

TUITION DISCOUNTING CONTINUES TO GROW

According to NACUBO's 13th annual survey of independent institutions, tuition discounting is evolving into a critical component of enrollment management plans, absorbing additional resources each year.

By Lucie Lapovsky
and Loren Loomis Hubbell

IT'S BEEN ANOTHER YEAR OF INCREASES FOR TUITION DISCOUNTING. In the fall of 2002, the institutions with 13 years of data that participated in the 2002 NACUBO Tuition Discounting Survey of independent colleges and universities collectively discounted more than 39 percent of gross tuition with institutional funds, in comparison to 26.7 percent of gross tuition in the fall of 1990. The largest percentage increases have occurred at the small colleges with lower tuition (SCLT) and large college and university (LCU) sectors, where the increases have been more than 50 percent. Small colleges with higher tuition (SCHT) have increased discounting by 35 percent over this same period.

Tuition Discounting Trends				
	1990 (%)	2001 (%)	2002 (%)	n=
SCLT	27.8	41.0	42.4	106
SCHT	28.7	38.3	38.8	54
LCU	19.8	29.2	31.0	33
All	26.7	38.2	39.4	193

These numbers tie closely to the average discount rates among all institutions participating with two or more years of data. Among this larger group of 301 participants, the average discount rate is 38.7 percent. SCLTs lead the pack with a discount rate of 40.1 percent, SCHTs come in at 38.3 percent, and LCUs trail with 32.4 percent.

Tuition discounting has become pervasive. Independent institutions and flagship public institutions rely on it extensively. Less

well-known state colleges and universities, as well as community colleges, use it to a lesser extent. In addition to need-based aid, many institutions rely on characteristic-based tuition discounting, broadly described as merit aid, to attract high-performing students, as well as students with attributes considered desirable to the institution who might not attend absent financial inducement. Discounting clearly has become an enrollment management device, yet its impact is not an immediately discernible one.

Has discounting increased the financial health of the private sector or hurt it? Has discounting increased enrollment in independent higher education or redirected subsidies among students who would have attended these institutions anyway? Has it redirected institutional aid from programs to student aid? Has it increased access for low-income students or reduced the price for middle- and upper-income students with high ability or other characteristics that appeal to institutions?

For purposes of the NACUBO survey, tuition discounting refers only to institutional grant funds provided to students to reduce the price they pay to attend colleges and universities. Of course, in addition to institutional funds, students can also receive substantial federal, state, and private funds to aid them in paying the cost of attendance.

How has tuition discounting influenced access to higher education? We know that scholarships given on the basis of student characteristics, such as academic achievement or athletic skills, are not based on need—yet an institution often finds, after the

DATA TELL THE STORY

Data for this article come from the NACUBO Tuition Discounting Survey of independent colleges and universities. More than 350 independent institutions responded to the 2002 survey, which NACUBO sent to all four-year accredited independent institutions. This article includes complete data for 2001 and 2002 from 301 institutions and 13 years of data from 193 institutions. A full 365 institutions provided at least one year of data.

The institutions have been divided into three categories for analysis purposes:

- **Small colleges with lower tuitions (SCLT)**—institutions with entering freshmen classes of less than 850 students and tuition and required fees in the fall of 2002 of less than \$21,000.
- **Small colleges with higher tuitions (SCHT)**—institutions with entering freshmen classes of less than 850 students and tuition and required fees in

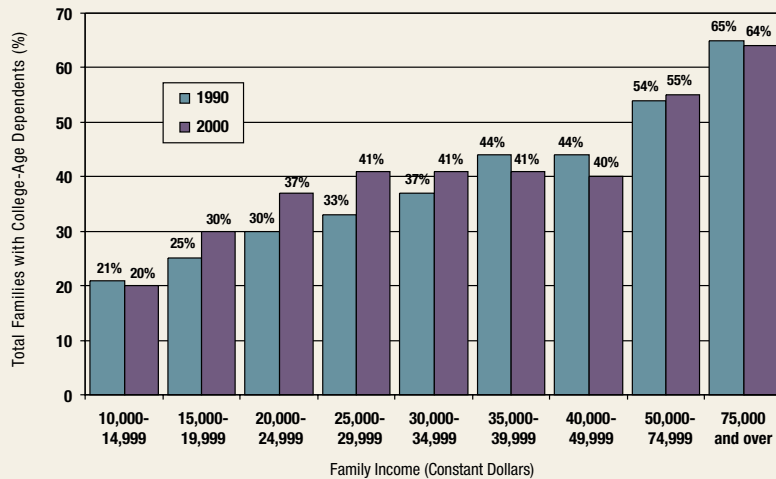
the fall of 2002 of \$21,000 and higher.

- **Large colleges and universities (LCU)**—institutions with entering freshmen classes of 850 or more students.

Throughout this article, the 13-year database is used for all time-trend analyses, and the larger 2001–02 database is used in analyzing changes between 2001 and 2002. The frequency graphs are based on the full 2002 data set.

Fall 2002	Acronym	Tuition Level	Full-Time Freshmen Enrollment	Number of Institutions		
				with 13 yrs of data	with 5 yrs of data	with 2 yrs of data
Small Colleges, Lower Tuition	SCLT	<\$21,000	<850	106	178	189
Small Colleges, Higher Tuition	SCHT	>=\$21,000	<850	54	66	70
Large Colleges and Universities	LCU	—	>=850	33	40	42
All Colleges and Universities	All	—	—	193	284	301

Estimated College-Going Rates for Dependents Age 18-24
(ratio of families with 1 or more dependents in college to total families with college-age dependents)
by Family Income in Constant Dollars (based upon CPS October supplement)



fact, that at least some of the aid awarded to these students would have been justified on the basis of financial need. The overlap between the characteristic-based or merit aid and need-based aid makes it difficult to assess the impact of financial aid distribution on a basis other than need.

Impact of Discounting on Access

Have institutions taken money away from need-based aid in favor of characteristic-based aid? We know that institutions are spending a great deal more on financial aid than they did 13 years ago—when NACUBO first conducted its Tuition Discounting Survey—but are they still spending the same amount as before on need-based aid (either directly as need-based aid or indirectly, under the guise of a characteristic-based program) and allocating the increased funds to characteristic-based aid? Are they spending more on all kinds of aid? The underlying question is whether access to education, funded by need-based aid, has been enabled or hampered by the evolving forms of financial aid.

By using a variety of other data sources, we can draw conclusions concerning the impact of discounting on access. Between 1990 and 2000, according to current population statistics, the 18- to 24-year-old population in the United States increased by 7 percent, high school graduates increased by 7 percent, and the percent of high school graduates enrolled in college jumped by 19 percent. During this same period of time, tuition rose by 84 percent at public universities, 65 percent at public two-year colleges, and 77 percent at independent universities, while the consumer price index increased by 32 percent. Enrollment in college during this 10-year period rose by 7 percent, which represents an increase of 4.3 percent at public colleges and 17.1 percent at independent colleges. These statistics indicate that access has

improved, particularly to independent colleges.

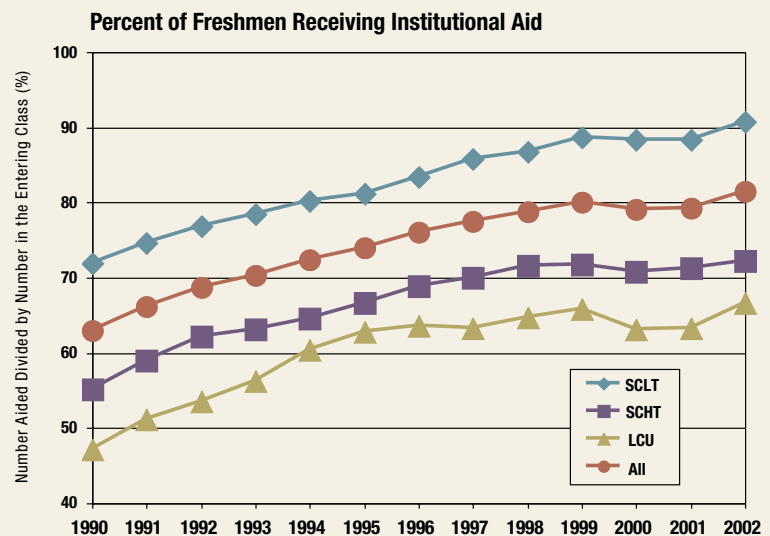
The accompanying chart, developed by Brian Zucker of Human Capital Research Corp.—from CPS tables provided by the U.S. Census Bureau—shows the college-going rates of 18- to 24-year-old dependents by income. The college-going rates of students with family incomes from \$15,000 to \$34,999 have all increased significantly. College-going rates in the higher-income categories have stayed relatively constant. These data, coupled with the information that enrollments in the independent sector have demon-

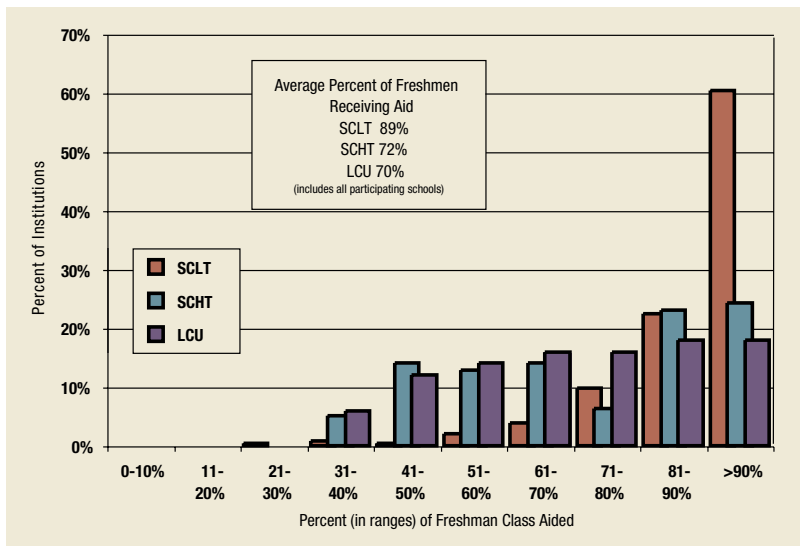
strated greater increases than enrollments in the public sector, indicate that increases in tuition and tuition discounting policies have not adversely influenced access to independent higher education. One possible reason: Many institutions publicly promote their tuition discounting strategies. This publicity could increase awareness of the private sector's affordability, encouraging more low-income students to apply.

The institutional impact of the discounting is harder to assess. When poorly implemented, discounting can be devastating to institutions, even leading to their closure, although these experiences seem to be exceptions.

Fewer Students Pay Published Price

Enrollment and the number of students who are receiving institutional financial aid continue to grow at independent institutions in the United States. In the fall of 2002, 81.4 percent of students received institutional financial aid, compared with 63.0





Grant Size Slowly Rises

The increases in the amount of aid granted students across the 1990s and 2000s have not been commensurate with the increases in the percent of students aided. For the average freshman receiving institutional aid, the grant as a percent of tuition increased from 43.7 percent in 1990 to 49.3 percent in 2002 at all institutions. This represents an increase of 12.8 percent over the 12-year period. Thus, while aid has become much more widely dispersed across an entering class, the average award

as a percent of tuition has gradually fluctuated, with almost no increase at the SCHTs.

percent of students in the fall of 1990. A review of the data by type of institution indicates that more than 90 percent of freshmen at SCLTs received institutional financial aid in the fall of 2002, compared with 72.2 percent of entering students at SCHTs and 66.6 percent of students at LCUs.

The percent of students who receive no institutional financial aid has decreased significantly between 1990 and 2002. In 1990, 6.8 percent of the institutions awarded aid to fewer than 30 percent of their students; in 2002, less than 1 percent of the institutions in the database awarded institutional aid to less than 30 percent of their students. At the other end of the spectrum, more than 30 percent of the institutions in 2002 awarded aid to more than 95 percent of their freshman, compared to 4.7 percent of the institutions in 1990 that did so.

The differences among the three categories of institutions in terms of the percent of students aided are quite striking. Slightly over 60 percent of SCLTs aid more than 90 percent of their entering full-time freshman class. The SCHTs have a split distribution, with one group of schools (41.0 percent) aiding between 41 and 70 percent and another (47.4 percent) aiding more than 80 percent. The LCUs are distributed relatively evenly across an aid range of 41 to 100 percent, tending slightly upward over that range and with a smaller number of institutions aiding 40 percent and fewer students.

Historically, higher education has granted institutional aid to students without the financial resources to attend. Today, institutions use aid both to provide access and as an enrollment management tool—to shape classes and increase enrollments. Many, if not most, institutions employ financial aid to recruit and retain students. The historical role of financial aid as a strategy to create and support diversity in the classroom remains but may not dominate the economic and strategic decisions institutions make in awarding aid. Characteristic-based aid provides an expanded opportunity, however limited, for many colleges and universities to compete for those students who might not otherwise choose a given institution.

Financial Aid as a Percent of Tuition and Required Fees (%)				
	1990	2000	2001	2002
SCLT	38.2	45.2	46.0	46.5
SCHT	54.0	55.3	55.5	55.5
LCU	44.0	47.4	47.5	48.2
All	43.7	48.4	48.9	49.3

Calculating the Discount Rate

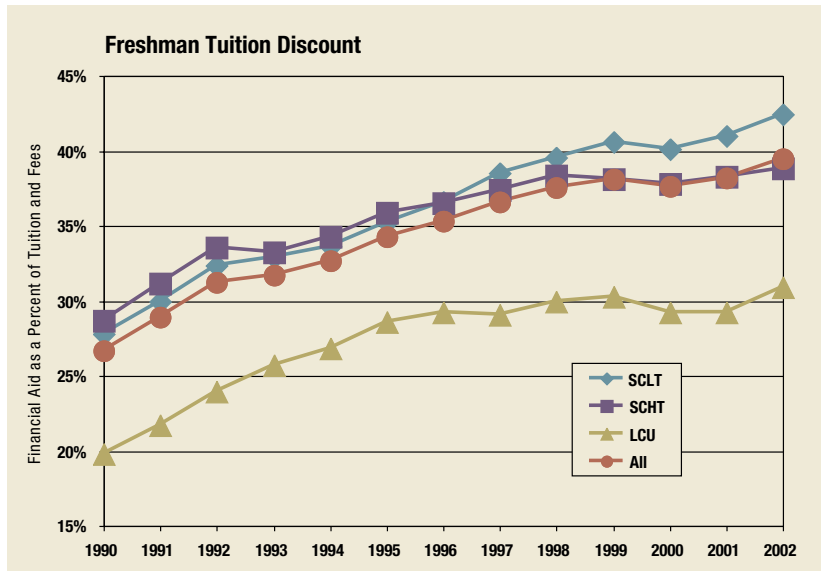
The tuition discount rate may be calculated in two ways:

1. Institutional financial aid dollars divided by gross tuition and fee revenue.
2. Percent of students receiving institutional financial aid multiplied by the average grant awarded as a percent of tuition.

Both methods lead to the same result. The first is perhaps the more traditional and well known of the two definitions. The second is interesting because it is the product of two decisions that management can explicitly control: the amount of the aid and its recipients.

The tuition discount has grown from 26.7 percent in 1990 to 39.4 percent in the fall of 2002, an increase of 47.6 percent. This means that at the average institution, only 60.6 percent of the published tuition price is realized as net tuition; the other 39.4 percent is returned to students as institutional financial aid. In 1990, the average tuition discount at the SCHTs and SCLTs was around 28 percent; the LCUs lagged behind with a discount rate below 20 percent. Over the intervening years, discounting has increased the most at the LCUs but is still far lower at 31 percent than at the small colleges. Discounting is highest at the SCLTs, where it is now 42.4 percent of the tuition.

In 1990, only 10 percent of the surveyed institutions had freshman discount rates above 40 percent. By 1999, more than 42 percent of institutions had discount rates above 40 percent. In



1990, 65 percent of institutions had discount rates of less than 30 percent, compared with only 19 percent in 1999. Today these numbers are 48 percent with discount rates above 40 percent and 18 percent with discount rates less than 30 percent. This represents a significant change in college pricing policies.

How Institutions Achieve Discount Rates

The accompanying scatter gram shows that an institution uses many combinations to achieve its discount rate. The left axis of the graph shows institutional aid as a percent of tuition, and the horizontal axis shows the percent of students aided. The three curved lines in the graph represent discount rates. The solid curve closest to the axes represents a 20 percent discount rate, and the next two curved lines represent 40 and 60 percent discount rates, respectively. Each mark pinpoints a single institution's discount rate; the hollow squares show 1990, and the solid circles indicate 2002.

Any circle on the 20 percent discount line represents an institution with a 20 percent discount rate. Thus, an institution that aids 30 percent of its students with an average award equal to 66.7 percent of its tuition would be on this line, as well as an institution that aids 100 percent of its students with an award averaging 20 percent of tuition; however, they would be at different points on the curve, demonstrating the different ways in which average discounts are

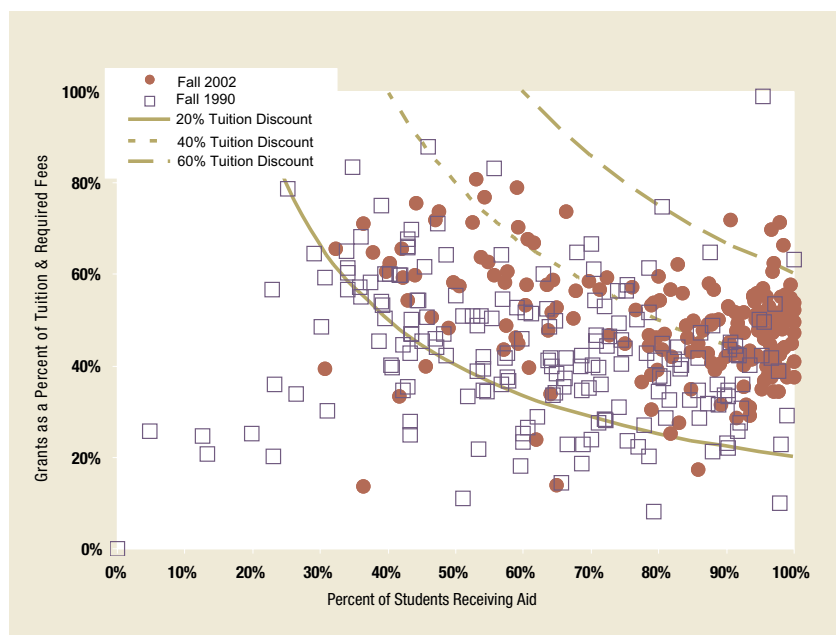
realized at different institutions.

The graph demonstrates how the percent of freshmen aided has increased between 1990 and 2002, while the average grant has increased only modestly during this period. A very significant number of institutions are now clustered at the right of the chart in the area where 90 to 100 percent of the students are aided.

Tuition Prices Zoom Upward

Between 1990 and 2002, the published tuition price at the independent colleges in the database concerned rose from \$10,268 to \$20,085, an increase of 95.6 percent. The SCLTs and the LCU's more than doubled their tuition over this period of time; the SCHKs increased tuition by 87.1 percent.

The tuition increase between 2001 and 2002 averaged 5.6 percent and exceeded 5 percent at all three types of institutions. In 2002, four institutions in the database decreased tuition from the 2001 level, and three institutions did not raise tuition. Each year, a very small number of institutions decrease or hold tuition constant; this strategy does not seem to be picking up steam, but a few institutions experiment with it each year. By the same token, each year a few institutions raise tuition by more than 10 percent; this year, 12 institutions opted for significant tuition increases.



Today, institutions use aid both to provide access and as an enrollment management tool—to shape classes and increase enrollments.

	Tuition Rates and Percent Increase			PERCENT INCREASE	
	1990	2001	2002	13 years	1 year
SCLT	\$8,490	\$16,089	\$17,001	100.3	5.7
SCHT	\$13,355	\$23,737	\$24,986	87.1	5.3
LCU	\$10,927	\$20,693	\$21,972	101.1	6.2
All	\$10,268	\$19,016	\$20,085	95.6	5.6

Net tuition per student has increased at about 60 percent of the rate of tuition, growing from \$7,496 in 1990 to \$12,235 in 2002. This is a marked improvement from several years ago, when net tuition was increasing at about half the rate of tuition, but it is down from a few years ago, when net tuition was increasing at almost 70 percent of the published tuition rate.

	Net Tuition Rates and Percent Increase			PERCENT INCREASE	
	1990	2001	2002	13 years	1 year
SCLT	\$6,098	\$9,425	\$9,735	59.6	3.3
SCHT	\$9,509	\$14,748	\$15,369	61.6	4.2
LCU	\$8,691	\$14,623	\$15,140	74.2	3.5
All	\$7,496	\$11,803	\$12,235	63.2	3.7

Notwithstanding improvements in growth rates of financial aid, this means that less and less of the stated price of attending a college or university is ultimately reflected in real income available to purchase educational services. In 1990, the average net tuition of \$7,496 was 73 percent of the average gross tuition rate of \$10,268. By 2002, the average net tuition rate of \$12,235 was a significantly lower 61 percent of the gross rate of \$20,085.

Examining the average changes at institutions masks the significant differences that individual institutions are experiencing. For example, between 2001 and 2002, 22 percent of the institutions saw decreases in their net tuition per student; a year earlier, only 19 percent of the institutions experienced declines in net tuition per student. Earlier in the decade, this figure was much higher; between 1990 and 1991, 35 percent of the institutions experienced a decrease in net tuition per student.

The accompanying graph shows the relationship in the fall of 2002 between gross and net tuition for freshmen. The horizontal axis is gross tuition, and the vertical axis is net

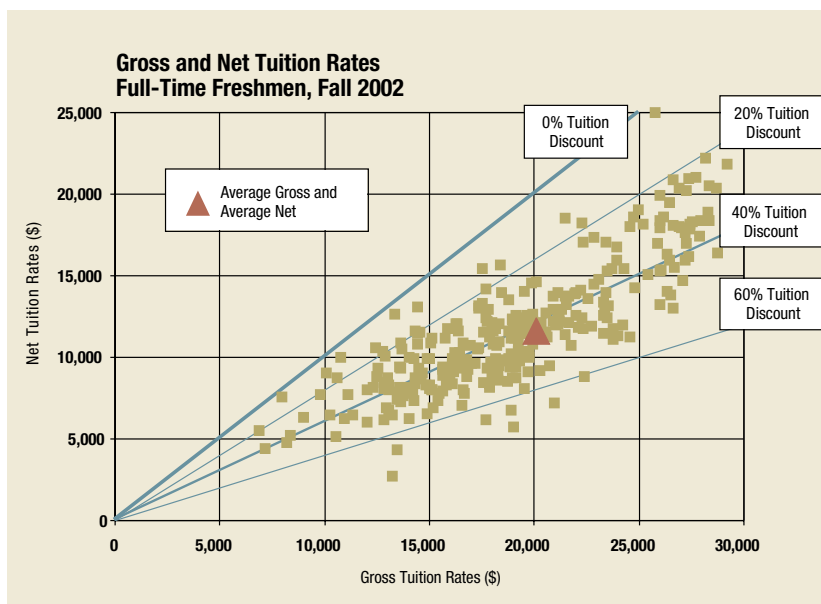
tuition. The solid line represents equality between gross and net tuition—or no discounting. No institutions appear on this line. The other diagonal lines represent discounts of 20, 40, and 60 percent. Each square indicates an institution.

This graph shows the range of net tuition prices at institutions charging the same tuition. The published prices give a prospective student little information about what he or she will actually pay.

Freshman Enrollment Up

Between 2001 and 2002, freshman enrollment increased by 1.6 percent overall at the 300-plus independent institutions in this database; gross tuition rates grew by 5.5 percent, and net tuition rose by 3.9 percent. The gap between the increase in tuition and net tuition has been narrowing in recent years. This indicates that as institutions increase tuition, financial aid rises only slightly more than that increase. In earlier years, a greater amount of the increase in tuition was offset by larger growth in institutional financial aid.

Enrollment and Tuition Rates			
All participants with 2 or more years of data			
	2001	2002	PERCENT INCREASE
Enrollment	531	540	1.6
Gross tuition rate	\$18,014	\$18,996	5.5
Net tuition rate	\$11,195	\$11,628	3.9



The tuition discount has grown from 26.7 percent in 1990 to 39.4 percent in the fall of 2002, an increase of 47.6 percent.

How Endowment Influences Aid

The public often assumes that an institution's endowment influences its ability to provide financial aid. The following graph shows institutions by endowment levels (y axis) and discount rates (x axis). (Several institutions with very high endowments are not displayed on the graph so that the data for the rest of the institutions may be more clearly shown.)

The graph (and the underlying data, which includes the institutions not displayed) demonstrates that no significant relationship exists between endowment size and tuition discounting. While there is a slight shift to lower levels of tuition discounting as endowment values decline, the difference between the institutions with endowments of \$1 billion or more and those with less than \$50 million is only 5.3 percent points—much less than the relative differences in

their institutional wealth. The wide ranges in discounting levels in each tier of endowment make the averages for each tier less indicative of individual experience.

Relative institutional wealth or poverty does not sharply affect the level of financial aid. By granting aid to a significant percent of their students, institutions fill their classes with the necessary number of students as well as the desired number of qualified students. Most institutions today cannot enroll an adequate number of qualified students at their published prices. Historically, the wealthiest colleges and universities, which espoused need-blind admissions policies, promised to meet the full need of all accepted applicants. During the admissions process, these institutions did not consider a student's ability to pay. Today, many institutions follow need-aware policies, meaning that an applicant's financial need is a consideration in the admissions process.

In developing an aid package, most institutions now consider both the need and desirability of the student in meeting the institution's enrollment criteria. Students with similar financial needs but different academic characteristics are likely to get different aid packages; a student who is desirable to an institution will be awarded significantly more grant aid than a less-desirable student, who may be offered much more of the package as a loan. Some institutions take this concept, called strategic packaging, beyond sorting for academic credentials and attempt to explicitly measure a student's willingness to pay—adjusting aid up or down on the basis of enrollment probability.



Endowment Range	# of Institutions	Average Tuition Discount
\$0–10 million	58	33.8%
\$11–25 million	64	39.2%
\$26–50 million	72	40.0%
\$51–100 million	61	42.5%
\$101–200 million	57	37.6%
\$201–500 million	29	40.5%
> \$500 million	22	35.7%
Total	363	38.7%

Looking Ahead

Tuition discounting—pervasive, growing, and evolving—has become a critical element in the enrollment management plan, absorbing more resources each year. Colleges and universities use institutional aid to enhance diversity, manage access, and support pedagogy. For some, it is a tool for maximizing academic quality. Aid is used to overcome unwillingness to pay. Unfortunately tuition discounting still confuses many potential students and families, who despite increasing aid sophistication, still overestimate the costs of

attending college. Aid crosses economic sectors of the industry, with the well-endowed institutions participating as broadly as those institutions with few resources.

Institutions have worked creatively to balance the use of discounting against other enrollment and financial strategies. The goals of meeting student need and ensuring educational access are increasingly taking a back seat to a more intentional management of financial and enrollment goals. In the absence of radical shifts, the prognosis is further marginal refinement in the techniques and amounts of aid. Tuition discounting will most likely grow or at least not decline significantly; its use will continue to evolve at the hands of a creative, dynamic, value-oriented, and economically pressed industry.

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WANT MORE DATA? ORDER YOUR EXECUTIVE SUMMARY

The 2002 Tuition Discounting Survey—Executive Summary for Independent Institutions, available from NACUBO on CD-ROM, provides a reference guide and more than 20 charts, some of which can be modified to compare an individual institution's data with that of the industry for presentation to an institution's governing board. The publication is \$29.95 for NACUBO members and \$39.95 for nonmembers. To order, go to www.nacubo.org, call 866-348-6300, or send credit card information, a check, or purchase order to NACUBO Publications, P.O. Box 362, Annapolis Junction, MD 20701-0362. Item No. NC1275 must appear on all orders.

For information about participating in the fall 2003 survey, contact Maryann Terrana, program manager, (202) 861-2562, maryann.terrana@nacubo.org.