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STUDENT ACCESS AND STRATEGIC PRICING

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EXECUTIVE SUMMARY

The topic of college costs has received much attention from college and university leaders, policymakers, researchers, and the public in recent years. As the cost of college has skyrocketed, relative to both consumer prices and increases in income in the country, more and more attention is being paid to the affordability of and access to higher education in the country. Affordability is a function of both the tuition prices charged by institutions, as well as the financial aid that is made available to students and their families to help them pay for college. The affordability of college affects who is able to go to college in our nation, and what type of institution students can attend.

This paper summarizes some of the recent trends in college costs and financial aid, and the impact of these trends on students as well as colleges and universities. It describes some approaches taken by both institutions and states to understand this impact, and to respond to concerns about affordability and college participation from both the student and institutional perspective. The core of the paper summarizes a symposium held at the 2006 TIAA-CREF Institute National Higher Education Leadership Conference which focused on these institutional and state responses.

This paper will help inform those who are concerned with college affordability, along with the impact of rising costs and tuition prices on students and institutions alike.

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INTRODUCTION [1]

The topics of institutional tuition pricing and financial aid policies have received much attention from college and university leaders, policymakers, researchers, and the public in recent years. As the cost of college has skyrocketed, relative to both consumer prices and increases in income in the country, more and more attention is being paid to the affordability of and access to higher education in the country. Data from the annual *Trends in College Pricing* report from the College Board (2006a) indicate that in the 25-year period from 1981 to 2006, real tuition prices (after taking into account inflation) increased 150 percent at private, 4-year institutions and almost 200 percent at public, 4-year colleges and universities. During this same period, the median income of all households in the nation grew less than 20 percent in real dollars (U.S. Census Bureau, 2007b).

The College Board (2006b) reports that financial aid also has increased, and in fact, the total amount of aid available has increased faster than have tuition prices – approximately fourfold during this same period. However, there have been significant changes in the type of aid that is available and who receives that aid. First, loans have become a much more important part of the financial aid landscape. While grants, and in particular federal grants, used to predominate, today federally-guaranteed and private student loans are the primary source of aid, comprising over 55 percent of all aid available in 2005. Second, institutional grants – funded by colleges and universities either from donative funds or recycled tuition revenue – have become an increasingly important source of aid for students. Between 1992 and 2003, the volume of federal grants to undergraduates across the nation increased 96 percent, from $7.0 billion to $13.7 billion. During the same period, institutional grants increased 147 percent, from $5.7 billion to $14.1 billion, now exceeding the amount available from the federal government (Heller, 2007).

The third major trend in financial aid is the increasing use of merit criteria in addition to, or rather than, financial need criteria in the awarding of aid. Historically, financial aid awarded from public funds by the federal government and states was intended largely for the purpose of equalizing postsecondary educational opportunity. The opening section of Title IV of the Higher Education Act of 1965, which authorizes the student financial assistance programs, states

> It is the purpose of this part to provide, through institutions of higher education, educational opportunity grants to assist in making available the benefits of higher education to qualified high school graduates of exceptional financial need, *who for lack of financial means of their own or of their families would be unable to obtain such benefits without such aid.* ("Higher Education Act of 1965", § 401(a) emphasis added).

As stated there the educational opportunity grants – later renamed Pell Grants in honor of Rhode Island Senator Claiborne Pell, a long-time champion of the federal aid programs — were created in order to help students with financial need attend college. Many of the state grant programs that were developed after the passage of the Higher Education Act adopted similar need-based criteria for awarding their grants.

While the federal government has maintained its commitment to financial need as the criterion for awarding Pell Grants, many states have begun to adopt merit criteria — such as standardized test scores or high school grades – as the criteria for awarding their grants to undergraduate students.[2] In 1993, grants awarded by the states without consideration of financial need totaled approximately

$240 million, or less than 10 percent of the total aid awarded by the states that year. By 2003, this amount had increased to $1.6 billion, or over 25 percent of the total (Heller, 2006).

Institutions have awarded both need and merit grants going back to the colonial era.[3] Like in the states, however, merit aid awarded by institutions has been growing more rapidly than need-based grants. In 1995, higher education institutions awarded a total of $6.9 billion in grants to undergraduates, with 35 percent of this total awarded without consideration of the financial need of the student or her family. As noted earlier, by 2003 this amount had increased to $14.1 billion, with over half – 54 percent – awarded using merit criteria, rather than need. In contrast to federal need-based grants, which are targeted at students from lower-income groups, merit grants are awarded disproportionately to students from higher-income families (Heller, 2006).

Issues of access and affordability can be approached from a number of perspectives. Individual colleges and universities, particularly those institutions that are very dependent upon tuition revenue in order to balance their budget each year, approach these issues concerned with their own institutional health. An inability to meet enrollment targets for an entering class of first year students – or persistence rates for continuing students – can result in a shortfall of revenue that can threaten the financial health of the institution.

But higher education institutions are concerned not only with the total number of students they enroll, but also with *who* enrolls. The racial, ethnic, and socioeconomic characteristics of the student body are important considerations for many institutions which strive to enroll a group of students who are at least in part reflective of the diversity of the American people. Tuition pricing and financial aid policies can be used to influence both the number of students enrolled as well as who enrolls. The increasing use of what has been termed "enrollment management," "tuition discounting," or "strategic pricing" techniques – by both public and private colleges and universities – has been well documented.[4]

Some observers have criticized the practice, linking its increasing use to restrictions on access to higher education by lower-income and minority youth. Others have praised it as necessary for survival for many institutions, particularly those that are less selective in admissions and therefore have less market power to attract students. As institutional grants have become an increasingly important part of the financial aid system in our country, it is important to understand the role they play in promoting college participation for a variety of students. And understanding the processes that institutions go through in developing their own financial aid programs is also important.

The Perspective from Higher Education Leaders

A symposium at the 2006 TIAA-CREF Institute National Higher Education Leadership Conference tackled the issue of strategic pricing initiatives. The panelists in this session included:

- James Garland, President Emeritus, Miami University of Ohio;
- Catharine Bond Hill, President and Professor of Economics, Vassar College;
- James Scannell, President, Scannell & Kurz, Inc., an enrollment management consulting firm; and
- Robert G. Templin, Jr., President of Northern Virginia Community College.

The speakers in this session brought a wide range of experiences with these issues. James Garland was the president of Miami University when it implemented an innovative pricing structure for a public university, one that has been examined by many but has yet to catch on with other institutions around the country. James Scannell is the president of a consulting firm that is very prominent in the business of helping colleges and universities implement strategic pricing to help them achieve specific financial and enrollment goals. Catharine Bond Hill, who took office as president of Vassar College in 2006, is an economist who has conducted research on tuition and financial aid policies at selective institutions. And Robert Templin, Jr., is the president of the country's second-largest community college, in a state that has recently implemented an innovative tuition pricing policy for students who transfer from community colleges to four-year institutions in Virginia.

James Garland described how Miami University instituted an innovative tuition model in 2003. Miami eliminated the subsidized tuition price for Ohio students, and began to charge in-state students the higher rate paid by students from outside the state. Simultaneously, however, the university provided a base scholarship to all Ohio residents (though the amount of this scholarship was less than the increase in the tuition price), with some students receiving more than the standard amount based on their financial need and/or based on merit. Thus, some students — those receiving just the base scholarship — paid more than under the old model, some paid about the same, and some students actually paid less than they would have before the policy change.

At the time Miami University announced the new policy, some questioned what impact it would have on access by lower-income Ohioans (Breneman, 2003; "Miami's plan for tuition hike doesn't add up", 2003). But Garland noted the policy actually helped *increase* the diversity of the student body: "The very first year, we saw a 40 percent increase in first generation college students enrolling at Miami University, more than a 20 percent increase in our minority enrollments, a significant increase in the socioeconomic diversity of our entering class. And these numbers have held up since then."

Garland cited the Miami experience as a model for turning other public universities into what he described as, "tax-exempt corporations analogous to private colleges." He was careful to state that he was not arguing for privatizing public institutions; rather, he noted that the assets and title to the colleges would still be held by the state. But instead of the broad subsidy currently provided by most states to public institutions, he said that the money should instead be provided directly to students in the form of scholarships, targeted primarily at low- and middle-income students, which could then be used at any public *or* private institution in the state. Such a move, he claimed would "allocate state dollars more effectively and also provide incentives for colleges to operate more efficiently."

Before being named President of Vassar College in 2006, Catharine Hill had been provost and professor of economics at Williams College. Hill and her former colleagues at Williams, Gordon Winston and Stephanie Boyd, conducted a series of studies on access to selective colleges and university by low-income students (Hill, Winston, & Boyd, 2005; Hill & Winston, 2006a; Hill & Winston, 2006b). Her interest in the topic came from her experiences as provost at Williams, an institution that practices need-blind admissions — admissions decisions are made without consideration of the financial need of the student — and commits to meet the full financial need of students through financial aid. While many assumed these policies helped poorer students to attend Williams, the institution had not looked at what low-income students were actually paying to attend. So Hill and her colleagues set out to examine the issue, first for Williams and then for a broader set of institutions. They used data obtained from Williams, as well as from 27 other Consortium on Financing Higher Education (COFHE) institutions – a group of highly selective private colleges and universities – to determine how much schools were actually asking students to pay for their educations. They also used data on the distribution of SAT and ACT test scores for students from different income groups across the nation.

The Williams study examined the net prices paid by students in the college who received financial aid. The researchers defined "net price" as the sticker price paid by the student – which includes tuition, fees, room, and board – less all grants received from federal, state, Williams, and other sources. What they found was a good degree of progressivity, as students from higher income families paid a higher net price. Looking at 13 years of data, ending in the 2001-2002 academic year, they found that students from the bottom income quintile paid an average of just over 20 percent of the sticker price after subtracting grants. In contrast, those students in the highest income quintile receiving financial aid paid a net price that was approximately 70 percent of the total price.

The second measure that Hill and her colleagues examined was the net prices students paid as a share of the median income for each income quintile. In this analysis they found a very different picture with respect to progressivity. Even though the poorest students were paying a much smaller share of the sticker price, this still represented a much greater share of their family income. For example, students in the lowest income quintile paid a net price that was approximately 55 percent of the median income of that quintile during the 13 years ending in 2001-2002. The proportion of median income paid by each group declined, to the point that students in the highest income group paid only 20 percent of median family income for that quintile.

Hill noted, however, that financial aid policy changes that were put into place prior to the 2001-2002 academic year had a large impact on this measure for lower-income students. In contrast to the 13-year average of a net price that was over 55 percent of median income for students in the lowest income quintile, in 2001-2002 these students paid just over 10 percent of median income to attend Williams. The highest income students still paid 20 percent of income to attend. Thus, she concluded, they were doing a much better job promoting accessibility for the poorer students. Hill then described how she, Winston, and Boyd used the data obtained from 28 COFHE schools to conduct a similar analysis; the net prices for the 28 schools were very similar to those for Williams.

These analyses led them to look more closely at the distribution of students in the COFHE institutions. Using data from the 2001-2002 academic year, they again divided the students across all 28 institutions into income quintiles. They found that only 5 percent of the students were from the lowest quintile, and only 10 percent were from the bottom 40 percent of the income distribution (family incomes below $41,000). In contrast, 70 percent of the students came from the highest income group, those with incomes above $91,700.

As Hill noted, this distribution may not surprise many observers who may say, "By the time some low-income students get through inadequate elementary schools and even worse high schools, and who may have parents who can't or don't have the time to read to them, etc., they're not able to go on. They can't qualify to get into these schools." In order to determine whether this assumption is correct – that poor students cannot qualify for admission to these institutions — she and Winston used test score data from the College Board and ACT, Inc., to examine how students in different income groups performed on these tests. When taking the tests students report their family's income, so Hill and Winston used the data to create a matrix of test scores (converting ACT scores to SAT-equivalent scores) by family income. The data were then used to compare the income distribution of students by test score nationally as compared to the COFHE schools.

When they looked at students with very high SAT scores, Hill and Winston found that the distribution of students at the 28 COFHE schools was more skewed toward high income students than was the pool of all students nationally. For example, at the COFHE schools, 70 percent of the students came from families with incomes in the top quintile, or those above $91,700. Among all test takers nationally achieving 1520 or higher on the SAT, however, only 50 percent came from this income group.

Hill concluded by noting that there are still a number of unanswered questions regarding the ability of selective private institutions to enroll lower-income students, even in the face of evidence that, as she put it, "they're out there." She speculated about some of the possible explanations for why these students are still underrepresented. One possible answer may be that even though many of the COFHE institutions have made strides on trying to increase the generosity of their financial aid policies, there may still be some schools that are unable to provide enough institutional grants to encourage the students from poorer families to enroll.

Another explanation she pointed to is that the admissions processes of the schools may somehow work against the needs and interests of lower-income students. She described the work of William Bowen, Martin Kurzweil, and Eugene Tobin (2005), authors of the book E*quity and Excellence in American Higher Education*, who have suggested that students from lower-income families deserve some form of preference in admission to elite institutions, just as athletes, legacies, and racial minority students receive assistance.

Hill also pointed to potential problems with the information about financial aid that is (or is not) provided to these students. As she described it, "We hear stories of admissions counselors in big high schools serving large numbers of low-income students saying to students, 'You know, you can't possibly go there. Their tuition is over $40,000, how are you possibly going to do that?'." She said that these institutions need to get the word out there about the availability of institutional aid and the true net prices paid by lower-income students. The last possible explanation she pointed to was that it may be a matter of the preferences of these students. Lower-income students may look at these selective colleges and universities and just not be able to picture themselves attending them and being successful once there.

The third panelist at the TIAA-CREF symposium was James Scannell, president of Scannell & Kurz, Inc., an enrollment management consulting firm. His firm describes its services as "developing customized financial aid/net tuition revenue and enrollment management strategies for higher education clients" (Scannell & Kurz, Inc., 2007). Scannell provided a brief history of some of the enrollment management challenges facing relatively poor, less selective colleges and universities, those who "struggle every year to make their class and to be able to maybe have a couple of percent [of revenues] left over to increase faculty salaries." These institutions, however, are interested not just in how many students they enroll, but also in the composition of their student bodies. Just like many wealthier, more selective institutions, these colleges are concerned with issues like the diversity of their student bodies.

In order to demonstrate that enrollment management through strategic use of financial aid can help an institution achieve both equity and efficiency goals, he presented the case study of one institution. He described the anonymous institution as one located in the bottom of the first tier in its region in college ranking guides, with a small endowment, and enrolls a student body that is very diverse socioeconomically, with 94 percent of the students having financial need. The college "hit a wall" in 2005, when both applications and the enrollment of new students declined, and net tuition revenue (tuition minus institutional grants) was flat even though the sticker price had been increased 8 percent. The enrollment of 46 students fewer than the institution's goal that year led to a budget deficit of half a million dollars, a serious condition for this school.

Scannell described the college's financial aid programs as a "patchwork quilt of guaranteed merit, affiliation awards, and partnership awards," in addition to more traditional need-based grants. Many of the affiliation awards were based on the college's mission as a Catholic institution. Working with data from the college's admissions and financial aid files, Scannell & Kurz conducted an econometric analysis to evaluate the effectiveness of the existing aid programs. The recommendation that developed from the analysis regarding the existing programs was that the college should eliminate all of the affiliation scholarships and discounts, but continue the partnership awards and discounts offered to siblings of students already enrolled in the institution.

In addition, the institution also launched "an aggressive merit program that guaranteed an exact dollar amount of grant aid for students with specific quality levels" as measured by SAT scores and high school grades. Students could qualify for either the merit awards, or the partnership or sibling discount awards, but not both.

The result of these changes was that in the next year, 2006, enrollment exceeded projections. The institution's discount rate (total institutional grant aid divided by total tuition revenue) decreased from 36 percent to 31 percent. For transfer students, enrollment projections were also exceeded and the discount rate was reduced from 23 percent to 12 percent. The additional revenue generated by the higher enrollments and the reduction in the discount rate totaled $1.4 million if the annual tuition increase is included, and $1 million if the tuition increase is not included.

What perhaps was most important, Scannell noted, is that in implementing these changes the institution was able to increase its enrollment of the neediest students. The proportion of the college's students eligible for a federal Pell Grant, which is often used as an indicator of the enrollment of lower-income students, increased from 25 percent to 33 percent of the student body. He noted that while they were able to increase both enrollment and revenue, "they didn't do it at the expense of low-income students. It wasn't an either/or, mutually exclusive proposition."

Scannell concluded his remarks by noting that "Using financial aid strategically, be it merit-, need-, or performance-based, to meet mission and serve students is not only ethically okay, but an absolute requirement of good stewardship."

The final presenter at the TIAA-CREF symposium was Robert Templin, president of Northern Virginia Community College (commonly known as NOVA), located just over the Potomac River from Washington, DC, and one of 23 community colleges in the state. His college is not only the largest higher education institution in the Commonwealth of Virginia, but is also the second-largest community college in the nation (behind Miami-Dade Community College in Florida). It has over 60,000 students who are taking courses for credit, representing approximately 25,000 full-time equivalent students.

Like many other community colleges in areas with demographic growth, NOVA was seeing increased demand for its programs. This increased demand was being driven by population growth in the region served by NOVA, a growth that was being fueled largely by immigrants. In order to accommodate this demand, NOVA has plans to expand its current six campuses by adding two more within the next decade.

Like most community colleges, NOVA has relatively little institutional aid to award to its students. In the 2005-2006 academic year, only 4 percent of NOVA students received institutional grants, as contrasted to 15 percent receiving federal grants and 13 percent receiving state grants (National Center for Education Statistics, 2007). In comparison, the state's public four-year public campuses have more institutional grant aid available to their students. The University of Virginia, Virginia Tech University, and College of William and Mary awarded institutional grants to 22 percent, 41 percent, and 13 percent of their students, respectively. Thus, NOVA is highly dependent upon the efforts of the Commonwealth of Virginia to provide student financial assistance to supplement that available from the federal grant and loan programs.

In order to address the increasing demand for college, and to help promote college access to both four-year institutions and community colleges, the state proposed a Community College Transfer Scholarship. Under the original proposal created by the Virginia legislature, the scholarship would have been available to students who met the following criteria:

- Graduation from a Virginia community college with an associate's degree and a grade point average of at least 3.0.
- Family income of less than 150 percent of the median in the state.
- The student had to be admitted to and transfer to a four-year public college or university in the state.

Students who met these criteria would be eligible to pay community college tuition rates at the four-year institutions, and could do so for up to 70 credit hours within a three-year period. This would provide a large savings to these students. In the 2006-2007 academic year, tuition at NOVA was $1,967, while tuition at the public four-year institutions mentioned above exceeded $7,000 per year.

In his remarks, Templin emphasized that while the scholarships were based on financial need, they would not have been restricted only to low-income students. Median family income in Virginia in 2005 was $65,174, meaning that students from families with incomes up to $97,761 could qualify for the scholarship (U.S. Census Bureau, 2007a).

The state hoped that this new program would encourage more students to begin their baccalaureate education at a community college, which have not just lower tuition rates but also lower subsidies (on a per-student basis) from the state appropriation. The money the state saves by having fewer students at the lower division level of universities, and enrolling them in the community colleges instead, would be given to the four-year institutions to make up for the loss of tuition revenue from the transfer students. Another advantage of this plan, Templin remarked, is that by having more students with bachelor's degree aspirations starting in the community colleges, they will be provided with the opportunity to prove themselves academically in a manner that they could not if they attempted to enroll directly in a four-year institution.

After the TIAA-CREF Conference concluded, the Virginia Legislature made a number of revisions to the program that Templin had outlined, most with the impact of reducing the generosity of the financial support. Legislation passed by both the Virginia House of Delegates and Senate in March 2007 created the Two Year College Transfer Grant Program. Under this program, students transferring directly from any Virginia community college to a public or private 4-year institution in the state would be eligible for an annual grant of $1,000. To obtain the grant, the student would have to receive an associate degree from the community college with a grade point average (GPA) of at least 3.0, must maintain that GPA after she transfers, and must have demonstrated financial need (as evidenced by an expected family contribution of $8,000 or less, which should bring the program up to the approximate income level Templin described in the earlier plan). Students who pursue a bachelor's degree program in engineering, mathematics, nursing, teaching, or science will receive an additional $1,000 annually in grant support. As can be seen, this is a large reduction in the amount of scholarship available as compared to the original plan discussed in Virginia.

CONCLUSION

The session on strategic pricing initiatives at the 2006 TIAA-CREF Institute National Higher Education Leadership Conference presented a variety of perspectives on the relationship between institutional tuition pricing policies and student access. While federal and state governments play important roles in promoting access through their financial aid programs, institutional tuition and financial aid policies — in both the public and the private sectors of higher education — are playing an increasingly important role in helping to determine who gains access to the nation's colleges and universities.

The problem of increasing tuition prices, along with the changing nature of financial aid policies that was described at the beginning of this chapter, will likely continue to be on the public agenda into the future. Ensuring access, particularly for low-income students, will require a variety of policy responses on the part of governments and higher education institutions. This session at the TIAA-CREF Leadership Conference presented examples of how institutions and state governments can respond to these issues. These examples should be taken into consideration as the nation moves forward in addressing issues of affordability and access in higher education.

ENDNOTES

[1] This paper is based on and has been adapted from Heller (forthcoming).

[2] In 2005, Congress created two new add-ons to the Pell program which awarded additional grant aid to students who 1) enrolled in college after completing a "rigorous high school curriculum," and 2) studied in designated majors, such as science, technology, engineering, math, or certain foreign languages and maintained a 3.0 GPA in college. These two programs added a true merit component to the Pell program for the first time.

[3] See Holtschneider (1997), for example, on the awarding of institutional financial aid during the early years of higher education in the United States.

[4] See Davis (2003), Haycock (2006), Hubbell and Lapovsky (2002), and Redd (2000) for data and analyses of these trends.

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Dr. Heller received the 2002 Promising Scholar/Early Career Achievement Award from the Association for the Study of Higher Education, a scholarly society with over 1,500 members dedicated to higher education as a field of study. He was also the recipient in 2001 of the Robert P. Huff Golden Quill Award from the National Association of Student Financial Aid Administrators, for his contributions to the literature on student financial aid. Dr. Heller is also a TIAA-CREF Institute Fellow.