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POLICY MATTERS

Tuition Discounting at AASCU Institutions

As states continue the trend of providing postsecondary institutions with smaller shares of state funds, public colleges and universities are forced to rely more heavily on tuition and fees as a source of revenue. While this trend is well documented, little is known about how colleges use institutional aid to provide tuition "discounts" to certain student populations. In 2006, The College Board published Tuition Discounting: Not Just a Private College Practice that examined the extent to which public colleges are using tuition revenue and institutional aid to offset the cost of attendance for some students. Tuition discounting has important policy implications for public colleges and universities primarily because most of the discounts are awarded to students who do not have critical financial need. Colleges often utilize tuition discounts to attract talented students who will help their institutions improve college rankings, athletic programs, and demographic profiles. This policy brief helps answer some basic questions about the extent to which AASCU institutions engage in tuition discounting and how institutional discounting policy can leverage resources for students with the greatest financial need.

Context

The average tuition discount rate at AASCU institutions is low, but rising. At 6.4 percent, the average tuition discount rate at AASCU institutions is relatively low when compared to the 33.5 percent discount rate in the private four-year sector and the 14.7 percent rate at all public four-year institutions. This year, AASCU institutions awarded more than $653 million in need-based and merit-based institutional grant aid to their students. Part of the reason why AASCU institutions are able to keep their discount rates low is due to the fact that they are able to keep their tuition rates relatively low, making the overall cost of attendance relatively low.

Tuition discounting at AASCU institutions, 2006

	Total	Percent of total
Number of AASCU institutions in analysis	193	-
Discount rate	6.40%	-
Need-based discount rate	-	*2.70%*
Non-need-based discount rate	-	*3.70%*
Institutional grant aid	$653,635,041	-
Need-based institutional grant aid	*$273,317,083*	*41.8%*
Non-need-based institutional grant aid	*$380,317,958*	*58.2%*

Source: College Board Annual Survey of Colleges, 2006-07

During the past three years, the average discount rate for AASCU members has increased by one percent. Although AASCU institutions provide low tuition discount rates, it is likely that these rates will continue to creep up over time as tuition increases.

Most institutional grant aid at AASCU institutions goes to students who do not have critical financial need. Tuition discounting can be a very powerful enrollment management tool to help students cover their financial need. Fifty-eight percent of all institutional grant aid at AASCU institutions is awarded to students without documented financial need. Only 42 percent of institutional grant aid is awarded on need-based measures, suggesting that institutions are using discounts to “shape” their cohorts in an effort to enroll students with high SAT scores, award scholarships to student-athletes, or provide tuition waivers to minorities and students whose family members are employed at the institution. For AASCU institutions to remain committed to their missions of providing accessible and affordable educational opportunities to a diverse array of students, it is essential that institutional aid is targeted to those with documented financial need. When institutions use tuition discounting as a strategy to “shape” an incoming cohort without addressing financial need, then less aid is available to those with documented need and students will continue to be priced out of educational opportunities.

Every institution must decide its own “ideal” discount rate that is sustainable and equitable. There is no standard discount rate that will work best for all institutions – tuition discount rates must be determined based upon institutional mission, values, and financial capacity. Also, state financial aid policy may influence the extent to which public colleges engage in tuition discounting. When states provide high levels of grant aid or when states keep tuition rates down, public colleges may rely less on tuition discounts to offset the cost of attendance.

In a representative sample of 193 AASCU institutions, we found that AASCU colleges engage in quite different discounting strategies depending on which state they are located. AASCU institutions in Georgia and Wisconsin, for example, have an average discount rate is 2 percent and only one-third of their institutional aid is awarded to students with demonstrated financial need. These two states do not provide students with much institutional aid, and when they do it typically is awarded based on merit rather than need. On the other hand, AASCU institutions in California and Maine discount tuition by approximately 8 percent, with three-fourths of the aid going to students who have demonstrated financial need. California and Maine serve as examples of institutions utilizing tuition discounts as a tool for making college more affordable to those with need.

The discount rate for AASCU institutions ranges from as low as 1 percent, and as high as 25 percent. Sustaining high discount rates will pose real challenges to public institutions, particularly as tuition revenue is taking the place of state revenue. Approximately 37 percent of institutional revenues come from students. Students at public colleges are carrying a heavier financial burden today than ever before, and tuition discounting is a way institutions can help reduce the net price paid by students. One way for institutions to keep their discount rates low is to keep tuition rates low. All institutions must set a sustainable goal for their overall discount rate and then determine how institutional policies can strike a balance between the amount of need-based and non-need-based aid that is awarded. College leaders must be aware that the biggest driver of the steadily rising discount rates is the rising net cost of attendance.

Conclusion

Whether institutional aid is based on need or on talent, colleges will continue to provide some level of tuition discounts. The discount rate is likely to rise as net price rises, so institutions must be strategic in the way they allocate institutional aid. Although tuition discount rates at AASCU institutions are lower than those at most other public four-year colleges, less than half of institutional aid is awarded to students with demonstrated financial need. This trend is quite worrisome, particularly as the net cost of attendance continues to increase and low-income students continue to be priced out of educational opportunities. As stewards of the public good, AASCU institutions must remain committed to the goal of increasing access and affordability, and it is necessary to develop tuition discounting strategies that make the most of the limited financial resources. Tuition discounting is a valuable tool for colleges to use for enrolling a desired mix of students, but it is a more valuable tool when institutions utilize institutional aid for those with the greatest amount of financial need.

Resources

The College Board. Each year, the College Board administers its Annual Survey of Colleges and uses the results to publish reports such as Trends in Student Aid and Trends in College Pricing. **collegeboard.com**

National Association of College and University Business Officers (NACUBO). The association collects and analyzes trends in higher education business and financial management. NACUBO and The College Board are partners on tuition discounting data collection. **nacubo.org**

The Lumina Foundation. The Lumina Foundation addresses issues surrounding financial access and education retention through research, grants for innovative programs, and communications initiatives. **luminafoundation.org**

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