

# Tuition Discounting: Institutional Aid Patterns at Public and Private Colleges and Universities

By Sandy Baum & Jennifer Ma<sup>1</sup>

Recent data from the College Board’s *Annual Survey of Colleges* reveal significant variation in institutional aid patterns among colleges and universities. The undergraduate tuition discount rate — the ratio of institutional grant aid to published tuition and fee charges — is higher at private institutions than at public institutions, but there are also notable differences within sectors. It is not just the magnitude of the discounts offered that is important but also the purposes of the discounts and the distribution of the grants to students in different circumstances.

Since 2000-01, the total discount rate has been relatively stable in the public sector but continues to rise in the private sector. Breaking the discount rate down into aid that meets financial need, aid that goes beyond financial need (or goes to students with no documented need), and the more specialized categories of tuition waivers and athletic awards, Table 1 shows that tuition waivers are the dominant form of discount at public two-year colleges, aid that meets need accounts for two-thirds of the discounts at private not-for-profit four-year colleges, and all forms of discounts are important at public four-year institutions.<sup>2</sup>

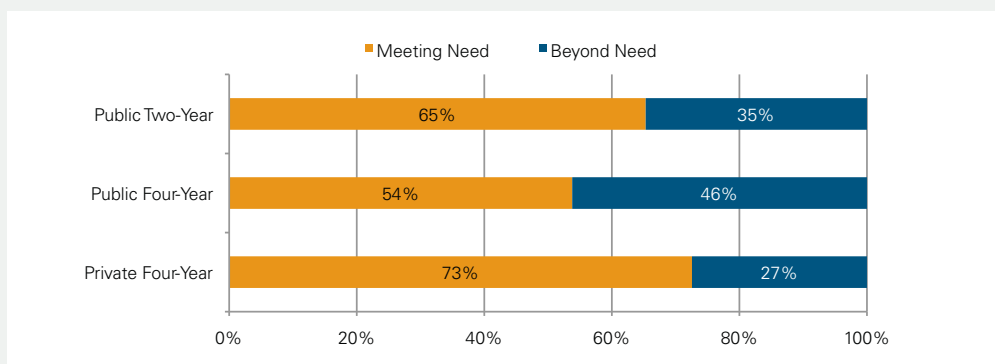
**TABLE 1: Distribution of Total Discount Rate by Type of Discount and Sector, 2007-08**

	General Institutional Grant Aid		Athletic Scholarship	Tuition Waiver	All Types
	Meeting Need	Beyond Need			
Public Two-Year	30%	16%	11%	43%	100%
Public Four-Year	37%	32%	15%	17%	100%
Private Not-for-Profit Four-Year	64%	24%	5%	7%	100%

Note: Percentages may not sum to 100 due to rounding.

Looking only at general institutional grant aid and excluding tuition waivers and athletic scholarships, which we are unable to break down by whether or not they meet need, Figure 1 reveals that 46% of these institutional grants at public four-year colleges go to students with no financial need or exceed the need of the students to whom they are awarded.<sup>3</sup>

**FIGURE 1: Proportion of General Institutional Grant Aid Meeting Need and Beyond Need by Sector, 2007-08 (Excludes Athletic Scholarships and Tuition Waivers)**



1. For more details, see the paper on which this update is based: Sandy Baum, Lucie Lapovsky, and Jennifer Ma, *Tuition Discounting: Institutional Aid Patterns at Public and Private Colleges and Universities, 2000-01 to 2008-09* (The College Board, 2010).

2. Most institutions rely on the Federal Methodology to measure financial need, but others use either the College Board’s Institutional Methodology or their own formulas.

3. Average discount rates are calculated as weighted averages of individual institutional discount rates, with each institution weighted by its full-time equivalent (FTE) enrollment.

**Net Tuition Revenues: Private Not-for-Profit Four-Year Colleges and Universities**

The discount rate shows the difference between the published price the institution charges and the amount of tuition and fees it actually collects from students — including the federal, state and other grant aid the students bring from outside sources. The growing gap over time between published tuition and fees and net tuition revenue per student at private four-year institutions, as shown in Figure 2, is a measure of the growth in the total discount rate, which increased from 28.6% in 2000-01 to 31.5% in 2007-08, and an estimated 33.1% in 2008-09.<sup>4</sup>

**FIGURE 2: Average Published Tuition and Fees and Net Tuition and Fee Revenue per FTE Student at Private Four-Year Colleges and Universities, 2000-01 to 2007-08 (and Preliminary 2008-09)**

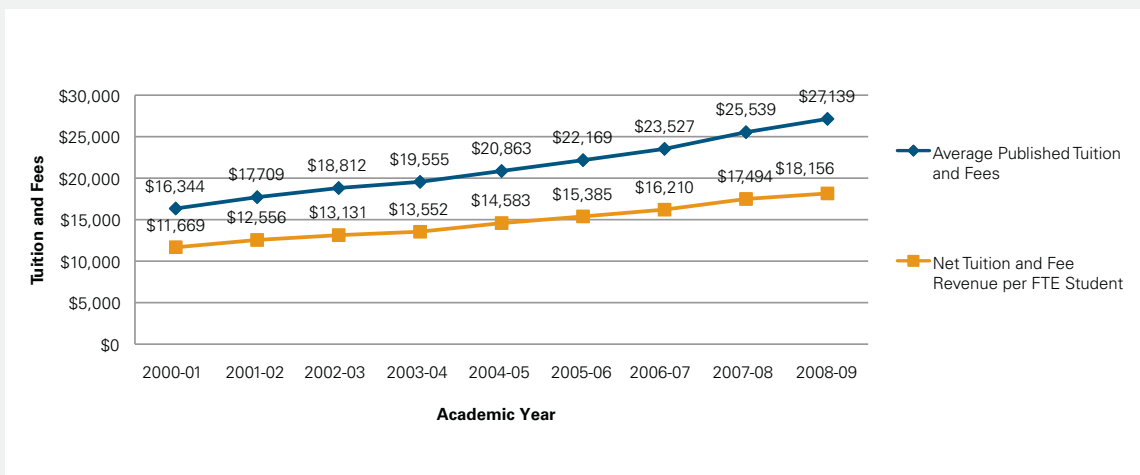


Table 2 shows that the discount rate attributable to aid meeting need increased from 17.0% in 2000-01 to 20.1% in 2007-08, and preliminary data indicate an increase to 21.0% in 2008-09. The discount rate for aid beyond need was stable from 2000-01 through 2007-08, although preliminary data suggest an increase in 2008-09. Both the athletic and tuition waiver discount rates at private colleges are quite low, less than 2.5% each.

**TABLE 2: Tuition Discounts by Type of Discount at Private Not-for-Profit Four-Year Institutions, Selected Years, 2000-01 to 2007-08 (and Preliminary 2008-09)**

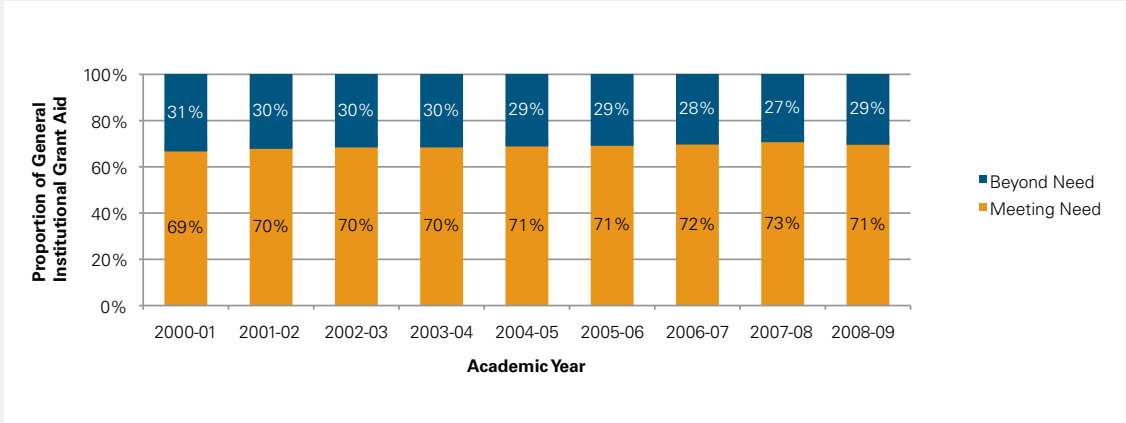
	All	General Institutional Grant Aid		Tuition Waiver	Athletic Scholarship	Number of Institutions
		Meeting Need	Beyond Need			
2000-01	28.6%	17.0%	7.8%	1.7%	2.2%	686
2004-05	30.1%	18.6%	7.7%	1.7%	2.1%	779
2007-08	31.5%	20.1%	7.6%	1.6%	2.2%	720
2008-09 (preliminary)	33.1%	21.0%	8.4%	1.5%	2.1%	474

**Note:** Components may not sum to total due to rounding.

4. Because a smaller number of institutions reported preliminary data for 2008-09 than final data for earlier years, we rely primarily on 2007-08 data as an indicator of current conditions, and report 2008-09 only as a tentative indicator of continuing trends.

These changes over time have led to an increase in the proportion of general institutional grant aid, excluding athletic aid and tuition waivers, that goes to meet the documented financial need of students, as shown in Figure 3.

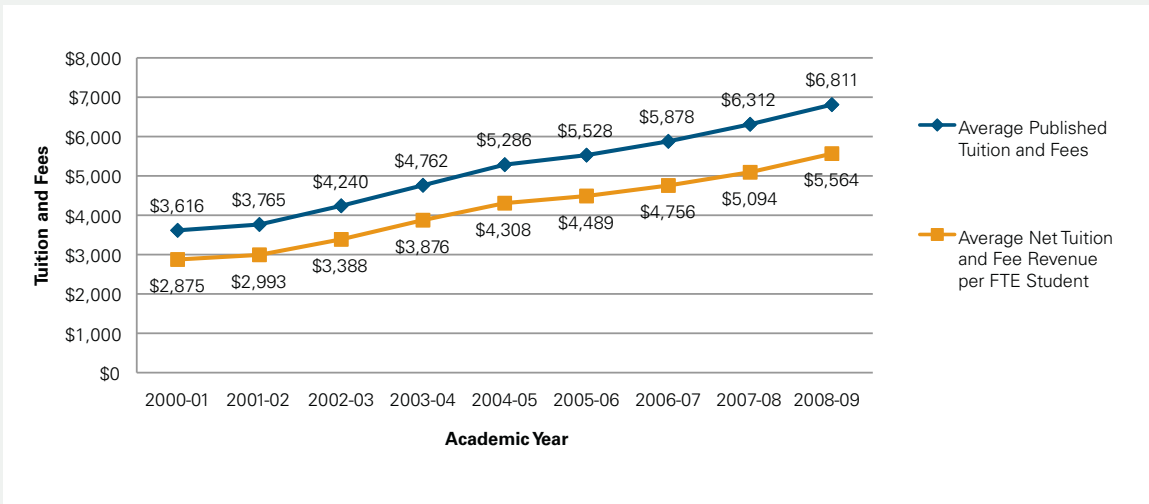
**FIGURE 3: Proportion of General Institutional Grant Aid Meeting Need and Beyond Need, Private Four-Year Institutions, 2000-01 to 2007-08 (and Preliminary 2008-09) (Excludes Athletic Scholarships and Tuition Waivers)**



**Net Tuition Revenues: Public Four-Year Colleges and Universities**

At public four-year institutions, average net tuition and fee revenue per student has grown slightly more rapidly than the published price since 2000-01, as the average institutional discount rate has declined. Published tuition and fees increased by 75% between 2000-01 and 2007-08, while net tuition and fee revenue per student increased by 77%, as shown in Figure 4.

**FIGURE 4: Average Published Tuition and Fees and Net Tuition and Fee Revenue per FTE Student at Public Four-Year Institutions, 2000-01 to 2007-08 (and Preliminary 2008-09)**



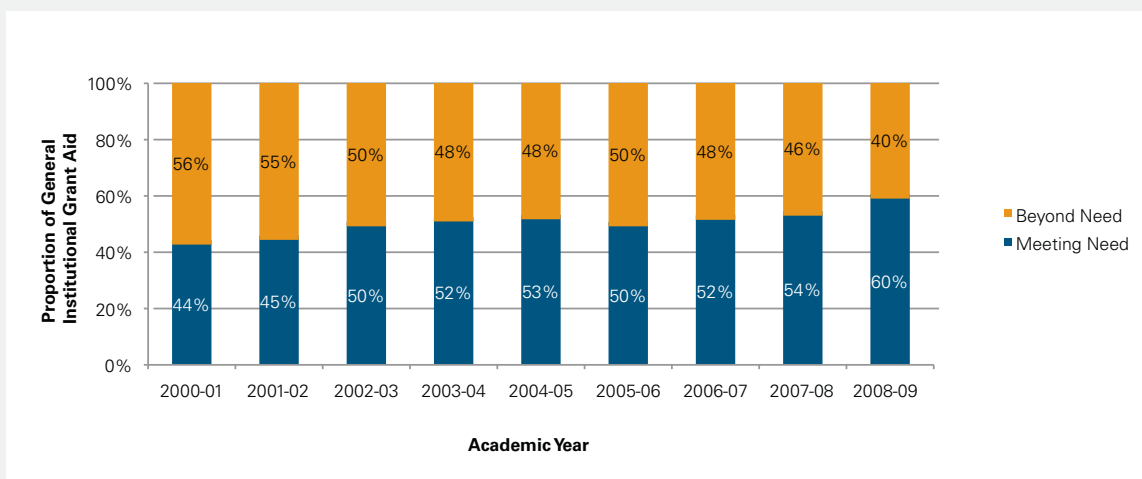
As is the case in the private not-for-profit four-year sector, the discount rate for aid that meets need has increased over time in the public four-year sector, as shown in Table 3 and Figure 5. However, the rates for aid beyond need, tuition waivers, and athletic scholarships have declined.

**TABLE 3: Tuition Discounts by Type of Discount at Public Four-Year Institutions, Selected Years, 2000-01 to 2007-08 (and Preliminary 2008-09)**

	All	General Institutional Grant Aid		Tuition Waiver	Athletic Scholarship	Number of Institutions
		Meeting Need	Beyond Need			
2000-01	20.5%	5.7%	7.4%	3.6%	3.8%	361
2004-05	18.5%	6.3%	5.7%	3.2%	3.4%	423
2007-08	19.3%	7.1%	6.1%	2.9%	3.2%	392
2008-09 (preliminary)	18.3%	7.6%	5.1%	2.6%	3.1%	170

Note: Components may not sum to total due to rounding.

**FIGURE 5: Proportion of General Institutional Grant Aid Meeting Need and Beyond Need, Public Four-Year Institutions, 2000-01 to 2007-08 (and Preliminary 2008-09) (Excludes Athletic Scholarships and Tuition Waivers)**



### Meeting Financial Need

It is not possible for us to determine how much of this shift toward meeting need is the result of institutional policy changes and how much is attributable to a combination of different growth rates in grant aid at institutions focused on meeting need as opposed to institutions focused on other uses of aid, or of increases in measured need resulting from rising prices and stagnant family incomes. Nonetheless, this is an encouraging trend.

Despite the encouraging trend in the public sector, the contrast with the private not-for-profit sector remains clear. The discount rates for aid beyond need are similar in the two sectors, while the discount rate for meeting need is much higher at private institutions. This difference is attributable in part to the higher tuition and fees that create higher levels of financial need in the private sector. However, considerable unmet financial need does exist in the public sector.

### Variation Within Sectors

Average discount rates by sector conceal considerable variation across institutions within sectors. The variation is greatest among public two-year colleges, where 25% of institutions have total discount rates below 3%, and 25% have discount rates above 18%. But even among private not-for-profit four-year colleges, 25% have total discount rates below 25%, and 25% have discount rates above 41%.

**TABLE 4: Distribution of Total Discount Rates Within Sectors, 2007-08\***

	Mean	10th	25th	Median	75th	90th	75th/25th
<b>Public Two-Year</b>	12.6%	0.7%	2.6%	7.4%	17.6%	27.7%	6.8
<b>Public Four-Year</b>	17.6%	4.0%	8.0%	15.6%	24.4%	33.6%	3.1
<b>Private Four-Year</b>	32.8%	17.6%	24.8%	33.6%	41.1%	47.0%	1.7

\*Institutions are sorted into percentiles ranked by overall discount rate, with no weighting by enrollment involved.

Within sectors, there are patterns corresponding to different institutional characteristics. At private colleges in the lowest quartile by tuition level, the average discount rate was 25% in 2007-08, compared to 33%–34% at higher-priced institutions. The higher discount rate at higher-tuition institutions is attributable to a larger discount meeting need at these institutions compared to the lower-priced institutions. In contrast, the discount rate for aid beyond need is similar across the price spectrum. The lower-priced private colleges, which devote larger proportions of their aid to purposes other than meeting financial need, have increased their discount rates most rapidly in recent years.

At the 30 private institutions with endowment per student greater than \$500,000, the average discount rate in 2007-08 was 37%, with 85% of the discount rate going toward meeting need. By comparison, among the 201 institutions with endowment per student of less than \$15,000, the average discount rate was 25%, with only half of the discount going toward meeting need.

In the public sector, institutions with a higher percentage of out-of-state students tend to have higher published tuition and fees and higher discount rates. Flagship institutions averaged 29% discount rates overall, compared to about 17% for nonflagship institutions in 2007-08. The 29% total discount rate for flagships was closer to the 32% rate for private institutions than to the lower rate for nonflagship public colleges and universities.

## Conclusion

Prices net of institutional grants and tuition waivers average about 10% below the published price at public two-year colleges, about 20% below the published price at public four-year institutions, and about 33% less than the published price at private not-for-profit four-year colleges and universities. There is considerable variation in discount rates across institutions within sectors, and even the average net price at a particular institution tells individual students little about the prices they will pay if they enroll.

From a broader social perspective, being able to differentiate by ability to pay is compelling. Even if college prices were to be frozen today — and, in fact, even if they were to fall dramatically — there would be many students for whom college would be out of reach without financial aid. Because providing education is costly and someone must pay those costs, it is arguably both equitable and efficient to target subsidies specifically at those with inadequate financial means.

Our findings reveal that at public four-year colleges and universities, pure subsidies to students who could afford to enroll amount to about 5% to 6% of gross tuition revenues, compared to 7% to 8% devoted to meeting need. About another 6% goes to a combination of athletic awards and tuition waivers. At private not-for-profit four-year institutions, these pure subsidies amount to about 8% of gross tuition revenues, compared to 20% to 21% devoted to meeting need. Athletic awards account for about 4% of the gross tuition revenues. Relatively larger proportions of grant aid go to purposes beyond need at private colleges with low tuition and at those with low endowments. The same groups of colleges tend to devote significant resources to enrolling athletes. These institutions, which enroll larger proportions of low- and moderate-income students than do better-financed colleges, face the greatest challenges in filling their classes and in generating revenue. Still, the discounting pattern is reflected in high levels of unmet need and probably higher debt levels for students with financial need than would otherwise be the case.

In the public sector, the proportion of aid dollars going to subsidize those who can afford to pay is an issue that should be addressed in public policy discussions. Whether the funds are from public or private sources, their allocation helps to determine the profile of the student body and the effective mission of public higher education. In an era of unusually constrained finances, it is particularly important to assure that available dollars are distributed both equitably and efficiently.

It is encouraging that the proportion of the discount that is going to meet need is rising over time. This will make a positive difference if it is the result of institutional policies. But to the extent that it reflects rising tuition prices and greater financial need among the student body, the ratio will have to change more rapidly in order to ensure access to public higher education for as many students as possible.

We strongly advocate the maintenance of need-based aid to provide access to college for low- and moderate-income students, but we believe that serious consideration should be given to a significant reduction in the awarding of characteristic-based aid to students without need. In addition to targeting subsidies at the students who need them most and whose college enrollment patterns are most sensitive to price, this change could result in net prices among colleges and universities that are more predictable. Supplemented by the net price calculators soon to be required on institutional websites, this simpler pricing strategy would provide students with better information up front as to what they would be likely to pay at the schools among which they are choosing. Further simplification in the process for allocating federal need-based aid would also make aid and net prices more predictable for students.

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