



REIMAGINE TUITION: THREE CONSIDERATIONS FOR INDEPENDENT SCHOOL TUITION SETTING

By Lucie Lapovsky



Every year, independent schools must decide how much tuition they should charge. Many increase tuition annually, but there are times that schools question this strategy. This is usually when the approach is not producing the desired results or when the head or board feels uncomfortable with the tuition price.

Schools often reevaluate tuition price when they are not able to maintain a desired level of net income; when they are giving increasing amounts of financial aid in order to attract and retain students; or when enrollment has been declining or they have not been able to increase enrollment. Schools also may reevaluate pricing when they are not attracting the mix of students they want—including a geographically, demographically, or socioeconomically diverse pool or desired levels of some other student or family characteristic.

When schools choose to reexamine tuition, there are many approaches, including looking at tuition level, tuition structure, discounts, and the way the school describes tuition. A strategic decision on tuition starts with a clear understanding of the effects of adjusting these different levers.

TUITION LEVEL

For the majority of independent schools, setting tuition is a matter of deciding on a percentage increase each year. Deciding how much to increase tuition usually involves looking at the school's budget and its revenue needs and the tuition of peer and competitor institutions. Boards often evaluate the school's price point relative to other schools and consider how they want to position their institution. They look at inflation and other macroeconomic factors. In addition, many schools also consider whether they want to change their allocation of financial aid.

This annual decision can lead to spirited conversation among trustees—some members feel that families can easily afford a tuition increase (and thus an increase in excess of inflation can be justified in order to keep the school competitive and to maintain its quality), and others may be concerned about the school's affordability and accessibility. Usually, a compromise is an increase slightly above the rate of inflation. According to NAIS's Data and Analysis for School Leadership (DASL), between 2009-2010 and 2019-2020, inflation-adjusted day school tuition increased by 20.3% while inflation-adjusted boarding school tuition increased by 24.1%. This is compared to an increase in the Consumer Price Index of 19.4% and an increase in median household income of 18.6% between 2010 and 2019.

Some schools decide to freeze tuition for a year or two if the board thinks the price has gotten too high and wants to readjust the tuition level. A tuition freeze always puts pressure on the expenditure side of the budget, but it can sometimes have positive marketing results, help to improve retention, and slightly reposition the school relative to its competitors.

When schools more seriously question tuition level (usually because it is not providing the results that a school wants), an in-depth analysis of all options related to tuition should be considered. Discussion questions include:

- Is tuition too high, too low, or about right? Does the answer differ by grade or boarding versus day student programs?
- Is the tuition able to generate the revenue the school needs?
- Can the school attract the numbers of students needed with current tuition levels?

If generating the necessary revenue or enrolling the student population that the school wants are serious challenges, a school should consider all aspects of its pricing structure as well as the amount of financial aid it offers, rather than just tinkering with the tuition level. Schools also need to understand that changing pricing and financial aid policies, level, and structure will not necessarily fix revenue or enrollment problems if families in the market perceive that the school does not have a robust value proposition or is not providing a quality education.

PRICING STRUCTURE

Differentiating Tuition by Grade

Schools may charge the same tuition for all grades, the same tuition for some grades, or a different price for each grade. When schools charge different prices by grade, the price usually increases as students advance. The rationale for increasing tuition as students progress usually relates to the assumption that operations cost more in higher grades. Most schools have not evaluated cost data to know whether this is truly the case, but it is assumed to be true. Also, once a student has entered a school, they are less likely to leave and thus less price-sensitive than when they initially enrolled.

Schools that charge one price for all or most grades may consider moving to a structure that increases the price as the student advances as a way to further increase revenue. On the other hand, schools with retention issues may look at how the price increases are impacting student retention. Schools also need to look at where they have the strongest market demand; this is especially true for schools that have multiple entry points. This may be at traditional transition points (pre-K to kindergarten, elementary to middle school, middle to high school); schools may want to charge higher prices where demand is strongest. Schools that charge more as students proceed often find parents worrying not only about the price increase as their students move to higher grades but also about the annual price increases, which most schools charge to cover salary increases, inflation, and other costs. These concerns have led many schools to flatten tuition structures and remove many of the step increases tied to grade or division transitions. Pricing histories typically show that schools often adopt different structures at different times then switch to another approach.

Bundled or A La Carte Approach

Independent schools differ in what they include in the cost of tuition, depending on what is available. Some schools bundle everything together and charge one price, while others have a la carte pricing. For example, if a school offers transportation, lunch, before- and after-school care, and a variety of co-curricular activities, it may charge an all-inclusive price or charge separately for each add-on beyond the basic academic program.

A la carte pricing results in different levels of demand for services than all-inclusive pricing does; there's likely to be much greater demand for lunch, transportation, and the other extras if they are included in the price rather than if they are priced separately. When items are priced separately, there may not be enough families who buy the "extras" to make them affordable or to allow them to operate at a break-even level. When a school decides it is critical to continue offering an activity or service that is purchased by too few families to cover the cost of providing the service, it will end up subsidizing this activity from the general revenues of the school.

When transportation is included in the price, the school is likely to attract students from a much wider geographic area than when parents have to provide transportation on their own or purchase it as an extra. Providing transportation can also increase the number of students from families who do not have a stay-at-home parent or caregiver.

Besides changing the demand for the various components beyond the academic program, schools that comprehensively bundle many components into their tuition will usually have a higher price than schools that choose a la carte pricing. This can make it more difficult for the higher-priced schools to compete in the marketplace as they have to argue that their price is the same and perhaps even lower than their competitors. Many schools that have higher tuition prices fear that parents will not look beyond the initial sticker price to understand what the price includes.

Many schools bundle some extras into their tuition. Transportation and after-school care are most often treated as add-ons, with lunch following closely behind. It is important for schools to analyze the impact of different bundling options on student demand.

Tuition Discounts

Discounts are a way of lowering tuition for specific groups of people without lowering it for everyone. The most common discounts (where the discount is the same for everyone who meets the criteria) include tuition remission for children of faculty members and sibling discounts for families with more than one child in the same school. These discounts serve to attract more people who will benefit from the discount offered. For example, schools with generous discounts for families with more than one child at the school will tend to attract larger families who will benefit from the discount. The rationale for the discount is to acknowledge the financial burden on the family of having more than one child in the school at the same time and to provide a positive incentive for the family to send all its children to the same school. This type of discount policy also can put a lot of pressure on a school to accept a second or third child from a family even if the child doesn't meet the school's admission standards. On the other hand, the marketing costs for additional children in a family are negligible and many schools appreciate the community environment of having whole families attend the same school.

Much of the same rationale applies to schools that offer discounts for children of faculty members through tuition-remission benefits. These schools will tend to attract more faculty who have or plan to have children as this can be a huge financial employee benefit. On the other hand, all the same issues as family discounts apply to faculty discounts, and the pressure to accept children of faculty can be huge because the financial impact of not accepting the student might involve hiring a new faculty member.

There are other types of discounts that schools may offer to attract certain categories of students who are not likely to pay the school's full price; a discount is a way to selectively lower the school's price. For example, some schools that are near large military installations may offer discounts to the children of military personnel, and other schools may offer a discount to students in a certain area, often the area right around the school, in order to promote better community relations.

Discounts based on group membership can be difficult to manage financially. Schools can usually predict how many students will receive discounts a year or two in advance, but there is little that they can do to reduce the financial impact of the discount other than to reduce the size of the discount or not accept the student. Not accepting the student, if the student is qualified, can also cause a great deal of ill will.

There are a few schools that offer a tuition guarantee or a tuition lock. This requires that a parent sign a contract with the school, and there is an agreement on the price, usually for the student's attendance in a certain division of the school, such as lower school, middle school, or high school. The contract provides families with certainty about how much their child's schooling will cost for the years that it covers, and it protects the family from unexpected tuition increases.

DESCRIPTION OF PRICE

Most independent schools provide aid to a portion of students who are not able to afford the full cost of tuition as well as some specifically targeted merit aid or aid to students with certain characteristics. How this aid is described can also influence a school's prospects.

Some schools have found that families do not even consider their school if they publish a price that the family feels is beyond its means. Other schools find that some families who cannot afford the full tuition price do not like the idea of seeking financial aid. Furthermore, some schools observe that some families mistakenly perceive they do not fit the profile of a family that would qualify for financial aid. To change the conversation, some schools have adopted creative ways to provide different price points—based on a family's ability to pay—without using terms such as “financial aid” or “tuition assistance.”

Some schools refer to tuition that is “indexed” to family income, while others say that the school's tuition is based on a “sliding scale” relative to what a family can afford. Other schools talk about “flexible tuition” based on family circumstances or “variable tuition” rates. Many of the schools that have recast their tuition policies using these terms have found that it has had very positive effects on their enrollment and has resulted in increased interest in the school by a diverse set of families.

The outcome for a family in terms of net price may be no different than if the school charged a set tuition to everyone and offered financial aid selectively, but it allows the school to have individual conversations with families. Much of the advantage of this renaming of a school's tuition policy is in the marketing of the approach.

CONCLUSION

Tuition is but one variable that influences whether families will choose to send their children to independent schools. Academic programs, location, co-curricular activities, educational philosophy, school size, and many other variables enter into the decision-making process and influence parent assessment of the value proposition of a school. Tuition is very important to many families, and the way tuition is described can influence whether families even consider a particular school.

As most schools make a decision annually to set tuition for the following year, it is worth considering whether and how rethinking the tuition level, pricing structure, and the way the school describes the cost of attendance could affect admission and enrollment prospects.

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