Beyond Income: How Wealth Can Better Target State Funding for Higher Education

Higher Education, Race & the Economy (HERE) Lab

Partnership for College Completion

The Institute for College Access & Success





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A Letter from the HERE Lab, PCC, and TICAS

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Higher education remains the most important investment states can make to foster the economic security and mobility of their residents. Despite the national rhetoric on declining trust in higher education, parents recognize this necessity. A 2025 Gallup survey shows that most parents prefer that their children enroll in a four-year university or two-year college immediately after high school. Recent historic disinvestment in higher education opportunity by the federal government will test the ability of states to support publicly funded institutions to the level needed to ensure students can realize economic mobility.

More than ever, states must be strategic in how they support economically disadvantaged students toward college completion and their career goals. For this report, we intentionally focused on three states—California, Illinois, and New York—that have shown commitment to continue supporting higher education as the federal government steps away. We show that states must consider wealth inequality as they seek to target funds for their students and postsecondary institutions.

Today, income is the primary factor used for means-testing aid and distributing funding, but this approach obscures the multi-dimensionality of economic need. For most students, income alone is not enough to fund college. A student's family earning $60,000 annually, for example, may find it impossible to save enough to afford college. Yet, a family's ability to send their child to college depends more on their access to wealth, such as money in the bank and other investments, than what they earn monthly.

This report's analysis of wealth, income, and college-going make the multi-dimensionality of economic need clear, and our recommendations use that information to get more students to and through college. We center students who are dually disadvantaged by both income and wealth. This overlooked student population includes students of all ages and racial backgrounds from a wide array of geographic locations in each state. The dually disadvantaged are both the most vulnerable students within a state and hold enormous potential to boost overall college enrollment, completion, and thus local and state economies. The promise of higher education is real and widely recognized, and it is now up to state-level decisionmakers to make this promise attainable for all students who decide to take the step toward a college degree.

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PARTNERSHIP FOR COLLEGE COMPLETION
Advancing Equity in Higher Education

THE INSTITUTE FOR COLLEGE ACCESS & SUCCESS



Executive Summary

Currently, state postsecondary aid systems assess a student's ability to pay for college by focusing on their household income but overlook household wealth. This approach obscures the significant challenges faced by dually disadvantaged students—those who are both low-income and low-wealth. Wealth scarcely factors into state need-based aid formulas, except in some cases to exclude the highest-asset students. Consequently, state systems usually treat students who face two economic disadvantages virtually the same as their peers who only face one.

In our focal states of California, Illinois, and New York, dually disadvantaged students make up about 20 percent of Free Application for Federal Student Aid (FAFSA) filers and differ from their peers who are only low-income or low-wealth. Despite their higher level of economic need, dually disadvantaged students in these states typically receive roughly the same financial aid allotments as their peers who are singly disadvantaged by income.

Dually disadvantaged students' greater economic need is apparent in their higher rates of student loan borrowing. Because the dually disadvantaged have little to no wealth to draw on, they must borrow more each year of college. This higher borrowing is true in California, Illinois, and New York, where students from dually disadvantaged households—relative to peers from similarly low-income households but with access to some family wealth—borrowed more in 2019-2020. As our past work has shown, because students from low-wealth households must borrow more each year, they end up borrowing more over the course of college and have greater debt to service 12 years after entry (Smith et al. 2024).

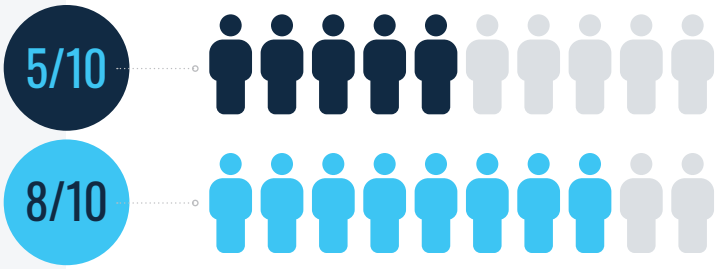
We show that students disadvantaged by wealth and income face the greatest enrollment and completion gaps, even relative to their peers who are singly disadvantaged by income. For example, there is a 10-percentage-point gap in predicted completion when comparing low-income students in the bottom wealth quintile to students who share the same low-income status but who are in the middle wealth quintile.

States are losing the opportunity to meet these students' economic needs. Our predictions suggest that a grant targeted to dually disadvantaged students studying in-state in California, Illinois, or New York could significantly boost graduates in each state. A $5,000 need-based state grant awarded to students who are both in the bottom third of income and have $0 in wealth would result in approximately 4,500 more graduates in California, 1,000 more graduates in Illinois, and 1,500 more graduates in New York per cohort of first-time students.

The benefit to states would be between 3.4 and 5.5 times greater than the costs.

We also look at the proposed new funding formula for universities in Illinois, which considers the income of each university's student body—as well as other factors that may correlate with wealth—but has yet to consider wealth directly.

To identify and target dually disadvantaged students for stronger return on investment, states have several possible courses of action.

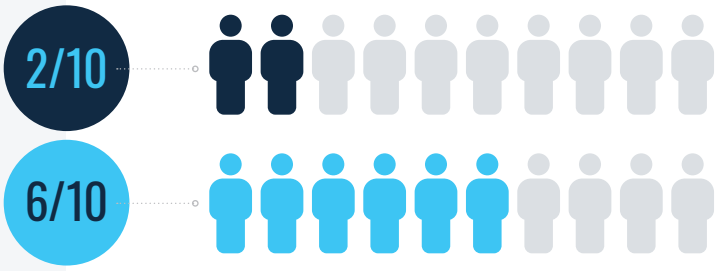


College Entry

52% of students from low-income, low-wealth households are predicted to go to college, compared to **83%** of students from low-income, high-wealth households.

Borrowing & Debt

Students from low-income, low-wealth households are predicted to borrow **66.5%** more than students from low-income, high-wealth households.



BA Completion

20% of students from low-income, low-wealth households are predicted to go on to complete a bachelor's degree, compared to **59%** of students from low-income, high-wealth households.

1. Identify dually disadvantaged students using information already included in the FAFSA.

The necessary asset information is already included in FAFSA data that are available to states for processing aid eligibility. Though not all low-income students complete the asset portion of the FAFSA, asset data still could be captured for those who may qualify for additional aid through the completion of a simple attestation form indicating lack of assets. The Department of Education has formerly seen success with this method, obtaining accurate information without adding administrative burden to the financial aid application process. With reduced capacity, the Department of Education may be limited in its ability to implement this efficiently, but states could take this on by adopting a similar strategy.

2. Distribute an additional need-based grant to dually disadvantaged students.

Redistribution toward dually disadvantaged students would necessarily remove aid from other students. An additional grant award targeted to low-wealth students is thus a more appropriate solution for improving current persistence and completion rates.

3. Allocate funding to colleges and universities enrolling dually disadvantaged students.

Because students with the ability to cover expected and unexpected costs are more likely to persist toward a degree, institutions need the resources to support students' emergency and basic needs. Equitably funding public colleges and universities according to their students' need levels will enable these institutions to direct institutional aid and wraparound support for emergency medical expenses, transportation, housing, etc.



Introduction

A postsecondary education is often among the largest expenses that U.S. college-goers and their parents will face in their lifetime. Although attendance at an in-state public university was free or low-cost in the 1970s, sharp tuition increases and rising living expenses over the past 50 years have placed a high financial burden on families and students (Goldrick-Rab 2016; Zaloom 2019). The high costs of college attendance require that families have resources beyond income. Consequently, the ability to enroll and persist in college often hinges on students' access to wealth, typically through their families (Hotz et al 2023; Jez 2014; Rauscher 2016).

Wealth is a calculation of a student's assets minus their debts. Assets include savings, investments, real estate, and business revenue; debts are what they owe. Wealth is directly transmitted intergenerationally, meaning that families who have savings and other assets pass them on to their children, grandchildren, and great grandchildren (Piketty and Saez 2013). Once wealth begins to accrue, it tends to accumulate rapidly. Research shows that the rich do in fact tend to get richer (Pfeffer and Killewald 2018). By contrast, those with no measurable assets face severe barriers to wealth acquisition.

Access to wealth matters for college success. Higher-wealth households can afford multiple years of college costs, making higher education more accessible, and can protect enrolled students from facing high levels of financial precarity that can threaten completion. Students from low-wealth households, by contrast, face a significant and poorly understood economic barrier (Braga et al. 2017; Jez 2014; Sanchez et al. 2024; Vargas and Dancy 2025).

In this brief, we argue that a family's ability to afford college is a function of their access to **both wealth and income**. Families may be economically disadvantaged by having low income only, by having low wealth only, or by having both low income and wealth. We refer to this last group as **dually disadvantaged**. Because state postsecondary aid programs, like their federal counterparts (Smith, Hamilton, and Eaton 2024), calculate student need primarily based on parental income, the complex needs of dually disadvantaged students are overlooked. Below we offer a window into how state financial aid programs could better address the multi-dimensionality of economic need using three states that span the country—California, Illinois, and New York.

Wealth Inequality in Three States

Over the past 50 to 60 years, due in part to a series of policy decisions at the federal level, wealth inequality in the United States has grown considerably. Wealth shifted from a wide swath of families in the middle classes to those near the top of the U.S. class structure (Urban Institute 2024).

address how wealth structures postsecondary opportunity. Starting on the west coast, the average wealth of a California household is higher than in other states. Yet, gaps are sizable. Households at the 80th percentile of wealth have an estimated net worth of 1.3 million dollars—over 100 times greater than those at the 20th percentile, who have an estimated net worth of just $12,000 (Thorman and McConville 2025).

FIGURE 1

Wealth and income inequality across households in the United States



Note: Amounts are inflation-adjusted values to 2025 and averaged across survey years.

Data source: Survey of Income and Program Participation (SIPP) 2018-2023.

Figure 1 displays the relative size of the wealth gap compared to the income gap among households in the United States. Households at the 90th percentile of income earn around 15 times that of those at the 10th percentile. However, that relative difference is very small compared to the gap based on household wealth. Households at the 90th percentile of assets hold over 400 times the assets of those at the 10th percentile.[1]

Constituents, advocates, and policy makers have begun to recognize severe wealth disparities within their own states. We identified California, Illinois, and New York as states where sizable wealth inequalities exist and where conversations about wealth inequalities in the state have emerged (Bhaskaran et al. 2024; Thorman and McConville 2025; New York City Comptroller 2023). These states, despite their different geographic locations, are primed for policies that

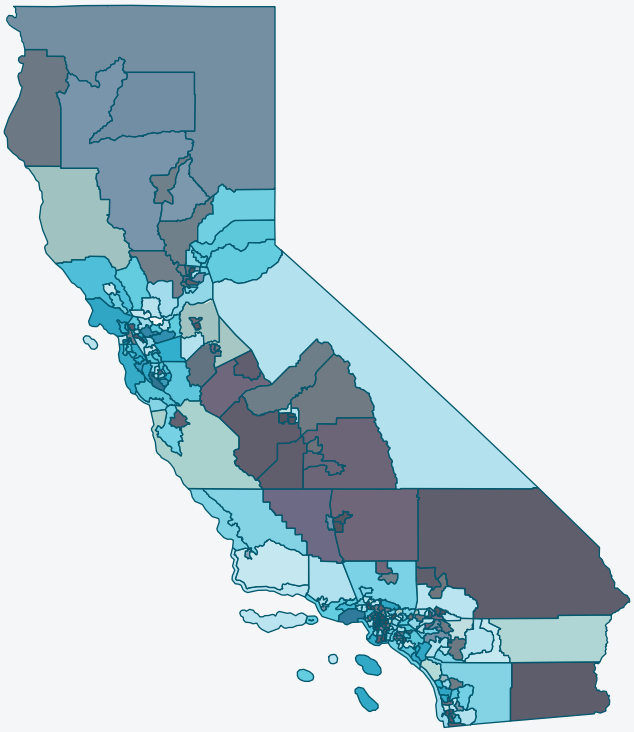
Most wealth is concentrated in the coastal areas of the state (see Figure 2), which are shaped by the tech industry. Inland farming communities, such as those in the San Joaquin Valley, along with urban Los Angeles, have the lowest median net worth (Zhong et al. 2022). Eighty-three percent of the top 25 percent of the wealthiest households in the state are White or Asian, while only 45 percent of the bottom 25 percent are White or Asian (Thorman and McConville 2025).

Illinois is also marked by sharp wealth inequality (see Figure 3). The wealthiest area of the state is Cook County Northeast, which includes suburban communities within the Chicago metropolitan area but not within the city limits. Median household wealth is just over a million dollars in these areas. By contrast, the least wealthy area of the state is Chicago City South, where the median household wealth is just $17,000

(Kent and Kemeny 2024). These areas are also characterized by different racial composition, with Cook County Northeast being largely White and Chicago City South being predominantly Black, with larger shares of Latine residents. Rural poverty in the state is also highly pronounced (Stratton 2022), due in part to lower levels of educational attainment, lower wages, less access to services, and an aging population.

FIGURE 2

California's median net worth



Median net worth

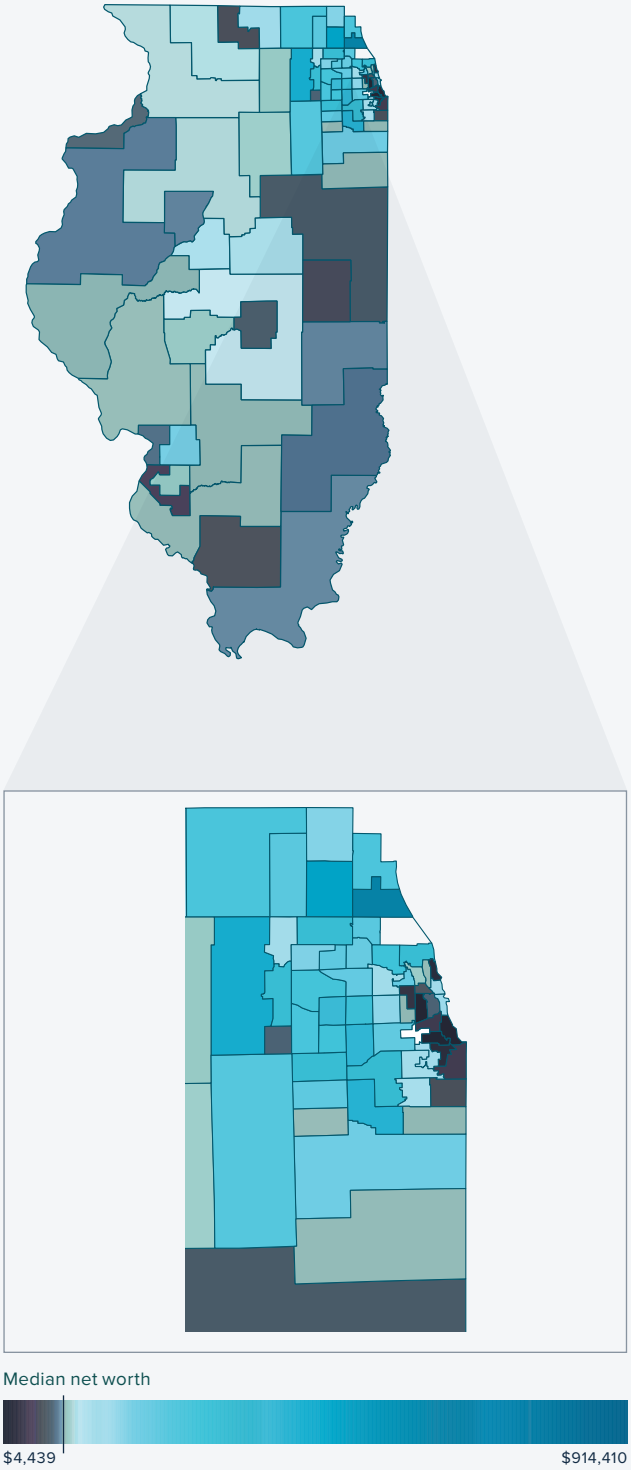
$7,481 $1,495,702

Note: Boundaries on the map are Public Use Microdata Areas (PUMAs). In California, the areas with a higher median net worth are on the coast, as shown by the darker blue color. The inland areas as well as urban Los Angeles, depicted in a darker blue and lighter blue color, have the lowest median net worth.

Data source: Financial Health and Wealth Dashboard 2022 by Zhong et al., 2022, Urban Institute.

FIGURE 3

Illinois' median net worth



Median net worth

$4,439 $914,410

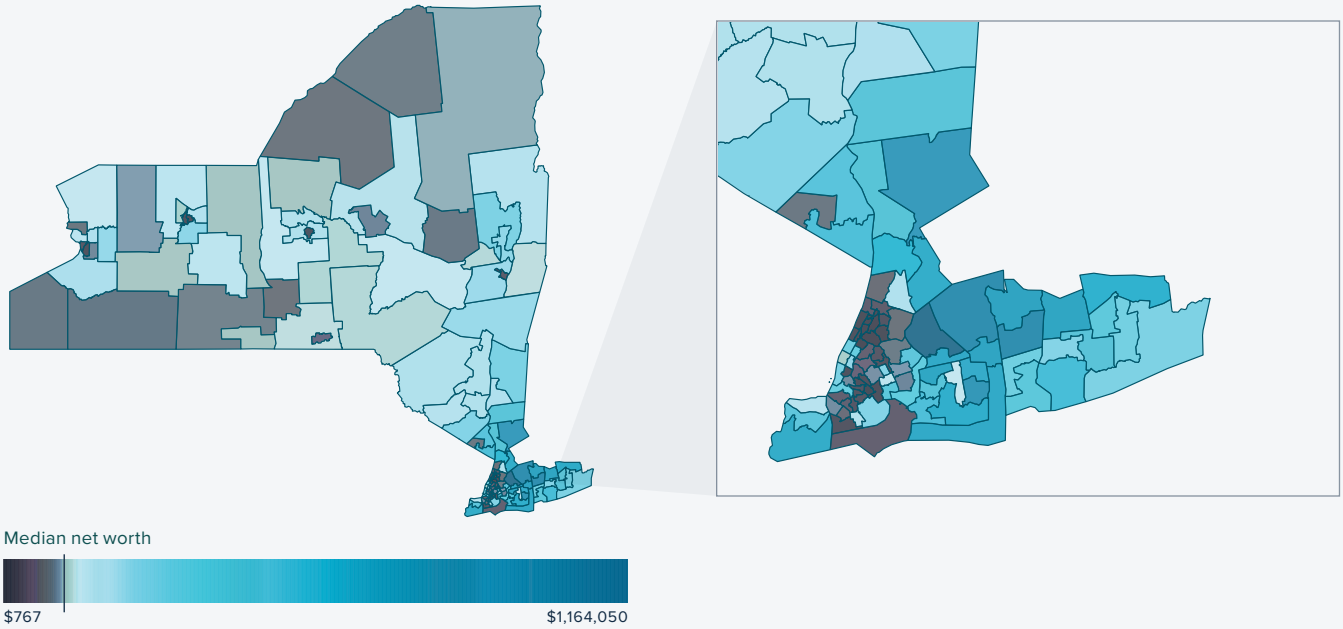
Note: Boundaries on the map are Public Use Microdata Areas (PUMAs) The northeast corner of Illinois has a high median net worth, with Cook County Northeast being the wealthiest area. The rural regions have a lower median net worth, as shown in blue. The darkest blue region is Chicago City South, the least wealthy area of the state.

Data source: Financial Health and Wealth Dashboard 2022 by Zhong et al., 2022, Urban Institute.

Finally, New York has the most extreme concentration of wealth in the United States (see Figure 4). This concentration is a function of Wall Street's location, which results in a large share of economic elites residing in the state (Davis, Sifre, and Marasini 2022). The top 1 percent of households by wealth in New York State have 44 times that of the bottom 99 percent, with the disparities in Manhattan being even more pronounced: the top percent have 113 times the wealth relative to all other residents of the area (New York City Council 2024). In a similar pattern to other states, White households in New York have a median net worth that is 15 times that of Black households (New York City Comptroller 2023).

FIGURE 4

New Yorks' median net worth



Note: Boundaries on the map are Public Use Microdata Areas (PUMAs). In New York, the regions with the highest median net worth, shown in a medium blue color, and the regions with the lowest median net worth, shown in the darkest blue color, are located around New York City.

Data source: Financial Health and Wealth Dashboard 2022 by Zhong et al., 2022, Urban Institute.

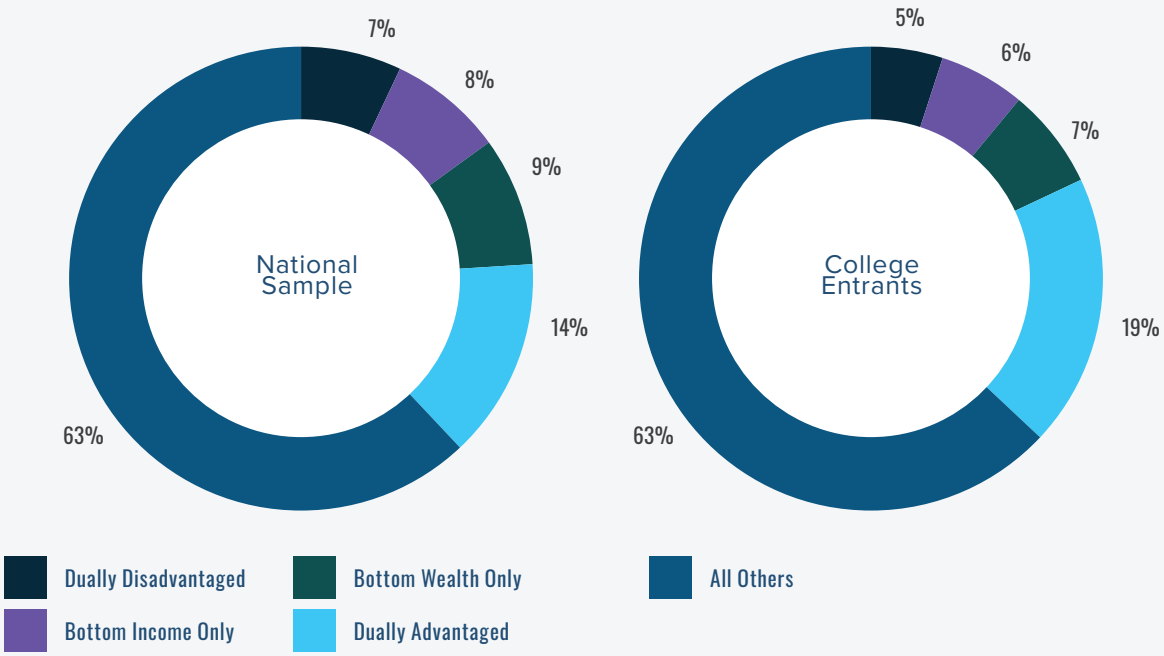
The Multi-Dimensional Nature of Economic Need

Two students with the same level of household income but different levels of access to family wealth are not in the same economic situation when it comes to financing college. These two distinct economic resources combine to shape students' economic need and substantially contribute to lifetime outcomes (Hällsten and Thaning 2021; Killewald et al. 2017; Pfeffer 2011, 2018; Pfeffer and Killewald 2018).

While low wealth and low income overlap in the general U.S. population, the overlap is far from complete. Figure 5 shows the share of individuals who come from households that experience a single economic disadvantage, as well as those who experience a dual disadvantage in terms of income and wealth. For both the national sample and the subset of those who enroll in college, we see that roughly comparable shares of people come from households with just a single economic disadvantage as those who experience a dual disadvantage. The inclusion of those who are dually advantaged helps to highlight that, compared to the national sample, students from high income, high-wealth households are overrepresented, and dually disadvantaged students are underrepresented, among college entrants.

FIGURE 5

Cross classification of income and wealth quintiles in the United States



Note: "Bottom Income" denotes household income in the bottom quintile, and "Bottom Wealth" denotes household net worth in the bottom quintile. "Dually Advantaged" includes those in both the top income and top wealth categories. "Dually Disadvantaged" includes those in both the bottom income and bottom wealth categories.

Data source: National Longitudinal Survey of Youth (NLSY) 1997.

By contrast, the underrepresentation of dually disadvantaged students highlights missed opportunities that could be economically costly. These enrollment gaps could be closed with targeted support for these students and the institutions that enroll them. Better-targeted aid would further help the dually disadvantaged complete at higher rates.

The assumption that students from low-income households are implicitly low-wealth, or vice versa, is incorrect. This is the case even among FAFSA filers, who are more disadvantaged than the general U.S. population since they have sought financial aid. Why might a student be only low-income but not low-wealth? Older students or students whose parents are retired may have substantial savings but little annual income. Families with a stay-at-home parent but considerable savings or property could also register as low income. Small business or rental property owners who reinvest their profits may have low income despite holding valuable assets. Students with inherited family wealth may not produce much annual income.

Table 1 shows that a meaningful proportion of FAFSA filers fall into each category: dually disadvantaged, disadvantaged by only one economic dimension, and not disadvantaged by either. This is true to a similar extent in California, Illinois, New York, and the United States as a whole, with about 20 percent of FAFSA filers who are dually disadvantaged in each context. Thus, economic disadvantage cannot be captured by a single dimension in any state.

Roughly a fifth of FAFSA filers in each geographic context are dually disadvantaged; that is, they come from both low-income and low-wealth households. Nearly two-thirds of low-income students are also low-wealth at the national level, leaving over a third of low-income students who are not low-wealth (see Table 1). Percentages are similar in each of the three states. Thus, allocating aid primarily based on income fails to differentiate the sizable number of low-income students who have wealth disadvantage from low-income students who are not low wealth.

Interestingly, Illinois FAFSA filers are about 20 percentage points more likely than California and New York FAFSA filers to come from relatively higher-income, higher-wealth households (labeled as “not disadvantaged” in Table 1). At the same time, the share of students coming from households with only low-wealth disadvantage is less in Illinois than California and New York. While policymakers have invested in improvements in recent years, Illinois uniquely disinvested in higher education in the late 1990s through the 2010s, putting institutions under immense financial pressure. As institutions have shifted costs to students through increases in tuition, prospective students have had limited access even to more traditionally affordable college options, such as community colleges and regional public universities. This barrier may help explain some inconsistencies in the breakdown of FAFSA filers by economic profile across states.

TABLE 1

Percent of FAFSA filers, by state, in each combination of low-wealth and low-income statuses

	U.S.	California	Illinois	New York
Not disadvantaged	30%	24%	45%	26%
Low-wealth only	36%	43%	22%	41%
Low-income only	12%	11%	13%	11%
Dually disadvantaged	21%	23%	20%	22%

Note: Analysis restricted to FAFSA-filing students. Analyses apply sample weights for representativeness (national representativeness for the U.S. column, state representativeness for the others). For dependent students, wealth and total income are based on FAFSA reports of parents, and for independent students, wealth and total income are based on FAFSA reports of the students themselves. Missing values of wealth and income are estimated using regression imputation.

Definitions: Low-wealth = $0 in FAFSA-reported net worth; low-income = bottom third of FAFSA-reported total income (determined using the distribution of total income at the state level for state-specific estimates).

Data source: National Postsecondary Student Aid Study 2019-20.

State Financial Aid Systems Overlook Wealth

Addressing wealth inequality among four-year college-goers will require changes to state financial aid systems. Most students without access to wealth are not well-served by financial aid systems that center income with little attention to wealth (Smith et al. 2024, 2025). Notably, low-wealth students also do not find relief via the federal Pell Grant. The Pell Grant was designed when wealth inequality in the United States was at a century low point (Saez and Zucman 2016) and is now based on a very low-income threshold (Hanson 2024). Although the FAFSA collects asset information, counted assets play a very minor role in student need calculation, making Pell Grant receipt heavily driven by income (Smith et al. 2024, 2025).

The defunding of public education, subsequent sharp spikes in tuition, rising living costs, and limited adjustments to the size of the maximum Pell Grant have eaten away at what the Pell Grant can provide for students (Mettler 2014). Indeed, the Pell Grant now only covers less than a third of the cost of attendance at a typical four-year public university (Korhonen 2024). In response, many state financial aid programs have expanded to at least partially fill in the gaps for students with economic need. The scale of these programs is considerable. In 2023, state need-based financial aid was roughly a third of the national Pell expenditure for that year (NASSGAP 2025).

State financial aid programs are typically designed and modeled around income-based inequality. Table 2 outlines the state need-based aid programs in California, Illinois, and New York. The financial aid systems in these states share a focus on income, with no targeted attention to the needs of low-wealth students.

A central determination of eligibility for state need-based aid in both California and Illinois is the Student Aid Index (SAI), formerly the Expected Family Contribution (EFC), which is determined by the FAFSA and is also used to determine Pell Grant eligibility. The SAI is calculated by a federal formula that considers family income (taxed and untaxed), family assets, family size, and number of children in college. As Table 3 illustrates, widely used formulas that calculate student financial need significantly downplay family assets—now more than ever. Previously, only 12 percent of parents' counted assets were considered as available economic resources that would reduce the overall amount of support a student might need to finance college. Currently, only 5.64 percent of total parental assets are counted as available resources, meaning roughly 94 percent are excluded from the FAFSA formula that determines student economic need. This is noteworthy because a family's primary residence and retirement accounts are excluded from being counted as assets by the FAFSA; only things like savings, investment assets, educational savings accounts, other properties, and business assets are counted, but only at this very low rate (see Appendix A for more details). By contrast, a far greater amount of family income is counted as an available economic resource. By not allowing wealth to factor in much, the SAI makes it very difficult to differentiate low-wealth from moderate- or even high-wealth students.[2]

In California, as Table 2 indicates, financial need for a Cal Grant is determined by Cost of Attendance (COA) minus SAI for students below the stated income and asset ceilings. A fairly high asset ceiling effectively excludes high-wealth students but does not necessarily direct extra support to students from households with low wealth. Similarly, in Illinois, eligibility for the Illinois Monetary Award Program (MAP) is not sensitive to wealth differences, given that it is centered around the SAI.

To illustrate the issue, let us consider that a family residing in Illinois with $100,000 in a college savings account has enough resources set aside to cover around three years of a four-year college in their state.[3] With the new asset conversion rate of 5.64 percent, only $5,640 of those savings shows up in the SAI. All else equal, the SAI deems a student with $0 in family wealth to have only slightly more financial need than the student with $100,000 saved for college. Both students

TABLE 2

State postsecondary aid asset consideration

Feature/program	Cal Grant (CA)	MAP Grant (IL)	TAP Grant (NY)
Administering agency	California Student Aid Commission (CSAC)	Illinois Student Assistance Commission (ISAC)	NY Higher Education Services Corporation (HESC)
How need is measured	Cost of Attendance - Student Aid Index (SAI)	SAI must be <9,000, then tuition-based formula	NYS net taxable income only
Asset consideration	Asset ceiling excludes higher asset families	Not directly considered	Not directly considered

TABLE 3

Calculating dependent student financial need

Feature	Cal Grant (CA)	MAP Grant (IL)
Aid formula name	Expected Family Contribution (EFC)	Student Aid Index (SAI)
Adjusted gross income	After tax and income allowances, 25%-50% of income is counted	After tax and income allowances, 25%-50% of income is counted
Parental asset assessment rate	12%	5.64%

may come from households with the same level of income, but the low-wealth student's additional need is invisible. To provide another example, take two equally low-income students, one whose family has no wealth and another who has a successful family business into which they reinvest profits. If both were to get an unexpected medical bill for $20,000, the low-wealth student might have to interrupt their education and work to pay the bill, while the other student's family could take more revenue from the business, take out a loan against it, or even sell partial ownership to cover the bill. Similarly, a student whose parents have substantial stocks, bonds, mutual funds, or money in a trust has only a small portion of those assets counted, doing little to differentiate them from a student with no assets.

New York differs from California and Illinois in that its Tuition Assistance Program (TAP) determines financial need using New York state taxable income, not SAI. While net taxable income does include some earnings from investments, asset values are not included. Therefore, the New York state financial aid program neither identifies low- or high-wealth students. A student with zero family wealth and a student with a million dollars in family wealth could plausibly receive the same award if they have similar taxable income, attend a similarly priced institution, and share some other demographic features (e.g., number of family members in college).

Dually Disadvantaged Students Receive Inadequate Aid

State postsecondary financial aid programs, like those in California, Illinois, and New York, have not been designed to target wealth. As a result, these programs are not sensitive to the dual disadvantage of students who are from low-wealth and low-income households. Compared to students who are only from a low-income household, students who are from low-income and low-wealth households receive only slightly more state need-based grant aid (Table 4).[4] This finding is not surprising, since New York's primary need-based grant is based explicitly on net taxable income, and those in Illinois and California are based on the SAI, which is much more responsive to shifts in income than shifts in wealth (Smith et al. 2024).

The differences in awards are especially small at two-year institutions but still prominent even at four-year institutions. The greatest difference in aid between low-income only and dually disadvantaged students is only $610 (in New York). This amount is likely much smaller than the difference in actual financial need between students with $0 in wealth and students who have family wealth on which to draw. In the United States as a whole, the difference in awards is a mere $170, meaning dually disadvantaged students at four-year institutions are receiving only $170 more in state need-based aid than their peers who are only low-income. Even this slightly greater amount for the dually disadvantaged may simply reflect income differences within the low-income category; among low-income students, those who are low-wealth have even lower average income than those who are low-income but high-wealth.

TABLE 4

Average amount of state need-based grant aid received among students who are both low-wealth and low-income vs. students who are solely low-income

	FOUR-YEAR STUDENTS			
	U.S.	California	Illinois	New York
Low-income only	$1,450	$2,970	$2,790	$1,970
Dually disadvantaged	$1,620	$3,410	$3,130	$2,580
	TWO-YEAR STUDENTS			
	U.S.	California	Illinois	New York
Low-income only	$370	$350	$400	$990
Dually disadvantaged	$440	$450	$450	$1,110

Note: Analysis restricted to in-state, FAFSA-filing students. Analyses apply sample weights for representativeness (national representativeness for the U.S. column, state representativeness for the others). For dependent students, wealth and total income are based on FAFSA reports of parents, and for independent students, wealth and total income are based on FAFSA reports of the students themselves. Low-wealth is defined as $0 in net worth as reported on the FAFSA. Low-income is defined as being in the bottom third of FAFSA-reported total income among FAFSA filers in the state in 2019-20. Missing values of wealth and income are estimated using regression imputation. For the state-specific estimates, the bottom fifth of income is determined using the distribution of total income at the state level.

Data source: National Postsecondary Student Aid Study 2019-20.

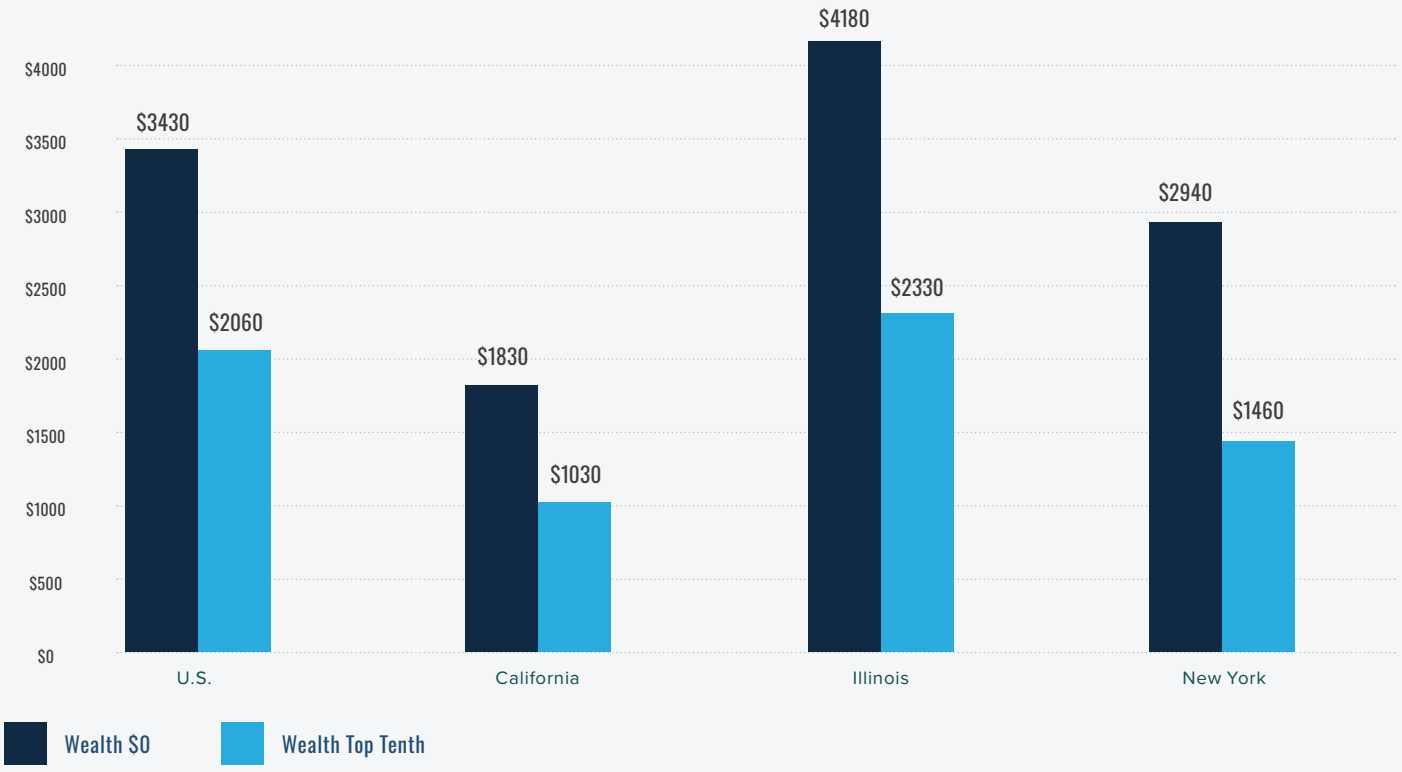
As a result, students without a wealth buffer are likely to borrow more, relative to their same-income-level peers, in all three states. Even in terms of borrowing in just one year, low wealth predicts over a thousand dollars more in borrowing compared to high wealth when controlling for income (Figure 6, U.S. panel). At an income level of $20,000, low-wealth students' predicted borrowing is substantially greater than that of higher-wealth students in each state (Figure 6, last three columns), and each difference is statistically significant. In short, at the same level of income, a wealth buffer seems to help students borrow less.

This borrowing disparity suggests that existing financial aid is not addressing the particular needs experienced by dually disadvantaged students. Without grants addressing that financial need, dually disadvantaged students may turn to heavy loan burdens. Students with unmet need may also work long hours, or they may go without food, housing, educational materials, or other essentials. Food insecurity increases sharply as parental financial support for college, a form of wealth transfer, declines.

Research shows that a college student's ability to cover an unexpected expense such as a car repair, medical issue, or a change in childcare impacts wellbeing and is directly correlated with academic success (Fletcher, Cornett, and Ashton 2024). Similarly, 1 in 10 students without parental support experience homelessness in college (Vargas and Dancy 2025). As we discuss in the next section, wealth is thus a particularly valuable resource for both access and completion.

FIGURE 6

Predicted 2019-20 borrowing of low-income students, by wealth



Note: Estimates based on a linear regression model that includes wealth, income, and a series of binary variables for race, institutional level, and institutional control. To yield the predicted borrowing in the 2019-20 academic year for students in a given wealth range, wealth is set to the level of interest (0, top tenth), income is held constant at $20,000, and the other variables are held constant at their means. Analysis restricted to FAFSA-filing students. Analyses apply sample weights for representativeness (national representativeness for the U.S. column, state representativeness for the others). For dependent students, wealth and total income are based on FAFSA reports of parents, and for independent students, wealth and total income are based on FAFSA reports of the students themselves. Missing values of wealth and income are estimated using regression imputation. The top tenth of wealth corresponds to $60,000 and above.

Data source: National Postsecondary Student Aid Study 2019-20.

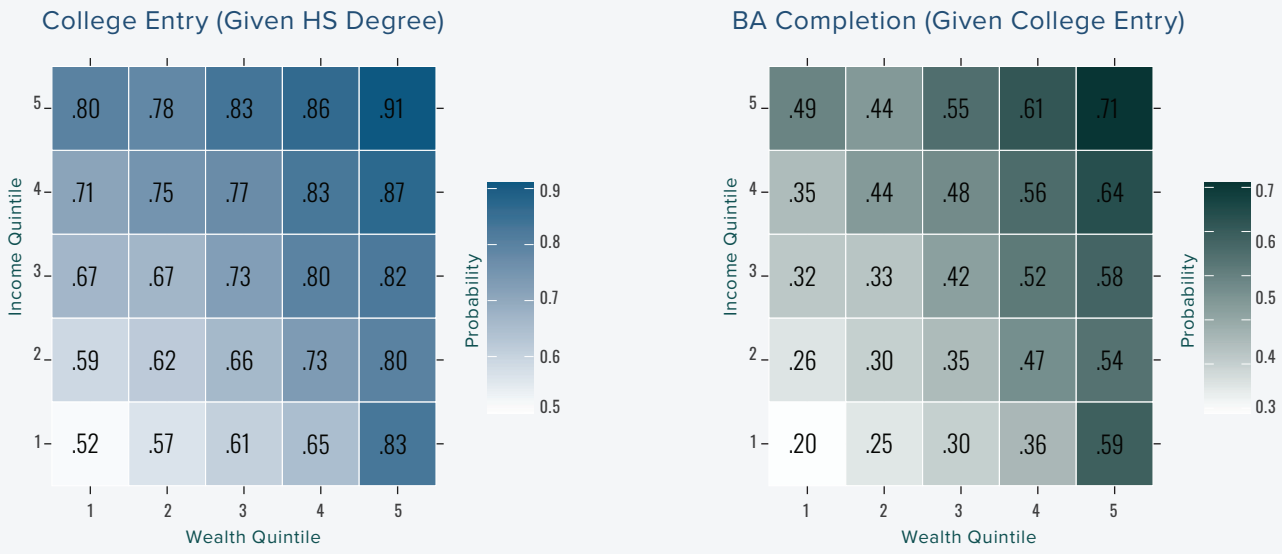
Dually Disadvantaged Access and Completion

Many researchers have documented the importance of wealth for persistence and completion (Braga et al. 2017; Hotz et al. 2023; Jez 2014; Pfeffer 2018). Wealthier students are more likely to enter college and complete a four-year degree. Less understood, however, is how wealth and income, as distinct dimensions of economic need, combine to shape college access and completion. This information is useful for states, as it reveals where state aid and institutional support are most needed.

Figure 7 provides a sense of how different income and wealth quintile combinations are associated with the transition into higher education and the completion of a four-year degree. The predicted probabilities range from 0-1 and reflect the model-estimated likelihood of attaining the outcome, controlling for other variables. In general, we can see that as either income or wealth increases, so does the predicted probability of making a given transition. This pattern is demonstrated by the color gradient, where lighter colors indicating lower probabilities are clustered near the bottom

FIGURE 7

Predicted probabilities of making select educational transitions by income and wealth quintile



Note: Estimates are based on a logistic regression model for each transition separately. Predicted probabilities range from 0-1 and hold all other factors at their mean values. Covariates include: parental education, race/ethnicity, gender, nativity status, urbanicity, geographic region, household size, a single-parent family indicator, and high school grade-point average. Missing data were handled using multiple imputation. The models apply probability weights to account for NLSY's complex sampling design.

Data source: National Longitudinal Survey of Youth (NLSY) 1997.

left section of the matrix, and darker colors indicating higher probabilities are found towards the top, right, and top right sections of the matrix. The very top right (5,5) and very bottom left (1,1) highlight the sheer extent of the disparities between the dually advantaged and dually disadvantaged, respectively. The gap is astounding—high-income, high-wealth students are 39 percentage points more likely to access college and 51 percentage points more likely to complete a bachelor's degree.

Figure 7 also reveals differences between students who are dually disadvantaged and singly disadvantaged by income. For instance, a student who is in the lowest wealth and income quintiles has a 52 percent predicted probability of enrolling in higher education. A peer in the same income quintile but with moderate wealth (in the third wealth quintile) has a 61 percent predicted probability of enrolling—a difference of 9 percentage points. We see a similar difference in the likelihood of BA completion among those who enroll. The dually disadvantaged have only a 20 percent predicted probability of completion. A similarly low-income peer who has moderate wealth (in the third wealth quintile) gains 10 percentage points, with a 30 percent predicted probability of completion.

States are currently missing the opportunity to target the dually disadvantaged—the students with the greatest economic need. Supporting these students will yield benefits for states. If dually disadvantaged students have greater abilities to obtain valued four-year degrees without heavy borrowing, their improved economic circumstances can stimulate the state economy by boosting state tax revenue, increasing the number of small businesses, and raising goods and services consumption, all while public expenditures in healthcare and other areas are reduced (Albuquerque and Krustev 2018; Ambrose, Cordell, and Ma 2015; Baum, Ma, and Payea 2013; Hout 2012). In the next section we provide estimates of the benefits that states will see by investing in dually disadvantaged student populations.



Benefits of a Multi-Dimensional Financial Aid System

Each focal state has thousands of dually disadvantaged students enrolling every year who would be better served by targeted resources. Specifically, as indicated in Table 5, we estimate that there would be 41,730 dually disadvantaged first-time, in-state students in California (the most populous of the three states), 8,980 in Illinois (the least populous), and 14,060 in New York in each cohort. If these students were each awarded a $5,000 grant, it would result in an estimated 4,590 additional college graduates per cohort in California, 990 in Illinois, and 1,550 in New York.

Increasing aid to dually disadvantaged students could occur through any combination of three mechanisms: increasing total financial aid dollars, reallocating financial aid dollars to target dually disadvantaged students, and appropriating more funding to public colleges and universities to increase their institutional aid. And because economic need is multi-dimensional, states can tailor their approaches around the specific needs and interests of their state.

The analysis in Table 5 examines the costs and benefits of additional state aid rather than mere reallocation of it. Though redistributing existing dollars to dually disadvantaged students may improve efficiency, it would also reduce awards to students who need them. By contrast, directing additional funding toward dually disadvantaged students likely yields a very high return on investment, making this approach not just equitable, but also efficient.

Of course, such an intervention would involve upfront costs, but the benefits would considerably outweigh them. For example, the estimated $45 million cost of this grant in Illinois would be more than offset by the more than 153-million-dollar boost in state GDP that we estimate (Table 5). Indeed, the grant would likely pay itself off more than three times over in each state.

TABLE 5

Estimated implications of a $5,000 need-based state grant awarded to students who are both in the bottom third of income and have $0 in wealth

	California	Illinois	New York
Number of recipients per cohort	41,730	8,980	14,060
Number of college graduates induced per cohort	4,590	990	1,550
Total cost per cohort	$208,600,000	$44,900,000	$70,300,000
Total economic benefit per cohort	$966,000,000	$153,700,000	$378,300,000
Ratio of benefit to cost	4.6	3.4	5.5

Data sources: National Postsecondary Student Aid Study 2019-20 (wealth, income, and FAFSA information); Integrated Postsecondary Education Data System (number of first-time in-state undergraduate students in each state in fall 2019).

Incorporating Wealth into Illinois' Proposed Equitable Funding Formula

Illinois is currently exploring the implementation of an innovative funding formula that aims to equitably and adequately fund public universities (Illinois Board of Higher Education 2024; Illinois General Assembly 2025). This formula follows student need and allocates increased funding toward student groups for whom data show greater barriers to college completion (for example, student-parents, first-generation college students, and MAP-eligible students). The formula does not yet explicitly consider wealth, though it could through its Funding Formula Review Panel, which is written into the law to conduct this kind of analysis. The Review Panel can consider incorporating wealth to more efficiently meet student need in any one of these three ways:

1

Household income is currently a factor that the Adequate and Equitable Funding (AEF) system uses to determine how much tuition is reasonable for a university to collect from its student body; the more low-income students a university has, the less it's expected to collect in tuition from students, and the more the state is supposed to finance. Wealth can be added to this calculation to more accurately assess how much revenue universities should effectively and equitably collect from its students.

2

The formula provides more resources to universities serving greater and more concentrated populations of underrepresented and under-resourced students. It does this by determining access and holistic support adjustments per student in low, medium, high, and intensive categories, depending on the number of factors, like low-income status or rurality, students meet. The formula could add wealth as a factor in these calculations, and in doing so it would align with this report's findings regarding students who are dually disadvantaged: a student who is both low-wealth and low-income would qualify their institutions for greater subsidies even relative to singly disadvantaged students, as we know these institutions need more funding to serve the dually disadvantaged.

3

As recommended elsewhere, the Illinois Student Assistance Commission (ISAC), which is the state financial aid grant-awarding agency, could incorporate wealth into the MAP formula. Then, the AEF can incorporate the number and levels of MAP-eligible students into its formula. On one hand, this approach is a more streamlined solution than requiring separate calculations for the MAP and AEF formulas. However, the AEF cannot modify its formula until ISAC fully implements the change. However, since the AEF cannot modify its formula until ISAC implements the change, this approach could delay the incorporation of wealth. A separate AEF calculation may therefore be needed as an interim or longer-term solution.

How Can States Identify Dually Disadvantaged Students?

As noted earlier, the FAFSA includes a measure of counted assets that we used to identify low-wealth students for our state-specific analyses above. One major benefit of the FAFSA counted asset measure of wealth is that this information is already available to states and ready to use in identifying low-wealth students. Using this information substantially reduces the administrative burden of collecting new and different data, which can create significant challenges for FAFSA filers, states, and postsecondary institutions.

There are some limitations of the FAFSA asset data. The FAFSA does not collect data on home equity and retirement savings. As a result, the value of FAFSA-counted assets is lower than the value of all household assets as measured in representative surveys such as the Survey of Consumer Finance (Levine and Ritter 2020). However, we have shown that the distribution of FAFSA-counted asset values has strikingly similar structural characteristics as the distribution of total household assets and total household net worth (Smith et al. 2024). That is, while FAFSA-counted assets do not total all the assets a household owns, they do a good job of identifying a household's relative position to other households.

The FAFSA also does not collect information on debts. Debts can be misleading, however. This is because wealthier families actually accrue the highest debts, as they often have access to strong credit and high amounts of what is broadly considered "good debt" (such as debt for real estate, property, and vehicles) with favorable repayment terms (Killewald 2013; Seamster 2019). A focus on assets ensures that those with debts that are effectively investments are not treated the same as those without investments. Elsewhere we have also shown that census tract home prices provide little additional information, beyond counted assets, in predicting borrowing behavior (Smith et al. 2024).

One additional feature of the FAFSA is exemption from asset reporting for households from low-income backgrounds, previously referred to as the simplified needs test. In 2024-2025, dependent students did not need to complete the assets portion of the FAFSA if their parents' adjusted gross income was less than $60,000, and they met a few other criteria. We utilized imputation techniques drawing on other information available in our data to estimate the family wealth for those with missing asset data.

There are at least two options states might consider to address this population who are missing FAFSA assets data. First, states could assume that students with this low level of income are also low-wealth. As suggested by our analyses, this approach would introduce some inefficiencies in identifying the dually disadvantaged.

A second option is to ask students from low-income backgrounds who do not report asset data with the simplified FAFSA to submit a simple attestation regarding their lack of financial assets. The Department of Education demonstrated the effectiveness of this approach with its simple attestation system for debt cancellation under President Biden's 2022 executive action. States could implement a similar approach as part of their eligibility requirements. Finally, if this attestation were to be enshrined in state policy, high school counselors in the state and in areas that send large numbers of students to the state could be encouraged to have their students fill out that portion of the FAFSA.

Conclusion

State financial aid systems must evolve to reflect the full scope of student need. Relying on income alone neglects the barriers faced by students who also lack access to wealth. Our analyses show that students who come from low-wealth households, relative to their peers who are similarly from low-income but not low-wealth households, must borrow more to attend college and face unique access and completion barriers. For dually disadvantaged students, current aid formulas simply offer too little.

States have the tools to change this. Policymakers can take three immediate steps:

1. Use asset data already included in the FAFSA to identify students dually disadvantaged by low income and low wealth. Then, create financial aid programs for this specific population.
2. Offer an attestation form to identify and avoid administrative overload for eligible students.
3. Direct additional funding to colleges and universities that educate dually disadvantaged students so that institutions can provide holistic supports such as transportation, housing, and food resources.

These practical changes would greatly improve accurate aid targeting and result in increased college enrollment, higher graduation rates by state, and a reduction in student loan defaults. The potential benefit to individual state economies far outweighs the costs associated with such an investment. This investment is a necessary step toward supporting communities who, through centuries of unjust policies, have been excluded from higher education and wealth-building opportunities. The wealth inequalities we see today are a result of systematic failure, and our state leaders should now set our communities on a trajectory offering promise for all students.

[1] We calculated the Gini coefficient, a statistical measure that ranges from 0 to 1, where 0 represents perfect equality (everyone has the same income) and 1 represents perfect inequality (one person has all the income). Using assets for wealth rather than net worth, which can include negative values due to the inclusion of debts, the Gini coefficient for income among households is .51 while it is .74 based on assets. This difference highlights the much larger concentration of wealth in the United States compared to income.

[2] Twenty percent of independent student assets are counted as part of the SAI.
These students are extremely likely to have little access to wealth.

[3] Families in this case would be utilizing a 529 tax-advantaged savings account.

[4] This table mirrors the results of a linear regression analysis that analyzes how well the amount of state need-based aid received is predicted by wealth and income, independent of each other. Controlling for wealth, income has a statistically significant ($p < 0.01$), negative relationship with state aid in each of the three states. In other words, as income decreases, greater state aid is provided when holding wealth constant. By contrast, when income is held constant, wealth has a statistically insignificant relationship with state aid ($p > 0.10$). Therefore, as wealth decreases, state aid does not increase. See Table A1 in the Appendix for full details.

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Appendix A: The Data

This brief offers insight into the limitations of state postsecondary financial aid programs serving students from low-income and low-wealth households and provides policy solutions to address this issue. It draws on two primary data sources that provide empirical evidence on how low wealth can compound low income, creating dual forms of economic disadvantage. Each dataset allows us to investigate different dimensions of dual disadvantage.

The National Longitudinal Survey of Youth 1997 (NLSY:97) is a nationally representative sample of U.S. youth born between 1980 and 1984. The study provides a rare glimpse into students' full educational careers, including those who started, continued, or completed college at later points in life. Because the NLSY:97 is a full population sample, it allows us to look at access to college and includes respondents from families that reflect the full range of wealth backgrounds. With these data we can assess how multi-dimensional economic need shapes access and completion.

The National Postsecondary Student Aid Study 2019-2020 (NPSAS:20) is a nationally representative and state representative cross-sectional study of students enrolled in postsecondary education in the fall of 2019. We restrict the sample to undergraduate students and focus on in-state attendees. These data provide detailed information on how students finance college. The NPSAS:20 also includes complete FAFSA information for students who completed this form. We use the NPSAS:20 to understand to whom states are distributing financial aid and how student wealth shapes borrowing behavior. Our simulations of the benefits of recognizing dual economic disadvantages for students and states also draw on the NPSAS:20.

Each dataset includes slightly different wealth information. The NLSY:97 allows us to measure family wealth in terms of net worth, or the sum of household assets minus household debts. Parents (or guardians) of respondents were asked about their total assets, including property value (ranch, mobile home, or house); value of business, partnership or professional practice; value of second home, real estate, or partnership; value of educational IRA accounts or other prepaid tuition savings accounts; value of retirement or pension plans, such as 401K's; value of other savings in investment trusts; value of other savings in certificates of deposit, Treasury bills, or bonds; value of other savings in mutual funds; current market value of vehicles; value of furniture; and the value of any other assets owed to the household by others. Debts, such as those associated with a mortgage or land contract, the amount owed on vehicles, and educational loans, are subtracted from assets.

The NPSAS:20 draws data on family wealth from the FAFSA, which asks respondents to report several types of counted assets. These include money in cash, savings, checking accounts, time deposits, and money market funds; net worth of businesses or investment farms (reported as $0 if negative); real estate (excluding the primary residence), vacation homes, and income-producing property; trusts, stocks, bonds, derivatives, securities, mutual funds, and tax shelters; and qualified educational benefits or education savings accounts. Uncounted assets, which are not part of FAFSA reporting, include retirement savings and home equity. FAFSA does not request information on debts like mortgage, credit card, or other family members' student debts. Debts and liabilities associated with a family-owned business or investment farm, however, are incorporated into measures of those assets. For students who were not required to report their assets due to very low income, we utilized other available information in the NPSAS:20 to impute values for their family wealth.

TABLE A1

Coefficients relating income and wealth to the amount of state need-based grant aid received

	U.S.	Illinois	California	New York
Income	-0.002***	-0.006***	-0.003***	-0.003**
Wealth	-0.000	0.003	-0.000	-0.000

Note: Analysis restricted to in-state, FAFSA-filing students. Analyses apply sample weights for representativeness (national representativeness for the U.S. column, state representativeness for the others). Each coefficient comes from a model of state need-based grant aid that includes FAFSA-recorded wealth and total income. The outcome variable and both independent variables are measured in dollars. For dependent students, wealth and total income are based on parent reports, and for independent students, wealth and total income are based on the students' own reports. Missing values of wealth and income are estimated using regression imputation. Coefficients are rounded to the nearest three decimal places and "-0.000" indicates that the coefficient is a negative number despite being zero when rounded.
*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$ (all two-tailed). Data source: National Postsecondary Student Aid Study 2019-20.

Beyond Income:
How Wealth Can Better Target State Funding for Higher Education

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