THE FUTURE OF TUITION

Same Classroom, Different Price

Colleges debate ways to vary tuition among students and increase revenue

By SARA HEBEL

Each time you travel on an airplane, chances are that the passengers around you paid different fares for the same journey. The corporate executives taking a last-minute trip without a Saturday-night stay probably paid a lot more than the vacationing family who booked months in advance.

Charging different prices allows airlines to maximize profits: They can levy premium fares on business travelers with tight schedules and company credit cards while filling their planes at off-peak hours by offering cheaper rates to budget-minded passengers.

Now administrators and governing boards at many public universities are asking whether they might benefit from a similar approach to tuition. As taxpayer support for higher education dwindles and tuition rates rise, colleges and state governments are seeking ways to increase revenue. They also want to respond to cries from families and students for more predictability in rate increases. And some are considering tuition discounts to encourage students to make choices that help colleges meet goals of their own.

Proposals being discussed in California, Maryland, Texas, and elsewhere would assign different tuition rates to students at the same campus based on such things as their family income, the time of day they take classes, and what major they pursue.

In effect, students already pay varying rates, depending on how many scholarships they win and how much financial aid they are awarded from state, federal, and institutional sources. But the new proposals would make price differences more transparent: Colleges would list an array of tuition rates upfront.

Demand for New Approaches

Many college administrators and state higher-education officials believe that institutions must look for ways to significantly restructure their financing. That is because economists are warning that state subsidies are likely to continue to decrease as a proportion of colleges' budgets, even after the current economic downturn. As a result, some state legislatures are beginning to give their public colleges more freedom to set their own tuition policies, making way for new approaches.

The Texas Legislature in June granted the state's public-university boards control over tuition, ending decades of legislative authority over rates. Mark G. Yudof, chancellor of the 15-campus University of Texas System, wants officials at his campuses to think creatively about using their new authority and
suggests that rates might be adjusted to further strategic goals like encouraging more students to graduate on time. (See article on Page A13.) Just raising tuition across the board when state appropriations fall, as many states and institutions do, might not be the most effective or lucrative strategy, he argues.

"If American Airlines hired an outside consultant to tell them how to increase profits, and the suggestion was only to raise prices, the consultant probably would be fired," Mr. Yudof says. "The whole name of the game is differentiation."

Long-Term Crunch

As a concept, differential pricing is not entirely new at public or private colleges. At the graduate level, law schools, business schools, or medical schools -- from which students are expected to go on to earn significant salaries and be able to pay off any debt -- often cost more than graduate course work in the liberal arts. And undergraduate students who take laboratory classes, which are more expensive to offer than large lecture classes, are often assessed fees to cover the costs.

But the latest economic slump is reviving conversations about restructuring prices on a broader, universitywide basis at public institutions, which are watching a mainstay of their financial support fade as states struggle with budget deficits and rising health-care costs.

The discussions haven't been as prevalent at private colleges, higher-education analysts say, because they are not facing the same long-term shifts in financial resources that public institutions face. Stock-market fluctuations affect the revenue streams of private institutions, but those ups and downs don't prompt a fundamental shift in where those colleges will have to seek income in the future.

In addition, many private institutions have larger pots of institutional aid to award, giving them more flexibility in how they discount their tuition for individual students and lessening their need to consider upfront variations in prices, some college officials say. And independent institutions are typically viewed as more of a private good than a public one, meaning that they generally face less societal pressure than do state institutions to consider the effect of pricing on access to college or to respond to taxpayers' ire about rising tuition.

Pluses and Minuses

The tuition strategies being debated at public institutions get mixed reviews by college officials and higher-education analysts. They argue that differential pricing would amount to little more than a gimmick, masking an institution's main goal of increasing revenue by relying more on students and families. The plans would be hard to administer, they add, with college officials having to keep track of many different rates. And some approaches, especially ones charging tuition based on family income, would be difficult to muster political support for, particularly among middle-class voters.

"Everybody's squirming under this unpleasant task of charging students more," says David W. Breneman, dean of the Curry School of Education at the University of Virginia. "And, in some ways, they may be trying to sugarcoat it."

But several analysts who follow higher-education policy say that some of the proposals could prove beneficial for both students and public institutions. If differences in tuition are explicit and easy to explain, they might reduce the "sticker shock" that discourages some students from going to college.

Student-aid advocates and others have long worried that low-income students may see a high tuition and
assume that they can't afford college because they do not know enough about available aid. If those students could see lower prices upfront, they might be more apt to pursue college, some argue.

Higher-education officials also laud approaches to tuition intended to improve the effectiveness of colleges while also giving students some control over how much they pay. Among the most praised ideas is offering discounts to students who take classes during unpopular times, such as in late afternoons and on Fridays or weekends. That approach is already in place at the University of Oregon and is being talked about at the University of Texas and elsewhere.

"Pricing tuition based on class time is very promising because it does improve productivity," says Kristin Conklin, a senior policy analyst for the National Governors Association. "And, in the long run, it can help promote access."

Low-income students and students with children, who often prefer evening classes because they don't conflict with jobs and are held at times when it is easier to find baby sitters, might be more enticed into college courses if they were cheaper at that time of day, she says.

Tuition policies that make it easier for families to predict how rates will increase also help parents plan financially. One of the most widely adopted new approaches to tuition has been to charge different rates for each entering class. In 2001, the Chicago and Urbana-Champaign campuses of the University of Illinois added a surcharge for new freshmen so that they paid higher rates than returning students. Universities in Indiana, Ohio, Pennsylvania, and elsewhere later followed suit. This year Illinois has guaranteed that the higher rate paid by incoming students will not rise further, by passing a law that requires institutions to keep tuition the same for students from their freshman year until graduation.

Worries About the Poor

Nevertheless, that approach to tuition, like many of the others under debate, fails to deal with several key problems in higher education, say some college officials. Guaranteeing a certain price throughout college is nice, they say, but what are states and their institutions doing to make sure that low-income students can afford college in the first place?

"You will see more and more sticker-price differentiation," says Donald E. Heller, a senior research associate at the Center for the Study of Higher Education at Pennsylvania State University at University Park. "But what kind of resources are you making available to the poorest students? That's always been the issue."

Even tuition structures that give discounts to low-income students might not be as desirable, or as practical, as working to increase the money in student-aid programs.

University of California regents, for instance, have discussed a sliding tuition scale that would designate higher rates for students from wealthy families and successively lower rates for those from middle-income and poor backgrounds. But that approach is likely to upset middle- and upper-income Californians, who have gotten used to paying relatively low rates for their public colleges and are not likely to embrace the prospect of shelling out more than their neighbors for the same education. States and colleges are likely to be more successful in getting residents to support the goal of helping low-income families in a more-familiar way, by allowing their tax dollars to continue to go toward state grant programs.

"People are always gung-ho to have need-based scholarships," says Mr. Yudof of Texas. "Oftentimes they think it's manna from heaven."
It is harder for people to swallow paying different prices upfront, he adds. "When you sit in an airplane seat you paid $800 for and the guy next to you went to Priceline.com or wherever and paid $400, it doesn't make you feel very good," he says.

Patrick M. Callan, president of the National Center for Public Policy and Higher Education, points out that a policy like the one being discussed at the University of California would shift the burden of helping low-income students from taxpayers as a whole to the group of families who happen to be sending their children to college at the same time as are people with lower incomes. "When people back access," Mr. Callan says, "it is when the government is the redistributor of income."

Ms. Conklin of the governors' association argues that all this focus on the tuition side of institutions' finances leaves out important conversations about how colleges need to control spending. She says institutions need to cut costs by focusing their missions, avoiding duplicate academic programs in their states, and cooperating with other institutions. As state aid falls, she argues, colleges should look to reallocate their own resources before turning to students and their families.

"There is too much attention to the pricing side of things," Ms. Conklin says. "Colleges and the public need to come to grips with the fact that higher education cannot be all things to all people."

Mr. Callan, too, urges officials at public universities to broaden their thinking as they craft long-term financing policies. He worries that swift changes in tuition approaches might lead to more confusion among families and students trying to figure out how to pay for college.

"This is the beginning of a conversation that is very positive and healthy, but with a quick fix we will increase the chaos and incomprehensibility of this system," Mr. Callan says. "This is a time to be careful and not jump to solutions."

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