

December 2013

## Financial Aid & the Public-Private Partnership

### *How it works at Minnesota's Private Colleges*

Recently there has been a great deal of criticism in the popular press about the always-rising price of higher education. Targeting both public and private nonprofit institutions, critics have suggested that even with financial aid low- and middle-income students are being priced out of higher education as tuition increases.

But what are the facts at Minnesota's Private Colleges? Is the actual price paid by students increasing rapidly? And, are colleges reaping windfalls from increases in state and federal aid that enable tuition increases?

At the 17 private nonprofit colleges that are members of the Minnesota Private College Council (MPCC), inflation-adjusted net tuition has decreased, and inflation-adjusted MPCC aggregate net tuition revenue has increased only slightly over the last five years. Here are a few key facts to consider.

- I. The inflation-adjusted<sup>1</sup> average net price for MPCC first-year, full-time dependent students dropped in 2011-12 compared to five years earlier.
  - o The inflation-adjusted net price in 2011-12 was 3.3 percent lower than it was in 2007-08.
  - o The drop was greatest for students from more modest incomes. The inflation adjusted average net price for low- and middle-income MPCC first-year, full-time dependent students decreased by 28.6 percent in the same time period.
  
- II. While average federal and state grants increased in 2011-12, these increases did not result in a reduction in institutional grants.
  - o In fact, compared to five years ago, the average institutional grant increased significantly and accounted for the same share of total grant aid for all first-year students (86.2 percent in 2007-08 versus 86.6 percent in 2011-12).
  - o For students from families with more modest incomes, the impact of institutional grants actually increased. Looking just at low- and middle-income students, institutional grants grew from 59.2 percent of total grants in 2007-08 to 70.4 percent in 2011-12.

*This is one in a series of research-based briefs prepared by the Minnesota Private College Council for members and other interested parties.*

*If you have a question or suggestion for a topic for a future issue brief, please contact the Research staff.*

<sup>1</sup>CPI inflation-adjusted. It is important to adjust for inflation because as costs go up over time, the purchasing power of the dollar decreases and it is able to buy fewer goods and services. By adjusting for inflation it is possible to compare the real price of what a good or service cost at different times.

- III. MPCC member institutions did not experience large increases in revenue as published tuitions increased.
  - o Average published tuition was 23.3 percent higher in 2011-12 than in 2007-08, but due to a substantial increase in institutional grant aid, inflation-adjusted aggregate net tuition revenue for undergraduates at Minnesota’s Private Colleges was only 2.8 percent higher.

**The inflation-adjusted average net price for first-year MPCC students has not increased**

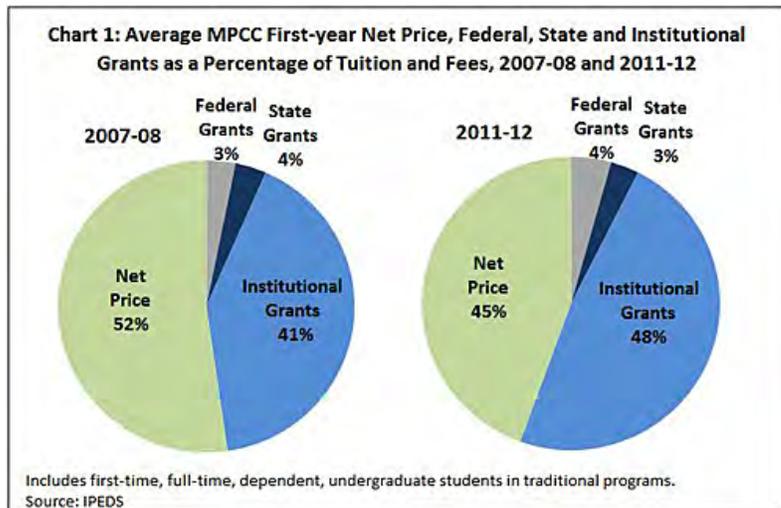
Net price is the actual price a student pays for college. Net price is determined by subtracting all federal, state and institutional grant aid from the published tuition and fees. Federal and state financial aid is awarded based on financial need, while institutional financial aid can be based on both the financial need and academic characteristics of a student when he/she enrolls.<sup>2</sup> Barring significant changes in a family’s financial circumstances, students’ institutional financial aid awards generally stay the same during their time in college.

**Table 1: MPCC First-year Student Average Grants & Net Price 2007-08 and 2011-12**

	2007-08	2011-12	\$ Change	% Change
Average Tuition and Fees	\$26,019	\$32,082	\$6,063	23.3%
Average Federal Grants	\$826	\$1,395	\$568	68.7%
Average State Grants	\$883	\$993	\$110	12.5%
Average Institutional Grants	\$10,705	\$15,432	\$4,727	44.2%
Total Grant Aid	\$12,415	\$17,820	\$5,406	43.5%
Average Net Price	\$13,605	\$14,262	\$657	4.8%
Inflation Adjusted Average Net Price**	\$14,756	\$14,262	-\$494	-3.3%

\*2007-08 Net Price inflation adjusted into 2011 dollars  
Includes first-year, full-time, dependent, undergraduate students in traditional programs.  
Source: IPEDS

Thus, the best way to analyze recent net price trends at MPCC schools — and their response to changes in the economy, falling family incomes, and changes to federal and state financial aid funding — is to look at the *average net price* paid by first-year students. Note that these averages include all first-year, full-time dependent students, including those who did not receive aid. This means the average for the cohort is different from the average award for students who received awards, because students who receive no grant aid are included in the averages.



Average published MPCC tuition was 23.3 percent higher in 2011-12 than it was in 2007-08, increasing from \$26,019

<sup>2</sup>Most Minnesota Private College Council institutions award both need-based aid and merit aid. Ninety-four percent of first-year students receive institutional grants and scholarships that do not need to be paid back. Because institutional awards are based on each individual student’s characteristics, there are hundreds, if not thousands, of different net price points at each of our institutions.

to \$32,082. The average net price, however, did not increase at the same rate as published tuition, due to large increases in grant aid.

- The average net price, for first-year, full-time dependent students in 2011-12 was \$14,262. (Table 1)
- The net price, without adjusting for inflation, is only \$657 more than it was in 2007-08, when the average net price was \$13,605.
- In 2007-08 the average net price was equal to 52 percent of the sticker price versus 45 percent in 2011-12 (Chart 1).
- The 2007-08 average net price for this group was equal to \$14,756 in 2011 dollars, meaning the inflation adjusted average net price fell \$494. This is the equivalent of a decrease of 3.3 percent.

### The Impact of Increased Federal and State Financial Aid

Increases in federal and state grants did not result in reductions in institutional aid, or slow the rate at which colleges increased institutional grants for students. To the contrary, over this time period, institutionally-provided financial aid increased significantly, in concert with increases in state and federal aid.

- In 2007-08 institutional grant aid averaged \$10,705. (Table 1)
- In 2011-12 average institutional grants increased to \$15,432, a 44.2 percent increase over 2007-08.
- Average institutional grants covered 41 percent of the sticker price in 2007-08, increasing to 48 percent in 2011-12. (Chart 1)
- Federal and state grants combined were equal to seven percent of tuition and fees in both 2007-08 and 2011-12.
- Increases in federal and state did not result in reduction in institutional grants. In fact, average institutional grant accounted for a slightly higher proportion of total grants, 86.6 percent in 2011-12 versus 86.2 percent in 2007-08.

### The net price for low- and middle-income first-year students has decreased

Much of the criticism of the higher education pricing model focuses on college affordability for low- and middle-income students. At Minnesota’s Private Colleges, the average net price for low- and middle-income students was lower in 2011-12 than in 2007-08.

- The average net price for first-year, full-time dependent students from families with incomes of less than \$50,000 was 22.5 percent lower in 2011-12 than

**Table 2: MPCC Average Grants & Net Price for First-year, Full-time Dependent Students with Family Incomes of less than \$50,000, 2007-08 and 2011-12**

	2007-08	2011-12	\$ Change	% Change
Average Tuition*	\$22,249	\$31,043	\$8,794	39.5%
Average Federal Grants	\$4,093	\$4,932	\$839	20.5%
Average State Grants	\$2,144	\$2,666	\$521	24.3%
Average Institutional Grants	\$9,060	\$18,060	\$9,000	99.3%
Total Grant Aid	\$15,297	\$25,657	\$10,360	67.7%
Average Net Price	\$6,952	\$5,386	-\$1,566	-22.5%
Inflation Adjusted Average Net Price**	\$7,542	\$5,386	-\$2,156	-28.6%

\*Note that Average Tuition differs from the average overall tuition for MPCC institutions because it is the average tuition for only those students from families with incomes of less than \$50,000.

\*\* 2007-08 Net Price inflation adjusted into 2011 dollars

Includes first-time, full-time, dependent, undergraduate students in traditional programs.

Sources: 2007-08 data from National Postsecondary Student Aid Survey,

2011-12 data from MPCC Financial Aid Data Warehouse

2007-08. This is equal to a reduction of \$1,566, from \$6,952 in 2007-08 to \$5,386 in 2011-12. (Table 2)

- If we adjust the 2007-08 net price for inflation, it is equal to \$7,542 in 2011 dollars. The inflation-adjusted net price decreased by \$2,156, a 28.6 percent reduction.
- The net price in 2007-08 was equal to 31 percent of tuition and fees, falling to 17 percent in 2011-12. (Chart 2)

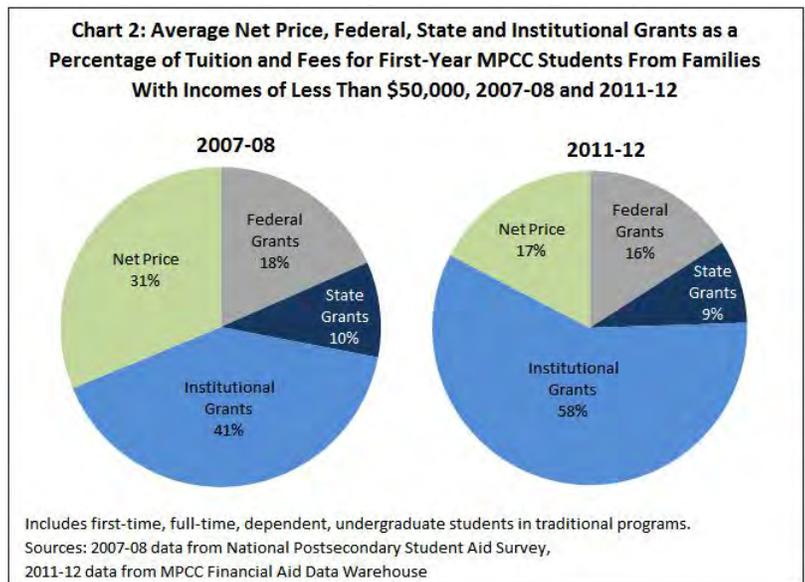
### *The Relationship between Institutional Aid and State and Federal Grant Aid*

The inflation-adjusted net price for low- and middle-income students decreased due to increases in federal, state and institutional aid. Even though federal and state grants have increased significantly since 2007-08, institutional grants account for an even greater share of the total grant aid today than five years ago.

- Average institutional grants almost doubled over the five year period, increasing by \$9,000 (a 99.3 percent increase), from \$9,060 to \$18,060. (Table 2)
- In 2007-08 average institutional grants accounted for 59.2 percent of the total grant aid, in 2011-12 they accounted for 70.4 percent.
- In 2007-08, average institutional grants covered 41 percent of tuition and fees, in 2011-12 they covered 58 percent of tuition and fees. (Chart 2)
- If the federal and state grants had not increased, or had decreased during the difficult and protracted recession, these students would have faced net prices that at a minimum were \$1,360 higher (the total increase in average federal and state grants).
- Combined federal and state grants covered 28 percent of tuition and fees in 2007-08 versus 25 percent in 2011-12.

### **Inflation-adjusted aggregate net tuition revenue at MPCC colleges increased only slightly**

Calculating the undergraduate net tuition revenue a college collects is slightly different than calculating the net price a student pays. Net tuition revenue includes all of the tuition paid to an institution (including federal and state grants students receive) after subtracting institutional grants. The average net tuition revenue a college collects is higher than the average net price a student pays because the federal and state grants are collected by the college but not paid by the students.



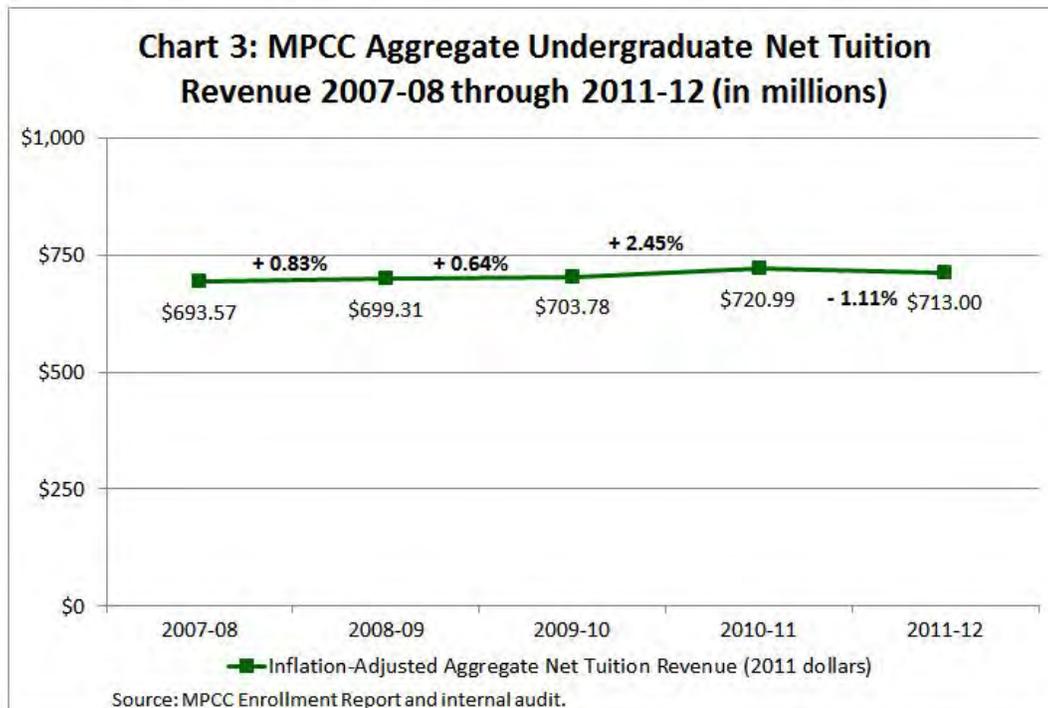
- The average net tuition revenue per undergraduate full-time equivalent (FTE) in 2007-08 was \$15,806. (Table 3)
- Average net tuition per FTE increased at moderate rates ranging from 1.6 to 4.4 percent per year from 2007-08 to 2011-12, resulting in an average net tuition of \$17,689 in 2011-12. (Table 3)

**Table 3: MPCC Total Undergraduate Aggregate Net Tuition Revenue 2007-08 to 2011-12**

	FTE Undergraduate Enrollment	Average Net Tuition Revenue per FTE	Aggregate Net Tuition Revenue	Inflation-adjusted Average Net Tuition Revenue per FTE*	Inflation-adjusted Aggregate Net Tuition Revenue *
2007-08	40,447	\$15,806	\$639,309,245	\$17,147	\$693,566,951
2008-09	40,564	\$16,501	\$669,352,057	\$17,240	\$699,309,031
2009-10	40,568	\$16,818	\$682,260,354	\$17,348	\$703,778,001
2010-11	40,888	\$17,094	\$698,928,443	\$17,633	\$720,990,370
2011-12	40,308	\$17,689	\$713,018,019	\$17,689	\$713,003,436
Change 2007-08 to 2011-12	-140	\$1,883	\$73,708,774	\$542	\$19,436,485
% Change 2007-08 to 2011-12	-0.3%	11.9%	11.5%	3.2%	2.8%

Includes undergraduate students only. Figures rounded to nearest whole number.  
\* Inflation adjusted into 2011 dollars  
Source: MPCC Enrollment Report and internal audit.

- Inflation-adjusted net tuition revenue per FTE increased at rates ranging from 0.32 percent to 1.64 percent between 2007-08 and 2011-12.
- The 2007-08 net tuition revenue per FTE was equal to \$17,147 once adjusted for inflation, which means the inflation-adjusted net tuition revenue per FTE was only 3.2 percent higher in 2011-12 than it was five years earlier.
- FTE enrollment held about steady during the five year time period, fluctuating slightly from year to year, with 2011-12 undergraduate FTE enrollment 0.3 percent lower than 2007-08.
- Inflation-adjusted 2007-08 aggregate net tuition revenue is equal to \$693,566,951 in 2011 dollars.
- Inflation-adjusted aggregate net revenue increased at rates ranging between 0.64 percent to 2.45 percent between 2007-08 and 2010-11. Inflation adjusted aggregate net tuition revenue fell 1.11 percent between 2010-11 and 2011-12. (Chart 3)



- Aggregate net tuition revenue in 2011-12 was \$713,018,019, only 2.8 percent higher than five years earlier.

### CONCLUSION

A college degree is a significant financial investment for any family. However, it is clear that the narrative of dramatically rising college costs that dominates the media is not the true reality at Minnesota's Private Colleges over the most recent five-year period.

- On average, without adjusting for inflation, first-year students in 2011-12 were paying only \$657 more than first-year students in 2007-08.
- The inflation adjusted net price for first-year students in 2011-12 was 3.3 percent lower than in 2007-08.
- On average, before adjusting for inflation, first-year students from families with incomes of less than \$50,000 paid \$1,566 less than they would have five years earlier.
- The inflation adjusted net price for low- and middle-income first-year students in 2011-12 was 28.6 percent lower than in 2007-08.

Falling incomes over the last five years have strained Minnesota families and our state's economy. Minnesota's Private Colleges increased institutional grant aid in order to meet the increasing financial need students and their families were facing. Increases in federal and state grants did not result in a reduction of institutional financial aid. Instead, these larger federal and state grants worked in concert with increased institutional grant aid to help students continue to afford higher education during and after the Great Recession.

Federal and state policymakers made difficult choices during the recession to sustain and even expand financial aid programs. To respond to falling family incomes, Minnesota's Private Colleges made similar difficult choices, significantly increasing their institutional financial aid awards during a time of decreasing enrollment and falling charitable contributions, resulting in only a 2.8 percent inflation-adjusted increase in aggregate net revenue in 2011-12 compared to five years earlier. The public-private partnership built around need-based financial aid programs has worked effectively for students to limit the rise in the true cost of a college education at Minnesota's Private Colleges.

*Updated Feb. 19, 2014*