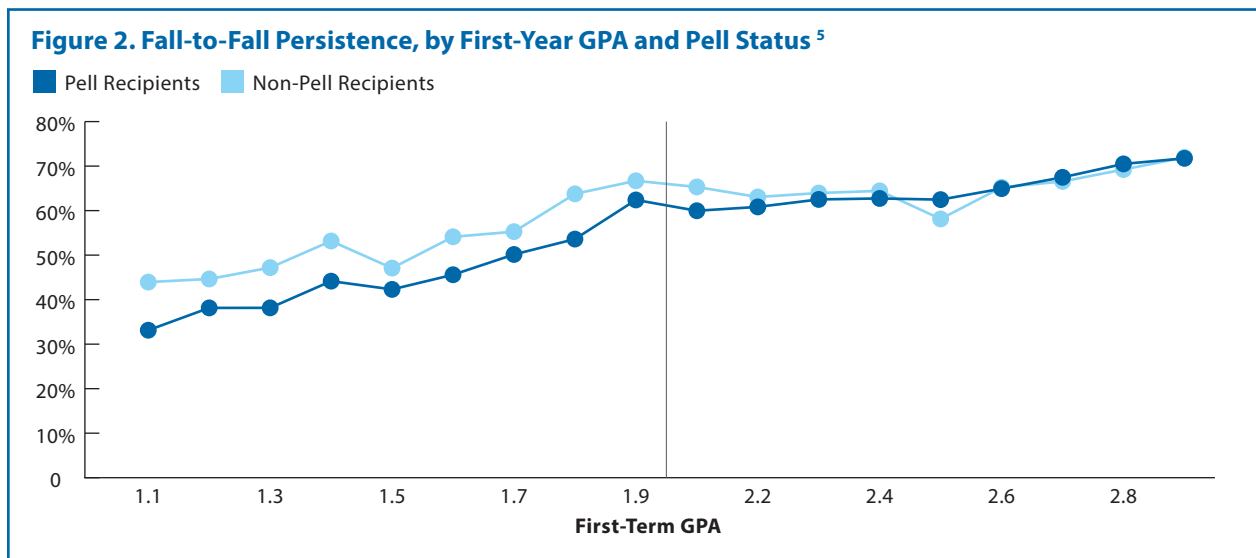
Both empirical strategies are informative. While the RD is arguably a more rigorous econometric approach that requires fewer statistical assumptions, the DD is attractive because, unlike the RD, it estimates effects of SAP failure for a wider range of students—not just those near the cutoff—and it also isolates the effect of SAP policy specifically, rather than including the effects of other academic probation policies that are linked to the same 2.0 GPA threshold and that apply regardless of aid status.

We use these strategies to examine the effects of SAP failure both on short-term outcomes (e.g., persistence and GPA in the fall semester of the second year) and longer term, cumulative outcomes (e.g., credit and degree completion at the end of the third year). Importantly, the short-term outcomes reflect students’ behavioral responses to being *warned* about their SAP status, not to the actual loss of aid (during the time period we examine, few students faced actual loss of aid until the third year of enrollment). Longer term outcomes reflect both students’ behavioral responses and, for some students, the consequences of actually losing aid.

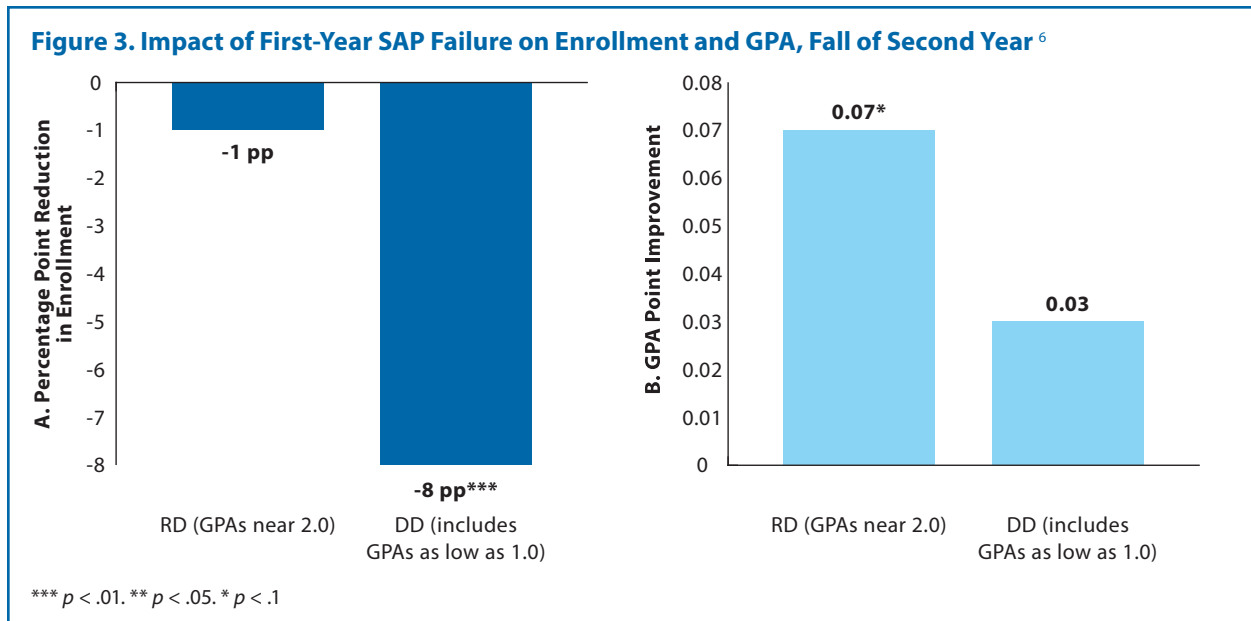
## Results

The first study (Schudde & Scott-Clayton, 2016) examines descriptive patterns in SAP failure across both the SAP credit requirement and the GPA requirement, relative to students’ first term of entry. In their first term, 42 percent of first-time community college students failed either the GPA standard (2.0 GPA minimum) or the credit-completion percentage standard (at least two thirds of credits attempted must be completed). Among enrollees, SAP failure was most prevalent in the first term, then declined over time—not, primarily, because returning students improved their GPAs, but simply because many students who failed did not reenroll. Those who failed SAP were disproportionately likely to drop out, with 29 percent of Pell recipients who failed SAP in the first term not returning in the spring, compared with 13 percent of Pell recipients who met the standards. By the fall term of the second year, about 60 percent of Pell students who failed SAP were no longer enrolled. This is despite the fact that most still could have received aid at that point had they reenrolled (among those who failed SAP and reenrolled in the fall of the second year, most still received Pell grants). By the fall of the third year, only 3 percent of Pell entrants who continually fell below the SAP standards appeared to retain their grants, suggesting that students are cut off from aid by that point (Schudde & Scott-Clayton, 2016).

Figure 2, which shows fall-to-fall persistence rates by first-year GPA, helps to illustrate our two identification strategies. The RD tests whether Pell recipients just below the GPA cutoff are less likely to enroll than Pell recipients just above the cutoff (i.e., it looks for discontinuities in the line for Pell recipients). The DD compares the patterns for Pell recipients above and below the threshold with those for non-recipients above and below the threshold.



Our second study draws upon a larger, richer administrative dataset in a second state (Scott-Clayton & Schudde, 2016). Our impact analyses in both states/studies confirm that SAP failure can act as an encouragement or a discouragement, depending upon the student: overall we find a negative effect of SAP failure on persistence, but we also find that students who do return modestly improve their GPAs, at least in the short term (see Figure 3, panels A and B). Consistent with what theory would predict, comparing the RD and DD results suggests that students who are very far below the GPA threshold are more likely to drop out as a result of the policy than students who are only slightly below the cutoff.



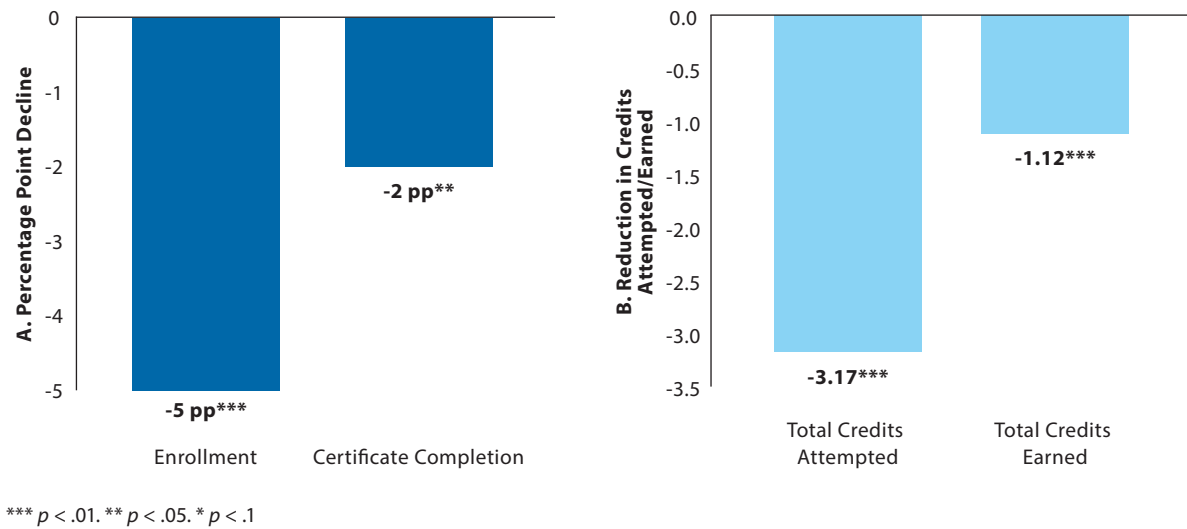
From this second study, it is clear that any positive effects of the policy on student behavior are outweighed by negative effects by the fall of Year 3. This may be because the modest GPA improvements in the second year are not enough to prevent many students from ultimately losing aid in Year 3. Having failed SAP at the end of the first year ultimately leads to a 5–8 percentage point reduction in the likelihood of remaining enrolled at the end of Year 3 and a 2–3 percentage point reduction in certificate completion (depending upon the analytic specification; DD results are shown in Figure 4, panel A).<sup>7</sup>

Still, even if SAP policy pushes some students out of college earlier than they would have left otherwise, they might be better off if they re-enter the labor market sooner as a result. Unfortunately, we find no evidence to support this. If anything, students who fail SAP at the end of their first year have lower earnings as a result over the subsequent two years (though these effect estimates are typically small and not statistically significant).

We are also able in our second study to more precisely examine how students' behavioral responses change over time, and to summarize aggregate effects of the policy after the end of three years by comparing impacts on attempted credits versus completed credits (see Figure 4, panel B). While the policy appears to have little benefit for students, it nonetheless appears to improve the efficiency of aid expenditures: our results indicate that the policy induces a cumulative reduction of about three credits *attempted* but a reduction of only one credit *earned* after three years.

This suggests that students are discouraged from attempting credits that they are relatively unlikely to complete. If we multiply the decline in credits attempted by an estimate of students' per-credit aid eligibility, the decline corresponds to a \$440–\$530 decline in estimated aid disbursed per student in the second and third years. This is a conservative estimate of the cost savings since tuition itself is subsidized and because some of the students in our sample who reenroll after failing SAP are no longer eligible for aid.

**Figure 4. Impact of First-Year SAP Failure on Enrollment, Certificate Completion, and Credits Attempted and Earned at End of Year 3 (DD Results) <sup>8</sup>**



## Discussion

Many Pell recipients—approximately 40 percent of first-term recipients—are at risk of losing aid due to SAP failure. We find that students behave as theory would predict, with some students encouraged to improve performance but others being discouraged and dropping out. These effects are particularly strong in the fall of the second year, the point by which struggling students should have received a warning about their status but not yet actually lost eligibility for aid. Discouragement effects appear larger, and encouragement effects smaller, when we consider students further below the GPA threshold.

Over time, the reduction in cumulative credits attempted and earned suggests that students are discouraged from attempting credits they are unlikely to complete, and thus SAP policy may improve the efficiency of aid distributed. Still, the small negative effects on certification completion may be cause for concern, since such credentials have been found to increase individuals’ post-enrollment earnings (Belfield, Liu, & Trimble, 2014; Jacobson & Mokher, 2009; Jepsen, Troske, & Coomes, 2014; Xu & Trimble, 2014). The discouragement effects of the policy mean that some students who could have earned a degree are dissuaded from reenrolling. The concentrated consequences they experience may outweigh the social benefit of reduced aid expenditures, which are dispersed across many.

Moreover, policymakers may be concerned about the equity implications of SAP policy, as our results clearly indicate that aid recipients with low GPAs leave college more quickly than their similar but financially unassisted peers. While many students fail to meet minimum academic standards, SAP policy targets undergraduates from the nation’s most disadvantaged families (most Pell recipients come from families earning under \$40,000 annually) who are in greatest need of support in order to attain a degree and who stand to benefit the most from degree attainment (Baum & Payea, 2013). It is concerning that SAP policy may push Pell recipients—already at greater risk of drop out than more affluent students—out of college before they have had a chance to adjust to the academic demands of college life.

## Conclusion: Implications and Recommendations

A key implication of our research is that the primary effect of SAP policy appears to be punitive—simply limiting students’ access to aid—rather than formative. Our review of college catalogs as well as anecdotal reports from college staff suggests that many students may not even learn about SAP until they lose aid. If true, this is a missed opportunity: if students are poorly informed, the incentive effects of the standards are muted. The longer it takes for students to realize they are failing, the harder it will be for them to get back above the GPA threshold. More proactive, early communication—perhaps even before the end of the first term—might help students take action to get and stay in good academic standing.

Improving coordination between administrative offices could also help improve students’ responses to an SAP warning. Academic advisors are not always informed about students’ financial aid status, and vice versa. When students fail SAP for the first time, a coordinated strategy for providing outreach and support may increase the chances that students can identify and surmount whatever barriers are holding them back from success.

A final critical implication from our research relates to the vast gap between the prevalence of SAP failure—which is not merely concentrated in community colleges but appears just as common in public four-year institutions—and the limited research regarding its consequences. This knowledge gap is particularly problematic given that SAP standards were tightened in 2011 (after the cohorts we studied) in a way that enables students to lose aid more quickly than they did in the past.<sup>9</sup> And there are other signs of a shift toward holding federal aid recipients to higher standards. For example, the Obama administration’s 2016 free college proposal suggested using a new, higher GPA criterion (2.5) that could have made more than half of community college entrants ineligible.

How these recent modifications and proposed reforms might affect students differently than the SAP policies we examined is an open question. But what is certain is that SAP policy is not going away, and it may affect even more students in future years—so the stakes are high to understand its impacts for both students and public coffers.

## Endnotes

1. Authors’ calculations using National Postsecondary Student Aid Study (NPSAS) 2011–12 data on undergraduates, accessed via the National Center for Education Statistics (NCES) QuickStats online tabulation tool.
2. These SAP requirements apply to all Title IV aid, including Pell Grants, Stafford Loans, and Federal Work-Study. State and institutional need-based programs often piggyback their own requirements on the federal SAP rules as well.
3. Based on results in Schudde and Scott-Clayton (2016). Figure displays percentage of students failing to achieve a 2.0 or higher GPA in academic year 2011–12, estimated using NPSAS 2011–12 data on first-year-equivalent students.
4. Both studies focus on the 2.0 GPA criterion rather than the credit-completion percentage threshold. The two criteria are highly related (as course failure also affects GPA). However, the former has more variation (in both cases, a failed course counts as a 0, but the credit-completion percentage treats all passed courses as equivalent), and the latter can also be easier to manipulate via transfer credits (which count as completed credits but not attempted credits). Also, some students may have received an SAP warning before the end of their first year; however, we determined that GPAs after a single term of enrollment are too lumpy to use for an RD (in addition, SAP is not evaluated until students attempt a minimum number of credits, which many students have not done after their first term). See original studies for further information regarding these analytic decisions.
5. Based on results in Schudde and Scott-Clayton (2016).
6. Based on results in Scott-Clayton and Schudde (2016).

7. We find some conflicting results regarding associate degree completion and transfer rates, with positive estimates in some specifications. For reasons we describe in the paper—including the fact that degree completion and transfer rates are so low for students who fail SAP that the assumptions required for causal inference in the DD may be violated—we hesitate to place much weight on these isolated positive coefficients.
8. Based on results in Scott-Clayton and Schudde (2016).
9. Federal regulations now specify that SAP status must be evaluated at least once annually; only those institutions evaluating more than once per year can use a “warning” status (and then only for one term); and students who file a successful appeal may be placed on “probationary” status only for one term (Satisfactory Academic Progress, 2012; U.S. Department of Education, 2014). In effect, the new regulations mean that students who fail SAP cannot receive aid for more than one subsequent term without filing an appeal; even if the appeal is successful, students can receive aid for only one additional term unless they improve sufficiently to pass the SAP standard.

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