Blue Ribbon Commission on Higher Education

National Conference of State Legislatures

A Policy Brief

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Sticker Shock: What's Driving the Price of Higher Education?

The Big Picture

More students are enrolling in higher education institutions than ever before; college enrollments have increased by close to 20 percent during the last 10 years. Public institutions, whether they are small, two-year community colleges or massive, four-year research institutions, enroll the vast majority of college students—more than 13 million of approximately 17 million total college students in 2006. Rapidly increasing enrollments in public institutions by low-income, minority, adult and other traditionally underserved populations are placing new demands on higher education institutions that must be addressed to meet 21st century workforce needs.

Accompanying the rising enrollment is the increasing price tag for attending college. Between 1987 and 2007, tuition and fees increased by 316 percent, while overall inflation rose by only 83 percent. It is encouraging that student enrollments in higher education have risen dramatically during this period of increasing prices. However, faced with the prospect of significant student loan debt, many future students may be shut out of higher education due to the continuing rise in tuition and fees. The rising price of a degree is the most pressing issue in regard to higher education for many Americans. Forty-two percent of Americans believe that controlling college costs is "extremely important" for the next president to address, according to a recent The Chronicle/Gallup Panel survey.

This brief examines the "sticker" price of higher education—tuition and fees—and some major factors that are driving the price increases. Price refers to what the student pays in tuition to obtain a postsecondary degree and does not refer to the full cost of providing services at an institution of higher education. Furthermore, sticker price does not include additional student costs such as room and board, supplies, texts and transportation.

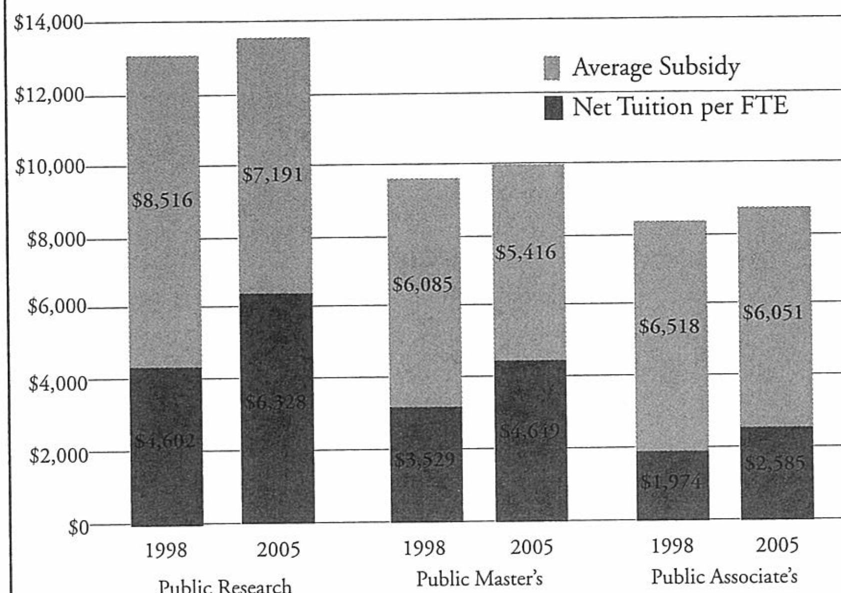
What Factors Drive College Prices?

State Subsidies

Variability in state subsidies for higher education is a significant factor in public institution tuition increases. The difference between the full cost (the amount necessary to educate a student) and the amount covered by tuition revenues (price) is a general subsidy from the state. Historically, revenues from tuition have covered only a portion of the amount institutions spend to educate students. The balance of responsibility for paying for higher education has shifted recently, however. A higher proportion is paid by students relative to those paid by state and local appropriations.

One common argument is that student costs—in the form of tuition and fees—are rising primarily due to the steadily increasing cost of providing education. A closer look at actual higher education costs in relation to student costs and state subsidies, however, tells a different story. The Delta Cost Project in Washington, D.C., has examined the relationship between full cost, price and state subsidy to help explain the balance of funding responsibilities between tuition and state and local appropriations. Figure 1 displays the average change in cost, price and subsidy for various public institutions between 1998 and 2005. The amounts are national averages; differences exist among the states in these amounts, particularly in subsidies.

Figure 1. Total Cost of Higher Education, in Terms of Price and Subsidy, for Public Institutions



Source: Delta Project on Postsecondary Costs, Washington, D.C., 2008.

According to Figure 1, the average cost to educate a student across the three types of public institutions has increased a little more than 3 percent in 2005 dollars during this time. Although this does not represent a dramatic increase, the rise in the amount of the cost covered by the student during this time is fairly substantial. Public research institutions provide an example. While costs rose a modest 3 percent between 1998 and 2005, the *student* share of that cost rose 12 percent—from 35 percent to 47 percent. What accounts for this large increase? The answer is a 12 percent average decrease in state subsidies for public research institutions, from 65 percent ($8,516) in 1998 to 53 percent ($7,191) in 2005. Similar shifts in the student cost burden also occur in other public institutions. In master's institutions, the student share rose 9 percent, and in public associate's institutions, it rose by 7 percent.

The shift toward having students cover more of the cost of higher education results in continually rising tuition and fees at public institutions. During the last 10 years, tuition and fees have risen by an average of 54 percent at public four-year institutions and by a more reasonable 16.5 percent at public associate's institutions in inflation-adjusted dollars, according to the College Board's *Trends in College Pricing*. As a result of these increases, it is more difficult for low- and middle-income families to pay for college. These students are therefore either avoiding college or are graduating with substantial debt from student loans, often from high-priced and less-regulated private lenders. According to a National Consumer Law Center report, these lenders account for close to $1 in every $4 of student lending and almost always are more expensive than federal loans. This puts further financial burden on those who can least afford it.

Cost of Competition

Institutional competition for both students and faculty is another contributing factor to the increasing price of higher education. Partially driven by national ranking systems and a burgeoning demand for college degrees—especially from more reputable institutions—the competitive nature of the higher education market has significantly amplified. A highly competitive market compels colleges to raise quality and expenses by improving their facilities and recruiting top faculty members. It also leads to higher tuition, however. Although this is especially true for private schools, it also significantly affects public institutions. One study shows that 15 percent of the real-term tuition increases at public institutions since 1950 can be attributed to this enhanced competition.

Employee Benefits

Another contributing factor to the rise in tuition is the growing cost of employee benefits. Although this cost is not unique to higher education, it nonetheless affects direct student costs. Combined with the instability in state funding, growing employee benefit costs are passed on to students in the form of higher tuition. Health care is particularly expensive and will continue to rise, especially as the workforce ages.

How Can Legislators Address Student Costs?

Examine Instability in State Funding

Unstable state funding plays a significant role in the constant increase in tuition. Considering if and how higher education subsidies can be stabilized for the future can help lower and stabilize the rate of tuition increases.

Legislators are well aware that stabilizing state funding is extremely difficult. Funding for higher education typically follows a cyclical pattern. Higher education subsidies increase considerably when state budgets are flush; conversely, as state budgets face shortfalls, funding for higher education faces significant cuts. This occurs primarily because higher education has a built-in secondary funding source—tuition and fees. When state budgets are lean, the state can use this secondary source to free funds for other critical programs or can provide extra funding that may freeze tuition increases during economic booms. This funding process, however, does not support a long-term strategy to increase access, improve quality and address overall costs.

Reaching some level of funding stability and creating incentives for higher education funding are two ways legislators can help reduce the rate of tuition increases. Shifting from a funding formula based solely on student enrollments to one based on desired outcomes—such as degree completion—is among the strategies to consider. Another is to use formal productivity reviews to identify underutilized programs and reallocate public funds to meet academic and state priorities. These approaches can shift the focus from revenues and inputs to costs and quality and, in turn, make operations more efficient. Containing spending while maintaining the student share of full costs through stabilized subsidies therefore can help address costs to students.

Reassess Tuition and Financial Aid Policies

Tuition levels and student behavior are directly connected. High tuition acts as a strong disincentive for students to either choose to enroll in higher education or complete a degree program. Instituting both flexibility and incentives can ease the financial impact of tuition prices, especially for low- and middle-income families. Some options include linking tuition increases to increases in family income, providing rebates for students who take less time to graduate, and lowering tuition at four-year colleges for students who previously earn an associate's degree. Reassessing tuition policy, along with establishing a level of stability in state subsidies, can, in turn, make tuition adaptable and responsive to state economic conditions.

Changes to tuition policy also should correspond to changes in state financial aid policy. Closely linking these policies can greatly improve access to higher education, enhance productivity, and address overall costs. Establishing an appropriate balance between need-based and merit-based financial aid may help reduce overall student borrowing and decrease debt levels. Rewarding students who efficiently obtain their degrees and targeting adult and part-time students also can improve student access and success to help meet state workforce needs.

Hold Institutions Accountable for Spending

A recent survey of public institutions from the American Association of State Colleges and Universities and SunGard Higher Education shows that, although the issue of cost containment is a high priority among the institutions surveyed, evidence suggests that efforts are lacking to document and account for costs. This can be changed, however. Legislators can hold institutions accountable for their performance and results. Investing in data systems that provide timely and reliable information on spending facilitates the ability to link funding to performance and outcomes. Institutions then can be held accountable for meeting designated expectations and state goals through regular reporting to the legislature. This will provide legislators with the information they require to appropriate funds accordingly. Reining in unnecessary costs and improving efficiency and productivity then can help stabilize tuition to reduce the student cost of obtaining a degree.

For More Information

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