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 negotiating (whether formally or informally) a discount strategy to meet as much of the need as possible. It is important to note, however, that understanding need is a complex process. While we would all like a simple formula for assessing need, no two families' needs are exactly alike. With this in mind, ISM offers the following distinctions to understand the differing uses of need-based financial aid.[1]

- **Rainy Day Aid:** This is used when a family that was originally admitted as full-pay has a temporary setback that prevents them from being able to pay a portion of (or sometimes any) of tuition, often caused by job loss, pay cuts, a medical situation, or any number of unexpected financial burdens. This type of financial aid is only used to help current students continue attending through hard times.[2] Further, the use of this kind of aid should be viewed as strategic—it protects those currently enrolled and enhances stability for all students by protecting the classroom experience, not just those families directly impacted by a short-term setback. This kind of aid is said to be sporadic—it is not anticipated that students who receive it will continue to need aid through the terminal grade of the school.

- **Aid for Diversity:** This tuition assistance is also used by schools for strategic reasons—to create a student balance that would not naturally occur.[3] It can be used to add students of a wanted race, gender, faith, ethnicity, or academic ability, ***but only if it is need-based.*** This allows a school to shape its culture more closely to its mission—but only to the degree that a school is willing or able to afford. It can also help the school become more marketable, since parents expect an experience for their child that fulfills the school's mission. This type of aid is most effective when it is spread across the highest number of applicants possible, since the goal is to "buy" diversity. This kind of aid is ongoing and, once awarded, you can expect those receiving it to need it through the terminal grade of your school.

- **Aid to Fill Seats:** This type of need-based aid is used to fill classrooms, increasing the net amount of tuition income received by partial-pay families, which can add a significant amount to the bottom line. This type of aid should be considered last, and should be used when a school cannot fill all seats with full-pay students who are mission-appropriate— and only after those covered by the two previous types. Budgeting for this type of aid is difficult because its goal is to increase net revenue.

Many schools try to set one budget for all of their financial aid. This practice is inefficient and actually prevents schools from effectively accomplishing goals. Consider the following.

- *When using Rainy Day Aid, encourage parents to apply as early as possible.* Make certain that only returning families that were previously full-pay are awarded these funds. Understand that this is a difficult category to budget for, and use the net tuition revenue model to protect the school's cash position.[4]

- *Aid for Diversity should be spread across as many mission-appropriate students as possible.* The purpose of this budget is to buy something that benefits the school. Once awarded, you can expect that this need will occur annually.

- *Finally, fill empty seats.* The best strategy is to fill low-need seats first, allowing for the greatest amount of tuition revenue. The highest-need seats should be filled last. Families that are unable to pay any tuition at all should be considered at the school's discretion.

If you clearly understand the purpose of financial aid, you can then use it for the best benefit of your school and its students. *I&P*

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[1] There are proper uses of financial aid or tuition discounts that are *not* need-based, e.g., merit scholarships, fine arts scholarships, and athletic scholarships. These discounts should be strategic, generally to increase diversity of various sorts at schools, and may involve the use of tuition revenues to adequately fund them. However, because these discount strategies are not need-based, they do not fit into the purview of this article.

[2] See "Economic Downturns, Stimulus Packages, and Financial Aid," *Ideas & Perspectives*, 34-6-23.

[3] See "Defining Diversity in Your School's Culture: Implications for Planning," *I&P*, 27-6-23.

[4] See "The Real Cost of Financial Aid," *I&P*, 35-15-60.