

## What is Merit Aid?

It's a pricing strategy to attract the best applicants.

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The year was 1992. Enrollment was shrinking. Classrooms had empty seats. Dorms had empty bunks. Once, 1,020 students attended Lebanon Valley College in scenic Central Pennsylvania. Now, 850.

Dr. John Synodinos, the president, responded with a unique offer: if you're in the top 10% of your class, we'll take 1/3 off tuition—no matter what. The announcement proved momentous in higher education finance—the birth of merit aid. Call it the airline model. Rather than take off with empty seats, airlines discovered that it's smarter to sell them at a discount.

Synodinos' offer not only filled the seats, but also improved the academic credentials of the freshman class. Undergraduate enrollment at Lebanon Valley is now about 1,700. Merit aid quickly became a flood. Most of the nation's approximately 1,660 4-year private colleges and universities now offer discounts (grants, scholarships) to students they deem to be the best applicants. VPs of Enrollment usually love merit aid; it's an effective tool that enables them to offer large financial incentives to the most attractive applicants.

State schools, traditionally, haven't awarded merit aid. But to fill seats and to compete with private colleges, numerous state schools are experimenting with merit aid—primarily offering large discounts to honors college students, or the in-state tuition rate to better out-of-state applicants.

If the student also qualifies for financial aid based on need, merit awards are rarely stacked on top as additional aid, but are typically combined with need-based aid. Still, the savings for any student are likely to be substantial, as the aid package typically is modified to include more grants and fewer loans.

Merit aid formulas are as varied as colleges themselves, as are the percentages of applicants receiving merit. A few selective private colleges provide large discounts to a small percentage of applicants. More commonly, colleges offer multiple tiers of awards—a pyramid with pre-set dollar amounts. Many schools now use enrollment consulting firms whose statistical models calculate individual awards and factor in likelihood of enrollment.

To confuse the situation further, few people understand what merit and need really mean. Often, merit is given based on outstanding traits exhibited by an applicant. Sports scholarships are a form of merit aid; they're awarded without a determination of financial need. Colleges specializing in art and design will base awards on the student's portfolio; music awards are based on the audition.

How difficult it is to qualify for merit aid varies widely. An important factor is how selective the college is. For example at less competitive colleges even applicants with lower high-school GPAs are sometimes chosen for merit aid. Your student may be offered the largest amount of merit aid at their safety school.

Calculated need is not necessarily a realistic measure of the help that your student actually requires to attend college. It's a dollar figure calculated by completing federal forms that only measure income and assets while ignoring debt and monthly cash flow. The result is your Expected Family Contribution (EFC). It's an output of a national system that allows colleges to divvy up finite funding resources, not an accurate measure of your actual need.

For example, consider a 50-year-old couple with 2 children (1 about to enter college) and \$100,000 of pre-tax income and no savings other than modest home equity and a retirement account. They've saved almost nothing; their after-tax income is about \$70,000. Yet they're now expected to come up with about \$17,000 per year for 4 years.

A college, realizing this amount may be virtually impossible, may offer the student merit aid so that the family will pay less than \$17,000 annually. Students excelling in arts, sports, or music are offered merit aid based on their measured performance.

