A Primer on College Cost

Updated August 2021
The Postsecondary National Policy Institute (PNPI) provides current and prospective policymakers with a substantive and collegial foundation on which to build federal higher education policies that drive positive outcomes for students and their families.

For more information please visit pnpi.org
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% 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 2020–2021 school year, the average published tuition and fees for undergraduates at public four-year colleges were $10,560, up 1.1% from the 2019–2020 school year. For private non-profit four-year colleges, the average published tuition and fees were $37,650, up 2.1% from the previous year. And for public two-year colleges, the average published tuition and fees were $3,770, up 1.9% from the previous year.[ii] Over the last decade, the increases in published tuition and fees at four-year public colleges increased 1.5%; at private non-profit four-year colleges the average published tuition and fees increased 1.7%; and at public two-year colleges, the average published tuition and fees rose 1.8%.[iii]

As the price of college has risen, so has the number of students who need financial assistance. Between 2008 and 2018, the number of Pell Grant recipients has risen from 5.5 million to 7.1 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 decreased from $189.7 billion in 2009–2010 to $142.7 billion in 2019–2020, a 25% decrease.[iv] These dramatic increases have 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. This price is 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. 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 non-profit four-year colleges and universities. In this most recent decade, private non-profit four-year institutions held the lead with their published tuition and fees rising 18.3%, compared with 16% for both public two- and four-year institutions.[v,vi]

The next table shows the average published charges by type of institution for the 2019–2020 and 2020–2021 school year, as well as the percent and dollar amount changes from the prior year.

![Table CP-1](image)

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.
Over the last few decades, a small subset of institutions froze or decreased tuition for a year or more. Unfortunately, these freezes 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 the media most often reports 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 2019–2020 academic year, 51% of undergraduates enrolled in four-year colleges (public and private non-profit) were enrolled in schools with a published price of less than $13,000 for tuition and fees.

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 $15,000 on top of tuition and fees. See the next graphic for the average estimated undergraduate costs for the 2020–2021 school year, broken down by sector.

**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 2019–2020, 6.7 million undergraduates received a federal Pell Grant and 1.5 million undergraduates received a Federal Supplemental Educational Grant.[vii] 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 helping families better understand the net price of college 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 estimate of expenses for low-income families, the variation in the actual cost is substantial.[viii]

In addition to offering the net price calculator, the Department of Education reports on its College Navigator website (nces.ed.gov/collegenavigator) the average net price for beginning full-time undergraduate students, disaggregated by income levels, 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 (four-year, two-year, less than two-year, public, private non-profit, and for-profit) of the top 5% of schools in each of the following categories: highest tuition and fees, highest net price, highest increase in tuition and fees, and highest increase in net price. This lists also include the 10% of schools with the lowest tuition and fees and those with the lowest net price.

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

College cost 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;
- Resistance to eliminating 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 non-profit 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 learning and credit-by-exam).

Other experimental initiatives that focus on efficiency include state performance-based funding, which links state monies to outcomes (i.e., retention and graduation rates). For example, Ohio, North Dakota, and Nevada have tied at least 90% of higher education dollars to student success measures. To date there is little evidence that performance-based funding 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 cost reductions may or may not result in reducing the student share of cost: 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.\[^{ix}\]
Sources:


[ii] https://research.collegeboard.org/pdf/trends-college-pricing-student-aid-2020.pdf (The College Board’s Trends in College Pricing does not have a comparable data set of tuition data for for-profit institutions.)


[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.


Updated August 2021