

# A Closer Look A Donor's Guide to Supporting Scholarships



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## In Brief

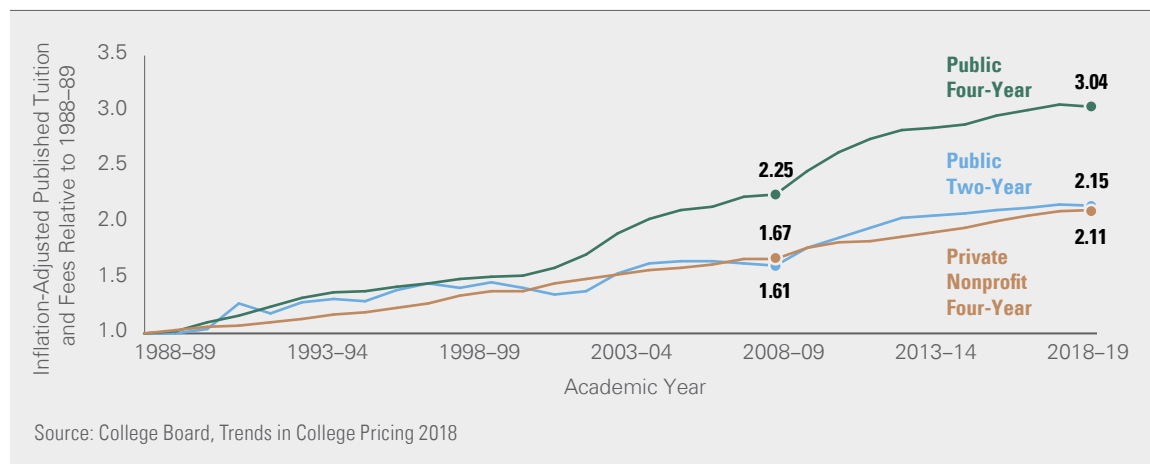
- **Education accounts for a substantial share of all charitable giving in the U.S. each year. Last year, for instance, of the almost \$428 billion given to charity, \$58.7 billion, or roughly 14%, went to supporting education — making it the second-largest area of giving behind religion.**
- **While charitable support for education can take many forms — support for policy initiatives, school programs and/or infrastructure, and teacher development programs, to name a few — much of it centers on giving for scholarships and financial aid. This is particularly true for Bessemer clients.**
- **Supporting scholarships can be fairly straightforward, but the many options — and the many rules and regulations regarding what's permitted (and what's not) — can cloud donor decision-making. In this *A Closer Look*, we outline the various approaches to providing scholarships, the decisions that need to be made, and the pitfalls to be avoided.**

When it comes to charitable giving, supporting education is a top priority for U.S. donors — in particular, giving to four-year colleges and universities.

Some support their alma mater directly. Others focus their support on students, often particular student populations — deserving students from their own communities, for example, or perhaps students pursuing a particular field of study. Many of these donors regard their college years as among the most transformative of their lives, and they want others to have a similar experience. Maybe they received scholarships themselves and know first-hand how crucial that kind of support can be. Or perhaps they simply want to extend to others the educational opportunities they're providing to their own children.

## Three Decades of College Tuition and Fees

**Key Takeaway:** For public colleges, inflation-adjusted in-state tuition and fees in 2018–19 have more than tripled since the 1988–89 academic year. For public two-year and private nonprofit four-year colleges, tuition and fees have more than doubled in the same period.



The list can go on, but whatever their motivations, education consistently accounts for the second largest percentage of philanthropic giving every year (religion receives the most). While that support goes to all sorts of institutions — independent schools, colleges, and universities — for a variety of purposes, much of it comes in the form of giving for scholarships and financial aid. This is certainly true for Bessemer's clients, whose desire to support scholarships to colleges and universities has become a noticeable trend in recent years.

While supporting scholarships can be fairly straightforward, the many available options — along with the many rules and regulations regarding what's permitted (and what's not) — can be difficult to navigate. In this *A Closer Look*, we outline the various approaches to providing scholarships, key factors to explore, and common pitfalls to avoid.

### Exploring the Many Scholarship Options

If you're interested in providing a scholarship, you will need to make a number of decisions:

- **Merit-based versus need-based scholarships.** Merit awards are based solely on a student's achievements and ability in a specific academic, artistic, athletic or other area; they can also be tied to community service or similar activities. In some cases, student financial need can be a factor in awarding merit awards. On the other hand, need-based scholarships are determined solely by the financial need of admitted students. Colleges assess financial need by using information provided by students in the federal government's Free Application for Federal Student Aid (FAFSA) and — for certain private institutions — the College Scholarship Service Profile (CSS Profile).
- **Requirements versus preferences.** While you can certainly provide a college with support for financial aid/scholarships generally, you may want your scholarship to be based on certain criteria — a specific population or demographic, for instance. Maybe you would like to support female students from California completing an undergraduate degree in business. Most institutions prefer that scholarship requirements be as broad as possible; they may be reluctant to guarantee certain of

your criteria (such as the California requirement in the above example), but instead classify it as a “preference” (that is, a criterion they will honor if possible) rather than a “requirement” to ensure that they'll be able to use the scholarship — neither the institution nor the donor wants a scholarship sitting unused.

- **Current-use versus endowed scholarships.** A current-use scholarship is essentially a one-time donation. You donate money to a college or university, and all of it is used immediately or over a designated number of years. You might, for example, give \$300,000 dollars to be spent in four equal annual increments to support a single student. Endowed scholarships, on the other hand, are intended to continue in perpetuity. You might donate \$1,000,000 dollars, but instead of it being used up in four years, a set percentage is spent each year on a scholarship student. The minimum amounts required to endow a scholarship vary by institution. At Stanford University, to cite one example, the range begins at \$250,000 for a partial scholarship and rises to \$1.25 million for a full scholarship. At Bowdoin College and Duke University, the minimum required is \$100,000. In many cases, these scholarships do not have to be fully funded immediately, and they can be designed to begin immediately or upon your death, depending on your preferences. While schools welcome both types of giving, they prefer endowed scholarships, as they are permanent gifts that can provide a predictable and ongoing stream of financial support.
- **Direct to institution versus through a community foundation or intermediaries.** Giving directly to a college or university to support scholarships for students attending that institution is the most straightforward option. Every school has its own process, so the first step would be to reach out to the school's advancement or development office. You might support an existing scholarship program or establish a new one, and the school would select recipients (based on pre-established processes) and disburse the funds.

If you prefer not to limit your support to students applying to a specific school — maybe you would like to provide scholarships to students from a particular community or to those with a particular area of academic or other interest, regardless of

## What Does It Cost to Attend College?

College is expensive, and it's been growing steadily more expensive for decades. The costs for the least expensive alternatives — public colleges and universities — are growing fastest, but tuition fees are rising for private institutions as well.

Average annual in-state tuition and fees at public four-year institutions were \$3,360 in 1988–89 (in 2018 dollars). For the 2018–19 school year, the average price was \$10,230 — more than three times higher.

Similar trends have prevailed at private colleges. In 1988–89, average tuition and fees for a private nonprofit four-year institution were \$17,010 in 2018 dollars. In 2018–19, the number was slightly more than two times higher at \$35,830 (see *Three Decades of College Tuition and Fees* on page 1).

And, of course, the above numbers are solely for tuition and fees. Costs for room and board, textbooks and related supplies, transportation, and the inevitable miscellaneous expenses — all of which have been rising as well — can boost the total cost by many thousands of dollars.

For the 2018-19 school year, these additional costs averaged almost \$15,000 for public four-year colleges and about \$27,300 for those enrolled in private nonprofit four-year colleges and universities. Columbia University's annual undergraduate tuition cost was \$59,985 this year, for example, but the full estimated cost of attendance (known as COA) was \$77,259.

Source: Center for Microeconomic Data; U.S. Census Bureau; College Board, *Trends in College Pricing 2018*; Federal Reserve Bank of New York

the schools they're applying to — many community foundations have existing scholarship programs you can support or will design and run a scholarship program for you. A donor might, say, choose a Cleveland-based community foundation to fund a scholarship that supports students from Cleveland to attend a college or university of their choice.

Depending upon how the scholarship is structured, students would either receive the award directly or it would be sent to the school and used to pay for tuition, fees, and other expenses.

Similar to community foundations, a number of not-for-profit intermediaries also provide scholarship management services. For example, [Scholarship America](#) can help you design a scholarship and then provide all of the administrative support needed to get it up and running effectively. It also offers a number of already-established scholarship programs you can support.

- **Tuition versus living and other expenses.**

Supporting tuition is obviously important and valuable to students, but supporting room, board, and other expenses can often be just as critical to academic success — including whether students are able to remain in school. Many institutions consider financial aid to cover tuition costs alone; some include room and board as well, but even so, their aid packages (including loans) can often fall short of the living expenses incurred, especially in expensive cities. Students can end up working long hours at jobs outside of school (which can negatively impact academic performance), taking out more loans, or leaving school entirely because they don't have enough additional income to support all aspects of student life.

## What Is Not a Scholarship?

Paying the tuition (or other school-related expenses) for family members or friends does not qualify as a scholarship and would not be considered a tax-deductible charitable contribution under the federal tax law.

For a scholarship to qualify as a tax-deductible donation, the selection process must be objective and nondiscriminatory, and recipients must be chosen from what the IRS calls a "charitable class." That means the pool of potential recipients must be large enough and indefinite enough (you should not be able to identify all eligible scholarship recipients in advance) that providing support to members of that class would benefit the broader community, either directly or indirectly.

Acceptable charitable classes might include female students, low-income students, or students with specific interests (in science, math, the arts, athletics, etc.), and even students from a particular school. A scholarship designed to benefit students from a specific family or a single student (even if he or she is unrelated to the donor) would not qualify.

### Can You Select Scholarship Recipients?

Keep in mind that whenever donating directly to an educational institution to support scholarships and financial aid, the school manages the selection process.

When you work with a school to establish a scholarship with specific criteria, you may be able to participate in a limited way in the selection process (depending on the school's policies), although IRS rules would prohibit you from having a dominant voice on the committee; you would not have sole or majority discretion when it comes to the ultimate decision.

Much the same is true when funding scholarships through community foundations, intermediaries, or family or other private foundations. However, regarding private foundations in particular, additional (and strict) rules apply — along with

### Demystifying Financial Aid Packages

College and university financial aid packages can have a number of components:

- **Need-based aid.** Need-based aid is awarded based solely on a family's financial circumstances and does not need to be repaid. Colleges and universities generally determine financial need using information that students provide in the federal government's Free Application for Federal Student Aid (FAFSA). More specifically, the FAFSA produces an EFC (expected family contribution), which the school then subtracts from that school's cost of attendance (COA) to arrive at an estimate of financial need.

Some private institutions use an additional measure, the College Board's CSS Profile, which provides a more detailed picture of a student's financial situation than the FAFSA, to determine a student's EFC.

Need-based aid can come from several sources:

- Federal aid (such as the Pell Grant)
- State aid (mostly available only to in-state residents, state aid has dropped markedly since the 2008-09 financial crisis)
- Institutional awards (grants directly from the college or university)
- Private awards
- **Merit-based aid.** These awards, which do not have to be repaid, are based on a student's academic, athletic, artistic, or other achievements, and (most often) do not consider financial need. These awards can come from private organizations or from the college or university. Not all schools provide merit awards, however.
- **Federal loans.** Two kinds of federal loans are generally available to students attending college — subsidized Stafford Loans, which don't accumulate interest until after a student graduates, and unsubsidized Stafford Loans, which do accumulate interest while a student is in college. These loans must be paid back over time after a student graduates.
- **Federal work-study.** This program provides students (with demonstrated financial need) with part-time work, usually paying at least the federal minimum wage.

severe penalties for failing to comply with them (see below, [Can You Manage a Scholarship with Your Family Foundation?](#)).

Despite the rules, donors can look forward to potential involvement with student scholarship recipients. If it's important for you to receive a letter or photograph of the student recipient, be sure to raise this request with the development officer. Moreover, some colleges host scholarship receptions where donors can meet their awardees or arrange a one-on-one meeting if desired.

### Will Your Scholarship Support a New Student Each Year?

When you provide scholarship support to a school directly or via a community foundation in the form of a one-time, or current-use, scholarship, it could support multiple students with single-year awards, depending upon the size and structure of your gift. More typically, however, the scholarship would be renewable for four years. In other words, the school or community foundation would select a first-year student who would receive that scholarship each year while in school (assuming eligibility criteria continue to be met). When that student graduates, the school or community foundation would select another student to receive the scholarship. Such scholarships ensure that students will be able to afford all four years of their college education.

### Can You Manage a Scholarship Program With Your Family Foundation?

While it is possible to create and manage a scholarship program through a family foundation, this approach demands much more than simply awarding money to deserving students. In fact, the process can be complex, time consuming, and expensive.

The regulations for private foundations are particularly strict, and there can be heavy penalties for not following them — up to and including revocation of the foundation's tax-exempt status. Unlike other charitable organizations, for instance, private foundations must receive IRS approval of their scholarship plan prior to making any

### The Many Financial Challenges Beyond Tuition

College persistence — that is, the number of students who return to school each year in pursuit of a degree — can often be impacted by basic issues unrelated to tuition.

According to a May 2019 *New York Times* article that highlighted the results of a recent survey by Temple University's Hope Center for College, Community and Justice, "45 percent of student respondents from over 100 institutions said they had been food insecure in the past 30 days. In New York, the [researchers] found that among City University of New York (CUNY) students, 48 percent had been food insecure in the past 30 days."<sup>1</sup>

Even when students manage to solve for tuition and the basic necessities, they are often unable to access the full range of opportunities that college can provide, including participating in clubs, study abroad, internships, and other enrichment activities. Summer internships, in particular, are increasingly important when it comes to securing post-graduation employment, but many of them offer low (or even no) pay and are often located in expensive cities, making them out of reach for many.

If need-based scholarships are an important part of your giving strategy, you may want to consider one of the many organizations that support college persistence, such as the [Posse Foundation](#), [OneGoal](#), or [College Possible](#) — all programs designed to increase graduation rates for low-income students.

awards; this means attorney costs for drafting the plan, which must include a detailed selection process, processes for supervising scholarships, record-keeping and retention, among other things — all of which must adhere to IRS guidelines. Consultations with investment and tax advisors would be advisable as well. You would also need to develop a custom scholarship application and methods of marketing your scholarship.

<sup>1</sup> Tuition or Dinner? Nearly Half of College Students Surveyed in a New Report Are Going Hungry, *New York Times*, May 12, 2019.



For many, the more sensible option is to partner with one or more institutions of higher education, community foundations, or other intermediaries that already maintain scholarship programs — with all necessary infrastructure — in place. You could support an existing scholarship or design a scholarship program in collaboration with the organization, and you would even be permitted to have ongoing involvement (though, as noted above, not a deciding voice regarding award recipients). And you would not have to bear the administrative responsibilities of managing the program.

### Can You Support Scholarships With Your Donor-Advised Fund?

While you would not be permitted to use your donor-advised fund (DAF) account to provide scholarship grants directly to individuals (unlike private foundations, which can do so under certain conditions), you can recommend grants to public charities, including colleges and universities, community foundations, or other qualified charitable organizations to support (or establish) scholarship programs run by those public charities.

### No Matter the Approach, Supporting Scholarships Transforms Lives

We've outlined some of the principal approaches and considerations involved in supporting scholarships; the many decisions that need to be made can certainly be confusing, but a deliberate, thoughtful approach can make the process relatively straightforward.

Our philanthropic advisory specialists can offer guidance at any stage of the process — whether it's serving as an initial sounding board, helping you to think through your preferences and requirements, structuring a scholarship for maximum impact, negotiating your path with an institution, or reviewing gift agreements, and more. We can also guide you toward educational institutions, community foundations, and other public charities that often provide valuable information and can answer many questions. If supporting education is a priority for you, as it is for many of our clients, we can help you craft an approach that best fits your goals — and, most important, makes an immediate and lasting difference in the lives of deserving students.

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