

**Incremental Disbursements of
Student Financial Aid
Final Report on Aid Like A Paycheck**

Executive Summary

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Overview

Financial aid plays an essential role not only in allowing many students to enroll in college but also in supporting them in attaining completion and success. Often, however, the total amount of aid does not come close to covering the cost of attendance for full-time students. As a result, the majority of students enrolled at two-year public institutions report feeling financial stress related to paying for school. Students often work while attending college to cover the full cost of attendance, but time spent working can have a negative impact on their academic success.

MDRC launched Aid Like A Paycheck to test whether changes to the timing of student aid disbursement could help students stretch their financial aid to cover their expenses throughout the term, and whether such a policy could improve students' academic and financial outcomes. Most colleges distribute financial aid refunds to students in one or two lump sums during the term. Aid Like A Paycheck tested an alternate approach, in which financial aid refunds were disbursed biweekly, with the goal of helping students better budget their existing financial aid.

MDRC conducted a mixed-methods evaluation of incremental financial aid disbursements at two community college systems in and around Houston, Texas, and at a third system in California's rural Central Valley. At the two institutions in Texas, the study included a randomized controlled trial that gathered data from nearly 9,000 students and tracked them for up to two years. The final findings from the study indicate that biweekly disbursements do not result in substantial impacts on student outcomes:

- Students assigned to receive biweekly disbursements and those assigned to receive their aid in the standard way received the same total amount of financial aid.
- Biweekly disbursements reduced students' debt to the college in the first semester, but this reduction in debt was no longer evident at the end of the fourth semester.
- On average, there is no evidence of biweekly disbursements improving students' key academic outcomes.
- There is little evidence that the participating colleges or the government saved money by implementing biweekly disbursements.
- Implementation of the policy was costlier than — and not as simple as — expected, even when implemented without the constraints of the randomized controlled trial design.

Overall, the study suggests that incremental disbursements neither hurt students nor substantially improve their academic or financial outcomes.

Preface

Research shows that college students' finances affect their academic success, and that providing them with additional financial aid can improve their academic outcomes. Given the important role that finances play for students, one might also ask whether changes in the way that aid is administered — even without increased investment — could improve outcomes as well.

With this in mind, MDRC and the Institute for College Access & Success (TICAS) launched the Aid Like A Paycheck project based on a simple yet potentially transformative idea: Instead of providing financial aid to students in one or two large lump sums each term, colleges could evenly disburse financial aid refunds (the amount remaining after tuition and fees have been paid) to students every couple of weeks throughout the term — like a paycheck. Anecdotal evidence suggests that students who receive lump sum financial aid refunds at the start of the term may work longer hours at a paid job toward the end of the term as their money runs out. The theory was that incremental payments would help students manage their limited aid more effectively and would enable them to make choices leading to reduced financial stress and improved academic outcomes. Incremental payments could also potentially reduce the student debt to a college — or the college's debt to the Department of Education — that can be incurred when students withdraw from courses after receiving their financial aid for the term.

Although the impacts of incremental disbursements were not expected to be large, it was hoped that small impacts accumulated over several semesters could give students an important boost in their academic progress. Likewise, small cost savings accumulated across millions of students could ultimately lead to substantial savings for colleges and the government. On the other hand, there was also the potential that the policy could have adverse effects on finances, suggesting it was important to test for potential unintended consequences as well.

MDRC partnered with three community college systems to conduct a multiyear, mixed-methods study of the impact of biweekly disbursements. The final findings show that incremental disbursements neither hurt students nor substantially improve their academic outcomes. Similarly, the policy does not appear to have an impact on students' financial outcomes, nor does it offer savings for colleges or the government. In short, changing just the timing of financial aid does not have a significant impact on student outcomes; instead, bolder changes may be needed to exert a positive impact on students' financial situations and academic success.

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The Aid Like A Paycheck Advisory Group — including Sandy Baum, Debbie Cochrane, Michael Lawrence Collins, Michelle Asha Cooper, Amy Ellen Duke-Benfield, Nate Johnson, Andrew Kelly, Amy Laitinen, Cindy Lenhart, Jesse O’Connell, and Mamie Voight — was instrumental to the success of the project. The advisory group provided invaluable expertise on Aid Like A Paycheck from its exploratory phase to its wind down, answering foundational questions and supplying key insights and feedback regarding our interpretation of the evaluation’s findings. The Aid Like A Paycheck student survey included items from surveys conducted by the Center for Community College Student Engagement at the University of Texas at Austin and the Center for Financial Services Innovation, and benefited from their review and comments. Thanks also to the funders listed at the start of this report for their ideas and insight as well as their generous financial support.

We would additionally like to thank current and recent members of the MDRC Aid Like A Paycheck team, including Amanda Grossman, Marco Lepe, Amy Taub, Andrew Avitable, and Elizabeth Calmeyer. Michelle Ware helped launch the project, and continued as an invaluable thought partner throughout. Thanks also to our senior advisers and reviewers — Alexander Mayer, Rob Ivry, John Hutchins, Gordon Berlin, Mary Visher, and Caroline Schultz — for their careful reading and thoughtful feedback during the review process. We thank Jana Weinstein for editing this report and Ann Kottner for preparing it for publication.

Perhaps most important, we would like to thank all the students in the Aid Like A Paycheck study. Their participation was the foundation for every insight and finding in the report. Many of these students also participated in focus groups or replied to our surveys, sharing stories of successes and challenges they faced while balancing educational pursuits with financial, work,

and family obligations. Their honest and helpful feedback gave us insights that we hope will ultimately translate into better policies and practices to support the success of students across the nation.

The Authors

Executive Summary

Financial aid plays an essential role not only in allowing many students to enroll in college but also in supporting them in attaining completion and success.¹ But even when federal grants and loans cover the costs of tuition, fees, books, and supplies, many students lack the means to afford the housing, food, and other living expenses necessary to succeed in college.² Such students often work while attending college in order to cover these expenses, but time spent working can have a negative impact on their academic success.³ Given these challenges, and the growing costs of postsecondary education, there is significant national interest in finding ways to use financial aid resources more efficiently and effectively to support students' academic pursuits.

In standard financial aid practice, colleges first apply students' awards to tuition and fees, then often allow students to use their aid to purchase books at the start of the term, and finally disburse any remaining funds as a financial aid "refund." Anecdotal evidence suggests that many students who receive refunds — which can be up to several thousand dollars per semester — use this financial aid to pay for substantial expenses, such as rent, car loans, or large credit card payments, and the lump sum sometimes runs out before the end of the semester.

In contrast to the standard financial aid practice of disbursing financial aid refunds in one or two lump sums (after tuition and fees have been covered), colleges also have the option under current U.S. Department of Education regulations of dividing students' remaining aid into roughly equal incremental disbursements that are paid out throughout the term. This approach aims to benefit students *without offering additional financial aid*, and has garnered broad interest and support across the political spectrum, from the Obama administration to House Republicans.⁴ *Aid Like A Paycheck* is a study of this alternative approach.

¹Susan M. Dynarski, "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion," *American Economic Review* 93, 1 (2003), pp. 279-288; Judith Scott-Clayton, *Undergraduate Financial Aid in the United States* (Cambridge, MA: American Academy of Arts & Sciences, 2017); Benjamin L. Castleman and Bridget Terry Long, "Looking Beyond Enrollment: The Causal Effect of Need-Based Grants on College Access, Persistence, and Graduation," *Journal of Labor Economics* 34, 4 (2016), pp. 1023-1073.

²Jennifer Ma, Sandy Baum, Pender Matea, and Meredith Welch, *Trends in College Pricing 2017* (New York: College Board, 2017); Sara Goldrick-Rab, Jed Richardson, Joel Schneider, Anthony Hernandez, and Clare Cady, *Still Hungry and Homeless in College* (Madison: Wisconsin HOPE Lab, University of Wisconsin-Madison, 2018); Center for Community College Student Engagement, *Making Ends Meet: The Role of Community Colleges in Student Financial Health* (Austin: University of Texas at Austin, College of Education, Department of Educational Administration, Program in Higher Education Leadership, 2017).

³See Laura W. Perna, ed., *Understanding the Working College Student: New Research and Its Implications for Policy and Practice* (Herndon, VA: Stylus, 2012); Anthony Carnevale and Nicole Smith, *Balancing Work and Learning: Implications for Low-Income Students* (Washington, DC: Georgetown University Center on Education and the Workforce, 2018).

⁴"Fact Sheet on the President's Plan to Make College More Affordable: A Better Bargain for the Middle Class" (2013), website: <https://obamawhitehouse.archives.gov>; Promoting Real Opportunity, Success, and Prosperity Through Education Reform Act, H.R. 4508, 115th Cong. (2017). In considering such an approach, it is important to note that many institutions serve relatively few students with refunds, yet even they could be required to make significant changes to their financial aid policies and systems. Nationally, rough estimates suggest

Biweekly financial aid disbursements — including of federal Pell Grants, loans, and other aid — are theorized to help students by means of *mechanical* changes in the timing and disbursements of aid as well as through changes in the *messaging* they receive about budgeting their aid to last through the semester. These changes may help students by reducing their financial stress, and thereby lower their likelihood of withdrawing midterm, improve their performance in class, and reduce their need to take out loans or work excessive hours. In addition, by distributing aid as it is earned rather than in advance, biweekly disbursements may lower the debt that students sometimes incur when they reduce their course loads or withdraw from college. Such enrollment changes can result in student debt to the college or in college debt to the Department of Education through a calculation known as the Return to Title IV (commonly known as R2T4).⁵

However, the current policy of incremental disbursements uses only existing resources to attempt to improve the financial and academic circumstances of students. In evenly distributing a student’s existing aid but not offering additional financial support, the procedure the colleges followed in Aid Like A Paycheck could not be expected to substantially change students’ immediate economic position. Moreover, the myriad of influences and communications present at any college may limit the influence that one policy can have on students’ behaviors and attitudes. Many students also work for pay, receive housing or other support from family members, or have other means of sustaining themselves. The aid being refunded is — for many students — just one part of their financial situation.

MDRC launched the Aid Like A Paycheck study to test the hypotheses about biweekly aid disbursements by rigorously estimating the impacts of the policy on key student outcomes such as total aid received, loans received, student debt to the college, credits earned, and persistence. Aid Like A Paycheck is a mixed-methods evaluation of incremental financial aid disbursements conducted at two community college systems in and around Houston, Texas: San Jacinto College (San Jacinto) and the Houston Community College System (HCC). The study is supplemented by an implementation study of the policy conducted at the West Hills Community College District (West Hills) in California’s rural Central Valley.

At HCC and San Jacinto, the study used a randomized controlled trial, an evaluation design that is widely accepted to yield the most credible estimates of the effects of a program or intervention because it makes it possible to estimate not only the outcomes of the intervention but also the counterfactual outcomes, or what happens in the absence of the intervention. In Aid Like A Paycheck, eligible students were randomly assigned either to the program group, whose members were eligible to receive financial aid under the new biweekly disbursement policy, or to the

that about half of community college students who receive Pell Grants may receive refunds that are large enough for biweekly disbursements; the portion of students receiving large-enough refunds at four-year institutions is likely lower. Michelle Ware, Evan Weissman, and Drew McDermott, *Aid Like A Paycheck: Incremental Aid to Promote Student Success* (New York: MDRC, 2013), website: <https://www.mdrc.org/publication/aid-paycheck>.

⁵Title IV of the Higher Education Act, which provides the majority of federal student aid, includes a policy that requires the calculation of a R2T4 when a student withdraws from all courses before completing 60 percent of the semester. In these instances, colleges can be required to repay unearned aid funds to the Department of Education. In turn, colleges may attempt to recoup these funds from students, and may bar students who do not repay them from future enrollment.

standard group (also known as the control group), whose members were eligible to receive financial aid under the colleges' standard aid disbursement policy.

This research design, while providing rigorous estimates of the policy's impacts, required that the two institutions in Texas each maintain two sets of financial aid disbursement rules in parallel, which may have dampened the colleges' ability to implement the policy. This fact motivated the inclusion of the third institution in the study, West Hills, where biweekly disbursements of financial aid refunds became the policy used for *all* students in the 2016-2017 academic year. This portion of the study provided additional insight into how the policy of biweekly aid disbursements works when implemented as a campus-wide policy to supplement the impact study's research on how it works when applied to just the randomly selected subsample observed in Texas. West Hills also provides insight into how the policy can be implemented in a different setting.

At all three participating colleges, MDRC researchers collected student-level financial aid, account, and academic transcript data for every student in the study sample; conducted focus groups and interviews with students, financial aid advisers or office staff members, and administrators; and fielded a survey on students' financial health, attitudes, and behaviors.

Results from the two Houston colleges at the midpoint of the study, in 2017, presented a mixed picture. The colleges were able to implement the mechanics of biweekly disbursements as intended; however, college communications about the policy were often unclear to students.⁶ Biweekly disbursements did not relieve students' financial stress, but students assigned to receive their aid biweekly were not harmed academically or financially by the policy, and on some measures were better off than those who received a standard lump sum refund. This report updates these findings with research including additional students, longer follow-up, and a deeper look at the program's implementation at West Hills.

Key Findings

Based on the data from nearly 9,000 students who were tracked for up to two years at the two colleges in the randomized controlled trial, the Aid Like A Paycheck study finds that biweekly disbursements of financial aid refunds do not result in substantial impacts:

- **Students assigned to receive biweekly disbursements and those assigned to receive their aid in the standard way received the same total amount of financial aid.** Although there was no average impact on total aid received, those students assigned to receive biweekly disbursements were less likely to receive federal loans over the course of four semesters. However, this reduction in loans appears to be associated with students' lower persistence into the fourth semester at one college, as described below.

⁶Evan Weissman, Oscar Cerna, Dan Cullinan, and Amanda Baldiga, *Aligning Aid with Enrollment: Interim Findings on Aid Like A Paycheck* (New York: MDRC, 2017).

- **Biweekly disbursements reduced students' debt to the college in the first semester, but this reduction was no longer evident by the end of their fourth semester.**
- **On average, there is no evidence of biweekly disbursements improving students' key academic outcomes.** An increase in enrollment observed at one college was offset by a decrease in enrollment and persistence at the other college, and there were no other observed academic impacts. Overall, this finding suggests that the policy did not have an impact on students' academic success.
- **There is little evidence that the participating colleges or the government saved money by implementing biweekly disbursements.** There are small savings in student debt to college in the first semester. However, there is no impact on the amount of financial aid colleges had to pay back to the federal government, nor is there an impact on the amount of financial aid disbursed.

MDRC also conducted analyses of the program's implementation at HCC, San Jacinto, and West Hills. The inclusion of West Hills in the final phase of the study provides insight into whether campus-wide implementation of the policy could reduce staff burden, support clearer communications, and lead students to experience the policy differently. The main findings from West Hills follow:

- As at the two Texas colleges, West Hills was able to implement the new policy as intended, with most students receiving six to eight refunds over the course of the semester.
- In comparison to financial aid staff at the sites in Texas, staff from the financial aid offices across West Hills reported fewer difficulties implementing and communicating about the new policy.
- Generally speaking, there is little in the findings from the institution-wide adoption at West Hills that suggests any major differences from the findings at HCC and San Jacinto regarding how students experienced the policy, or regarding their financial and academic outcomes.

Conclusion

Overall, the study at the two Texas institutions shows that incremental disbursements neither hurt students nor substantially improve their academic or financial outcomes. Likewise, the policy was not found to have an impact on college or government expenditures in any substantial way. Further implementation was not as simple as expected. Research on the policy at West Hills suggests that implementation in this alternative setting — without the constraints of the randomized controlled trial design — may be simpler, but does not necessarily reduce costs substantially. It also does not suggest any major differences regarding students' financial or academic outcomes.

Despite these findings, incremental disbursements of financial aid may still be an attractive option for some institutions. In fact, two of the three institutions in this study continued to disburse aid incrementally to all eligible students in fall 2018. Administrators at San Jacinto and West Hills noted that although the research did not show that incremental disbursements have a direct impact on student outcomes, they believe that more frequent disbursements — and the accompanying recalculations and account reconciliation — ensure that payments to students are “more accurate” in relation to a student’s current enrollment. Additionally, they suggested that by applying the policy consistently to all of their eligible students, they were able to more clearly communicate the policy and thus reduce students’ confusion and complaints about incremental disbursements. On the other hand, after the completion of the study HCC maintained the policy of one disbursement per semester as the standard for eligible students, noting that the administrative burdens and challenges of communicating the biweekly policy to students outweighed any foreseeable benefits. Regardless, financial aid refunds alone are only a piece of the overall financial picture for most students, and many students struggle to cover the full costs of college attendance. Aid Like A Paycheck demonstrates that changing this economic reality will require more than changing the timing of financial aid.

Earlier MDRC Publications on Aid Like A Paycheck

Aligning Aid with Enrollment

Interim Findings on Aid Like A Paycheck

2017. Evan Weissman, Oscar Cerna, Dan Cullinan, Amanda Baldiga.

Aid Like A Paycheck

Incremental Aid to Promote Student Success

2013. Michelle Ware, Evan Weissman, Drew McDermott.

NOTE: A complete publications list is available from MDRC and on its website (www.mdrc.org), from which copies of reports can also be downloaded.

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