

BEYOND THE HEADLINES

At a Glance: Jobs, Workers & the Economy

SEPTEMBER 2015

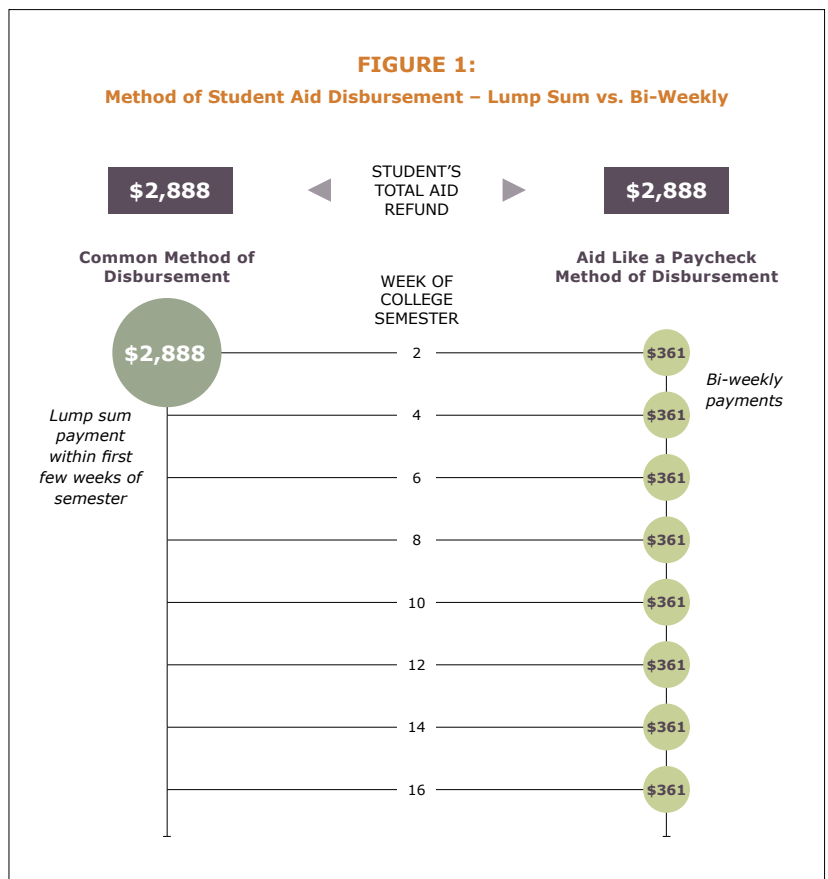
FOCUS: BEHAVIORAL ECONOMICS

Aid Like a Paycheck: New Concept in Financial Aid May Help Students with Money Management & Mental Bandwidth

What do low-income college students in the U.S. and Indian sugar cane farmers have in common? On the surface, not much. However, both get large cash infusions once or twice a year – in the form of financial aid refunds or harvest payments – making them flush with cash at those times, but stretched thin most of the time.

Being short on financial resources can have wide-ranging impacts. In the book *Scarcity*, Sendhil Mullainathan and Eldar Shafir* describe how farmers' cognitive abilities are affected.¹ In particular, people's problem solving abilities and executive function – planning and impulse control – are impacted during times of scarcity. The authors found that individual farmers' I.Q. scores were 9-10 points lower one month before the harvest compared to one month after. This means, for example, that the same individuals who exhibited "average" intelligence when they were short on financial resources demonstrated "superior" intelligence when they were doing well financially. Put another way, a difference of this magnitude can happen when a person loses a full night of sleep.²

It's often feast or famine for college students as well. College students typically get financial aid refunds in one or two lump sums (see **Figure 1**). Once financial aid is applied to tuition and fees, students receive any remaining funds to cover living



SOURCE: Adapted from MDRC. Incremental Delivery of Financial Aid to Promote College Success. Available at: <http://www.mdrc.org/aid-paycheck>

expenses and other school costs, like books. Those with the greatest financial needs attending low-cost colleges, like community colleges, are most likely to receive a refund.

Unfortunately, these lump sum payments may not last long. In response to dwindling funds, students may increase their work hours, leaving fewer hours for completing course work. They may drop classes or drop out of school altogether. Besides having less time to devote to school because of work, students facing financial insecurity may have less mental bandwidth to devote to their studies. Like the Indian farmers, the students may perform worse academically at the end of the semester – which coincides with exams and final papers – when their financial resources are running low.

The Institute for College Access & Success and MDRC launched the “Aid Like A Paycheck” project to test disbursing financial aid refunds to students in small, regular increments rather than one or two lump sum payments.³ The idea is to promote financial stability throughout the term, which may improve academic outcomes. In addition, the regular disbursements can provide positive reinforcement for staying in school. MDRC – the nonpartisan education and social policy research organization – estimated that the minimum amount need to make an impact is \$1,600 per year, disbursed in \$100 increments every other week over each 16-week term. **Given that more than 3 million community college students alone receive a Pell Grant, with an average award of \$3,000, many students stand to benefit from Aid Like A Paycheck.**^{4,5}

To date, Aid Like A Paycheck has been successfully implemented on a small scale at Mt. San Antonio College in southern California and Triton College near Chicago. Mt. San Antonio College began implementing the program in the fall of 2010 with about 200 students. Full-time students with a fee waiver could receive a refund of their entire \$5,500 Pell Grant. Triton College came on board in 2011.

According to MDRC, Aid Like a Paycheck has been well received by college staff and students. Participating students said that the program helped them spend money wisely, decrease work hours, and focus on their studies. A small number of students requested hardship exemptions to address large, unexpected expenses, like car repairs. Stay tuned for a randomized, controlled trial of Aid Like a Paycheck, which will follow at least 5,000 students’ academic and economic outcomes for up to two years.⁶

From a college’s perspective, having an automated financial management system is a must for those considering implementing Aid Like A Paycheck on a broad scale. A bonus for colleges in increasing the number of payments to student is that it may reduce the need for staff to get money back from students who have dropped out. Typically, students who receive all of their refund upfront and then drop out without completing at least 60 percent of the term may be required to pay back a portion of what they received. To reduce bad debt, Charter Oak State College in Connecticut and Harrisburg Area Community College in Pennsylvania moved away from one-time financial aid refund disbursements. Charter Oak reports that there has been a decrease in the number of accounts sent to collections since the new policy was rolled out.⁷

Given that there is only so much time in a day, when students have to work more, their academic performance often suffers. Financial woes can leave students bereft of more than just time – their cognitive capacity can also suffer. Using existing resources, Aid Like a Paycheck may make it easier for students to make good financial – and academic – decisions.

*Dr. Eldar Shafir, one of the authors of *Scarcity*, will be speaking at SJI’s Annual Conference on October 19. **Register today at <http://www.seattlejobsinitiative.com/news/conference/>** to learn more about the impact of poverty on cognitive capacity. Through interactive workshops, work with colleagues across sectors to reimagine systems and increase upward mobility among low-income students.



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 2. Mullainathan, S. The Mental Strain of Making Do With Less. *The New York Times*, September 21, 2013. Available at: <http://www.nytimes.com/2013/09/22/business/the-mental-strain-of-making-do-with-less.html>
 3. Ware, M.; Weissman, E.; McDermott, D. (2013). *Aid Like A Paycheck: Incremental Aid to Promote Student Success*. MDRC Policy Brief, available at: <http://www.mdrc.org/sites/default/files/ALAP%20brief.pdf>
 4. Juskiewicz, J. (2014). *Community College Students and Federal Student Financial Aid: A Primer*. Washington DC: American Association of Community Colleges. Available at: http://www.aacc.nche.edu/Publications/Reports/Documents/CCStudents_A_Primer.pdf
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 6. MDRC. *Aid Like a Paycheck*. Available at: <http://www.mdrc.org/project/aid-paycheck#design-site-data-sources>
 7. Higher One. (2014). *Multiple Financial Aid Disbursements to Increase Student Success and Reduce Fraud*. Available at: http://www.higherone.com/images/pdfs/financialservices/finaid_disbursements_wp.pdf

BEYOND THE HEADLINES: Policy & Labor Market Updates for Those Working to Help Low-Income and Low-Skill Individuals Advance through Education, Training & Living-Wage Jobs

About Seattle Jobs Initiative

Seattle Jobs Initiative creates opportunities for students, workers and business to succeed by helping education and job training programs meet the demands of a new economy. We find and apply solutions for people to gain the skills they need for good jobs that create prosperity for all in today’s marketplace.

Supported by the City of Seattle Office of Economic Development

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