



The Aid Gap: Expanding Tennessee's Need-Based Aid Can Address Cost as a Barrier to College

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As Tennessee reshapes its financial aid system, there is an opportunity to expand need-based aid and improve access and completion of college.

Earning a college degree, whether it's a technical certificate or a bachelor's degree, should be within reach for every Tennessean. College opens the door to better jobs, [higher earnings](#),¹ and [long-term economic mobility](#).² By 2031, 63% of jobs in Tennessee will require [education beyond high school](#),³ but less than half of Tennesseans have a [postsecondary credential](#).⁴ Tennessee has built one of the most robust state financial aid systems in the country, awarding more than \$590 million in [grant aid](#)⁵ to students in the 2024–2025 academic year. But cost remains one of the [most significant barriers](#)⁶ preventing students from enrolling in and completing college. As a result, how Tennessee distributes financial aid helps determine who can access and complete a college credential.

Tennessee's 18 financial aid programs are funded through [three sources](#),⁷ the Tennessee Education Lottery, the Tennessee Promise scholarship special reserve account, and state appropriations. But most aid is distributed through a small number of programs that award aid based on academic achievement rather than financial need.

Tennessee Prioritizes Merit Over Need-Based Aid

Type	Definition	Share of Total Aid (2023-24)
Need-Based	Provides support to students who demonstrate financial need in order to cover the cost of college. Example: The Tennessee Student Assistance Award is awarded to students based on financial need.	18%
Merit-Based	Provides support to students who have met specific metrics of academic achievement. Example: The Tennessee HOPE Scholarship is awarded to students with a 3.0 high school GPA or 21+ ACT Score.	55%

Merit + Need	Provides support to students who display both academic achievement and financial need. Example: The Aspire Award is awarded to students who are eligible for the HOPE scholarship and also have an annual household income below \$36,000.	3%
Special Purpose	Includes aid that provides support to specific student groups, such as adult learners, high school graduates, and veterans. Example: Tennessee Promise is awarded to students who enroll full time at an eligible institution immediately following high school graduation and complete mentorship and community service requirements.	24%

Figure 1: Definitions of Different Financial Aid Program Types in Tennessee and Percentage of Total Undergraduate State Grant Aid Distributed by Type. **Source:** EdTrust-TN analysis of the National Association of State Student Grant and Aid Programs (NASSGAP) Annual Survey (2024), nassgapsurvey.com/survey/state_data_check.asp

Programs that consider a student’s financial need, either alone or in combination with merit requirements, account for about 21% of all aid awarded. The HOPE Scholarship, which does not consider student financial need, alone accounts for more than half of [all state aid](#).⁸

Tennessee is an outlier in its prioritization of merit-based aid. Compared to other southern states, Tennessee directs an uncommonly small share of its aid to students with financial need. The only state that invested less in need-based aid in 2023–2024, Georgia, allocated \$325M to a [new need-based grant](#)⁹ in 2026. At the same time, merit aid does not benefit all students equally. **Students from [higher-income households](#)¹⁰ and [white](#)¹¹ students are more likely to receive merit-based aid**, likely reflecting unequal access to [well-funded](#)¹² K-12 schools and the academic preparation those schools provide.

In Tennessee, students from low-income backgrounds who receive a Pell grant are 19 percentage points less likely to receive merit aid than non-Pell eligible students. Similarly, only 24% of Black students in Tennessee receive merit aid, while 45% of white students do (Figure 3).

Tennessee Falls Behind Other Southern States in Targeting Aid to Students with Financial Need

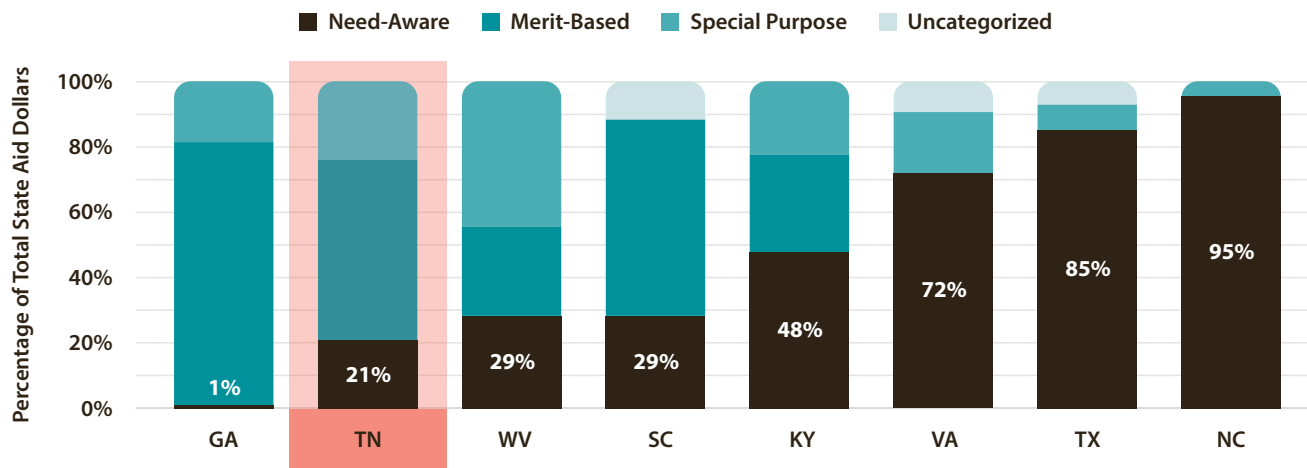


Figure 2: State Financial Aid Expenditures by Type as a Percentage of Total Undergraduate State Aid Distributed

Source: EdTrust-TN analysis of NASSGAP Annual Survey Report (2024) nassgapsurvey.com/survey/state_data_check.asp

Access to Merit-Based Aid Varies by Income and Race

Pell-Eligible and Black Students in Tennessee are less likely to receive merit aid than other student groups

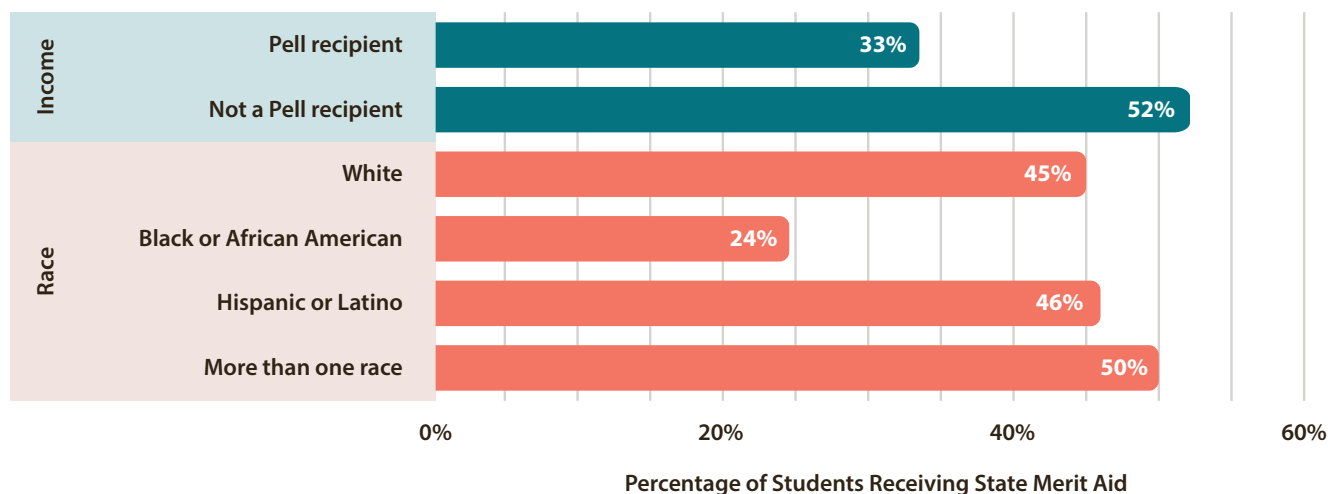


Figure 3: Share of In-State, Full-Time Undergraduate Students in Tennessee Receiving Merit-Based Aid in 2019–2020 by Pell Status and Race/Ethnicity. **Source:** EdTrust-TN analysis of data from the National Postsecondary Student Aid Study: 2019–20 via NCES Datalab, data retrieval code zejjev and wvvyhq. Data reflects in-state, full-time students who applied for federal aid.

Research conducted on the impact of merit aid in Tennessee found that merit aid [did not increase college enrollment](#),¹³ indicating that merit-aid alone is not an effective strategy for expanding postsecondary access. Students from low-income backgrounds and Black students have lower [college-going rates](#)¹⁴ and [higher levels of student debt](#),¹⁵ highlighting the importance of expanding need-based financial aid, which more directly addresses affordability as a barrier to enrollment.

Cost Remains a Barrier for Students from Low-Income Backgrounds

Cost is a [leading reason](#)¹⁶ students do not enroll in college and leave before completing a credential. Research shows that lowering the cost of college leads to [increases in enrollment and improved student outcomes](#),¹⁷ particularly for students from low-income backgrounds.

In Tennessee, most public institutions remain [out of reach](#)¹⁸ for students from low-income backgrounds. The combined cost of tuition and living expenses creates significant barriers to [enrollment](#)¹⁹ and [completion](#),²⁰ as these students must devote a much larger share of their income to cover college costs (Figure 4).

After Financial Aid, Cost Remains a Major Barrier for Students from Low-Income Backgrounds

Across all sectors, students from lower-income households must devote a much larger share of their income to cover college costs

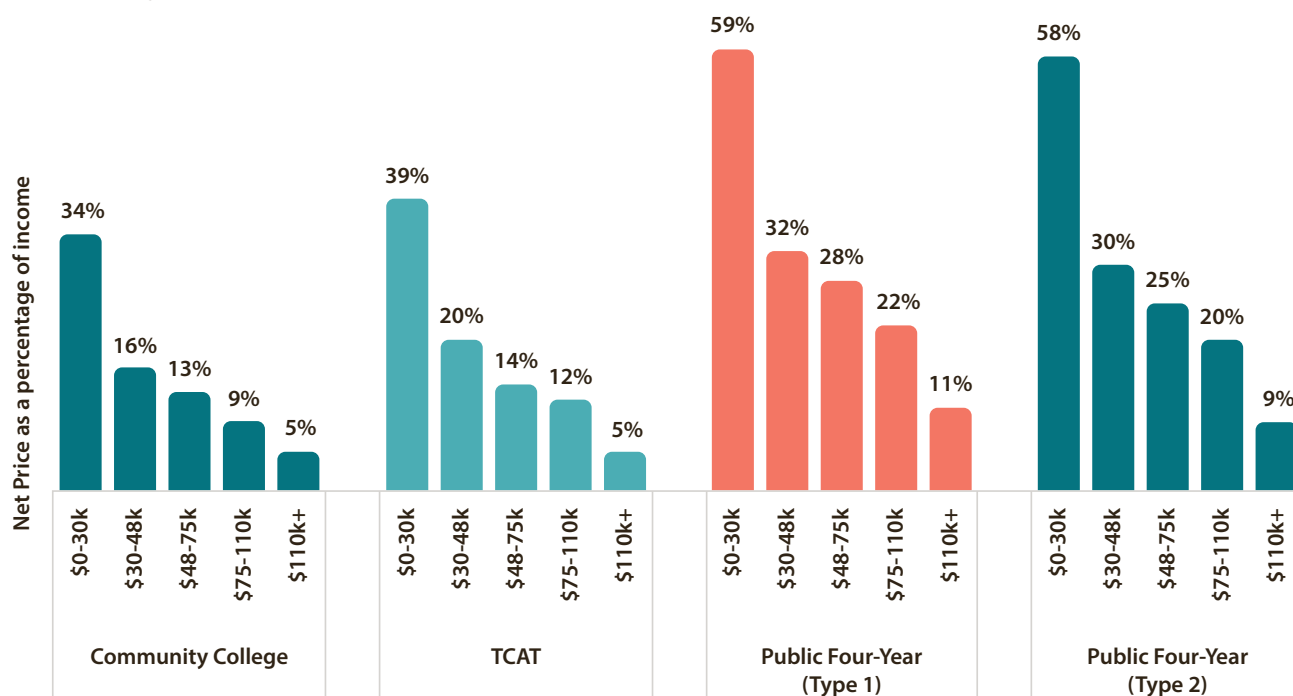


Figure 4: Net Price as a Percentage of Student Income in Tennessee by Sector. **Source:** Southern Regional Education Board. (2025). Tennessee College Affordability Profile. sreb.org/state-affordability-profiles. **NOTE:** Four-Year Institution Type 1 refers to institutions that awarded at least 30 doctoral degrees in five different areas. Type 2 is all other public four-year institutions.

Tennessee's prioritization of merit-based aid shapes who receives the most substantial support. Because eligibility is tied to academic benchmarks, students who meet merit requirements are more likely to access the largest awards, regardless of financial circumstances. Students from low-income backgrounds are less likely to qualify for merit aid, even though they face the greatest financial barriers to attending college.

Data from the Tennessee Higher Education Commission show that students from higher-income households are making up a [growing share of HOPE scholarship recipients](#)²¹ over time. In fall 2023, students from households earning more than \$192,000 annually made up the largest share of recipients and saw by far the largest increase in participation over one year. In contrast, HOPE recipient headcounts declined across all income groups earning less than \$120,000 annually.

In Tennessee, students from higher-income households receive more state aid on average than students from lower-income households (Figure 5), largely because of differences in merit-based awards. Students from low-income backgrounds receive more need-based aid, but these awards are mainly distributed through the [Tennessee Student Assistance Award](#), which has a maximum annual award that is lower than what is available through the [HOPE scholarship](#)²² and does not guarantee that all eligible students receive an award. Students from low-income backgrounds are also less likely to receive aid, which lowers the average amount received across all categories. Students from higher-income households also receive larger merit-based awards, which may partly be because higher-income students are [more likely to attend](#)²³ a four-year institution which allows students to receive a larger award than if they enrolled at a two-year institution.

Higher-Income Students Receive More State Aid on Average

Household Income	State Grants Total	Merit-Based	Need-Based	Special Purpose
\$0 to \$30,000	\$2,559	\$945	\$1,279	\$334
\$30,001 to \$48,000	\$2,713	\$1,267	\$1,104	\$342
\$48,001 to \$75,000	\$2,319	\$1,656	\$245	\$418
\$75,001 to \$110,000	\$2,721	\$2,123	\$99	\$499
\$110,001 or more	\$3,065	\$2,515	\$116	\$434

Figure 5: Average State Aid Awarded in Tennessee by Type and Income Level, 2019–2020. **Source:** EdTrust-TN analysis of data from the National Postsecondary Student Aid Study: 2019–20 via NCES Datalab, data retrieval code utkhew. Data reflects in-state, full-time students who applied for federal aid. **NOTE:** Averages include students who received no state aid.

Together these patterns raise concerns that the design of the current state aid system does not adequately recognize that the lowest income students need more financial support to make college an affordable and realistic pathway. Students from low-income backgrounds must contribute a larger share of their income to attend college, yet current aid does not close that gap. While need-based aid is designed to reduce cost barriers, limited investment weakens its impact. Despite the scale of Tennessee’s overall investment in financial aid, its reliance on merit-based aid directs resources away from students with the greatest need, limiting its ability to expand college access and improve completion rates.

Expanding Need-Based Aid Can Improve Access and Completion

In 2024, only **38.7%** of students from economically disadvantaged backgrounds enrolled in college immediately after high school, compared to **64.9%** of their peers.

In 2024, just **41.5%** of Pell-eligible students graduate within six years of enrolling, compared to **62.3%** of their peers who never received a Pell Grant.

State financial aid policy helps determine which students can afford to enroll in and complete a postsecondary credential. In Tennessee, gaps in both college-going and completion between students from low-income backgrounds and their peers remain clear and persistent. Economically disadvantaged students enroll at far lower rates, reporting a [college-going rate](#)²⁴ that is 26 percentage points below that of their non-economically disadvantaged peers. The same pattern holds for completion, Pell-eligible students reporting a [six-year graduation rate](#)²⁵ that is 22 percentage points lower than the six-year graduation rate of students who never received a Pell grant.

These gaps reflect the reality that many students are priced out of college or struggle to persist once enrolled due to rising costs and limited financial resources. For students from low-income backgrounds, financial aid is critical to not only encouraging enrollment but also increasing the likelihood that students will [work fewer hours, take more credits](#),²⁶ and [remain enrolled](#).²⁷

Without changes, Tennessee's financial aid system will continue to direct funding to students who are already likely to [enroll regardless](#) of the [merit aid they receive](#),²⁸ while students with the greatest need face ongoing barriers to enrollment and completion. Tennessee's limited investment in need-based aid means that state resources are less likely to reach students from [underrepresented backgrounds](#)²⁹ for whom financial aid is likely to make the greatest difference because of its reliance on merit aid. This limits access for students from low-income backgrounds and reduces the [effectiveness of the state's investment](#)³⁰ in making college accessible to all Tennesseans.

With significant changes to the state's financial aid portfolio on the horizon, Tennessee has an opportunity to act. Expanding investment in need-based aid would more directly address cost as a barrier to college access and completion. Targeting aid to students with the greatest financial need would help ensure that state resources are used where they can have the greatest impact, expanding opportunity for more Tennesseans, and continuing to strengthen the state's workforce.

Endnotes

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