



# Using Financial Aid to Shape Your Student Body

A Resource to Help Independent Schools Assess  
Aid Allocation to Advance Enrollment Goals

Independent School Executive Forum

# Table of Contents

---

Introduction: The Present State of Aid Allocation.....	3
The Mechanics of Aid Optimization.....	6
The Current State of Discounting at Independent Schools.....	7
An Important Lesson in Discounting from Higher Education.....	8
The Six Steps of Optimizing Financial Aid.....	10
A Deep Dive into Financial Aid Data.....	12



# Introduction: The Current State of Aid Allocation



1

# Introduction: Evaluating the State of Aid Allocation

Most independent schools view financial aid as a mechanism for making their institution affordable to as much of the applicant pool as is needed to fill the seats in each class. But pricing and aid strategy should be optimized to balance toward two specific ends:

- 1 Maximizing net tuition revenue from the available pool of applicants
- 2 Achieving a spectrum of diversity throughout the student body to advance the school's mission

Through our research we have found that most independent schools do not fully utilize financial aid as a lever to help shape their classes. Our purpose in creating this resource is to show schools how to employ aid as a tool--not view it as expense--to enroll the racially and socio-economically diverse classes they seek in an effort to produce the well-rounded leaders of tomorrow.



## Maximizing Net Tuition Revenue from the Applicant Pool

Businesses with a high proportion of fixed costs – such as airlines and universities –utilize price discrimination to maximize revenue per customer. In a model entirely optimized toward net tuition revenue, independent schools would want to find the wealthiest family with their hearts set on joining their community, charge the highest price that family is willing and able to pay, and then follow that logic dogmatically down the demand curve. This strategy is appealing, at least in the short-term, but typically comes with two major costs:

- ▶ A mandate to deliver on value that justifies the high price
- ▶ A relatively homogenous student body

While our EAB partner schools are willing and able to take the steps to deliver on the value associated with high tuition, most have large enough applicant pools that maximizing net tuition revenue is not their only goal. **Indeed, their missions of producing well-rounded graduates who will become tomorrow's leaders require enrollment goals beyond admitting a uniform student body from wealthy families.**



## Achieving a Spectrum of Racial and Socio-Economic Diversity

Beyond net tuition revenue, a key priority for independent schools is to achieve greater diversity of background and experience in their student body to live out their mission and values. Many independent schools have made strides toward greater diversity; however, most find that they have also developed a "barbell" with a lack of representation from middle income students. This is problematic for several reasons:

- ▶ Research shows that classrooms integrated with students of diverse racial and socio-economic backgrounds encourage critical thinking, problem solving, and even creativity, as they encourage students to integrate new perspectives and ideas into their learning
- ▶ Schools with students from different backgrounds help to reduce bias and counter negative stereotypes of students whose upbringings are dissimilar from their own
- ▶ Students who learn in integrated schools are more likely to seek out similarly integrated settings later in life

# The Unique COVID Opportunity to Assess Aid Strategy



## COVID-19: New Families Looking to Independent Schools

The pandemic has opened the minds of many public-school families to independent school options for their children for the first time. This presents a unique moment in which schools can focus their use of aid to find the diverse, mission-aligned students that they seek. **To do so, independent schools must optimize their use of financial aid by aligning their aid strategy with clear enrollment goals.**

Accordingly, in this resource, our objective is to help our partners understand the following:



### The Current State of Discounting at Independent Schools

*A brief exploration of how discounting is currently being applied and how independent schools are not using it to the fullest*



### An Important Lesson in Discounting from Higher Education

*An overview of how independent schools can learn from institutions of higher education and view financial aid as a lever for shaping classes, rather than an expense*



### The Six Steps of Optimizing Financial Aid

*A step-by-step explanation of how setting enrollment goals each year is a key component toward optimizing independent schools' use of financial aid*



### A Deep Dive into Financial Aid Data

*An explanation of how analyzing financial aid data is critical to helping independent schools shape their desired classes of students to meet enrollment goals*



# The Mechanics of Aid Optimization

An exploration of the fundamentals of how aid optimization allocates aid to students in accordance with independent school goals

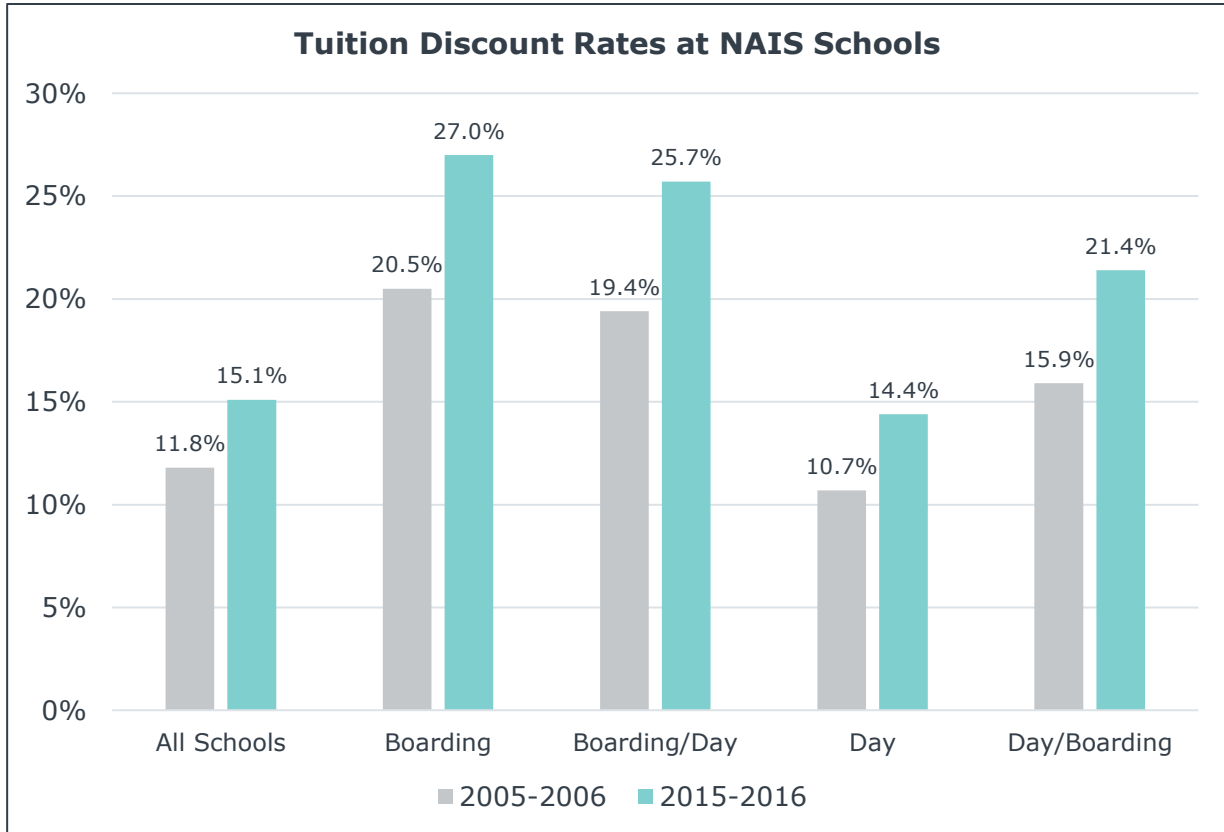
---



2

## A Trend of Growing Discounts at Independent Schools

The graph below illustrates a trend of growing tuition discounts taking place at NAIS schools; this data should not be surprising, as higher tuitions that have outpaced inflation have resulted in a need to make independent schools more affordable for more families through discounting.



Perhaps even more significant is the increasing number of higher income families that require aid in order afford independent school tuition. Between the 2002-2003 school year and the 2011-2012 school year, the percentage of families who earned above \$150,000 a year and requested aid more than tripled:



Many are alarmed by the continuing trend toward high tuition and high discounting. However, it is important to note that discounting in and of itself isn't a problem—it's a reality in today's market.

**▶ What is a problem is when schools do not deliberately use it as a lever to *shape* their classes to meet their enrollment goals, as they do in higher education.**

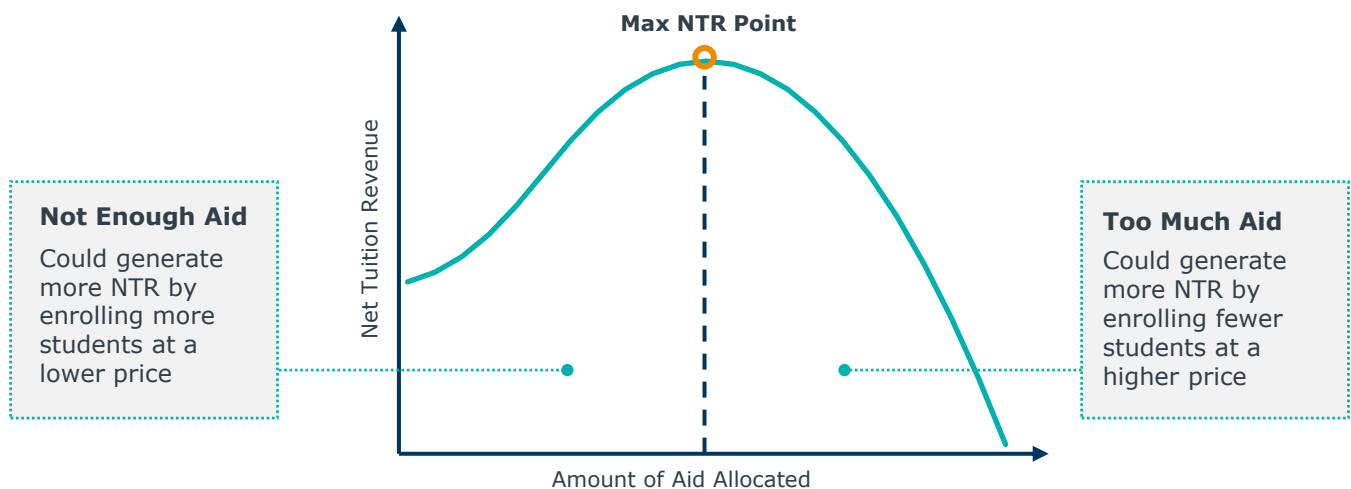
Source: "What Every Head Needs to Know About Enrollment Management," The Enrollment Management Association, 2017; William Daughtrey, William Hester, Kevin Weatheril, "Tuition Trends in Independent Day Schools," Peabody College of Vanderbilt University, 2016; EAB interviews and analysis.

## Discounting: A Lesson from Higher Education

Out of necessity in a high-fixed cost business, institutions of higher education have been using discounting for years. The fundamentals of discounting are straightforward, as demonstrated in the table below. In three scenarios, the school with a list price of \$10,000 offers different amounts of aid to all 100 admitted students. If the school offers no aid, relatively few students enroll. If it offers \$2,000 to each student, significantly more students enroll. If it increases that amount to \$5,000, more students enroll, but these additional students do not offset the higher outlay of aid.

	Scenario A	Scenario B	Scenario C
List Price	\$10,000	\$10,000	\$10,000
Admitted Students	100	100	100
Financial Aid Awarded	\$0/student	\$2K/student	\$5K/student
Net Price/Revenue	\$10,000	\$8,000	\$5,000
Enrolled Students	15	30	40
<b>Total NTR</b>	<b>\$150,000</b>	<b>\$240,000</b>	<b>\$200,000</b>

For every group of students at every institution, there is a sweet spot of aid (also known as **financial aid optimization**) that generates more **net tuition revenue (NTR)** than more or less aid would, as demonstrated by the graph below.



We do not offer this example because our partners need to engage in a high level of price discounting in order to enroll students and maximize net tuition revenue. To the contrary, most of the schools in the EAB membership have a sufficient number of full-pay families to operate, while still offering aid to the mission-aligned students whom they wish to enroll.

**The lesson for independent schools here is that aid is not simply a necessary mechanism for affordability, but also an essential tool for shaping your classes with the students that you want to enroll to fulfill the mission of your institution.**



## Institutions Missing Consensus on Aid Strategy

To take advantage of the COVID “moment” when many public-school families are considering independent schools for the first time, school leaders must approach their financial aid policy with a clear strategy to enroll more diverse and middle-income families.

Notably, while nearly 90% of private colleges report working with a vendor for some or all of their financial aid optimization, independent schools lack both the resources and the volume of data used by higher ed admissions shops. To be more strategic in their approach to aid, independent school enrollment management teams must analyze their existing data to fully understand how their financial aid awards are or are not aligned with their goals to enroll the students they seek.

Many schools are not explicit enough about how financial aid can be used as a tool for shaping their desired class. As a result, different approaches to aid, unanswered questions and unaddressed concerns all may serve to hinder the formulation of an effective aid strategy that allows the institution to tactically allocate aid. Below we outline the three considerations for which schools must reach a consensus to optimize their use of aid. Executive leadership should work with enrollment teams to answer these questions and revisit them each year.

### Informational



Is financial aid more like an expense or more like a discount?



Is allocating more aid/raising the discount rate risky?

### Philosophical



Are some students subsidizing others and is that fair?



Are we prioritizing students according to our mission?

### Tactical



Where is our current allocation of aid working—and not working—relative to enrollment goals?



For goals we are not achieving, how could we change allocation to improve?

**Critical tactical questions are often not reaching the top of the agenda and are often impossible to address when they do because schools lack the necessary data to get answers.**

# The Six Steps of Optimizing Use of Financial Aid

Properly conducting aid optimization requires to you to prepare, analyze, and act on your enrollment data. This includes six key components:

## Prepare

1

### Set Enrollment Goals

The institution must be clear about enrollment goals. These goals must be specific, guide trade-offs as the school sets aid policy, and have clear timelines.

#### “What enrollment (headcount, mix of students) are we aiming for?”

- Commit to specific enrollment priorities
- Guide trade-offs in aid allocation (e.g. estimated family contribution, student demographics, other qualities)
- Set timeframes for realization of goals

2

### Adopt a Strategic Mentality

Think of how financial aid can help your institution to achieve its enrollment goals, rather than considering it to be strictly a means to help with affordability.

#### “How much aid will each student receive based on need and other differentiating factors?”

- Detail qualifying criteria for need aid and specify amount to be awarded
- Based on EFC, academic ability, and other qualifying characteristics
- Tested against the historical data to project hypothetical enrollment outcomes

## Analyze

3

### Understand Yield Patterns in Relation to Aid Awards

Review historical financial aid data and yield rates to better understand how financial aid is impacting your yield for subsets of students.

#### “How does our current aid policy effect our yield for subsets of students?”

- Aggregate historical admitted-student data for students who have applied for financial aid
- Filter data by income level, gender, race, grade level, and other relevant criteria to understand how these factors have interacted with aid awards over time

## The Six Steps of Optimizing Use of Financial Aid (Cont.)

4

### Identify Misalignment

Review historical financial aid data and yield rates to assess where you are not yielding the students you expect.

#### ▶ “Where are we not yielding the students that we anticipate?”

- Identify subsets of student populations that are not enrolling in your school but have been prioritized based on enrollment goals
- Record observations to prepare to hypothesize how aid can be a lever in improving yield for these groups of students

Act

5

### Make Data-Driven Hypotheses

Use data to hypothesize what would get desired students and families to say “yes” to attending your institution.

#### ▶ “How might our class look if we apply [any given] aid policy?”

- Turn observations based on historical data into hypotheses for how aid policy can be adjusted
- Share hypotheses with your team and build consensus around which areas of policy to change in the coming year
- Test out new strategies with admitted students

6

### Continue to Track Enrollment Outcomes

Test out hypotheses and adjust as needed to meet enrollment goals.

#### ▶ “How have changes to our aid policy impacted yield?”

- Continue to aggregate year-over-year data to closely monitor enrollment trends among students receiving financial aid
- Track data over time to test hypotheses and see whether adjustments to aid allocations are helping to yield desired results
- As enrollment trends change over time, adjust aid strategy and continue to monitor the impact on yield

### New! EAB’s Financial Aid Optimization Tool

To help our partners review historical admitted-student data for those who have applied for aid (as described above), EAB has created a tool that allows schools to copy their School & Student Services (SSS) data into a pre-populated template to analyze their data in new ways. See the following page for more information on this tool.

# A New EAB Tool for Analyzing Financial Aid Data

To serve the needs of our independent school partners, the Independent School Executive Forum worked with EAB’s higher education Financial Aid Optimization team to develop a tool for enrollment and financial aid leaders to use at their institutions to better understand whether their use of financial aid is advancing their enrollment goals. The purpose of this tool is twofold:

- 1 To help independent schools analyze how their aid awards have historically impacted families’ decision to enroll by income level, grade level, gender, and ethnicity by identifying trends over time
- 2 To help independent schools track results of changes to aid policy to yield specific subsets of students

**YOY Admits & Yield by Income Range**

**YOY Admits by Income Range**

Filter by:  
 Gender (All) -  
 Race/Ethnicity (All) -  
 Grade Applying (All) -

To refresh data, click the table, go to Pivot table/Analyze, then Change Data Source. Select the full list of data (all years) and click OK, then click "Refresh" (to the left of Change Data Source).

Income Range	Admitted		Enrolled	
	2018	##	2018	##
0-49999	2	3	2	1
50000-99999	1	2	2	1 3 2
100000-149999	4	4	1	1 1 3
150000-199999	2	1	3	2 2
200000-249999	2	1	2	1 1
250000-299999				1 1
300000-349999		1	1	1
350000-399999	2	1		
550000-999999			1	

**Analyze the Data**





Use this table to answer:

1. Are our admits growing/flat/shrinking in certain income ranges?
2. Are our enrolled students changing in certain income ranges?
3. Does this tell us if financial aid is a factor in certain income ranges?

**Bonus:** Use the filters to see if these questions apply to gender, ethnicity, or grade level.

To change the income bands, go to Group and then select the range you want. Pro-tip, start at zero, even if you don't have any incomes at that level--then the ranges will be even.

To use this tool, enrollment management teams simply copy data from SSS reports into the tool to populate a series of tables that can be used to answer key questions about enrollment trends. Sample questions that can be answered using the tool are provided below.

-  Are our enrolled students changing in certain income bands? Does this indicate whether financial aid is a factor in certain income bands?
-  Are our enrolled students changing in certain EFC (expected family contribution) bands? Is this consistent with income bands in other charts (e.g. do both show middle incomes families having trouble paying)?
-  Is our yield getting better, worse, or remaining steady in certain EFC levels (note: EFC is a decent measure of financial strength)?
-  Do we have a “gap” cliff (i.e. is there a percent of need met where yield drops way off)? Do we need to meet a higher percentage in certain places?

**We highly recommend that independent schools utilize this resource to examine their historical financial aid data to challenge or confirm assumptions about how their current financial aid policy yields their desired study body.**



Washington DC | Richmond | Birmingham | Minneapolis | New York

202-747-1000 | [eab.com](http://eab.com)