Measuring and Communicating Tuition Discounting

Atlanta, Georgia
February 11, 2013
Agenda

- Tuition Discounting
  - What is Discounting
  - Who Funds
  - Why Discount
- Why Benchmark
- Trends
- Future
- Communicating Institutional Aid
Tuition Discounting

- An institution offsets its published tuition price (sticker price) with institutional grant aid for enrolling students.
- Tuition discount rate is the ratio of total institutional grant aid relative to gross tuition revenues at an institution.
- Typically, at public and private nonprofit colleges and universities, even for full pay students, the price is less than the average cost of educating a student. The difference is made up through a combination of government subsidies and revenues from endowments and other private sources.
Who Funds Discounting

- Gifts
- Endowment earnings (restricted and unrestricted)
- Government programs
- Tuition and fee revenue
Why Discount

- Targeted enrollment – Shape incoming class
  - Diversity
  - Program
  - Sustain enrollment
- Maximize Tuition Revenue
  - Fill seats
  - Meet enrollment goals
Why Benchmark

• Target right amount
• Competition
• Expected at executive and governing level
Trends

• Discount rate is increasing
• Enrollments are decreasing
• There is a need for metrics to improve communication on this topic
• Private and public institutions

• Note - Colleges may rely so heavily on discounting that when they raise their tuition, they do not generate new net revenues. Some institutions are so afraid of losing students to lower-priced institutions that they are discounting away their needed operating revenues. This is not a viable long-term strategy, and will threaten an institution’s ability to offer the educational opportunities that allow it to fulfill its mission.
Benchmarking Resources

- NACUBO - The 2011 Tuition Discounting Study
- Moody’s - Results of Moody’s Third Annual Tuition Pricing Survey
- College Board - 2012 Trends in College Pricing
Benchmarking Resources

- IPEDS Finance and Financial Aid data
2011 TDS

- Four-year, private, non-profit institutions
- Study conducted annually since 1994
- NACUBO members
NACUBO Tuition Discounting Study

- 20 years old
- Institutions participating
- Private non profit institutions only
- Focuses on first time full time freshmen
- Helps predict the future since the student should be around three more years
Institutional Grants

Includes

• Scholarships, fellowships, and other grant awards funded by the institution.
• Funding can come from tuition and fee revenue, endowment earnings (restricted and unrestricted), and donations
• Athletic scholarships
• Tuition waivers

Does Not Include

• Does not include grants dollars for room/board
• Tuition remission (as a benefit of employment)
• Tuition exchange programs between two universities
• Grants funded by any other organization outside of the institution
Calculating the Freshman Discount Rate

Institutional grant aid as a percentage of gross tuition and fee revenue

\[
\text{Dollars awarded to FT Freshmen} \quad \frac{\text{(Sticker Price)}}{\text{(Total FT Freshmen)}}
\]
Methodology

- Online survey
  - Launched in Fall 2010, collecting data on Fall 2009 and estimates for Fall 2010.
- 37% response rate
- Data reported out by NACUBO constituent group
What is measured

• Average Tuition Discount Rate:
  o First-Time, Full-Time Freshmen
  o All Undergraduates
• Percentage of FT students receiving Institutional Grants
• Average Institutional Grant for FT Recipients as a percentage of Tuition and Fees
• Average Change in Net Tuition Rate for FT
• Percentage of Total Undergraduate Institutional Grant Aid funded by Endowment
• Percentage of Total Undergraduate Institutional Grant Dollars Awarded to Students with Financial Need
# Number of Participating Institutions

<table>
<thead>
<tr>
<th>NACUBO Constituent Group</th>
<th>2009 TDS</th>
<th>2010 TDS</th>
<th>2011 TDS</th>
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</thead>
<tbody>
<tr>
<td>Research</td>
<td>34</td>
<td>29</td>
<td>31</td>
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<tr>
<td>Small Institutions</td>
<td>285</td>
<td>303</td>
<td>319</td>
</tr>
<tr>
<td>Comprehensive/Doctoral</td>
<td>39</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td><strong>All Institutions</strong></td>
<td><strong>358</strong></td>
<td><strong>381</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

Source: NACUBO 2011 Tuition Discounting Study
Percentage of Participating Institutions that Lost or Maintained Enrollment from Fall 2010 to Fall 2011

- 44.9% of institutions lost undergraduate enrollment.
- 53.2% of institutions lost freshmen enrollment.
- 29.7% of institutions lost both freshmen and undergraduate enrollment.

Source: NACUBO 2011 Tuition Discounting Study
Participating Institutions that Lost or Maintained Enrollment from Fall 2010 to Fall 2011 by Constituent Group

Comprehensive/Doctoral: 13% Institutions that Lost Undergraduate Enrollment, 14% Institutions that Lost Freshmen Enrollment, 16% Institutions that Lost Both Freshmen and Undergraduate Enrollment.

Research: 5% Institutions that Lost Undergraduate Enrollment, 6% Institutions that Lost Freshmen Enrollment, 5% Institutions that Lost Both Freshmen and Undergraduate Enrollment.

Small Institutions: 81% Institutions that Lost Undergraduate Enrollment, 79% Institutions that Lost Freshmen Enrollment, 79% Institutions that Lost Both Freshmen and Undergraduate Enrollment.

Source: NACUBO 2011 Tuition Discounting Study
Distribution of Freshmen Enrollment Changes from Fall 2010 to Fall 2011

- Gained over 10 percent: 17.9%
- Gained 5.1 to 10 percent: 17.1%
- Gained .1 to 5 percent: 12.3%
- Lost 0 to 5 percent: 17.4%
- Lost 5.1 to 10 percent: 17.4%
- Lost over 10 percent: 17.4%

Source: NACUBO 2011 Tuition Discounting Study
Average Tuition Discount Rate: Freshmen and All Undergraduates

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
Changes in the Freshmen Discount Rate from Fall 2010 to Fall 2011

- Reduced or Maintained Discount Rate for Freshmen: 62.6%
- Increased Discount Rate for Freshmen: 37.4%

Source: NACUBO 2011 Tuition Discounting Study
Average Change in Net Tuition Revenue per Full-Time Freshman

Year 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011*
Change 1.3% 5.6% 5.4% 3.2% 5.9% 5.4% -0.8% 1.6% 5.4% 3.0%

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
Inflation Adjusted Net Tuition Revenue per Full-Time Freshmen

% Change Current  % Change Constant (inflation adjusted)

2002: 1.3%  -0.2%
2003: 5.6%  3.2%
2004: 5.4%  2.8%
2005: 3.2%  -1.4%
2006: 5.9%  3.7%
2007: 5.4%  2.6%
2008: -0.8% -5.5%
2009: 1.6%  2.9%
2010: 5.4%  4.2%
2011: 3.0%  -0.9%

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
Average Change in Net Tuition Revenue per Freshmen by NACUBO Constituent Group

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
Percentage of Freshmen Receiving Institutional Grants and the Average Grant for Freshmen Recipients as a Percentage of Tuition and Fees

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
Percent of All Undergraduates Receiving Institutional Grants and the Average Institutional Grant for Undergraduate Recipients as a Percentage of Tuition & Fees

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of All Undergraduates</th>
<th>Average Institutional Grant as a Percentage of Tuition and Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>76.2%</td>
<td>44.5%</td>
</tr>
<tr>
<td>2011*</td>
<td>75.8%</td>
<td>45.6%</td>
</tr>
</tbody>
</table>

Source: NACUBO 2011 Tuition Discounting Study

* Preliminary Estimate
### Percentage of Total Undergraduate Institutional Grant Aid Funded by Earnings from Endowments

<table>
<thead>
<tr>
<th>FY 2010 Endowment Level</th>
<th>Number of Participating Institutions</th>
<th>Percentage of Grant Aid Funded by Endowment Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $1 billion</td>
<td>22</td>
<td>33.9%</td>
</tr>
<tr>
<td>$500 million to $1 billion</td>
<td>19</td>
<td>23.2%</td>
</tr>
<tr>
<td>$100 million to $500 million</td>
<td>82</td>
<td>13.0%</td>
</tr>
<tr>
<td>$50 million to $100 million</td>
<td>62</td>
<td>7.8%</td>
</tr>
<tr>
<td>$25 million to $50 million</td>
<td>39</td>
<td>9.4%</td>
</tr>
<tr>
<td>Less than $25 million</td>
<td>27</td>
<td>3.8%</td>
</tr>
<tr>
<td>Unknown Endowment Level</td>
<td>103</td>
<td>5.5%</td>
</tr>
<tr>
<td><strong>All Institutions</strong></td>
<td><strong>354</strong></td>
<td><strong>10.6%</strong></td>
</tr>
</tbody>
</table>

Source: NACUBO 2011 Tuition Discounting Study
Percentage of Total Undergraduate Institutional Grant Dollars Awarded that Met Students’ Financial Need

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<thead>
<tr>
<th>FY 2010 Endowment Level</th>
<th>Number of Participating Institutions</th>
<th>Percentage of Total Institutional Grant Aid Awarded that Met Students' Financial Need*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $1 billion</td>
<td>22</td>
<td>88.4%</td>
</tr>
<tr>
<td>$500 million to $1 billion</td>
<td>16</td>
<td>83.3%</td>
</tr>
<tr>
<td>$100 million to $500 million</td>
<td>74</td>
<td>78.0%</td>
</tr>
<tr>
<td>$50 million to $100 million</td>
<td>47</td>
<td>73.2%</td>
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<tr>
<td>$25 million to $50 million</td>
<td>33</td>
<td>68.5%</td>
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<tr>
<td>Less than $25 million</td>
<td>16</td>
<td>65.1%</td>
</tr>
<tr>
<td>Unknown Endowment Level</td>
<td>72</td>
<td>64.7%</td>
</tr>
<tr>
<td>All Institutions</td>
<td>280</td>
<td>73.0%</td>
</tr>
</tbody>
</table>

Source: NACUBO 2011 Tuition Discounting Study
Impact of the Study

• Presentations to Board, President and Executive Level
• Helps your institutions know (broadly) where they are with their peers (don’t like to disclose practices)
Uses of the Tuition Discounting Study

• Track discounting rates
  – What makes sense for your institution
• Relationships between Acceptance rate, Yield rate and Discounting?
• What kind of Net Tuition Revenue growth is needed to cover your institution’s expenses?
• What are the purposes of discounting at your institution?
Have you lost enrollment on your campus and what are the reasons for this decline?
AGB/NACUBO “Looking Under the Hood” Institutional Aid Project

- A 2-1/2 year effort to improve decision making about institutionally funded financial aid
- Designed for campus leaders to have internal discussions that will lead to more informed decision making about institutional aid—going beyond dollar expenditures and “tuition discount rates”
- Co-sponsored by AGB and NACUBO and funded by the Woodruff Foundation
AGB/NACUBO Institutional Aid Project

- Project will be in three Phases that will be designed to:
  - Create committee to identify and develop “metrics” that will help college presidents, CFOs, trustees, and other campus leaders better understand their aid allocation and distribution decisions
  - Test effects of metrics at volunteer institutions
  - Disseminate results of the impact of implementation of the metrics
  - Continually monitor and disseminate results

- Phase 1 - May 2012 to April 2013
  - Develop, define and test metrics

- Phases II & III - April 2013 to September 2014
  - Feature results through presentations and publications
  - Establish second round of institutions to metrics
  - Report to Woodruff Foundation
What Are “Metrics”? 

- “Metrics” will be variables or data points that institutional leaders can use to have a clearer understanding of the funding and distribution of institutionally funded scholarships and grants for undergraduates at their colleges and universities.
  - Initial focus on four-year public and private non-profit colleges, universities, and systems
- Metrics will be designed to meet one or more of these goals:
  - Modify existing institutional aid policies & practices
  - Address overall aid delivery efficiency & transparency
  - Ensure that funds are allocated in support of institutional strategies and missions
- No such list of metrics currently exists
- Volunteer institutions will test metrics by comparing their institutional aid allocations before and after use of metric definitions
Examples of Possible Metrics

• Institutional aid in relation revenue and expenditures
  – Endowment earnings
  – State appropriations
  – Tuition and fee revenue
  – Total expenditures

• Institutional aid in relation to award criteria:
  – “Need-based” grants
  – “Merit” or “Non-need” grants
Examples of Possible Metrics

- Institutional aid distributed to students by demographics
  - Class composition (first-time freshmen vs. continuing undergraduates)
  - Race/Ethnicity
  - Gender
  - Family Income
- Relationship between institutional aid and financial aid from other sources, such as:
  - Federal Pell Grants
  - Student debt (annual and cumulative)
- Relationship between institutional aid and measures of student success:
  - Persistence rates
  - Graduation rates
More U.S. Universities Expect Tuition Revenue Declines; Larger, Diversified Universities Favored in Tough Higher Education Market

Results of Moody’s Third Annual Tuition Pricing Survey of U.S. Higher Education

Summary

The majority of Moody’s rated public and not-for-profit private U.S. colleges and universities project net tuition revenue growth for fiscal year (FY) 2012, according to Moody’s third annual tuition pricing survey. However, more universities anticipate decreases in net tuition revenue compared to the number that experienced actual declines in FY 2011. Eighteen percent of private and 17% of public universities project decreases in net tuition revenue for FY 2012 compared to estimated actual declines of 13% and 8% for FY 2011.

Survey responses indicate that student demand remains strong for large, diversified, and highly rated colleges and universities. The survey highlights the growing importance of perceived value and market reputation of universities as students and families struggle with flat income and stagnant net worth. Given a weaker revenue outlook for government supports, private gifts, and research grants, public and private universities are especially focused on growing tuition revenue. For example, universities with lower tuition rates, particularly publics, have increased their sticker price to take advantage of their relatively lower price and to make up for lost government support. However, some of the most expensive and wealthier private universities have effectively lowered their price to increase affordability. In this way, the gap in net tuition costs between historically more affordable and more expensive institutions may narrow in the future.

The key findings from the survey results, which are discussed in more detail in the report, include:

- Approximately 86% of U.S. public and not-for-profit private universities project growth of net tuition revenue for FY 2012, down from 97% of private and 92% of public university respondents based on FY 2011 results.
Moody’s Metrics

• State Appropriations per Student
  – State support per student full-time equivalent (FTE)

• Educational Expenses per Student
  – Educational expenses incurred per student FTE

• Total Tuition Discount
  – Scholarships funded by unrestricted resources + restricted endowments + external sources / gross tuition and fee revenue
Moody’s Metrics

• Freshman Selectivity/Student Demand
  – Number of acceptances / number of applicants

• Freshman Matriculation/Student Demand
  – Number of students enrolled / number of applications accepted

• Net Tuition per Student:
  – [Gross tuition and fee revenue - scholarship discount and allowances - scholarship expense] / total FTE
College Board

- Trends In Student Aid 2012
- Trends in College Pricing 2012
Communicating Institutional Aid

- Governing Boards
- Students and parents
- Donors
- Government
Questions

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Tuition Discounting

Evaluation System APP or Web

Enter Poll ID 102671
Enter Password sasfaa

https://answerqwik.com/login.html