

# ILLUMINATIONS<sup>SM</sup>

*Highlighting important research in postsecondary education access*

## THE ISSUE:

**T**uition discounting — the use of institutionally funded grants to help defray students' college costs — came into vogue in the late 1970s and has since become standard practice at the nation's four-year colleges and universities. Colleges use tuition discounting to try to build enrollments, increase institutional net revenue and shape incoming classes to fit institutional missions and preferences.

The best outcome of enrollment management and tuition discounting is that some institutions have improved their enrollment and financial situations. Tuition discounting works for *some* colleges. However, there is growing evidence that tuition discounting does not always produce the desired effects. In fact, tuition discounting is producing unintended financial and enrollment consequences for many colleges and diminishing financial access to college for many students, especially lower-income students.

Higher education leaders and public policy-makers must confront several questions about tuition discounting: Where does it lead? How much can the system afford? Is there a breaking point?

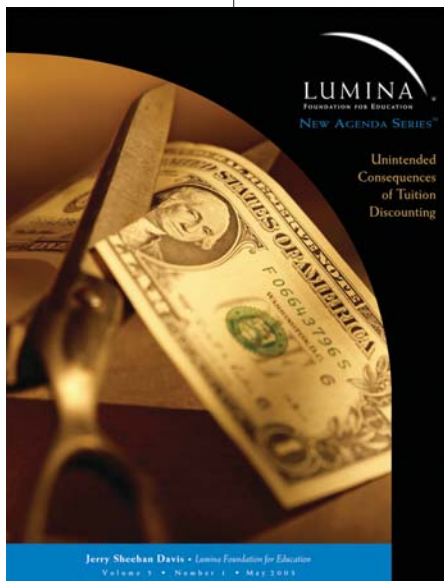
## THE RESEARCH:

**A** new report from Lumina Foundation for Education, *Unintended Consequences of Tuition Discounting*, shows that tuition-discounting practices have produced mixed results for individual colleges and for colleges collectively.

The report, written by Jerry S. Davis, the Foundation's vice president for research, shows that tuition discounting frequently fails to increase net revenue for colleges. In fact, colleges that have offered the deepest discounts have lost the most tuition revenue. Tuition discounting does not always result in increasing student quality. Colleges with the greatest increases in tuition discount rates in the 1990s did *not* increase the median SAT scores of their students.

The analysis demonstrates that using large amounts of tuition and fee revenue for financial aid reduces an institution's options to use net revenues for other purposes and has the potential of contributing to the financial distress of more than a few colleges.

The most worrisome outcome of tuition discounting, Davis writes, is



**Tuition discounting is the norm on four-year college campuses today, but it may not be working as intended.**

that institutional aid practices, *when combined across all institutions*, have led to troubling financial results for lower-income students. These practices have:

- Restricted students' access to grant aid to attend four-year institutions.
- Reduced students' opportunities to choose among public and private colleges.

Between 1995 and 1999, average institutional grant aid at both private and public four-year colleges rose faster for students with family incomes exceeding \$40,000 than for students with lower incomes, making it harder for the lower-income students to afford postsecondary education.

The fact that colleges are giving less of their grant aid to the lower-income students might not be as troublesome if grant aid from federal, state, and private programs kept pace. But this research shows that, between 1995 and 1999, grant aid from these *non-institutional* sources also grew faster for more affluent than for lower-income students. The consequences were especially troubling for lower-income students attending private colleges. Their grant aid from all sources covered only two-thirds of their average tuition increase. In contrast, increased grant aid for affluent students at private colleges covered more than 100 percent of their increase in average tuition.

Lower-income students attending public colleges fared somewhat better, but only because of *non-institutional* grant aid. Increased institutional grant aid at public colleges covered less than one-fourth of the tuition increases for lower-income undergraduates, but that aid covered more than one-half of the tuition increases for their more affluent classmates.

## WHAT'S NEXT:

In an era of constricting budgets and shrinking endowments, colleges need to examine both the effectiveness and consequences of tuition-discounting strategies to themselves and their students. Lumina Foundation for Education is concerned about the impacts of tuition discounting for several reasons:

- Discounting may unintentionally reduce accessibility and affordability.
- Institutions that pay for discounting by shifting funds away from instructional and student services may impede their own efforts to improve student retention and attainment.
- Some colleges may be courting financial danger because of discounting.

Our intent in this report is not to find fault but to point out effect. Once that reality is known and shared, we hope to assist the higher education community in addressing the larger issue: How can institutions, governments, foundations, businesses and other partners

fine-tune the higher education financing system?

No one entity can purport to do it all. At the same time, Lumina Foundation is committed to improving access to postsecondary education. In that spirit, and as a prudent first step toward that goal, we suggest that all concerned parties honestly and openly address tuition discounting as a part of a national conversation. Lumina Foundation stands ready to support this conversation.

## A definition

*Tuition discounting is the art and science of establishing the net price of attendance for all students at amounts that will maximize tuition revenue while achieving various enrollment goals. Any financial aid practice that cuts the out-of-pocket costs students must pay for tuition could be termed "tuition discounting" when it reduces or "discounts" tuition. But what best distinguishes tuition discounting from other activities is its intent to influence students' choices.*

Free copies of the full report, *Unintended Consequences of Tuition Discounting*, are available. To obtain a copy or to request any of Lumina Foundation's printed materials, please send an e-mail request to [pgriffin@luminafoundation.org](mailto:pgriffin@luminafoundation.org) or visit the "Publications" section of [www.luminafoundation.org](http://www.luminafoundation.org).

Lumina Foundation for Education, a private, independent foundation based in Indianapolis, strives to help people achieve their potential by expanding access and success in education beyond high school. Through research, grants for innovative programs and communication initiatives, Lumina Foundation addresses issues surrounding access and educational attainment

— particularly among underserved students groups, including adult learners. The Foundation bases its mission on the belief that postsecondary education remains one of the most beneficial investments that individuals can make in themselves and that society can make in its people. For more details on the Foundation, visit its Web site at [www.luminafoundation.org](http://www.luminafoundation.org).