



# TEN MINUTE PROFESSOR

## What is 'Merit Aid'?

### *It's a Pricing Strategy to Attract the 'Best' Applicants*

*By Robert Savett, VP, Marketing,  
SAGE Scholars, Inc.*

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 one-third off tuition, no questions asked."

The announcement proved momentous in higher education finance – the birth of "Merit Aid," the most significant college enrollment trend in the past 25 years – maybe 50 years.

Call it the "Airline Model." Rather than take off with empty seats, airlines had discovered that it's smarter to sell them at a discount. The economic theory: If marginal revenue exceeds marginal cost, discounting is profitable.

Synodinos' offer not only filled the seats – but also improved the academic credentials of the freshman class. Undergraduate enrollment at Lebanon Valley is now 1,600. Creating such an innovative offer in tradition-bound academia may have required the "gambling gene". Intriguingly, Dr. Synodinos' cousin was Jimmy (The Greek) Snyder, the renown Las Vegas oddsmaker. Perhaps the college president's plan was originally perceived as a gamble, but when it hit the jackpot, the strategy was nationally emulated.

Merit Aid quickly became a flood. Most of the nation's 1,540 four-year private colleges and universities now offer discounts (grants, scholarships) to, subjectively, the "best" applicants. These "Presidential Leadership Awards" are issued regardless of financial "need". VPs of Enrollment usually love merit aid; it's an effective "tool" that enables them to offer large financial incentives to the students who are, in their opinion, the most attractive applicants.

When our daughter and son were choosing colleges, two fine universities offered substantial merit awards that saved our family more than \$60,000 off the "sticker price" – after-tax



*A lab experiment at member college Creighton University.*

dollars. We first heard of merit aid in 1998 when our bright, hard-working niece – now a Ph.D. doing cancer research – was admitted to Dartmouth. As the daughter of a physician and an adjunct college professor, she didn't qualify for need-based aid. However, another New England university, seeking to attract a future female scientist, offered more than \$20,000 per year in merit aid. It's flattering when a college really wants you, and she chose the school that made the best offer.

Of extremely selective U.S. private colleges, approximately 50 – the Ivies, Duke, Northwestern, Rice, Stanford, etc. – **don't** award merit aid. Their financial aid is based solely on need – as determined by the FAFSA form and the CSS Profile (except athletic scholarships, where permitted). State schools, traditionally, haven't awarded merit aid. But recently, to fill seats and to compete with private colleges, numerous state schools are experimenting with merit aid – primarily, offering

# Merit Aid: a Strategy to Enroll the ‘Best’ Applicants

(Continued from Page 1)

very large discounts to “honors college” students or the in-state tuition rate to “better” out-of-state applicants.

The private colleges that join our SAGE Scholars Tuition Rewards® enrollment consortium tend to provide generous merit aid. Our June 2013 HS graduates submitted reward points valued at \$27.2 million to our member colleges, an increase of more than 75%.

Fueling the massive popularity of merit aid are the college rankings, pioneered by U.S. News & World Report (“America’s Best Colleges”). The ratings are always controversial because they focus much more heavily on **inputs** – the credentials of incoming freshman – than **outputs** – how well the college educates its students.

The rankings heavily reward schools for enrolling students with outstanding SAT or ACT scores – which are strongly correlated with family income. (The rankings also reward colleges for selectivity – which means it’s beneficial to generate many more applicants than needed and to reject most of them.)

Critics of merit aid – and there are many -- are offended that recipients tend to be students from affluent families. If the student also qualifies for financial aid based on need, merit awards are rarely “stacked” on top – as wholly additional aid – but are typically combined with need-based aid. The savings, therefore, aren’t as great as for an affluent family. Still, the savings are likely to be substantial, as the aid package typically is modified to include more scholarship (discount) and less loan.

Merit aid formulas are as varied as snowflakes. The percentage of applicants receiving merit awards can be 10%, 20%, 25%, 30%, etc. A 2012 New York Times survey of 650 colleges found 13 schools where 40% or more of incoming freshmen receive merit awards (with a high of 88%). A few selective private colleges provide huge discounts to a very small percentage of applicants.

More common, 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 (based on parameters set by the admission office) – and factor in likelihood of enrollment.

To further confuse the situation, few people actually understand what **merit** and **need** really mean. Often, merit is given based on one or more 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 & 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. At colleges that aren’t particularly selective, applicants with B-/C+ averages are sometimes chosen for merit aid. Your child may be offered merit aid (or the most aid) at his or her “safety school.”

More important, need is not necessarily a realistic measure of the help that your student actually requires to attend college.



Student art projects at Alfred University (NY). Students excelling in arts or music are offered merit aid based on the portfolio or the audition - just as athletes receive scholarships.

It is a dollar figure calculated by completing federal forms that only measure income and assets – **ignoring debt and monthly cash flow**. The result is your Expected Family Contribution (EFC) amount. 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.

Want proof? A 50-year-old couple with two children (one about to enter college) and \$100,000 of gross (pre-tax) income and no savings, other than modest home equity and a retirement account, would typically be expected, over the next four college years, to provide about \$17,000 annually toward their child’s education. In their perhaps 20 years of marriage, they’ve saved almost nothing; their after-tax income is about \$70,000; yet, they’re expected to now come up with \$17,000 per year for four years.

If a college, realizing this amount may be virtually impossible, offers to ask the family to pay less than \$17,000 annually – this is defined as no-need aid (merit aid).

Copyright 2013, SAGE Scholars, Inc.



# Be a ‘Star’: 10 Ways Your Student Can Qualify for More Merit Aid

What’s the formula for “hitting the jackpot” when it comes to merit aid?

## 1. Apply to Multiple Colleges

Beauty is in the eyes of the beholder. My recollection is that our daughter was offered merit aid at only one college to which she applied; fortunately, it was her first choice! Our son was accepted at seven schools and offered merit aid at four (and very happily attended one).

It’s a very subjective decision as to who qualifies for merit awards. The process involves an evaluation of where your student fits in the applicant hierarchy. The applicant pools of colleges vary; staff preferences vary substantially. Remember, the first reader of your child’s application is likely to be a recent college grad with limited experience. Some readers and some colleges will be much more enthusiastic about your child’s credentials.

It’s common that your student will be seen as a star at one school but not at another. Our advice: Apply to multiple colleges!

## 2. Invest in an SAT / ACT Prep Course

At SAGE, we’re not big fans of standardized testing. The SAT and ACT were created to predict which students would perform best in college. Sadly, the exams aren’t particularly good at this; for example, boys outperform girls on the SAT and ACT – but girls outperform boys as college freshmen (and thereafter).

The exams are not multi-dimensional. They don’t measure motivation, persistence, self-discipline, curiosity, creativity, imagination, resilience, adaptability, leadership, passion, persuasiveness, ability to defer gratification, real-world time management skills, multi-tasking skills, planning skills, collaborative skills or people skills – the talents that really determine success in life. Sadly, few successful test-takers realize this; sometimes, “test success” can inflate an ego, inhibiting future success.

But, the SAT and ACT are still the primary means to compare students at widely-diverse high schools. College admissions is a “game”. SAT / ACT excellence continues to be an

***“SAT/ACT exams don’t measure the talents that really determine success in life: Motivation, persistence, self-discipline, curiosity, creativity, imagination, resilience, adaptability, leadership, passion, persuasiveness, ability to defer gratification, real-world time management skills, multi-tasking skills, planning skills, collaborative skills or people skills.”***



*Students on the Rensselaer Polytechnic Institute campus.*

essential ingredient for acceptance at selective private colleges and at “flagship” public universities.

At private colleges that award merit aid, SAT / ACT performance is a crucial factor in determining who gets the discount dollars and how much. (Exception: Under-achievers, whose grades don’t match their aptitude.)

Solid performance on the SATs or ACT is now vital even for applicants to Tier Two state schools – because it often determines who gets the better financial aid packages in this era of shrinking financial state government support. These schools want to improve their national rankings; increasingly, they want to demonstrate higher SAT/ACT scores for incoming freshmen. Students accepted with low test scores are now being penalized with reduced (and often insufficient) financial aid. Increasingly, the attitude at Tier Two state schools is: If your SAT/ACT scores are lousy, you probably should start at a community college – and, to encourage this, here’s an inadequate financial aid package.

Our advice: Pay for an SAT / ACT Prep course! It’s a solid

*(Continued on Page 4)*

# Merit Aid: What is the Admissions Staff Thinking?

*(Continued from Page 3)*

investment that leads to a greater likelihood of acceptance, more merit aid and less of a “gap” in the college’s financial aid package.

### 3. Grades Matter

Pretend you’re a college. Would you give incentives to under-achievers? When it comes to merit aid, more A’s are hugely better than fewer A’s.

### 4. Take AP Courses

Be a college. Would you want students who are afraid of hard work? More merit aid goes to students who show a willingness to be challenged – and take advanced placement, international baccalaureate and honors courses.

### 5. Complete Applications on Time

Be a college. Would you want students who are procrastinators and don’t get their work done on time? If a portion (or all) of the application is late, your student may not qualify for merit aid. Or, he or she will receive less. Also, by missing a deadline, your student creates the impression that the college is certainly not his/her first choice.

### 6. Schedule an Interview & Prepare

Schedule an interview – and prepare. Know the school’s strengths. Be able to articulate why you’re applying to the college and why it’s a good fit for you. A strong interview can improve the merit award. It’s wonderful to have an admission officer in your corner. Conversely, prepare poorly (or not at all) for the interview, and admission and financial implications are likely.

### 7. Superb Essays & Recommendations

Excellent essays and strong personal recommendations get a candidate noticed! This is where you demonstrate your individuality – and shine.

### 8. Geographical Diversity

Colleges want a diverse freshman class – and often give more merit aid to students who live farther away. Merit aid encourages more out-of-state applicants to attend.

### 9. Less Popular Majors

Fine-tuning the merit award: As colleges want a diverse class, revealing intent to pursue one of the most popular majors can result in slightly less merit aid. If the student intends to pursue a less-popular major, the merit award is likely to rise.

### 10. Fill out the FAFSA Form

On the FAFSA form, students specify the other colleges where they’re applying. Now, each college knows who the competitors are. This alone can significantly improve awards! Filling out the FAFSA also indicates to the college that, even if need is low, a bit of extra help is important to your family.



*Students at the University of San Diego Library.*

### Visits & ‘Early Decision’ Applications

Some colleges claim that expressing unusual interest can improve the award; elsewhere, the opposite may be true. Johns Hopkins was embarrassed years ago when it was revealed that better financial aid packages were being offered to similar applicants who hadn’t visited campus. Admissions folks felt that the students who hadn’t visited were less likely to attend – and thus required more incentive. Often, students don’t visit campus until they learn whether they’re admitted – or if the financial aid package is adequate. It’s unclear whether delaying the visit improves the award or not.

When there’s an Early Decision process that limits applicants to only one college, there’s certainly the probability of less generous financial or merit aid. On the other hand, early decision applicants are considerably more likely to be admitted.

### Conclusion

Colleges have a “sticker price.” Disregard it! If the school is a fit, apply anyway. You may qualify for merit aid -- an opportunity for discounts that can represent enormous savings at most of America’s private colleges, especially SAGE member colleges.

*Copyright 2013, SAGE Scholars, Inc.*

**SAGE Scholars**  
**tuitionrewards**

**SAGE Scholars, Inc.**  
**21 South 12th St, 9th Floor**  
**Philadelphia, PA 19107**  
[www.tuitionrewards.com](http://www.tuitionrewards.com)  
[support@sagescholars.com](mailto:support@sagescholars.com)