

What Do Students Pay for College? How Does College Tuition Compare to Other Family Investments? Why Are College Costs Rising? What Are Universities Doing to Cut Costs? What Can the Federal Government Do to Help?

Putting College Costs into Context

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Foreword

The price of a higher education is, once again, a subject of widespread interest and discussion. The topic is both emotional and complex, and public debate is often weak on data. Surveys have repeatedly shown that the public badly overestimates the price of a college education and underestimates the availability of student financial aid. Moreover, basic terms and concepts that are familiar to most college leaders—such as cost, price, and net price—often make little or no sense to the public.

Whenever I look at the evidence about college prices and the economic returns, I am reassured that higher education has a good story to tell. For most Americans, when student financial aid is included in the equation, college is, indeed, affordable. But this knowledge provides scant comfort because “affordable” does not always mean it is inexpensive nor does it mean that we should not continue to contain our costs.

When I was chancellor at the University of Wisconsin–Madison, I found it valuable to have a brochure of basic factual information about a difficult issue that could be widely shared with policy makers, the media, and the public. It was that experience that led us to produce this document. I hope that by establishing a factual baseline of information, we can have a more informed conversation about this complex and difficult topic with the variety of audiences that are interested in it.

This information will not put this issue to rest. But I think it will help put this issue in context and enable you to discuss the issue in light of the situation at your own institution.

A variety of organizations in American society—colleges and universities, state and federal governments, and families—have a role to play if higher education is to remain affordable for all Americans. No one group of actors can do it themselves. But a common set of facts that outlines the challenge and puts it into context is an essential step. I hope that this brochure serves that purpose.



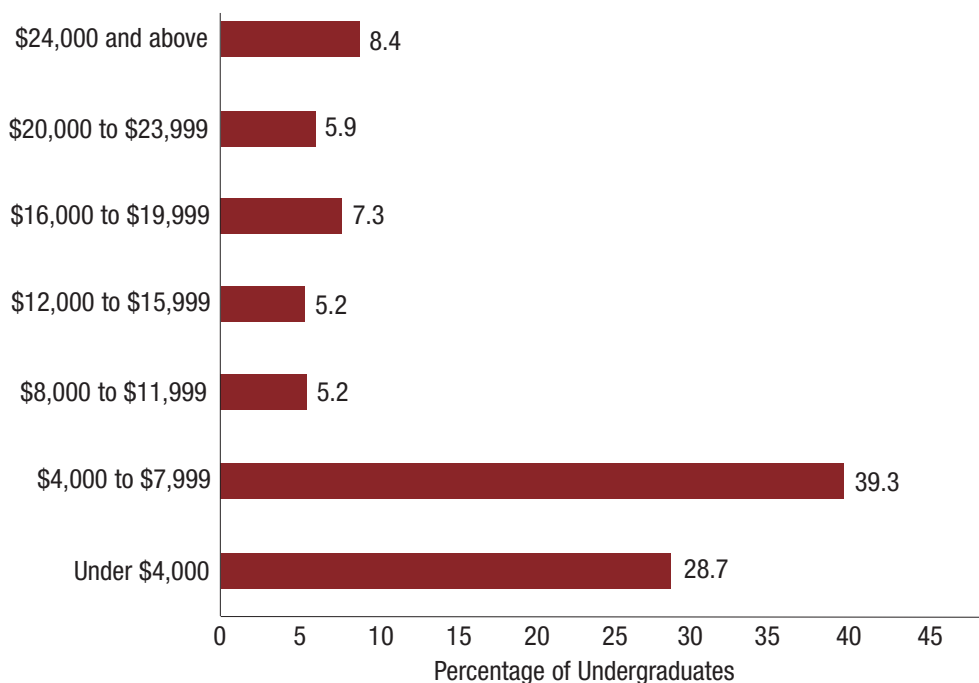
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What Do Students Pay for College?

Average tuition for full-time students enrolled in college (2003–04)

- 37 percent attended community colleges, where the average tuition for a full-time student is \$1,905.
- 40 percent attended state colleges and universities, where the average tuition for a full-time student is \$4,694.
- 22 percent attended private four-year colleges and universities, where the average tuition for a full-time student is \$19,710.

Distribution of Full-Time Undergraduates at Four-Year Institutions,
by Tuition and Fees Charged: 2003–04



Source: College Board, 2003.

More than two-thirds (68 percent) of students attending four-year institutions in 2003–04 faced tuition, before grant aid, of less than \$8,000 per year.

- Twenty-nine percent of full-time undergraduates attended four-year institutions that charged less than \$4,000 (before student aid).

Between 1992–93 and 1999–2000, the net price of college for low-income students—the price that students and families pay after grant aid—remained nearly stable.

- A recent study by the National Center for Education Statistics concluded that increases in grant aid—including government and campus-provided grants—to low-income students offset increases in the posted price at most institutions. In fact, low-income students at public and private not-for-profit institutions faced a total out-of-pocket tuition increase of less than \$200 over the seven-year study period.

More than two-thirds of students receive financial aid to make college possible.

- The federal government, states, and institutions offer financial aid to help low- and middle-income students afford college.

Student financial assistance is available for the middle class.

- A wide variety of student financial aid programs—including many grants and scholarships, as well as tax incentives and benefits—are available to help middle-income families.

How Does College Tuition Compare to Other Family Investments?

Childcare

- The national average tuition for half-day preschool is \$6,925.
- The national average tuition for full-day preschool is \$9,862.

Nursing home care

- The national average annual cost for nursing home care is \$57,700. In Alaska, the average annual cost is \$166,700, and in Louisiana—the least expensive—the average annual cost is \$35,900.

Private secondary schools

- The average tuition at a private high school is \$15,500.
- The average total cost of attendance (tuition, room, and board) at a private boarding school is \$28,700. The average total cost of attendance (tuition, room, and board) at a private four-year college is \$26,900.
- The “DC Voucher” program currently being discussed will provide each student with \$7,500 per year. The current federal Pell Grant maximum is \$4,050 per year.

Changes in tuition between 1993 and 2003 (before inflation)

- Private four-year college +79 percent
- Private high school +71 percent

Why Are College Costs Rising?

States have reduced their support for higher education.

Through the 1990s, states repeatedly trimmed the portion of their budgets allotted to higher education. Consequently, state appropriations as a percentage of total institutional budgets declined. As a result, the balance of funding responsibility has fundamentally changed.

For example:

- Fifteen states made mid-year cuts to their higher education budgets during the 2002–03 fiscal year.
- Twenty-two states reduced appropriations for higher education overall during 2002–03.
- Fifteen states held flat or reduced need-based student aid programs.
- Forty-nine states raised tuition at public institutions to compensate for the shortfalls.
- The drop in state spending on higher education averages 4 percent but goes as high as 26 percent.

State support for higher education is decreasing as part of a long-term trend.

- Thomas J. Kane, in a policy brief for the Brookings Institution, notes that the pattern from the 1990s suggests that reductions in higher education are made during an economic downturn and then are made permanent by a failure to raise appropriations substantially during the subsequent economic recovery. (Kane identifies budget pressures associated with Medicare as the culprit.)
- State support has been falling as a percentage of total university budgets for 20 years. From 1980 to 2000, the state share of operating support for public colleges and universities declined from 46 percent to 34 percent.
- During the same period, tuition as a source of revenue rose from 13 percent to 18 percent, offsetting less than half the decline in state support.
- The actual dollar amount of state support has increased, but so have enrollments—by approximately 200,000 students per year.
- Between 1985 and 2000, state spending on corrections grew six times the rate of higher education.

The economic recession and slow recovery have also put upward pressure on tuitions at private colleges and universities.

- When states reduce financial aid to students, as many have, public and private colleges and universities must use more of their own funds to fill the gap.
- Private colleges and universities, as well as some public institutions, have suffered reduced revenues because the value of their endowments—and the income they generate—has fallen.
- Charitable gifts to colleges and universities have dropped significantly as well, thereby reducing another valuable source of support.

Rapid increases in knowledge require new resources for teaching and research.

- The cost of stocking libraries and laboratories is high and continues to grow. Consider *Chemical Abstracts*, a single academic journal that is indispensable to scientists. In 1977, a subscription to the journal cost \$3,500. Today, it costs \$23,700. Knowledge in most scientific disciplines doubles every seven to 10 years. In the past 25 years, whole new fields of science—such as biotechnology and computer science—have emerged from obscure specialties to essential fields of study that can be, and should be, found at most institutions.
- Colleges and universities are the repository and the transmitters of the nation’s scientific knowledge, so they must keep pace with the rapid expansion of knowledge. Otherwise, their students would receive an outdated education.

Colleges and universities are increasing their investments in student aid.

- Colleges and universities are devoting an increasing amount of their own resources to student aid to ensure that low-income students have the financial resources to begin and complete their education. This is true for both private and public institutions.
- In academic year 2002–03, campus-provided financial aid accounted for 20 percent of all available aid (federal, state, and institutional). Since 1992–93, the estimated amount of institutional and other grant assistance has more than doubled in constant dollar value from \$9.2 billion in 1992–93 to \$20.4 billion in 2002–03.

Burdensome and costly federal regulations drive college prices higher.

- Given the range of their activities, colleges and universities are among the most heavily regulated entities in America. With the exception of the Consumer Product Safety Commission and the Federal Trade Commission, all federal agencies are involved in regulating some aspect of higher education.
- In recent years, the burden imposed on colleges and universities by federal regulation has become increasingly complex, onerous, and costly. In 1998, the National Commission on the Cost of Higher Education highlighted government regulation as one of five major cost-drivers in higher education.
- Regulations impose a heavy toll on colleges and universities in the form of additional staff, increased staff development and training, additional paperwork, creation of computer systems and software to

support record-keeping requirements, and higher legal fees. These regulations, in turn, increase operating costs. For instance, there are more than 7,000 regulations associated with Title IV student aid programs alone.

- In 1998, Stanford University estimated that seven and a half cents of every tuition dollar was applied toward the costs of meeting federal regulations. Compliance with state and local regulations also increases costs.

Higher education is highly labor intensive.

- It is commonplace for colleges and universities to spend 60 percent or more of their budgets on human resource costs. In many cases, colleges and universities compete with the private sector to hire outstanding individuals—such as engineers, computer scientists, biologists, chemists, doctors, and lawyers—for faculty positions.
- Moreover, productivity gains are often hard to come by in any service industry. In higher education, greater productivity might mean larger classes, fewer seminars, and more part-time faculty, all of which are unpopular with students and parents, and can lead to a decrease in the quality of teaching and research.

What Are Universities Doing to Cut Costs?

Colleges and universities have taken a wide range of steps to reduce costs and thus to ease upward pressure on tuition. Both public and private institutions have strong motivation to do so. Public institutions have a mission to provide an affordable education to students in their states and communities. Private institutions face very real competition in the marketplace—from both public and other private institutions.

Here are some of the ways in which universities are cutting costs:

Layoffs, pay freezes, and hiring freezes

Many institutions have laid off faculty, administrative staff, and support personnel. In many instances, this has meant the elimination of classes and reduction of education opportunities and services to students.

During the past 18 months:

- The University of Colorado system eliminated 500 faculty and staff positions and froze salaries.

- The University of Massachusetts Amherst laid off 100 full-time employees.
- The University of Nebraska laid off 15 tenured faculty members.
- Stanford University froze new hiring in 2002.

Reducing course offerings and enrollments

- The University of Wisconsin at Madison is offering 300 fewer courses and is increasing class size this fall.
- The University of Illinois cut 1,000 classes on hundreds of subjects.
- Officials at the California State University System estimate that current budget cuts will translate into nearly 19,000 eligible students being turned away from the 23-campus system over the course of 2003.
- The University of Nebraska is canceling Portuguese classes and is reducing Russian and museum studies. In addition, the university is terminating a number of tenured faculty.
- For the first time in history, the University of California was unable to consider applications for approximately 1,500 California college transfer students and 100 freshmen seeking admission in winter 2004.

Eliminating departments

- The University of Colorado at Boulder eliminated its American Studies department and degree program, and will shortly eliminate its integrated marketing communications program.
- The University of Missouri has cut its teacher training program in half and eliminated one nursing degree program.

Delaying, merging, or closing campus offices and programs

- The University of California has delayed student admissions at its newest campus, UC Merced.
- The University of Nebraska is closing agricultural research laboratories.

What Can the Federal Government Do to Help?

- Provide students and families with more and better information—including information about the rate of tuition increases, institutions that are successfully keeping prices low, institutions that are not as successful at keeping prices low, and states that are either succeeding in or falling short of keeping prices low.
- A) Develop an accurate index to measure the cost of goods and services purchased by colleges and universities. Ensure that the index acknowledges variations by size and type of school. The Higher Education Price Index provides a good starting point for devising a new index. (This project was recommended by the National Commission on the Cost of Higher Education’s 1998 report but was never undertaken by the Education Department or the Bureau of Labor Statistics.)
 - B) Require the Secretary of Education to prepare and release an annual report on the affordability of higher education in America. The report should include the posted price per institution; the percent change in posted price per institution for three-, five-, or 10-year periods; and the level of state support for higher education per capita and per pupil. The report also should include a list of the colleges or universities with the lowest price increases over one- and five-year periods and a list of institutions with the highest increases over one- and five-year periods.
 - C) The Department of Education should be mandated to undertake a national advertising campaign about the benefits and cost of higher education, and the availability of student aid.
 - D) Simplify the Free Application for Federal Student Assistance form, making it easier for individuals to apply for federal student aid.
 - E) Adopt a Sense of the Congress resolution, encouraging states to deregulate higher education.

- Provide incentives to encourage institutions to keep tuition increases to a modest level.

- A) Require the Secretary of Education to identify a list of regulations to be waived for institutions whose three- or five-year change in tuition and fees is at or below the price index developed under A) in the previous section. Make the waiver good for a three- to five-year period.
- B) Require the Secretary of Education to develop a list of regulations (from the Education Department and other agencies) that impose the greatest compliance costs on colleges and universities. Also require the Secretary to submit to Congress a list of suggestions for easing the compliance burden.
- C) Reallocate unused campus-based funds (or make \$500,000 available to colleges that do not participate in campus-based aid programs) to institutions with a strong record of keeping tuition increases in check.
- D) Double the campus-based aid allocation (or provide \$1 million to colleges that do not participate in campus-based aid programs) for five years for any school that cuts tuition by 20 percent.
- E) Triple the amount of Leveraging Educational Assistance Partnership (LEAP) funds available to any state that increases its institutional support and need-based scholarship funds for five consecutive years.

- Provide assistance to colleges and universities that want to reduce tuition increases.

- A) Authorize a college affordability demonstration program.
- B) Authorize a demonstration grant program for colleges (or states) that want to establish articulation agreements. Give priority to agreements that involve a large number of public and private institutions, and for agreements that involve multiple states.
- C) Authorize “year-round” Pell Grants to make it easier for low-income students to attend college all year.

- Establish a framework for the future.

- A) Establish a National Commission on the Financing of Higher Education, which will review the changing landscape of higher education financing, and define the responsibilities of states, families, institutions, and the federal government.



American Council on Education