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Authors	Akinsanya, Ayodele Abel
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Inequity and Injustice: The Impact of Financial Aid Policy for Higher Education Students

Ayodele A. Akinsanya

This paper explores the financial aid policy for higher education students in the United States. It provides an in-depth examination of the historical context that shapes the implementation of financial aid policies and their impact on students. Additionally, it assesses how these policies and programs facilitate or hinder access to colleges and universities. Ultimately, the paper offers valuable recommendations for improving these policies.

Keywords: Financial Aid Policy, Pell Grant, Loans

Ayodele Abel Akinsanya is a dedicated educator and higher education administrator based in Burlington, Vermont. He is currently pursuing a Master of Education in Higher Education Administration at the University of Vermont. With a Bachelor of Arts in Education specializing in English from Obafemi Awolowo University in Nigeria, Ayodele has several years of experience in teaching and student support, including his role as Assistant Residential Director at the University of Vermont.

His research focuses on the experiences of BIPOC students in the U.S., exploring issues of racism, immigration, and financial challenges, informed by his work with the CARE Team in crisis management. An active member of the National Association of Student Personnel Administrators (NASPA), Ayodele has multiple certifications in educational leadership and student engagement. He is also involved in community development through volunteer work in the U.S. and Nigeria. Fluent in English and Yoruba, Ayodele is committed to fostering inclusive educational environments that celebrate diversity and promote equity.

Introduction

A Brief Historical Overview of Financial Aid Policy

Financial Aid funds are provided by individuals, a group of people, or the government (either federal or state) to help supplement the cost of attending college to make it easier for students from low-income backgrounds who cannot afford the cost of higher education (Dynarski & Scott-Clayton, 2013). Financial aid is offered to students as grants that are not based on their academic performance but rather on their financial needs. Eligibility for the grant is based solely on the assets and income of the prospective student and their family. This means that the award is given according to the full-time schedule and is based on the student's Expected Family Contribution and Cost of Attendance. (Dynarski & Scott-Clayton, 2013).

The federal government shouldered the sole responsibility of providing financial aid for college students after President Johnson signed the 1965 Higher Education Act. It is essential to note that the financial aid program made available to students is in the form of grants. However, loans are also available to students who did not receive the grant or who require additional funding for their studies. It is essential to note that thousands of American students who could not afford college have access to higher education across all fifty states within the nation due to the financial aid program. The financial aid policy has enabled students from low-income backgrounds who previously had no hope of attending college to gain access to it. (Dynarski & Scott-Clayton, 2013).

Financial aid programs have significantly impacted students by enabling them to offset a considerable portion of their educational expenses. As the cost of attending college continues to rise alongside improvements in institutional quality, accreditation, infrastructure, and research, the role of financial aid has become increasingly critical (Fuller, 2014). For more than forty years since the enactment of the Higher Education Act of 1965, these programs have provided vital assistance to high school graduates, helping to alleviate their financial burdens as they pursue higher education.

The amendments to the Act in 1993 further expanded the scope of financial aid, broadening eligibility to encompass a diverse range of individuals beyond recent high school graduates, including non-traditional students and adult learners. This expansion has led to increased accessibility, yet it has also prompted scrutiny regarding the effectiveness of financial aid disbursement methods. Students and parents alike have raised concerns about how these funds are allocated and whether they adequately meet the needs of those they are intended to support (Dynarski & Scott-Clayton, 2013).

There has been a high increase in enrollment of students entering colleges and universities. Although the cost of college has been steadily increasing, the financial aid allocated to students has also increased significantly. For instance, the Pell Grant has increased from \$3,437 to \$12,455, which demonstrates growth in the program. Additionally, the number of students enrolled for the aid continues to increase compared to when it was first introduced, which suggests that the aid has had a significant impact. To date, students still benefit from the Pell Grant. (Park & Scott-Clayton, 2018).

Financial aid programs, notably the Pell Grant, have expanded to accommodate a broader range of individuals. At its inception, the program met the needs of newly graduated high school students; however, it now also supports non-high school graduates and part-time students. (Wei & Skomsvold, n.d.). "For instance, Dynarski & Scott-Clayton

(2013), asserts that the massive increase in the number of beneficiaries attests to the effectiveness of the program.”

Furthermore, in addition to the Pell Grant being available to eligible students, the federal Stafford loan program is also a valuable source of funds for students through the financial aid program. The Pell Grant and federal loans are by far the largest sources of funding for students. Between 2014 and 2015, the federal government provided over \$120 billion in loans, grants, and other forms of financial aid to students. The Pell Grant reached up to \$30.3 billion, which was distributed to 9 million students annually in 2014–15, amounting to up to \$5,775 each year. (Park & Scott-Clayton, 2018).

The financial aid program experienced enormous success. Since the program was instituted by the government before 1965, students across the United States have continued to reap immense benefits from it. Many students who never had the hope of attending a college or university are now graduates. (“Student Financing of Undergraduate Education,” 2014).

The financial aid program has helped students in various ways. Some of the ways include payment of tuition, health insurance, and sometimes coverage of living expenses for students living on campus at college. (Park & Scott-Clayton, 2018). The government-funded financial aid programs were streamlined into four distinct categories: grants, work-study, loans, and scholarships, made available to various students regardless of their previous academic background or family status. (Park & Scott-Clayton, 2018).

The Pell Grant

The Pell Grant plays a crucial role in financing education for low-income and first-generation students in the United States. Approximately 30-40% of undergraduate students receive some form of Pell Grant assistance each year. In the 2021-2022 academic year, the Department of Education allocated approximately \$25.4 billion in Pell Grant funding, benefiting about 6.1 million students (Scherrer et al., 2023). This substantial funding indicates that the Pell Grant is an invaluable resource for students, helping to alleviate a significant portion of their educational expenses (Park & Scott-Clayton, 2018).

The Pell Grant serves a dual purpose in promoting higher education enrollment. First, it has significantly contributed to increasing the number of students pursuing degrees in colleges and universities nationwide. According to Dynarski and Scott-Clayton (2013), financial aid, including the Pell Grant, has been instrumental in boosting enrollment figures over the years. Second, recipients of the Pell Grant are more likely to reduce their work hours on campus or in off-campus jobs, which enables them to dedicate more time and focus to their academic studies (Park & Scott-Clayton, 2018).

Recent policy changes have reinforced the importance of the Pell Grant. For instance, the American Rescue Plan Act of 2021 increased the maximum Pell Grant award for the 2021-2022 school year, reflecting an ongoing commitment to expanding support for low-income students amidst rising tuition costs. Furthermore, future projections suggest that continued advocacy efforts may result in further increases in funding, as many policymakers recognize the necessity of addressing educational equity and enhancing access for marginalized student populations. As educational costs continue to escalate, the Pell Grant remains a vital component in supporting students' aspirations for higher education (Adashi & Cohen, 2021).

The Federal Loans

The provision of loans is another way by which the government successfully executes the financial aid program. Thus, many families and undergraduates rely heavily on loans to help them pay for their post-secondary education (Wei & Skomsvold, n.d.). Examples of loans available include the Stafford, Perkins, and Parent PLUS loans. However, the Stafford loan is the largest. At least \$35 billion was reportedly borrowed between 2007 and 2008 (“Student Financing of Undergraduate Education,” 2014).

Remarkably, students could borrow as much as they needed, provided it did not exceed the set limits. As a result, the Stafford loan amount increased from 26.8% to 45.5% between 2008 and 2009. It is noted that in any given year, approximately 60% of students using the Stafford loan borrow up to the maximum amount allowed. Although students could borrow, the loan was an indirect one with complex documentation. However, with the successful amendment of the Higher Education Act, the burden of indirect loans was removed. Students could now easily borrow directly from the government with reduced interest rates. (Wei & Skomsvold, n.d.).

Scholarships

Apart from the Pell Grant and Loans given to students as a form of support, there are two other ways in which students receive support: scholarships and work-study. Scholarships are financial awards provided to students who fulfill certain conditions set by individual donors or organizations. For instance, scholarships of up to \$ 1,500 are awarded to students through the Hope Scholarship (Helping Outstanding People Educationally), a non-refundable award granted to students attending any Georgia public or private institution. (Dynarski & Scott-Clayton, 2013).

The Hope Scholarship was expanded to include a \$1,000 refundable component, and it was renamed the American Opportunity Tax Credit (AOTC). However, the number of students who received the Hope Scholarship surged dramatically because of its renaming. As a result, the amount awarded to students was increased to \$2,500. Students benefited significantly from this increase (Dynarski & Scott-Clayton, 2013). Furthermore, according to Kofoed (2022), the Georgia Hope Scholarship contributed to a 6.9% rise in the enrollment of first-year students.

Federal Work-Study

The U.S. Federal Government and a pre-approved employer jointly fund the Federal Work-Study (FWS) financial aid program. The program was designed to enable students to work for community service organizations, the government, and nonprofit educational institutions, earning money while in college. An office or department, along with authorized nonprofit organizations off campus, qualifies as an approved employer for most institutions that allow their students to seek employment independently.

In the State of Vermont, for example, students are not assigned to Federal Work-Study jobs. Instead, students have the freedom to choose a job that suits their schedule and interests them. The student's account does not receive FWS revenue. Every two weeks, students receive payment for the hours they work. Student workers at FWS are not permitted to work extra, and any overtime they do work will be reimbursed to their respective departments. Students are expected to apply as soon as they

arrive on campus, as employment is not guaranteed. However, the start of the fall semester is marked by a job fair.

Excessively High Tuition

The continuous increase in tuition fees makes college payment extremely difficult for potential applicants and undergraduates. Despite the multiple financial aid programs made available, the tuition fees of schools continue to increase. However, the Pell Grant and other forms of financial aid have been continually awarded to students and have increased significantly since their inception (Park & Scott-Clayton, 2018). However, it is not enough to pay tuition, even at community colleges, let alone other bills. For example, in 2008, the Pell Grant awarded was \$4,731, which is insufficient to cover the total cost of attendance at a community college of \$9,700 (Park & Scott-Clayton, 2018). As a result, students find alternative ways to pay their fees (Wei & Skomsvold, n.d.).

Loan Debts

The reliance on student loans among college students has become increasingly common, primarily due to the disparities in available grants and other forms of non-repayable financial aid. As tuition and living expenses continue to rise, many students find themselves in a position where they must resort to taking out loans to finance their education. Among the various loan options available, the Stafford Loan remains the most frequently chosen option for students (Wei & Skomsvold, n.d.).

According to Dynarski and Scott-Clayton (2013), the amount disbursed in student loans has dramatically surpassed the funding provided through Pell Grants. For example, by 2010, the volume of student loans issued had increased to five times the level seen in 1990, while Pell Grant amounts only saw significant increases following the Great Recession (Bettinger & Williams, 2013). This sustained growth in borrowing reflects a distressing trend, where a substantial number of students—approximately two-thirds of Stafford Loan borrowers during the 2007-08 academic year—maximized their loan amounts.

Compounding the issue, many students also turn to private loans, often with higher interest rates and less favorable repayment terms (Wei & Skomsvold, n.d.). Although student loans can facilitate access to higher education, they also contribute to an alarming national debt crisis. In 2012, media outlets such as the New York Times highlighted that student loan debt had exceeded the one trillion-dollar threshold, raising concerns that higher education was becoming tantamount to a new subprime lending market or "the next bubble" (Schlesinger, 2012). This crisis is evidenced by the high default rates among borrowers; for instance, 9.1% of students with federal loan debt defaulted on their repayments within two years in 2012 (Fuller, 2014).

In response to these growing loan debts, there have been increasing efforts to improve repayment options and provide more support to borrowers. Organizations and policymakers have begun to push for reforms aimed at simplifying repayment plans, such as Income-Driven Repayment (IDR) programs, which adjust monthly payments based on borrowers' income levels (Herbst, 2023). Furthermore, advocacy groups are campaigning for increased grant funding as well as policy reforms that would alleviate the burdensome interest rates associated with student loans—especially private loans (Herbst, 2023).

Additionally, recent legislative proposals aim to extend repayment periods and introduce loan forgiveness programs for specific fields of public service, which may help reduce the long-term financial strain on graduates, particularly for those from low-income backgrounds. By continuing to promote these advocacy efforts and exploring innovative repayment solutions, stakeholders aim to alleviate the burden of student debt and increase accessibility to higher education for future generations (Jacob, Jones, & Keys, 2023).

Limited Scholarships

There is a limited range of scholarships to meet the total number of students in need of them. Apart from the argument that scholarships should be need-based or merit-based, the available ones are limited to meet the growing cost of attending colleges and the number of students applying for them. This suggests that neither need-based scholarships nor merit-based scholarships can serve the vast population of students (Fuller, 2014). Furthermore, very little, if any, financing is made available to overseas students, who constitute a unique demographic that faces more significant financial difficulties. This supports the idea that there are insufficient scholarships available to assist students in general (Smith et al., 2011).

Historical Disparity

The financial aid policy program does not fully benefit many students from historically disadvantaged backgrounds. Students of color often face numerous challenges, one of which is securing college funding. Many BIPOC students are deprived of the opportunity for funding, which can be explicitly seen in the graduation rate and success attainment of that population. Due to this, a large number of them remain in huge loan debts post-college (R. L. Johnson et al., 2023).

Socio Economic Unevenness

Many Low-income and first-generation students, along with their families, lack access to information. This lack deprives them of access to opportunities available at nearby colleges and universities. (Dynarski & Scott-Clayton, 2013). This gets worse when we talk about undocumented students and Deferred Action for Childhood Arrivals (DACA) recipients. However, former President Barack Obama made efforts on behalf of DACA recipients. They were granted reprieve from deportation, the ability to receive a Social Security number, the capability to work, and perhaps most importantly, lawful presence. However, this does not sufficiently assist this unique group, which has endured a prolonged and challenging period of economic hardship. (Nienhusser, 2018).

My Recommendations

Here are some recommendations that I believe can be implemented to improve the financial aid policy in the United States, thereby bridging the access, inequity, and injustice gaps in higher education institutions.

Policy Reform

There is a need to reform the financial aid policy. The reform should include an expansion of the Pell Grant and an increase in the annual amount that individual students receive. This is because the cost of attending college has increased. As a result, many students who are not eligible will still be able to access the Pell Grant. Additionally, when reforming the policy, the federal government must ensure that provisions are made for undocumented students who cannot meet the eligibility requirements. In this case, it will be achieved either by enacting new policies or making the existing ones clear and unambiguous. (Nienhusser, 2018).

Increase in Higher Education Investment

The higher education sector has received considerable support from the government in the past. This support needs to be significantly enhanced because there is a growing population of teenagers and young adults who largely lack access to colleges and universities. Just as elementary education is made free and mandatory, the government can heavily invest in higher education for youth by making it free. With this, the rate of students enrolling in college is expected to increase drastically, potentially leading to a decrease in the crime rate.

Removal of Interest on Loans for College Students

The burden of student loans is becoming increasingly unbearable due to high interest rates and general economic hardship in the United States. Unfortunately, not all students who graduate from college or university secure a high-paying job. This makes it difficult to pay their debts. Even those who can secure good jobs soon find themselves entering more financial commitments, which increases their financial burden. As a result, their debts continue to accumulate, leading to increasing frustration. To make this easier, the government should consider providing students with access to substantial loans, thereby eliminating the need for private loans. Additionally, the loans made available to students should be interest-free and have flexible payment plans that do not put unnecessary pressure on them.

Conclusion

Government policy is continually evolving at the federal, state, and local levels, influencing practices on college and university campuses. As these changes unfold, stakeholders in higher education must navigate the implementation of these policies and understand their impact on students' access to higher education. This ongoing dialogue between policymakers and educational institutions is crucial for ensuring that policies effectively facilitate or hinder students' opportunities to pursue their academic goals.

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