

College tuition: going for broke

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A College Board report paints a grim picture: Tuition is rising while incomes are flat—and there's very little schools can do about it

Cash-strapped families were dealt another blow this fall as tuition at public and private colleges for the 2009-10 academic year continued to outpace inflation, the College Board said in a report released on Oct. 20.

This year's College Board report shows average increases of 6.5% for public in-state tuition and 4.4% for private colleges. The consumer price index declined 2.1% between July 2008 and 2009, meaning that inflation-adjusted increases in prices this year are significantly larger than current dollar increases, the College Board says. At the same time, family net income has barely budged over the past decade, says Sandy Baum, a senior policy analyst with the College Board.

"The struggle of families to pay for college is largely attributed to rising prices, but also to the fact that incomes are simply stagnating," Baum says. "Families are facing these prices with incomes that are not making any progress at all,"

The spiraling cost of higher education comes at a time when institutions are reeling from the aftershocks of shrinking state aid, battered endowments, and significant budgetary pressures. Schools managed to temper some of these increases by doling out more institutional aid and grants to students, a move that made the sticker price less painful for the 18.5 million students projected to attend college this year. Last year, about two-thirds of full-time undergraduates received grants, with students receiving on average \$5,041 in grant aid, up from \$4,656 the year before, the report says.

Tuition hikes: the main budget option

That aid barely softened the blow for some students, especially those attending public schools, where for the second consecutive year tuition and fees rose faster than those of private schools. In such states as California, Washington, Florida, and New York, public schools raised tuition by more than 15%, he says. Other states, like Maryland, were able to keep tuition at steady levels.

"Once you get past budget cuts such as program reduction, layoffs and furloughs—the order of the day at just about every institution—you're really only left with tuition," says Terry Hartle, a senior vice-president of the American Council on Education. "That is acting as a fiscal balance wheel at many institutions, making up the difference between lost revenue from other sources and the funding they can't come up with."

The average annual in-state tuition and fees at four-year public colleges for the 2009-10 academic year is \$7,020, up \$229 from last year. Those numbers don't include room and board, which adds another \$8,193.

"This is certainly higher than most of us like to see, but is lower than we might have feared, given the current state of the economy and what we experienced in past recessions," Baum says, noting that in past recessions the average price increase for public colleges was sometimes in double digits.

Accelerating prices at public schools

This year's 6.5% tuition increase for public colleges is almost identical to last year's increase (6.4%), but it's particularly worrisome because of the long-term trend, Baum says. From 1979 to 1989, the price of attending a public four-year institution went up in inflation-adjusted dollars at an annual rate of 3%, increasing to 4% from 1990 to 2000—and, for the most recent decade, nearing 5%.

"At public four-year colleges, we've seen a rapid rate of increase in prices and that trend has been exacerbated in recent years," Baum says.

That's the exact opposite of what has been happening over the long-term at private colleges, which have seen dips in the rate of increase of published prices. For example, the annual inflation-adjusted cost of attending a private school in the last decade has gone up just 2.6% a year, a decline from the 1980s, when the average price increase stood at 4.7%, the report says.

This year, however, costs at private universities continued to rise, with published tuition and fees for 2009-10 averaging \$26,273, a \$1,096 increase over last year. When \$9,363 in room and board costs are tacked on, the annual sticker price totals \$35,636.

Private schools have been especially intent on keeping the price of college affordable for students this year, says Baum. Many top-ranked schools have introduced programs in the past two years that make college more affordable for families earning in the low six figures, and this has led other institutions to offer comparable packages to middle-class families.

Private schools boosted student aid

"Private institutions are concerned under the current economic climate, where many students and families are price-sensitive," Baum says. "I do think that over time there has been an accumulating awareness at these schools that they have to do something to decrease the rate of growth."

Tony Pals, a spokesman for the National Association of Independent Colleges and Universities, which represents more than 1,000 institutions, says the nation's colleges and universities have indeed become more affordable. Despite falling endowment values and a decline in fundraising, schools sought to make the price of college more affordable for students by cutting staff salaries and benefits, delaying construction and renovation projects, and cutting back on travel. By doing this, they were able to increase institutional student aid for students by 9% and maintain enrollment levels this fall, he said.

"What happened was that institutions had to cut deeply into certain areas of their budgets and transfer those savings over to institutional aid," Pals says. "The overall impact was to keep higher education affordable to students from all backgrounds."

Institutional grant aid and merit-based scholarships played an important role this year in determining what most students pay for college—a figure called the "net price" that is often sharply different from the published tuition prices listed by schools. The net price is what the average student pays after grants, student aid, and tax benefits are factored into his or her college bill.

At four-year public colleges and universities, students on average receive about \$5,400 in aid, bringing the average tuition cost to around \$1,600 a year. At private universities, aid totals around \$14,400, bringing the average annual tuition to about \$11,900.

Public four-year colleges sought to increase the amount of student grants this year, distributing about two-thirds of grant dollars without regard to financial need, according to the College Board report.

Losing "well-qualified" students?

Lauren Asher, president of the nonprofit Institute for College Access and Success, which runs the Project on Student Debt, says she finds this trend worrying,

"Economic constraints can lead well-qualified students to lower their academic aspirations or give up on college altogether without adequate aid," Asher says in a statement. "It is particularly disturbing that public colleges are using such a large share of their financial aid resources for so-called 'merit aid' in these tough times."

While many students were able to pay for college with the help of grants from schools, a majority still depend on student loans to cover the remainder of the tuition bill. Total education borrowing increased 5% from the 2007-08 academic year to 2008-09, the latest year for which figures are available. Federal student loan borrowing increased by \$15 billion while non-federal borrowing, or private loans, declined by \$11 billion, a 50% decline from 2007-08.

Private lending decreased sharply because of the turmoil in the financial markets, which caused many private lenders to close up shop or impose stricter credit requirements. As a result, more students than ever are turning to unsubsidized federal Stafford loans, which in 2007-08 totaled \$38 billion, up from \$29 billion the year before. Education advocates say they see this as a positive development for students because of the lowest interest rates and more favorable repayment options that come with federal loans.

"The private loan capital for higher education may well be drying up," says Hartle. "This is intriguing because it seems like a fundamental shift."

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