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HOW TO MAKE COLLEGE DEGREES CONSUMER-FRIENDLY

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About the Author

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Executive Summary

Investing in postsecondary education ought to be as clear and transparent as any other purchase, including clear pricing up-front that allows consumers to make well-founded school, degree, and borrowing choices that fit their personal circumstances, talents, and ambitions. Yet that is not how college financing works today. Instead, students and families coming into the process have little knowledge of the total amount that they will have to spend. Furthermore, the information that they do have about costs and options for payment are presented in a way that is difficult to understand when trying to budget effectively.

Too often, the end result of the complicated way people must shop for and obtain postsecondary education is debt without a degree. This report lays out three solutions that can greatly improve consumers' abilities to make the kinds of thoughtful choices that lead to higher levels of overall student financial success: 1) give students a single, up-front, total price for their degree; 2) separate out, and separately finance, cost-of-living and direct training expenses; and 3) repackage college comparison data in ways that consumers are more likely to understand, and then leverage it.

Some of these reforms can be implemented today by colleges, universities, and the federal government; others will require policy action. All, however, are premised on increased transparency and clarity. As Congress, institutional leaders, and education consumers look for ways to get more students to affordably enroll and complete postsecondary education, success starts with modest changes aimed at helping consumers make better choices while incentivizing institutions to be aligned and responsive to their customers' needs.

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A Single, Up-Front Price

People use loans to pay for many types of goods and services that are both expensive and last for a long time—think homes and automobiles. Not only do they know the price up-front, but the lending process actually starts with figuring out how much someone can reasonably afford on a monthly basis. That also allows customers to determine, on a rolling basis, whether the purchase is worth the cost.[1]

Paying for college with loans works almost exactly backward. Rather than shopping within the constraint of what is affordable, students first shop for the program or degree they want, and then back into a mash-up of loans, grants, scholarships, and personal resources to cover the costs—and then repeat this process every year until they are finished. It is not until the last credit hour has been achieved and the last fee paid that students know precisely how much their education ended up costing. Unsurprisingly, consumers often leave feeling that they have overborrowed.[2]

If that feels weird, it is. Imagine how difficult it would be to finance a car or a home if you didn't know how much it would cost in any given year or even how long you'd be paying for it.

The very nature of the current borrowing and billing system makes it hard for even the most financially savvy student to budget accurately. Financial aid offered at the time of admission does not always match the financial aid awarded at enrollment, since actual eligibility depends on credits taken, which is not always anticipated at the time they apply for aid. Because colleges bill by credit hours and federal student loans are disbursed by semester, a student who takes a heavy course load in a given semester can end up with additional, unbudgeted expenses. Federal aid rules requiring at least half-time enrollment for eligibility mean that students who are one course short of graduation can find themselves having to take unnecessary coursework and create needless expenses. Simple unforeseen things like annual changes in student or family financial circumstances can lead to scenarios where grant aid in one year ends up decreasing in a subsequent year and must be offset by greater borrowing.

The Solution

A better arrangement would allow students the option to purchase, up-front, a degree program at a fixed, total price. Instead of being told that tuition and fees for a full-time student are, for example, $8,570 a year, or that the institution charges between $450 and $700 per credit hour, students would be told that an "all-in" bachelor of arts degree costs $27,500, or that, say, a five-year professional accounting degree costs $38,700.

For students, an all-in, binding price cap makes it far easier to budget needed resources but also to weigh the cost against future benefits. It is difficult to equate the value of a year's worth of borrowing against a lifetime of future expected income, especially when you don't know how many years you will have to be borrowing.

In principle, institutions should not have a material difference between offering a price cap and using incremental credit-hour pricing; they would still have the flexibility to charge different rates for different programs. Indirect costs, like housing and meal plan options, would be treated separately and could still be sold to students annually.

As with other large, long-run purchases, students could be presented with flexible payment options and multiyear financing structures, as they are today. For example, they could opt to pay the full cost up-front or finance all or part of the cost with loans. Students who receive scholarships when entering school would see the up-front price reduced, and students who take out loans could continue to seek scholarships in later years, which would then be applied to the principal.

Where federal loans are concerned, students could still borrow annually, under the same limits that currently exist. The only difference is that, depending on the price charged, students may no longer need to borrow after their second or third year.

In either case, the flexible financing structure means that students who need to opt out of such an arrangement[3] could do so and would simply have some prorated amount—most likely, tied to the underlying credit hour pricing—returned to them.

This alternative model would be especially beneficial for the many students who leave school because they can no longer afford to stay enrolled or reach their internal borrowing threshold.[4] While schools would want to have some reasonable overall time limit in place, students who paid the price to enroll would have access to the courses they need for their degree but could progress at their own pace, without uncertainty about future costs.

Flat pricing would also encourage schools to be more responsive to students' needs. Those students taking too long to complete would eventually become cost centers. Flat pricing would create an incentive for schools to help students not only to get over the finish line but to do so as quickly as possible.

Separate Direct Education (Tuition and Fees) Costs from Noninstructional (Living Support) Expenses

Students take out loans to cover the direct expenses associated with training, i.e., tuition; and they routinely take out additional loans to cover life expenses that still need to be met when it is not possible to work and study at the same time.

The federal student aid system includes support for indirect expenses by default. While many students must forgo work while in school, it is not obvious that indirect expenses should be considered a cost of college, since they would need to be covered even if a student were not enrolled.[5]

While having one's living expenses covered frees up time to focus on studying, not every student requires or needs indirect cost support. Today's students are older and more likely to be employed. They often own their own transportation and have spouses who share in financial budgeting.[6] What is more, colleges routinely tout weekend and evening programs specifically designed to accommodate commuting, working students.

If students' circumstances and needs vary, a policy that automatically offers everyone easy-to-obtain credit likely fosters unnecessary borrowing and increases the likelihood that the debt will not be repaid.[7] Should a student enrolled in an online course be eligible to borrow for costs to commute to campus? Probably not, but federal aid policy does not make this distinction.

Financial aid award notifications typically separate out education fees and living expenses when calculating a total cost of attendance, but the bottom-line funding options seek to match only the combined cost rather than the individual components. As it is, most students do not fully realize how much money they will have to pay for living expenses until they receive a final semester bill, and the institution has been paid in full for the semester.

The Solution

A more straightforward way to help students budget for what they truly need to pay for education, while holding institutions more directly accountable for the cost of the services they provide, is to separate the cost of paying

for education into direct and indirect expenses at each stage of the college financing experience:

The planning phase: The U.S. Department of Education's College Scorecard—provided by the federal government to convey information about college costs and graduate earnings—shows present prospective students a single average annual cost. Instead, students could be given two numbers: the average cost of education services; and an average estimate of indirect costs. Congress and the Department of Education could also require that schools present costs in this way on their website and in any campus marketing materials.

The funding phase: Institutions could provide students two separate aid offer letters. The first would present the direct costs (tuition and fees), less any grant or scholarship aid, which would inform students and families of the actual out-of-pocket cost needed to cover the credential itself. Where there is a gap, institutions could, in plain language, offer several financing options that include various mixes of personal resources, federal student loans, parent loans, and work study. Knowing how students will cover the direct cost of training could be made as easy as checking a box next to the combination of financing that they prefer.

A second aid award letter would focus on living expenses. Students would see estimated costs for three or four major categories such as housing, food, transportation, and "other." Students could again check-mark expenses that they would like to receive support for—or, more important, those for which they do not want support. This gives them the ability to preemptively limit a cost that they can directly control.

Any federal student loan aid available after direct education costs have been paid could be packaged into a second direct "living" loan and presented as the first or best choice, followed by work study (if still available), and, finally, private or alternative loans.

The repayment phase: separate billing and repayment of federal student loans for direct and indirect expenses. Tracking education versus living-expense borrowing would allow students, institutions, and policymakers to monitor the extent to which changes in borrowing levels are being driven by expensive programs or high living costs.

These phases involve differing levels of coordination. Changes to the College Scorecard could, for example, be done instantly. Institutional changes would likely require proactive participation at first but could be cemented in a future reauthorization of the Higher Education Act, which already mandates a number of required institutional disclosures.[8] The U.S. Department of Education could further incentivize institutional adoption by incorporating the broken-out cost structure into its College Financing Plan template.[9] The biggest structural changes would be to the federal student loan program, which would have to separate out loans for tuition and living, but the mechanisms for doing this already exist.[10]

Congress could further simplify budgeting for students by revising the Cost of Attendance calculation to omit expenses for students in exclusively online programs or for those who enroll in programs that are explicitly marketed for students who are employed full-time. They could reduce federal loan borrowing by considering leaving the financing of indirect expenses for all but the lowest-income student borrowers to the private loan market. If budgeting living-expense aid is the larger concern, it could consider disbursing the aid over-awards that already take place in monthly, rather than semester, tranches to better align with the income flows that student borrowers still get in some form or another to manage their other basic finances.

Consumer-Friendly Data

Estimates of education costs today—and the typical salary benefits resulting from education—are almost exclusively presented in annualized terms. For example, if prospective in-state students at Florida State University look at the College Scorecard, they will see that the current price is between $10,000 and $20,000 per year, depending roughly on their family's income. They will also see that the median graduate of Florida State earns about $46,000 after 10 years.[11] Is the cost of the degree worth it? By any standard, it is extremely difficult to know.

These numbers may be accurate, but they are hard to use to make informed decisions. A $46,000 gross salary in Florida translates into roughly $3,200 per month after taxes, which would sound great—if you lived in Buffalo, New York. But in Miami, where the average rent for an apartment is about $1,700 per month, it becomes a much tighter value proposition.

Anyone who has ever bought a car from a dealership knows just how important monthly budgeting is. Car salesmen are experts at helping people find a manageable way to pay for a $30,000 or $40,000 car in monthly payments that they can reliably cover. An annual cost of $10,000 for college might seem prohibitively expensive to someone earning $30,000 per year, but a loan with a monthly payment of $103 may not. When taking out a mortgage—the largest

debt that most people are ever likely to take on—the process actually starts by determining how much one can reasonably afford on a monthly basis.

When people buy education, they need a sense not only of the cost but the return on the investment as well. It is extremely difficult for even savvy consumers to make well-informed decisions based on estimates of annual salaries 10 years after students first enrolled in the school.[12]

Financial terms and figures presented in colleges' financial aid award letters are typically presented in annual estimates. The availability of loans, for example, to cover annual costs in award letters is almost never presented in monthly repayment terms, even though people who borrow are using the award letter, in part, to determine affordability and almost invariably must repay their debts on a monthly basis.[13]

The Solution

Financial aid award letters, net price calculators, and the College Scorecard could all provide existing information in ways that make it easier for students and families to make better budgeting decisions.

The College Scorecard earnings data ought to be repackaged. Students should be able to find out how much, after taxes, that they can expect to take home on a monthly basis, depending on which state they plan to live in. This would be far more useful to students than information about annual salaries.

While the Scorecard does show the average monthly payment for a given student loan amount, it uses a standard payment model, which, in many cases, may not be the most affordable monthly repayment option available to students. Instead, the Scorecard could estimate the monthly payments that would be required under a typical income-driven repayment plan.

Financial aid award letters could convey estimates of monthly costs of loan repayment as well as projected future monthly earnings, depending on major and career path.[14] And information about cumulative, as well as current, borrowing could help prevent excessive borrowing. Net price calculators can be mandated—again, through a future reauthorization of the Higher Education Act—to mimic data presentation in the same way these other consumer data sources would be.

Repackaging data into terms that consumers are more familiar with from other aspects of their family budgeting can help prospective, and even current, students better conceptualize costs and returns. An estimated $48,000 annual salary is less useful to a prospective student than an estimated monthly take-home pay of $3,200. Telling a family that they need to find an additional $14,000 in PLUS or private loans creates far more angst to someone struggling to understand the "award" that he or she has just received than helping the family weigh the choice up-front of taking on a $175-per-month loan payment for the next 10 years.

Pragmatically, most of the changes proposed here are very simple to implement. In the case of the College Scorecard, no new data collection is being proposed but instead a simple manipulation of numbers that are already being captured. Net figures might be hard to calculate precisely for every student because of state and local taxes, but precise numbers are not necessary. A prospective student needs only a basic understanding of what kind of income an investment in education is likely to yield.

Conclusion

Each solution presented in this paper offers "low-lift" improvements in its own right, but the solutions can be even more powerful if jointly applied. Presenting data in monthly budget-friendly terms helps consumers better gauge affordability, especially if they understand that some expenses are mandatory while others are not. Up-front, total cost pricing streamlines the need for annual aid awards; and when presented in terms that consumers are used to dealing with when making financial decisions, total-cost pricing ought to lead to more honest evaluations of a return on investment.

These proposals enhance student financial success by presenting information in a usable and highly personalized manner, as opposed to one-size-fits-all. And the proposals are ready to implement now. There are no new data to collect, or any new burdens imposed. The pieces would simply be rearranged in clearer and more understandable ways.

Better data work only when the information gets conveyed effectively. In order for data to create better-informed consumers, the data need to be available and actionable in ways that help institutions and policymakers meet students where they are. Rethinking how data can be leveraged to improve higher-education outcomes is a smart first step toward helping students, institutional leaders, and government policymakers make better decisions that continue to support the United States' long-standing global leadership in higher education.

Endnotes

[1] A core challenge in determining the value of an education investment is the lag between when the product is consumed and when benefits get received. In practice, determining if an investment in training pays off involves observing the income generated over a labor-market career and discounting it back to the time when the purchase was made, to see if the discounted benefits exceeded the costs. Not being able to observe the total cost up-front creates an additional layer to calculating the implicit value of training or a credential.

[2] NerdWallet, for example, found that mortgage and auto loan borrowers are half as likely as credit-card and student loan borrowers to believe that they took on more debt than originally planned. See Claire Tsosie and Erin El Issa, "2018 American Household Credit Card Debt Study," NerdWallet, Dec. 10, 2018.

[3] In principle, while the flexibility would exist, it is not clear why a typical student would want to opt out of an arrangement like this. Two logical scenarios in which something equivalent to an opt-out might occur: medical discharges that prevent students from completing their studies; and academic performance issues for which the school deems the student academically unable to persist. Again, in either of these cases, a student who purchased or is financing a flat-price degree could have a prorated sum returned in the same way car dealerships buy back financed automobiles.

[4] Some surveys suggest that up to 40% of students say that they would drop out of college to avoid taking on more debt. See Emmie Martin, "39% of College Students Would Consider Dropping Out to Avoid Going Further into Debt," CNBC, May 24, 2018.

[5] Imagine, for example, having to take out a loan to pay for heart surgery if part of the money is used to pay for the doctor and hospital room and the rest is used to pay for months of bedside recovery later. In this example, the indirect costs would typically be covered by long-term disability insurance, as opposed to being lumped into the actual surgery financing.

[6] Bill and Melinda Gates Foundation, "Today's College Students."

[7] It is well established among the financial aid community that students will routinely borrow the maximum even though we should expect some proportion of the student borrowing population to need less than what is offered.

[8] The 2008 reauthorization included the largest set of new institutional disclosure and reporting requirements ever. See, e.g., National Postsecondary Education Cooperative, "Information Required to Be Disclosed Under the Higher Education Act of 1965: Suggestions for Dissemination," updated November 2009.

[9] For more information on the College Financing Plan (CFP), see "2019–2020 College Financing Plan (Shopping Sheet)," Department of Education Office of Postsecondary Education, Jan. 16, 2019. By some estimates, more than 3,000 institutions currently use the previous version of CFP. National Association of Student Financial Aid Administrators (NASFAA) has assembled a comparison chart between the department's old shopping sheet and the new financing plan. See Jill Desjean, Policy & Federal Relations Staff, "Comparing ED's New College Financing Plan to the Shopping Sheet," NASFAA, Jan. 22, 2019.

[10] By mechanisms, we mean that the federal student loan program historically processes, tracks, and services multiple loan disbursements for individual loan holders.

[11] Source: College Scorecard.

[12] The earnings data presented in the Scorecard aggregate data from graduates who first enrolled 10 years prior rather than individuals who technically earned their credential 10 years ago. In other words, the earnings data presented not only can cover degree recipients from up to several hundred major programs but also reflect graduates who left the school in different years.

[13] To date, uAspire and the New America Foundation have done much of the work in documenting the diversity and ensuing confusion with the various kinds of financial aid award letters that colleges produce. See Carrie Fethe, "uAspire and New America Release 'Decoding the Cost of College,' " uAspire, June 5, 2018.

[14] Much of the information that could be presented in this fashion could be estimated from Bureau of Labor Statistics data and other survey data collected by the federal government.

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