

Colleges Cut Prices by Providing More Financial Aid

By
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Private U.S. colleges, worried they could be pricing themselves out of the market after years of relentless tuition increases, are offering record financial assistance to keep classrooms full. Ruth Simon reports. Photo: Getty Images.

Private U.S. colleges, worried they could be pricing themselves out of the market after years of relentless tuition increases, are offering record financial assistance to keep classrooms full.

The average "tuition discount rate"—the reduction off list price afforded by grants and scholarships given by these schools—hit an all-time high of 45% last fall for incoming freshmen, according to a survey being released Monday by the National Association of College and University Business Officers.

"It's a buyer's market" for all but the most select private colleges and flagship public universities, said Jim Scannell, president of Scannell & Kurz, a consulting firm in Pittsford, N.Y., that works with colleges on pricing and financial-aid strategies.

It is likely that some private colleges will be forced to be even more generous with discounts this fall. As of the May 1 deadline for many high-school seniors to commit for their freshman year of college, early reports suggest some non-top-tier schools fell 10% to 20% short of enrollment targets, said Mr. Scannell.

The jump in aid shows that many colleges are losing pricing power as more families focus on cost and value, with about 65% increasing their discount rate in the fall of 2012. Except for the most exclusive schools, private colleges increasingly are vulnerable to the stagnant wages of many families, deepening student debt, the uncertain job market, growing questions about the value of costly four-year degrees and unfavorable demographics.

About one of every eight U.S. undergraduates is enrolled at a private nonprofit college. Such schools provided 70% of all grant aid to undergraduate students in 2009, the most recent year for which data are available, Nacubo says.

The average discount rate at private colleges has climbed for seven years in a row, and the latest increase was smaller than the jump in 2011, said Natalie Pullaro Davis, the study's author. But colleges also are having a tougher time boosting their sticker prices. That makes it harder for colleges to generate enough new revenue to offset the impact of higher aid and their own rising costs.

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Because of economic factors and political pressure on colleges to hold the line on tuition, "we have hit a tipping point on price," said John Nelson, managing director at [Moody's Investors Service](#). [MCO +0.14%](#) Last year, the median sticker price at about 280 private colleges and universities tracked by the debt-rating firm rose 3.9%, the smallest increase in at least 12 years.

Tuition increases for the 2013-14 year at these schools are likely to be about the same or slightly smaller, Mr. Nelson said.

Meantime, at four-year public colleges and universities, tuition and fees for in-state students rose 4.8% in the 2012-13 academic year, the smallest increase since 2000-01, according to the College Board. Tuition at these schools for out-of-state students rose 4.2%.

The discount rate for public universities fell modestly in 2012, said Mr. Nelson of Moody's, after rising from 2007 to 2011.

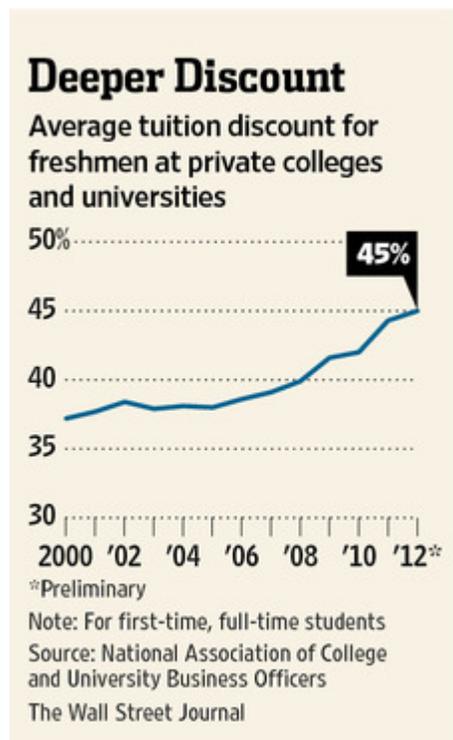
Last fall, enrollment fell at 46% of the 383 private colleges in the new Nacubo survey as the pool of high-school seniors declined. John Walda, the group's president, said the financial squeeze from fewer students is forcing such colleges to find ways to boost revenue, control costs and seek a way to stand out from the crowd. Some of those that can't eventually will shrink, merge or fold, he predicted.

Bill Hall, president of Applied Policy Research Inc., said about 10 of the 20 undergraduate colleges he advises on pricing and aid strategies still are scrambling to fill seats for this fall's freshman class. Officials at some schools are asking accepted applicants who haven't said yes or no if "there are financial issues within reason where we can make an adjustment," he said.

Some private colleges are seeing just 20% of the students they accepted actually enrolling, down from about one-third of accepted students five years ago, Mr. Scannell said.

The economic downturn boosted the number of families who qualify for aid. In addition, even those earning too much to demonstrate need under aid formulas "expect to see some sort of merit aid," unless the school is highly selective, said Trey Chappell, a college adviser in Scottsdale, Ariz.

John Ames said the College of Saint Benedict increased his daughter's scholarship to \$17,800 from \$14,000—and added a \$2,800 work award—after he told the St. Joseph, Minn., school about student-athlete awards she had won and a better offer she received from another college. The school's tuition and fees are \$37,926 this fall.



"The end result indicates that I had more power than I thought I did," he said, adding that he appreciated the college's "willingness to meet us in the middle."

Saint Benedict's executive director of financial aid, Stuart Perry, said he couldn't discuss individual students. In general, the roughly 2,000-student college makes "a very small number of revisions to academic-based scholarships," typically in response to new information, and revises need-based awards due to changes in a family's financial situation.

Discounting can help private colleges compete against public institutions. Maureen Anderson, who lives in Detroit Lakes, Minn., said a \$55,740 scholarship, which covers tuition, fees and certain other expenses, sealed her daughter's decision to attend New York University instead of her other top choice, the University of California, Berkeley, which made her a less-generous offer. NYU's tuition and fees are about \$44,800 for the 2013-14 year.

"Money talks," said Ms. Anderson, host of a syndicated radio program. "Many people look to private colleges because they have those pools of money to draw from."

A Berkeley spokeswoman said 40% of undergraduates pay no tuition because of grants and scholarships, while 65% get at least some financial aid.

Some colleges are trying to raise their appeal by experimenting with new pricing. Sewanee, the University of the South in Sewanee, Tenn., cut tuition 10% to \$41,500 in the 2011-12 academic year. While it raised it for freshmen arriving this fall to \$45,900, it guaranteed that rate for four years.

As part of the new pricing strategy, Sewanee no longer negotiates merit-based scholarships. "Our first offer is our final and best offer," said John McCardell, Sewanee's vice chancellor. "We have deliberately removed ourselves from the bidding wars."

Sewanee's tuition revenue rose \$1.5 million to \$33.5 million in the current academic year, after a decline of about \$920,000 in the first year of the tuition cut.

One reason: Last fall's entering class of 453 students was 13% larger than two years earlier. The applicant pool rose by nearly 500 to roughly 3,400 last year, allowing the school to take more students while being more selective, said Mr. McCardell, who believes publicity surrounding the new pricing played a roll.

Meantime, Sewanee's current tuition discount of 42% is down from 45% before the price cut.

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