In the following report, Hanover Research examines tuition pricing trends among private institutions. Strategies examined include tuition discounting, tuition reductions, and several other affordability measures. Profiles of institutions that have implemented affordability measures in recent years are also provided.
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EXECUTIVE SUMMARY AND KEY FINDINGS

INTRODUCTION

In this report, Hanover Research examines key trends in tuition pricing at private institutions; analyzes the current state of tuition discounting and tuition reduction measures; surveys alternative affordability measures employed by private institutions; and profiles four private institutions that have recently launched initiatives to increase enrollment and lower costs. In light of our partner’s interest in private institutions with 1,500 to 5,000 students, Hanover has highlighted how all of these topics relate to such where possible. The report is comprised of four main sections:

- **Section I** outlines broad trends in tuition pricing at private institutions, highlighting average published prices, average net prices, and the growth rates of tuition and fees.
- **Section II** focuses on recent trends in tuition discounting and the move by some small, private institutions to replace tuition discounting with tuition cuts. The section provides an analysis of why a handful of private colleges have decided to reduce tuition in lieu of increasing tuition and institutional aid.
- **Section III** scans a number of alternative affordability measures that private institutions have implemented as part of their tuition pricing strategies. Such measures include tuition freezes, tuition guarantees, and the replacement of loans with institutional grants.
- **Section IV** closes the report with profiles of four small, private institutions that have implemented innovative affordability measures as part of their overall tuition pricing strategies. Information on these institutions – Belmont Abbey College, Cabrini College, Concordia University-St. Paul, and Franklin & Marshall College – was obtained through in-depth interviews.

KEY FINDINGS

- Though tuition and fees at private institutions are increasing at a slower pace than those of public institutions, the higher starting costs of private tuition overshadow this fact in the minds of most students and families.
- Despite rising published tuition costs at private institutions, net tuition has either decreased or experienced very modest increases over the last five years. Additionally, many private institutions have kept carried out tuition increases at record low rates.
- Small private institutions that rely heavily on tuition revenue have been prone to follow a “high cost-high aid” model, in which tuition increases are matched with higher tuition discounts. As the discount rate rises faster than published prices,
private institutions are bringing in less net tuition revenue and experiencing diminishing returns on tuition discounts.

- Recent evidence indicates that the high cost-high aid model may be losing effectiveness, as the discount rate continues to increase while enrollment stagnates or declines at private institutions.

- Private institutions that have reduced tuition note a common concern for the declining number of middle-need students willing to pay, or even consider, a private institution with a high sticker price. Regional competition also appears to be a common factor driving tuition cuts at small private institutions.

- According to Hanover’s interviews with institutional representatives, additional factors driving tuition reductions include worries over falling enrollment and the need to boost retention.

- Data collected by the National Association of Independent Colleges and Universities (NAICU) indicates that tuition freezes are the most common affordability measure private institutions have incorporated into their pricing strategies in recent years. Other measures include:
  - Tuition guarantees, aimed at providing middle-need students and families with a predictable set of fees;
  - Tuition eliminations, which mainly benefit high-need students and have been carried out primarily by larger institutions with considerable endowments; and
  - The replacement of loans with institutional grants, geared toward high-need—and in some cases, middle-need—students.

**DISCUSSION**

Prior to the onset of the economic recession, students and families were not particularly price-sensitive shoppers in the college education market—a trend which held especially true for those considering higher-priced private colleges. Recently, however, the sluggish economic recovery has drastically changed the way families, especially those in the middle class, approach a college education. High sticker prices have proven a deterrent even as generous tuition discounts continue. This, in turn, has had a significant impact on the business model of private institutions, especially those heavily dependent on tuition revenue.

Recent evidence confirms that administrators are concerned about the sustainability of both rising discount rates and tuition. According to *Inside Higher Ed’s* 2012 survey of private university business officers, 66 percent of respondents feel that their institution’s rising discount rate is a very important issue. Nearly half (46.1 percent) believe that reducing their institution’s discount rate will be very important to increasing revenue at their institution. Indeed, over half the business officers at private master’s and bachelor’s-granting institutions, 54.7 percent and 56.2 percent respectively, agreed or strongly agreed that their tuition discount was unsustainable. These perceptions are largely reflected in recent enrollment data: a 2012 study conducted by the National Association of College and
University Business Officers (NACUBO) found that despite increasing tuition discounts, most U.S. private institutions have seen no change or a decline in new student enrollment.

In light of these trends, a growing number of small private institutions have instituted affordability measures, many of which are specifically aimed at reaching middle-need students ineligible for generous financial aid, but unable to pay the full sticker price of a private institution. Nearly all of the institutions interviewed by Hanover for this report were open about their desire to shift to a low cost-low aid model, though it is important to note that affordability measures may take many forms (as shown in the figure below).

**Affordability Measures Implemented or Announced by Private Institutions, 2008-09 to 2013-14**

![Affordability Measures Graph](image)

While the longer-term effects of affordability initiatives are somewhat unclear, there is evidence to suggest that such measures do offer the potential to boost enrollment and retention. Belmont Abbey College, Cabrini College, and Concordia University-St. Paul all reported positive returns in terms of retention and recruitment as a result of tuition reductions. In Concordia’s case, tuition reductions are accompanied by a cut to institutional aid, though this decrease is not directly proportional.
SECTION I: TUITION TRENDS AMONG PRIVATE INSTITUTIONS

In order to contextualize our discussion of tuition pricing strategies, this section provides a brief overview of broad trends in tuition costs among private institutions. Over the past 30 years, tuition and fees at private, four-year institutions have increased 167 percent, while tuition and fees for in-state students at public institutions rose 257 percent. In the last decade, tuition and fees at public institutions rose by an average of 5.2 percent per year, and increased 2.4 percent per year at private institutions. The College Board estimates that since 2007-08, tuition at private and public institutions has risen by 13 percent and 27 percent respectively.¹

PRIVATE TUITION TRENDS BY THE NUMBERS

Even though tuition and fees at private institutions have historically increased at a slower rate than those of public institutions, this fact is often lost in the comparatively high sticker price of private tuition. Between 2011-12 and 2012-13, tuition and fees at private institutions rose by 4.2 percent (an average increase of $1,173), as opposed to 4.8 percent at public institutions.² Still, the median price students at private institutions pay in tuition and fees remains considerably higher, $30,200 compared to $8,672.³ Once room and board are factored in, total average charges at private institutions amount to $39,518 and $17,860 at public institutions.

A breakdown of private institutions shows that a quarter of full-time private undergraduate students attend colleges with tuition and fees exceeding $38,450, a figure well above the national median, $30,200. Another 25 percent attend institutions with tuition and fees at or below $22,390.⁴

² Ibid., p. 3.
³ Ibid.
⁴ Ibid., p. 12.
Tuition and fees at private institutions continue to rise, although at many institutions these increases are occurring at record low rates. Still, for price-conscious students and families, any increase is a concern. Nearly 72 percent of students at private institutions saw their tuition and fees increase between 3 and 6 percent last year.

Figure 1.2: Distribution of Full-Time Undergraduates at Private Institutions by Percentage Increase in Tuition & Fees, 2012-13

Source: College Board

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5 Ibid., p. 12.
6 Ibid., p. 13.
While a private institution’s sticker price is important, it fails to capture the real price most students ultimately pay. Few families can afford a private institution’s full sticker price, so a significant percentage of students receive financial aid from the institution itself in the form of institutional grants. Net tuition, the actual price a student pays after financial aid has been applied to the published price, is often significantly lower than the published price. Generally speaking, as the published price increases, so does the amount of institutional aid. Figure 1.4 shows relevant trends.

Figure 1.3: Published Tuition and Fees and Room and Board vs. Net Tuition and Fees and Room and Board, 2007-08 to 2012-13

Source: College Board

7 Ibid.
SECTION II: TUITION DISCOUNTING AND TUITION REDUCTIONS

Institutional grant aid is the main type of aid used to lower a student’s tuition. Using institutional grant aid, private colleges and universities can heavily discount their published price to attract more students. Indeed, many private institutions would find it impossible to enroll enough students at their published prices, and these discounts bring in students who either could not afford, or would not pay, the full price of tuition.8

As tuition is the main source of revenue for many small private institutions, many “rely on aid to generate tuition revenue.”9 To bring in more revenue via tuition, these institutions must offer more financial aid to attract and enroll more students. This leads to a “high cost-high aid” model in which tuition and tuition discounts continually rise in tandem.

Tuition discounting is by no means a new phenomenon. It dates back to the late 1970s, when institutions began employing the strategy to attract students and increase tuition revenue.10 Although tuition discounting is a widespread practice among private institutions, recent studies show that its effectiveness may be decreasing, and that administrators are increasingly questioning its sustainability. In fact, a small number of private institutions are leaving the high cost-high aid tuition discounting model behind, and are exchanging it for significant cuts to both tuition and financial aid.

RECENT TRENDS AND DEVELOPMENTS IN TUITION DISCOUNTING

The ratio of tuition discounts to tuition itself, or the discount rate, has been on an upward trend in recent years. Figure 2.1 shows that the discount rate at private institutions rose from 28.6 percent in 2000-01 to 33.1 percent in 2008-09.

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The discount rate is effectively the difference between the amount an institution charges and the amount it actually collects from students. Figure 2.2 shows the growing gap in private institutions’ published prices and the amount of net tuition revenue these institutions actually bring in. This gap corresponds with the increase in the discount rate. While a higher discount rate benefits students, private institutions are essentially “spending more to enroll students and getting less cash from them.”

Indeed, the rising discount rate is of growing concern at a large number of private institutions. According to Inside Higher Ed’s 2012 survey of private university business officers, 66 percent of respondents feel that their institution’s rising discount rate is a very important issue. Nearly half (46.1 percent) believe that reducing their university’s discount rate will be very important in increasing revenue at their institution. Indeed, over half the business officers at private master’s and bachelor’s-granting institutions, 54.7 percent and 56.2 percent respectively, agreed or strongly agreed that their tuition discount was unsustainable.

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11 Ibid., p. 4.
As institutions are reconsidering the sustainability of tuition discounts, there are also growing concerns that the strategy is losing effectiveness. In its most recent tuition discounting study, which surveyed 400 private institutions, the National Association of College and University Business Officers found that despite increasing tuition discounts, over half of all surveyed institutions saw no change or a decline in new student enrollment.15

Tuition discounting may be losing steam as students and families change the way they shop for postsecondary education. As mentioned previously, tuition increases traditionally did not discourage students from enrolling, as long as higher tuition was coupled with higher tuition discounts. However, recent evidence suggests that families are becoming more price-sensitive, and may prefer more straightforward pricing that does not include complicated financial aid packages. As students search for cost-effective options, tuition bumps and higher discount rates appear to be becoming less effective in attracting enrollees.16

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TUITION REDUCTIONS

A small but growing number of private institutions have elected to turn away from the high cost-high aid model, and are slashing both tuition and financial aid. As this is a relatively new practice, there is little data showing how these cuts are affecting enrollment and revenues over the long term.

Figure 2.3: Sample Tuition Cuts at Private Institutions with Student Bodies between 1,500 and 5,000

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>ENROLLMENT (APPROX.)</th>
<th>REDUCTION RATE</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belmont Abbey College</td>
<td>1,700</td>
<td>33%</td>
<td>Starting in 2013, tuition will be reduced by 33% for incoming freshmen and transfer students.</td>
</tr>
<tr>
<td>Cabrini College</td>
<td>3,100</td>
<td>12.5%</td>
<td>Tuition was cut 12.5% for 2012-13, and will increase by no more than 3.45% through 2014-15. Institutional aid will remain the same.</td>
</tr>
<tr>
<td>Concordia University, St. Paul</td>
<td>1,700</td>
<td>33%</td>
<td>In 2013, published tuition will be cut 33% for all freshmen, transfer, and returning students. Room and board will also be frozen at the 2012-13 rate.</td>
</tr>
<tr>
<td>Lincoln College</td>
<td>1,800</td>
<td>24% (Lincoln campus); 28% (Normal campus)</td>
<td>Tuition was cut at the College’s Lincoln campus by 24%, and by 28% at the campus in Normal.</td>
</tr>
<tr>
<td>Sewanee: The University of the South</td>
<td>1,600</td>
<td>10%</td>
<td>In 2011-12, tuition was cut by 10%.</td>
</tr>
</tbody>
</table>

Source: NAICU

It is also a challenge to pinpoint concrete trends and common drivers leading private institutions to reduce tuition. However, according to interviews conducted by Hanover (Section IV), a common factor driving tuition reductions is the declining number of middle-need students willing to pay, or even consider, a private institution with a high sticker price. Indeed, Belmont Abbey College cited research during its interview that found 50 percent of students do not even consider an institution priced over $30,000. Interviewees also noted that the mandatory financial aid calculator did not help in this regard, as private institutions with tuition above this threshold have trouble driving online traffic to their websites in the first place.

Another motivation appears to be regional competition. The majority of institutions that have cut tuition in recent years have a more limited national profile and compete more heavily with nearby institutions, both public and private, for local students. Even Sewanee, a relatively well known private institution, stated that it was losing students in head-to-head competition with regional public competitors like the University of Tennessee, University of Georgia, University of North Carolina, and University of Virginia, and that this factored into

the institution’s decision to reduce tuition costs. The 10 percent reduction brought Sewanee’s tuition more in line with the out-of-state tuition costs of one of its regional competitors, the University of Georgia.\(^{18}\)

Beyond regional competition and increasing access for middle need students, there seem to be few unifying motives. Declining enrollment caused the University of Charleston (Charleston, WV) to cut its tuition. When the institution saw enrollment decline for the first time in a decade, it reduced tuition by 22 percent. Dr. Edwin Welch, the University president, confirms the change in students and families’ attitudes regarding high-priced private tuition:\(^{19}\)

> We realized parents and families were now considering the overall price, not just the discount [financial aid and scholarships] they would be able to get. As universities we tend to market education the same way Joseph A. Banks advertises clothes, thinking the advertised price is not that important but the discounts are the most important part. But that’s what is driving middle-class students away.

The University of Charleston’s tuition cut has already paid some dividends. Dr. Welch states:\(^{20}\)

> So far, the reaction from parents and students has been very positive. We expected a spike in applications, and \textit{applications are up nicely in our primary markets} -- West Virginia, Virginia, Maryland, Pennsylvania, and Kentucky. Total applications are ahead of our two-year average but slightly behind last year. More importantly, \textit{our deposits are up 40\%}. This suggests that students and families who look at us are finding the new tuition structure attractive and are depositing at a higher rate than previously.

The University of Charleston states that it is paying for the cuts by sharing professors with other colleges in the region, by graduating students early, and by cutting financial aid.\(^{21}\)

Most institutions interviewed by Hanover cited the unsustainability of the high cost-high aid model, and were very public in their desire to switch to a \textit{“low cost-low aid”} model, cutting both tuition and financial aid. Institutional representatives highlighted the complexity of phasing in institutional aid cuts. For instance, while Sewanee received positive publicity for cutting its tuition by 10 percent, many of its students and families were displeased with the effects it had on their existing financial aid packages.\(^{22}\)


\(^{20}\) Ibid.

\(^{21}\) Ibid.

Sewanee helped finance its 10 percent tuition cut by scaling back institutional aid. The institution’s merit-based President’s Award was valued at $10,000 in 2010-11, but was lowered to $6,000 for the 2011-12 year. Similarly, the Chancellor’s Award was lowered from $32,000 to $28,000.23

It is important to note that it may take some time to recoup revenue lost to tuition cuts. Overall, Sewanee’s tuition cuts mean the institution will forego $6-$8 million in tuition revenue over the next few years, and might need to rely more heavily on its endowment during this time, a factor that small institutions with modest endowments must consider.24

Notably, nearly all of the institutions interviewed by Hanover emphasize the value of the education provided at the newly reset price, as opposed to just the lower cost itself. Despite a lower price tag, many of these institutions are still significantly more expensive than a public education. They therefore highlight the quality of what the students receive at this new price (smaller classes, increased access, personal attention, etc.) in relation to both higher-priced private competitors and less expensive public competitors.

23 Ibid.
SECTION III: ADDITIONAL AFFORDABILITY MEASURES AT PRIVATE INSTITUTIONS

The vast majority of private institutions have not cut tuition, but nonetheless are implementing other affordability measures to rein in tuition costs. Some of the more popular measures include tuition freezes, replacing loans with grants, fast-track degree programs, and fixed tuition guarantees. The motives behind such affordability measures are as diverse as the measures themselves. Some measures, like tuition eliminations, are aimed at enrolling more high-need students. Others, like tuition guarantees, help middle-need families as they plan for college expenses.

Figure 3.1: Affordability Measures Implemented or Announced by Private Institutions, 2008-09 to 2013-14

Source: NAICU

Note: Some private institutions have instituted more than one type of affordability measure. For example, some have made both tuition guarantees and four year graduation guarantees. Also, a small number of institutions had these measures in place before 2008, while others have announced that they will start them in 2013-14.

A number of private institutions have implemented more than one type of affordability measure. For example, Burlington College (Burlington, VT) introduced tuition freezes for the 2012-13 academic year while also guaranteeing that “all current and incoming students for the fall 2012 semester who remain continuously enrolled ... on a full-time basis... will be guaranteed a four-year tuition freeze.” 27 Burlington College also discounted summer semester tuition by 25 percent to help students shorten the time it takes to earn a degree. 28 In similar fashion, Capitol College (Laurel, MD) has also instituted tuition cuts, tuition freezes, and made fixed tuition guarantees. 29

TUITION FREEZES

A quick analysis of the numerous affordability initiatives listed on the National Association of Independent Colleges and Universities’ (NAICU) website shows that tuition freezes have been the most common measure private institutions have instituted in efforts to rein in rising costs. Fifty-four private institutions have instituted (or will institute) measures to keep tuition and fees the same from one year to the next.

The Art & Science Group has noted that there can be downsides to tuition freezes, including “negligible enrollment impact” and “lost net tuition revenue”.30

Most experiments with tuition freezes fail to produce any substantial enrollment, marketing, or political benefit. Freezes are often implemented in the hope that they will produce favorable public and political attention that will result in higher demand and greater political support. Most often they simply result in lost revenue.

TUITION REDUCTIONS

When examining tuition reductions in the context of other affordability measures, it is clear that the measure has primarily been taken by very small institutions with limited national profiles. Indeed, 12 of the 21 institutions that have cut tuition since 2008 enroll fewer than 1,500 students. The largest private institution to have reduced tuition across the board is Cabrini College (Radnor, PA), which enrolls approximately 3,100 students. Larger private institutions that have cut tuition, such as Duquesne University, have only done so for targeted student segments or programs. For example, Duquesne offers a 50 percent discount on tuition and fees for freshman enrolling in the School of Education, but this reduction (which comes in the form of a $14,000 grant) is not available to other students at the University.31,32

28 Ibid.
31 “School of Education.” Duquesne University. http://www.duq.edu/academics/schools/education
TUITION ELIMINATIONS

Some private institutions have recently moved to eliminate tuition payments altogether for certain student demographics. Large private institutions with substantial endowments, such as Stanford University, Columbia University, and the Massachusetts Institute for Technology, have done so for low and some middle income students. Stanford waives tuition for students whose family income is less than $100,000 a year. Additionally, room and board is free for students whose families make less than $60,000 a year.\footnote{Rubenstein, S. “Stanford Drops Tuition for Some Students.” \textit{San Francisco Chronicle}, February 20, 2008. http://www.sfgate.com/bayarea/article/Stanford-drops-tuition-for-some-students-3227473.php} MIT waives tuition for families earning less than $75,000.\footnote{Troop, D. “MIT Eliminates Tuition for Students Whose Families Earn Less than $75,000.” \textit{The Chronicle of Higher Education}, March 8, 2008. http://chronicle.com/article/MIT-Eliminates-Tuition-for/40608} At Columbia, students from families with incomes lower than $60,000 do not have to pay for tuition, room and board, and other university fees.\footnote{“Columbia University to Offer Financial Aid to More Students.” \textit{New York Times}, March 11, 2008. http://www.nytimes.com/2008/03/11/education/11columbia.html?_r=0}

Some smaller private institutions with more modest endowments are also providing free tuition to students from local areas. Sacred Heart University and Fairfield University (both in Fairfield, CT) offer free tuition to students whose families earn less than $50,000. Students from neighboring Bridgeport are eligible for this tuition waiver at Fairfield University, while Sacred Heart waives tuition for all eligible students from Fairfield County.\footnote{Torres Ocasio, K. “Free Tuition Makes College Possible for Some City Students.” \textit{Connecticut Post}, January 8, 2012. http://www.ctpost.com/local/article/Free-tuition-makes-college-possible-for-some-city-2448074.php}

FIXED TUITION GUARANTEES

According to the NAICU, 18 private colleges and universities have granted tuition guarantees to incoming freshman students since the 2008-09 academic year. Tuition guarantees are attractive to students and families as they rule out subsequent tuition hikes, and consistent prices make it easier for students and families to plan and budget for a college education.

Although there are some slight variations in how different institutions implement such guarantees, most require students to be enrolled on a full-time basis, and many run out after four years. While tuition guarantees allow students to lock in the same rate throughout their undergraduate tenure, institutions may increase tuition on successive incoming classes from year to year.

There are six private institutions with student bodies between 1,500 and 5,000 that have made tuition guarantees since 2008-09:

- Concordia University Chicago (River Forest, IL);
- Hardin-Simmons University (Abilene, TX);
- Ouachita Baptist University (Arkadelphia, AR);

Tuition guarantees can be attractive to students and families looking for consistent prices that simplify budgeting, but they can also pose financial risks to colleges and universities. According to the Art & Science Group:37

- An increase of the magnitude required for the first year of a four-year tuition lock may have serious enrollment and retention consequences. To make the tuition revenue gains from a four-year lock financially rewarding, the increase imposed on new freshmen in a single year may be so large that it can push price over a threshold that will adversely affect enrollment.

- A lock often does not produce the net tuition revenue effects anticipated. For example, the increases in financial aid necessary to offset the “sticker-shock” effects of the large first-year increase in a four-year lock can dramatically reduce net tuition revenue. Only the most wildly optimistic budget calculations would assume that most of an increase would be returned in tuition revenue without substantial raises in scholarships and need-based aid.

- A four-year lock does not diminish campus and market concerns over high tuition. By placing the full burden of each increase on entering freshmen, a four-year lock only changes the method of the increase by front-loading increases that would have been spread over four years.

## REPLACING LOANS WITH GRANTS

In an effort to reduce the amount of debt with which students graduate, a number of small private institutions have started replacing loans with grants in their financial aid packages. While many of the loan replacement measures specifically target low income students and families, some replaced loans with grants for all students receiving financial aid. The following institutions, all with a student body between 1,500 and 5,000, have initiated loan replacement measures in recent years:

- **Davidson College** (Davidson, NC): Davidson eliminated loans from its financial aid packages in 2007-08, with all students demonstrating financial need subsequently funded by grants and student employment.

- **Amherst College** (Amherst, MA): In 2008-09, Amherst replaced all loans with scholarships and eliminated loans for all students.

- **Bowdoin College** (Brunswick, ME): Bowdoin eliminated loans for all students (both incoming and current) receiving financial aid, and replaced them with grants.

- **California Institute of Technology** (Pasadena, CA): Starting in 2008-09, students whose family income was less than $60,000 received scholarship gift aid instead of loans.

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- **Colby College** (Waterville, ME): Colby replaced institutional loans with grants starting in the 2008-09 academic year.
- **Connecticut College** (New London, CT): In 2008-09, Connecticut College reduced loans and increased grants for freshmen whose families earn less than $75,000. For families with incomes below $50,000 and family contributions less than $5,000, all loans were replaced with grants. Families earning between $50,000 and $75,000 and with family contributions less than $15,000 and greater than $5,000, Connecticut College replaced half of their loans with grants.
- **Lafayette College** (Easton, PA): In 2008-09, Lafayette eliminated loans from need-based financial aid packages to students whose families earn less than $50,000, and replaced these loans with grants and work-study. A year later, Lafayette began to limit the loan portions of need-based aid to $2,500 per year for students from families who earn between $50,000 and $100,000.
- **Oberlin College** (Oberlin, OH): Oberlin eliminated loans for all students who were eligible for Pell Grants beginning in 2008-09.
- **Pomona College** (Claremont, CA): Pomona eliminated loans and replaced them with scholarships in 2008-09.
- **Swarthmore College** (Swarthmore, PA): In 2008-09, Swarthmore expanded its loan-free financial aid packages for low income students, which now benefit all Swarthmore students.
- **Vassar College** (Poughkeepsie, NY): Students at Vassar with family incomes below $60,000 began receiving grants instead of loans in 2008-09.
- **Wellesley College** (Wellesley, MA): In 2008-09, Wellesley replaced loans with grants for students whose family incomes were less than $60,000.
- **Wesleyan University** (Middletown, CT): Students from families earning less than $40,000 had their loans replaced with grants starting in 2008-09. All other students receiving aid had their loan indebtedness reduced by 35 percent on average.
- **Williams College** (Williamstown, MA): Williams began substituting grants for loans beginning in 2008-09.

**Four Year Graduation Guarantees**

According to the NAICU, 23 private colleges and universities have made four year graduation guarantees since the 2008-09 academic year. If a student meets the all the institution’s requirements (passes all classes, adequately completes their work, etc.), but fails to graduate in four years, the institution will pay for the student to finish his or her studies. This helps keep a student’s tuition, fee, and room and board costs down, while ensuring that graduates enter the job market in a timely manner.

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SECTION IV: PROFILES OF PRIVATE INSTITUTIONS IMPLEMENTING AFFORDABILITY MEASURES

Hanover conducted interviews with four colleges that have recently implemented affordability measures. Three of the institutions, Belmont Abbey College, Cabrini College, Concordia University – St. Paul, reduced tuition, while Franklin & Marshall College elected to cap loans.

**BELMONT ABBEY COLLEGE**

Belmont Abbey College (Belmont, NC) announced in November 2012 that it would reduce its tuition by 33 percent beginning in the fall of 2013 for all incoming freshmen and transfer students, resetting tuition to $18,500.

Hanover spoke with Lucas Lamadrid, BAC’s vice president for Enrollment Management and Student Affairs, about the tuition reduction. Lamadrid stated that despite strong enrollment growth over the past few years (the College has had its second-, third-, and fourth-largest incoming classes during Lamadrid’s tenure), BAC felt that many students who would otherwise be interested in a small, private college education simply would not consider an institution with a sticker price over $30,000. Indeed, BAC had research that revealed that 50 percent of families would not even look into institutions priced above $30,000. As at many colleges, both tuition and the tuition discount rate had been rising at BAC, and Lamadrid mentioned that there was concern over whether this trend could continue forever.

While some at BAC were worried about the price of tuition (before the tuition reset, the college was the seventh-most expensive of the 35 private institutions in North Carolina), the College was nonetheless experiencing positive growth. Again, enrollment had increased consistently in recent years, and the College planned to open two new dorms in 2013 to accommodate this growth. As such, Lamadrid noted that it was difficult to convince the board that BAC needed to change its tuition strategy. It took time, but BAC ultimately came to the conclusion that as a tuition-driven institution, it needed to lower its sticker price in order to increase net revenue per student. “The only way you can get more revenue and more students is if you’re more affordable,” Lamadrid commented.

Even if enrollment was up, there was another cause for concern. BAC saw that it was losing potential students to regional public institutions. Lamadrid said, “If you’re losing to them, it’s an affordability issue.” With the 33 percent reduction, the College dropped from number seven to number 22 in terms of cost among private institutions in North Carolina, and the tuition at BAC is now within striking distance of state public universities.

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BAC was mainly focused on targeting middle-need students in local and state markets that wanted a small, private education without the price. The institution believes that making itself more affordable will help students see the value of a BAC education. It is now less expensive than most private institutions in the state, and the benefits of smaller classes, increased accessibility, and more personal attention allow it compete with public institutions that may be cheaper, but do not offer these perks.

Considering the fact that BAC only announced the tuition cut on November 28, 2012, it is difficult to measure the effects of the change. Lamadrid noted that applications were at an all-time high, but it is more difficult to see how the move has affected deposits to date. In fact, BAC refrained from sending out range letters this fall with its tuition reset in the works. These letters are typically sent out in September and October and give students an estimate of what their merit package is likely to be; typically, the College begins to see deposits come in after these have been sent. BAC wanted to protect itself from any potential legal issues by sending out estimates of aid before announcing the tuition cut, but now that the reduction has been made public, Lamadrid noted that the College is seeing deposits come in.

**Cabrini College**

In the fall of 2011, Cabrini College (Radnor, PA) announced that it would reduce tuition for all undergraduate students, both incoming and current, starting in the fall of 2012. Cabrini cut its sticker price by 12.5 percent, which lowered tuition and fees to $29,000. It also promised to keep tuition and fees below $30,000 through May 2015. Hanover spoke with Dennis Kelly and Dan DiPrinzio, respectively Cabrini’s vice president of Enrollment Management and Manager of Media Relations.

Kelly explained that Cabrini’s decision to cut tuition was meant to:

- Eliminate the dollar figure discouraging students from attending Cabrini who wanted to attend and were a good match for the College;
- Allow students to attend Cabrini at the value which they perceived the College to be; and
- Sustain students through graduation with predictable and accurate pricing.

Both Kelly and DiPrinzio emphasized that this was a “mission-based decision,” which meant Cabrini was committed to extending these savings to all students, not just the incoming class of 2012. Kelly emphasized that “the unique feature of [Cabrini’s] model is that we were willing to invest in all our students. And we held the current student body’s merit level awards intact, regardless of the decrease in the tuition and fees.”

To put Cabrini’s tuition decision in context, Kelly noted that the College had actually exceeded both its target level of students and physical capacity, but that this was not
helping with retention. Cabrini’s goal was not to have larger and larger incoming classes, but rather to have students who were a good fit attend all the way through graduation. Even though Cabrini saw steady increases in enrollment, the institution was not pulling in the competitive students who would be committed to Cabrini from start to finish. When Kelly examined the files of incoming students against the competitive FAFSA filers who ultimately picked other institutions (some being institutions that Cabrini aspired to), he noticed a worrisome trend – many of these students were from families who could afford to pay for a private education, but felt Cabrini was losing its value in relation to other institutions.

In order to address these issues, Cabrini instituted a strategic enrollment plan, which provided a starting point from which to move forward to address retention. Once Cabrini had instituted its retention plan, it was determined that freshmen and returning undergraduates were having difficulty with the cost, a factor that was keeping them from sustaining their enrollment from year to year. Beginning in March 2011, Cabrini began mulling over returning to a price that would complement its ideal size (which was actually smaller than its current size).

Ultimately, Cabrini elected to cut tuition by 12.5 percent. The reduction repositioned the College in terms of its competition, and Kelly and Dan DiPrinzio note that the education offered is a much better value than that of other institutions at the same price point. Additionally, the few institutions that are priced lower than Cabrini can no longer claim that there is a large divide between their tuition and Cabrini’s.

Furthermore, Cabrini viewed its decision to cut tuition as part of a larger affordability plan for families, as the College also guaranteed to keep costs below $30,000 over the next three years (through May 2015). There have been good returns on the move in terms of higher retention, more students choosing to live in campus housing, and a larger incoming class.

Kelly also outlined three factors that allowed Cabrini to manage the financial aspects of the move:

- The Board and the Cabinet both supported the measure, because investing in the plan was considered the right thing to do (again, fitting with the College’s mission), and both have been committed to making it work.
- A reversal of some aid funds offset a portion of the costs associated with the tuition cut.
- The primary focus was retention, with recruitment considered second. Cabrini planned for increased retention among all undergraduate populations, and more specifically freshmen.

Surprisingly, DiPrinzio underscored that Cabrini did not market these tuition decisions. In fact, the only proactive move was made directly after the plan had been announced internally, when Cabrini’s president spoke with a reporter from The Chronicle of Higher Education in November 2011. The story was soon picked up by a large number of other
news outlets, including CNNMoney, The Philadelphia Enquirer, and The Huffington Post. DiPrinzio noted that the story basically sold itself, and emphasized that Cabrini’s communications strategy has been focused on explaining how the affordability plan fits in with the institution’s broader mission.

**CONCORDIA UNIVERSITY, ST. PAUL**

Hanover spoke with Kristin Vogel, director of Undergraduate Admissions at Concordia University, St. Paul (St. Paul, MN). Concordia announced that it would cut tuition for all new and returning students by 33 percent beginning in the fall of 2013. As to why the University cut its tuition, Concordia’s website explains:

> Concordia’s vision is to provide outstanding value by offering an education of high academic quality that is reasonably priced so that our students can achieve personal and career success. We recognize that the growing reliance on student loans nationwide caused by constantly rising tuition prices can lead to accumulated debt that impedes many graduates’ efforts to build financial security for themselves. That’s why the higher education marketplace of prospective students and their families is demanding real action on college affordability.

> Although Concordia itself is currently in a position of strength (with record enrollment numbers and a higher academic profile for the entering class in 2012-13), the economic recession has eroded the financial situations of the students and families we serve. That has necessitated several years of increases in the institutional scholarship and grant aid Concordia awards, along a trajectory that simply is not sustainable. So we decided to respond with a relevant and real solution.

According to Vogel, Concordia spent three years planning its tuition “reset.” The University carried out the first of two price sensitivity analyses in 2006. This analysis served as a benchmark for a follow-up study in 2011. Through these studies and other research, Concordia found that many middle-need students who might be a good fit for the College were not considering attending due to the sticker price. Vogel stated that because of this, conversations on how to make the University more affordable always occurred in the context of lowering the sticker price. Through its studies, Concordia tested various reductions ($5,000, $10,000, $12,000, and $15,000), examining how these cuts would affect student interest and tuition revenue.

The institution is also cutting the amount of institutional aid it awards to undergraduates, but is not doing so proportionately. A $10,000 reduction in tuition, for instance, will not translate into a $10,000 cut in aid. Students receiving aid will still see savings in the coming year, and academic and talent scholarships are still in place.

Tuition reductions were extended to current students, not just Concordia’s incoming class. The University felt that it would not be right to apply a new rate of tuition to incoming

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42 “Value.” Concordia University, St. Paul. http://www.csp.edu/admission/value/
students, but not offer it to its own students. As noted above, Concordia had been planning its shift for three years; institutions leaders felt that the institution was in a strong enough financial position to absorb some of the costs associated with offering cuts to the entire undergraduate student body.

Concordia’s message in this process has been about value – its quality education is now available at a better value, and students now earn a higher return on investing in a Concordia education. Given that there can be negative connotations with slashing prices (e.g., “the University is in trouble”), Vogel emphasized that the University did not feel that making the message solely about money would be strategic. Indeed, Concordia wanted to ensure that the broader public saw that the institution was making this decision from a position of strength, and not out of desperation. The University had record enrollment in the fall of 2012, and had also been adding academic programs and faculty.

Concordia estimates that an increase of approximately 15 to 20 students will offset its investment in the tuition cut. The tuition reset will not apply to graduate and non-traditional students, though the University states that these programs already operate on a low tuition-low discount model that is aligned with the market.

Vogel outlined six unique factors that made tuition reductions the right decision for Concordia:

- **A diverse revenue stream**: Concordia has 1,200 traditional on-campus undergraduates, and about 1,100 graduate students and adult learners. The institution generates additional revenue through its graduate and adult undergraduate programs.

- **Prudent fiscal management and planning**: Difficult financial decisions over the three-year planning period put Concordia in a position of financial strength; the institution had cash reserves and was operating in the black.

- **A growing endowment** has given Concordia some additional financial flexibility.

- **Relatively low financial risk**: The break-even point is minimal, as enrollment need only increase by 15-20 students. Additionally, lowering tuition will not dramatically affect Concordia’s revenue, since virtually no students currently pay the full price. Therefore, the University will not forego substantial revenue.

- **Traditionally high financial aid award amounts**: Historically, Concordia packaged financial aid individually based on need and merit, but is now reducing the price for all students via lower tuition.

As to measurable effects of the tuition reduction, applications and acceptances are up 30 percent at Concordia. This is higher than the University’s original research projected, given the amount by which Concordia cut its tuition.
**FRANKLIN & MARSHALL COLLEGE**

Hanover spoke with Daniel Lugo, Vice President and Dean of Admission and Financial Aid at Franklin & Marshall College (Lancaster, PA). F&M has recently launched a Student Loan Relief Program to “help families confront the challenges of college affordability and rising student loan debt.” The program is unique in that it caps federal student loans at a total of $10,000 over four years. Institutional grants replace previously packaged loan amounts that exceed this cap. Lugo emphasized that it is specifically targeted toward “middle-need” students and families.

Lugo emphasized that the College is helping a segment of the population that has largely been ignored: middle-need families from the professional class (those making between $90,000 to $160,000 a year). Once a significant portion of F&M’s student body and applicant pool, the institution found that this demographic was increasingly living in a financial aid ‘no-man’s land’ – they had too much income to qualify for many institutional grants, but could not afford F&M’s full sticker price (currently $56,310). Even though F&M had increased its institutional grant budget by 40 percent over the past four years, Lugo noted that middle-need families were migrating away from F&M.

At both a national and institutional level, large increases in institutional grant aid went primarily to high-need students; wealthy families were still able and willing to pay full price for an expensive private education, but middle-need students were largely being neglected. At F&M, this demographic began applying and enrolling at lower frequencies. For example, 25 percent of F&M’s incoming freshman class has traditionally been middle-need, but by 2011, the population had decreased to just 14 percent. F&M began to see a bifurcated student body increasingly comprised of the two ends of the income spectrum, a problem for a competitive institution intent on having a diverse student body.

To combat these trends, F&M began experimenting with loans, capping federal student loans at $10,000 over four years, nearly half of its previous $19,000 limit. F&M stepped in to fill the $9,000 funding gap with institutional grant aid. The program was piloted among admitted students in the fall of 2012, and F&M has already seen an uptick in the percentage of middle-need students enrolling in the College. Moreover, the percentage of middle-income students enrolling this past fall rose by 5 percent to 19 percent overall.

F&M has decided to fully implement the Student Loan Relief Program for the classes of 2017 and 2018, and expects that its four-year commitments to these students will cost around $2 million. Presently, the College is financing this aid internally, but it hopes to both sustain and expand upon the program with external funding in the future.

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