A primer on college cost.

No start of an academic year goes by without renewed anxiety about the ever-increasing price of a college education. Although parents, students and policymakers have voiced their concerns for years about colleges raising tuition and fees at seemingly astronomical rates, the recent economic downturn brought forth a heightened sense of alarm. In a survey of adults ages 18 and older, 65 percent of respondents believed college prices were growing faster than other items and services and 83 percent said students have to borrow too much to go to school.[i] Further, with increasing numbers of students taking on larger amounts of debt to finance their college education, the present day conversation about the price of college often turns to talk of tuition and a student loan debt bubble, akin to the housing bubble, and speculation about when and how that bubble will burst.

For the 2014-2015 school year, the average published tuition and fees for undergraduates at public four-year colleges were $9,139, up 2.9 percent from the prior year; for private non-profit four-year colleges, the average published tuition and fees were $31,231, up 3.7 percent from the 2013-2014 school year; and for public two-year colleges, the average published tuition and fees were $3,347, up 3.3 percent from the 2013-2014 school year.[ii] Over the last decade, the increases in published tuition and fees at four-year public colleges increased 3.5 percent; at private non-profit four-year colleges the average published tuition and fees increased 2.2 percent; and at public two-year colleges, the average published tuition and fees rose 2.5 percent.[iii]

As the price of college has risen, so has the number of students who need financial assistance. Over the last five years, the number of Pell grant recipients has risen from 6.2 million to 9.2 million. Additionally, in the last decade, the federal government's investment in student aid through federal grants, loans, work-study and tax credits and deductions, adjusted for inflation, has risen from $93.3.7 billion in 2003-2004 to $164.5 billion in 2013-2014, a 76 percent increase.[iv] This level of dramatic increase has led many to conclude that the current system of higher education costs and spending has grown unsustainable for students, parents and the American taxpayer.

The Price of College

When students and parents think about college, one of the first questions they ask is "how much is it going to cost?" The answer to this seemingly simple question is "it depends." While many in higher education do not like the analogy, looking at college tuition is in many ways like looking at the price of a car – there is a sticker price (i.e., the published or suggested retail price), and then a price (i.e., the net price) that is often lower and not readily known to the general public but determined on the basis of various individual factors (e.g., family income) that lead to a discounted price for students and their families.

Recently, the price of college has also been impacted by a shift in the "student share" of tuition. In 2012, the money colleges collected in tuition dollars from students surpassed the money they received from state funding for the first time ever. In 2014, tuition accounted for about 47% of school revenue. This has added to the significant burden families carry when paying for postsecondary education.

Sticker Price

The sticker price is the published price. This is a non-discounted price and does not take into account what a student or family must actually pay out-of-pocket after accounting for grant and scholarship aid. It is the sticker price that typically grabs headlines.

Over the last several decades, college tuition and fees, as measured by the published price, rose sharply and well outstripped increases in the rate of inflation and increases in wages. In the 1980s and 1990s, the highest rate of increase in the sticker price for tuition and fees occurred among private nonprofit four-year colleges and universities. In this most recent decade, however, public four-year colleges and universities took the lead with their published tuition and fees rising twice as fast as the average published price of private non-profit four-year schools. In the last ten years, public two-year colleges likewise raised their published prices, about 35 percent after adjusting for inflation.[vvi] The table below shows the average published charges by type of institution for the 2014-2015 school year, as well as the percent and dollar amount changes from the prior year.

TABLE 1A Average Published Charges for Full-Time Undergraduates by Type and Control of Institution, 2014-15 (Enrollment-Weighted)

	Public Two-Year In-District	Public Four-Year In-State	Public Four-Year Out-of-State	Private Nonprofit Four-Year	For-Profit
Tuition and Fees					
2014-15	$3,347	$9,139	$22,958	$31,231	$15,230
2013-14	$3,241	$8,885	$22,223	$30,131	$15,040
$ Change	$106	$254	$735	$1,100	$190
% Change	3.3%	2.9%	3.3%	3.7%	1.3%
Room and Board					
2014-15	$7,705	$9,804	$9,804	$11,188	—
2013-14	$7,540	$9,498	$9,498	$10,824	—
$ Change	$165	$306	$306	$364	—
% Change	2.2%	3.2%	3.2%	3.4%	—
Tuition and Fees and Room and Board					
2014-15	$11,052	$18,943	$32,762	$42,419	—
2013-14	$10,781	$18,383	$31,721	$40,955	—
$ Change	$271	$560	$1,041	$1,464	—
% Change	2.5%	3.0%	3.3%	3.6%	—

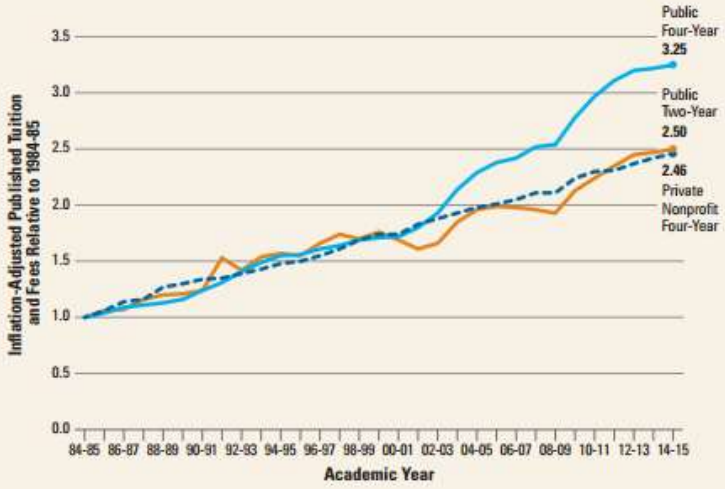
— Sample too small to provide reliable information.

NOTES: Prices in Table 1A are not adjusted for inflation. Prices reported for 2013-14 have been revised and may differ from those reported in *Trends in College Pricing 2013*. Public two-year room and board charges are based on commuter housing and food costs. Tuition and fee figures for the for-profit sector should be interpreted with caution because of the low response rate.

SOURCE: The College Board, Annual Survey of Colleges.

While the trend lines shown below demonstrate a rather smooth, upward increase in college tuition, it is also useful to look at patterns in year-to-year increases in college tuition and fees. There, we see a far more erratic pattern of small annual percentage increases sometimes followed by sharp double-digit percentage increases.

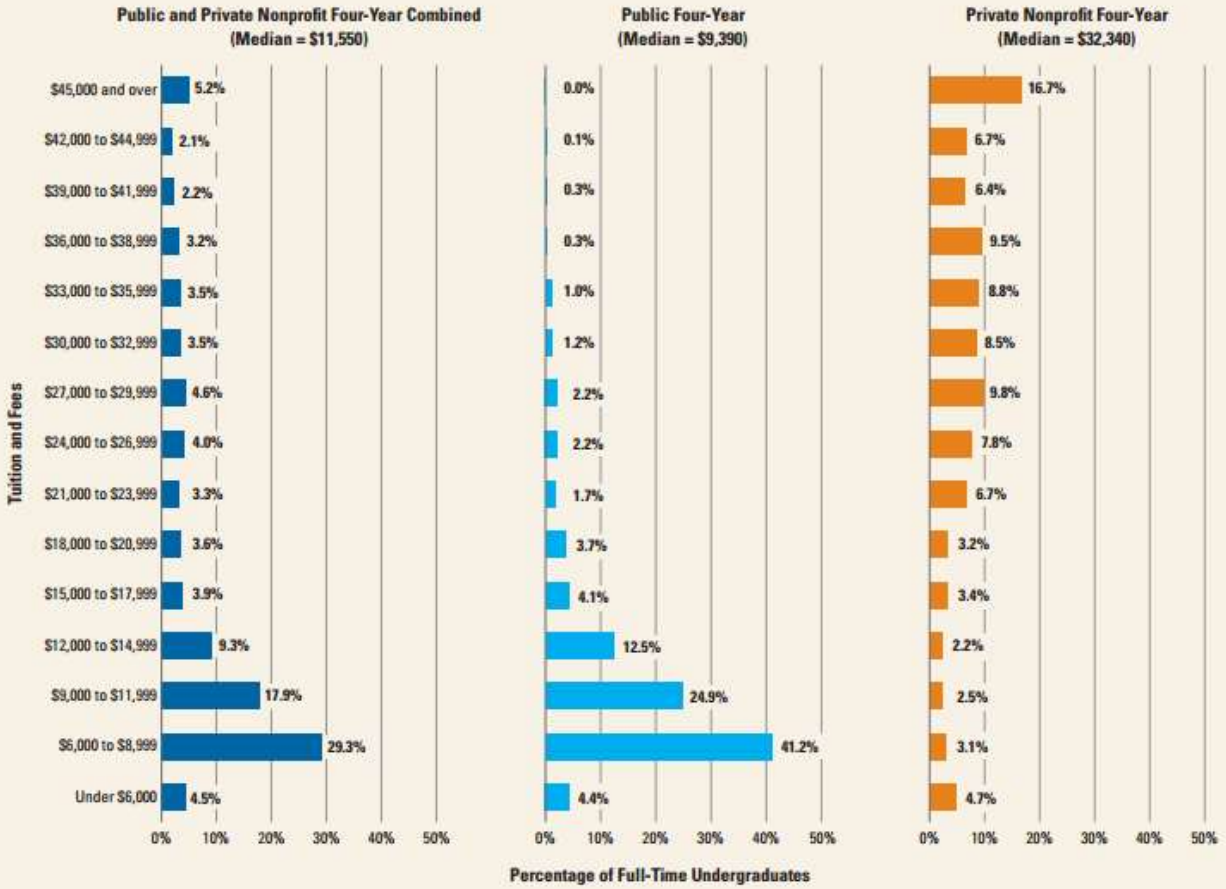
FIGURE 6 Inflation-Adjusted Published Tuition and Fees Relative to 1984-85, 1984-85 to 2014-15 (1984-85 = 1.0)



NOTES: Figure 6 shows published tuition and fees by sector, adjusted for inflation, relative to 1984-85 published prices. For example, a value of 3.25 indicates that the tuition and fee price in the public four-year sector in 2014-15 is 3.25 times as high as it was in 1984-85, after adjusting for increases in the Consumer Price Index. Average tuition and fee prices reflect in-district charges for public two-year institutions and in-state charges for public four-year institutions.

Over the last few decades, a small subset of institutions froze or decreased tuition for a year or more. Unfortunately, these freezes in tuition and fees were often followed by large percentage increases in tuition and fees to make up for previous dips in revenue. This rather erratic pattern of the rate of increase in published tuition and fee rates has made financial planning for students and their families exceedingly difficult, since there is no clear pattern for predicting how much or how little tuition will go up in any given year. Although media reports most often report on the sticker price at the most expensive colleges and universities in the nation, typically the $40,000 and above club, it is useful to keep in mind that most undergraduates are not enrolled in the highest-priced institutions. For the 2014-2015 academic year, 51.7% percent of undergraduates enrolled in four-year colleges (public and private nonprofit) were enrolled in schools with a published price of less than $12,000 for tuition and fees.

FIGURE 3 Distribution of Full-Time Undergraduates at Four-Year Institutions by Published Tuition and Fees, 2014-15



NOTES: For out-of-state students enrolled in public four-year institutions, the nonresident premium has been added to in-state tuition and fees. Some out-of-state students benefit from reciprocity agreements, which allow students from neighboring states to pay less than the full out-of-state price. The distribution of students across institutions is based on the latest available enrollment data, which are for fall 2013. Percentages may not sum to 100 because of rounding.

SOURCE: The College Board, Annual Survey of Colleges.

It is always important to keep in mind that tuition and fees are only part of the total cost of attendance. Other expenses include books and supplies, room and board, health insurance and transportation. At a public four-year institution, students can expect these kinds of expenses to add an additional $14,000 on top of tuition and fees. See below for the average estimated undergraduate costs for the 2014-2015 school year, broken down by sector.

FIGURE 1 Average Estimated Full-Time Undergraduate Budgets by Sector, 2014-15 (Enrollment-Weighted)

NOTES: Expense categories are based on institutional budgets for students as reported by colleges and universities in the Annual Survey of Colleges. Figures for tuition and fees and room and board mirror those reported in Table 1A. Other expense categories are the average amounts allotted in determining total cost of attendance and do not necessarily reflect actual student expenditures.

SOURCE: The College Board, Annual Survey of Colleges.

Net Price

As discussed earlier, the published sticker price is not the price many students and their families actually end up paying. Net price is the price a student or family pays after subtracting the amount of grant and scholarship aid they receive from the published price of attendance. In 2012-2013, 8.8 million undergraduates received a federal Pell grant and 1.6 million undergraduates received a Federal Supplemental Educational Grant. Although student loans may be a significant part of a student's financial aid package, because the loans must eventually be repaid out-of-pocket (unlike a grant or scholarship), student loan aid is not subtracted from the sticker price when calculating the net price.

Focusing on net price, rather than the sticker or published price, has become very popular among policymakers and college and financial aid administrators in recent years. Surveys have indicated that many students and parents, especially lower-income, first generation college students, overestimate the amount they will be required to pay out of pocket for college and underestimate the amount of financial aid for which they are eligible. This misperception deters some students from even applying for school out of a belief that there is no way they could ever afford to go to college.

Federal Response to Increases in the Price of College

The setting of college tuition and fees is the responsibility of individual colleges and universities. Although the federal government does not have jurisdiction over how much colleges and universities charge, because the federal government provides substantial financial aid to assist students in paying for college, there has been discussion about the role the federal government should or might play in addressing college costs. During the last full reauthorization of the Higher Education Act, the Higher Education Opportunity Act of 2008 (HEOA), Congress included a number of provisions related to the price of college.

Net Price Calculators

In recent years increasing attention has been given to making the net price of college better understood to families through tools such as a net price calculator. Every college and university receiving Title IV federal financial aid is now required to have a net price calculator on its website that students and families can use to estimate the net cost of attending their school. Schools have the option of using a net price calculator designed by the U.S. Department of Education or designing their own, provided they meet the minimum requirements of the statute.

Since these net price calculators are relatively new and varied in design (from the very simple to the very detailed and complex), it can be difficult to know if students and families, especially those of lower income, find them useful in planning for and making decisions about going to college. A recent study from the University of Pittsburgh found that net price calculators' estimates of federal and state aid do correlate highly with actual aid received but that institutional aid estimates were much less accurate. According to this latest research, while these calculators can provide a "ballpark" of expenses for low income families, the variation in what the actual cost could turn out to be is substantial.[vii]

In addition to the net price calculator, on the Department of Education's College Navigator website (http://nces.ed.gov/collegenavigator/), the average net price for beginning full-time undergraduate students, disaggregated by income levels, is reported for all institutions eligible for Title IV federal financial aid.

Tuition Lists

Also included in the Higher Education Opportunity Act of 2008 is an annual requirement for the U.S. Secretary of Education to make public a list for each of the various sectors of higher education (4-year, 2-year, less than 2-year, public, private nonprofit, and for-profit) of the 5% of schools with the highest tuition and fees, the 5% of schools with the highest net price, the 5% of schools with the highest increase in tuition and fees, the 5% of schools with the highest increase in net price, the 10% of schools with the lowest tuition and fees and the 10% of schools with the lowest net price.

The first annual reporting of these lists was required by July 1, 2011, and may be found at the Department's College Affordability and Transparency Center website (http://collegecost.ed.gov/catc/). Schools with the highest increases are required to file reports with the Secretary of Education detailing the reasons for the increase in cost and its plans to contain those costs.

College Cost Drivers

College costs drivers include but are not limited to labor costs and structures (e.g., salaries and benefits, tenure), decreased state appropriations in an increasingly competitive and crowded state budget (e.g., K-12 education, Medicaid, infrastructure), low-levels of institutional efficiency (e.g., high maintenance cost facilities that are used for a small number of hours each day), the adding of new programs and resistance to eliminate programs, athletic programs and student demand for expensive services and amenities (e.g., new dorms, computer services, gyms, student centers, parking). Student-centered cost drivers include increased time to graduation, the need for remediation and the difficulty or inability to transfer credits from one institution to another.

Although there is much speculation as to what is driving up the cost of college and what to do about it, little research has been conducted demonstrating what would or would not be effective in reducing the cost of providing a college education. Research on this topic is complicated by the complex and varied cost structures of individual colleges and universities across the United States (e.g., public versus private nonprofit versus private for-profit, the Tier I research institution versus the local community college) and further complicated by a lack of transparency and common reporting of college expenditures and revenues.

At present, state and institutional initiatives aimed at reducing the cost of college are generally focused on improved cost efficiencies (e.g., consolidation of administrative functions, reduction in energy costs and reduction in salary growth and benefit costs) and improved student learning productivity (e.g., increase in student retention and on-time graduation rates, reduction in excess degree credits, increase in number of credits accepted for transfer and increase in acceptance of prior leaning and credit-by-exam).

Other experimental initiatives that focus on efficiency include state performance based funding, which link state monies to outcomes (i.e. retention and graduation rates). For example, Ohio, Tennessee and Indiana have tied 90% of higher education dollars to student success measures. To date there is little evidence that PBF leads to improved student outcomes. Apart from this lack of evidence, researchers are concerned that with it comes unintended consequences such as weakened academic standards and tightened admissions policies.

It is important to note that when efforts to reduce the cost of college are successful, such costs reductions may or may not result in reducing the student share of cost since colleges may shift cost savings in one area to increased spending elsewhere in the institution. Finally, even if strategies prove to be effective for reducing the cost of college, colleges and universities have much to do to turn the tide of public sentiment on the issues of college cost and price. In a recent survey of adults ages 18 and older, 60% of respondents believed that colleges, like most businesses, care more about their bottom lines than students and families. The same survey also found that 54% believed colleges could spend less and still provide a quality education.[viii]

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[i] John Immerwahr, Jean Jackson, Amber Ott, and, Jonathan Rochkind. Squeeze Play 2010: Continued Public Anxiety on Cost, Harsher Judgments on How Colleges Are Run. (New York: Public Agenda, 2010). http://www.publicagenda.org/files/pdf/SqueezePlay2010report_0.pdf.

[ii] College Board, Trends in College Pricing 2014, http://trends.collegeboard.org/college_pricing. (The College Board's Trends in College Pricing does not have a comparable data set of tuition data for for-profit institutions.)

[iii] College Board, Trends in College Pricing 2014, http://trends.collegeboard.org/college_pricing.

[iv] College Board, Trends in Student Aid 2014, http://trends.collegeboard.org/student_aid.

[v] Government Accountability Office. State Funding Trends and Policies on Affordability (December 2014). http://www.gao.gov/assets/670/667557.pdf.

[vi] Within this report, all references to inflation are to the Consumer Price Index-Urban Consumers (CPI-U). The CPI-U is typically the measure of inflation used in media reports related to college costs and tuition.

[vii] Aaron Anthony, Lindsay Page, Abigail Seldin. In the Right Ballpark? Assessing the Accuracy of Net Price Calculators. (University of Pittsburgh: 2015). http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2555051.

[viii] John Immerwahr, Jean Jackson, Amber Ott, and Jonathan Rochkind. Squeeze Play 2010: Continued Public Anxiety on Cost, Harsher Judgments on How Colleges Are Run. (New York: Public Agenda, 2010). http://www.publicagenda.org/files/pdf/SqueezePlay2010report_0.pdf.