Imagine a website where parents and students could compare colleges and universities not only on their published tuition rates, but on their actual net price after accounting for federal, state, and institutional scholarships and grants. Now, imagine that the net price estimates seen by families would differ based on the characteristics of the students themselves. When families can clearly see how much they will pay out of their pockets for an education at a particular institution, not at the time of admission but before they send out a single college application, how might that information change the entire admissions game?

Welcome to the new transparency in higher education, which is already underway and becomes official in October 2011 when the federal government will require institutions to place net price calculators on their websites. No longer will families have to wait until a student is accepted to a college or university to learn about the “real” price they will pay to attend that institution after all sources of aid—including scholarships and grants—are taken into account. In the new transparency, families will have access to net price information well before they decide upon their short list for sending applications. While we cannot know all the ramifications of putting an institution’s net price conversation months or even years ahead of where it currently takes place now, we do know that easily accessible comparative net price information is a potential “game changer” in the increasingly competitive market for higher education recruitment and enrollment.

The new transparency in higher education should come as no surprise. Years ago the public demanded access to, and a simplification of, costs related to the most expensive and necessary purchases they make, such as transportation and housing, and the “dotcoms” responded. Some of the most popular Internet sites are net price calculators for high-ticket items such as:

Net price information is a potential “game changer” in the increasingly competitive market for higher education recruitment and enrollment.
• Travel (Expedia, Kayak, Orbitz)
• Automobiles (Carfax, Cars.com, Vehix)
• Homes (BankRate, LendingTree, Zillow).

Given that the highest four-year private college costs now exceed the average price of a home in the United States, it makes sense that families are increasingly questioning published sticker prices and asking for net price information earlier in the admissions cycle to aid them in their college decisions. Families are also questioning the arduous and mysterious process that they must go through with colleges in order to arrive at a bottom-line net price at the time of acceptance. The manner of arriving at a student’s net price after taking into account all scholarships, grants, work study, and loans can be among the most frustrating aspects of the college admissions process.

Families are not alone in their desire for net price information from colleges and universities. As recently as 2008, former Education Secretary Margaret Spelling’s Commission on the Future of Higher Education proposed creating a public database where both price and net price information about colleges and universities could be made public and easily accessible. This call for improved transparency of information was complemented by the Higher Education Opportunity Act mandate that requires institutions to develop, by October 2011, net price calculators that “shall be developed in a manner that enables current and prospective students, families, and consumers to determine an estimate of a current or prospective student’s individual net price at a particular institution” (HEOA 2008, Title I, Part C, Section 132).

In addition to mandates from Washington, a recent survey from the National Center for Public Policy and Higher Education (2010) found, not surprisingly, that the public is becoming increasingly frustrated with the “business” of higher education in general, and more dubious about how colleges and universities set their prices. Overall, people are concerned about borrowing heavily for higher education, and more likely than in the past to consider their bottom line net price more seriously when deciding among various colleges.

**The First Wave of Transparency**

The first wave of transparency occurred in 1988, when *US News & World Report* began publishing statistically-based college rankings and displaying the data that comprised the rankings (the rankings were first published in 1983; however they relied solely on reputational data). This was the first time that students and families had easy access to information about colleges, and more importantly, comparative information about colleges. As a result of this first wave of transparency, colleges were held publically accountable for their results and began to pay attention to the data they reported to *US News* and other media. Almost all made efforts to improve their relative positions.

Two things have remained constant: the public’s seemingly insatiable desire for the annual ranking information, and the loathing of the rankings by many college and university administrators.
In the 27 years since the rankings were first published, two things have remained constant: the public’s seemingly insatiable desire for the annual ranking information, and the loathing of the rankings by many college and university administrators. The transparency of information helped spawn many “college comparison” websites and other ranking publications. Reliable information about colleges is just about everywhere these days, and families can now compare institutions on all kinds of metrics such as graduation rates, acceptance rates, and yield.

Families cannot yet, however, compare colleges on net price after accounting for all sources of financial aid. Studies conducted by Maguire Associates have shown that, in 2010, families are more likely to look past published sticker price and focus on their net price as they decide among colleges to attend. When asked if they would use a net price calculator on a college website, 37% said they already had used one, and another 48% said they would be interested in doing so (Maguire Associates’ College Decision Impact Survey, 2010).

The demand for net price information is largely due to a) the fact that the relative cost of attaining a college degree has soared well above the rate of inflation since the early 1980s and b) increasing discount rates resulting in wider divergence between published prices and net prices. For more than two decades, colleges and universities across the country have been increasing tuition and fees at a faster rate than prices have risen on any other major product or service – four times faster than the overall inflation rate and faster even than increases in the price of gasoline or health care (Uebersax, 2009). According to Uebersax:

“Cost of living increased roughly 2.5-fold during this time; medical costs inflated roughly 6-fold; but college tuition and fees inflation approached 10-fold. Another way to say this is that whereas medical costs inflated at twice the rate of cost-of-living, college tuition and fees inflated at four times the rate of cost-of-living inflation. Thus, even after controlling for the effects of general inflation, 2008 college tuition and fees posed three times the burden as in 1978.” (Uebersax, 2009).

Sources: Uebersax, J, (2009) using College Board, CPI-U, and CPI data. All rates computed are relative to 1978.
Published prices for 2011 are expected to be as high as $55,000 per year for the most expensive private colleges, which is now higher than the median annual household income in the United States. This suggests that the much-touted tagline in many college admission brochures, “We give X million dollars each year in institutional grants and scholarships” is too amorphous and no longer sufficient to satisfy families accustomed to seeing the bottom line for most other major purchases.

Consumers now expect net price information for most purchases to be easily accessible online, and they expect the same from the college and universities that they are considering attending, or already attend. The fact that accurate net price estimates for colleges and universities are not readily available (while other information is) increases public frustration.

The New Transparency

The new transparency is being fueled by the mandate for net price calculators. By October 2011, all colleges and universities must post net price calculators on their websites. Not long after that, the web aggregators (think Kayak.com) will find a way to grab the net price information for direct comparisons between colleges and universities. This information aggregation has already occurred in most high-end consumer markets, such as housing, travel, and automobiles; it should be no surprise that the same will happen in higher education. Some institutions will fare surprisingly well because their net price calculators will be sophisticated enough to incorporate all institutional grant aid in addition to state and federal sources of aid, thereby lowering the net price that families will see online. Other institutions won’t fare as well because their net price calculators will be more generic and won’t account for all sources of financial aid that can offset the cost of attendance.

Thus, the choice of online calculators becomes critically important. The federal government provides a free calculator that institutions can adopt, but tests conducted by Student Aid Services and others have concluded that the bottom-line net price provided by the free calculator is often inaccurate, in part because of its simplicity. This is particularly true for the more expensive private colleges and universities that offer generous merit-based awards. Institutions that “discount” significantly face the problem of prospective students not realizing that need and merit aid could reduce their cost of college far below the published “sticker price.” These institutions also risk having their net price appear significantly higher than their peers upon direct comparison through online aggregators.

Taking Advantage of the New Transparency

Some institutional leaders already see how they can use net price information to their advantage in recruiting and retaining students. They will seek out the most accurate and sophisticated net price calculators for their web sites—ones that give the most accurate estimate of their
institutional scholarships and grants. They will diligently seek ways to present the net price of their college within a context of the value and affordability of the institution. The most farsighted institutions will utilize the data generated from their net price calculators to deepen relationships and dialogues with prospective students, and they won’t necessarily limit all the interactions to just the online world. By providing the public with accurate net price estimates, these institutions will benefit greatly by appearing less expensive than their nearest competitors by thousands, or tens of thousands, of dollars at the time families are choosing where to send their applications and which colleges to visit.

On the other hand, some institutions will choose to meet the federal mandate by burying their net price calculators in their institutional websites, hoping that families won’t notice. While they may get away with this for a year or so, it won’t take long before these institutions feel the effect of being compared inaccurately, unfavorably, or completely left out of the net price comparisons that will be offered to families. The first symptom that an institution is losing against competitors in net price comparisons will be declining application volume.

The ramification of choosing merely to comply with, and not take full advantage of, the net price calculator mandate will be felt most keenly by private colleges and universities. That’s because they have the highest published sticker prices for tuition, and also because private colleges award the most institutionally funded aid through scholarships and grants to offset the high sticker prices. Unfortunately, many of the students who would be most helped by private colleges don’t even apply because they focus on the published sticker price and are unaware of the steep discounting that routinely occurs at these institutions. Instead, net price calculators present a marvelous opportunity to convey value, for example, to highly talented, low-income students who might otherwise assume they cannot afford to attend an institution. Hosting an accurate net price calculator will be one way for private institutions to navigate families quickly past “sticker shock” and into more productive conversations about the college experience while also learning much more about the students and families considering an institution.

Public colleges can also benefit from giving the public easy access to their net price information. The recession has forced many state-funded institutions to raise tuition and fees—some rather dramatically—meaning that the sticker-price gap between public and private higher education is beginning to narrow. Public institutions only stand to benefit from giving families information about the real net price of a four-year college education, after all federal, state, and institutional grants are taken into account. Even as tuition and fees increase, public institutions can use an accurate net price calculator and net price comparisons to present a compelling financial argument to families who would otherwise think they cannot afford to send their children to college.
What the Future Holds

We cannot anticipate all the effects of the new transparency on the real and perceived net price of colleges and universities. There can be little doubt, however, that it will have a profound impact on the college admissions process. Families who had to wait until the acceptance letters arrive to get some idea of what they will have to pay out of their own pockets will now have that information months and even years before they complete a single application for admission. Under-served students who would normally balk at published sticker prices will now have reliable estimates of what they will actually have to pay for their college education, which will hopefully increase the number and scope of institutions that will receive their applications. “Short lists” will become shorter – or different – and it is inevitable that some institutions will lose a valuable opportunity to position themselves favorably against their peers in terms of net price.

Rather than resisting the second wave of transparency, forward-thinking institutions will embrace the net price mandate and choose a calculator that offers families the most accurate estimate of the cost to attend their institutions. As the net price information propagates online and in print, the real winners will be the families and students, who will come to see that a college education is more affordable than they ever thought possible.

References


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Sarah Parrott is an expert in predictive modeling and enrollment management research. Prior to joining Maguire Associates in 2006, Sarah held the positions of Director of Research & Planning and Director of Enrollment Services at Brandeis University. She worked closely with Alexander (Sandy) Astin at UCLA’s Higher Education Research Institute to plan for and analyze data from the CIRP Freshman Survey. Sarah holds two bachelor’s degrees (violin performance and psychology) and a master’s degree in experimental psychology from California State University, Northridge; a master’s degree in education from UCLA; and a Ph.D. in Higher Education & Organizational Change from UCLA. A frequent author and presenter, Sarah’s recent publications include *Tuition Discounting to Optimize Enrollment and Revenue* (Tertiary Education and Management), *Student Demographics in the Coming Decade: Hold the Panic* (Recruitment & Retention), and *For Those Without Billions: Navigating the Wave of Dramatic Aid Awarding Changes* (College & University Journal). Sarah also presented a webinar in conjunction with Magna Publications: *Using Predictive Models to Craft Classes and Increase Revenue*.

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