Cornell College

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From President Jonathan Brand

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The Affordability of Higher Education

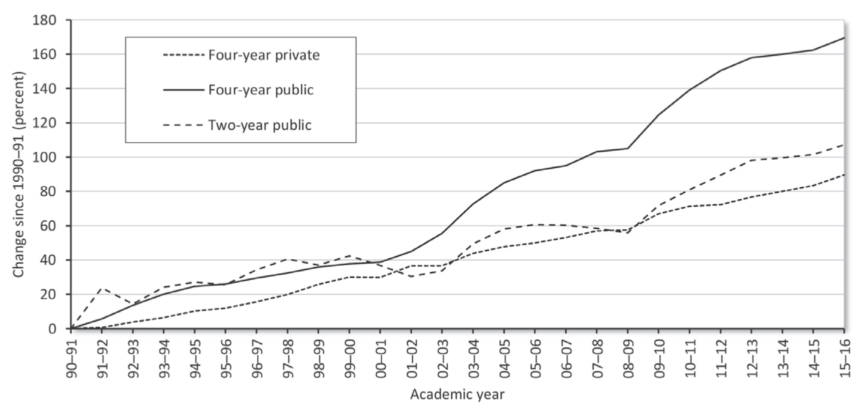
It is quite common for our alumni and friends to ask about the future of higher education. They have questions, and the right ones at that. How expensive is Cornell? Will tuition just continue going up? Can students really afford Cornell, or college in general? Do we lose students because of our price? How does tuition affect enrollment? Ultimately, these questions speak to the reality that affordability of higher education (OR the perception of *unaffordability*) has been in the public eye for many years now.

"It has long been an article of faith that a college degree amounts to a ticket for prosperity and the good life in the richest country on earth ... But for millennials and generation Z, and their parents, that faith has been shaken by rising college costs, high student debt, and limited job prospects. Elite colleges and universities continue to attract the most able and affluent students, but many mid-range private and regional public institutions are scrambling to fill their classes."[1]

The fallacy of sticker price

There is really no debate that "sticker price"—the tuition price and fees that schools advertise, NOT what students pay thanks to financial aid—has been on a steep rise for years, as indicated by the following College Board graph:[2]

Trends in Published Tuition and Fees (in 2015 dollars)



[1] See The 21st-Century Presidency: A Call for Enterprise Leadership, Terrence MacTaggart, published by the Association of Governing Boards (AGB) in August 2017.

[2] See College Board, *Trends in College Pricing: 2015*, Table 2, https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-and-board-over-time.

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According to the College Board[3], based on the foregoing data, in the U.S., "between 2011-12 and 2016-17, published tuition and fee prices rose by 9% in the public four-year sector, by 11% at public two-year colleges, and by 13% at private nonprofit four-year institutions (which includes Cornell), after adjusting for inflation."[4] More specifically, we have experienced the following trends in advertised tuition and fees ("sticker price"):

- Average published tuition and fees in the public four-year sector rose by 2.9%, 3.0%, and 2.4% in 2014-15, 2015-16, and 2016-17, respectively, the smallest current dollar increases since the mid-1970s. The inflation-adjusted increases were 1.0% in 2014-15, 2.8% in 2015-16, and 1.6% in 2016-17.
- Average published tuition and fees at public four-year colleges and universities increased by 9% in 2016 dollars over the five years from 2011-12 to 2016-17, following a 29% increase between 2006-07 and 2011-12.
- Average published tuition and fees at public two-year colleges and universities increased by 11% in 2016 dollars over the five years from 2011-12 to 2016-17, following an 18% increase between 2006-07 and 2011-12.
- Average published tuition and fees at private nonprofit four-year colleges and universities increased by 13% in 2016 dollars over the five years from 2011-12 to 2016-17, the same as between 2006-07 and 2011-12.[5]

No doubt, the data show that the percentage increase in sticker price has slowed down in the last few years. Yet, the reality remains: sticker price for a college education across all sectors has gone up, and dramatically at that, for years, even decades.[6]

Of course, one important question is why. Why precisely has sticker price gone up so dramatically? On that matter, there is disagreement. For example, some believe that the sticker price of a college education has gone up as a result of DECLINING state support.[7] Others believe the exact opposite—that the sticker price has gone up as a result of INCREASING state and federal support. There is also the opinion that tuition and fees generally rise because colleges and universities are simply not good at reducing costs. Others believe that, like any other organization, colleges and universities simply desire greater revenue. And, finally, others believe that tuition and fees have generally risen because college and universities have simply followed what other schools have done.[8] Unfortunately, it is difficult, if not impossible, to determine who is right—there may be a bit of truth in each of these positions.

Sticker price is virtually never a good measure of affordability because many students receive financial aid in the way of scholarships and grants, and that aid reduces what students and families actually pay.

As it turns out, in 2016-17, the cost that families actually paid for college was very similar to what they had paid in the preceding year. Scholarships and grants accounted, on average, for about 35% of the cost. Parents paid for approximately 23% and borrowed roughly 8%. At the same time, students' income and their savings accounted for 11%, and their borrowing covered 19%. Finally, relatives and friends covered about 4%.[9]

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[3] See College Board, *Trends in College Pricing: 2015*, Table 2, https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-and-board-over-time.

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[5] See College Board, *Trends in College Pricing: 2015*, Table 2, https://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-and-board-over-time.

[6] See Cato Institute, Policy Analysis: Not Just Treading Water, by Neal McCluskey, February 15, 2017.

[7] After all, "state and local appropriations for public institutions [and private ones in some states] have, on a per full-time equivalent (FTE) student basis, been on a roughly declining slope." Cato Institute, Policy Analysis: Not Just Treading Water, by Neal McCluskey, February 15, 2017.

[8] See Cato Institute, Policy Analysis: Not Just Treading Water, by Neal McCluskey, February 15, 2017.

[9] How America Pays for College 2016, Sallie Mae, published in 2016. See http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2016FNL.pdf.

The murky truth of college debt

In terms of what students actually pay for college, we know that "families paid less out of pocket for college in academic year 2015-16 than in 2014-15, as scholarships and grants covered a greater share of the cost. Scholarships and grants funded 34 percent of college costs, up from 30 percent in 2014-15, and represented the largest proportion of any resource used to pay for college in the past five years."[10]

BUT, students and families are still taking on debt. And, that starts to touch directly on the issue of affordability, especially when student debt is placed within the context of other recurring expenses. In fact, in 2012, total student loan debt was calculated at over $1 trillion, surpassing total credit card debt in the United States.[11] "These milestones brought to a boil long-simmering frustration with college price growth that has outstripped normal inflation, household income changes, and even spending-rate increases in the health care sector."[12]

And yet, these facts about total student debt in the United States are not detailed enough to help us reach meaningful conclusions about the causes behind, or the severity of, this debt, particularly as it relates to students who attend colleges like Cornell. For example, Professor Sandy Baum, senior fellow in the Income and Benefits Policy Center at the Urban Institute and a professor emerita of economics at Skidmore College, noted that "the people struggling most with student debt are not the young, four-year college graduates working at Starbucks, but older adults who went back to a community college or—at much greater expense—a for-profit institution. Many left college without a degree and are struggling to make ends meet even without paying off student loans." She added that "about half of the outstanding student debt is held by households in the top half of the income distribution. This is not surprising, since the students who accumulate the most education debt are those who stay enrolled; higher levels of education lead to higher earnings." Finally, Dr. Baum asserted that "[a]mong 2011-12 graduates, 10 percent of bachelor's degree recipients had as much as $50,000 in debt, while 37 percent of graduate degree recipients had borrowed that much. In other words, much of the borrowing that is adding to the stock of outstanding debt comes from people earning advanced degrees—many of whom will have relatively high incomes."[13]

Cornell provides financial assistance to 99.4% of students, and our graduates have a relatively low average loan default rate, which means that they are getting jobs and are not burdened by debt. According to the latest statistics from the Federal Student Aid office of the U.S. Department of Education:[14]

- 1.9%: Cornell College student loan default rate (3-year average)
- 12.6%: State of Iowa student loan default rate (for all types of colleges)
- 11.5%: National college student loan default rate (3-year average); 7.0% for four-year private colleges, 11.3% for public universities

It is abundantly clear that students and families have become that much more conscious of the cost of college. According to the National Association of Student Financial Aid Administrators assessment of the Sallie Mae

[10] How America Pays for College 2016, Sallie Mae, published in 2016. See http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2016FNL.pdf.

[11] See Cato Institute, Policy Analysis: Not Just Treading Water, by Neal McCluskey, February 15, 2017.

[12] See Cato Institute, Policy Analysis: Not Just Treading Water, by Neal McCluskey, February 15, 2017.

[13] See What College Should Know About Students' Borrowing Patterns, Sandy Baum, March 5, 2017. Another interesting fact from Sandy Baum relates to loan default rates, in relation to debt levels. She wrote: "Difficulty in repaying loans is not associated with high debt levels. Among borrowers who began repaying their debt in 2010-11, 35 percent of those who owed less than $5,000 defaulted within three years, compared with just 4 percent of those who owed more than $40,000."

[14] U.S. Department of Education, Federal Student Aid for fiscal year 2014, three-year rate. https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

study, "[i]n 2008—the first year of the survey—58 percent of families ruled out a particular college due to the cost. This year, that number rose to 69 percent."[15] And, all families are looking for ways that they can reduce the cost of college, "such as by choosing an in-state school, living at home, adding a roommate, or increasing their work hours, for example. About 1 in 5 students (18 percent) also changed majors to pursue "a more marketable profession ..."[16] It is a time of dramatic instability and uncertainty.

The topic of affordability raises a very complicated web of interrelated issues, and it is equally hard to unravel precisely what is happening—from the causes to the consequences.

The reality of the college landscape

Now, in what may be the perfect storm for colleges and universities, we have to more profoundly prove and articulate the value-add of the education we offer at a time when there are more schools than students interested in attending them. In fact, we are currently experiencing, at the national level, a diminution in high school graduates—a drop that is projected to continue for another seven years. When it begins to grow again, it will be largely from students in the South and the West, not from New England or the Midwest. And, we know that future college students will have increasing financial need, which will make college even more expensive for them in relative terms.

This increased competition among colleges and universities for a smaller group of college-going students means adding programs and amenities, and that increases costs. And, schools have had to pass the associated costs onto students because these added programs and amenities necessarily affect the bottom line.

The multifaceted perception of value

Ultimately, the issue of affordability is not really just about an ability to pay. It is really about value. While we focus on the sticker price and how much we discount that sticker price with financial aid (we call this the "discount rate"), we also have to increase our value. For a student or a family member, they may ask: is what I am getting worth what I am paying? *Put another way, the perception of affordability involves sticker price tied to financial aid, which is then tied to the perceived value of the "product"—the available educational experiences as well as the perceived external value of holding a degree from that institution.* Or, as the Washington Post articulated: "Judging whether higher education is economical depends on the credential being pursued, the upfront investment, the odds of completion, and the long-term value," referencing a study undertaken by the Urban Institute.[17]

So, it comes down to value, and that is hard to assess. It's not like eating a fresh Iowa tomato in late summer, where, immediately upon tasting it, you know that it's good. In that instance, it is not difficult to assess what that tomato is worth to you and assign a dollar value to it. A college education is different. A meaningful college education is challenging. It requires effort (where in the tomato example, we have nothing to do other than to eat it). We grapple with complex ideas. We confront unpleasant realities—like the certainty of death and loss. Eating a tomato is immediate and simple.

[15] See Survey: Students, Parents Increasingly Conscious of College Cost, by Allie Bidwell, Communications Staff, NASFAA, July 21, 2017.
[16] See Survey: Students, Parents Increasingly Conscious of College Cost, by Allie Bidwell, Communications Staff, NASFAA, July 21, 2017.
[17] See: What does college affordability really look like?, by Danielle Douglas-Gabriel, April 4, 2017, in the Washington Post, referencing the study by the Urban Institute at: http://collegeaffordability.urban.org/.

There is no agreement on how to assign a value to a college education. Some believe that the value of a college education is a function of the available opportunities at a college while a student is there (read: what you get while at a college). Others think that it is a function of what you leave being able to do. Alternatively, some believe that value is determined by the professional and personal success of a college's graduates—something that may take years to even experience or realize. Finally, some may simply recognize the value of a college education as determined by reputation of a particular institution, perhaps through national rankings. People know Harvard University as a name, and, as a result, assign it a value, for better or for worse, even without knowing firsthand what the quality of the experience might be like for undergraduates.

Cornell is obviously influenced by all of these definitions of value. Every student and every family can define the value of a college education differently, and we have to do our best to prove that value as they understand it. To be sure, we focus on that which we can control: 1) ensuring adequate financial aid so that students can attend Cornell in the first place (no college education is worth anything IF students can't even afford to be there), 2) offering a wide range of life-changing experiences, 3) developing strong post-graduate opportunities, and 4) sharing widely and regularly the successes of our students, alumni, faculty, and staff.

It is also true that our value is built into our core educational philosophy as a national liberal arts and sciences college. Our model of education is expensive. There is no doubt about that. We intentionally maintain a small student-faculty ratio and small classes, believing that students learn more when they are in classes that ensure their active participation—when faculty actually know who they are. Faculty teach our courses, rather than graduate students, which not only strengthens the quality of the experience but also ensures strong advising and mentoring while students are at Cornell, and also when they become alumni. We teach on our One Course calendar, which deepens every experience that our students have. It makes our distinctive off-campus study program and experiential learning possible because our students don't have scheduling conflicts. We offer generous financial support for a wide array of programs such as Mock Trial, Student Senate, internships, and fellowships, so that students can have these experiences.

How Cornell reacts to this environment

While we focus on the quality of the education we offer, we still must, no doubt, focus on pricing—tuition, fees, and financial aid. Last year, we commissioned a study of our sticker price and financial aid to assess whether they, in the aggregate, were limiting the pool of prospective students who are willing to consider Cornell College. We wondered, for example, whether a dramatic cut in our sticker price might translate into a greater number of enrolled students. At the same time, we have remained mindful of the perception that sticker price generally connotes quality—that is, that less costly schools are perceived to be of a lower quality. What we learned was fascinating. The study revealed that we are priced appropriately (our sticker price), and that we should focus instead on continuing to expand our distinctive programs and the opportunities available to students, as well as grow the financial aid available to them. The report recommended that we increase value through our academic and co-curricular programs.

This is where philanthropy plays such a central role. It is through our alumni and friends that we are able to offer vital financial aid—aid that truly makes a Cornell experience a reality for many students. And, we know that many alumni create financial aid endowments because they realize that Cornell was made possible for them thanks to the financial support of those who preceded them. They wish to pay society back by giving forward.

Ultimately, it is not clear where college sticker prices will go in the future—whether they will continue to grow each year by 2%-3% (conjoined with generous financial aid to offset the sticker price) or whether many colleges will cut their advertised tuition, fees, AND the associated financial aid. What is clear is that colleges and universities are prohibited by federal antitrust law from acting collectively in setting tuition or financial aid levels. For now, at Cornell, we will remain mindful of what our prospective students can financially afford, all while increasing the value and perceived value of a Cornell education. As with everything else that we do, progress will take the efforts of all of us.

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This presidential white paper is part of a series on matters of importance to Cornellians.
I welcome any comments or observations you might have on this white paper topic.
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