



# Planning and Budgeting Brief

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Date Prepared: January 8, 2009

Subject: **Determining Financial Need, Financial Aid and Tuition at the University of Washington**

## *Determining Financial Need*

Information about students' economic circumstances is available only for students who have filed a FAFSA (the federal Free Application for Federal Student Aid), which only half of all UW undergraduates complete. Based on information provided via the FAFSA, federal methodology is used to calculate the amount of money a student or student's family is expected to provide for educational expenses (the expected family contribution, or EFC). A student's need is calculated as the difference between the EFC and a standard student budget. The estimated 2008-09 budget for an undergraduate living away from home is \$19,100, including tuition, as well as housing, food and all other living expenses. This difference between EFC and a standard student budget defines the student's financial need. Using the FAFSA calculation ensures equity for assessing student financial need across campuses statewide and nationally.

## *Awarding Financial Aid*

A student who files the FAFSA on time and demonstrates financial need can be eligible for various sources of aid. The UW sets aside 4 percent of gross tuition revenue for tuition waivers and exemptions, and an additional 3.5 percent of the gross tuition revenue remaining after waivers are subtracted is used for need-based grants (these funds will be referred to as "UW Grant and Waiver Funds"). Low income students (students with an EFC less than \$4,032) are eligible for full or partial Pell Grants, with a maximum value of \$4,731, and Washington students with a family income of 70 percent or less of the Median Family Income for a given family size are eligible for full or partial State Need Grants, with a maximum value of \$6,000.

Washington State has always had a strong commitment to ensuring access to students of limited economic means. A common indicator of the extent to which an institution is serving low income students is the percentage of students who receive Pell Grant funds. In 2007-08, 21 percent of UW undergraduates received Pell Grant funds. In addition, 22 percent received State Need Grant funds, and 24 percent received either Pell or State Need Grant funds. Beyond these sources of financial aid, the University's endowment and other gift funds are also disbursed for financial aid.

The figure below shows the average amount of aid disbursed to dependent undergraduate resident students by family income<sup>1</sup>. The disbursed aid shown below includes only *financial aid*: scholarships, grants, waivers, and exemptions. *Financing aid* – aid that helps students finance their education, such as loans and work study – is not included here. As shown, the Pell Grant and State Need Grant are most important for students from families with the lowest income. In

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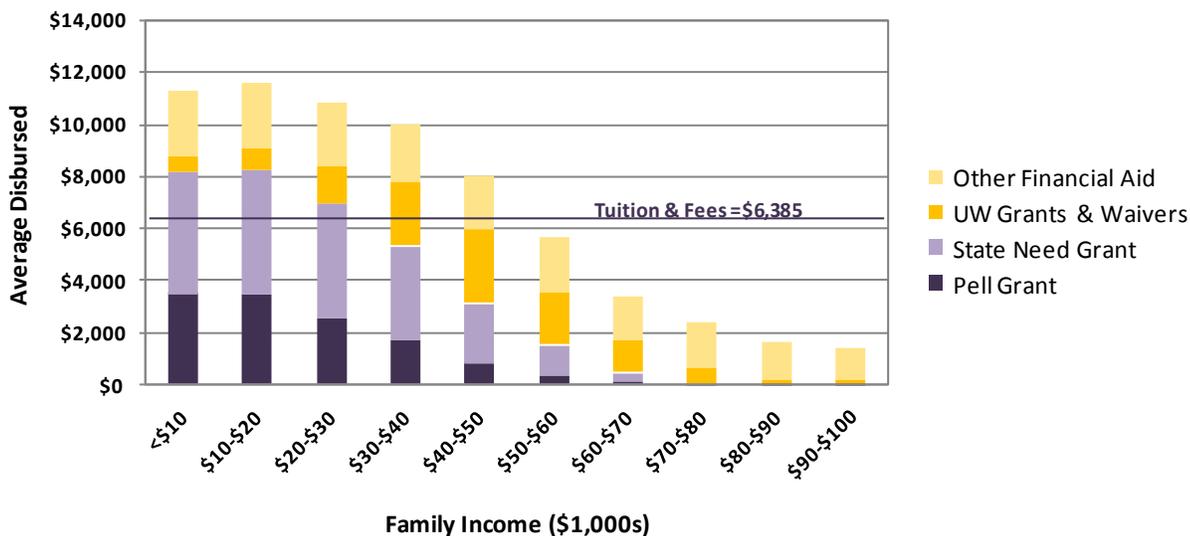
<sup>1</sup> Because the economic circumstances and needs of students who are economically independent of their parents can be exceedingly complex, for the purpose of this discussion, information presented will be for undergraduate resident students who are classified, following federal guidelines, as dependent on their parents for financial support.



## Planning and Budgeting Brief

fact, students in the lowest income groups, on average, receive sufficient Pell and State Need Grant funds to cover tuition and fees. “UW Grants & Waivers” are most often used for students who have demonstrated financial need, but may not qualify for Pell or State Need grants as their family incomes are too high. “Other Financial Aid” includes aid from other UW sources, UW Endowment, gifts, and other smaller state and federal programs. Again, loans and work study, which are often used to make up the difference between total need and awarded aid, are not shown here.

**Average Financial Aid Disbursed  
2007-08 Undergraduate Resident Dependent Students  
by Family Income**



### *Effect of Tuition Increases*

The fact that data about family economic circumstances are available only for students who have applied for financial aid poses a significant problem for attempts to determine what the effect of tuition or financial aid changes might be for two reasons. First, we are unable to assess the effect of tuition changes on the students when we don't know their family's economic situation. If tuition is increased dramatically, some of those who have not previously applied for aid are likely to do so, and some of these will demonstrate financial need. Second, FAFSA information is based on information from income tax returns. As a result, the effects of an economic downturn, in which employment status and salary levels are negatively affected, will not show up for at least one year. Currently, this is expected to lead to an understatement of student need.

We can nevertheless begin to understand the effect of increasing tuition on financial aid by examining the likely effects for the 50 percent of students for whom we do have financial information. In recent years, undergraduate resident tuition has increased 7 percent per year, and the maximum State Need Grant award has increased at approximately the same rate. As shown in Table 1, a 7 percent tuition increase for 2009-10 would generate \$10.0 million in gross revenue and \$9.2 million in net revenue; the cost of expanding the State Need Grant program accordingly would be \$2.1 million.



## Planning and Budgeting Brief

Additionally, following current practice, \$0.8 million of the gross revenue increase would be used by the UW for waivers, exemptions, and grants.

As shown in Table 2, a 20 percent increase in tuition would provide the university \$18.6 million dollars in revenue above that provided by the standard 7 percent increase, for a total revenue increase to the UW of \$28.6 million. To fulfill existing financial aid policies, the UW would divert \$1.5 million of that incremental revenue to student financial aid for a total UW aid commitment of \$2.3 million (assuming that the State Need Grant Program increased proportionally as well). In order to *increase* current levels of student access (or to assist students who have been negatively affected by the economic downturn), the UW could divert an additional \$2 million to financial aid from the core educational budget, leaving the institution with a net increase of \$15.1 million for core education.

**Table 1: Tuition Increase for Undergraduate Residents of 7%, 10%, 15%, and 20%**

Tuition Increase	Gross Revenue Increase	Net Revenue Increase	Increased Unfunded Need	Cost of Expanding State Need Grant	UW Grant and Waiver Pool
7%	\$10.0M	\$9.2M	\$2.6M	\$2.1M	\$0.8M
10%	\$14.3M	\$13.2M	\$3.8M	\$2.9M	\$1.2M
15%	\$21.5M	\$19.7M	\$6.0M	\$4.4M	\$1.7M
20%	\$28.6M	\$26.3M	\$8.2M	\$5.9M	\$2.3M

**Table 2: Additional Revenue and Cost Compared to 7% Increase**

Tuition Increase	Gross Revenue Increase	Net Revenue Increase	Increased Unfunded Need	Cost of Expanding State Need Grant	UW Grant and Waiver Pool
10%	\$4.3M	\$3.9M	\$1.3M	\$0.9M	\$0.3M
15%	\$11.4M	\$10.5M	\$3.4M	\$2.4M	\$0.9M
20%	\$18.6M	\$17.1M	\$5.6M	\$3.8M	\$1.5M

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