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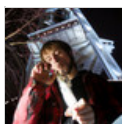
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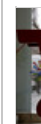
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# Shift to Merit Scholarships Stirs Debate

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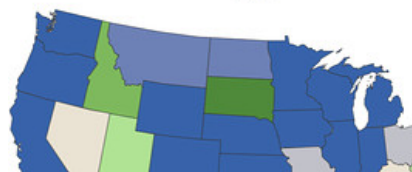
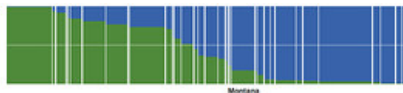
By JENNIFER LEVITZ and SCOTT THURM

ATLANTA—In most parts of the country, states offer financial aid to incoming college students based on need. But Georgia has led a movement for two decades that turned that idea on its head—by offering scholarships entirely on merit.

Now that movement may be picking up steam, with sweeping effects on students. Last year, with the scholarship program facing financial distress, Georgia lawmakers decided to increase the academic requirements for scholarships. Administrators say the change will help keep the program solvent. But it also wound up funneling a greater portion of the remaining aid to higher-income students.

## A Shift From Need to Merit

More than 25 states now award some financial aid for college students based on academic achievement, as opposed to need. Thirteen states, primarily in the South, award more than half of their financial aid based on merit.



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Georgia—whose HOPE scholarship program is among the largest merit-based programs in the country—is at the forefront of a growing national debate over state-backed financial aid for college students. Should states direct aid to the highest-achieving students, regardless of income? Or should the money go to poorer students?

Proponents of merit, or some combination of merit and need, say focusing on achievement helps reduce a so-called "brain drain" of talented residents leaving home states, and

rewards those who study hard and apply themselves. "Our society is built on meritocracy," said Richard Vedder, an economics professor at Ohio University and director of the Center for College Affordability and Productivity, an independent, Washington-based research institute. "What is true in real life in the job market

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should be true in education."

Though the trend rarely gets much attention and is obscured by increases in federal grants to poor students, 27 states have created some sort of merit-aid program since Georgia launched its own in 1993. Of those, 13 states based over half of their grant money on merit in 2010-2011, the latest year available. In Arkansas, Louisiana, Mississippi, South Dakota and Georgia, more than 85% of grants were merit-based.

Now, with funding for the scholarships falling behind steady hikes in college tuition and in the number of kids receiving them, lawmakers in Tennessee, South Carolina, New Mexico and other states are weighing some tough calls on how to distribute their grants. For its part, Georgia rejected proposals by some lawmakers for an income cap and decided instead to require better grades and, for the first time, strong SAT or ACT test scores for full-tuition scholarships.



Enlarge Image

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A view of the chapel on the campus of the University of Georgia in Athens, Ga.

The move was applauded by lawmakers who said middle-income families with high-achieving kids deserve or need help paying tuition, which has more than doubled nationally over the past 10 years at four-year public colleges. But need-based backers say disadvantaged kids need aid to help break the cycle of poverty, by attending college and ultimately finding better employment. According to a Wall Street Journal analysis, the percentage of scholarship money to kids from affluent areas did pick up, in some cases sharply.

The debate taps into several hot-button topics. Many of the merit programs, for example, receive their funds from state lotteries, which are disproportionately funded by lower-income players. Critics also say the plans—which are largely, though not entirely, in southern states—can disproportionately hurt minorities.

"The money is being slowly taken away from the students who need it most," says Shannon McGhee, the associate director of financial planning at Mercer University, in Macon, Ga. She says African-American and Hispanic students are most likely to benefit from need-based plans because "they have not necessarily had the same educational opportunities as their white peers."

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Financially stressed students, of course, can get help from federal, need-based aid sources, but they too are being squeezed by rising college costs and demand. The federal Pell Grant program, which provided \$36 billion in aid in the past fiscal year to low-income students, has expanded significantly in recent years, but the maximum grants covered on average only 64% of tuition and fees at a public four-year-college this year, the lowest since the College Board began keeping track in 1981.

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In all, U.S. states provided about \$11 billion in postsecondary student financial aid in the 2010-2011 academic year. States such as

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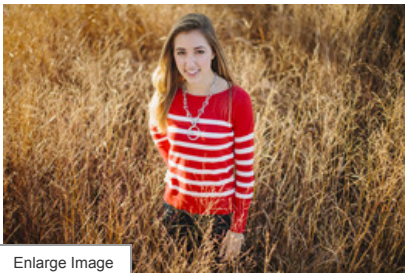
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California, New York and Michigan allocate virtually 100% of their scholarships to students where need is the primary component. But nationally, merit-based state funding—which was rare a few decades ago—now makes up 29% of the scholarship dollars,

highest on record, according to the nonpartisan National Association of State Student Grant & Aid Programs.

Leading the merit case has been Georgia, whose HOPE program—which stands for Helping Outstanding Pupils Educationally—started in 1993 after the state amended its constitution to create a lottery and directed the revenue toward education. To be eligible, students had to graduate with a 3.0 average. In a speech announcing the plan, the then-governor Zell Miller said HOPE was designed to help middle-income families and "bright students who would otherwise find it difficult to go to college."

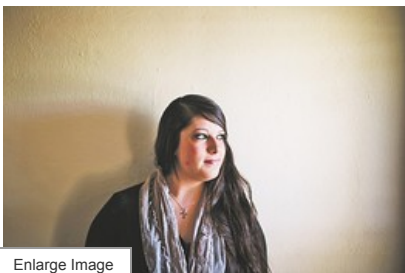


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David Walter Banks

Amy Thornburg, Georgia Tech: '[My classmates] are from good families that... had the means to send their kids to college.'

The program briefly considered family income when it began, but when the lottery did better than expected, that was quickly abolished—a politically popular move then, and now, in the state. "It's based upon your hard work and that is what we need to be encouraging," said Georgia state Senator Cecil Staton, a Republican and chair of the Senate Appropriations Subcommittee on Higher Education.



[Enlarge Image](#)

David Walter Banks for The Wall Street Journal

Sarah Nesbit, Armstrong Atlantic State University: 'I saw my Mom crying over bills and I knew that in order to avoid that cycle, school was what I had to do.'

In its 19 years, the program has given out \$4.9 billion in merit-based aid to 710,000 in-state students. Sarah Beck, a University of Georgia junior, is a typical recipient. She says her mother, a teacher, and her father, who worked as a nuclear engineer, didn't have to worry about saving for college because "we knew HOPE would be waiting for me." With a high school GPA of 3.7 and high ACT scores, she is on a full HOPE award, and thinks Georgia would have a hard time backtracking now. "It's a

solid social program that people have just grown up with literally," she said.

Still, she does say some students at her school arrive with new cars, paid for by parents who didn't have to pay tuition. The cars are known as "Hope-mobiles."

College administrators say that while merit aid is helping the middle class, low-income students who miss the academic cut are either dropping out, slowing progress or taking on more debt. That was particularly noticeable this fall, they say, after lawmakers decided to save the financially strapped program by requiring full-tuition scholars to have a 3.7 average and a combined math and reading SAT score of at least 1,200, or a composite ACT score of 26. Those who graduated as a valedictorian or salutatorian can also qualify.

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The full scholarships were renamed "Zell Miller" scholars. Traditional HOPE recipients, with GPAs between 3.0 and 3.7, or without the required test scores, are still eligible for aid, but smaller amounts adjusted annually based on lottery revenue.

The change made a difference to colleges catering to low-income populations. At Georgia State University, where four in 10 pupils come from families earning less than \$30,000 a year, administrators were forced to drop dozens of students this fall for not paying tuition when their scholarship funds were cut. Many were able to come back, thanks to an appeal to donors, a school official said.

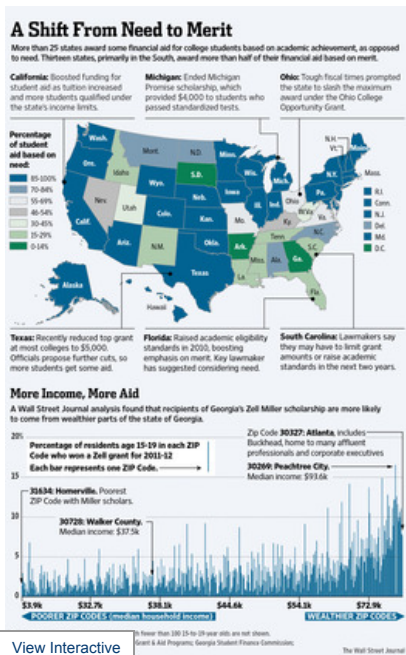
The Journal analysis of the change's impact looked at the home ZIP Codes of HOPE scholars for the past four years and the Miller scholars for the program's two years. Students from ZIP Codes with median incomes greater than \$50,000 were nearly twice as likely to win HOPE scholarships as those from ZIP Codes with median incomes less than \$50,000. But students from the better-off ZIP Codes

With total student-loan debt approaching the trillion-dollar mark, WSJ's Jason Bellini deconstructs how we got here and what it all means. Image: Getty

were nearly three times as likely to win Zell Miller scholarships. The likelihood of winning a Zell Miller scholarship increased nearly uniformly with the income of the student's home ZIP Code.

One-fourth of Georgia's 27,626 Miller scholars to date live in just 15 of the state's roughly 700 ZIP Codes, all of which have median household incomes at least one-third higher than the state median of \$49,347. Students in seven ZIP Codes—all in metropolitan Atlanta—with median incomes above \$100,000 account for 10% of Miller scholars, but just 3% of Georgia's 15-to-19-year-olds, the Journal found.

Amy Thornburg and Sarah Nesbit fell on opposite sides of the Miller-scholarship criteria.



Ms. Thornburg, 18, grew up in Peachtree City, an affluent Atlanta suburb where students received Zell Miller awards at roughly five times the state's average rate, according to the Journal's analysis. She won one herself, as well as other academic awards, including a National Merit scholarship.

She is attending Georgia Tech, like her father, an airline executive. Her parents had set aside money for college, but the scholarships now cover her tuition and room and board. "We made the decision not based on money," says her mother, Laura.

Amy Thornburg says she's typical of students from McIntosh High School, her alma mater, a good percentage of

whom she says got the Zell Miller. "This helps them stay in state rather than going to a private school outside the state," she said.

By contrast, Ms. Nesbit, 19, grew up with a single mother in Walker County, where students received the Zell Miller at one-third less than the state rate.

"I saw my mom crying over bills and I knew that in order to overcome that cycle, school was what I had to do," she says.

She worked her way up to assistant manager at Chick-fil-A to save for college while taking many Advanced Placement classes. She fell just short of the Zell Miller criteria, with a 3.69 GPA, but her former high-school guidance counselor says she was among her most talented and determined students. "She is bright enough to realize that education is what is going to make a difference in her life," says Laura Fritz, at Ridgeland High School in Rossville, Ga.

Today, she is a freshman at Armstrong Atlantic State University in Savannah, where her HOPE scholarship is currently covering 85% of tuition—or about two-thirds of her yearly \$5,844 tuition and fees. But she still has another \$9,000 a year in housing, food, and other costs. To pay for that, she has had to tap into a Pell Grant and loans and to sell her car, but she still has "panic attacks" about how she will pay for college going forward. "The odds are against me, I'm not going to lie," says Ms. Nesbit.

Critics say such stories highlight problems with the revamped HOPE program, and that race can be an issue too. State Senator Emanuel Jones, who is head of the Black Caucus, said lawmakers "discounted poor kids and kids of color and it upsets me to no end."

Precise figures on the racial impact of merit funding in Georgia aren't available, since the state doesn't track that. Black enrollment at Georgia's public colleges fell 3.2% this fall, more than the overall 1.2% enrollment decline. But experts say in any one year, several factors, from the economy to the job market, may explain that.

Outside of Georgia, at least one state—Tennessee—does report the racial makeup of merit-based scholars. It found that only 10% of recipients were black, half the percentage of state residents ages 18 to 24 who are black. Some 84% were white, compared with 72% of college age whites in the state.

Some merit-backers have argued that these programs can reduce the so-called brain drain local economies suffer when too many talented graduates leave their home state. But a recent study by the National Bureau of Economic Research that looked at 15 states with such plans found those eligible for the aid were only one to three percentage points more likely than peers who weren't eligible to remain in the state after college graduation.

The merit aid is "lowering the cost of college for students, but not changing what they would have done," said Damon Jones, an assistant professor at the University of Chicago and co-author of the study.

Still, officials at some colleges in Georgia say they have seen a noticeable uptick in the student-body skills since merit programs started. Across Georgia's 35 public colleges and universities, HOPE recipients are much more likely to graduate than other students, according to state statistics. At the University of Georgia, the average GPA for entering freshmen was 3.26 last year, up from 2.7 in 1993, with a sizable increase in SAT scores as well.

"You can't directly connect HOPE but there is a lot of evidence that there is some sort of connection," said university spokesman Tom Jackson, a spokesman for the university, where the acceptance rate was 55% this year, compared to 68% when Georgia introduced HOPE.

The merit debate stirs other issues, including its source of funding. In April, the nonpartisan Georgia Budget & Policy Institute said counties with low and moderate average incomes spent the most on the state's lottery games but received proportionally fewer HOPE scholarships. Charles Clotfelter, a Duke University professor who has written a book on state lotteries, calls that a "stunning" example of redistribution.

"I am not moved by that particular argument," says Sen. Staton, a Senate leader on education issues, referring to the points raised in the Georgia Budget & Policy report. "The government frankly does a lot of other things for them, if you're referring to low-income people."

Ultimately, the future shape of state scholarships will be decided in one state legislative house after another, as more programs face financial stress. In New Mexico, a state report in September said the merit-based lottery scholarship program will be broke by 2014. Similarly, Florida's own merit-based program, "Bright Futures," is being squeezed, says incoming House Speaker Will Weatherford, a Republican. He has floated the idea of considering need, but concedes the idea might be "heresy" to his party and other merit backers.

In South Carolina, lawmakers have said it may be necessary to raise eligibility requirements or cap award amounts. State Senator John Courson, a Republican who chairs the Senate Education Committee and leans toward capping award amounts, said the idea of adding means testing isn't on the table and wouldn't go over well in South Carolina. He points out the lottery was sold to voters on the merit-based notion.

"It goes to the basic thought that everyone should not necessarily go to college," he said, of the support for merit aid. "And that if you do it on a merit-based structure, then your best and brightest will stay in the state."

Neal McCluskey, education analyst for the Cato Institute, a libertarian think tank, argues that neither form of aid is ultimately beneficial, saying both types drive colleges to raise tuition to capture the financial assistance. But states that do provide aid should most likely use a mix of merit and need-based criteria, he said.

The downside to merit aid only, he said, is that "often the people who can get it, those who have the high test scores, don't need it." But giving students need-based aid, without regard to whether they have a demonstrated aptitude for college-level work, amounts to "setting them up for failure," he said. "It ends up wasting their time and money as well as taxpayers' money."

**Write to Jennifer Levitz at [jennifer.levitz@wsj.com](mailto:jennifer.levitz@wsj.com) and Scott Thurm at [scott.thurm@wsj.com](mailto:scott.thurm@wsj.com)**

*A version of this article appeared December 20, 2012, on page A1 in the U.S. edition of The Wall Street Journal, with the headline: Shift to Merit Scholarships Stirs Debate.*

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