

Workforce Data Quality Initiative Research Brief 5

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Work-Study Financial Aid and Student Outcomes: Evidence from Community Colleges in Texas

This research brief explores the effect of federal work-study, a need-based financial aid program, on educational outcomes for individuals at two-year colleges in Texas.

Background: Each year as tuition costs increase, more students rely on financial aid to attend institutions of higher education. Financial aid packages, which are created to encourage individual investments in education, consist of a variety of types of funding assistance and aid packages, and are highly tailored to individual students. In general, financial aid includes need-based grants, merit-based awards, and subsidized loans. A mix of federal, state and local governments, as well as private organizations, finance these programs and many are contingent on student actions or characteristics.

The ramifications of the diversity of funding programs within aid packages has received little attention from policy makers. This is unfortunate because certain programs may have behavioral consequences for students beyond decreasing the cost of attendance. For example, federal work-study funding provides funds to students conditional on their commitment to working while in school. This job and time requirement

Key Findings

- Participating in the federal work-study program (i.e., having a work-study job) is associated with a 12-15% increase in the probability of persisting to a second year of community college.
- Working in a position through the federal work-study program is associated with a 3-4% higher probability of transferring to a four-year college.

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A Snapshot of the Federal Work-Study Program

Established in 1964, the federal work-study program subsidizes the wages of student jobs. The program encourages students to work while in school and also allows colleges to partner with the government to fill campus jobs at a lower cost to college institutions. At many schools, students may also use their work-study grant through jobs off-campus at non-profit organizations, government agencies or private firms.

Schools must apply to participate in the program each year, and in 2012 approximately 3,400 schools had federal work-study programs. The Department of Education allocates work-study funds to higher education institutions through a statutory formula that includes the institution's funding level in the prior year.

In 2011, \$978 million was appropriated for work-study grants and the average student work-study award was \$1,642.

Program participation has been lower in recent years; though approximately 50% of students receive some federal need-based aid each year, between 1-6% of students receive work-study grants.

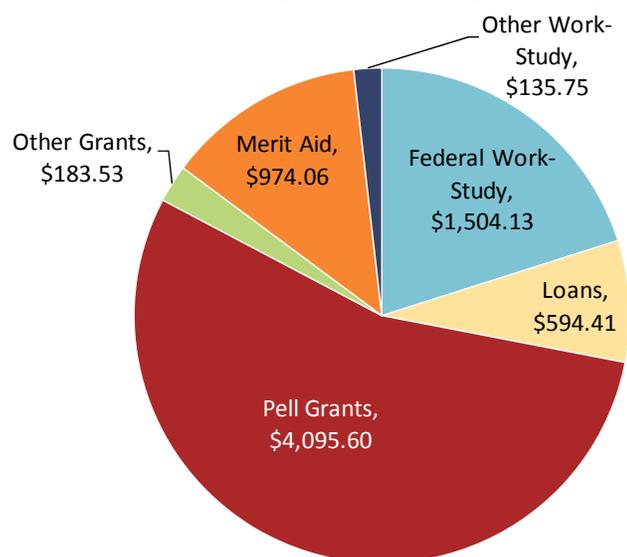
After the grant is provided to a school, the school allocates funds to students who qualify for other need-based grants. Schools have flexibility in setting the employer subsidy, restrictions on jobs that qualify for the grant and the student allocation method. Work-study grants are nested in need-based packages that may also be set by schools for students that qualify.

may affect student performance in positive or negative ways.

Analyzing the efficacy of the federal work-study program is important because it may have adverse effects on student outcomes if working involves a substantial time trade-off with time spent learning. At the same time, working while in school may provide a means for students to gain knowledge and skills that reinforce their academic experience and prepare them for success in academics and the labor market.

Methodology: We use administrative data from the Texas Education Research Center (ERC) database to analyze the effects of work-study funding on performance for community college students that graduated from high school in 2008 and 2009. Because students choose to participate in the federal work-study program after receiving information on their total financial package, we are able to control for all other components of financial aid and isolate the effect that can be attributed to work-study participation, given a fixed level of financial aid through other sources.

Average Types and Amounts of Financial Aid Received by Work-Study Participants



We focus on community colleges because they are an important setting for studying the work-study program. Community college students are more likely to work while in school than students in four-year universities, and degree programs at community colleges and technical schools are typically more oriented towards specific jobs than degree programs at four-year universities. Targeted work experience while attending community college can lead to individuals that are more prepared for the labor market and thereby may increase employment opportunities for students with job-specific degrees.

Furthermore, financial aid opportunities may be more important for community college students given that these students are more likely to be financially constrained. Despite this, students in community colleges typically receive lower levels of financial aid. Work-study programs that induce additional employment create meaningful tradeoffs and opportunities for these students.

Participation in the federal work-study program is elective, and, as a result, people with different intrinsic motivations or personal characteristics choose to enroll. We employ two methods to handle a possible positive selection bias among participants:

- First, we utilize a rich set of controls that may approximate unobserved individual ability and motivation characteristics. These controls include standardized test scores from the TAKS high school exit exam, detailed demographic information and levels of merit based financial aid grants.
- Second, we construct a strategy to predict current work-

How are students assigned to Work-Study Jobs?

From the perspective of students, the work-study program is partially elective. To be considered for an award, students must qualify for need-based aid based on their family income and indicate that they are interested in the work-study program on their FAFSA (Free Application for Federal Student Aid) form.

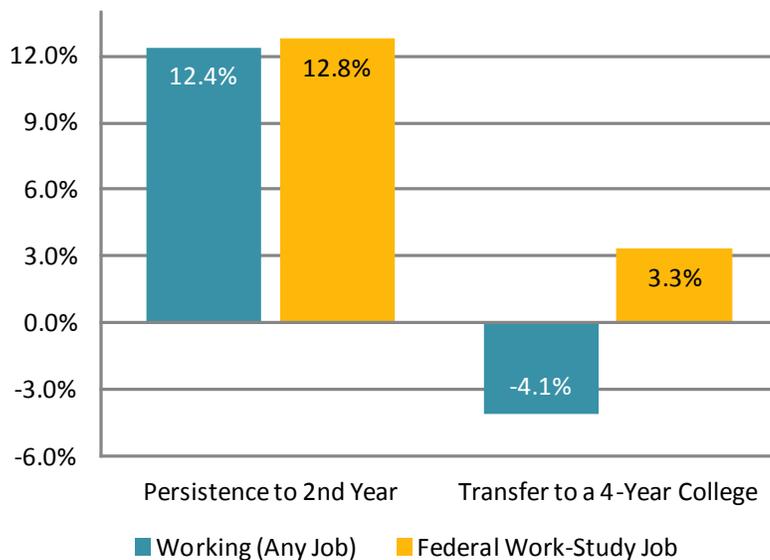
Because the work-study program is small, interest in this grant exceeds the number of awards that are allocated and allocation procedures differ across schools. Some schools may use a lottery to assign funds, while others may consider certain student characteristics. After the grant is awarded, schools vary in the amount of assistance that they offer to students to find a work-study job. Some schools may assign jobs directly to students on campus, others encourage students to apply to jobs via a work-study jobs platform and some may offer little to no assistance. Additionally, some schools have grandfathering provisions that allow students to keep work-study jobs and grants after the first year of assignment.

Students are also free to decline the grant and forgo the funds or find a job that is unaffiliated with the work-study program. In deciding whether or not to participate, students will weigh the time commitment associated with working in a federal work-study program job, the total financial aid package awarded and other potential employment opportunities.

study participation using an instrument of lagged average earnings of federal work-study participants at a school, though estimates from this method are imprecise with our current data. (This model will be expanded in future work).

Findings: Using Ordinary Least Squares (OLS) regression techniques, we find that both working in school (in any job) and participating in the federal work-study program (in a work-study job) are associated with a 12-15% increase in the probability of persisting to a second year of community college. Additionally, although working in any job while in school is associated with a lower probability of transferring to a four-year college by 3-5%, working in a position through the federal work-study program is associated with a 3-4% higher probability of transferring to a four-year college.

Probability Change in Outcome Given Working Status while in School



Future Work: Additional research is planned to incorporate older cohorts of high school graduates, allowing for an exploration of college completion and longer-term labor market outcomes, as well as an analysis of students who begin college at four-year institutions. The addition of institutional variables, such as the amount of federal work-study transfers, will also provide important context for exploring this key policy issue.

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