



## **A Failing Grade: “High-Tuition/High-Aid”**

**By Gabriel Nishimura**

### **Summary**

*“The reality of high-tuition/high-aid did not match the vision advocated by progressives.”*

*- Edward St. John, University of Michigan Professor of Higher Education<sup>1</sup>*

In the face of impending budget cuts to higher education, Washington policymakers are considering adopting a “high-tuition/high-aid” model of financing. In theory, by significantly increasing tuition, students who can afford it pay more; those students who cannot, benefit from larger financial aid packages supported by the tuition increase.

But the experience of universities that have adopted this model shows that high-tuition/high-aid preserves neither access nor quality. Examination of results from four Research Tier 1 universities that switched to the high tuition-high aid model finds:

- Enrollment of low-income and under-represented minority students declines due in part to “sticker shock.”
- Enrollment of high-performing students declines due to greater competition with private colleges.
- Educational quality decreases as schools shift funds in the struggle to maintain access.
- Financial aid packages emphasize loans that contribute to high levels of student debt.

### **Reduced Access**

The appeal of the high-tuition/high-aid model is the claim that it maintains access for low-income students. Unfortunately, evidence from schools operating under this model reveal a different picture altogether.

States with higher tuition have lower rates of enrollment of low-income students and wider gaps in enrollment rates of high and low-income youth.<sup>2</sup> The latest study showed that for top research universities, every \$1,000 increase in tuition leads to 6% decrease in enrollment.<sup>3</sup>

At the **University of Michigan-Ann Arbor**, student demographics have changed significantly since the university switched to high-tuition/high-aid, trending toward fewer low-income students and under-representation of minority students.

From 1997-2007, the number of UM students coming from households with incomes of \$10,000-\$74,999 has decreased by 10%, while the number of students from households making over \$200,000 has

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<sup>1</sup> St John, E. Interview on Privatization and Public Universities. Inside Higher Ed (8/10/2006)

<sup>2</sup> Kane, T.J., (1995). Rising Public College Tuition and College Entry: How Well Do Public Subsidies Promote Access to College. Working Paper Number 5164. National Bureau of Economic research.

<sup>3</sup> Hemelt, S. & Marcotte, D. (2008). *Rising Tuition and Enrollment in Higher Education*. Discussion Paper Number 3287, Institute for the Study of Labor.

increased by 8%<sup>4</sup>. Despite great efforts to recruit more students from underrepresented minority groups, the percentage of black students has decreased from 8.4% in 1999 to 6.7% in 2008, and Latino and Native American percentages have remained stagnant.<sup>5</sup>

In the search for an explanation, UM Executive Financial Aid Director Pamela Fowler refers to the phenomenon known as “sticker shock”: “Our cost scares people away... it’s hard for [prospective students] to reconcile that, yes, we may be more expensive, but we give more financial aid.”<sup>6</sup>

High sticker prices – total tuition amount before financial aid – deter students from enrolling for reasons including lack of knowledge about available aid packages, fear of incurring large sums of debt, or fear of burdening their families.

The **University of Miami-Ohio** saw sticker shock in action one year after switching to a high-tuition/high-aid model in 2004. The school experienced a record 13% drop in in-state and 10% drop in out-of-state enrollment, with the decreases coming disproportionately from “highest need” students.<sup>7</sup>

The **University of Washington** would be under even greater strain to provide aid than any of the high-tuition/high-aid precedents like Michigan, Miami-Ohio, and Vermont (where the high-tuition/high-aid model was pioneered), because the UW has a much larger share of low-income students to serve. The UW has a Pell Grant recipient rate of 25% -- nearly twice the University of Michigan’s rate of 13%.<sup>8</sup>

## Decreased Quality

Educational quality can diminish under a high tuition/high-aid model in many ways:

- **Lack of price advantage over private colleges.** Public universities lose a competitive edge as large numbers of high-achieving students opt for smaller liberal arts colleges. Selectivity decreases as schools seek to counteract lower enrollment.
- **Recruitment of more out-of-state students.** Public schools recruit more out-of-state students due to the higher revenue they bring in, displacing students from in-state.
- **Competition for scarce funds.** Tuition revenue does not completely make up for decreased state appropriations, so academic quality competes for funding with financial aid.
- **The strongest faculty members leave the university.** Competition for funds also results in teacher salaries staying frozen.
- **Graduate research suffers.** Research into new medical, technological, and economic developments diminishes due to lack of fellowship and research grants.

In 2006, the **University of California** schools decided against switching to a high-tuition/high-aid model. Administrators and policymakers realized that under such a model, they would be unable to fulfill their pledge to serve a socioeconomically and racially diverse population without huge

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<sup>4</sup> University of Michigan: Student Profile Ten Year Comparison 2007.

<sup>5</sup> University of Michigan Office of Registrar

<sup>6</sup> Ann Arbor News. University of Michigan focuses on low-income students but fewer enroll. (6/7/2008)

<sup>7</sup> Capriccioso, R., (2006). *Much Hyped Tuition Plan Falls Flat*. Inside Higher Ed News.

<sup>8</sup> Fischer, K., (2006). *Elite Colleges Lag in Serving the Needy*. Chronicle of Higher Education Special Report.

sacrifices in educational quality.<sup>9</sup> Instead, Governor Schwarzenegger approved a state buyout of the proposed tuition increases to make up for the lost revenue to the schools.<sup>10</sup>

## Increased Student Debt

Without a clear plan guaranteeing that resources will be directed towards grants rather than more loans, a high tuition/high-aid policy in Washington would only serve to exacerbate an already out of control student debt problem.

Over the past twenty years in the U.S., loans have become the largest single source of student financial aid. In 1991-92, loans made up 36% of total aid packages, and grants were 61%. By 2007-08, loans had grown to comprise 49% of the packages, while grants fell to 45%.<sup>11</sup>

All evidence from universities already using the “high-tuition/high-aid” model shows the problem continues to grow. At the **University of Michigan**, average indebtedness upon graduation is \$25,586, nearly \$10,000 more than what University of Washington students now leave with.

The **University of Vermont** has similarly been unable to prevent huge increases in student debt. According to Scott Giles, Vice President of Policy, Research, and Planning at UV, “The challenge we face is that the resources that legislature have provided us have not been sufficient, particularly over the course of the last 10 years.”<sup>12</sup>

According to State Relations Director Randy Hodgins, the **University of Washington** currently boasts a relatively low average student debt upon graduation: \$16,481 compared to the national average of \$19,400.<sup>13</sup>

The UW would likely face the same struggle as other universities under high-tuition/high-aid. Two-thirds of the UW’s financial aid resources come from the federal and state levels.<sup>14</sup> Even with an increased commitment from the UW to provide low-income students with grants, significant help from the legislature would be necessary to balance the tuition increases.

Middle-income students, who are just above the qualifying mark for grants, would likely be hit the hardest. According to Patrick Callan, President of the National Center for Public Policy and Higher Education, “there is no example of this model that doesn’t squeeze the middle very hard.”

Institution	Resident Undergraduate Tuition (2009)	Average Indebtedness Upon Graduation (2009)
<b>University of Washington</b>	<b>\$6,802</b>	<b>\$16,481</b>
University of Virginia	\$9,505	\$19,016
University of Michigan	\$11,037	\$25,586
Miami University of Ohio	\$11,887	\$26,798
University of Vermont	\$12,844	\$25,599

Sources: *College Board College Search, 2009*; *University of Washington State Relations, 2009*.

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<sup>9</sup> The University Committee on Planning and Budget: Current Budget Trends and the Future of the University of California (5/2006).

<sup>10</sup> University of California Newsroom: “Governor’s budget proposal supports UC Compact, includes state buyout of student fee increases” (1/10/2006).

<sup>11</sup> College Board: Trends in Student Aid 2008

<sup>12</sup> Kim, A., Seattle P-I: “University of Washington considers high tuition-high aid model” (9/5/2005)

<sup>13</sup> University of Washington Capitol Update: “Good news on student debt” (1/20/2009)

<sup>14</sup> University of Washington Planning and Budgeting Office of Institutional Studies