WHAT DO STUDENTS REALLY PAY FOR COLLEGE, AND HAVE THOSE PAYMENTS BEEN RISING?

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

- 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 appeared to be enough to offset increases in the total price at most institutions.
- Low-income students at public and private, not-for-profit institutions faced a total increase of less than $200 over the seven-year study period.

More than two-thirds of students attending four-year institutions face tuitions, before grant aid, of less than $8,000 per year.

- Nearly 70 percent of full-time undergraduates at four-year institutions attend schools with annual tuitions of less than $8,000.
- About 38 percent of full-time undergraduates at four-year institutions attend schools that charge less than $4,000.

The average tuition students pay at private colleges and universities has slightly declined over the past decade, once you subtract grant aid and adjust for inflation.

- In the 1992-93 school year the average net tuition paid at private colleges and universities was $9,000. In 1999-2000 the average was $8,900, adjusted for inflation.

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

- The federal government, states, and institutions all offer financial aid to help low- and middle-income students afford college.
- Nearly 20 percent of traditional-aged undergraduates come from families with incomes below $25,000 per year.

There is student financial assistance for the middle class.

- A wide variety of student financial aid programs are available to help middle-income families, including many grants and scholarships as well as tax incentives and benefits.
- At public four-year colleges, about 40 percent of students with family incomes between $40,000 and $80,000 receive grants averaging $2,900.
- At private institutions, almost 75 percent of students with family incomes between $40,000 and $80,000 are awarded grants or scholarships that average $9,300.

Tuition does not begin to cover the full cost of the education provided.

- Institutions supply a great deal of "indirect" aid to students by raising and supplying funds that allow students to pay far less than the actual cost of their education.
- Experts estimate that, after indirect and direct student aid is taken into account, students pay about one-third of what it actually costs to educate them.

A college education is an investment that pays dividends.

- According to The College Board, median annual income for college graduates is 80 percent higher than median income for those with only a high school diploma. Over the course of a lifetime, the difference in earning potential between a high school graduate and a college graduate is more than $1 million.
WHY ARE COLLEGE COSTS RISING?

Colleges and universities are working hard to cut costs, but the “sticker price” of college is clearly rising. And while nearly 70 percent of full-time undergraduates at four-year institutions face tuition of less than $8,000 per year, there is a growing public perception that a college education is increasingly difficult to afford. So a key question is: Why are tuitions rising? Here are the answers.

The main factors driving the cost of a college education include: decreasing state appropriations; keeping up with scientific and technological advances; increasing the amount of student aid that campuses provide; maintaining compliance with federal, state, and local regulations; and increasing labor costs.

States have reduced their support for higher education this year.
- Many states are facing budget shortfalls and declining revenue. As a result, state policy makers have enacted significant budget cuts affecting colleges and universities.
- At least 26 states have reduced or held flat appropriations for higher education overall for the 2003-04 academic year.
- The drop in state spending averages 5 percent, but goes as high as 26 percent.

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

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.
- Knowledge in most scientific disciplines doubles every 7 to 10 years. In the last twenty-five 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 found, 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 education that is dated and obsolete.

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 especially the case for private institutions and large public universities.
• In academic year 2000-01, campus-provided financial aid accounted for nearly 20 percent of all available aid (federal, state, and institutional aid). Since 1991-1992, the estimated amount of institutional and other grant assistance has more than doubled in constant-dollar value from $8.3 billion in 1991-92 to $17 billion in 2000-02.

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 regulate 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 in turn increase operating costs.
• In 1998, Stanford University estimated that five cents of every tuition dollar went to meet the costs of federal regulations. Compliance with state and local regulations also increases costs.

Higher education is a labor intensive undertaking.
• It is commonplace for colleges and universities to spend 60 percent or more of their budgets on human resource costs. In many cases—such as engineers, computer scientists, biologists, chemists, and doctors and lawyers—colleges and universities compete with the private sector to hire outstanding faculty members.
• 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?

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

Here are some of the ways 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.

- The University of Colorado system eliminated 500 faculty and staff positions.
- The University of Massachusetts at Amherst has laid off 100 full-time employees.
- The University of Nebraska laid off 15 tenured faculty members.
- The University of Colorado system has frozen salaries.
- Stanford University froze new hirings in 2002.

**Reducing Course Offerings**
- The University of Wisconsin at Madison is offering 300 fewer courses and increasing class size this fall.
- The University of Illinois cut 1,000 classes on hundreds of subjects.
- The California State University system will turn away up to 30,000 students in the spring.
- Virginia Polytechnic Institute is suspending mandatory history classes.
- The University of Nebraska is canceling Portuguese and reducing Russian and museum studies.
- 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 and will shortly eliminate its integrated marketing communications program.
- The University of Missouri has cut its teacher training program in half and eliminated a nursing degree.

**Delaying, Merging, or Closing Campus Offices and Programs**
- The University of California has delayed student admission at its newest campus, UC Merced.
- The University of Nebraska is closing agricultural research laboratories.
- The University of Wisconsin system is consolidating majors requiring lab equipment to offer them at fewer campuses.
WHAT CAN CONGRESS, THE DEPARTMENT OF EDUCATION, AND THE HIGHER EDUCATION COMMUNITY DO TO MAKE COLLEGE MORE ACCESSIBLE AND AFFORDABLE?

The nation’s higher education community wants to work with the Congress to make college more affordable and accessible. How can Congress, the Department of Education, and the higher education community work together to accomplish these goals?

Provide Student and Families With More and Better Information

- Students have a choice of over 3,000 U.S. colleges and universities, with different missions, degree options, and tuitions.
- Institutions compete with each other for students; as with any other commodity, consumers (in this case students and families) require reliable information to make their choice in the market.
- Given the market for college guide books, there is clearly a demand for consumer information. However, the guide books on the market may not provide a full picture of college costs.
- The Department of Education's College Opportunities On-Line (COOL) Web site should be re-tooled to provide essential consumer information to students and families, such as multi-year trend data on tuition and comparisons of tuition by institution, sector, and average increases over time.

Ensure that Consumer Information is Accessible and User Friendly

- The Department of Education should make information on the COOL Web site as user friendly and accessible as possible.
- The Department and colleges and universities should work together to promote the COOL Web site so that more students and families can benefit from its useful information. For example:
  - Colleges and universities could include the COOL Web site address in the materials they provide to prospective students.
  - The Department could prominently promote COOL on its Web site and advertise COOL in college guidebooks, such as Peterson's and U.S. News & World Report.
  - The Department could provide information about the COOL Web site to high school counselors to distribute to students.

Launch a Campaign to Inform Students and Families of Financial Aid Options

- Research has consistently demonstrated that Americans badly overestimate the price of a college education and underestimate the amount of financial assistance that is available.
- Low-income and minority students and their families are especially likely to misjudge the price of higher education and the availability of financial aid and thus forgo college.
- An effective way to address this issue would be a large-scale, professional public relations and advertising campaign to educate the public, highlighting the value of higher education and the availability of student financial aid and providing a means of obtaining additional information. Promoting the COOL Web site should be part of such a campaign.
Provide Greater Assistance to Students and Families to Help Them Afford College
- Raise the maximum Pell Grant and provide the resources necessary to fully fund the program.
- Strengthen the federal student loan programs by eliminating loan origination fees, providing greater flexibility for repayment, and raising the borrowing limits on loans.
- Increase participation in and funding for federal campus-based aid programs, including work-study, Supplemental Educational Opportunity Grants, and the Perkins Loans.

Conduct a Demonstration Project to Encourage Innovation in Financial Aid and Education
- Rep. Buck McKeon has suggested creating a College Affordability Demonstration Program that would provide incentives to participating institutions “to implement innovative strategies in their delivery of financial aid and education.” This is a creative idea for encouraging innovative means of making college more accessible and affordable.

Continue Efforts to Control and Cut Costs
- Colleges and universities are taking big steps to cut their costs, including merging administrative and academic programs, eliminating redundant services, contracting out for services, implementing consolidated purchasing programs, and laying off personnel in non-essential areas and programs.
- Colleges and universities should continue their efforts to be more efficient in achieving their missions without reducing the quality of teaching and research.
THE “AFFORDABILITY IN HIGHER EDUCATION ACT OF 2003:”
FEDERAL PRICE CONTROLS ON COLLEGE TUITION

The “Affordability in Higher Education Act of 2003” has not yet been introduced as legislation. The draft summary of the bill, however, states that it would require the Department of Education to monitor changes in college tuitions and fees and to impose penalties on schools that exceed a federally established price ceiling. According to the summary, the Secretary of Education would create a "College Affordability Index" that would be based on the Consumer Price Index (CPI). Tuition and fee increases of every college and university would be measured against this new index. This proposal raises serious concerns, among them the following:

The proposal contains unambiguous federal price controls. Any college or university—public or private, non-profit, for-profit—that raises its price faster than a rate determined by the federal government is subject to federally imposed sanctions. This is the defining characteristic of a price control program.

The proposal is highly bureaucratic and would lead to extensive new federal regulations. Price controls require a far-reaching regulatory apparatus, and this complex proposal would be no exception. Ironically, compliance with existing complex and costly federal regulations is already one of the chief factors driving college prices higher.

The enforcement harms low-income and minority students. The proposal would penalize institutions with tuition in excess of the index by removing the institution—and hence the students at the institution—from participation in all programs in the Higher Education Act except Pell Grants and Federal Student Loans. This would affect programs that mainly benefit low-income and minority students, including work-study, Supplemental Educational Opportunity Grants, TRIO, GEAR UP, and aid to Historically Black Colleges and Universities, Developing Institutions, and Hispanic Serving Institutions. While aimed at increasing college access for low- and middle-income families, the proposal would do more harm than good for those students.

The proposal fundamentally alters the relationship between the federal government and colleges and universities. The proposal gives open-ended powers to the Secretary of Education to intervene in the daily management of colleges and universities. The Secretary is given broad discretion to review management and action plans and to insist on any changes, such as the elimination of academic programs or the firing of faculty. This unprecedented set of authorities would start to turn our system of higher education into something run out of Washington, thereby undermining the independence of this thriving sector which is the envy of the world. We should not turn the Secretary of Education into a tuition czar.

The proposal relies on an inaccurate measure to gauge changes in college prices. The Consumer Price Index measures prices of goods and services purchased by a family, an entirely different “market basket” from a university. Families buy quarts of milk and loaves of bread; universities hire computer scientists and construct laboratories. With such serious consequences attached, changes in college prices should at least be measured by an accurate benchmark.
The proposal would undermine the financial health of some colleges. Many schools borrow funds in the private credit market. Two influential bond-rating services have warned that they will lower the credit rating of some colleges and universities if federal price controls are adopted. This would increase borrowing costs, thus adding to upward pressures on tuitions.

This is a one-size-fits-all proposal. It treats short-term, career-focused schools and four-year schools, community colleges and research universities, private colleges and public institutions all the same. Clearly, these institutions face very different cost pressures due to their varying missions and the types of instruction and services they provide.

An additional level of bureaucratic compliance is imposed on public institutions that do not set their own pricing policies. In states where entities other than the public college or university set tuition, especially states like California and New York where numerous public institutions are involved, the requirement that the state government be involved in developing a management plan would be extremely cumbersome. This is an additional burden that would create a new unfunded mandate.