AN *INSIDE HIGHER ED* SPECIAL REPORT

Cut Too Deep?

Tuition Discounting at a Crossroads

INSIDE HIGHER ED

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BY RICK SELTZER

Executive Summary

For years, college administrators and board members have closely monitored tuition discount rates at their institutions.

But they haven't always been comfortable with high and often-rising discount rates. Nor have they always had easy access to important context explaining why colleges and universities discount the way they do.

These issues are likely to come to a head in today's rapidly changing higher education market. For all the attention tuition discounting receives from campus leaders and higher education experts, many report the practice causes consternation, misunderstanding and reflexive apprehension.

It's easy to understand why the discomfort persists. The tuition discount rate—the percentage of all tuition and fee dollars institutions give back to their students in the form of merit- and need-based grants and scholarships—has been marching steadily upward for years. One of the most closely watched indicators, the average tuition discount rate for first-time, full-time students who attend private colleges, hit 50.5 percent in 2017-18, according to the National Association of College and University Business Officers. It was the first time the marker eclipsed the 50 percent barrier, meaning that for every dollar private institutions collected from freshmen in tuition and fees, those students received more than 50 cents in financial aid funding, on average.

The discount rate for first-time, full-time freshmen at private institutions rose by more than 11 percentage points over a decade and is expected to keep climbing. And the rate for all students enrolled at private colleges surveyed by NACUBO, while consistently lower than the freshman discount rate, also has been on a long upward trend. It hit 44.6 percent in 2017-18.

This would not necessarily be considered a problem today if colleges were using funded aid, or dollars from endowments, to pay for most of their discounting. But they are not. Colleges never actually collect revenue from much of the financial aid that drives up discount rates. It is nothing but a discount on sticker prices, one that some observers fear is hurting colleges' financial standing. Thus, colleges increasingly are marking down the price of tuition as if they were JCPenney selling a shirt or an auto manufacturer trying to move last year's car models off the lot.

Nor would tuition discounting be a critical issue today if it were serving some of its highest ideals: enabling institutions to enroll students at different price points based on their ability to pay. In a perfect world, doing so grows the number of students who actually enroll in higher education while also allowing the colleges students attend to generate more total net tuition revenue—because they can use lower prices to fill seats that would otherwise go empty. That revenue, in turn, can be put back into the educational enterprise to benefit all students.

Unfortunately, rising discount rates are increasingly failing to translate into more revenue for colleges—or more students. Net tuition revenue per first-time, full-time student in 2017-18 fell by almost a percentage point at private institutions, according to NACUBO. Small institutions have struggled most consistently to raise more revenue in recent years, with net tuition revenue per freshman falling or failing to rise at small colleges in two of the last four years covered by the association's study.

Private colleges aren't the only ones offering discounts. Nor are undergraduates the only ones receiving them. Public institutions have been using financial aid awards to increasingly buy down sticker prices in recent years, and discounting has taken hold at graduate and law schools.

Yet institutions both public and private are struggling to grow net tuition revenue on a year-to-year basis as the number of students enrolled across higher education stagnates and demographic shifts play out across the country. Those demographics change who, exactly, students are, as well as who they are likely to be in the future. Students today are more racially diverse than they were in the past, changing what they expect from college, the services they need and where they enroll. At the same time, stagnant income growth across large swaths of the country and unequal wealth distributions are impacting families' ability to pay for college.

Tuition discounting was long criticized, however, even when overall student enrollment was growing and net income was rising. Some colleges drew fire for using merit aid, also called non-need-based aid, to lure the most attractive students to their campuses—even if those students could afford to pay more for college. Discounting has also been attacked as creating an opaque market that detaches sticker prices from the actual cost of providing a student with a college education. And some fear sticker prices have risen so high that they dissuade many prospective students from applying to college in the first place, particularly students from underserved backgrounds.

Even those who historically have extolled discounting's benefits worry that ever-rising discount rates are starting to squeeze margins, diminish returns and bankrupt institutions. This question is being asked with increasing frequency: How long can sticker prices and discount rates keep climbing before the model reaches its breaking point?

No simple or single answer exists. Discount rates affect institutions of various sizes, market positions and wealth levels in different ways. Some stressed campuses that are currently unable to enroll and retain enough students may already be at their breaking point. Some other strong institutions could easily discount more in the future without creating significant problems for themselves.

New pricing strategies are being tried, like tuition resets and out-of-state tuition matches. Might they shake up the existing discounting paradigm, reconnecting sticker prices to the cost of educating a student? Might they at least buy colleges more time before a reckoning arrives?

A key question going forward is whether colleges can find ways to compete less on price and more on their other characteristics. For example, consultants extol the virtues of emphasizing an institution's value to students, whether that be by building signature programs that stand out in consumers' minds, promoting in-demand academic programs or recruiting by promoting a campus's other offerings, like popular athletic teams. While these strategies may not be new, might they be executed better to refocus students less on price and more on what makes specific colleges and universities unique?

Meanwhile, finance experts point out that there are two sides to balancing a budget. If tuition discounting really has reached a point of diminishing returns in a country where student cohorts are expected to shrink into the future, does higher education need to focus more on cost containment?

Clearly, the tuition discount rate is just one of many characteristics by which a college or the higher education sector as a whole should be judged. Still, it remains a uniquely important metric, because it can provide insight into many aspects of an institution's operations and the market in which it competes.

In order to successfully navigate the future, all leaders at a college or university, from enrollment manager to board member, will need a nuanced view of discount rates and the trends affecting them. This special report seeks to explore those trends and recent developments in discounting. It will review different strategies campuses are deploying as they seek to bolster their budgets and will suggest possible best practices institutions can follow.

No single strategy or set of practices will be useful for every campus. But by exploring key concepts and developments in discounting, leaders can better evaluate their own institutions to prepare a course of action for a smaller-margin future that for many will require smarter pricing and better management. ■

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Giving your students more ways to pay

Students graduating from high school are faced with many life-changing decisions; and for those choosing to attend college, one of the big ones is figuring out how to pay for it. Whether you're a student or parent, the idea of taking on student debt is a difficult choice and with college tuition prices steadily increasing year over year, this is an alternative more families must consider. With the current student load debt at $1.49 trillion,[1] students and families struggle with how to address these rising costs, while focusing on the goal of graduating.

At Transact, one of our primary goals is to partner with our client institutions to put students and families in the position to make good financial decisions so they can focus on achieving their desired educational outcome. We help by providing billing presentment and payment services to allow them to easily understand financial obligations and meet those commitments with a variety of payment options, including the use of payment plans.

Payment plans offered directly from institutions provide a means to spread out financial obligations over time, easing the burden of large payment deadlines. These plans can play an important role as part of a student's financial plan to cover their obligation to the school. With the average student loan balance running $31,000,[1] having a means to minimize or eliminate this level of debt is significant.

Our commitment to students and their families doesn't stop there. The breadth of our Transact portfolio includes services across campus—from tuition and fee payments (powered by Cashnet) to credential-driven transactions and privileges to security management. Our open solutions provide convenient and secure transaction services to millions of students creating a connected experience when and where it matters most.

At Transact, we deliver innovative solutions that transform the student experience—starting with the question of how to manage financial obligations and continuing throughout the spectrum of campus life.

Laura Newell-McLaughlin
Vice President, Transact Payments

[1] Federal Reserve Bank of New York. (May 2019). Quarterly Report on Household Debt and Credit. Retrieved from www.newyorkfed.org

Introduction: Context Counts

A college's tuition discount rate does not matter on its own. The higher education sector's average tuition discount rate does not matter on its own.

Those may seem like strange statements to make at the beginning of a report on tuition discounting, but they're important to get out of the way. A tuition discount rate, whether it is 1 percent or 99 percent, is essentially useless information without knowing more details.

“The context of the discount rate matters,” says Christopher Collins, assistant vice president at Moody's Investors Service.

Important context might be how a college's tuition discount rate has changed over time. It might be how that college's discount rate compares to those of its competitors. It might be the amount of revenue a college collects. It might be the sticker price a college advertises to students or the amount of financial aid it provides.

A discount rate is a function of those last two pieces of information. It is generated by dividing financial aid dollars provided to the average student by sticker price.

Net revenue, financial aid dollars provided to students and sticker price are critically important on their own. Net tuition revenue indicates how much money a college or university is generating from students in order to pay its bills. Financial aid shows how much a college is offering students to entice them to enroll or help them meet their college costs. Sticker price reflects how a college is positioning itself in the market for students.

And there, in the course of just a few sentences, we have moved from describing tuition discount rates into a discussion touching on income, expenses, pricing, students' ability to pay, students' willingness to pay and competitive markets. This, in a nutshell, is what makes tuition discount rates such an important statistic. They are a distillation of the many metrics that measure key parts of the higher education enterprise.

Knowing how a college's tuition discount rate has risen over time isn't the same thing as knowing whether that college is facing increased competition or whether it has tweaked its financial aid policies in order to enroll more students from low-income families. But it can help raise those questions, along with the question of what's being sacrificed in return.

"Tuition discounting sort of starts with your institutional strategy," says Jon Boeckenstedt, vice provost for enrollment management at Oregon State University, who has built a following by writing online about college admissions and data in higher education. "I tell people all the time: if you give me a single variable in the freshman class, you can probably get it as long as you're willing to give up something else."

In a similar way, knowing that average discount rates have been rising across different slices of higher education—large and small, public and private—can help raise the question of what outside forces are bearing down on the higher education market.

The outside forces can seem too numerous to count. College enrollment is declining with a consistency not seen in at least a generation as the number of high school graduates levels off nationally and a strong job market gives adult students alternatives to continuing their education. Total fall enrollment at degree-granting postsecondary institutions in the United States declined on an annual basis only six times from 1966 to 2010, according to [data from the National Center for Education Statistics](). It then declined seven times in the seven years between 2010 and 2017, the last year for which data are available.

Future projections don't show anything that looks like a substantial rebound. The total number of students enrolled isn't expected to resume growing consistently, and cohorts of new high school graduates—the traditional bread and butter for most of the country's colleges—are expected to change in makeup and location. They will be more diverse and increasingly located in the South and West, away from the parts of the country where institutions of higher education are located in the greatest number.

Falling enrollment of international students adds another pressure. It's a particularly pertinent one because international enrollments in the United States have provided an important source of full-pay students—sources of revenue allowing colleges to swell their overall net tuition revenue and potentially discount elsewhere. Other building pressures include a suddenly shaky economy, an evolving online education sector and an uncertain education and job training market for adults.

Regulatory uncertainty also looms large. As colleges were welcoming students back to campuses for fall 2019, the National Association for College Admission Counseling (NACAC) unveiled proposed changes to its Code of Ethics and Professional Practice in an attempt to resolve a two-year Department of Justice antitrust investigation. Those changes would shake the foundation upon which the entire college admissions and financial aid process is built. They would remove restrictions preventing institutions from offering special incentives to students who enroll under early admissions plans, and they would take away restrictions that prevent colleges from continuing to recruit students who had already committed elsewhere.

Perhaps more importantly, they would eliminate language enforcing the traditional May 1 admissions and recruitment deadline. And they would cut language restricting colleges from soliciting transfer applications based on lists of previous prospective students who may have enrolled elsewhere.

The Department of Justice viewed many of the rules as no-poaching agreements. But the future of the specific rules may be less important than the change in attitude regulators are signaling—and the potential for a future in which college recruiting mutates from a highly competitive process into a no-holds-barred battle for students.

So far, the pressures have combined to create an environment where experts anticipate low or even negative net tuition growth across U.S. higher education in coming years.

"Those are the margins of retail groceries," says Bill Hall, founder and president of Applied Policy Research Inc., an enrollment and pricing advising firm. "When the growth in net tuition revenue approaches the margin of retail groceries, then you're in a circumstance where you're in a competitive marketplace."

In such an environment, questions about whether tuition discounting is a net positive or negative may seem academic. But they can still be informative, because the way institutions allocate their financial aid has significant ramifications for which students attend which colleges, and how much they pay.

Institutions that are willing to raise their class profile by throwing money at a few wealthy, high-achieving students are behaving very differently than those that reserve more of their financial aid dollars for low-income students who might not otherwise attend college. Colleges that discount to build a stronger class profile are motivated by different factors than those raising their discount rates in order to enroll enough students to keep the doors open.

It's not that cut-and-dry in most leaders' eyes, of course. Most institutions are trying to balance a mix of priorities as they recruit students and discount tuition.

Critics worry that tuition discounting has created a world where almost every institution uses a high-price, high-aid model that serves no one particularly well. Some research shows that low-income and minority students enroll less in those colleges that discount at high rates. Students who are interested in attending college may be looking at high sticker prices and not applying. They may never realize the sticker price is very different than the price they will pay.

Experts also wonder if the lack of transparency in pricing means that colleges have lost important connections between market demand for a college education, the prices institutions charge and the cost of actually educating a student.

"I'm an economist," says Lucie Lapovsky, a consultant and former president of Mercy College in New York who is an expert in higher education finance and governance. "Price should tell you something, and higher ed tuition for the most part doesn't tell you anything relative to either the cost or the net price at a large swath of our schools. At the elite schools, the price is less than the cost. If it's below the elite, for the most part, the price is significantly more than the cost because they're using so much of their tuition revenue, their gross revenue, to redistribute to financial aid."

Different pricing strategies abound, like resetting tuition and aid to lower levels, pegging price to competitors' advertised rates or looking at the way an institution's market position affects demand for its services. Yet enrollment managers regularly rattle off anecdotes about institutions that tried to lower their tuition discount rates, only to lose students to competing universities that continued operating under a higher-price, higher-aid model that presented students with attractive discounts.

This will continue to be a painful time for many colleges. Navigating it will require administrators and board members to understand the way their pricing strategies, academic programs and market position fit together—and how those characteristics can be changed to meet the needs of the students of tomorrow.

"You'll start to see more and more institutions recognize that the life span of their current business model is likely to be finite," says Peter Stokes, managing director in the education and life sciences strategy and operations group at the consulting firm Huron. "That doesn't mean they themselves need to go out of business, but it means they need to figure out a different model, a different product development, delivery, packaging and pricing strategy."

Covering the Basics

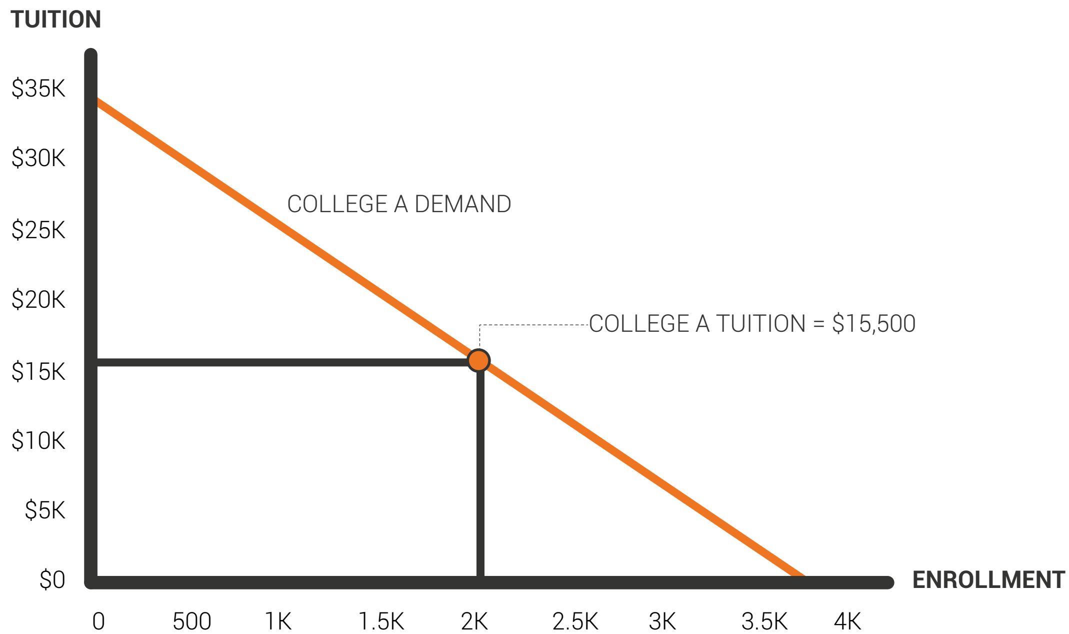
Before an in-depth examination of tuition discounting trends, it's important to ground the conversation in a common understanding of the practice and the high-tuition, high-aid model it creates. Like any discussion involving pricing in a sector of the economy, that requires knowledge of the demand curve.

In a simplified world, demand for seats at a college should rise if its cost of attendance falls. On the other hand, demand should fall if the college's price rises. Therefore, a certain number of students can be expected to enroll at any given tuition price. Raise the price, and fewer students will enroll. Lower it, and more students will enroll.

This can be represented graphically by drawing one axis representing different tuition rates and another axis showing enrollment levels. On such a graph, demand will be represented by a downward-sloping line or curve. This line or curve shows how many students can be expected to enroll at any given price.

Take as an example a theoretical demand graph featured in P. Jesse Rine's 2016 white paper, "A Shell Game by Any Other Name: The Economics and Rationale Behind Tuition

The Relationship of Tuition to Enrollment



COLLEGE A ENROLLMENT = 2,000 STUDENTS

Source: Rine, P. J. (2016). "A Shell Game by Any Other Name: The Economics and Rationale Behind Tuition Discounting." Minneapolis, MN: Center for Innovative Higher Education at the University of Minnesota. Originally adapted from Breneman, D. W. (1994). *Liberal Arts Colleges: Thriving, Surviving, or Endangered?* Washington, D.C.: Brookings Institution Press.

Discounting." It shows the demand curve for College A. If the college were to charge about $35,000 in tuition, it shouldn't expect to enroll any students—that's a price no one would be willing to pay. On the other hand, more than 4,000 students could be expected to enroll if the college were to charge nothing.

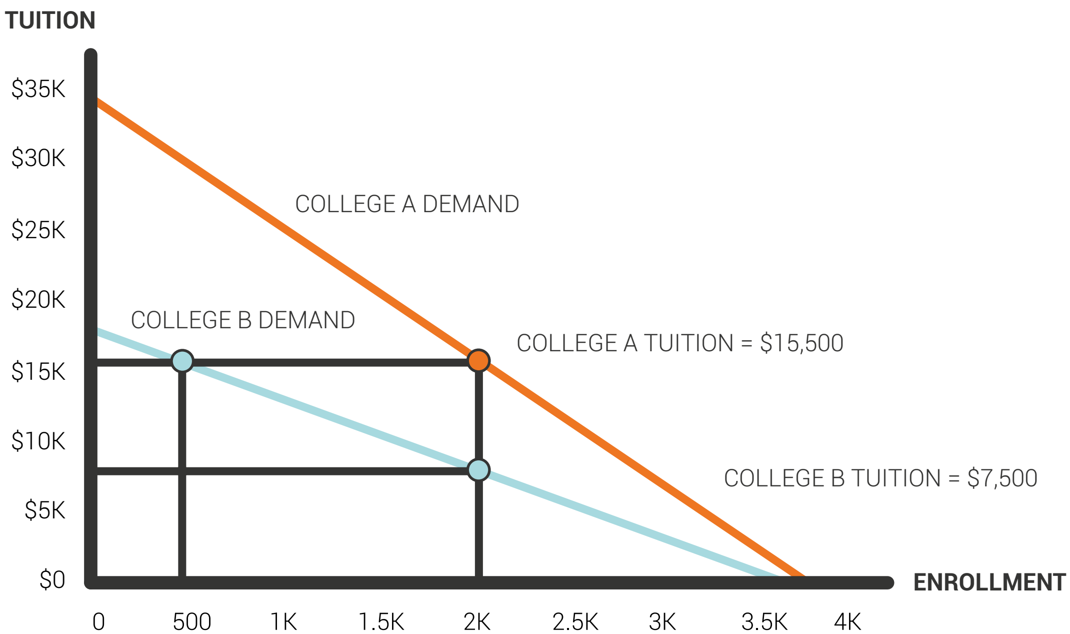
If College A's leaders set tuition at $15,500, they can expect to enroll 2,000 students. With those 2,000 students paying $15,500 apiece, the college would collect $31 million in tuition revenue.

Demand for different colleges is affected by a number of factors. A second college, College B, might not be as prestigious as College A. It might not draw students from as large of a geographic radius, it might enroll more low-income students who can't afford to pay high prices, or it might offer a mix of programs that students value less than they value the programs at College A.

In such a situation, College B's demand curve would not be as steep as College A's. If College B sets tuition at $15,500, it can only expect to draw 500 students—far below the 2,000 students College A would expect to draw at that price point. That means that even if both colleges charged $15,500 in tuition, College B would be expected to collect $7.75 million in revenue, a quarter as much as College A.

College B could try to enroll 2,000 students by dropping its price. But it still would be unable to collect quite as much tuition revenue as its competitor. In the example provided, College B could enroll 2,000 students by charging

The Effect of Demand on Tuition Price



TARGET ENROLLMENT = 2,000 STUDENTS

Source: Rine, P. J. (2016). "A Shell Game by Any Other Name: The Economics and Rationale Behind Tuition Discounting." Minneapolis, MN: Center for Innovative Higher Education at the University of Minnesota. Originally adapted from Breneman, D. W. (1994). *Liberal Arts Colleges: Thriving, Surviving, or Endangered?* Washington, D.C.: Brookings Institution Press.

$7,500 in tuition. At that price point, it would collect a total of $15 million in tuition.

At first glance, College B would seem to have few options if it needs to generate $15 million in tuition revenue and can enroll 2,000 students—it should set tuition at $7,500 per student. That's the price at which supply meets demand, known as the market-clearing price. Leaders would have to turn to the expense side of the budget to make sure their costs aren't outpacing their revenues.

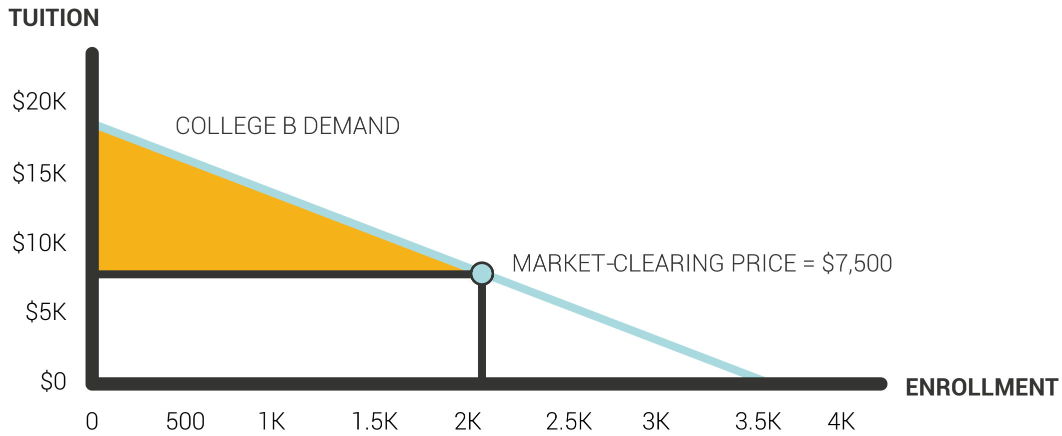
But the picture isn't so simple if a college doesn't have to set a single tuition rate.

Indeed, some students likely are willing to pay more to attend our theoretical colleges. While 2,000 students can be expected to enroll in College B if it sets tuition at $7,500 per student, some of those same students would still be willing to enroll even if tuition were set at a higher price. About 1,500 might enroll at a price of $10,000 per student. About 1,000 would enroll at a price of $12,500, and 500 or so would enroll at a price of $15,000. The money they would generate if they could somehow be charged more is called the consumer surplus.

Colleges tap that surplus by setting their sticker prices higher than the price they will actually charge many or most students. Colleges then buy down the price for students who won't enroll at a high price by offering them financial aid—grants and scholarships.

That financial aid can be funded by sources like endowment dollars. Often it is unfunded, though. That means it's a tuition discount that only exists on accounting ledgers and

The Market-Clearing Price and The Consumer Surplus



TARGET ENROLLMENT = 2,000 STUDENTS

Consumer Surplus

Source: Rine, P. J. (2016). "A Shell Game by Any Other Name: The Economics and Rationale Behind Tuition Discounting." Minneapolis, MN: Center for Innovative Higher Education at the University of Minnesota. Originally adapted from Breneman, D. W. (1994). *Liberal Arts Colleges: Thriving, Surviving, or Endangered?* Washington, D.C.: Brookings Institution Press.

financial aid award letters to students. When unfunded aid is involved, a student might see an offer letter quoting a sticker price of $15,500, with an institutional grant of $8,000 subtracted, bringing her tuition bill down to $7,500. But she will only pay $7,500 toward her tuition, and her college won't collect the remaining $8,000 from anywhere.

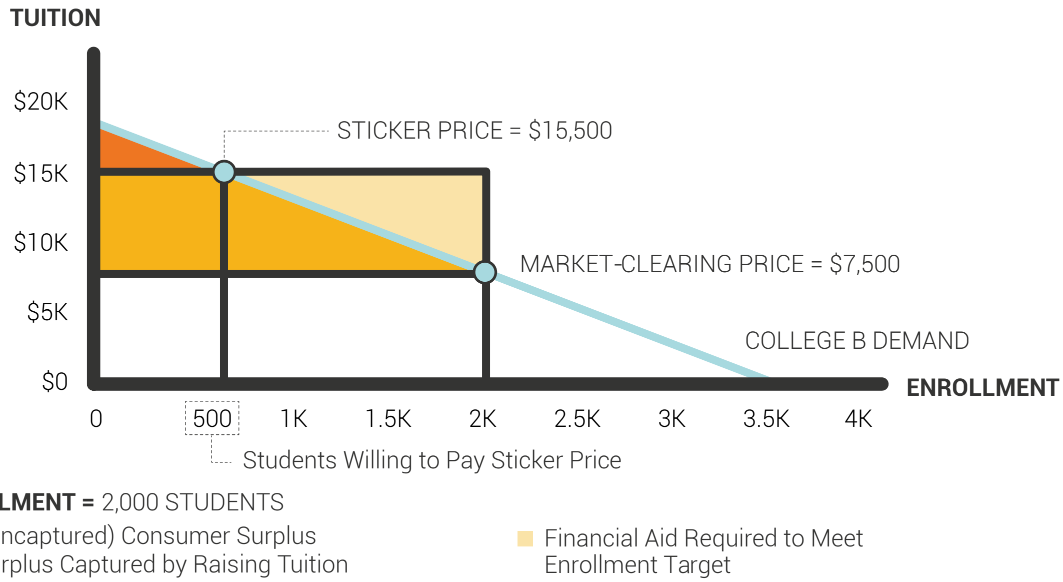
Individual students will fall all over the demand curve. Some might be willing to pay more to attend one particular college than they will to attend another. At the end of the day, it all means colleges are able to move much closer than they otherwise could toward perfect price discrimination—capturing as much of the consumer surplus as possible.

Doing so also theoretically allows colleges to collect as much net tuition revenue as possible. Yes, they are charging some students much less than the sticker price they post publicly. But those students wouldn't necessarily enroll there if they had to pay more.

If a college has an open seat available, should it fill that seat, collecting some net tuition revenue from a student? Or should it leave the seat open and collect no revenue?

Conversely, if a college generates much more revenue than it will need to meet its costs, should it charge all students as much as they're willing to pay? Or should it entice some students to enroll by giving them discounts? Could it target those discounts for students who are deemed attractive—say, because they posted high standardized test scores, because they are athletes or because they are from a minority group or a part of the country that isn't otherwise represented on campus?

Relationship Between Demand, Sticker Price and Financial Aid



Source: Rine, P. J. (2016). "A Shell Game by Any Other Name: The Economics and Rationale Behind Tuition Discounting." Minneapolis, MN: Center for Innovative Higher Education at the University of Minnesota. Originally adapted from Breneman, D. W. (1994). *Liberal Arts Colleges: Thriving, Surviving, or Endangered?* Washington, D.C.: Brookings Institution Press.

Our simple example of a higher education market becomes much more complex very quickly. Different colleges with different characteristics compete against one another, and students often weigh multiple financial aid offers before deciding where to enroll. Some colleges buckling under severe financial stress may be willing to enroll more students at a lower price point than others, because leaving their seats completely empty might mean shutting their doors permanently. Other colleges might be willing to throw more financial aid at wealthy students who could afford to pay more, if those students are savvy about navigating the admissions process or post outstanding test scores.

A college's tuition discount rate reflects all of those pricing, financial aid and enrollment decisions. The tuition discount rate is often scrutinized for undergraduate freshmen in particular. Undergraduate students provide the bulk of revenue at tuition-dependent colleges. And incoming freshmen are the ones most likely to be making decisions about where to attend college. After the freshman year, some students transfer, drop out and re-enroll, of course. But there are barriers to doing so.

Colleges tend to discount students at lower rates after they are freshmen. That leaves the freshman rate as an important signal of an institution's market strength, strategy and the starting point from which it will generate revenue from a class of students for years into the future.

$$\frac{\text{(dollars awarded to freshmen)}}{\text{(number of freshmen) x (sticker price)}}$$

Important Terms

Several other terms and concepts arise often in discussions related to tuition pricing, net revenue and discounting. This report is focused on the top-line concepts of the prices institutions set, the net tuition they actually collect and the market forces driving those indicators, so it does not dwell on many of these terms in great depth. But understanding them likely will be helpful for new board members or administrators who want to feel comfortable in conversations about financial aid and discounting.

Institutional Aid: Also called institutional grants, institutional aid is awarded to students based on any number of characteristics, like academic merit, financial need or personal attributes.

Need-Based Aid: Financial aid awarded based on a student requiring assistance to pay for college.

Merit Aid or Non-Need-Based Aid: Financial aid awards that are made based on characteristics other than a student's need.

Merit Within Need: Merit aid used to meet a student's financial need.

Differential pricing: Colleges may establish different tuition rates for students enrolled in certain programs or for students who come from certain areas. For example, a college might set higher base tuition for students studying in a high-cost program, like engineering. Public colleges have traditionally set higher tuition rates for out-of-state students and international students than they do for in-state students.

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By the Numbers

It's important for college and university leaders to understand pricing across the higher education sector, discounting trends within their college's competitive set and the larger environment in which institutions are functioning.

The following section examines each of those areas in detail. It starts with an evaluation of the higher education environment, then examines which types of institutions discount and how much they buy down tuition. It goes on to detail information from one of the best-known surveys on private colleges' and universities' discounting practices before examining data from several other sources, including a consulting firm and ratings agencies.

The Environment

Total enrollment in degree-granting postsecondary education had been on an upward march with few interruptions for the last half of a century. Some peaks were followed by declines and some periods of stagnation, most notably in the mid-1970s and during the 1990s. But total enrollment fell in the sector for three consecutive years only once, from 1992 to 1995.

Then 2011 came. That year, enrollment across public, private nonprofit and for-profit institutions fell almost imperceptibly, by 0.04 percent, to 21.01 million, according to data from the National Center for Education Statistics. It fell again the next year, and the next. By 2017, the last year for which data are available, enrollment had dropped across the sector seven times in seven years.

That can be a slightly misleading statistic, because much of the decline was driven by the rapid contraction of a for-profit sector that had become the target of consumer advocates and lawmakers, and lost the trust of many prospective students. Enrollment at for-profit institutions topped out at 2.02 million in 2010 and declined every year since. By 2017, it had dropped by half, to 1.1 million.

Private nonprofit colleges and universities, on the other hand, have been squeezing out growth of one to two percentage points every year since 2011. In 2011, they enrolled 3.9 million students. By 2017, their enrollment had increased slightly to 4.1 million.

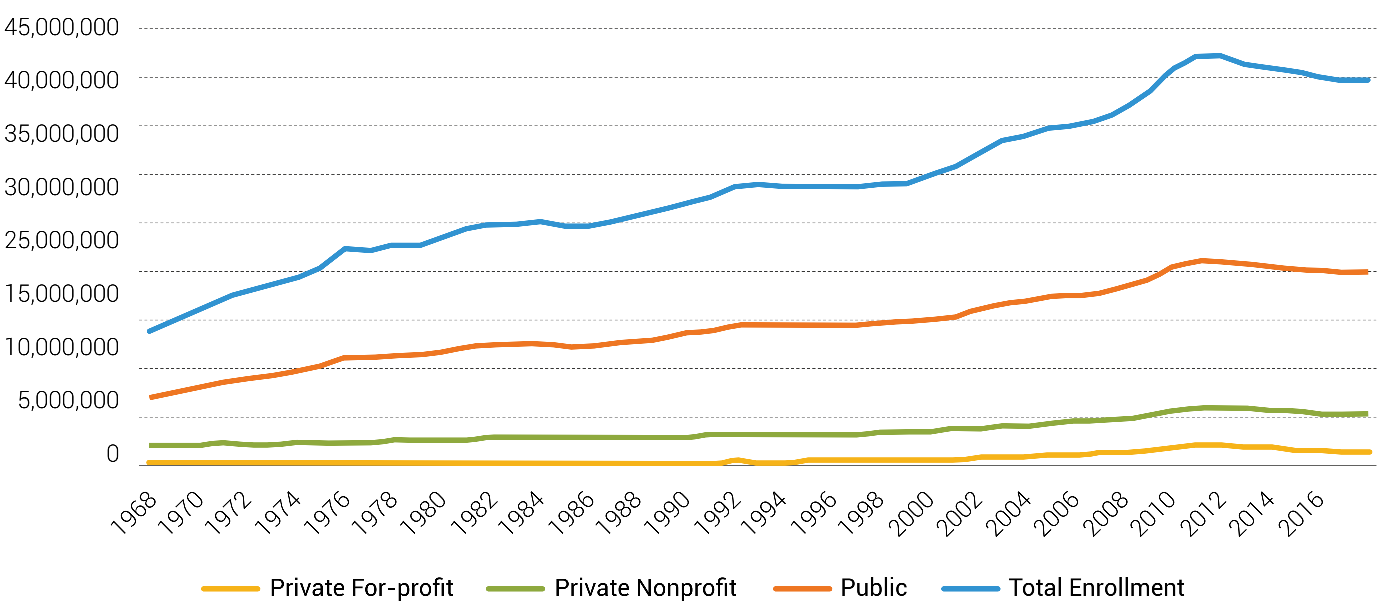
Public institutions saw enrollments erode almost every year over that same period. In 2010 and 2011, their nationwide enrollment peaked at about 15.1 million. It then dropped to 14.6 million in 2017.

It would be easy to attribute the bulk of the declines to the demise of the for-profit sector and write it off as having no bearing on the rest of higher education. Doing so would risk overlooking key demand signals the market may be sending. If demand for a higher education were continuing to rise, would students who previously would have enrolled at for-profit colleges be substituting other institutions instead?

Enrollment may have fallen and flatlined in recent years for any number of other reasons, including a strong economy drawing students away from the classroom and into the workforce. If that is the case, students might return to campus in larger numbers once the economic cycle turns. But a recession could also cut family incomes, driving up students' financial needs and making it more difficult for them to pay for college.

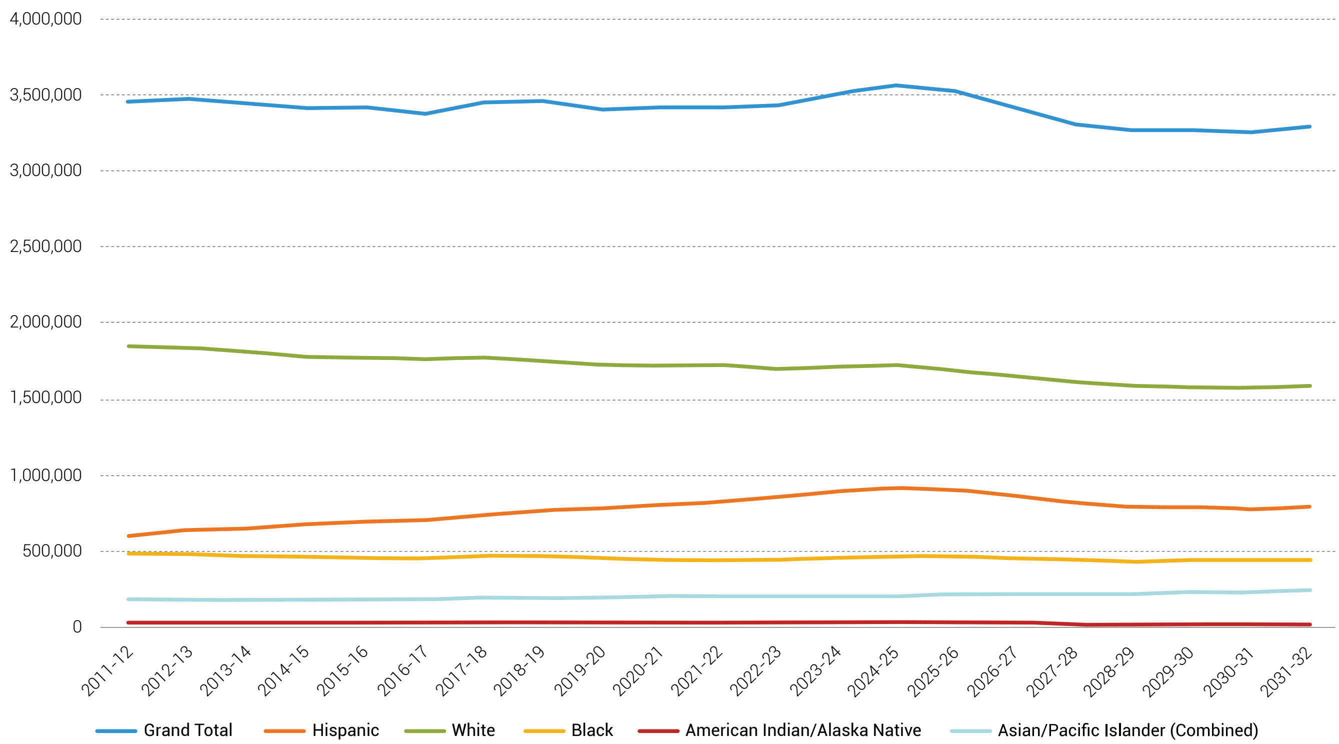
Several other indicators signal downward pressure on college enrollment. Projections

Total Fall Enrollment in Degree-Granting Postsecondary Institutions



Source: National Center for Education Statistics

Projected High School Graduates, U.S.



Source: Western Interstate Commission for Higher Education

Funded Aid: Financial aid awarded to students that is backed by a pot of money like endowment dollars.

Unfunded Aid: When institutions award discounts from their sticker price without having another source of revenue to pay for those discounts. This effectively creates a markdown from sticker prices for certain students.

Need-Blind Admissions: Some institutions admit applicants without considering their ability to pay for tuition. An argument for this practice is that it allows students to be judged solely on their merits and not on their wealth. But it can leave some admitted students with a large gap between what they can

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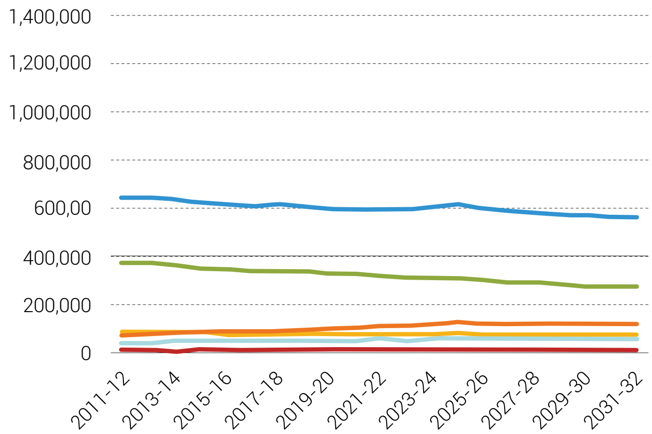
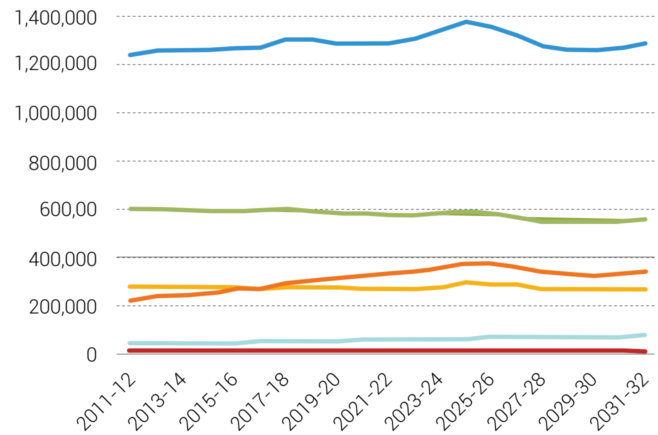
from the Western Interstate Commission for Higher Education indicate that many populations of high school graduates are unlikely to grow in the coming years. White graduates, who have long enrolled in higher education in the greatest numbers and who have access to relatively high amounts of family wealth, on average, are declining in number. The only group expected to substantially grow in the coming years is Hispanic high school graduates, and even that growth is expected to stop in the mid-2020s.

Many experts and college leaders have referred to 2025 as a demographic cliff after which the overall number of high school graduates is expected to shrink substantially. This is, of course, of critical importance to most colleges since they still rely heavily

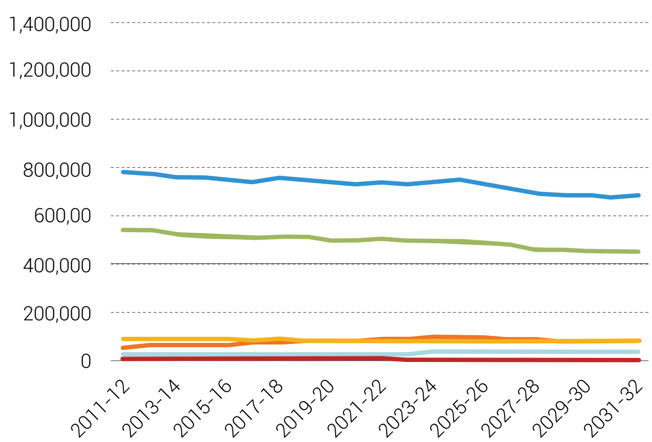
Projected High School Graduates, Northeast



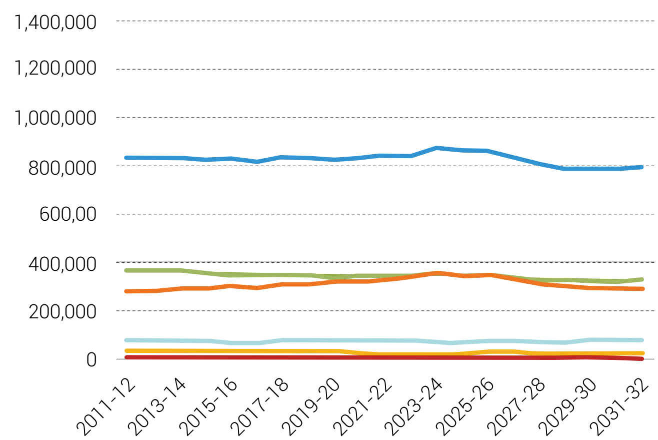
Projected High School Graduates, South



Projected High School Graduates, Midwest



Projected High School Graduates, West



Grand Total
White
American Indian/Alaska Native
Hispanic
Black
Asian/Pacific Islander (Combined)

Source: Western Interstate Commission for Higher Education

on high school graduates to feed their undergraduate enrollment.

The variation is even greater at the regional and state levels. In short, the Northeast and Midwest—the two parts of the country that are most densely filled with colleges—are in line to see substantial enrollment declines. But other parts of the country will be below peak numbers of traditional college-age students by the early 2030s.

afford to pay and what they would have to pay in tuition if they enroll.

Need-Aware Admissions: Some institutions admit applicants after considering their financial position. This practice has been criticized as potentially providing an advantage for the wealthy. Defenders argue it frees up more financial aid dollars for students from low-income backgrounds or those who are deemed attractive. They also argue that most colleges could not afford to stay open if they were not allowed to build a class by judging students' ability to pay.

Meeting Full Need: A relatively small number of wealthy private colleges pledge to meet the full demonstrated financial need of every student admitted. Every college that meets full need doesn't practice need-blind admissions, however. Being both need-blind and meeting full need can make it very difficult for colleges to predict how much net tuition revenue they will generate from incoming classes.

Expected Family Contribution: Colleges collect financial information from applicants and their families and use it to calculate the amount they can be expected to pay to attend, often called EFC.

Demonstrated Financial Need: The difference between an expected family contribution and the price of attending a college.

Financial Aid Gapping: When an institution awards a student less in financial aid than his or her demonstrated financial need, it is called gapping—leaving the student with a financial gap that will need to be closed, often through borrowing.

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The students who are graduating from high school will be much more diverse than previous cohorts, which could pose a challenge, because some student groups have not traditionally enrolled in college at the same rates as others.

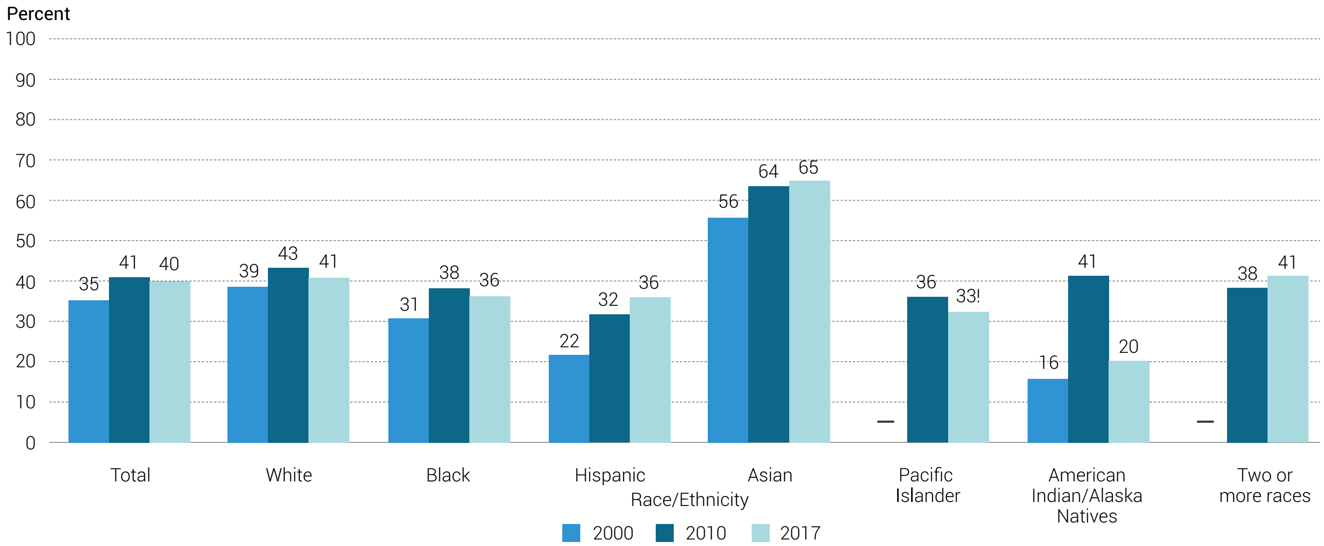
There are some signs for hope, however. Nathan D. Grawe, a professor of economics at Carleton College and author of the much-discussed book *Demographics and the Demand for Higher Education*, has been telling audiences recently that Hispanic college enrollment rates have increased in recent years to match the national average. That's an important step.

One of the main takeaways from Grawe's book is that demographic changes affect various types of institutions in different parts of the country in different ways. In general, he projected that prestigious institutions will see more demand from students than less prestigious institutions.

Still, the overall warning remains pertinent. Colleges of all types should plan to be playing in a more competitive market in the future, one in which they work to enroll their classes from a relatively smaller pool of students who come from more diverse backgrounds than they have in the past.

At the same time, trends in family income and family willingness to pay for college are making life more difficult for enrollment managers. Income inequality is leaving more wealth in the hands of a relatively small number of families, even as the majority of families can't pay more for college. The Great Recession also fundamentally changed the way many students and families look at the world.

College Enrollment Rates of 18- to 24-Year-Olds, by Race/Ethnicity: 2000, 2010 and 2017



— Not available.
! Interpret data with caution. The coefficient of variation (CV) for this estimate is between 30 and 50 percent.
NOTE: Data are based on sample surveys of the civilian noninstitutionalized population. Separate data for young adults who were Pacific Islander and of Two or more races were not available in 2000. In 2000, data for individual race categories include persons of Two or more races. Prior to 2003, data for Asian young adults include Pacific Islander young adults. Race categories exclude person of Hispanic ethnicity. Although rounded numbers are displayed, the figures are based on unrounded data.
SOURCE: U.S. Department of Commerce, Census Bureau, Current Population Survey (CPS), October Supplement, 2000, 2010 and 2017. See *Digest of Education Statistics* 2018, table 302.60.

"The recession changed everything for everyone," says Laurie Koehler, vice president for marketing and enrollment strategy at Ithaca College. "Even for wealthier families, there was a change in sensibility."

Colleges can't ignore downward trends in international student enrollment, either, Koehler says. International students can be particularly important to institutional revenues because they tend to be full-pay students at much higher rates than other groups.

Add it all up, and the old paradigm of colleges growing enrollment doesn't seem like it will hold.

Without significant changes in enrollment rates, colleges will have to find another way to survive.

Gross Tuition Revenue: Revenue that would have been collected by a college if all students paid full sticker price.

Net Tuition Revenue: The actual revenue a college collects after subtracting discounts from gross tuition revenue.

Costs: The amount institutions spend to provide education and related services to students.

Net Price: The amount students and families are actually charged.

Sticker Price: The prices colleges advertise. Sticker prices often are not the price students end up paying, because students frequently receive financial aid to buy down their sticker price.

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Subsidies: The difference between the cost of providing an education and the amount students are charged.

Tuition Discounts: Reductions from prices stated to students. Different sources may use different definitions for tuition discount rate—including only tuition, including tuition and fees, or examining different student populations, for example—so always check what, specifically, is being considered. ■

Why Discount?

For a more diverse student body: Providing more financial aid can help colleges and universities attract and enroll low-income students, diverse student populations or students fitting any other characteristics deemed attractive.

For a strong incoming class: Financial aid awards also can encourage academically strong students to enroll.

Raise revenue: If financial aid awards can be used to entice more students to enroll—or if they draw more wealthy students who are able to pay close to the full cost of tuition or who can pay for other services on campus—it can increase an institution's overall net revenue. In some cases, discounting can boost net revenue even if it lowers net tuition revenue on a per-student basis, although this isn't necessarily recommended for everyone.

Make college affordable for low-income students: If tuition discounts are targeted toward students who don't have the means to pay the full tuition sticker price, they can boost affordability.

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"Over the past 25 years, every institution has been pursuing increased enrollment," says Rob Bielby, vice president, analytics and insights, at the consulting firm Whiteboard Higher Education. "It's been the revenue source that has allowed them to sustain."

Who Discounts

Colleges and universities of all types—two-year and four-year, public and private—engage in tuition discounting. But the practice is more common among some types of institution.

It has also become more prevalent more quickly in recent years at some types of institutions than at others.

Among public institutions, four-year colleges and universities provide many more students with discounts than do two-year institutions, according to data from the National Center for Education Statistics. Four-year institutions also have been discounting more students much more quickly than two-year institutions.

In 2007-08, 22.2 percent of students attending public four-year institutions received institutional aid, defined as all institutional need- and merit-based grants, scholarships, tuition waivers, loans and work-study awards funded by the institution attended. By 2015-16, a total of 30.4 percent did. That far outpaced the portion of students receiving institutional aid at public two-year institutions, which came in at 4.6 percent in 2007-08 and 6.6 percent in 2015-16.

But private nonprofit four-year institutions offered institutional aid to far more of their students: 52.4 percent in 2007-08 and 57.2 percent in 2015-16.

Private nonprofit institutions provided average institutional aid amounts that were more than three times as high, on average, as the awards at public four-year colleges and universities in 2015-16. Public four-year institutions provided institutional aid amounts that were more than two and a half times as high as the awards at two-year public institutions. This is consistent with the high-tuition, high-aid model, because private nonprofit institutions post much higher sticker prices than public institutions.

Full-time students receive aid more frequently and in higher amounts than part-time students. While 36.2 percent of full-time students across the country received an average of $9,600 in institutional grant aid, just 11.4 percent of part-time students received an average of $3,700 per student. ■

Colleges have no choice: When all competitors are offering attractive-looking tuition discounts, an institution may feel it has no choice but to do the same. ■

Drawing Lines on Definitions

Unless otherwise noted, this special report uses terms like "discounting" and "discount rate" in the broadest sense.

This means the terms reference as much student-generated revenue as possible: tuition, fees, room and board. This is because all elements of student-generated revenue are closely linked—an increase in net tuition revenue that is driven by rising enrollment is likely to be connected with more revenue from fees, room and board. It is also because some institutions might pursue strategies

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Percentage of undergraduates who received any aid and any federal, nonfederal, state, institutional and employer aid, by control and level of institution: 2003–04, 2007–08, 2011–12 and 2015–16

	Received institutional aid			
Control and level of institution	2003–04	2007–08	2011–12	2015–16
Total (50 states, District of Columbia and Puerto Rico)	17.6	16.8	—	24.6
U.S. Total (excluding Puerto Rico)	17.6	16.9	16.4	24.7
Public 2-year	6.3	4.6	4.5	6.6
Public 4-year	21.0	22.2	20.8	30.4
Private nonprofit 4-year	51.4	52.4	58.4	57.2
Private for-profit 2-year or more	8.8	8.5	4.2	28.5
Private for-profit less-than-2-year	8.3	7.6	‡	9.3

SOURCE: National Center for Education Statistics that employ fee waivers or buy down the cost of room and board instead of offering traditional tuition discounts.

In many ways, the distinction between these sources of revenue can be arbitrary. Most institutions rely on cash generated from students to pay their bills. And students have to find a way to pay the full cost of attendance, including fees, room and board.

A more specific definition of a discount rate can be appropriate. Data sets often look at discounting only among undergraduates or first-time freshmen. Often, this is because undergraduate enrollment is the most important part of the budget. But in some cases it may be because more data are available in those areas than for other tuition-generating parts of the academic enterprise, like graduate students.

Data that only show trends among undergraduates can reflect important developments in the overall higher education market. However, when examining their own institutions, administrators and board members will need to evaluate how discounting strategies for undergraduates fit with any discounts offered to graduate students and other groups, like adult students and those pursuing certificates.

For example, the National Association of College and University Business Officers' discount rate calculation only includes dollars from tuition and mandatory fees. But institutional research offices "may also consider including revenue from room and board charges along with tuition and fees, as on some campuses revenue from these sources may also be used to support institutional grant expenditures," wrote Natalie Pullaro Davis and Kenneth E. Redd in a 2013 examination of discount rate tracking for the Association of Institutional Research.

"Similarly, schools and IR offices may include revenue from students in nondegree or certificate programs, which may be another source of institutional grants," they continued. "This is particularly true for colleges and universities with large numbers of students enrolled in off-campus or nontraditional programs. If your college or university has differential tuition pricing, you may want to replace the calculation of number of students multiplied by sticker price with a total revenue figure. This will provide you a more accurate picture of revenue."

This report also spends relatively little time discussing breakdowns between funded and unfunded financial aid. In many cases, this distinction is important—a college or university that uses its endowment to pay for all institutional aid it offers to students is in a very different position than one that deploys unfunded aid. But at some level, money is fungible. Using it one place means giving up the opportunity to use it elsewhere.

"Funded or unfunded is irrelevant in my mind," says Lucie Lapovsky, former president of Mercy College in New York, who is a consultant and expert in higher education finance and governance. "If it's funded, you're being able to use your general funds for something else." ■

TRANSACT

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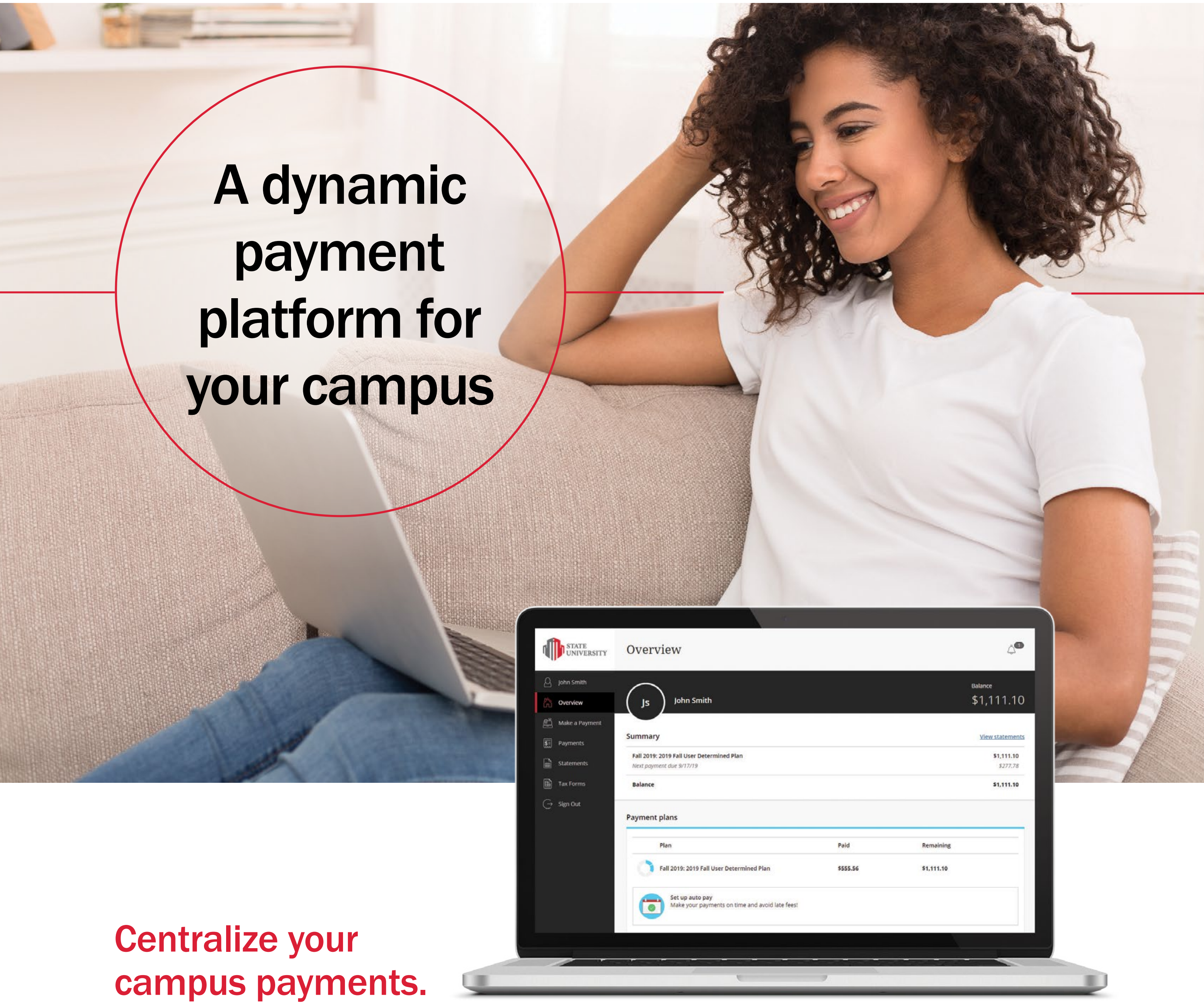

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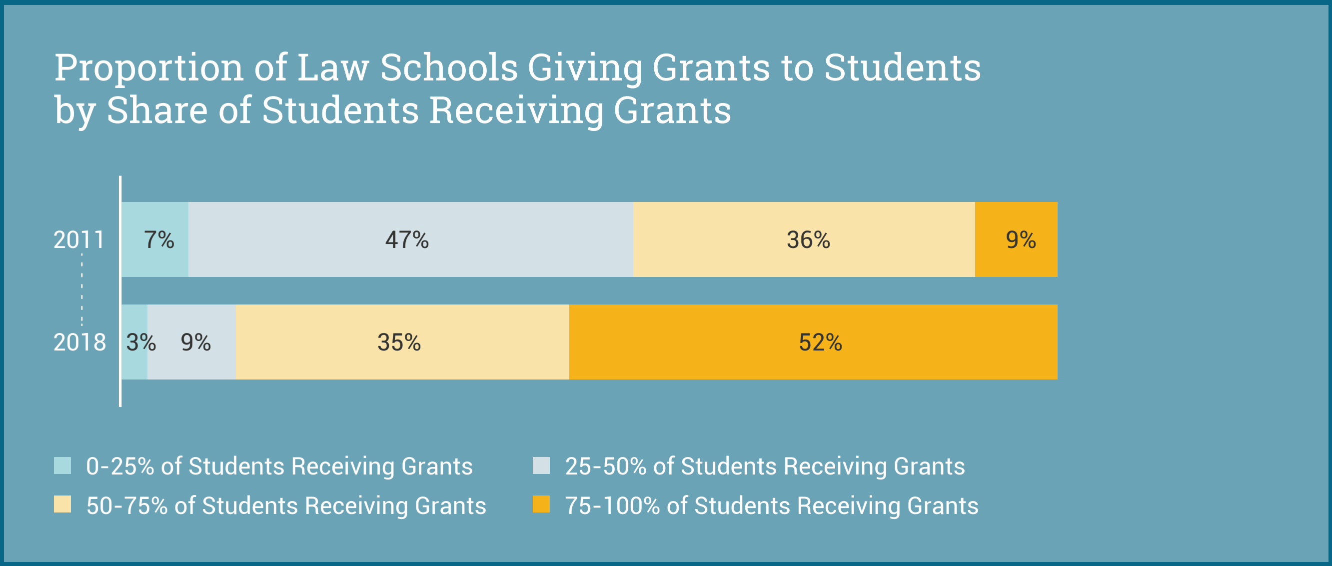
SNAPSHOT

GRADUATE AND PROFESSIONAL SCHOOLS



SOURCE: American Bar Association Section of Legal Education and Admissions to the Bar

Tuition discounting is often talked about in terms of undergraduate education. But graduate and professional schools discount as well—and their pricing, revenue and enrollment characteristics can be highly important to institutions' overall financial health.

"We always default to talking about our traditional undergraduate population," said Devorah Lieberman, president of the University of La Verne, during a presentation at the National Association of College and University Business Officers' 2019 annual meeting. "When you're a comprehensive institution, if you only talk about one of your swim lanes, then you're not looking at your other swim lanes."

Some consultants think law schools are particularly interesting. Unless a law school is in the top tier, it is likely under financial and enrollment pressures.

Overall law school enrollment dropped at the start of the decade amid concerns about high tuition costs, large debt loads for students, some low bar-passage rates and a dearth of good jobs. Enrollment has since stabilized, but the market remains smaller than it was previously. That in turn can create internal stresses at universities that used to be able to treat their law schools as cash cows.

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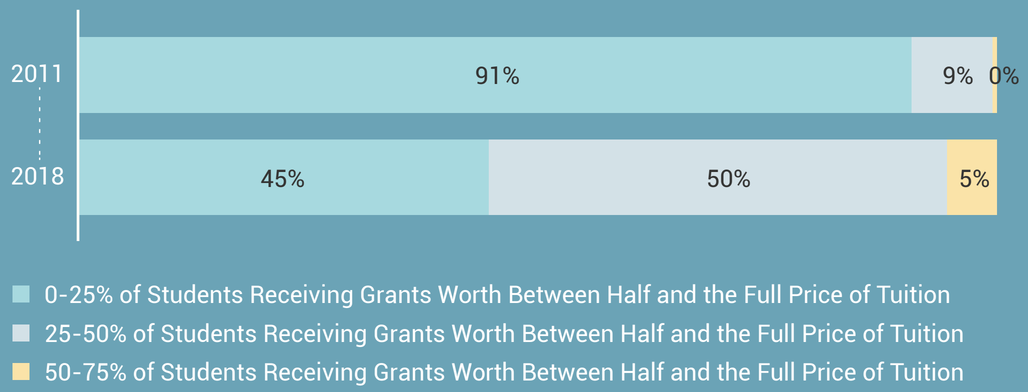
Proportion of Law Schools Giving Grants to Students by Share of Students Receiving Grants Worth Between Half and the Full Price of Tuition



SOURCE: American Bar Association Section of Legal Education and Admissions to the Bar

How, exactly, institutions responded to the enrollment declines of several years ago is an interesting study. Some experts saw law schools focusing on applicants who are likely to be able to pass the bar. On the whole, the sector has been discounting more frequently than it was before.

The American Bar Association Section of Legal Education and Admissions to the Bar publishes self-reported data on law schools' financial aid practices. Despite a few likely reporting errors, the data make clear that more and more institutions are giving grants to a larger percentage of their students.

More students received grants and discounts in 2018 than 2011—78,864 versus 73,188—according to the ABA data. That's despite the overall number of students falling by about 37,000.

Take, for example, a breakdown of how many law schools gave grants to different percentages of their students. This analysis examines four buckets of institutions: those that gave grants to three quarters or more of their students, those that gave grants to between half and three-quarters of their students, those giving grants to between one-quarter and half of their students, and those giving grants to under a quarter of their students.

Data for 2011 show that only about 9 percent of institutions gave grants to more than three-quarters of their students. Just over 36 percent of institutions gave grants to between half and 75 percent of their students,

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SNAPSHOT: GRADUATE AND PROFESSIONAL SCHOOLS

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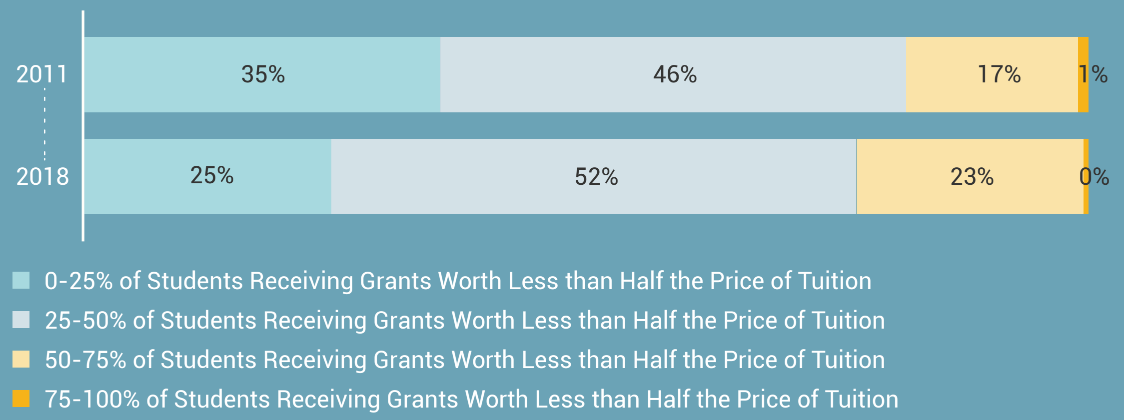
Proportion of Law Schools Giving Grants to Students by Share of Students Receiving Grants Worth Less than Half the Price of Tuition



SOURCE: American Bar Association Section of Legal Education and Admissions to the Bar

and about 47 percent gave grants to between a quarter and a half of their students. The remaining 7 percent or so gave grants to less than 25 percent of their students.

Institutions also discount at higher rates more frequently than they have in the past.

How many institutions gave grants worth somewhere between half the price of tuition and the full price to less than a quarter of their students? In 2011, 91 percent did so. By 2018, just 45 percent did.

That appears to be because more institutions were giving grants of that size to more of their students. In 2011, only 9 percent of institutions gave grants worth between half the price of tuition and the full price to 25 percent to 50 percent of their students. In 2018, 50 percent did.

By 2018, more than half of institutions, about 52 percent, reported giving grants to more than three-quarters of their students. Another 35 percent gave grants to between half and 75 percent of their students. A bit over 9 percent gave grants to between a quarter and a half of their students, and just 3 percent gave grants to under a quarter of their students.

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Meanwhile, nonelite law schools are showing other signs of continued pressure. At the end of August 2019, Western Michigan University Cooley Law School's Board of Directors approved a plan to cut tuition from $1,750 per credit hour to $1,375 per credit hour. The law school said it was not adjusting scholarship distribution and that net tuition per student was expected to decline. It was also planning to cut excess capacity, asking for accreditor approval to close a campus in Auburn Hills, Mich.

Cooley's enrollment skewed heavily toward part-time students, according to ABA data. But 70 percent of its full-time students received grants in 2018.

Discounting isn't the only strategy professional and graduate schools are turning toward, says Bill Hall, founder and president of Applied Policy Research Inc. Generally speaking, they're becoming more sophisticated about enrollment management.

"I had dealt with the management of law schools, and they said, 'We'll never go where undergraduate education goes,'" says Hall. "When push came to shove, they said, 'Where are the tools we have?'"

SNAPSHOT

CREATING A TUITION PRICE AUCTION

Colleges and universities arguably benefit from asymmetric information under the existing college pricing and admissions system.

The institution, not the student, knows how much it actually costs to provide an education. It is also given the opportunity to collect applications and evaluate its pool of prospects for factors like interest in enrolling and ability to pay—all before it makes financial aid offers that buy down prices for certain students.

Those students, meanwhile, are shown a high sticker price and a slew of other metrics that they may or may not care about, like college rankings and average SAT scores for admitted students. Most applicants don't know how much a college needs to charge in order to break even. Nor do they know how much a college could afford to discount its high sticker price.

Models exist that would turn the current state of affairs on its head. Consider the way airline tickets are sold, which has been revolutionized in recent decades by options allowing consumers to bid for open seats on flights and by fare aggregators that enable

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prospective travelers to see the net prices they will pay at multiple carriers collected in one place.

Could such models work for colleges and universities, many of which also have excess capacity? Economists and change-minded financial aid experts love to ask that question. And one tried to build a service 20 years ago that would move at least some college admissions to something resembling an auction model.

Tedd Kelly, who had spent more than three decades working as a recruiting and enrollment consultant, started the website eCollegebid.org in late 1999. It was shortly after Priceline.com started shaking up airline ticket sales, so Kelly's venture can be called Priceline for colleges.

Salon in 2000 described eCollegebid.org as "a cross between the auction site eBay, Match.com dating service and Priceline.com, which invites customers to bid blindly for discounted travel tickets." Students from the middle class who were considered overqualified for financial aid were described as a key target demographic.

Those using the site were asked how much they could put toward their first-year tuition. They were also asked their grade point average, standardized test scores and what they were seeking in a college.

"It's that easy," the *Salon* article read. "Complete the form, submit a bid and wait between 10 days and two weeks for a school to contact you. The hitch is that bidders have no idea which colleges are participating; as with Priceline.com, it may be a low-budget Valujet or a high-quality Virgin Air lurking behind the curtain."

Kelly told *Salon* that 15 member institutions had signed up and nearly 1,000 student bids had been made. He reported an average student grade point average of 3.0 and SAT score of 1200.

When he launched the site, Kelly was hoping private colleges that weren't widely known but that offered strong academic programs would be core institutional participants. He also pointed to student resistance to taking on loans as a key problem that his service could address.

"When you get right down to it, families don't want to take out loans, and that's where the problems have been in the past," Kelly told *The Chronicle of Higher Education* in September 1999. "Some colleges want students so badly that they'll give whatever aid is necessary to get them."

Participating colleges were to pay eCollegebid.org an annual fee of $2,000.

The site drew both support and criticism. Some counselors hoped it would encourage "healthy matches" between colleges and students. Critics worried the site would reduce the college enrollment process to a discussion about price, preventing students from finding the best fit on other characteristics like size, location or strength of academic program.

Some details also drew concern. The site initially asked students to commit to an offer within a month of receiving it, instead of

SNAPSHOT: CREATING A TUITION PRICE AUCTION

CONTINUED

conforming to the traditional May 1 deadline, for example.

Ultimately, the site didn't catch fire and revolutionize the admissions process. It only operated for about two years.

Kelly has since died. But his son, Mills Kelly, remembers eCollegebid.org.

"He managed to convince a few people to sign up, but mostly he ran into this sense that it was somehow tawdry," says Mills Kelly, a professor of history at George Mason University and former enrollment management consultant. "Higher education is special. It has sort of a mystical aura of wonderfulness around it. To even say 'discount rate' used to set people's teeth on edge."

Tedd Kelly was asked if he was insane. He wondered what makes college special in comparison to other goods or services.

"There were web browsers," Mills Kelly says. "And so he had this idea that you could take the airline pricing model. If it worked for this very successful and profitable industry, why couldn't it work for higher education?"

Mills Kelly thinks his father's idea came two decades too soon. If someone were to launch a similar service today, reactions from many within higher ed might be the same as they were in 1999. But the competitive environment and student demands may have changed.

Mills Kelly talks about a family member who received three different financial aid offers from a set of colleges, calculated her net cost at all three and called their admissions offices to ask if they could do better. One told her that wasn't how the system worked.

In fact, she replied, that is how the system works.

"She told me there was this long silence on the other end of the phone," Kelly says. "And this person said, 'Let me check.'"

Board members understood the eCollegebid.org concept immediately, according to Mills Kelly. Admissions officers, on the other hand, felt they needed to wash their hands after discussing it.

"I think you would get the same response today from board members," Kelly says. "And I think you would get the same pushback from others."

Diving Deep Into Private Institutions' Discounting Practices

The National Association of College and University Business Officers conducts a long-running Tuition Discounting Study that measures discounting among first-time, full-time freshmen and undergraduates at private, nonprofit four-year colleges. The most recent version of the study, covering 2018, was based on survey responses from 405 institutions.

A large majority of those participants, 314, were classified as small institutions—those with total enrollment under 4,000.

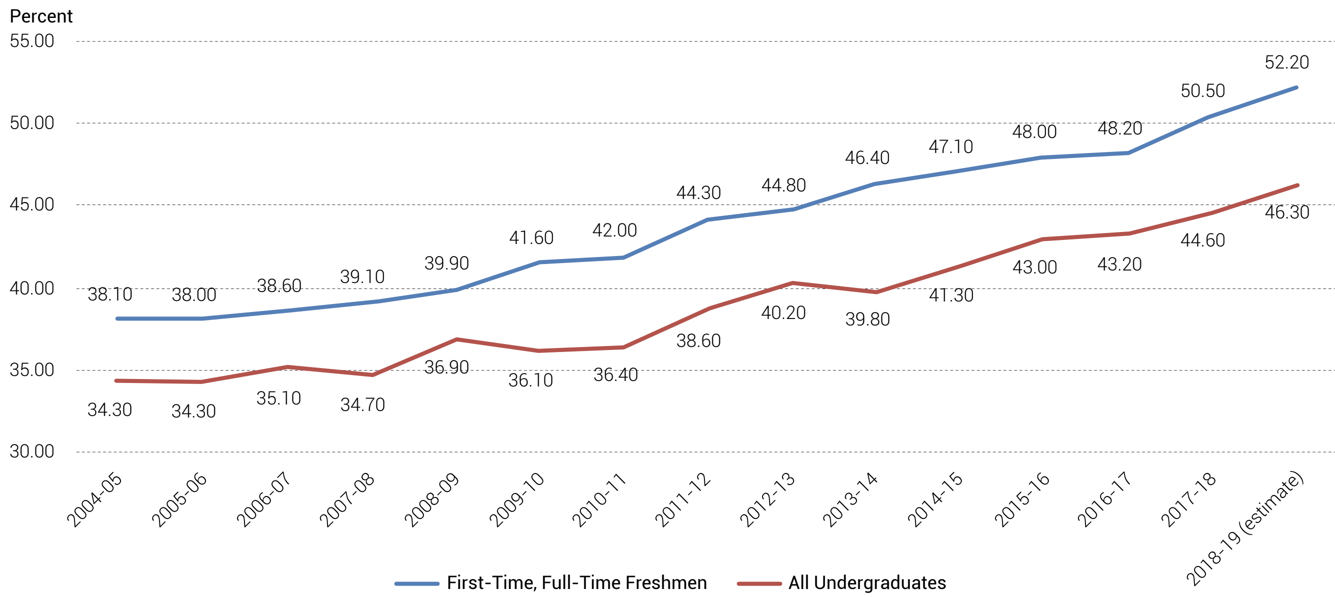
Another 54 participants were comprehensive or doctoral institutions—master's and doctoral degree-granting colleges enrolling more than 4,000 students.

The final 37 participants were research institutions—research universities granting doctoral degrees.

NACUBO's study defines an institutional discount rate for freshmen as the total institutional grant aid awarded to first-time, full-time, degree- or certificate-seeking undergraduates as a percentage of gross tuition and fee revenue collected from that set of students. It defines an institutional discount rate for all undergraduates based on revenue and grant dollars from all students in all undergraduate programs.

Institutional grant aid in the survey includes all institutionally funded scholarships, fellowships and other grants, including athletic scholarships, that go to undergraduates. It includes grants funded by institutional resources, as well as tuition waivers based on criteria developed by the institutions. In other words, institutional grant aid covers grants, scholarships and fellowships funded by tuition and fee revenue, along with unrestricted

Average Annual Tuition Discount Rate



Source: NACUBO Tuition Discounting Study, 2004 to 2018; data are as of the fall of each academic year

and restricted endowment funds, investment earnings, donations, and other sources of revenue.

But the NACUBO study doesn't include tuition remission or tuition exchange programs, or external grants from other organizations—like religious groups or the federal government—in its definition. Nor does it include institutional matching funds put up for federal or state financial aid programs.

Even though public colleges also provide grants and discount tuition, NACUBO focuses on private, independent institutions because they give a larger percentage of undergraduates some sort of tuition discount.

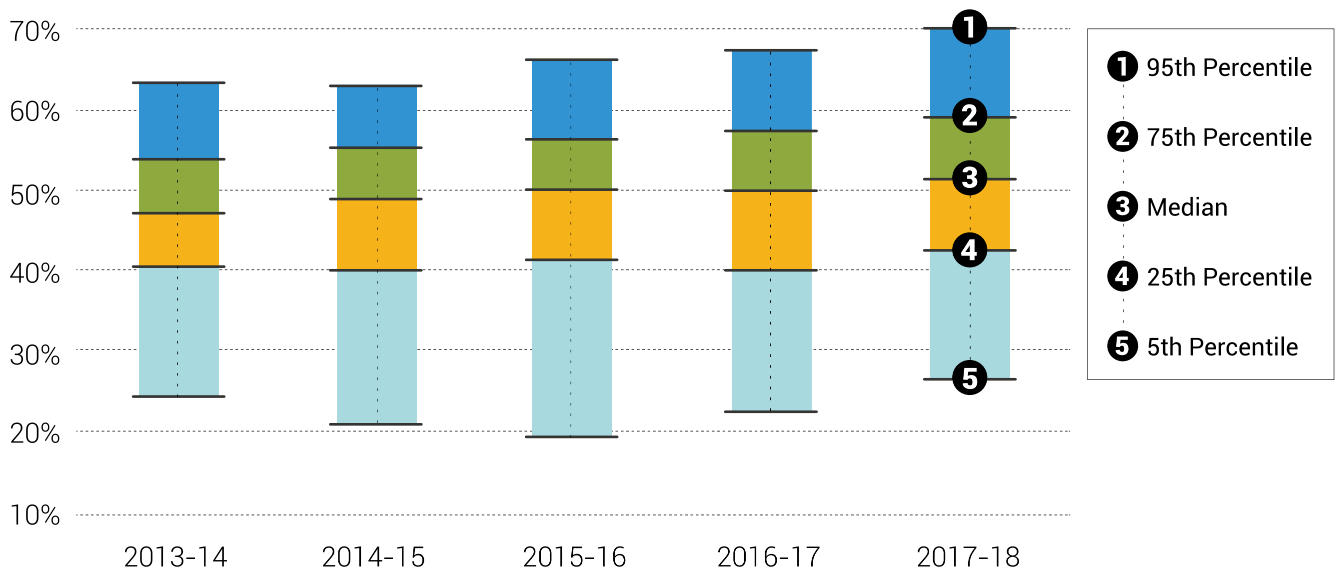
"The TDS focuses chiefly on institutional grants awarded to first-time, full-time freshmen in degree or certificate programs," the study said. "These students are often the focus of discounting strategies at many institutions and thus are a leading indicator of current and future trends in tuition discounting."

It's also important to remember that the NACUBO study examines discounting from the perspective of an institution's finances, not the perspective of students' ability to pay for college.

The latest study showed that in 2017-18, the average tuition discount rate for first-time, full-time freshmen hit 50.5 percent. The freshman rate was expected to hit 52.2 percent in 2018-19. Both numbers would be new record highs.

Among all undergraduates, the average tuition discount rate hit 44.6 percent in 2017-18 and was expected to rise to 46.3 percent in 2018-19. Again, both years would represent record highs for the statistic.

Distribution of Freshman Tuition Discount Rates



Source: NACUBO Tuition Discounting Study

Looking at data from past tuition discount studies shows that discount rates seem to have accelerated somewhat since the Great Recession.

NACUBO also provided several data sets to *Inside Higher Ed* for special use in this report. They include the 5th percentile, 25th percentile, median, 75th percentile and 95th percentile discount rates institutions reported for freshmen and for all undergraduates over the last five years.

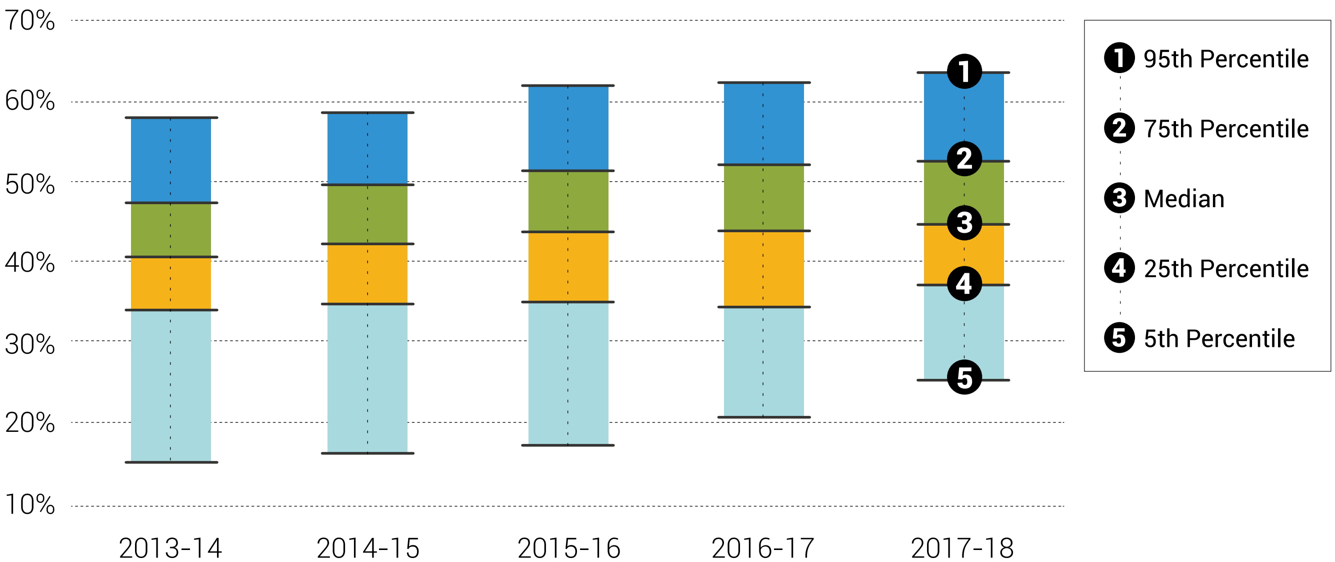
By definition, 5 percent of responding institutions reported tuition discount rates below the 5th percentile. A quarter reported discount rates below the 25th percentile, and half reported discount rates below the median. Three-quarters of all respondents reported discount rates below the 75th percentile mark, and 95 percent of all respondents posted discount rates below the 95th percentile mark.

Collectively, these markers show the range of discount rates posted by nine out of 10 NACUBO survey respondents—all but the top 5 percent and bottom 5 percent. They allow for a deeper evaluation of how widely discount rates vary over time among respondents and how closely their discount rates are clustered.

For freshmen, the median discount rate has been climbing steadily over the five years between 2013-14 and 2017-18. But the 5th percentile marker dropped from 2013-14 to 2015-16 before climbing in the two subsequent years. The 95th percentile was initially flat before rising for three years in a row.

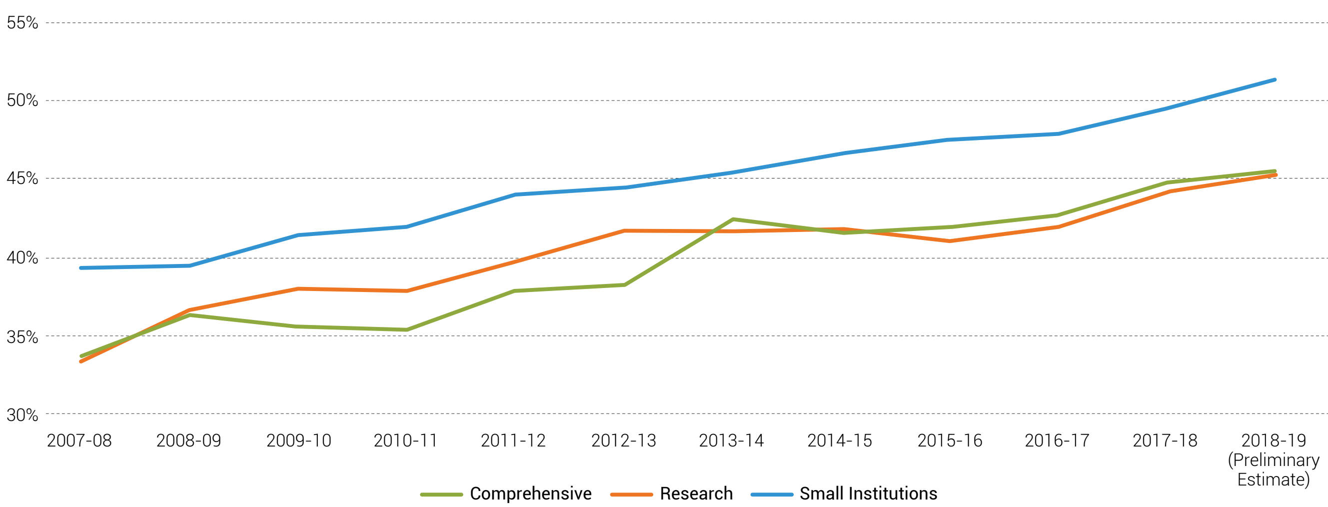
Spreads generally widened between institutions discounting the most and those discounting the least. Institutions at the top end of the discount rate spectrum tended to

Distribution of All Undergraduates' Tuition Discount Rates



Source: NACUBO Tuition Discounting Study

Average Institutional Tuition Discount Rates for First-Time, Full-Time Freshmen by NACUBO Constituent Group



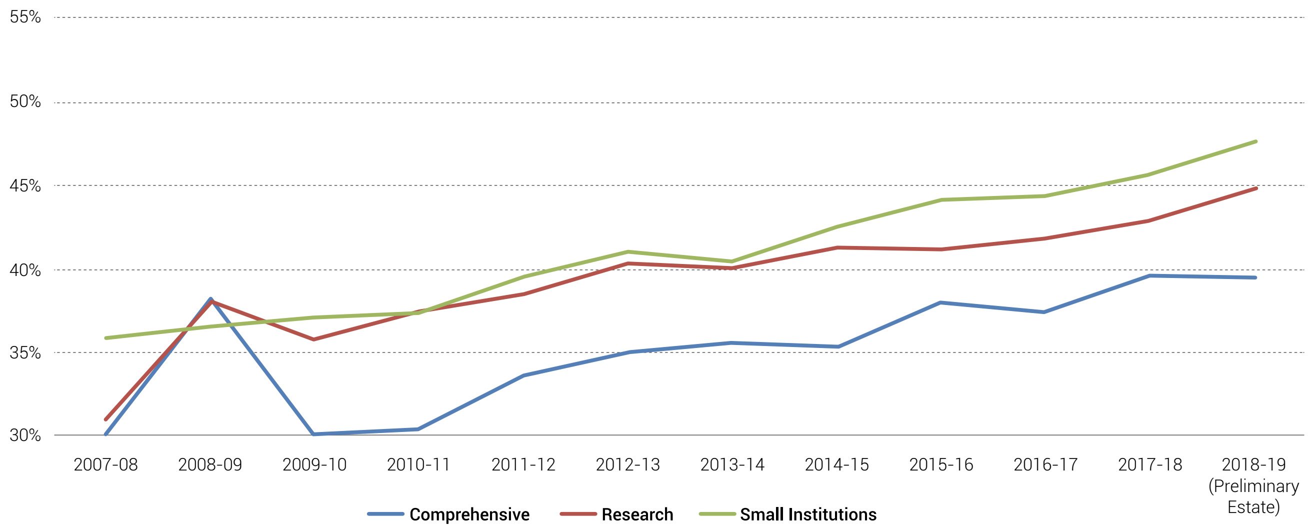
Source: NACUBO Tuition Discounting Study

post discount rates that were more closely packed together. Those in the bottom half of the spectrum were more diffuse.

The data tell a different story when all undergraduates' discount rates are measured. With only a few exceptions, every percentile measure rises on a year-to year basis. The spread between high and low percentile markers initially widens before contracting in 2017-18.

For example, the spread between the 25th percentile and 75 percentile started at 13.5

Average Institutional Tuition Discount Rates for All Undergraduates by NACUBO Constituent Group



Source: NACUBO Tuition Discounting Study

percentage points in 2013-14 before widening all the way to 17.5 percent in 2016-17. But then it dropped back to 15.5 percent in 2017-18. The spread between the 5th and 95th percentiles began at 42.4 percentage points, increased to 44.7 percentage points in 2015-16, then fell to 38.1 percentage points in 2017-18.

Moving back to look at averages—or means—and splitting institutions by type shows that freshman discount rates rose over time at all institutions. But they were consistently higher at small institutions.

Discount rates for all undergraduates again show small institutions posting consistently higher rates than their larger brethren. But considerable separation also develops between comprehensive and research institutions.

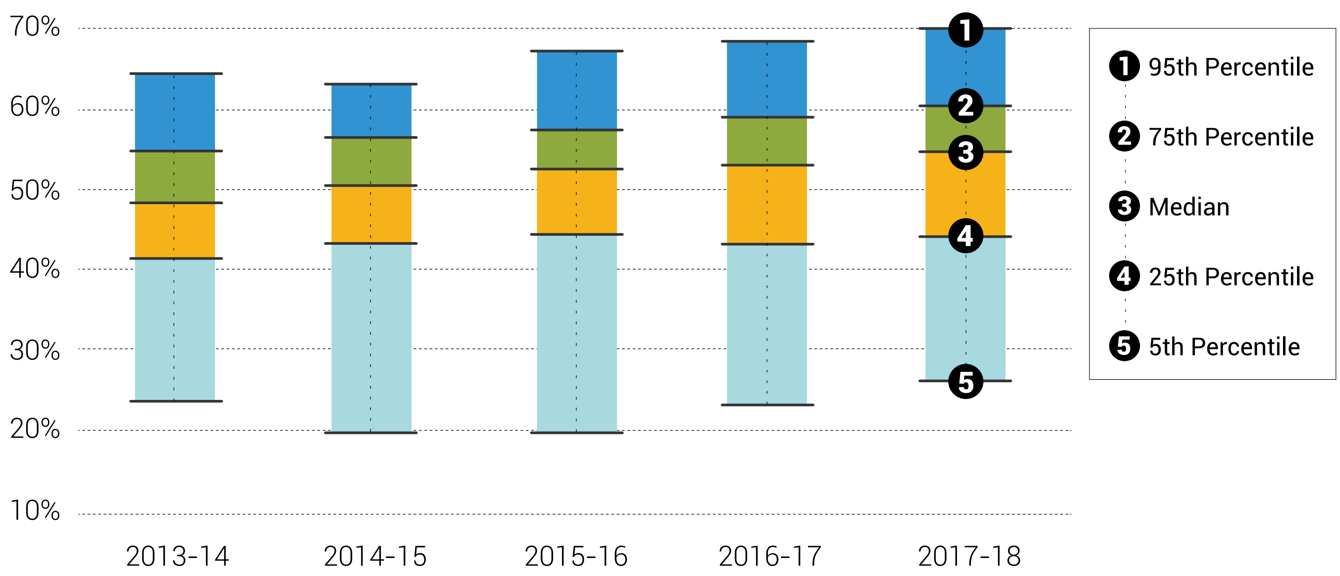
Those numbers were averages, though. Examining exactly how widely spread out individual institutions' discount rates were in each year can provide insight into whether certain slices of the market were struggling more than others.

Again, additional data provided by NACUBO offer more insight into what has been happening beneath the surface.

Among freshmen at research universities, the spread between the 5th and 95th percentile was 31.1 percentage points in 2013-14. It rose to 39.6 percentage points in 2017-18. The spread between the 25th and 75th percentiles was 9.5 percentage points in 2013-14 and rose to 13.3 points in 2017-18.

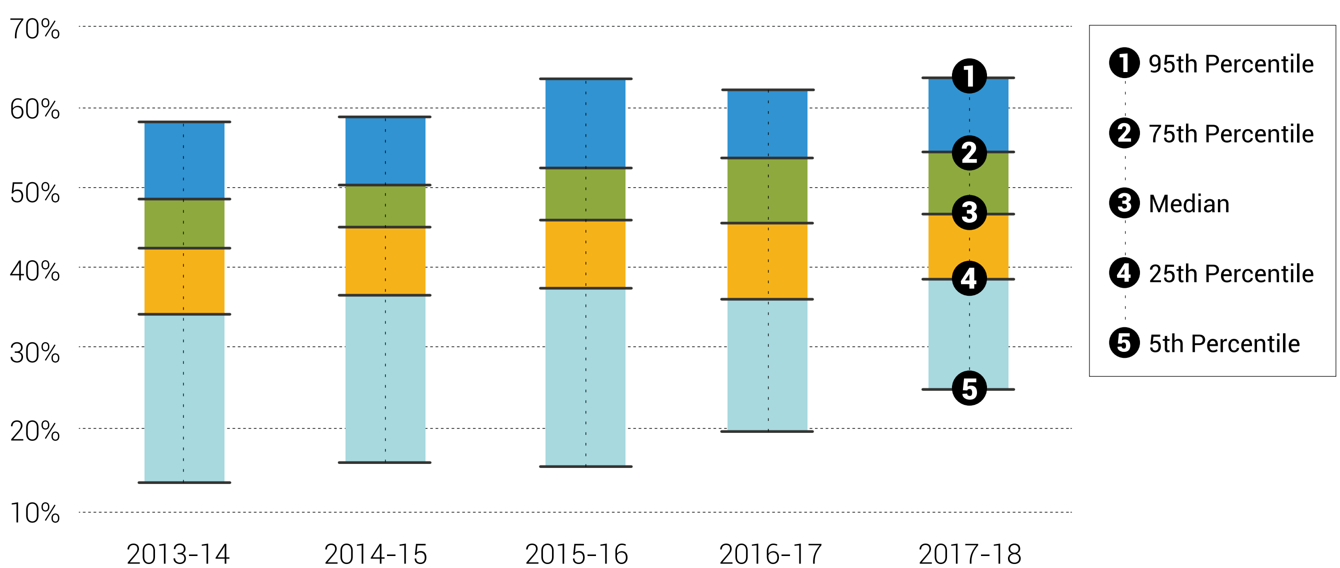
For freshmen at comprehensive universities, the spread between the 5th and 95th percentiles rose from 32.9 percentage points in 2013-14 to 52.5 points in 2015-16 before falling to 35.5 points in 2017-18. The spread between the 25th and 75th percentiles rose from 7.5 points in 2013-14 to 14.2 points in 2015-16 before dropping to 9.5 points in 2017-18.

Distribution of Freshman Tuition Discount Rates, Small Institutions



Source: NACUBO Tuition Discounting Study

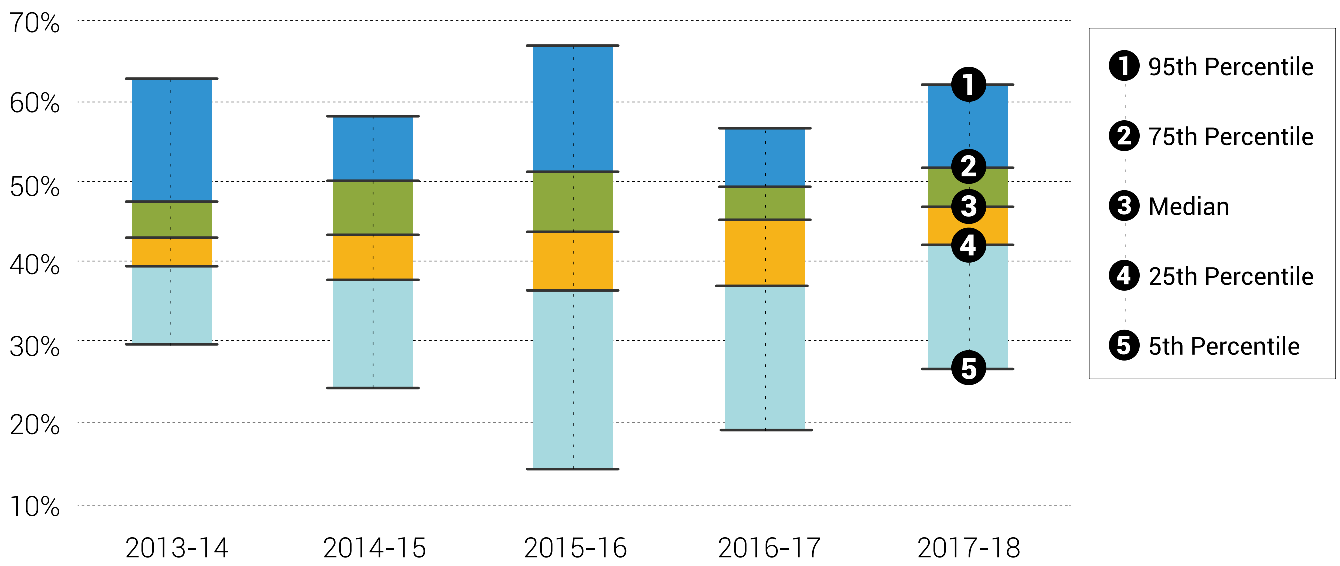
Distribution of All Undergraduates' Tuition Discount Rates, Small Institutions



Source: NACUBO Tuition Discounting Study

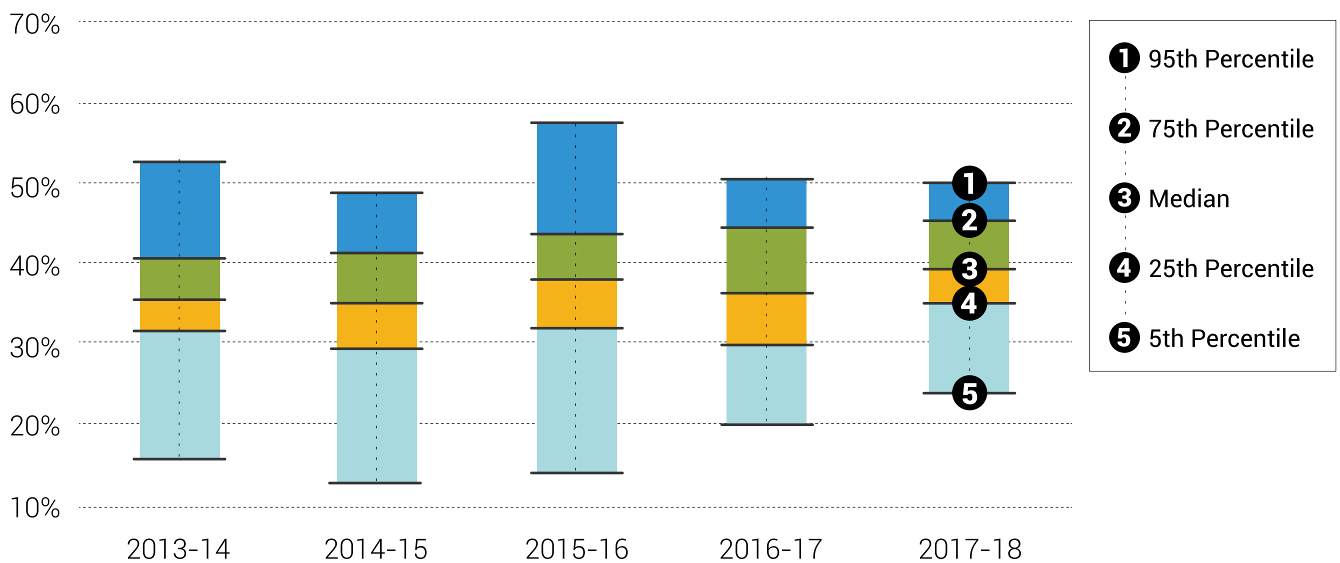
For freshmen at small institutions, the spread between the 5th and 95th percentiles rose from 40.8 points in 2013-14, widened to 47.7 points in 2015-16 and shrank back to 44.5 points in 2017-18. The spread between the 25th and 75th percentiles increased from 13

Distribution of Freshman Tuition Discount Rates, Comprehensive Institutions



Source: NACUBO Tuition Discounting Study

Distribution of All Undergraduates' Tuition Discount Rates, Comprehensive Institutions

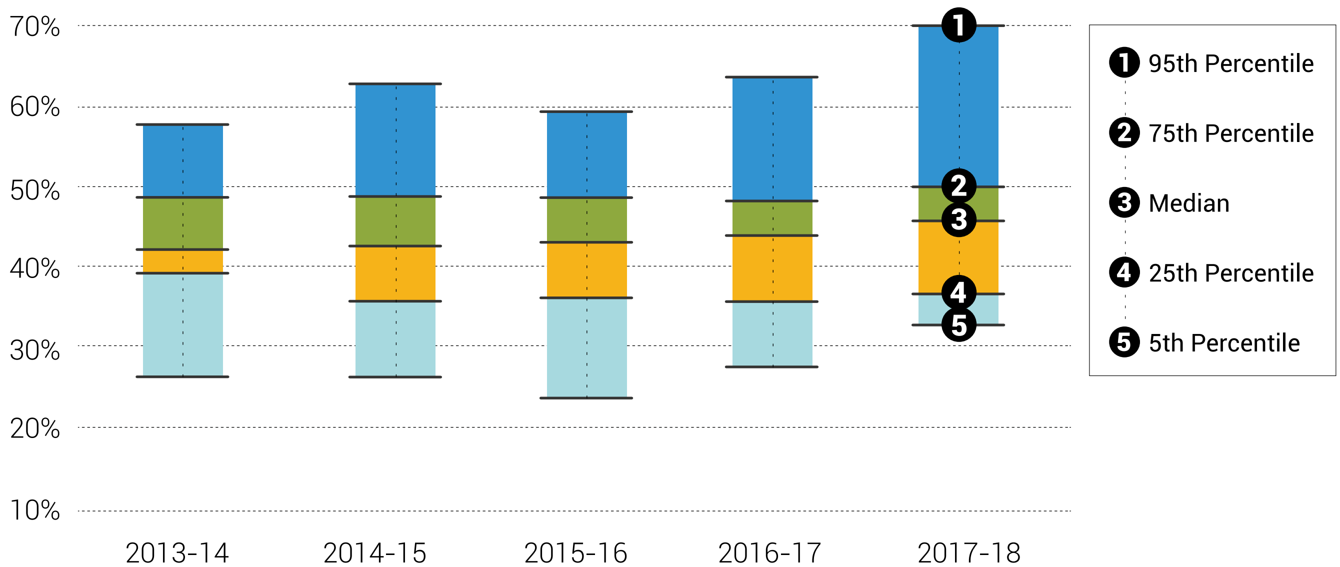


Source: NACUBO Tuition Discounting Study

points to 16.3 points over that timeframe.

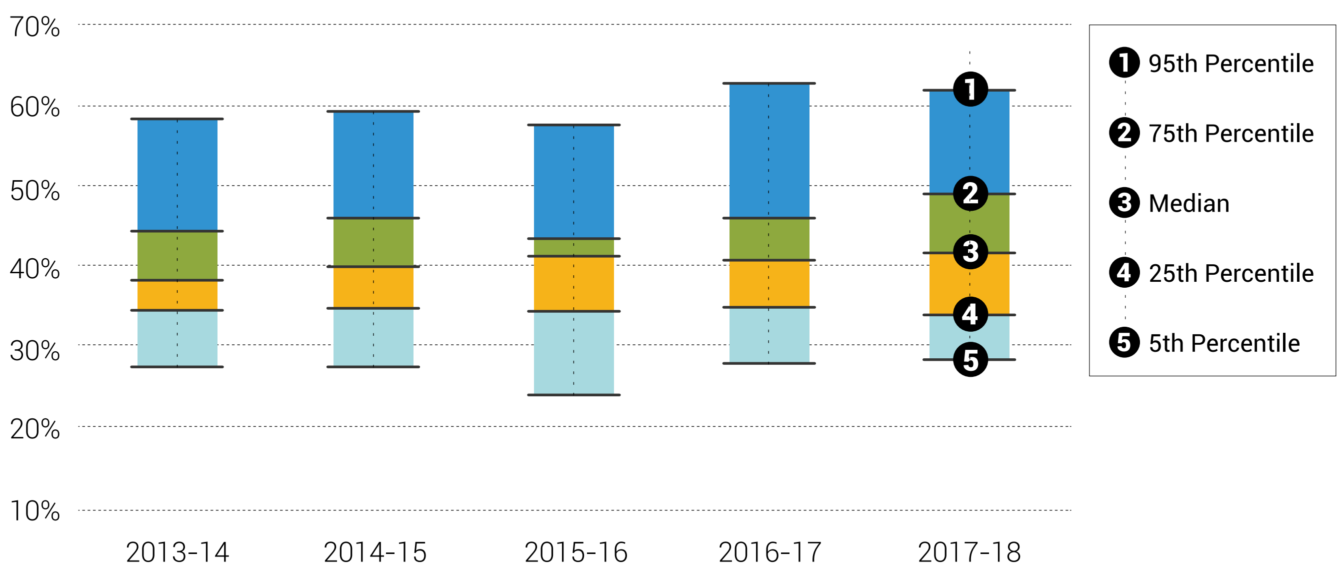
Spreads for all undergraduates at the different institution types didn't perfectly track those for freshmen. Generally speaking, however, medians rose across the board.

Distribution of Freshman Tuition Discount Rates, Research Institutions



Source: NACUBO Tuition Discounting Study

Distribution of All Undergraduates' Tuition Discount Rates, Research Institutions

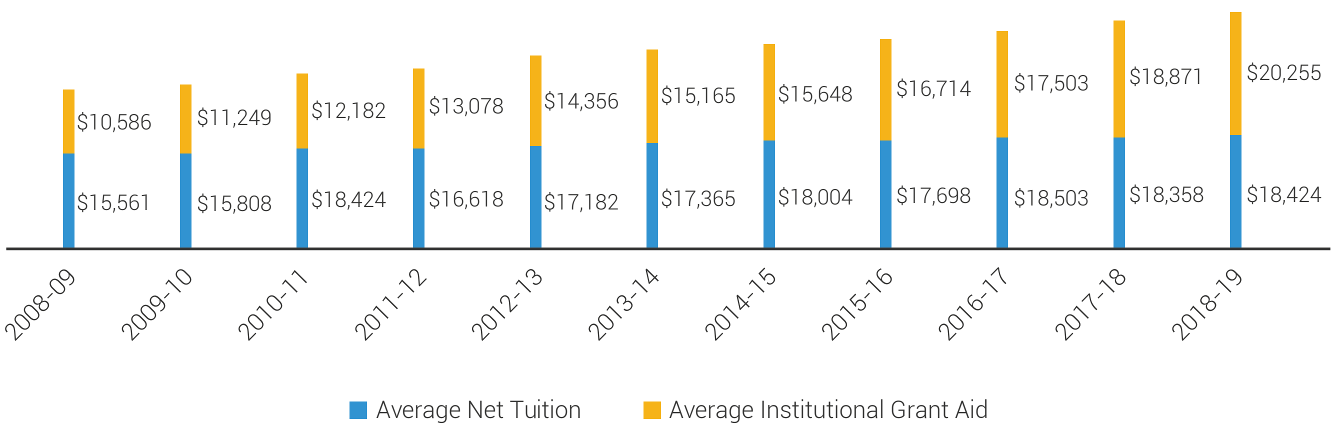


Source: NACUBO Tuition Discounting Study

Small institutions seemed to have a more consistent upward pattern over time, while comprehensive and research universities had more variability. This could be influenced in part by the fact that far fewer research and comprehensive universities were in the NACUBO sample.

NACUBO's study also sheds light on the specific mechanisms through which private colleges are raising their discount rates. In short, more students are receiving

Average Institutional Grant Aid and Net Tuition Rate in Current Dollars per First-Time, Full-Time Freshman



Source: NACUBO Tuition Discounting Study

institutional grants, and the size of those institutional grants has grown.

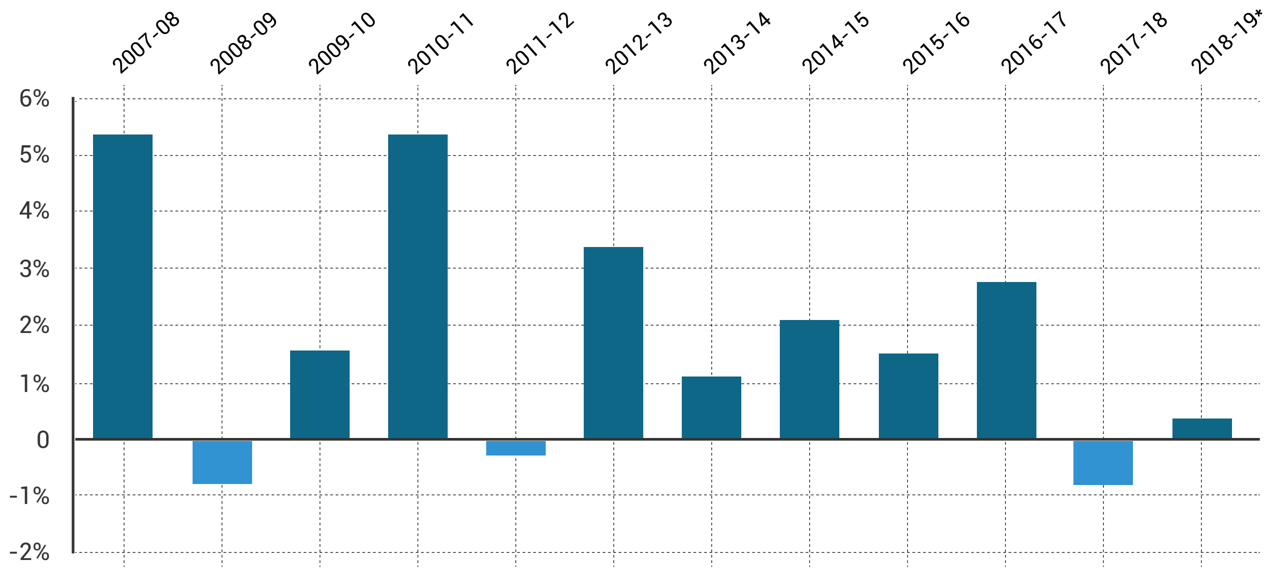
In 1990, less than two-thirds of freshmen—62.5 percent—received institutional aid. By 2010-11, a total of 85.7 percent of freshmen did. And by 2017-18, almost 90 percent of freshmen, 89.3 percent, received grants.

Grants are making up a larger percentage of tuition and fees. But it's not enough to overcome rising tuition and fees—for students, the average size of grants hasn't grown enough to keep up with the increases in tuition. The average published tuition and fee price rose 46.9 percent between 2008 and 2019. Average institutional grant aid for freshmen rose by a whopping 91.3 percent. But the average freshman still paid 18.4 percent more in net tuition in 2018-19 than he or she had 10 years earlier.

Small institutions have handed out grants to a larger percentage of their freshmen over the years. But they've been joined recently by comprehensive institutions. Both types gave out grants to about 92 percent of their students in 2017-18. Research universities, on the other hand, gave out institutional grants to about 68 percent of their students. Research universities are giving grants to roughly the same percentage of their students as they were in 2012-13. Small institutions are giving out grants to only a few more students—90.1 percent in 2012-13 versus 91.5 percent in 2017-18. Comprehensive institutions are discounting for considerably more students, however—86.3 percent in 2012-13 versus 91.6 percent in 2017-18.

But research universities give much larger grants compared to their sticker prices. The average institutional grant for a freshman was 72.9 percent of the price of tuition and fees at a research university in 2017-18, NACUBO found. That's much higher than the 56.4 percent average at small institutions or the 50.8 percent average at comprehensive institutions.

Average Annual Percentage Change in Net Tuition Revenue Per Full-Time Freshman in Current Dollars, 2007-08 to 2018-19



Source: NACUBO Tuition Discounting Study

The trends are similar for all undergraduates, although the absolute figures are a bit lower. A total of 81 percent of all undergraduates across institution types received institutional grants in 2017-18, and the average institutional grant covered 51.6 percent of tuition and fees, NACUBO found. The rate for all undergraduates might be lower for several reasons, including that the figures for all undergraduates include part-time and transfer students.

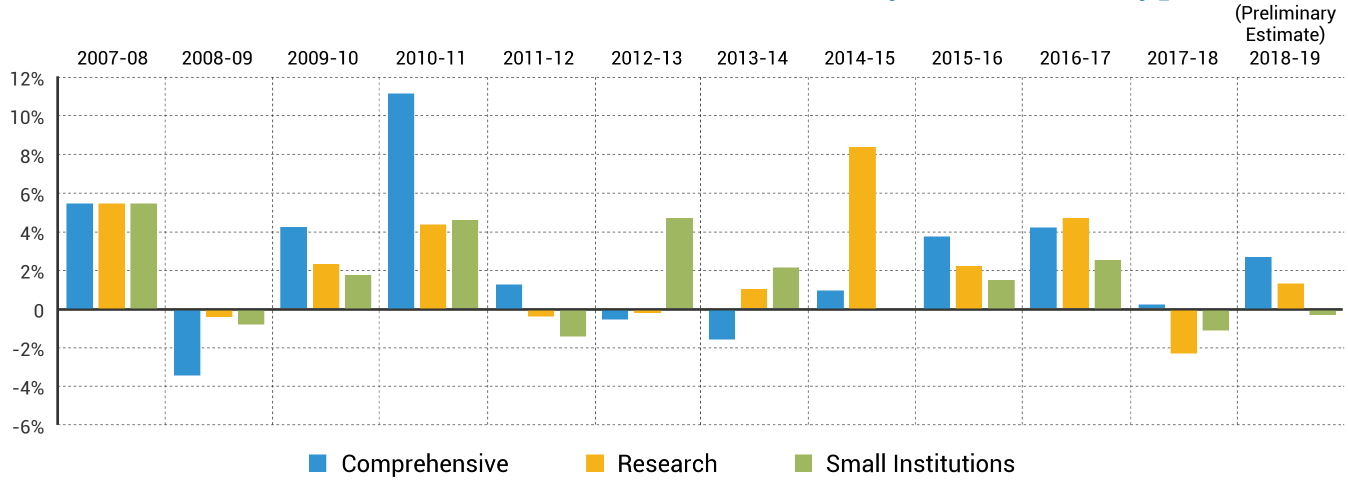
Most concerning to higher ed finance experts, however, is how all the changes in who receives discounts and how much tuition is bought down translates into net tuition revenue. They have reason to be concerned, according to data for recent years.

The average change in net tuition revenue for full-time freshmen in 2017-18 was -0.8 percent in the NACUBO study. It's projected to be just 0.4 percent in 2018-19.

Revenue declining or slowing in growth wouldn't be a problem if expenses were contracting or flatlining in step. Unfortunately for many colleges, that doesn't appear to be the case. Adjust to account for the Commonfund Higher Education Price Index, which is designed to track with the main cost drivers in higher education, and the net tuition revenue per full-time freshman looks even worse. Revenue per freshman declined by 3.6 percent across the NACUBO study universe in 2017-18, after factoring in the price index. NACUBO study participants haven't increased net revenue faster than costs rose since 2012-13 after factoring in inflation.

In 2017-18, research institutions experienced a larger annual percentage change in net tuition revenue per freshman than the other types of institution, down 2.3 percent in current dollars but not adjusted for the Higher Education Price Index. Small institutions lost

Average Annual Percentage Change in Net Tuition Revenue Per First-Time, Full-time Freshman, Current Dollars by Institution Type



Source: NACUBO Tuition Discounting Study

1.1 percent year over year. Comprehensive institutions managed to hold about even, squeezing out an increase of 0.2 percent.

Next year, projections show research institutions doing better, adding 1.3 percent in net tuition revenue per freshman. Small institutions are expected to lose 0.3 percent, and comprehensive institutions are in line to gain 2.7 percent.

That's largely consistent with recent trends. Small institutions since 2013-14 have struggled to increase net tuition revenue per freshman as quickly as comprehensive and research universities.

Trends in tuition revenue growth for all undergraduates aren't much better for private colleges and universities in the NACUBO study. In 2017-18, there was no average change in net tuition revenue per undergraduate in current dollars not factoring in the Higher Education Price Index. In 2018-19, the average change is only expected to be 1.6 percent.

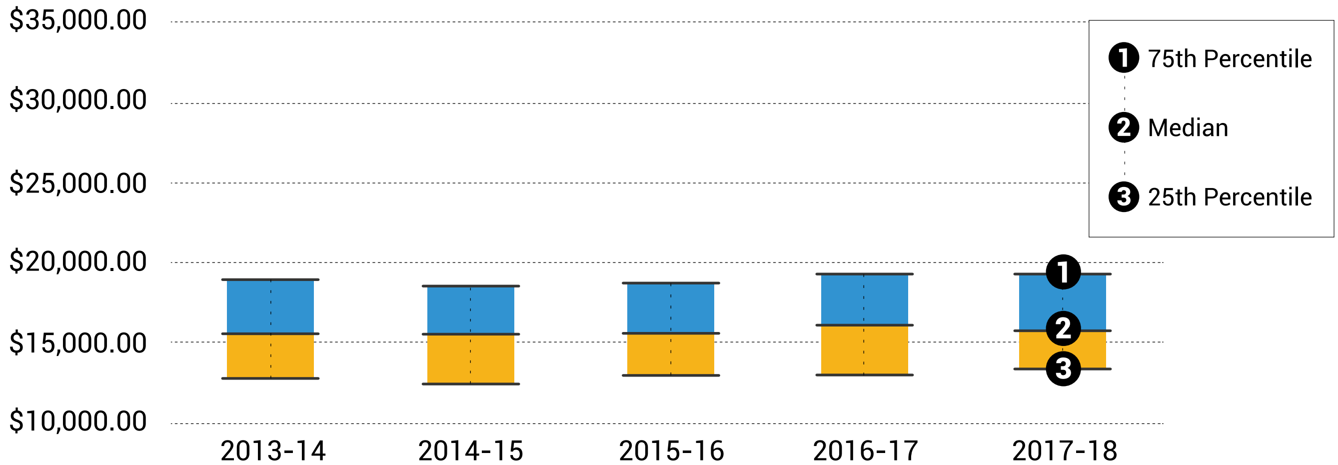
A 1.6 percent increase wouldn't keep pace with inflation. The latest estimate for the Higher Education Price Index shows costs for colleges and universities in line to rise 2.7 percent in their 2019 fiscal year, based on data available through June 15.

Backing away from the question of cost inflation and looking specifically at how much revenue different types of institutions produced over recent years shows that small institutions generate considerably less than larger institutions in average net tuition revenue per student—both on a freshman basis and for all undergraduates.

NACUBO provided *Inside Higher Ed* with data on different types of institutions' 25th percentile, median and 75th percentile net tuition revenue per student. This isn't as expansive as the data on tuition discount rates, which covered nine out of 10 institutions. But it nevertheless provides insight into how tightly half of institutions' net revenue per student is clustered around a particular median.

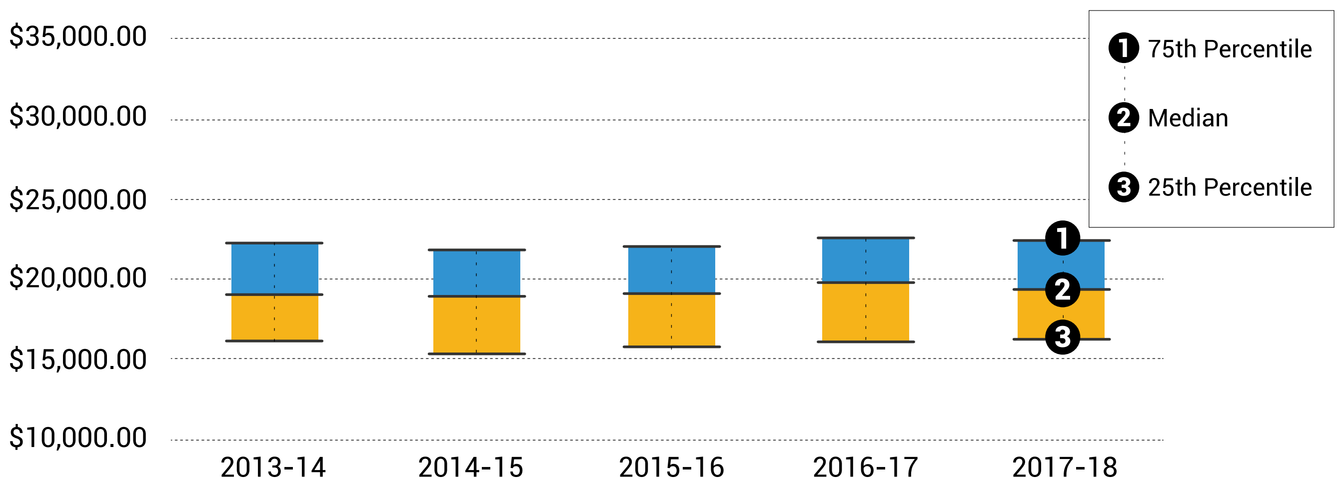
Small institutions have the smallest spread

Distribution of Freshmen Net Tuition Revenue, Small Institutions



Source: NACUBO Tuition Discounting Study

Distribution of All Undergraduates' Net Tuition Revenue, Small Institutions



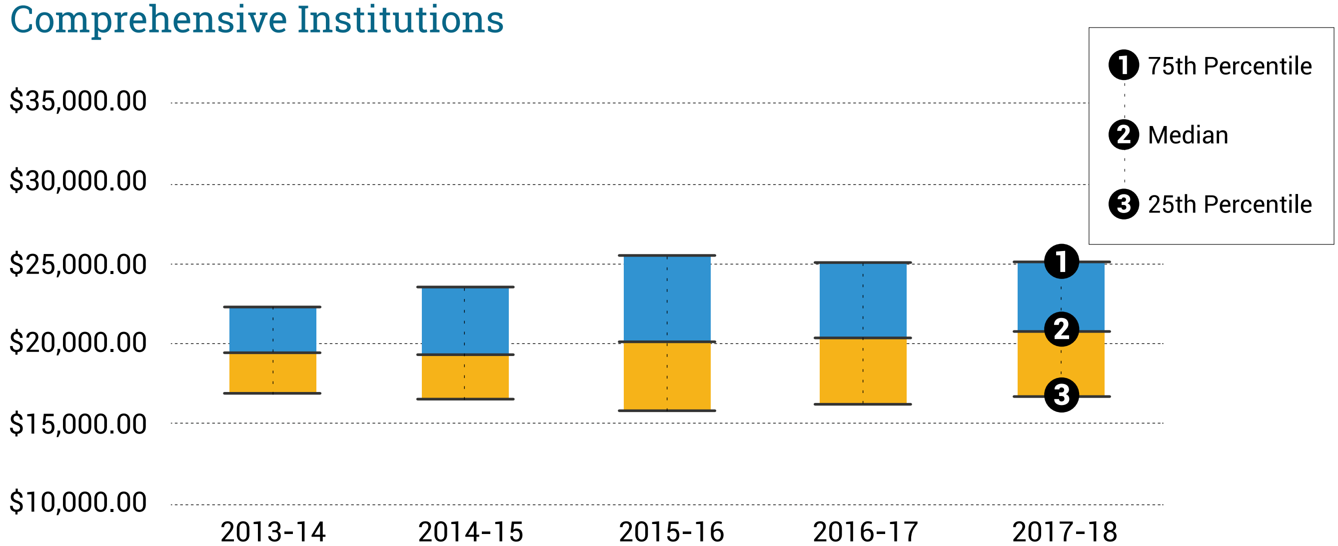
Source: NACUBO Tuition Discounting Study

between 25th-percentile institutions and 75th-percentile institutions, and they have been unable to raise net tuition revenue per student in any consistent way in recent years.

Comprehensive institutions, on the other hand, generate considerably more revenue per student from both freshmen and all students. The group has more variability between the institutions generating the most revenue per student and those generating the least, however. The spread widened considerably in 2015-16 and has been shrinking since then.

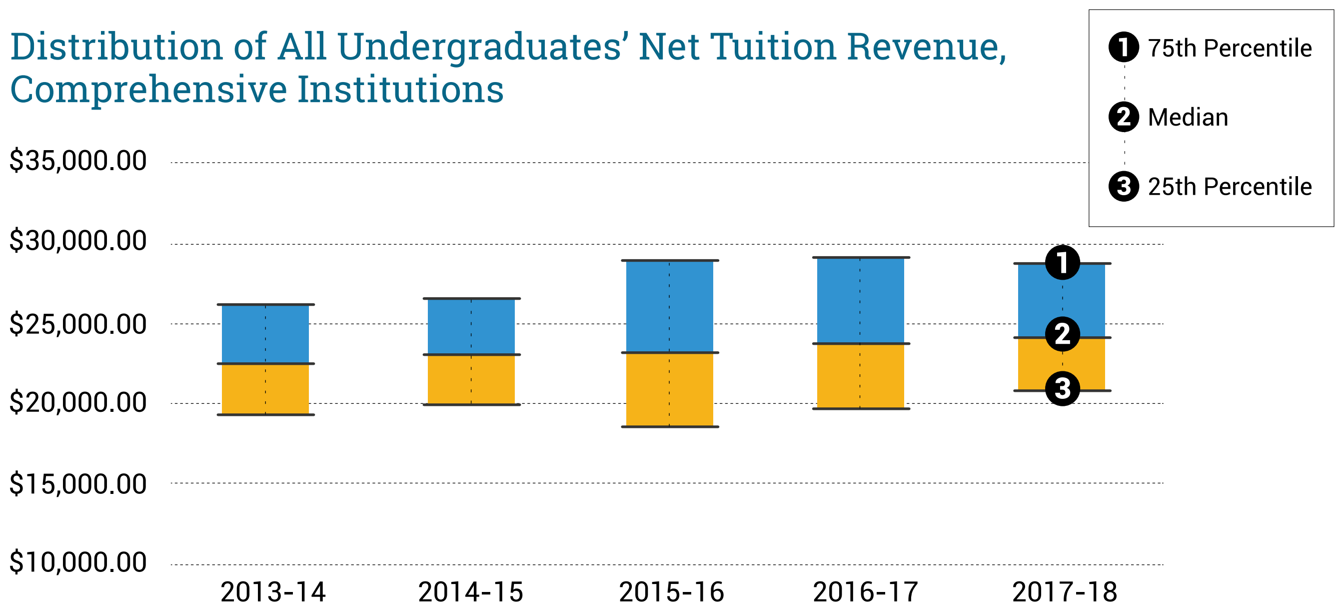
Research universities have seen a generally upward trend in net revenue generated per student. Spreads widened noticeably in 2017-18.

Distribution of Freshman Net Tuition Revenue, Comprehensive Institutions



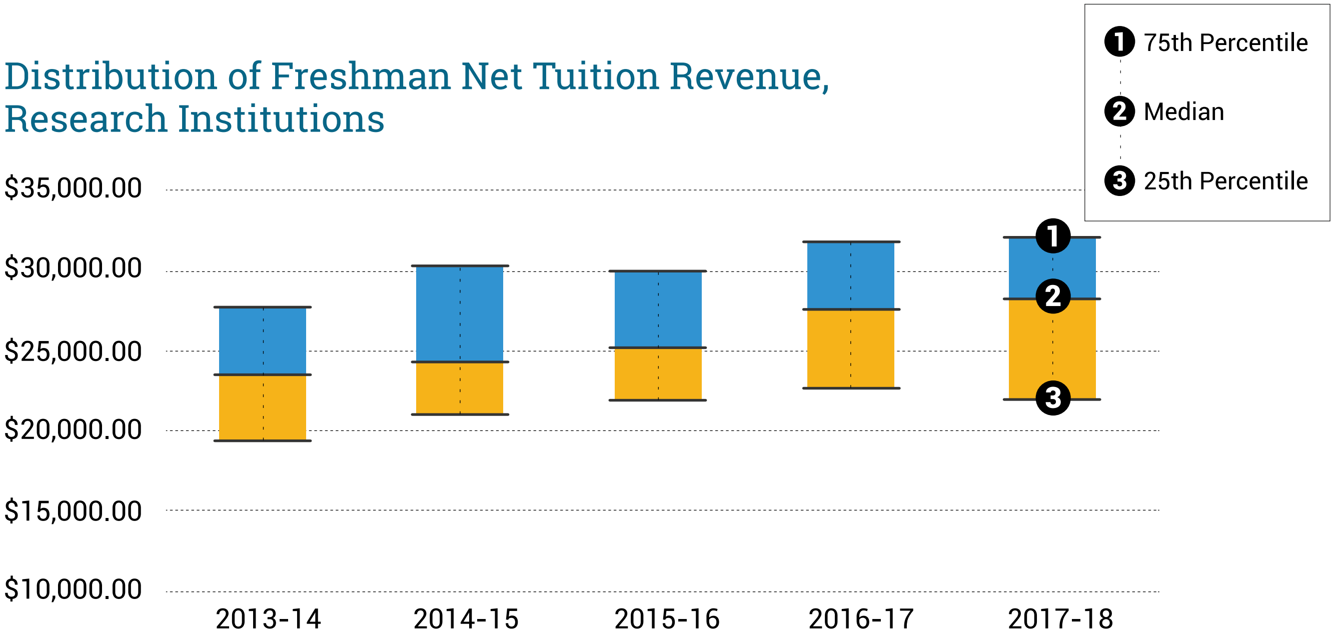
Source: NACUBO Tuition Discounting Study

Distribution of All Undergraduates' Net Tuition Revenue, Comprehensive Institutions



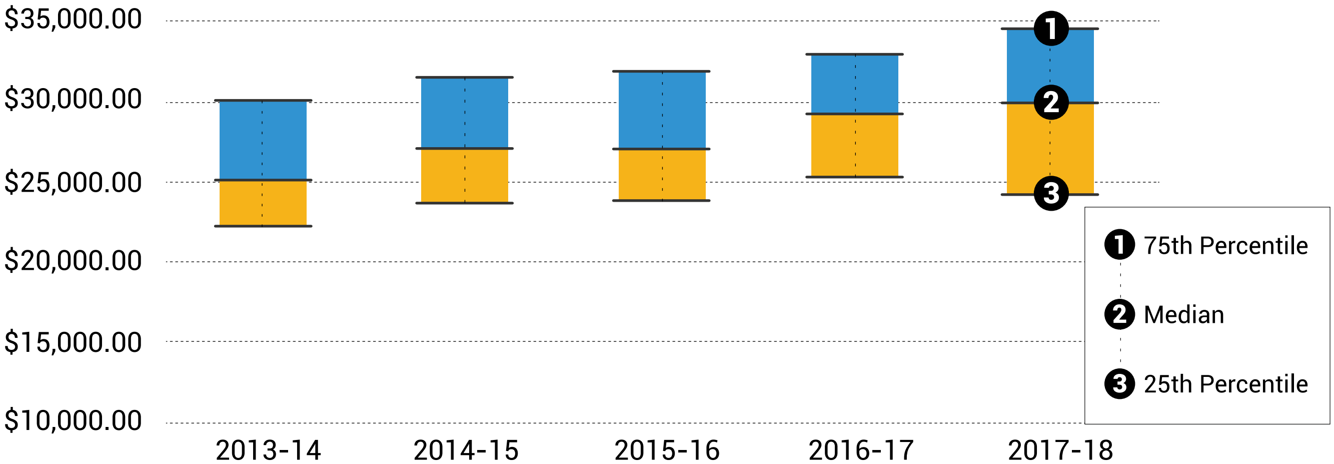
Source: NACUBO Tuition Discounting Study

Distribution of Freshman Net Tuition Revenue, Research Institutions



Source: NACUBO Tuition Discounting Study

Distribution of All Undergraduates' Net Tuition Revenue, Research Institutions



Source: NACUBO Tuition Discounting Study

This is particularly concerning for higher ed budget experts because many private institutions rely heavily on student tuition for funding. The National Center for Education Statistics has estimated that four-year private, nonprofit colleges and universities generated about 40 percent of their funding from tuition and fees. But many small colleges often rely on tuition and fees for a much larger percentage of their budgets than larger institutions with more substantial endowments or the opportunity to tap research funding.

Small institutions and comprehensive institutions were much more likely than research universities to tell NACUBO that they were trying new strategies to increase net tuition revenue. Just 5.1 percent of small institutions and only 4.3 percent of comprehensive institutions told NACUBO they were not trying any new strategies. More than a third of research universities, 35.3 percent, indicated they were trying no strategies to increase net tuition revenue.

Net tuition revenue can increase even if net tuition revenue per student is flat or declining if overall enrollment rises. But many institutions saw decreases in overall enrollment.

More than four in 10 institutions participating in the study in both 2015 and 2018 saw a decline or no growth in first-time, full-time freshman enrollment. A full 34 percent experienced declining freshman enrollment over the four-year span, and another 6.2 percent said enrollment didn't change. The remaining 59.8 percent of institutions reported increasing enrollment.

Some colleges may drop their enrollment on purpose—to rightsize or to become more selective, for instance. So NACUBO polled institutions that reported declining enrollment over the four-year period to ask why they believed it fell. Just 5 percent said they made an intentional decision to lower the number of students in the class, 8.3 percent said they decided to balance out prior years' classes and 10.7 percent reported attempting to be more selective.

Meanwhile, 65.3 percent pointed to students being sensitive to prices, and 62.8 percent blamed increased competition. Changing demographics rounded out the top three most frequently cited reasons given, at 61.2 percent.

Just 0.8 percent chalked up their enrollment declines to a decrease in the number of 18- to 24-year-olds in the region, a curious point given the larger trends in the sheer number of students graduating from high school over the four-year period studied.

Among institutions reporting freshman enrollment growth over the period, most cited improved marketing or recruiting strategies: 75.6 percent. Improved admissions processing was the next most popular reason, named by 52.6 percent of respondents. It was closely trailed by an increase in institutional financial aid at 51.2 percent and an increase in overall demand for an institution at 45.1 percent.

Only 16.9 percent of institutions credited changing demographics for driving up their enrollment.

60 AND 70 PERCENT DISCOUNT RATES

With average discount rates hovering around 50 percent for private nonprofit institutions, many wonder how far the high-price, high-aid model can be stretched. Others wonder why colleges and universities are discounting so deeply in the first place.

The answer to those questions isn't clear, even among college leaders. What is clear is that few feel they have a choice but to discount heavily. Even those discounting at more than 60 or 70 percent feel handcuffed to the model.

Take Hendrix College, a roughly 1,300-student private institution in Conway, Ark. The college's discount rate was about 72 percent, counting tuition and fees, for the year ending May 31, 2018, according to its audit for that year.

"We have traditionally been about 20 percent above the national average," says Hendrix's president, William M. Tsutsui. "We went from pulling our hair out discounting at 60 percent to now sort of accepting as one of the costs of doing business that we're discounting at 70 percent and 80 percent plus."

Continuing to increase discount rates can't be sustainable. But it's also not sustainable to ask families to pay more for higher education, Tsutsui says.

Leaders at Hendrix have discussed options including tuition resets and moderating price increases. They've wondered how much students value transparency in pricing versus discounts and low net prices for some.

"These days, I think inexpensive beats transparent for most families," Tsutsui says. "They're looking at the bottom line."

Tsutsui brought up the case of Saturn, the General Motors car brand that drew attention for "no-haggle" pricing. New Saturns haven't been sold for years.

Hendrix has ruled out the possibility of a tuition reset. It can try to decelerate the rate of tuition increases it is passing on to families. As of right now, though, financial concerns aren't driving retention down at Hendrix, according to the institution's best estimates.

"We keep monitoring," Tsutsui says. "Are we going to see a breaking point where those annual tuition increases really have such a huge impact on retention that we have to look hard at bringing them down? Frankly, we have not seen that."

The discounting at Hendrix reflects at least in part the conditions in Arkansas, from which

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it draws many of its students. The college draws from two primary pools of students: those looking for small private education, who are often athletes, and those who are among the top 10 or 20 percent of students, who are cross-shopping various institutions. For both, price comparisons are important.

“This is one of the poorest states in the nation, and that just means price is always higher on the list of concerns within the student body,” Tsutsui says. “Demographically, I think we are not the worst place in the nation by far. We are not the upper Midwest or New England. Still, we're not exactly booming.”

Hendrix remains better off than many institutions, thanks in part to a relatively large endowment that helps to insulate it from other trends. Its endowment has grown every year since 2012, hitting $206.4 million in 2018.

Hendrix is like many other small private institutions in that the revenue it draws from room and board charges has grown in importance to its overall budget in recent years. In fact, room and board revenue and tuition revenue have flip-flopped as a percentage of total revenue in the last decade or so.

Two-thirds of the institution's revenue used to come from tuition, and a third used to come from room and board. The opposite is true now.

“At some point, we can't discount tuition anymore,” Tsutsui says. “Room and board continues to go up by 3 percent a year. We increase room and board less quickly than we have tuition, and at some point, we'll be over 100 percent discounting and we will be cutting into room and board.”

In the meantime, expectations rise for the quality of room and board. Consequently, pressures mount on the institution to provide better food and lodging experiences.

At the end of the day, Tsutsui tries to be open about problems his college and higher education face.

“My view is always be transparent with our community and talk about the challenges facing higher education,” Tsutsui says. “What we can't lose sight of is, every single year, even if we miss our target by 20 students, which ends up being a lot of money, by gosh, we're attracting 350 incredibly bright young people.”

In Pennsylvania, meanwhile, Ursinus College competes in a very different market than Hendrix. The Keystone State's landscape is dotted with far more private colleges. Ursinus, located to the north of Philadelphia, is near far more population centers and populous states than Hendrix.

Its endowment is far from the smallest in the country, but it's also not large enough to provide the college with a massive amount of operating support. The endowment totaled $136.8 million as of the end of the 2017 fiscal year.

Ursinus's enrollment totals about 1,400 students. Its tuition discount rate for first-year students has increased from 56.8 percent in 2013-14 to an estimated 65.3 percent in

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SNAPSHOT: 60 AND 70 PERCENT DISCOUNT RATES

2019-20.

For all undergraduates, Ursinus's tuition discount rate is an estimated 62 percent in 2019-20.

Those rates have held relatively steady in the last three years. The rate for first-year students was 63 percent in 2017-18 before hitting 65.8 percent in 2018-19. The rate for all undergraduates was 61.1 percent in 2017-18 and 61.9 percent in 2018-19.

There was a time when Ursinus was focused on trying to reduce its discount rate, thinking such a move would improve its financial sustainability. But its leaders are now focused on building a stronger national presence in order to stabilize financial indicators and potentially reduce the discount rate over time.

"We've been in a position where, over the years, it's been steadily creeping up," says Shannon Zottola, vice president for enrollment at Ursinus. "In our particular market outside of Philadelphia, which is very saturated, and with the types of students we are working competitively to recruit, it just isn't feasible to drop it."

Access and affordability are important to the college's identity. So are rigorous academics. Ursinus practices need-blind admissions. But it doesn't—and can't—meet full need.

Threading the resulting admissions needle with students who are the right fit often isn't easy.

"We all know that we have a certain amount of dollars that we can work with in order to attract quality students," Zottola says. "We've become very creative."

Ursinus's leaders have seen competitors' packages where students are discounted at 85 percent to 92 percent. Such offers sometimes make Zottola stop and wonder how the system is sustainable.

Specific institutions' short-term wins may pile up to hurt the sector as a whole.

Ursinus competes with institutions like Dickinson College, Gettysburg College and Franklin and Marshall University, as well as the state's major public force, Penn State University, and other regional public institutions like West Chester University. In some cases, it's competing on price, Zottola says. But in most, it's competing on the quality of its education and what that means to students.

Everyone on campus can play a role in recruiting a class, whether that be meeting with prospective students on short notice, hosting special days on campus or calling applicants, Zottola says.

It is a long-term play, says Annette Parker, vice president for finance and administration. Ursinus isn't just setting tuition and discounting for a single year. It's setting itself up in a way that's intended to strengthen its market position, balance sheet and long-term financial position.

"I think the complexity of what we're trying to do reflects the complexity that exists at colleges and universities," Parker says. ■

Perspectives on Public and Private Discounting

The NACUBO study is an important look at discounting data, but it isn't the only one. Several other organizations release reports providing insight into discounting practices among certain slices of institutions.

The consulting firm Ruffalo Noel Levitz (RNL) releases its own discounting report based on four-year private and public institutions that are its clients. The major ratings agencies release reports on key financial metrics of the colleges they rate, including discount rates.

RNL had about 280 public and private non-profit college and university clients included in its 2018-19 discounting report. It has slightly different definitions for discount rate than the NACUBO report: it uses the term “overall discount rate” to describe unfunded

Need Versus Merit

The National Association of College and University Business Officers Tuition Discounting Study also provides insight into how private colleges award institutional grant dollars.

Just under 40 percent of grant funds were awarded based on students' demonstrated financial need in 2017-18. Another 38.3 percent was merit based but given to students with some level of financial need. And 21.7 percent was merit based but didn't meet students' need.

Those findings are consistent with NACUBO's results over time. The study started using its current format to ask about financial aid used to meet need in 2013-14. Institutions awarded 77.5 percent of their grant aid—both need based and non-need based—to meet students' demonstrated financial need that year.

Comprehensive universities gave slightly more merit aid to meet need, 24.4 percent, versus 22.7 percent at research universities and 21.1 percent at small institutions. Research universities gave much more aid on an explicitly need-based basis, 54.8 percent, versus 39.1 percent at small institutions and 27.7 percent at comprehensive institutions. ■

gift aid divided by gross revenue, including room and board. It uses the term “tuition and fee discount rate” to describe all institutional aid including tuition exchange but excluding employee benefits, divided by tuition and fees.

RNL found a slightly different picture than the NACUBO report: private institutions on average kept their overall discount rate for first-year students virtually steady, with it increasing from 42.6 percent in 2017 to 42.7 percent in 2018. Private institutions' tuition and fee discount rate notched 55.4 percent.

It was the first time since 2015 that discount rates were increasing at a slowing rate, according to RNL. Campuses might be providing aid to specific pockets of students in order to shape class demographics or responding to competitive pressure.

Public four-year institutions in the RNL data increased first-year students' average discount rate by slightly more, by 0.8 percentage points to a total of 16.7 percent. Discounting is much higher for nonresident first-year students than for resident students, with overall discount rates notching 23.8 percent and 14.5 percent in 2018 for the groups, respectively.

Despite some variation year to year, discount rates have risen faster for nonresidents than for resident students attending public institutions. The discount rate for nonresidents was 16.9 percent in 2014, meaning it has jumped by 6.9 percentage points in five years. It was 9.9 percent for resident students before increasing by 4.6 percentage points through 2018.

It should be noted that public institutions are functioning in an environment where state appropriations are largely flat. That leaves many increasing tuition at a faster rate than federal and state support can rise, making the overall cost of college less affordable for students. It's possible many publics are turning increasingly to out-of-state students, who pay higher tuition rates, in order to try to subsidize some costs for in-state students.

In fact, the average net tuition and fee revenue for resident freshmen at public four-year institutions was $7,001, according to RNL. That's significantly lower than the average for nonresidents, which was $13,115.

Nonetheless, increasing discounting by public colleges would have the overall market effect of generating increased competition, especially compared to the past.

It used to be much less common for public institutions to be concerned about their financial aid strategies than it is today, says Sarah Coen, RNL's senior vice president of consulting services.

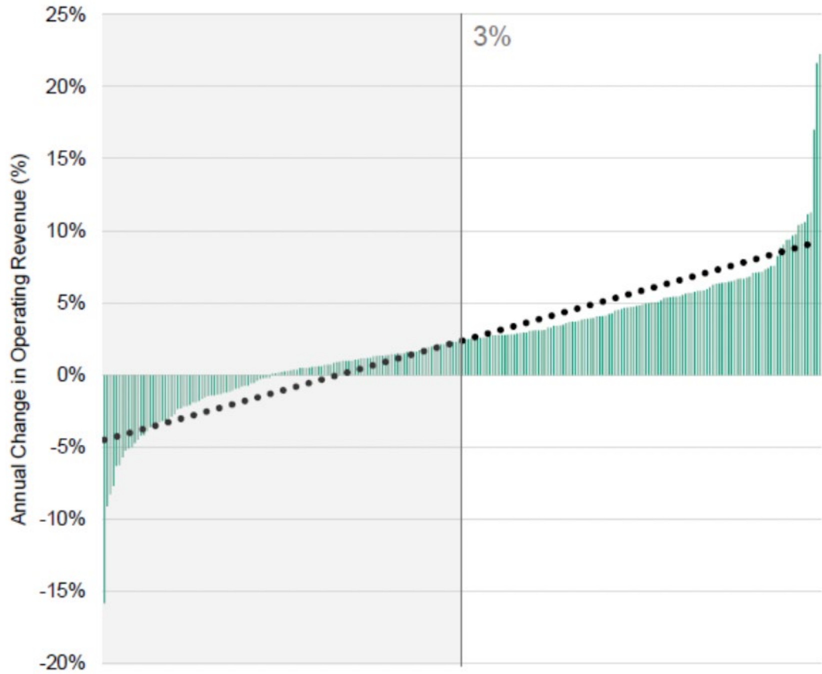
“They had more money coming from the state,” she says. “Now all of these factors are coming into play. The public schools are acting like the private schools. With fewer students, the competition is just fierce.”

Alex Bloom, a consultant at EAB's strategic research division, thinks discounting at public universities is notable.

“The most interesting thing over the last few years has been the increasing adoption of the practice at public universities,” he says.

Data from the three major ratings agencies—Moody's Investors Service, S&P Global Ratings and Fitch Ratings—show some of the same trends. Ratings agencies tend to have a window into a set of institutions that's financially stronger than the higher ed market as a

Private Universities' Revenue Growth Measured by Moody's Investors Service, 2018 Fiscal Year



Each bar represents annual revenue growth at an individual institution.
Those in the shaded area reported revenue growth below 3%.

Source: Moody's Investors Service

whole, because those are the institutions that tend to borrow money through publicly rated bonds. Nonetheless, the ratings agencies have tracked rising average tuition discount rates at both public and private universities. Their data show private institutions posting higher tuition discount rates than public institutions.

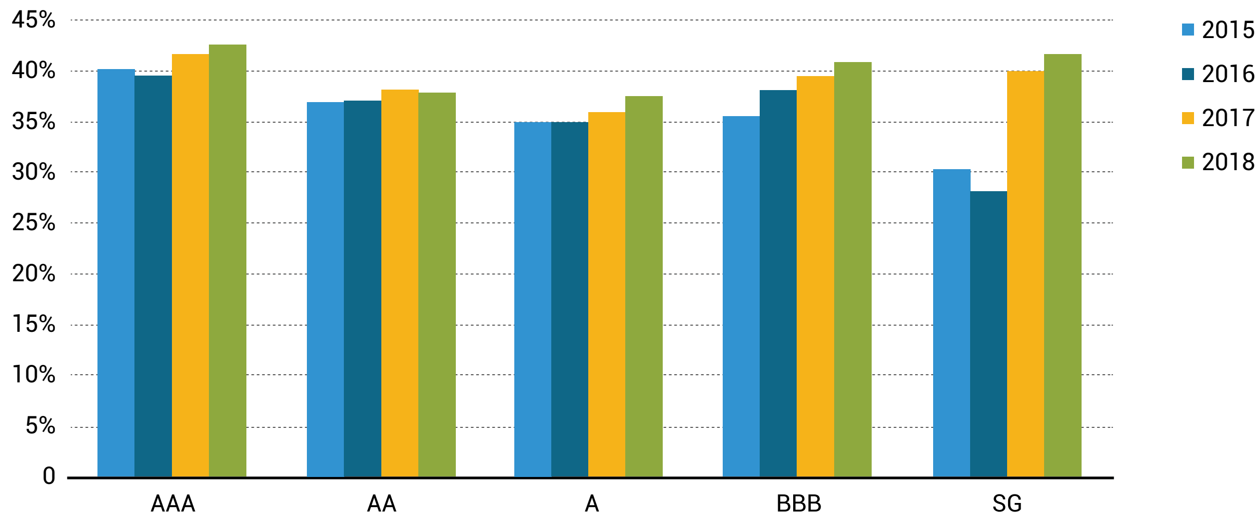
The median tuition discount rate ranged from 36.2 percent to 39.2 percent at private universities in 2018, depending on the ratings agency. It ranged from 25.7 percent to 31.9 percent at public universities.

But privates were, on average, eking out less additional net tuition revenue for their trouble. Median year-to-year average change in net tuition revenue at private colleges in 2018 ranged from 1.1 percent to 2.1 percent, depending on the ratings agency. For public institutions, it ranged from 2.1 percent to 2.6 percent.

Slow net tuition revenue growth can feed slow overall revenue growth. Moody's tracked private institutions with annual revenue growth dropping by more than 15 percent at one end of the spectrum and rising by more than 20 percent on the other. Over all, though, a majority of universities experienced growth of less than 3 percent.

Reviewing ratings agency data reveals another important correlation: institutions with large enrollments tend to post lower tuition discount rates than those enrolling fewer students. On a per-student basis, the largest

Tuition Discount Rates, Private Colleges and Universities, as Measured by S&P Global Ratings



SG--Speculative grade.

institutions collect the most net tuition revenue per student, according to Moody's. Among privates, comprehensive universities collected a median $28,525 per student while moderately sized institutions collected $22,126 per student and small institutions collected $23,067 per student. In the public sector, comprehensive universities took in $12,144 in net tuition revenue per student, moderately sized institutions took in $9,577 per student and small institutions collected $8,661 per student.

Institutions with the strongest bond ratings—those judged to have the best financial picture and that should be most trusted by investors—actually tended to discount tuition more steeply than those rated slightly lower. Their average discount rates tended to look more like the average discount rates among institutions with shaky debt ratings.

For example, the median tuition discount rate for a private institution with a top AAA rating from S&P was 42.7 percent in 2018, comparable to the median discount rate of 41.6 percent for institutions with speculative-grade debt. But median discount rates outside of the top rating bracket had a largely inverse relationship with bond ratings. In other words, as bond ratings fell, discount rates tended to rise.

Strong institutions can afford to discount to attract the best and brightest students or the students they want the most. They likely have multiple revenue sources besides tuition, like large endowments or substantial research funding. They rely less on students for revenue than other institutions, on average. Their market positions may also support higher sticker prices, enabling them to discount more without squeezing margins.

On the other hand, lower-rated institutions generally enroll fewer students, rely more on undergraduate enrollment and generate a greater percentage of their revenue from students.

"You're going to expect to see more weakness in certain credit characteristics," says Jessica Wood, senior director and sector lead for education at S&P. "Perhaps those schools don't have as much draw. Specifically, in schools being located in areas being pressured by demographics, with that increasing competition you're just going to see more pressure. That's part of why those discount rates look like that."

The correlation isn't deliberate, says Susan Fitzgerald, senior vice president at Moody's Investors Service.

"What we look at is what's the ultimate amount of tuition revenue a student is willing to pay to attend your institution, and is that growing at a level that allows you to cover the rising costs of serving those students?" she says. "I think it's a function of, the stronger your market, the stronger your credit profile."

On the whole, however, what becomes clear is that the market for many institutions isn't particularly strong at this moment in time. Decreased fertility rates, tensions over immigration, demographic changes unfolding and the challenge of drawing students from stronger markets to attend colleges located in weaker ones mean that's not likely to change.

"Over all, the private higher education sector continues to experience tuition and discounting pressures driven by affordability, access and value concerns," wrote Emily Wadhwani, director at Fitch Ratings, in an email. "We expect these pressures to persist." ■

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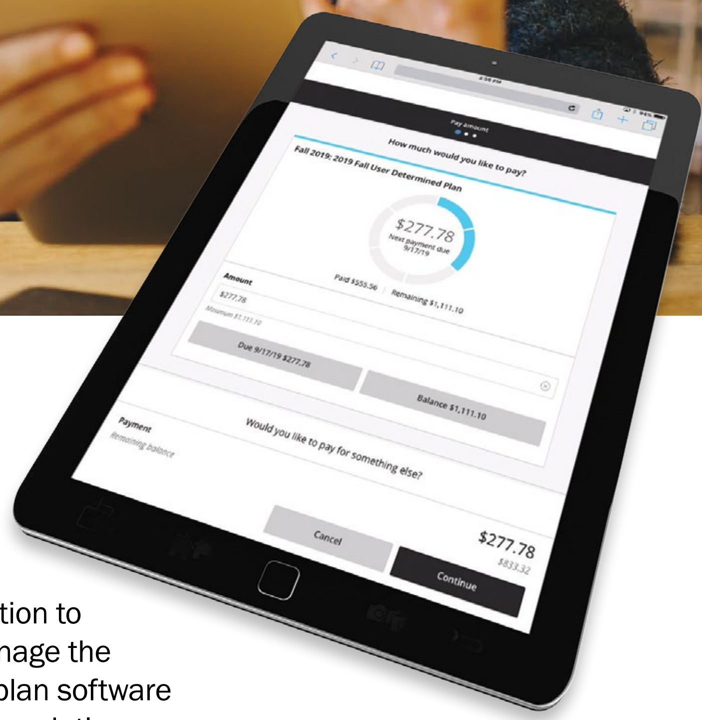

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FREEZING AND FIXING TUITION

One point of tension in the high-price, high-aid model is that students and families don't know how much they'll be asked to pay in the future. They're signing up for a college that's offering a specific financial aid package and net price for freshman year. When tuition goes up, they'll probably have to pay more as sophomores, juniors and seniors.

Enter the idea of freezing tuition or fixing net prices for students over the course of their college careers, two approaches that feature subtle differences.

Under a tuition freeze, an institution might be able to increase fees but would be prevented from jacking up its tuition sticker price for incoming students. It could also theoretically repackage financial aid awards to try to squeeze out more net revenue from students over time. A fixed net price plan, on the other hand, might be structured to keep net tuition and fees constant for each student as he or she progresses toward graduation, even if sticker price goes up and the institution draws increasing amounts of revenue from each subsequent entering class.

Neither structure would necessarily prevent other ancillary charges, like room and board, from rising year to year.

Clearly, the devil is in the details of how programs are structured. Yet it's safe to say that both tuition freezes and fixed net price programs restrain colleges in some ways, even as they allow institutions to continue using discounting strategies to attract students.

Tuition freezes have received plenty of attention at state colleges and universities, especially when they're part of a bargain for increased public funding.

"For public universities, this is typically done in concert with trends in state appropriations," says Susan Fitzgerald, senior vice president at Moody's Investors Service. "Obviously, it impacts their overall revenue growth. There are some of these that are state mandates. There are others that are pricing mandates pursued by universities in order to stabilize or grow enrollment."

In addition to sometimes raising fees, public universities that implement tuition freezes—or even those facing political pressure to keep tuition increases low—can find other ways to boost net revenue. Many of those with high name recognition court more out-of-state students, who typically pay higher rates than in-state students.

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SNAPSHOT: FREEZING AND FIXING TUITION

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Public institutions have also tried fixed net price programs, sometimes to meet lawmakers' requirements. Texas lawmakers, for example, passed a law in 2013 requiring fixed tuition price plans be offered at some institutions. Institutions like the University of Texas at Austin now offer fixed tuition rates that are higher than traditional year-to-year rates. The rationale between the higher rates is that they can cover projected increases in traditional tuition rates over time.

Private colleges also have tried fixed net price plans, with varying levels of success. The University of Dayton put such a plan in place in 2013. Leaders reported being very pleased with the results.

Dayton, which had about 8,600 full-time undergraduates in fall 2018, doesn't guarantee students the same sticker price over the course of their studies. Instead, it guarantees students that their financial aid awards will grow dollar for dollar with tuition increases. The result is that students know the exact net tuition they'll be paying in each of their four years on campus.

Fees were eliminated as well in a move to increase price transparency.

The university has touted the program's results: retention between students' first and second years has risen by about three percentage points and began regularly breaking 90 percent. Leaders think six-year graduation rates consistently will be above 80 percent. Student borrowing is down, and the number of students eligible for Pell Grants is up. Entering classes' standardized test scores have increased, incoming classes are more diverse and enrollment has grown by almost 10 percent.

At the same time, the high-tuition, high-aid model is alive and well at the University of Dayton. Since fall 2013, published price is up 23 percent and the university's tuition discount rate has grown by 11 percentage points. But the university's net revenue per student has been relatively flat, and student-related revenue from undergraduates rose by more than 9 percent as enrollment grew.

The discount rate is being leveraged strategically to boost academic quality, racial and ethnic diversity, and socioeconomic diversity, says Jason Reinoehl, vice president for strategic enrollment management at the university.

"I tend to think because of that, discount rates are irrelevant for assessing the strength of the plan," he says.

While the high-tuition, high-aid model continues at Dayton, it functions differently under the fixed net price plan. Across higher education, freshmen typically have higher discount rates on average than upperclassmen. Colleges provide scholarships that don't rise at the same rate as tuition, meaning the net price for the student—and net revenue for the college—increases over time.

Dayton turns that model on its head, keeping the discount rate lowest during a student's first year. That discount rate rises over time

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as sticker price and the amount of financial aid provided to nonfreshmen increases.

As a result, risks shift substantially. Instead of students and their families bearing the risk of climbing net tuition prices, the university shoulders a higher chance that costs could outpace revenue growth. That means university leaders must be accurate when projecting future budgets. They also have to keep costs in line. The model is riskier in a high-inflation environment than one in which inflation is lower.

Other risks are transferred from upperclassmen to freshmen. The university's freshman classes are paying higher tuition rates up front, but they don't receive a guarantee that they'll earn a diploma.

At first glance, a fixed net price might seem most attractive to low-income families or those with tight budget constraints. But wealthy families seem to appreciate it as well, Reinoehl says.

"We've heard loud and clear from families on both ends of the spectrum that economically, this plan is beneficial," he says. "Think about higher-income families. Those families, generally, are really comfortable with this idea of planned monthly payments for significant investments."

Reinoehl sees other benefits for the university. For example, leaders' planning outlook has shifted to prioritize longer time horizons.

The university has also sought to build on the idea of a fixed price with outreach to transfer students and through a partnership with the nearby Sinclair Community College. In the Sinclair partnership, students start their college careers at the community college before moving on to the University of Dayton. Their net price at Dayton is fixed at the time of their co-admission to both institutions.

"For a transfer student, we essentially post their admission to UD and then, based on our best way of estimating their credits they have toward their degree and their remaining time to degree, we'll give them a customized price plan," Reinoehl says. "It could be four semesters. It could be five, six semesters."

In part, fixing tuition is a response to demographic shifts that started in the early 2010s. Dayton's leaders view it as more than a reactive pricing strategy, though. It's a demonstration that the university values transparency, and one that's a differentiating factor in the admissions market.

"We're going to become more intentional about our position in Dayton, Ohio, as an anchor institution," Reinoehl says. "The platform allows us something to leverage in terms of partnerships. I can imagine further innovation with Sinclair, but also further down the road branching out to other institutions that are within 50 miles of UD and thinking about where we can add new in-demand programs."

Fixing net price doesn't mean that the cost to attend the University of Dayton will be low for all students. Sticker price for 2019-20 was $44,100 for tuition, plus another $14,050 for housing and meal plans. The university

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SNAPSHOT: FREEZING AND FIXING TUITION

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maintains its ability to discount different students at different rates, though. It can also offer more aid in the future if a student's financial situation unexpectedly changes—the university is committed to a student not having to pay a higher net price than he or she paid freshman year.

Not everyone who's tried fixed tuition sticks with it over the long run. George Washington University adopted a fixed tuition plan for undergraduates in its 2005 academic year. It announced in August 2019 that it was phasing out the program starting in the fall of 2020. Instead, it would fall in line with most of the higher education marketplace and set tuition prices annually.

In a statement, the university said it was building "more discretion" into its budget.

"The university is reviewing all aspects of the undergraduate student experience to identify areas for improvement. As part of this process, fixed tuition emerged as a program that is not realizing the potential envisioned, and it has an associated cost that can be put to better use," Thomas LeBlanc, the university's president, said in a statement.

GW's announcement came on the heels of LeBlanc sharing plans over the summer to cut undergraduate enrollment by 20 percent over five years. Taken together, the moves raised questions about whether the university, which enrolled about 26,000 undergraduates and graduate students, was wary of economic and demographic changes preventing the high-tuition, high-aid model from driving growth. They also raised the question of whether the university was trying to become more selective in an attempt to move upmarket.

Much smaller institutions have called off fixed tuition programs in the past. Northwestern College in Iowa created a program fixing tuition before the 2007-08 academic year.

That program didn't last very long.

By 2009-10, freshman enrollment dropped and the roughly 1,200-student college decided not to continue fixing tuition for four years.

Many of its students came from families with agricultural backgrounds, meaning their incomes varied annually, leaders said. Families often weren't making decisions based on the second, third or fourth years of college. Instead, they were concerned that they would be paying an up-front premium for no reason if their children dropped out before graduating.

SNAPSHOT

PRICE MATCHES

For proof that public and private colleges are in a highly competitive market, look no further than the array of price-matching schemes they've been rolling out over the last few years.

Both public and private institutions have tried to capture students' attention by discounting so that their net prices are somehow attached to the sticker prices at different public flagship universities. The specific goals of such efforts are varied—institutions might be looking to draw larger classes, classes that are academically strong or students who will provide large amounts of net tuition revenue.

Factors driving the price matching aren't quite as varied. Colleges using the strategy are often in markets where the number of high school graduates has been shrinking or facing some other form of enrollment pressure.

Take the University of Maine, an early example of an institution grabbing headlines with what it called a "Flagship Match" program. The program, started in the fall of 2016 with an $8.5 million financial aid budget, included some flashy advertising. It targeted students in Connecticut, Massachusetts, New Hampshire, New Jersey, Pennsylvania and Vermont.

The University of Maine promised students they could attend its Orono campus—an out-of-state flagship—and pay the same in tuition and fees as they would if they were attending their own in-state flagship institutions at their quoted prices.

Maine's program was a form of interstate tuition arbitrage taking advantage of in-state and out-of-state tuition rates, as well as differences in rates between state universities. Consider the following rates for 2015-16: Maine's out-of-state tuition and fees were listed at $28,880 per year, and it was offering financial aid awards worth $14,709 to Massachusetts students who met certain academic requirements.

The financial aid would drop their cost of attending Maine down to $14,171, the price the University of Massachusetts at Amherst was quoting for its in-state students. Prorated awards were also offered for students who didn't quite hit the academic requirements, which were a high school grade point average of at least 3.0 and SAT scores of at least 1050.

That $14,171 price point looks much lower than Maine's out-of-state tuition rate, until

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SNAPSHOT: PRICE MATCHES

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you consider the fact that Maine's in-state tuition and fees were quoted at just $10,610.

Maine's Flagship Match posted strong returns in its first year for a university located in a state with a fast-shrinking population of high school graduates. It also boosted Maine's class in its second year but struggled to draw students from far-away states that the university added to the program: California and Illinois.

Meanwhile, private universities were jumping on the price-matching strategy, too.

In 2018, the 1,280-student Oglethorpe University in Atlanta unveiled a "Flagship 50" program matching sticker prices at flagship public universities in all 50 states and Washington, D.C. At the time, Oglethorpe reported net tuition per student of about $13,700 against its sticker price of $37,920 in tuition and $530 in fees, not counting room and board. It was willing to offer tuition prices ranging from $5,550 to $18,499 for out-of-state students, depending on their home state.

Oglethorpe was experiencing falling yields among highly qualified students, its president, Larry Schall, said at the time. Flagship 50 was available for students with a cumulative grade point average of at least 3.5 and a minimum test score of 1250 combined SAT or 26 composite ACT.

Other institutions have since doubled down on price matching as a way to attract students who are high achieving, high paying or both.

Cedar Crest College in August 2019 announced an initiative it called the State Tuition Access Rate Program for first-time, first-year students who enrolled in its undergraduate women's college. To qualify, students had to have an unweighted grade point average of 3.0 or more plus scores of at least 1050 on the SAT or 20 on the ACT. Cedar Crest, a 1,700-student women's college in Allentown, Pa., also has a school of adult and graduate education that admits men.

Its price-matching program, called STAR for short, looks much like Oglethorpe's. It provides students with a tuition rate equal to the rates advertised by the flagship public institutions in their own states. It was an outgrowth of a Cedar Crest program for Pennsylvania students matching their tuition rates to rates across Penn State's campuses. That precursor program was called the PROUD program.

"As a regional college, we realized that we were really competing with a very wide variety of educational institutions, and that for us, we needed to demonstrate that we were as affordable as the community college and state system and that we provided a much higher value for the money than those institutions," says Elizabeth M. Meade, president of Cedar Crest College.

Cedar Crest's leaders say the Pennsylvania-only program met and exceeded enrollment targets over three years prior to 2019. Net tuition revenue increased. Students' median family income has gone up as well. The program functioned as a way for the college to increase its academic profile.

"The PROUD program allowed us to speak

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SNAPSHOT: PRICE MATCHES

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to students and their families really early at open houses," says Audra J. Kahr, Cedar Crest's chief financial officer and treasurer. "This was one of those ways for us to marry those things together and show them that coming to Cedar Crest is actually possible."

Students enrolling under the PROUD program made up a substantial chunk of Cedar Crest's enrollment—an estimated 30 percent of the class entering in fall 2019, or 65 students; 37 percent of the class entering in fall 2018, or 76 students; and 34 percent of the class entering in fall 2017, or 74 students.

But it also helped to drive up discount rates. Students in the program post high marks and higher discount rates than the average Cedar Crest student. The college's freshman tuition discount rates ranged between 62 percent and 64 percent in the years leading up to 2019. PROUD students posted an average discount rate of 69 percent.

Average net tuition for freshmen over the last three years has been between $13,622 and $14,494. PROUD participants posted average net tuition revenue of between $11,949 and $12,424.

Projections are that Cedar Crest's discount rate will stay flat or go up by a point or two under the newly expanded program. The college's leaders expect it to help them expand their market.

For several years Cedar Crest has been recruiting athletes from farther away from home, in places like California, Florida, Texas and Virginia. The program should help with those efforts as well as efforts to recruit students in adjacent markets like Delaware, Maryland, New Jersey, New York and Virginia.

On the other side of the state, Robert Morris University started a program to match public flagship universities' prices in 2018. Robert Morris, a private institution outside of Pittsburgh, used a price-matching program it called Public Price Match Plus tying the amount students pay for tuition, fees, room and board to the average cost of attendance at the University of Pittsburgh and Penn State.

Robert Morris didn't just match the flagship's sticker prices, however. It guaranteed another $3,000 in financial aid for students, meaning they would pay no more than $3,000 below the sticker price of the flagships.

To be eligible, students had to be from Pennsylvania and be admitted to Penn State or Pitt's main campuses. Robert Morris pledged that eligible students would be able to attend its campus for the average cost of attendance at Pitt or Penn State, minus a $3,000 scholarship.

Then in August 2019, Robert Morris expanded the program to target two more institutions, this time outside Pennsylvania. It added Kent State University in Ohio and West Virginia University.

For students admitted to Pitt and Penn State, Robert Morris was quoting eligible students a price of no more than $32,271. For those admitted to West Virginia and Kent State, it quoted a price of no higher than $35,050.

To be eligible, students had to plan to live

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SNAPSHOT: PRICE MATCHES

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on Robert Morris's campus. The university also tried to sell students on the idea that its price-matching scholarships could increase, so they might see a greater difference in costs between Robert Morris and the public institutions.

Robert Morris reported that the program drew high-achieving, high-need students. They made up a small percentage of the university's overall enrollment—34 students enrolled in the program's first year, while the university enrolled about 4,000 undergraduates in total.

Enrolling students came with an average SAT score of 1255 and a 3.91 grade point average, among Robert Morris's most qualified applicants. But they were high-need students, according to the university.

Robert Morris had been feeling an enrollment pinch in recent years, reporting a 12 percent enrollment decline between 2014 and 2019 and a drop in international students. In 2019, the university moved to reorganize academic programs and merge colleges in an attempt to cut costs.

Pitt, Penn State, West Virginia University and Kent State are among Robert Morris's largest overlap schools, its leaders reported. ■

RESETTING TUITION

Each fall seems to bring a slew of announcements about a private college slashing its sticker price for the next academic year.

The fall of 2019 was no different, with several colleges around the country unveiling major price cuts for the upcoming 2020-21 academic year. Central College in Iowa announced that it would be dropping its tuition price from $38,600 to $18,600. Hiram College in Ohio revealed a cut in its tuition and fee list price from $37,710 to $24,500. Randolph College in Virginia said it would drop its tuition from $40,521 to $25,000 and also lowered room and board charges from $13,580 to $11,000.

Such stark pricing cuts are labeled tuition resets. Individual colleges design and market them in slightly different ways, but generally cast them as efforts to be more transparent about price.

The idea is that the sticker price of tuition has grown so far removed from what institutions actually collect from students—and what families are willing to pay—that high school seniors don't even bother applying for seemingly pricey institutions. If they don't apply, they can't see a college's financial aid offer and realize that they'll pay much less than sticker price.

Sharply lower that high sticker price, and students will apply in greater numbers, the thinking goes.

The strategy is nothing new. The National Association of Independent Colleges and Universities counted at least 51 tuition resets or price reductions since 2009-10. Nonetheless, resets are a controversial topic among college leaders. They spark fierce debate among pricing experts who think discounting can keep squeezing out incremental benefits and those concerned that the high-price, high-aid model has reached its breaking point.

In general, tuition resets aren't used in a way that will substantially cut the net revenue a college collects per student. They're structured so that cuts to sticker price are offset by corresponding cuts to unfunded grants and scholarships.

Some students may pay less after a tuition reset, specifically those who are full-pay students or who pay nearly the full sticker price. As a result, resets are often criticized as regressive moves benefiting the wealthy. Defenders of the practice counter that in

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SNAPSHOT: RESETTING TUITION
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many cases, the colleges implementing tuition resets don't have many or any full-pay students in the first place.

The goal of tuition resets is usually to grab students' attention, increase applications, boost yields and increase class sizes. But those who've put successful resets in place say they aren't just about advertising. They need to be paired with larger institutional changes in order to have a decent chance of succeeding over the long term. And a good deal of thought needs to go into planning them.

Take the simple question of when to announce a tuition reset. Do it too late in the recruitment cycle and a college risks not having enough time to leverage the reset for recruitment. Do it too early, before freshmen are on campus, and it risks confusing or angering students who might wish they'd waited a year to enroll.

The consensus best practice seems to be announcing a reset in the early fall of the year before it will go into effect, in September after new freshmen are on campus. Most recommend covering both freshmen and upperclassmen by the reset if at all possible to avoid confusion about tuition rates and the size of financial aid packages.

Many experts only recommend resets in specific situations: when a college has empty beds, when enrollment and applicant pools are declining, when discount rates are high, and when nearly all students receive unfunded aid.

Planning a successful reset goes far beyond checking off a set of boxes, however. Consider the case of Utica College, which in fall 2016 dropped its sticker price for tuition and fees from $34,466 to $19,996, not counting room and board.

At the time, the average family income for students at the college was only about $68,000.

"They were looking at sticker price, including room and board, that was approaching $50,000," says Jeffery T. Gates, senior vice president for student life and enrollment management at Utica. "Those were the students who were looking at us, and we thought we could get more of them because they wanted this experience, but they couldn't grasp how to fund it. A private education didn't make sense."

Resetting tuition required an honest conversation between college leaders about who Utica's students were, what other institutions it was competing with and what risks would be involved.

Utica wasn't competing directly for students against Hamilton College or Colgate College, two selective private liberal arts institutions that are also in upstate New York. Its students were more likely to be cross-shopping public institutions.

On the financial side, Utica had diverse revenue streams. It drew from graduate, online and hybrid classes. It operated nursing campuses in Florida. Overall enrollment was growing annually.

As a result, leaders didn't feel that they were desperate or backed into a corner.

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SNAPSHOT: RESETTING TUITION

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"We were pretty convinced it would work, but if it didn't work, we were not looking at 100 percent of our revenue being harmed," says Laura Casamento, Utica's president. "At many schools that have a traditional undergraduate population, the risk is greater because they are subjecting their entire revenue stream to risk."

Casamento was no stranger to tuition resets—she wrote her dissertation on the topic.

She emphasizes how Utica's tuition reset wasn't simply a pricing action. It was part of a larger set of institutional strategies.

For example, Utica has focused heavily on retention and completion. Every student has teams providing different types of care—a success coach, career coach, faculty academic adviser and financial aid counselor. Career and professional development is also a key area of emphasis.

The college nevertheless invested a large amount of time honing its tuition reset message and retraining staff members to function in the new admissions environment.

Utica hasn't been focused solely on the reset's effects on freshmen. The reset has arguably helped transfer student enrollment as well.

"When people study the success of a tuition reset, a lot of them focus on first-year students and first-year net tuition revenue," Casamento says. "You have to look at total undergraduate net tuition revenue."

Net tuition has steadily risen since the reset, Utica's leaders say. That's despite some increased competition from New York State's Excelsior Scholarship, a financial aid program providing free two- and four-year public college tuition to undergraduate students from middle- and upper-middle-income families. Excelsior was announced in 2017, just months after Utica's tuition reset.

Utica College's sticker price has been rising by about three percentage points per year. Admissions officers still have wiggle room to build classes with financial aid offers.

The reset has had some impacts on Utica's student pool. Students' average family income has risen. Classes' academic strength has increased as well.

While many colleges are exploring resets, not everyone is willing or able to actually implement them. Institutions with many full-pay students or little hope of attracting new students might find the math doesn't work.

When Hendrix College in Arkansas ran the numbers on a reset, its leaders estimated it would need to close a gap of about $1 million by attracting more students. Even assuming net revenue per student of $25,000, that translates into a significant number of additional students for an institution that only enrolls 1,200 or so in total.

"When you actually run the numbers, it's a huge risk," says William Tsutsui, president of Hendrix College. "That is a lot of new students to attract through a price cut. We just couldn't see it happening."

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SNAPSHOT: RESETTING TUITION

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Some critics maintain that tuition resets are a form of denying reality—a way for colleges and universities to hide from the truth that they're charging students a higher net price than those students are willing or able to pay for a college education. Changing the sticker price won't change that fact.

Others point out that many of the institutions resetting tuition have reverted to driving up their tuition and discount rates in subsequent years.

"Look at schools that reduced tuition five, six, seven years ago, and look at the trajectory of tuition increase over time," says Rob Bielby, vice president, analytics and insights, at the consulting firm Whiteboard. "They are climbing back to where they would have been if they had stuck with a 3 percent annual increase."

Additional concerns to consider include that resets might knock a college into a different peer group. Despite the pressures building on the high-price, high-aid model, consultants worry many families judge an institution's quality based on its sticker price.

Experts at EAB have argued that resets are only "infrequently effective." EAB's analysis of 27 institutions found that just 27 percent were able to boost enrollment of first-time, full-time freshmen by five percentage points over the five years after a tuition reset. Just a third experienced such gains with transfer students.

Resets can also put a pinch on short-term finances.

"The list price typically goes up 2 to 5 percent per year, and, because financial aid typically stays flat for returning students, this large population pays the full amount of the price increase," wrote Alex Bloom, a consultant at EAB's strategic research division. "When a university decides to reset tuition, not only does it lose the additional revenue from the tuition increase on returning students, it reduces their contribution."

Some others believe more upside exists. Lucie Lapovsky, a consultant and former president of Mercy College in New York, has studied tuition resets at length. She recently analyzed 24 different private colleges that lowered their published tuition price between fall 2010 and fall 2016.

Success depends on an institution's goals, according to Lapovsky. Most institutions would consider a reset successful if its applicant pool increased or enrollment rose. Most would also require total net tuition to increase in order for a reset to be considered successful.

But others might count greater access by low-income students. Still others might be able to use resets to grow their applicant pool and increase selectivity.

Institutions resetting might be in for a wild ride initially, at least according to Lapovsky's findings. More than 80 percent of those resetting tuition in her study saw net total tuition revenue from freshmen decline the year they put their resets in place.

Some enrollment fell and institutions tended not to drop their tuition discount rate enough.

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SNAPSHOT: RESETTING TUITION

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Half of colleges and universities increased freshman enrollment in the year they reset tuition, but just 43 percent recorded freshman enrollment increases when comparing the year after a reset to the year before it.

But with a few years of experience, 55 percent were able to eventually increase enrollment and net tuition revenue per student.

One caveat to those findings is that it's hard to say what would have happened to those key indicators if colleges had never reset tuition at all. Some may have been doomed by declining markets. Others might have been in line for strong years before damaging their prospects with resets.

"It is very challenging to recalibrate the leveraging matrix without any history; this task requires a combination of science, sophisticated econometrics and art," Lapovsky wrote. "It is also often difficult for the admissions and financial aid staff to feel comfortable with the significantly reduced financial aid awards that they need to give to students."

Tuition resets need to be strategic initiatives, not promotional tactics, according to John T. Lawlor, founder of the Lawlor Group.

"In light of existing marketplace conditions, tuition resets or some type of published price adjustment can increase consideration and selection," Lawlor said in an email. "A reality of the marketplace is that the published price is a definite deterrent for people considering and selecting a college—and not just with people who do not have the ability to pay."

An institution's leaders need to be honest about what else needs to be done to make the reset feasible, Lawlor adds. They need to understand the marketplace and they need to have marketing prowess.

He discourages last-minute reset decisions made shortly after a college experiences a fall enrollment decline.

"There must be sound financial planning associated with this type of initiative," Lawlor said. "Haste makes waste, and the typical result is that the promotional gimmick catches some initial attention but then falls short of long-term goals." ■

Critics Abound

Discount rates didn't have to approach 50 percent or even 40 percent before critics started pushing back against college pricing practices. Administrators, members of the public and those who study higher ed have been questioning the high-tuition, high-aid model for decades.

In 1993, State University of New York chancellor D. Bruce Johnstone argued against the high-discount, high-aid model for public higher education. Writing in a discussion paper for the annual meeting of the National Association of System Heads, he outlined concerns like how students would react to rising sticker prices, whether educational quality and state support for higher education would fall as discounting rose, if state politics would tolerate high tuition rates, and whether the model undermined higher education's status as a public good.

"In short, we must decide whether we truly want public colleges directly accountable to the state, or whether we merely want to get some poor students into college, in which case privatization, or high tuition–high aid, is almost certainly, as public finance theory correctly states, cheaper to the taxpayer," Johnstone wrote.

Although Johnstone was addressing discounting in a public college context, many of the issues he raised can be extended to private colleges or higher education as a sector. They are also still pertinent today.

How will students react if sticker prices continue to rise? Will ever-rising discount rates eat into colleges' ability to fund parts of the campus experience? How long will states and the federal government continue to subsidize—through public financial aid programs and through tax-exempt status—public and private institutions that might seem to be acting more like businesses squeezing out every last drop of revenue from students than like charities?

Most importantly, does tuition discounting erode in any way the special protected territory higher education has long occupied in American society, territory that allows a group of mission-based institutions both state-related and independent to serve as the nexus between private benefits and the public good?

Others have raised their own concerns about discounting. Generally the different criticisms have fallen into several broad categories covering the practice's effects on public perception, enrollment and equity, finances, and its principles.

Public Relations and Perceptions

Start with the forward-facing aspects of tuition discounting.

Consumers generally don't like high prices, and they don't like rising prices any better. Those just happen to be the two key components of the way the high-discount, high-aid model has unfolded over time. Despite some grumbling, students and their families have more or less tolerated sticker price increases over the years.

But by some accounts, the Great Recession may have changed families' willingness to play along with the old model. Do they begin to outright reject it at some point—or have they already?

In 2018, a Pew survey found that 61 percent of adults said the U.S. higher education system is headed in the wrong direction. Of those who thought the system was going the wrong way, 84 percent blamed tuition costs that were too high.

It should be noted that experts have long wrung their hands over the high-price, high-aid model's potential to turn the public against higher education. Johnstone raised this issue in the 1990s. Ronald Gage Allan documented it along with several issues in 1999 in an article in the *Journal of Student Financial Aid*.

"Several public relations issues arise as a result of increased tuition discounting," wrote Allan, who was then assistant to the dean for data and research services at Georgetown University. "As college becomes more expensive, the families of 'full-pay' students are increasingly cognizant of the fact that they are subsidizing the students who demonstrate financial need."

It's easy to see how such realization could lead to resentment of the entire system. But if such transparency poses risk, so too does a lack of transparency.

Higher education was reluctant to openly discuss its financial practices, Allan wrote. That led to widespread confusion about costs, prices, subsidies and discounts.

Today, institutions continue to struggle to communicate to new generations of students that the sticker price they see on paper isn't necessarily the final price they'll pay for class. Attempts to address the disconnect have often fallen short or failed to catch on systemwide.

Cost calculators on college websites are often slammed for being difficult to find or inaccurate. Aggressive pricing strategies like tuition resets or matching tuition of state flagship universities might help a handful of universities gain attention, but they're difficult to explain to families with no pre-existing knowledge of the way college pricing works. How do you explain that cutting sticker prices doesn't reduce resources available for education when you've struggled to explain that few paid the full price of tuition in the first place?

Even those pricing strategies that have been successful have yet to change the fundamental direction of the market. And they run the risk of fading after a few years.

P. Jesse Rine, director of the M.S. program in higher education administration at Duquesne University and a longtime critic of discounting, believes the model is corrosive to the way the public views higher education and its value.

"In retail terms, if we get into a store and most of your items for sale are more than half off, you begin to question the value of a good," Rine says.

Enrollment, Access and Equity

Critics fear the perception that college prices are too high is translating into students and families voting with their feet—either walking away from high-priced institutions and toward lower-cost alternatives or turning their backs on higher education in general. How high could postsecondary enrollment be across the country if sticker prices were lower and a larger percentage of high school students knew they could afford to attend college?

There have been signs for years that non-wealthy students, at least, have reason to be concerned. Discounting helps some colleges, but not all, wrote Jerry Sheehan Davis, then vice president for research at the Lumina Foundation, in a white paper in 2003. When combined across institutions, it has led to "troubling outcomes" for low-income students like restricted access to grant aid and limiting choices between public and private colleges.

Researchers have also found over the years that colleges spent more and more money on merit aid, or non-need-based aid, at the expense of need-based aid. How, specifically, institutions deploy that non-need-based aid will affect which students come out on top and which are hurt. Remember, non-need-based aid can also be deployed to cover financial need. But the pool of those judged to have need in the first place can grow in a high-sticker-price environment.

In general, though, researchers fear non-need-based aid is frequently used to convince more wealthy students to enroll, costing low-income students important grant dollars that they may need to attend college.

Whether aid is need-based or non-need-based might not even matter in the aggregate. There are some signs that colleges relying heavily on unfunded aid skew enrollment away from minority and low-income students.

A 2019 study in the *Journal of Student Financial* aid by Luke Behaunek, dean of students at Simpson College, and Ann M. Gansemer-Topf, associate professor in the School of Education at Iowa State University, looked at unfunded aid levels and student enrollment patterns at small, private, four-year nonprofit institutions. They found colleges that gave students greater amounts of unfunded tuition discounts enrolled relatively fewer minority students or students receiving Pell Grants.

"Lower rates of unfunded discounting were associated with higher rates of Pell Grant recipients and minoritized students, indicating that students within those demographics were more highly represented at institutions that had sticker prices more reflective of net price," they wrote. Students with more knowledge of the system are able to use techniques for awarding grants and scholarships to their advantage, while others are left facing unpredictable net prices.

The idea of colleges lowering prices for well-off students at the expense of those from poor backgrounds clearly raises issues of access and equity. But another line of argument focuses on what discounting for wealthy students means for poor students after they enroll.

In theory, colleges competing on net price for wealthy students could depress an important source of revenue—one that has grown even more important as income inequality shifts global economic resources into the hands of a select few. When that revenue is depressed, colleges miss out on funding that could be well spent on instruction or student support. Not only does this harm the wealthy students enrolled, it could disproportionately harm low-income students, because they often need student support services and a strong classroom experience to succeed in college at the same rate as their well-off peers.

None of these criticisms are perfect or can be applied to every institution. There is a strong argument to be made that the high-price, high-aid strategy maximizes revenue on an annual basis, no matter what its effects might be over time. And there are many stories of institutions that found the resources to enroll diverse classes under the model.

In 2010, Nicholas Hillman examined public colleges in the *Journal of Student Financial Aid* and emerged with a detailed description of the way they used tuition discounting. Hillman, who at the time was an assistant professor of educational leadership and policy studies at the University of Utah and who later became an associate professor at the University of Wisconsin Madison, wrote that public colleges are using tuition discounts in a way that boosts opportunity for traditionally underrepresented students. They also use it to incentivize freshman enrollment.

Still, the study raised concerns.

Low-income students are more likely to receive tuition discounts, Hillman wrote. But their discount rate is equal to or less than high-income peers'.

"In some states, discounts received by low-income students are nearly half as large as those received by their upper-income classmates, signaling an imbalance in social justice," wrote Hillman. "However, when discounts are awarded to students who already have a high ability to pay, institutions fail to capitalize on the opportunity to maximize student success for needy students."

Bloom points out that it's difficult to communicate the nuance of who pays what.

"Almost all universities have low-income students paying less than middle-income students, who pay less than high-income students," he says. "They are usually not discounted in aggregate past the point where they are paying less than low-income students. The price point itself is not regressive, but the mechanism, broadly, is."

Discounting Death Spiral

If discounting hurts enrollment, or if discount rates run out of control and eat too far into net tuition revenue, the damage could extend beyond the classroom. College and university finances could be seriously damaged.

Back in 2003, Jerry Sheehan Davis wrote that some colleges could be "courting fiscal danger because of their discounting practices" and that discounting could "contribute to the failures" of colleges if they lose tuition revenue to discounting. So the hand-wringing on this point is nothing new, and it hasn't been followed by massive college closures or sectorwide financial turmoil in the past.

As with any persistent financial concern, many still wonder if the breaking point is right around the corner.

Colleges operate within a competitive landscape, and one institution's pricing decisions will affect those of its competitors. If colleges engage in an ever-escalating discounting arms race to attract wealthy students who are increasingly clued in to the pricing game, might they drive sticker prices too high for most students—simultaneously hurting overall enrollment levels and eroding net tuition per student among those who remain—and begin cutting into the total net revenue they collect?

"For nearly two decades, economists of education have warned that increases in tuition discounting could escalate in response to heightened consumer awareness and the strategic pricing of competing colleges," Rine has written.

Leaders of colleges might not necessarily feel they're raising discounts in an unsustainable way by choice. If a struggling college or university posts a high discount rate but can't collect enough tuition revenue to cover its costs, is it reaping what it sowed with pricing decisions, or is it a victim of a competitive market that forced it to collect less in net tuition revenue than its leaders would have liked? Both can be true.

A middling college or university might throw money at attractive students to swell its size and class rank. It would be taking short-term losses in hope of boosting its long-term prestige. In a few cases, it might be successful leveraging unsustainable short-term discount rates in order to enroll strong classes, rise in rankings and reach a new tier of pricing power.

But what happens when others increase their financial aid offers to match? The colleges with the most pre-existing prestige and pricing power, along with the most money in the bank, would likely be the ones to outlast those that are weaker financially.

On the other hand, a weak institution may struggle to keep its discount rate down because it is unable to enroll a class matching its own historic standards without constantly jacking up student financial aid. This would likely be true if it has traditionally served a shrinking market—whether that market be geographic, related to some religious organization or tied to some other population group that's falling in size, willingness to attend college or ability to pay.

Others might be forced to provide more aid to compete with such a weak institution. Again, the strongest colleges would be most likely to survive.

Adding to the complexity of the landscape is the fact that the high-tuition, high-aid model could function as both a strategy for solving institutions' financial problems and as a driver of them. Remember, the system can theoretically help to expand the pool of students who can afford to enroll in college while eking more net tuition revenue from those who have money to spare. Data indicate that for many years in the past, the system has allowed higher education to squeeze out increases in net tuition revenue.

Doing so may have decoupled the price institutions charge from the cost of providing an education. A pricing structure that draws more revenue without adding value to the product being sold threatens to undermine incentives colleges have to innovate or keep costs in check.

In other words, when revenue grows annually, leaders don't have the urgency of an unbalanced budget to force uncomfortable choices. Everything works fine until an institution reaches a point of diminishing pricing returns.

Then net tuition increases start to flatten and growth in other areas becomes more important. If growth elsewhere isn't possible, a college or university might have to look at cost containment or cost cutting. Addressing costs will be a challenge if the mechanisms that allow for costs to be cut have withered with disuse over time. Further, the institutional resources needed to keep the discounting machine running, like staffing, may add incrementally to the cost structure that needs to be addressed.

What is that point of diminishing return? Behaunek and Gansemer-Topf evaluated 456 four-year, nonprofit institutions with an average enrollment of 1,450 students over a 10-year period ending in 2012. They found net tuition revenue per full-time-equivalent student started declining after discount rates exceeded 28.7 percent.

The point of diminishing returns isn't the same thing as a breaking point for the entire model. Wringing some returns or some students out of the model likely is still possible long after discounting has exceeded 29 percent for the average institution in the study. And institutions with greater scale or prestige might be able to discount more heavily than smaller peers.

Still, the findings suggest the dangers of discounting and competing solely on price.

"The results highlight the importance of financial aid officers and institutional leaders to examine the effectiveness of their current tuition discounting practices, the demand for their institution, and strategies for improving enrollment and retention," Behaunek and Gansemer-Topf wrote.

Values and Principles

Some call for higher education to take a step back and consider whether tuition discounting has led the sector away from its values.

Architects of the high-price, high-aid system didn't intend for problems to arise, Rine says. But many things in life don't work as intended.

The current system lacks transparency, Rine says. Students don't know who is paying what for education.

Low-rated applicants must pay more to attend college than others for the exact same experience. Many have to finance additional tuition costs through federal student loans. That could have an outsize impact on low-rated, low-income students. Research has shown that low-income students tend to be more debt-averse than others.

First-generation students don't know as much about the admissions process as those whose families have been working the system for generations. Therefore, the system could undermine some colleges' professed commitment to opportunity and meritocracy.

All the focus on prices and college costs has also arguably shifted the conversation about college away from educational quality and toward price. In effect, it commoditized higher education, turning it from a complex learning experience into a good like any other.

Not all institutions may be in a position where discounting has led them to be at odds with their core principles. Still, Rine thinks it's time to take a step back and consider whether the model fits with higher education's values and identity.

"Rather than think about this just in terms of price points and filling our classes, which we have to do to keep the enterprise going, I think we need to step back and say, 'What are our values as institutions of higher education?'" Rine asks. "What at our particular institution, is our identity? How do we align our practice with that identity and our values? Because, essentially, if you think about the underlying values that likely motivate the use of unfunded aid as an enrollment strategy, the notion of education as a social good would undoubtedly be a key driver." ■

A Breaking Point?

Back in the 1990s or 2000s, consultants could perform financial aid studies and come back with results that were remarkable. Optimizing need- and merit-based aid awards could have significant effects on enrollment and net revenue while allowing institutions to better shape their classes.

Now, those who work closely with colleges say they see the payoff shrinking firsthand.

“We're noticing the impact of those changes is so much less than in the past,” says Craig Goebel, a principal at Art & Science Group. “These days, it seems like working around the fringes. We're tweaking here and there, and there are generally no big wins anymore.”

Looking at sectorwide financial data, the evidence appears to show the high-price, high-aid model hitting and likely surpassing the point of diminishing returns.

Remember, Behaunek and Gansemer-Topf estimated just a few years ago that the point of diminishing returns was a tuition discount rate of about 29 percent. Even if it has crept up a few points since then, many private institutions likely have blown past the marker, and many more are flirting with it. Even some public colleges are probably nearing or surpassing it.

Some argue the tuition discounting strategy was flawed from the beginning and always doomed to fail one day. Whether that's true or not no longer matters. The market is behaving differently than it used to.

“It's a problem with the demand,” says Bloom, of EAB. “There are just not that many people who are prepared to pay that net price for what you're offering.”

Possible reasons for the shift are varied. Economic changes have played out nationally and in local markets. The demographics of today's college students are very different from those of the past.

"I think what's happening in the industry is there are a lot of pressures in all areas in terms of demographics," says Wood, of S&P. "We're coming off a few years of a very strong economy. What could happen if we face another economic downturn? There are a lot of variables out there and uncertainties, and I think from our view, if all those types of pressures sort of coincide, it could cause a lot of issues for many schools."

The way students and families think about education and financing a higher education also appears to have changed.

"Colleges know their market, or they should," says Robert J. Massa, retired vice president for enrollment and college relations at Dickinson College, who is now an adjunct professor of higher education at the University of Southern California. "If they know their market, discounting can work very, very well still. The problem is the market is shrinking, and there are a higher percentage of middle- and lower-income families that simply look at the price and say, 'You've got to be kidding me. There is just no way.'"

Major jolts to the market are always difficult to predict. But this particular moment in time seems ripe for outside forces to impose change on the higher education sector.

The prospect of the federal government forcing changes with antitrust action looms large. When NACAC moved in 2019 to settle the Department of Justice's two-year investigation, proposed changes left admissions officers worried they were facing a much more cutthroat landscape.

In short, the proposed changes to NACAC's Code of Ethics and Professional Practice had the potential to supercharge existing competition between different colleges while students were applying for admission, after they had committed to an institution and even after they'd taken classes. Striking existing restraints preventing colleges from recruiting already-committed students and eliminating the May 1 commitment deadline could create an environment in which institutions hold long bidding wars for certain students. Eliminating restrictions on recruiting transfer students could kick the transfer market into overdrive.

Even before NACAC's members voted on the proposed changes, members were left wondering what techniques colleges might employ to survive in such a ferocious environment. It's not a stretch to think that institutions could start holding back large parts of their financial aid budgets until late in the spring or even summer. Doing so would help fend off late offers to committed students from competitors—or help poach committed students from other colleges.

High-pressure recruiting tactics will increase, some speculate. Colleges could put large deposit requirements in place in order to make it more painful for students to change their mind after committing to an institution.

If colleges start recruiting transfer students more aggressively, it might become harder to count on upperclassmen in financial projections. Again, long-standing financial aid budgeting practices would be scrambled.

Some admissions officers argued that the restrictions that are on the chopping block protected students. They dissuaded the worst competitive tactics. They encouraged an orderly admissions timeline that allowed students to compare multiple offers from different institutions before deciding where to enroll in college.

But the restrictions also helped colleges plan their financial aid budgets. Regardless of whether the old paradigm was a net benefit for colleges or students, it seems to be cracking.

“I do think it will have tremendous consequences,” says J. Carey Thompson, vice president of enrollment and communications and dean of admission at Rhodes College in Memphis, Tenn. “We may not know what all of those consequences are in year one or year two, but by year five or 10, it will be a very different world.”

Regulatory and policy pressures are mounting from states as well. Several states have put free college tuition programs in place at two-year colleges or, as in New York, at four-year public institutions.

Consumer behavior will be a key factor in this more competitive future. If more and more students treat college like a commodity, it will add to the mounting pressures.

When students view each college experience as an interchangeable good, the prospective students who know they are attractive to admissions officers find themselves in a position of power. Anyone with a high level of self-confidence or who is savvy can play financial aid offers off one another.

This isn't anything new. But the sector must watch how widespread the practice becomes among wealthy, high-achieving students who can pay large amounts to attend college but don’t necessarily have to do so in a competitive market.

“The inside baseball about college admissions has been splashed all over the news,” Massa says. “I think there's an increasing understanding of how to gain advantage in the system.”

Yet many campuses struggle to break out of the commodity mold. They find it difficult to compete on anything other than price.

Why? In some cases, it might be that the risk of trying something different is deemed to be too high.

“The question is how do you wean yourself off of the discount?” says John Baworowsky, vice president for enrollment management at Marquette University, speaking about higher ed generally. “Because you risk missing your goal, whether it's diversity, head count, Pell eligibility. When you miss the goal, you're stuck for four years with that smaller class. So we're addicted.”

In other cases, it may be lack of institutional willpower or a willingness to grasp at the easiest answer instead of making long-lasting, deep changes.

“It is a heck of a lot easier to simply alter the number in the award letter representing the grant you’re going to give than it is to corral your faculty and say, ‘Be better, create a better product, be of greater value through the experience,’” says Brian Zucker, president of Human Capital Research Corporation, a consulting firm.

Institutional momentum is a powerful force. It's even more powerful when shared governance between faculty, administrators and boards is involved. For all of its strengths, shared governance adds complexity to decision making and may raise the chances that short-term tactics will be considered instead of long-term strategies.

There is also reason to believe that the current generation of leaders and faculty members lacks experience meeting the kind of sustained challenges today's economic, regulatory and demographic outlooks pose. In the current generation of leaders' lifetimes, higher education has never gone through this extensive a period of downward enrollment pressure. And outsiders experienced with other mature markets from the business world are unlikely to help unless they can learn to appreciate higher education's unique history and governance structure.

Think of the underlying assumptions baked into classic college and university budget models. Most expect slow, steady operating budget growth fueled by modestly rising tuition. Revenue growth allows for more spending on tenure-line faculty and other important operations. Endowment dollars might support a small number of scholarships, and fundraising or debt pays for capital projects.

All the while, a growing population of traditional-age college students serves as the rising tide to lift all boats.

"In other words, the work of leading a campus that is able to maintain steady revenue growth and reliable enrollment largely rests in responsible stewardship," wrote Mary B. Marcy, president of Dominican University of California, in a 2017 white paper published by the Association of Governing Boards of Universities and Colleges. "The problem is that such growth and enrollments are increasingly difficult to realize."

Short-term fixes don't change the core model.

Colleges cut nonpersonnel costs as they try to balance the budget by eliminating as few jobs as possible. Institutions put hiring freezes in place, hire adjunct faculty members instead of tenure-line faculty members and refinance debt. They try to contract out or partner with other colleges, universities or companies in order to save money on auxiliary operations like food services or housing.

On the revenue-generating side, colleges emphasize enrollment targets and "aggressively recruit from the small pool of students who can afford to pay full tuition," Marcy wrote. "Bidding intensifies for the coveted students who are both qualified and financially able to cover more than the discounted cost of their degree."

Over time, these changes can hurt educational quality and erode institutional health.

In today's environment, a plan for growth that's tied to pricing or even educational quality might not be enough to make an institution sustainable. Deeper thinking about where a college or university fits in the world is necessary.

"A rigorous analysis of mission, market and expectations for outcomes can help boards and presidents move beyond simplistic assumptions and adopt the institutional model most likely to ensure the long-term health of the campus," Marcy wrote.

Might reconsidering where they fit in the world help institutions push back against the pressures toward commoditization and sell themselves to students on something other than price? There are some signs that necessity could be the mother of invention to that end.

"Particularly for privates that are in states or adjacent to states where there are free college programs, we do see more interest in trying to think about what kind of financial fit is really going to enable a student to not only enter college but to graduate," says Peter Stokes, of Huron.

Retention issues are likely to become more and more important for colleges of all types under the high-tuition, high-aid model. Institutions often "overaid" high-achieving students and "underaid" those low on the socioeconomic ladder, Stokes says.

This is a problem for students who are struggling to afford to pay—and those students are expected to grow in number going forward.

Consider a low-income student who uses every single financial option to pay to attend college: loans, savings, money from working, support from family and whatever federal and institutional aid is being provided. The first time that student hits an unexpected bump in the road, like a $500 car repair, he or she has no choice but to drop out.

Antitrust Concessions

NACAC proposed deleting the following passages from its Code of Ethics and Professional Practices to try to end a two-year antitrust investigation by the Department of Justice. The changes hadn't been approved by the time this report was finalized, but no matter what happens on that particular front, knowing which bylaws were under scrutiny can help leaders understand what sparked federal regulators' concerns about restraint of competition.

"Colleges must not offer incentive exclusive to students applying or admitted under an Early Decision application plan. Examples of incentives include the promise of special housing, enhanced financial aid packages, and special scholarships for Early Decision admits. Colleges may, however, disclose how admission rates for Early Decision differ from those for other admission plans.

"Once students have committed themselves to a college, other colleges must respect that choice and cease recruiting them.

Similarly, colleges need protection when

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ANTITRUST CONCESSIONS

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other institutions pressure students to submit applications or enrollment deposits before established deadlines or when they continue to solicit applications or enrollments after students have finalized their college decisions.

"Colleges will not knowingly recruit or offer enrollment incentives to students who have already enrolled, registered, have declared their intent, or submitted contractual deposits to other institutions. May 1 is the point at which commitments to enroll become final, and colleges must respect that. The recognized exceptions are when students are admitted from a wait list, students initiate inquiries themselves, or cooperation is sought by institutions that provide transfer programs.

"These statements capture the spirit and intent of this requirement.

> a. Whether before or after May 1, colleges may at any time respond to a student-initiated request to reconsider an offer or reinstate an application.
>
> b. Once students have declined an offer of admission, colleges may no longer offer them incentives to change or revisit their college decision. Before May 1, however, colleges may ask whether candidates

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"You may be giving them just enough oxygen to arrive on campus but not enough to stay," Stokes says.

Students' financial challenges can't be addressed in a vacuum. Colleges will also need to make progress on retention through student support services or program offerings, and that progress will cost money.

Another challenge comes from the middle of the admissions market, the group of students with good but not exceptional grade point averages and moderate or moderately high expected family contributions. Often, when such students don't qualify for need-based financial aid, they feel the full price of tuition is too much to pay.

Ironically, such students tend to pay bills on time and put little strain on campus resources, experts say. Addressing their concerns about paying for college would be extremely expensive, given the way that many financial aid packages are distributed over student populations. Not addressing them might seem dismissive to families.

Aggressive players could attack the middle of the admissions market with large merit awards, says Bielby, of Whiteboard.

Many have done so over the years, with varying levels of success. With the right groups of students, a few colleges may still be able to use this technique to find the margins needed to survive. But every institution can't be successful using such a blueprint.

"Yes, there are institutions that are pursuing these sort of unsustainable models," Bielby says. "The institutions that are being financially intelligent are not just going to throw all the money out there."

Meanwhile, students and families seem to be chafing at taking on more college debt. That threatens to undermine the student loan system that has helped to pump money into colleges' net tuition revenue pipeline.

New ideas, like income share agreements, could catch on and support the flow of tuition revenue if they prove popular with students and if concerns about their structure can be overcome. Old ideas, like state and federal grants that follow students to public or private universities, could also be reinvigorated if governments decide they want to invest more in higher education.

In the end, experts are split on whether current discount rates signal a breaking point or whether rates could continue to rise for another 20 or 30 years. Under either scenario, some institutions would likely close as they become unable to squeeze out enough tuition revenue to survive. A significant number of strong private colleges would likely continue to operate, along with public institutions. Some institutions that are strong today would fall into lower tiers of the market.

If that's the case, discount rates will likely continue to serve as an imperfect signal of which institutions are stronger and weaker in the market—a signal that must be read in concert with other information.

ANTITRUST CONCESSIONS

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would like a review of their financial aid package or other incentives before their admission is canceled, so long as the question is asked at the time that the admitted students first notify them of their intent to cancel their admission.

c. After May 1, colleges may contact students who have neither deposited nor withdrawn their applications to let them know that they have not received a response from them. Colleges may neither offer nor imply additional financial aid or other incentives unless students have affirmed that they have not deposited elsewhere and are still interested in discussing fall enrollment.

"Colleges must not solicit transfer applications from a previous year's applicant or prospect pool unless the students themselves initiated a transfer inquiry or the college has verified prior to contacting the student that they are either enrolled at a college that allows transfer recruitment from other colleges or are not currently enrolled in college."

Writing in the *Research in Higher Education Journal* in 2013, a professor at California Baptist University, Julianna Browning, found that discount rates rose as weak institutions became even more financially vulnerable. But as stable institutions improved their financial position, tuition discount rates also increased. The research didn't establish causality but may have "some degree of explanatory power," Browning wrote.

She posited that stable institutions used their resources to attract students who would improve their prestige while furthering their missions. Unstable institutions, on the other hand, were using the resources at hand to try to invest in the future.

Each college and university has its own breaking point at which point the high-price, high-aid model will stop working and it becomes impossible to keep the doors open. The important questions now are how quickly pressures will build on the higher education sector, whether many colleges will reach their breaking points in the near future and whether leaders will be able to employ smart strategies to shore up their market positions and create sustainable models.

SNAPSHOT

PLAYING ROUGH

Get admissions officers to talk candidly, and many will recount stories of competitors taking a no-holds-barred approach to winning students.

Several admissions officers speaking on a condition of background reported that a Midwestern university repackaged or increased financial aid packages after May 1, 2019, for students who had committed elsewhere. National Association for College Admission Counseling guidelines have prevented such actions unless the student inquires or is admitted from a wait list. But enforcement of those guidelines was suspended in 2018 amid a Department of Justice investigation into possible unlawful restraint of trade.

In fact, the guidelines were in line to be deleted as NACAC sought to end the Department of Justice investigation in 2019. But some critics wondered whether the repackaging would have gone on anyway.

The institution in question did not respond to a request for comment. But some of its competitors were extremely upset about its behavior. The fact that the story has been circulating is indicative of an environment in which colleges across the map are worried about their peers pushing the recruiting envelope.

Consultants say they wouldn't be surprised to hear about conversations with students going on throughout the summer—although many of them likely technically fit within NACAC's rules.

"We're definitely in a world where an active admit is recruited almost until census day," says Rob Bielby, vice president, analytics and insights, at the consulting firm Whiteboard. "So if a student still loves you, you are going after them."

To be sure, many college leaders hate the idea of their competitors throwing financial aid dollars at students late in April or after May 1. It drives up the potential for out-of-control bidding wars.

Many also argue it's stressful and not in students' best interest.

"When you think about the enrollment cycle and how long we've spent building relationships, it's a long process," says Shannon Zottola, vice president for enrollment at Ursinus College, outside Philadelphia. Upping a student's financial aid package after he or she has committed elsewhere makes it difficult for that student to come to terms with his or her decision.

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SNAPSHOT: PLAYING ROUGH

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"They need to be thinking ahead to what their goals are," Zottola says. "When you throw something like that at them, it muddies the water in ways that are challenging."

Institutions have been trying other aggressive tactics as well. Eyebrows rose in some admissions offices when message boards carried reports this summer that Wake Forest University was admitting students for its Class of 2024 under early decision. That means the university was admitting those students in the summer before their senior years of high school.

Wake Forest made its early-decision application available on June 1, although students need grades from their junior year of high school in order to apply, according to a spokeswoman. The application deadline wasn't until Nov. 15.

The university processes early decision on a rolling basis so that it doesn't have a glut in November, added the spokeswoman. Its new vice president for enrollment was reviewing processes across the board, including early decision.

In today's competitive environment and with NACAC rule changes looming, few expect such stories to become less frequent. What one institution considers innovative, another may consider out of bounds or predatory.

Jon Boeckenstedt, vice provost of enrollment management at Oregon State University, may have put it best in an August Twitter thread about the pending NACAC rule changes.

"Is this bad?" he wrote. "I don't know. Will it shake things up? Almost certainly. Enrollment people won't have any excuse to deflect aggressive business tactics that are suggested by trustees or other senior administrators, even if we find them distasteful."

At the same time, net prices may be likely to fall for students who are in a position to take advantage of the increased competition. And don't put as much faith in projection models as you normally would, Boeckenstedt suggested.

"It's going to be a wild one, I think."

Best Practices

The same set of actions isn't going to set every college or university up for success. Each campus's history, mission, values, identity, market position and mix of students, faculty and leaders is too varied.

Nonetheless, several best practices can help institutions evaluate their current standing and better position themselves for the future, experts say. Even if leaders make no changes, evaluating the following might be a productive exercise.

Read the Discount Rate Holistically

Boards and administrators must remember that the tuition discount rate is an important metric to watch at a college or university—but it's not the only one.

The discount rate can only be evaluated in concert with other data, including financial metrics and information about institutional strategy and market position.

Above all, experts say, remember that the discount rate is only a function of financial aid and sticker price. Net tuition revenue is what actually keeps the campus open.

"I've seen over the last decade a move toward boards and institutional leaders placing discount rates as the metric," says Koehler, of Ithaca College. "I actually believe that's a mistake. It is obviously a critical piece of the bigger puzzle, but I've worked really hard, and have worked with great people at a number of institutions where we have moved the conversation from being solely focused on discount rates to a broader discussion of institutional goals, which includes net revenue goals, net tuition revenue and, more broadly, what are the institutional goals around student, around mission?"

This report won't run through all of the different pieces of supporting data that should be read along with discount rate. But used in concert with other key indicators, such as student yield rates and net tuition revenue per student, the tuition discount rate can start to provide information about an institution's market position.

"Discount levels which consistently fall within a managed narrow band as a percentage of net tuition revenue usually indicate a stable to favorable demand profile," wrote Wadhwani, of Fitch Ratings, in an email. "Proactive management of institutional aid and discounting is viewed as best practice, and we use overall enrollment and demand profile trends to help inform that assessment."

Evaluations of discount rates can also start broader discussions. Assess financial aid's impact on specific populations, experts recommend. That can be student populations from certain geographic areas, who fit into certain demographic groups, who are adults or who fall into any number of other buckets.

"Know their data," Lapovsky tells boards. "There are many schools that don't know what the net price is that students are actually paying. Look at the distribution of it. How many full-pays? I meet with a lot of boards, that go, 'Well, what about our full-pay students?' It's an uncomfortable position when I'm the one who says, 'You don't have any' or 'There are three.'"

Become More Sophisticated

Most boards aren't sophisticated around the way pricing is set, says Stokes. They understand discounting and grow concerned if discounts are rising. Those boards tend to be nervous but don't add much to leaders trying to manage out of challenges.

"On the other hand, you have some boards that are much more sophisticated," Stokes says. "You've got chairpersons who are able to support senior leadership in managing some of those issues."

Such sophisticated boards tend to be less reactive and more proactive. They can have deeper conversations about how they can be part of the solution to any enrollment problems that have arrived or that are on the horizon.

"That does often require a deeper level of education for those board members," says Lauren Halloran, senior director at Huron. "This is not a one-year conversation. It is a multiyear, multifaceted conversation."

Trustees who aren't informed can do real damage.

"My perception is that boards of trustees are especially guilty of not understanding how aid and discount rates work," says Richard Hesel, a principal at Art & Science Group. "They often put caps on the discount rate or insist on lowering it, with adverse effects, in many cases."

Another important element is considering how timely a set of data needs to be.

Several years ago, experts could look at five years' worth of data to help inform colleges' decisions, says Nanci Tessier, senior vice president at Art & Science Group. Now, the rate of change in the higher education market is so fast that older data aren't as useful in making forward-looking projections.

"Then we moved to three years," Tessier says. "Then there came a point where it was the most recent year which gave you the best prediction."

The point isn't necessarily that all institutions should keep compressing the time frames they examine. It's that they need to be smart about whether they're using relevant information in the right way to make the right decisions and set the right goals.

Think Strategically

Financially stressed tuition-dependent colleges and universities are likely to struggle if they look at the current landscape and try to compete for students based only on price.

While pricing and discounting strategy may be part of a strategy for the future, the conversation must move beyond the short term. It can't simply be asking how high tuition needs to go and how much financial aid needs to be available to make next year's class and balance next year's budget.

Ask why, specifically, discounting is being used, experts recommend. Which students is it bringing onto campus? Which ones might it be turning away? Are athletes receiving more financial aid than other students, and is aid being targeted at athletes in a way that helps the institution meet its overall goals? Is financial aid being distributed to sophomores and upperclassmen in a way that helps prevent them from transferring or dropping out—or is it focused on getting freshmen in the door? Does the distribution of financial aid between low-income, middle-income and wealthy students match the college's values?

Project discount rates for the next five and 10 years and ask whether they are reliable and realistic, experts recommend. Consider best-case, worst-case and middle-of-the-road scenarios. Then leaders will have information upon which to build a future strategy.

Boards and administrators must understand that enrollment is the responsibility of the entire institution, admissions officers say. So must others on campus, like faculty and staff members.

"Enrollment isn't driven by a pretty new brochure. It's driven by the substance of who you are and what you offer and do you deliver on the brand promise you make?" Koehler says. "Enrollment is all about what your programs are, what majors you have, what the student experience is like over the course of all four years. It's all those pieces."

Cost containment may be part of institutional strategy. But experts caution against cutting costs in an ad-hoc way. If cuts are to be strategic, they must set the institution up to grow in other areas or to find a sustainable model for the long run. Otherwise, year-to-year slashing in order to make budget will cut colleges as close to the bone as possible but still leave them perennially seeking to balance revenue and expenses.

Build Academic Offerings

It cannot be stressed enough: the academic operation is often ignored or overlooked when it comes to conversations about enrollment and pricing.

When NACUBO asked respondents to its Tuition Discounting Study what they were doing to increase net tuition revenue, relatively few said they changed or added academic programs. Just 39.2 percent of respondents said they changed or added programs, compared to 75.7 percent saying they implemented student recruitment strategies. At the same time, 69.3 percent said they pursued student retention strategies, and 65.6 percent said they tried financial aid strategies.

"You can't just lean on financial aid to have students enroll," says Wes Butterfield, vice president overseeing the financial aid services division at Ruffalo Noel Levitz. "Mission, vision, values. That may sound hokey, but that's the crux. Students should be enrolling because of your mission. They think there is a strong return on investment on your product. You have majors they are interested in."

It's not easy to coordinate academic changes in a shared governance environment. Faculty will need to be at the table and even take a leadership role, and the process can be slow. There is no guarantee that changes will be made or that a curricular overhaul will result in a differentiating factor that lets a college or university stand out from the market.

Even so, the academic enterprise does remain the core offering of colleges. And it can be built upon in innovative ways, like signature programs, internship guarantees or unique study abroad programs that attract student interest.

Such programs can help financial aid become more effective.

"If you link a grant to a specific kind of experience—so this grant is for your international experience, wherever it happens to be in the world and whatever it happens to be—the effect of the grant is stronger," says Hesel of Art & Science. "But most institutions don't think this way and don't do it. So linking money to a distinctive experience is often critically important, but most of the time institutions just don't do it."

Communicate Internally

Internal communications seems like basic blocking and tackling, yet it is often a source of frustration or missed opportunity.

"You would be surprised," says Wood, of S&P. "There are a lot of institutions where we will have a meeting and it doesn't seem like enrollment is talking to the finance team that is creating the budget."

Enrollment managers should speak with trustees, some experts recommend. Doing so allows trustees to develop a deep understanding of the way the admissions market works and the way an institution's class is taking shape.

"Boards are often surprised to learn that the most highly aided students are their wealthiest who are their smartest," Lapovsky says. "There is often a lot that hasn't been shared behind that black box."

Good internal communication also means clear lines of reporting and an understanding of who makes the call when families ask for more financial aid before a student enrolls. To be sure, families don't always go to the enrollment office. They call an academic dean or the president's office. They talk to someone they know at the institution.

“It's always important for the president's office to clearly understand the policies,” Baworowsky says.

Leaders also must be clear about their current market position and unafraid to share their assessments internally.

“Know what your competition is,” Lapovsky says. “Faculty frequently think their competition is the schools that are similar to them in curriculum and price to students. For almost every school, their major competition is a local public institution, which operates at a very different price point. Be realistic about who you're competing against. It's very helpful to know your win-loss record.”

Discussing competition realistically allows leaders to analyze competitors' data and formulate a strategy that has a better chance of success.

It will also help with external communications and positioning.

“Who do you compete with?” Butterfield asks. “Are you a private institution that loses students to a flagship public, or are you losing students to two-year institutions? Those are factors you need to take into account in terms of how you are marketing your institution and communicating value.”

Consider Different Ideas

Several consultants and financial aid administrators said colleges can in many cases be smarter about the way they package their financial aid.

A college with half-empty dorms might be able to fill beds and net more overall tuition revenue by transferring some money from the financial aid budget away from tuition discounts and into scholarships for living on campus, for example.

“One of the interesting trends we're observing more is institutions are looking at the all-in cost of attendance,” says Fitzgerald, of Moody's. “Your tuition, room and board, and other auxiliary revenue—and your discount relative to that.”

Or colleges can promise free ninth and 10th semesters for students who don't graduate on time. Other ideas, like guaranteeing jobs in a chosen field or loan paybacks if students don't hit certain earnings levels, could also be considered.

Any liabilities such programs create would have to be weighed against their benefits, however.

Many colleges have attempted to bolt on online programs or add graduate programs to attract adult students. These can be successful in raising net tuition revenue and drawing in new student populations. But they can also be money pits if they miss the mark or aren't executed well.

Above all, institutions need to remember their mission and history, experts say. An institution with a brand built on posh student experiences might have trouble creating a successful low-cost online program overnight.

Think About the Students

Many colleges and universities will need to think about students in several different ways if they hope to be successful in the current environment.

It may be obvious, but they will need to consider where students are located and what they need. Several experts recommended revisiting recruitment strategies. Colleges need to think about where they are placing admissions officers, where they are recruiting within states and whether they are focused on recruiting from regions that have a rising or falling number of students in the demographics they're set up to serve well.

Some colleges might also find success tapping transfer students. But they need to consider how they can shape the long-term ramifications of such a move.

"Some of the colleges who have been struggling with enrollment are forming more partnerships with community colleges and shifting over more into the transfer student market," Fitzgerald says. "That's not necessarily a tuition discounting strategy, but what it ultimately has the impact of is those private colleges are getting two years of tuition revenue versus four years of tuition revenue. Only time will tell how that impacts alumni loyalty and giving."

Higher education has frequently talked about student retention in recent years. The basic theory is that keeping a student on campus until he or she earns a degree or certificate is cheaper than filling a seat that's left empty because a student dropped out. Recruiting is expensive, after all.

Retention is also a key element for colleges that want to think about whether they're serving students well. No one, college or university, wins when a student drops out after a few semesters.

Colleges must think about students' need and ability to pay when allocating financial aid. This is nothing new. However, in the current market, squeezing every last drop of tuition revenue from students to meet short-term revenue goals must be balanced against longer-term goals and institutional values. Will low-income students drop out or decide not to enroll if they're stretched too thin? Will high-income students revolt?

Understand Trade-Offs Always Exist

A final best practice is to remember that no tactic or strategy in the world of admissions, enrollment and financial aid comes without a trade-off.

That trade-off can be about the types of services and amenities offered on campus.

"There are costs associated with serving more students from different socioeconomic places on the spectrum," says Bloom, of EAB. "The amenities you need to recruit high-ability, highly affluent students are vastly different than the sort of amenities and services you need to retain low-income students, who might need support. You're talking about the climbing wall versus the tutoring center."

The trade-off can also be in the discount rate—even if the discount rate is a metric that shouldn't be read on its own.

"If they, as a board, made a decision that they want to increase access and by doing so they want to bring in more students who are high-need students and Pell students, there is a trade-off that will be made in the discount rate," says Stephanie Dupaul, vice president for enrollment management at the University of Richmond. ■

SNAPSHOT

MODELING

Figuring out where to set a college's sticker price and how much financial aid to offer to different students is a high-risk process. Get the numbers wrong, and a college can be stuck with a class that's a financial drain for years into the future.

So colleges often perform—or hire consultants to perform—market research and to build financial aid models. The ultimate goal is to understand what the incremental impact of $1 of financial aid will be on any given student's likelihood to enroll.

Those doing the modeling typically will analyze institutions' internal data, data from the federal Integrated Postsecondary Education Data System and any other sources of useful information. All sorts of factors correlated with student behavior like geography, gender diversity and academic quality can be examined. Institutions are compared against their competitors, and experts try to determine how likely different students are to enroll under various conditions.

"We're looking at individual data," says Rob Bielby, vice president, analytics and insights, at the consulting firm Whiteboard. "What is the sticker price? What is the financial aid award and what's the net price out of pocket to build an aid elasticity model." One firm, Human Capital Research Corporation, uses hundreds of data fields.

"This is down to the kids' shoe size, so to speak," says Brian Zucker, the firm's president. "What we're doing to try and understand how much we should give the student in aid begins by amassing, in this shop, literally every single piece of transactional data we can get our hands on."

A wide variety of modeling techniques are practiced. Some are black boxes to institutions—the college hands over its data, a firm analyzes them and the firm comes back with recommended approaches. Other firms try to be more transparent and show what goes into their models.

Every expert likes to explain why his or her modeling is better than others. But models can and do miss if they get certain assumptions wrong, market conditions change or students behave in unexpected ways.

Therefore, many institutions like to see a range of projections—the most likely scenario, the least likely and a middle-of-the road scenario.

"We tend to run multiple models here, internal and external models, because we like to

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be able to triangulate our results so we have the best possible sense of what could happen," says Stephanie Dupaul, vice president for enrollment management at the University of Richmond. "Also, we have a lot of people looking at it from different directions."

Some conduct surveys as well to try to build out their understanding of the market. Surveys bring out the consumer's voice and help you understand why the market is functioning the way it is, Bielby says.

"You can observe only so much from behavioral data," he says. "I can see you visited campus, but why did your visit have an impact on your likelihood to enroll?"

If he reads a mother's survey responses and finds out admissions counselors are doing poor presentations, he has a better understanding of students' and parents' experiences, along with what an institution can improve.

The beauty of such work is that leaders can simulate the impact of changes without actually hurting any individual students. Leaders can figure out what pricing gives them the best chance of meeting their goals—even if some of those goals seem to be competing priorities.

"I am doing this to meet several institutional objectives that are almost always in tension with each other," Zucker says. "I need this many in the entering class. I need this academic profile. I need gender mix. I need program mix. I need geographic mix."

Still, financial aid strategy can only go so far, even if it's targeted extremely well, experts warn. The composition of a class and applicant pool has a strong effect on what's possible.

When the pool is changing, the models have to change, too.

"Ten years ago it was the case that you could build a model in September and all of those things would be accurate all the way through May," Bielby says. "Now we're building models year-round, because things around your pool change throughout the year."

Conclusion: A Buyer's Market and a Mature Industry

Changes in the location and makeup of student populations have combined with long-simmering financial trends to shift higher education from a long-growing market to a mature one.

Students and families are also changing what they expect from colleges and what they value in a higher education. As a result, the pricing structure of the past—widespread tuition discounting resulting in an opaque high-price, high-aid system—finds itself under intense stress. It may continue to work for many institutions. But its benefits likely will be far more uneven than they have been previously. It is already resulting in inconsistent growth in the metric that truly matters to making college and university budgets balance: net tuition revenue.

Even if they continue with a high-aid, high-discount model, institutions must behave differently in mature markets than they did in growing markets if they hope to thrive. Examining an institution's pricing practices can still be beneficial, but the examination must not be an end to itself. It should be a jumping-off point for leaders who go on to examine all aspects of a college or university's financial and operating characteristics, from market position to academic offerings to cost structures.

"If you don't do all the things you need to do, it doesn't matter what price you put on it," Bielby says.

Striking the right balance will be difficult for many colleges in the middle or low ends of the higher education market. Too much focus on price and discount rates and institutions risk duplicating the mistakes of the past. Too little thought about pricing—or thinking too simplistically about it—could create new problems.

Changing tactics to charge all students the full cost of an education overnight would break most campuses, for instance. Prices would be higher and far fewer students would likely enroll, many experts say.

Remember, some important parts of the student population have already become acclimated to the current model. They expect

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large merit awards that allow them to brag to their friends and grandmothers. At the same time, large chunks of the rising student population have no experience with the way college pricing works. Building a model for them and learning to communicate about it will be no simple task.

"From a consumer standpoint, it is the most complicated decision out there," Dupaul says. "The way the discount rate and the pricing structure works does not make it easier for them."

Everyone in higher education has been attempting to find a different way of doing things. Despite some nibbling around the edges through efforts like tuition resets or guaranteed prices, the fundamental model remains intact.

"We would appear, on the surface, to be hamsters on a wheel running ever faster to stay in the same place," says Zucker, of Human Capital Research Corporation. "There's a caveat. Your mileage, whatever your institution, may vary."

Zucker sees four pillars to sustainability: market development and building an engaged applicant pool, price, the academic product, and cost management.

Those are difficult concepts to grasp, and they can be even more difficult to translate into practice. But smart institutions will find a way to do it.

"I have confidence," Hall says. "The survivors of this, the institutions that are going to come out stronger, are not those with the most high-reputation faculty. They are the best-managed institutions. You've got to manage a process of creative change."

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