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EFP Takeaways

State Lottery Scholarship Programs and College Completion: A Case Study in New Mexico

Background

State merit-based scholarships were established to retain talent in-state, improve access to higher education, and improve student completion rates. While there is a considerable research base on the relationship between financial aid and enrollment, less is known about the relationship between financial aid and college completion, and even less that focuses on specific types of aid.

Researchers at the University of New Mexico investigated the effects of the New Mexico Legislative Lottery Scholarship (NMLLS), a “low-bar” merit-based completion program, on student completion rates.

The Study

Under the NMLLS program, any student who receives a high school diploma or general educational development equivalent (GED) and enrolls in public postsecondary institution in the first semester after they graduate high school is eligible for the program. To examine completion effects from the NMLLS, the authors utilized administrative data for first-time entering freshman students at the University of New Mexico before and after the program was implemented in Fall 1997. The data included sociodemographic information, high school academic performance, and college academic performance (including completion status).

Findings

Authors found that state merit scholarships may help more academically prepared students complete college, while harming students marginally prepared for college. Aggregating these two groups, which can be misleading, results in no significant effect of state merit aid on college completion.

These findings suggest that when price signals in the market for higher education are removed, as is the case with the NMLLS, many students may choose to attend institutions for which they are a poor match (i.e., are less academically prepared than their peers).

Authors also found that low income, Pell Grant-eligible students are more responsive to state merit scholarships than their high-income counterparts. To increase college completion rates for marginally prepared, low income students, the authors recommend pairing generous financial aid with mandatory training on scholarship management and increased or enhanced academic advising.

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Erwin, C. P., & Binder, M. (2020). Does broad-based merit aid improve college completion? Evidence from New Mexico’s lottery scholarship. *Education Finance and Policy*, 15(1).