

Tuition: Up, Down or Staying the Same

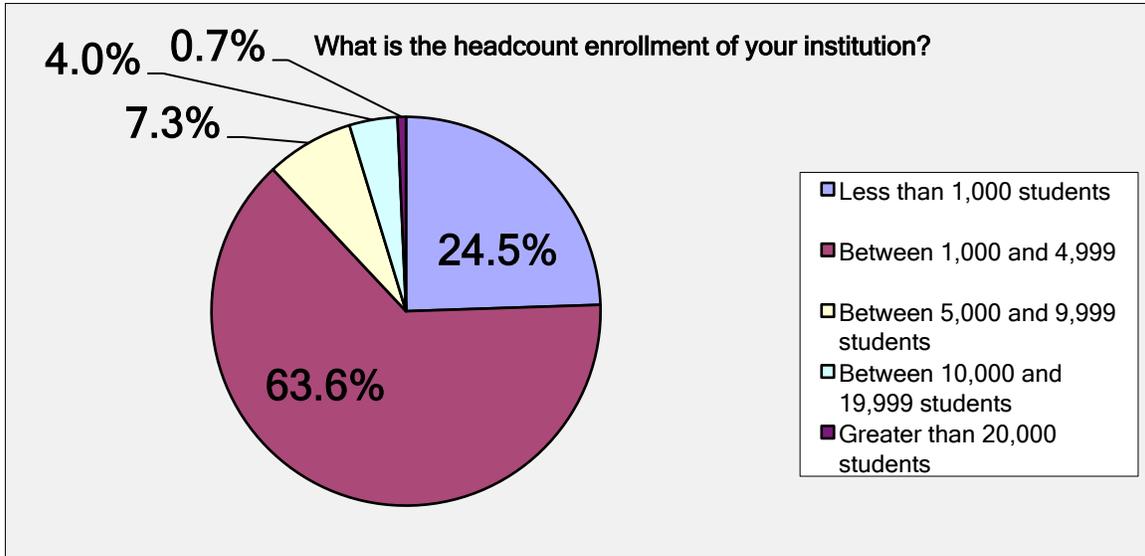
Summary

The results of a survey of chief financial officers at private colleges and universities done in the early fall of 2016 indicated that most private colleges and universities increased their tuition. Thirteen percent held their tuition at the prior year's level, 5% guaranteed freshmen that they would pay the 2016 tuition for the next four years while 1% guaranteed that freshmen would pay the same net tuition for four years. In making their tuition decision, 63% considered holding tuition constant at the 2015 level while 35% considered holding tuition constant for four years and 23% thought about reducing their tuition yet few adopted these strategies. In considering tuition rates for 2017, most schools are again considering raising tuition while more than half the schools are giving consideration to holding tuition at the 2016 rate. About a third of the schools are considering providing a tuition guarantee while a quarter are considering a net tuition guarantee and only 14% are considering reducing their tuition.

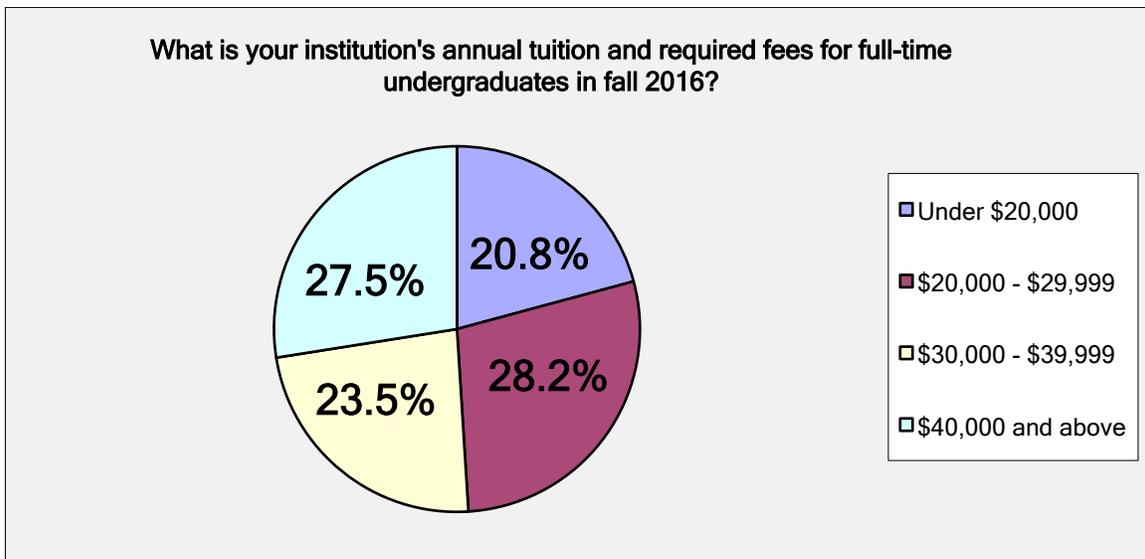
The survey also asked questions about the expected impact of future tuition changes on enrollment, net tuition and the discount rate. There was little consensus on the impact of tuition increases greater than three percent or decreases in tuition would have on enrollment while small increases in tuition were not expected to lead to enrollment changes. There also was little consensus on the impact tuition increases would have on net tuition revenue while the majority of CFOs believed that net tuition revenue would decrease if tuition were reduced. Finally, the discount rate was expected to stay the same for small tuition increases and to increase if tuition increases exceeded 3%. There was great uncertainty as to what would happen to the discount rate if tuition were reduced.

The Survey and the Sample

A survey of chief financial officers at four-year private colleges and universities was conducted in fall 2016. Responses were received from 153 or 10.4% of the institutions surveyed. The respondents were quite representative of the universe of private colleges and universities in terms of enrollment and tuition. Among the respondents, 63.6% came from institutions with an enrollment between 1,000 and 4,999 students followed by 24.5% with enrollment of less than 1,000 students. This distribution is a bit weighted to smaller colleges as about 80% of the private colleges in the U.S. have enrollment of fewer than 5,000 students.



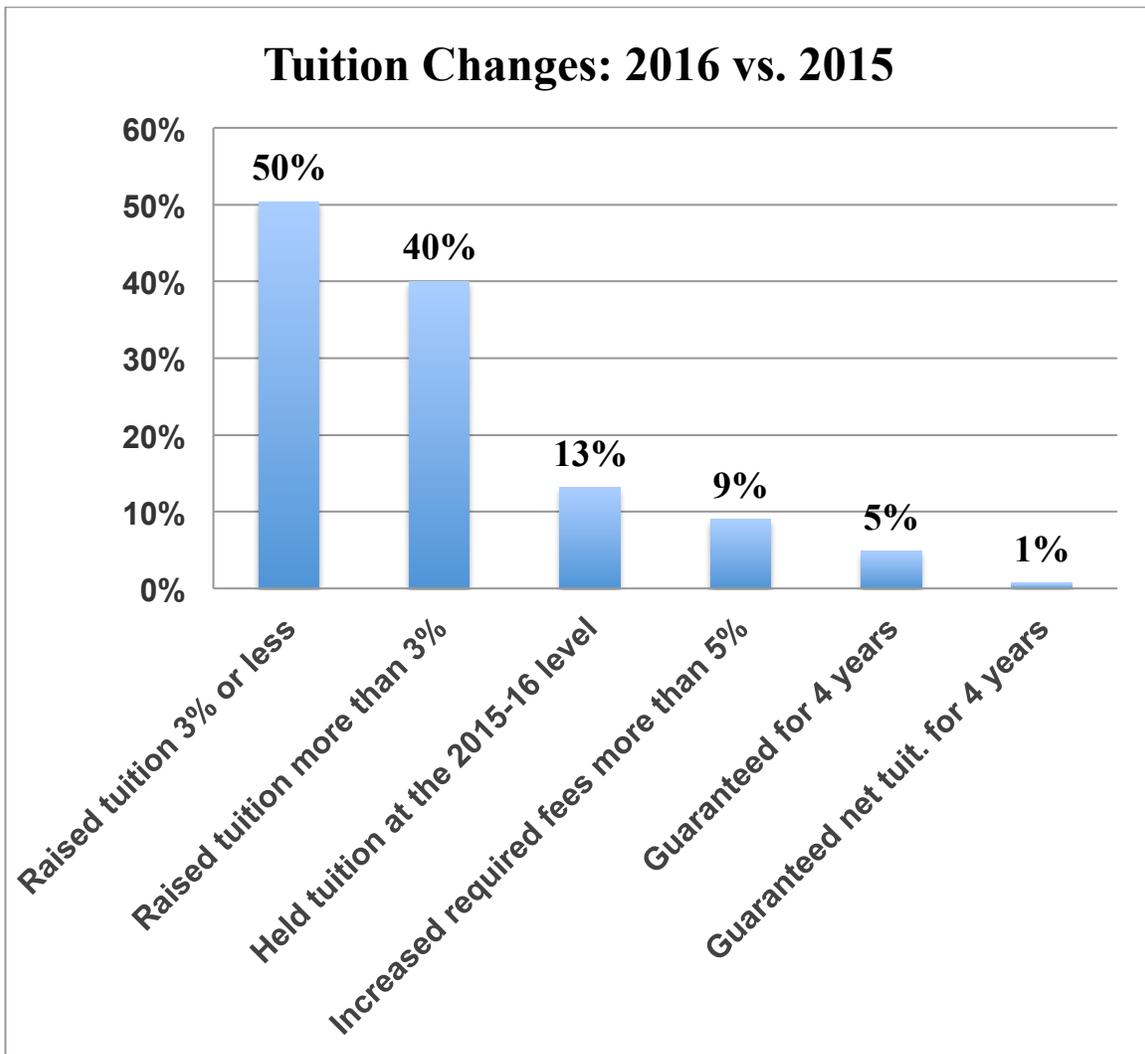
Among the institution's responding, 20.8% of the institution's had tuition of less than \$20,000 while almost equal percentages of respondents came from schools with tuition between \$20,000 and \$29,999 and \$30,000 and \$39,999 while 23.5% of the respondents were at institutions with tuition of \$40,000 or more; this is quite representative of the universe of private, non-profit institutions.



Tuition Setting

In setting tuition for 2016-17, the CFOs were asked what their institutions did. (Institutions could provide more than one answer to this question.) Half of the institutions responded that they raised tuition 3% or less while 40% raised tuition more than 3%. Thirteen percent of the institutions held their tuition at the prior year's level; 5% guaranteed their tuition for four years while 1% guaranteed net tuition for four years. In addition, 9% of the respondents increased their required fees by more than 9%.

In addition, one institution provided rental books for all students as a part of tuition effectively lowering the out-of-pocket cost to students. Another school which uses a per credit hour model of pricing reduced the number of credit hours required to graduate by 5% thus lowering the cost by 5%. One school guaranteed the dollar amount of financial aid for four years and another school offered a guaranteed four-year tuition price at a higher rate if students wanted the guarantee. Finally, one school guaranteed that tuition, fees, room and board would not increase by more than 2% over the next four years.



When asked what the CFOs considered when setting their tuition for 2016-17, 96% considered raising tuition with 82% considering this very seriously. Only 4% of the schools gave no consideration to raising tuition. Lowering tuition was considered by 23% of the institutions and holding tuition at last year's level was considered by 63% of the

institutions. Guaranteeing tuition for four years was considered by 35% of the schools while guaranteeing net tuition was considered by 20% of the schools. The “go-to” continues to be increasing tuition annually.

In setting tuition for 2016-17, how seriously did your institution consider the following?

	Considered very seriously	Some consideration	No consideration
Raising tuition	82%	14%	4%
Lowering tuition	4%	19%	76%
Holding tuition at the prior year's level	23%	40%	37%
Guaranteeing tuition for four years	6%	29%	65%
Guaranteeing net tuition for four years	3%	17%	80%

When asked to look a year further into the future, there was not much change in what the schools are expecting to do. There is an increase from 4% to 8% in schools that are giving no consideration to increasing tuition but there also is an increase from 76% to 87% in schools that are expecting to give no consideration to lowering tuition.

In thinking about tuition for 2017-18, is your institution considering any of the following?

	Considering very seriously	Some consideration	Not considering
Raising tuition	63%	30%	8%
Lowering tuition	4%	10%	87%
Holding tuition at the prior year's level	16%	46%	39%
Guaranteeing tuition for four years	6%	26%	69%
Guaranteeing net tuition for four years	5%	19%	75%

The schools were asked what they consider when thinking about setting tuition; what factors do they take into account. The impact of the tuition change on enrollment will be considered by 88% of the institutions while 84% of the institutions will consider what their costs will be and the relationship between tuition and perceived value. What peer institutions will do as well as the impact of the change on the discount rate will be considered by 76% of the institutions. Consideration also will be given to what was done last year by 69% of the institutions and 59% will consider the impact on student debt

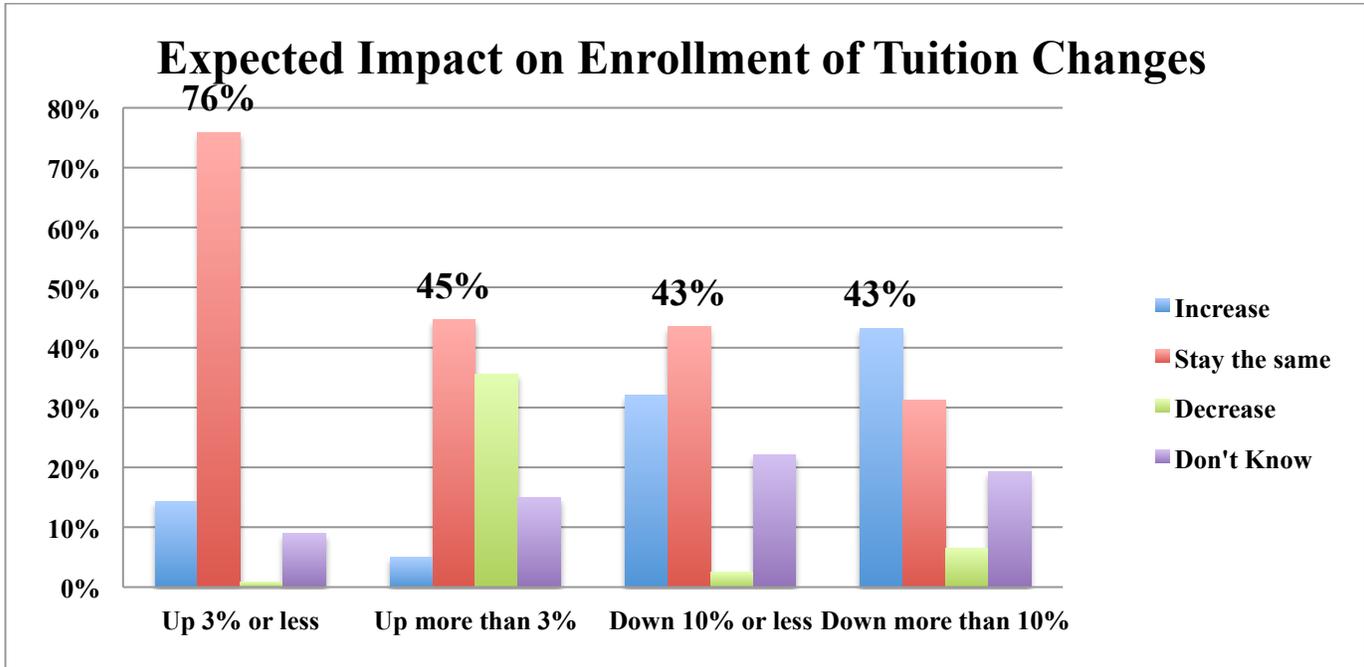
levels. In addition to these answers, institutions indicated that they also consider changes in household income and inflation.

When thinking about setting tuition for 2017-18, what will you consider?

	Will consider	Might consider	Won't consider
What our peer institutions will do	76%	20%	4%
What we did last year	69%	24%	7%
The impact of a tuition change on enrollment	88%	7%	5%
The impact of a tuition change on the discount rate	76%	14%	10%
What our costs will be	84%	9%	8%
The relationship between tuition and perceived value	84%	13%	3%
Student debt levels	59%	29%	12%

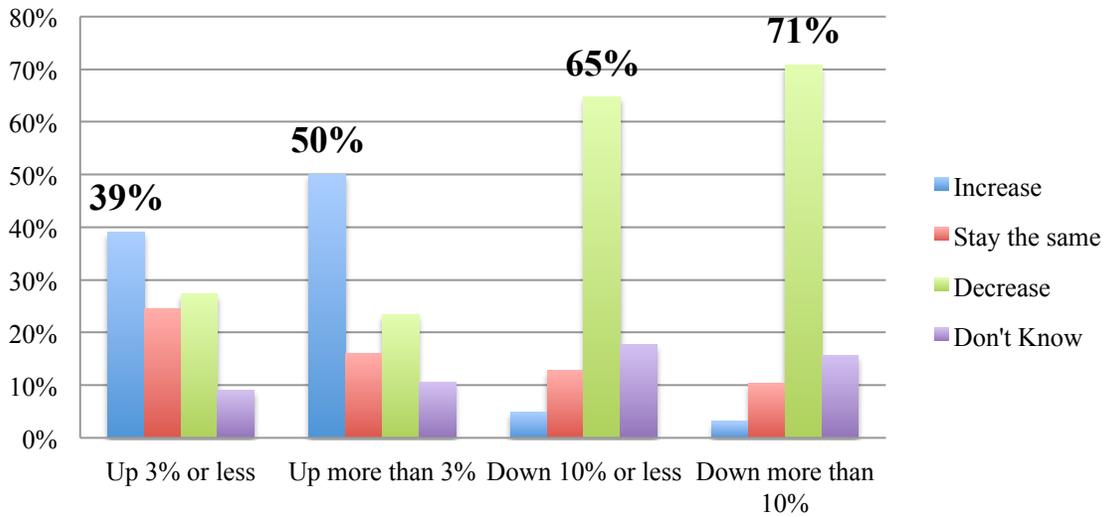
Expectations of the Impact of Tuition Increases and Decreases

Institutions were asked a series of questions about their expectations on the impact of tuition increases of less than 3%, 3% or more and of tuition decreases of 10% and less and of more than 10% on enrollment, gross tuition revenue, net tuition revenue and the discount rate. Enrollment growth was the answer selected by a plurality of institutions only if tuition were decreased by more than 10%. In all other scenarios, the most common response was that enrollment would stay the same. Uncertainty about the impact on enrollment was much higher for the two scenarios where tuition was lowered hovering around 20%.



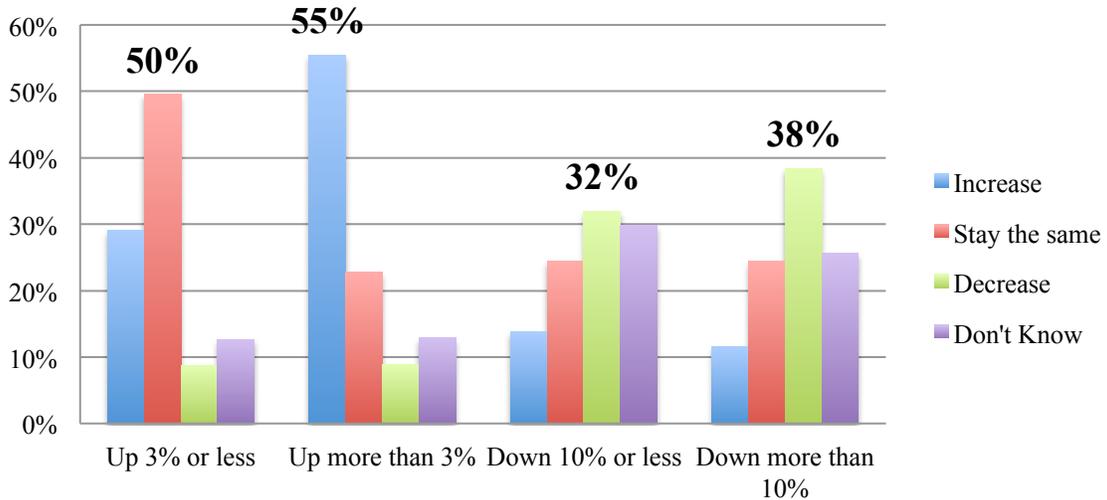
The impact of increases and decreases in tuition on changes in net tuition revenue are projected to vary significantly. The CFOs were quite split on the impact of a tuition increase of 3% or less on net tuition revenue with 39% projecting that net tuition revenue would increase while 25% said it would stay the same and 27% said it would decrease. When the question was reframed for a tuition increase of more than 3%, 50% of the CFOs expect that net tuition revenue will increase while 23% project a decrease. When we flip the question and ask about the impact of tuition reductions on net tuition revenue, almost no CFOs believe that there will be an increase in net tuition revenue and less than 13% even expect that the net tuition revenue will stay the same. Significantly more than 50% of the CFOs expect that net tuition revenue will decline irrespective of the magnitude of the tuition decrease.

Expected Impact on Net Tuition Revenue of Tuition Changes



The final question in this series had to do with the impact on the discount rate of a change in tuition. The level of uncertainty is much greater when the scenarios involve a reduction in tuition as compared to an increase in tuition. There is a great spread in expected change in the discount rate with increases and decreases in tuition with more than 60% of the respondents expecting the discount rate to increase or stay the same with an increase in tuition while more than 65% of the respondents expect the discount rate to decrease with an increase in tuition.

Projected Changes in the Discount Rate with Tuition Changes



Clearly this set of questions involves other assumptions that the CFOs are making; for example, will enrollment increase or decrease and how much will financial aid change with changes in the price.

Which Decision-Makers are Most Likely to Favor Reducing Tuition

Many people say that the higher education tuition model is broken yet we see that the vast majority of institutions are planning to continue raising their tuition. When we asked the CFOs about the key players involved in making the tuition decision in terms of their likelihood to lower tuition, the group that they thought was most likely to consider lowering tuition are the VPs of Enrollment Management/Admissions and the VPs of Marketing. The CFOs were the least likely to consider lowering tuition followed by the president and the board of trustees.

The tuition-setting conversation usually involves the board, president, CFO, VP enrollment management/admissions and VP marketing. At your institution, for each of the following, please indicate how likely each is to consider lowering tuition?

	Very likely	Somewhat likely	Unlikely
Board of Trustees	7%	28%	65%
President	8%	23%	68%
CFO	10%	11%	79%
VP Enrollment Management/Admissions	16%	36%	49%
VP Marketing	12%	33%	54%

This reticence to consider lowering tuition seems to follow from an assumption that lowering tuition will result in lower net tuition revenue. The experience of many schools that have lowered tuition does not validate this conclusion. Many schools that have lowered tuition have experienced an increase in enrollment combined with a decrease in the discount rate which has resulted in an increase in net total tuition revenue and sometimes even in an increase in net tuition revenue per student.

Policy Implications

Although many are very concerned about the continued increase in tuition, most CFOs seem to favor continued small tuition increases despite the fact that many have been facing enrollment declines and/or increases in their discount rates resulting in reduced net total tuition revenue.

“There seems to be a strong connection between tuition and perceived value so that reducing tuition would decrease the value and have a negative impact on enrollment. Most students and parents are evaluating schools on more than price.” (Source: Survey respondent)

Although most CFOs do not believe that “our unsophisticated and traditional model can hold up for long,” most are unwilling to deviate from current policies which means that we are likely to continue to see tuition edging up each year.