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As financial aid for families without demonstrated need increases, so should strong guiding principles in awarding it.

Article by Donna Davis

From the November/December 2020 *Net Assets magazine*

Feature image: Westover School, an all-girls' grades 9–12 day and boarding school in Middlebury, Connecticut.

In 2013, Hathaway Brown School, an all-girls school in Cleveland, began a modest merit-based financial aid program. Economic and demographic change found the school fighting for a declining number of girls whose families could afford an independent school education. In just a few years, the school found itself overspending its financial aid budget by \$800,000–\$900,000 annually to keep up with an increasingly competitive local merit aid environment.

The Bottom Line

- Over the past decade, independent schools have spent more on merit aid, including dollars spent overall and amount awarded per student.
- According to trend data, schools that spend more on merit aid do not generally have stronger enrollment, and enrollment leaders worry that more spending on merit aid will negatively impact equity and diversity.
- A well-defined and funded merit aid program can allow schools to reward student achievements, increase enrollment, and bolster ties with alumni, past families and donors.

The results were “devastating,” said CFO Valerie Hughes. “Our board said, this current approach is not financially sustainable. Let’s use merit aid the way it’s supposed to be used.”

Now, the 850-student day school has clearly defined its merit program to differentiate it in the market. “It's not solely based on test scores like some schools,” said Elizabeth Pinkerton, director of enrollment management. “We look at how a student is going to contribute to the community, and we're very specific about naming that on our website.” That focus allows HB to recognize a more

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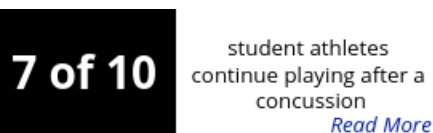
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diverse pool of girls. “We are always looking for girls that can make meaningful contributions to the school community in any number of ways.”

What is merit aid?

Merit aid is a financial award or tuition discount granted without regard to a family's financial need. Merit decisions are often based on student achievements, interests or demographic factors.

HB awards about \$5.2–5.5 million in merit and financial aid each year, about 15% of which is funded through endowment draws and restricted gifts. The school had used merit aid to bolster net tuition revenue (NTR), but recent declines in enrollment have been challenging that trend, Hughes said.

The board has conducted financial sustainability task forces to look at tuition increases, which the school has tried to hold at around 2% annually. “Only about 5% of our market can afford an independent school education. You almost want to say, let’s cut [tuition] in half and forget the financial aid,” Hughes said. “It’s a conundrum, and with the pandemic, the financial aid piece has gotten even tougher.”

Even with the challenges, Pinkerton said merit aid has had a positive impact on the school. “It’s easy to focus on the negative, but the girls we have coming here are great girls — they’re starting their own business, volunteering — things I would never have thought of doing in the eighth grade. They’ve worked hard to be at HB and are wonderful additions our community.”

On the Rise

Merit-Based Financial Aid/Scholarships	FY2017	FY2018	FY2019
Percentage of students enrolled receiving merit aid	7.6%	6.5%	6.6%
Median merit aid dollars awarded by school	\$115,724.50	\$100,000	\$129,826
Average merit aid dollars awarded by school	\$240,684.11	\$175,893.23	\$226,956.18
Median merit aid dollars awarded per student	\$4,461.45	\$5,000	\$5,202.79
Average dollars merit aid awarded per student	\$8,553.68	\$8,072.91	\$9,526.92
Percentage of total financial aid that is merit-based	9%	6%	7%
Source: NBOA's Business Intelligence for Independent Schools (BIIS)			
<i>The BIIS definition of merit-based financial aid/scholarships: Reductions in tuition granted for reasons other than need based on household income and expenses or a parent's employment by the school. BIIS is open for data collection October 26-November 20. Participate at biis.nboa.org.</i>			

In response to rising tuition, market competition, equity concerns and a host of other factors, many independent schools are taking new approaches to tuition, such as indexing, resets and different pricing models, but a more traditional tool, merit aid, has also grown, both in the number of schools and dollars spent.

From fiscal year 2017 to fiscal year 2019, the number of schools reporting at least one student receiving merit-based aid rose 52%, according to data from NBOA's Business Intelligence for Independent Schools (BIIS) data collection platform. The total number of students receiving scholarships, as well as the total dollars awarded both in the aggregate and per school also rose, as did the amount of aid per student. (See BIIS chart above for more information.)

"Just ten years ago, school leaders, including business officers, often had a negative and visceral reaction to merit aid of any kind," said Jeffrey Shields, FASAE, CAE, president and CEO of NBOA. "I think the sentiment was that there was such high demand for need-based financial aid it was hard to justify resources for merit aid. However, increased competition for high-performing students has changed that. The bet is that investing merit aid into the most talented students will attract similar full- or near-full-pay students to the school. It's a big bet."

More Schools Offering Merit Aid, More Dollars Spent	2008—2009	2019—20	Change
Percentage of Schools Offering Merit Aid			
Day/Boarding	38%	59%	+21%
Day	26%	28%	+2%
Median Number of Students Receiving Merit Aid			
Day/Boarding	13	21	+38%
Day	14	14	—
Median Amount Spent on Merit Aid by Schools*			
Day/Boarding	\$137,000	\$183,000	+34%
Day	\$46,000	\$95,000	+106%
*Not adjusted for inflation			
Source: NAIS DASL			

National Association of Independent Schools (NAIS) data tell a similar story of increased use and spending around merit aid. “Among boarding/day schools, a greater proportion of schools have started offering merit aid in just the past 10 years, compared to day schools,” said NAIS Vice President Mark J. Mitchell. The number of students receiving merit also grew at day/boarding schools, while remaining flat among day schools. (See NAIS chart above for more information.)

“It’s one thing to say we give one award for \$5,000, but another to give 50 awards totaling \$1.2 million. The same number of schools are offering merit aid to the same number of kids, but they are offering them more.”

Mark J. Mitchell

National Association of Independent Schools



The median amount schools spend on merit aid offers some insight into how thinking around it has changed. “It’s one thing to say we give one award for \$5,000, but another to give 50 awards totaling \$1.2 million,” explained Mitchell. “The same number of schools are offering merit aid to the same number of kids, but they are offering them more.” That trend might suggest that day schools are finding that merit awards of a certain size “don’t move the needle,” Mitchell said. “For someone to enroll with a merit offer, the amount they’re offered has to be larger.”

Hans Mundahl, director of professional development for the Enrollment Management Association (EMA), would concur. “The number of independent schools offering merit-based aid is not at the level of colleges and universities, but [we have been] seeing a significant upward trajectory.” A 2019 State of the Industry Report

from EMA found that 53% of schools report that tuition is a barrier to get families to apply to their schools to a “great” or “significant” extent. “That’s not to enroll, it’s getting them just to apply,” said Mundahl. “That means schools are under significant pressure to use tools like merit aid to discount their tuition.”

Remodeling the Model

The growth in merit aid is the result of several factors, starting with rising tuition and outdated financial aid algorithms designed for low-income families years ago, according to Alisa Evans, managing partner of [Mission Enrollment](#). “That’s not who [financial aid] serves today,” she said. “The average family applying for financial aid among the schools I work with makes about \$150,000 a year. The low-income families are still there, but that need is probably the easiest to assess. It’s the middle-income families that we’re losing because tuition is stretching them.”

Evans asserts the traditional financial aid formulas that independent schools use today fail to take into account several pressures of today’s middle-income family, such as business ownership, multiple mortgages and student loan debt. The formulas indicate “capacity to pay that is wildly optimistic, [so] schools had to start widening the use of merit to support families in that bucket,” Evans said. “The increased use of merit in recent years was not simply that all of a sudden philanthropic people started saying they would love their school to have more tuba players. It was to bridge the gap between an antiquated mathematical equation and a modern family’s true capacity to pay.”

Each school should refine its financial aid calculation tool to include those new need metrics, Evans advised. “That way, you have properly assessed [families] financially and can truly reserve merit aid for non-need awards. Proper assessment of a family when they are new to the school sets the family’s expectations and helps to manage your future net tuition revenue model and your budget.”

From fiscal year 2017 to fiscal year 2019, the number of schools reporting at least one student receiving merit-based aid rose 52%, according to data from [NBOA’s Business Intelligence for Independent Schools](#) (BIIS) data collection platform. The total number of students receiving scholarships, as well as the total dollars awarded both in the aggregate and per school also rose, as did the amount of aid per student. (See BIIS chart above for more information.)

Return on Investment

But the question remains: does it pay off financially? Merit aid did not appear to move the needle on enrollment among the top spending schools (more than \$225,000 per year), according to NAIS data. For top spending day/boarding schools, enrollment rose 3.5% from 2014-15 to 2019-20, compared to 7.8% for the group overall. Among top spending day schools, enrollment dropped 12%, compared to 7% overall.

But for some schools, merit aid may have a positive effect on NTR, Mitchell said. Since 2014-15, median NTR for top merit spending schools has grown more steeply than for schools overall. For all day schools, NTR in that time period grew 5.7%, while it grew 8% for the top-merit spending day schools. Among all NAIS member boarding-day schools, NTR grew 6.2% in the past five years. For the top merit-spending boarding-day schools, median NTR growth was 16.2%.

“It helps underscore the message that it’s important to be clear about why you’re investing in merit, to be able to measure the right outcome,” Mitchell said. “For NTR generation, maybe so. For enrollment growth, maybe not. For stronger student body or stronger applicant pool, check your data.” He cautioned that more detailed analysis would be needed to identify links between any of those outcomes and merit spending.

Charging a price that's lower than cost, further discounting that price through merit and other means, and then trying to make up the difference through annual giving and auxiliary programs is not a sustainable model, Mundahl said. “We can’t talk about price without talking about cost as well.”

While discussions around merit aid may seem less pressing in light of the financial havoc wreaked by the pandemic, it’s part of the larger conversation that has prompted more schools to reexamine tuition generally. “Before, they might have said, ‘Yes, our discount rate is too high, but we’re not going to be the first school in the market to be \$10,000 cheaper because that makes us look bad,’” Mundahl said. “COVID has prompted many schools to look at this issue from a new perspective. Whether they’re online, in person or offering a hybrid approach, they may have had to offer more than one price point for the first time. Why not take a fresh crack at it?”

At What Cost

While more schools may be offering merit aid, it's still fair to ask: Would merit aid be better used to meet demonstrated financial need?

William D. Diskin, director of admission and financial aid at Cannon



Younger students at Cannon School in Concord, North Carolina.

School in Concord, North Carolina, has avoided using merit-based aid in his 20-plus years of admission and financial aid work. The day school, which has about 1,000 preschool-grade 12 students, allocates about 8% of its budget to need-based financial aid.

“Financial aid budgets at many independent schools are not large enough to actually meet the demonstrated need of qualified families,” he said. “Given that, it makes sense to limit the distribution of limited financial aid dollars to those that genuinely need it. For many of us in independent school financial aid offices, the need-based model is the purest way to distribute limited financial aid funds to students in a way that is both equitable and fair.”

Diskin said the perceived advantages in attracting a talented scholar, artist or athlete through merit aid could result in disadvantages for other potential students. “Included in the true cost of merit aid are the opportunity costs of not enrolling students from diverse socio-economic backgrounds.”

Done Well

And yet for some schools, merit aid does enhance enrollment efforts. That's the case at Chatham Hall, a girls' boarding and day school in southern Virginia, with 160 students in grades 9-12. The school offers

merit aid, but provides a “much more robust” need-based program of financial aid, and the two work together to achieve the school’s enrollment and diversity goals, said Schaeffer Barnhardt, dean of enrollment management. The school also offers both merit and need-based named scholarships, all endowed by donors.

Barnhardt said merit and need-based aid can achieve the same goal — making an independent school education affordable. “There’s a misconception around affordability for boarding and independent schools,” Barnhardt said. “A lot of people fear they won’t be able to afford the tuition, but just like need-based aid, merit aid provides a way to reach families and talented students, and those families who would otherwise feel stretched.”

“Increasing NTR is definitely a priority, as well as increasing diversity and making Chatham Hall an affordable option for students. Merit aid has certainly assisted in increasing NTR.”

Jennifer Hiltwine

Casady School



“Increasing NTR is definitely a priority, as well as increasing diversity and making Chatham Hall an affordable option for students,” CFO Jennifer Hiltwine said. “Merit aid has certainly assisted in increasing NTR.”

Merit aid has also helped build a lasting relationship with families and alumni. “Some of those scholarships have existed for decades,” Barnhardt said. “We are fortunate that it’s been a tradition to have some form of naming opportunity for donors that we are able to use to attract wonderful and talented students.” Those who attended with a merit scholarship “have seen the benefit of a Chatham Hall education, and later when they think about their own philanthropic efforts, they want to support the school and help provide this education to students,” Hiltwine said.

Casady School in Oklahoma City invests the majority of its financial aid in need-based families. About 15% of the preschool-grade 12 Episcopal day school’s 960 students are on financial aid, and only about 1% receive endowed or funded merit scholarships, CFO Jeff

Bingham said. “The need-based approach does help us work toward a more economically and ethnically diverse student body than you might expect to find given the demographics of Oklahoma City,” he said.

The school uses merit more for retention than recruitment, according to Bingham. Oklahoma City has a math and science charter school that offers competitive spots for juniors and seniors. “Our merit award might be needed to help retain a student here who is considering that program.”



Chatham Hall, a girls' boarding school in Chatham, Virginia.

Diskin would agree that merit aid can have its place when done well, in tandem with need-based aid. One example might be “an arts scholarship where you advertise the auditions all over town,” Diskin said. “One child wins the audition, but in the meantime, you attracted 17 kids who now know about your school. You can do need-based aid for them and help build a solid base of socioeconomic diversity.”

Responsible Appropriation

“When people are in unknown territory, they make up the wrong rules. They might award unfunded merit the school cannot afford or use it simply for yield in an 'act of desperation.'”

David Tuttle

Westover School



Establishing an independent school-wide system of best practice would help ensure that merit aid is used in a mission-appropriate and financially responsible way, said David Tuttle, director of enrollment management for Westover School and an ex-officio member of the Small Boarding Schools Association. “When people are in unknown

territory, they make up the wrong rules,” he said. They might award unfunded merit the school cannot afford or use it simply for yield in an “act of desperation.”

In a competitive market, enrollment directors can find themselves in “negotiations” with parents who ask one school to match another school’s offer, Pinkerton said. Schools need to be transparent about merit aid — its amounts, purposes and requirements. “I tell parents, it’s based on your student’s academic promise and contributions the girls have made to their communities and how we can continue to nurture them here at HB; it’s not a bargaining tool.”

“Schools should ask if they are using a merit aid fund to support a kid who meets the fund’s criteria, to create more opportunity for the student, the family and the school institutionally, and to make sure all three of those are well-served,” Tuttle said.

Westover, a grades 9–12 day and boarding school that enrolls 190 girls, offers 20 named scholarships endowed with donor funds. Many of those scholarships are for retention purposes. “These are students who have done exceptionally well, and the scholarships help their families,” Tuttle said. Six scholarships aim at recruiting new students with specific talents, such as dance. “It’s a well-deserved addition to their need-based aid.”

Whatever the purpose, each scholarship has specific criteria, and a scholarship committee that includes faculty, administration and alumni representatives meets several times a year to discuss candidates and select recipients. “I know where the money is coming from and who meets the criteria, as does my financial aid coordinator and the admissions office,” Tuttle said. “It’s a proactive versus a reactive approach that takes people out of their silos.”

Start with defining the philosophy behind merit aid with the help of all those minds. Then ask, “What purpose does it serve in tandem with your financial aid platform, and what are the benefits?” said Tuttle. “Where is that money going to come from, and can it be tracked properly? Can it be budgeted for properly in tandem with your need-based platform?”

Westover answers those questions with a shared Google document called the “NTR Financial Aid Worksheet.” School administrators, including Tuttle, the head of school and financial aid coordinator, can see in real-time where the school’s enrollment, discount rate and merit awards stand. “It allows people to get out of their silos and see the whole enrollment picture,” Tuttle said.

Taking those steps creates a “symbiotic relationship” between merit and need-based aid, and allows a school to identify how its money is being leveraged to enroll mission-appropriate students in a fair and ethical way, Tuttle said. Clear guidelines also protect donor intentions and give schools a well-defined “no” to parents who try to negotiate for more merit aid based on competing schools’ offers.

Establishing those best practices would help schools set clear standards for awarding and funding merit aid, Mitchell said. “Merit aid itself is not a problem, but it’s all about how you administer it, what it’s designed to do, and whether you are tracking it to make sure it is making the expected impact. It’s about being intentional both in the design of the merit program itself and assessing outcomes.”

Donna Davis is a freelance writer based in Boulder, Colorado. A contributor to Net Assets topics since 2008, she specializes in education topics.

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