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What a Deal!

By KATE ZERNIKE

When economists describe the way colleges charge tuition, the analogy they most like to use is an airplane with each passenger in a row paying a different price. Only the differences are not always as easily explained as one person buying a ticket 21 days in advance -- or even as one student coming from a poorer family.

In the decade since the Justice Department charged a group of elite universities with price fixing, colleges and universities have thrown out almost all the old rules about tuition and financial aid -- and with that, many lament, a sense of fairness. They are discounting their sticker price more than ever. According to one widely cited annual study of private institutions, only 19 percent of students paid full tuition in 2002, down from 37 percent in 1990. Colleges last year took an average of 39 percent off the cost, up from 27 percent in 1990.

A good portion of that money goes to needy students. But increasingly, colleges discount tuition to satisfy their own needs -- to lure the kinds of students who raise their stature in U.S. News & World Report rankings, to round out a basketball team or orchestra, or simply to even out an imbalance between men and women. Small regional colleges cut prices to fill their empty seats.

And increasingly, wealthier students are getting bigger discounts, poorer students smaller ones. Parents have gotten smarter about bargaining for better financial aid packages -- changing the operative word, college officials say, from need to greed.

Broadly, discounting refers to any grant a college gives an applicant from its own coffers, or simply a reduction in price (but not money students get from the federal government or from outside organizations).

It can be costly to a college if not done right. Discounting has given rise to a new class of enrollment management consultant who advises institutions on how many discounted students they can afford and how many full-paying ones they must attract. Most colleges depend heavily on tuition to pay for financial aid, so they have had to raise tuition to cover it. Still, last year, 22 percent of private colleges gave away more in discounts than they gained by increasing tuition, according to the annual survey, by the National Association of College and University Business Officers.

While the Justice Department hoped the antitrust suit would curb the cost of college, sticker prices have continued to rise more than twice as fast as inflation. Even colleges that defend discounting say they would like to stop it. But they don't trust that they can do so and still compete. "There would be a public good if we could all get off this, if we could all get together and say, 'You know, guys, let's throw our dice in, we're all killing

ourselves, let's charge the price we think is reasonable,' "says Lucie Lapovsky, president of Mercy College in Westchester County and co-author of the annual survey. "But the government would have to let us collude. No one school is strong enough to be able to stop it, because if school x stops, school y will offer the discount."

College officials often consider discounting a dirty word. The discomfort surrounds so-called merit aid, which is the aid given to students the college is seeking to attract. When a student fits a certain demographic, rather than a particular grade or SAT threshold, it is often called characteristic-based aid. Then there's "merit within need," when a student who is just as poor as another gets more money because she fits a college's goal -- she hails from Nebraska in a class overwhelmingly full of Northeasterners, or has a higher grade point average. Similarly, a student who is first in his class might get less than the seventh-ranked student who shows an interest in physics.

Merit aid became popular in the late 1980's as the pool of high school graduates shrank, forcing colleges to compete for students. At the time, the Ivy League and about a dozen other elite colleges met each spring -- as they had for decades -- to decide what an individual family could afford to pay before making an offer that was consistent from college to college. The government filed its suit in 1991, and predicted that the settlement would allow families to negotiate better deals. It seemed to send a signal that a competition was on.

Private institutions discount far more than public ones, but the public ones are catching on; about a dozen state universities, especially in the South, are replicating Georgia's Hope Scholarships, which subsidize students with high grades -- even if their families can afford to pay full freight. Dr. Lapovsky was dismayed when she gave a recent seminar on tuition discounting and half the 150 people who signed up were from public universities. As universities reduce services and raise tuition in response to state budget cuts, she says, public institutions see discounts as a way to continue to attract top students.

Some colleges argue that aggressive discounting has allowed them to build more prestigious and, ultimately, better institutions. George Washington University, for example, spends about \$100 million a year on merit and need-based scholarships. Stephen J. Trachtenberg, its president, credits merit aid with attracting more National Merit Scholars and improving its yield -- that is, the percentage of students who accept offers of admission. Both helped the university rise from unranked to 51st in U.S. News rankings.

"We are going to be more forthcoming to kids who are outstanding and who fill in gaps in our census," Mr. Trachtenberg says. "We will give money to students who could arguably pay our bill without any help, and we find that it is psychologically reinforcing; it gives their parents bragging rights, it reinforces the family decision to send their kid here."

Likewise, the University of Southern California, derided in the 1980's as the University of Second Choice, has used merit aid to woo students from Stanford and California's public ivies, Berkeley and Los Angeles. National Merit Scholars get full scholarships,

other students get half or a quarter off the sticker price. Since 1993, the number of National Merit Scholars in the freshman class has risen from 107 to 158, the average grade point average from 3.46 to 3.99, and the average SAT score from 1095 to 1341. All this has pushed U.S.C. up in the rankings and drawn more applicants: about 12,000 in 1993 and 29,000 last year.

"The quality of students has shifted upward in five years," says J. Michael Thompson, dean of admission and financial aid. "A merit program begins to build on itself." In fact, he says, as the university's reputation has improved, it is easier to attract students without giving them a financial break; U.S.C. has begun directing more aid to needy students, reducing the number of merit-based discounts offered to this year's freshman class by 33 percent.

As colleges have gotten more aggressive about discounting, families have become more aggressive about negotiating better prices. Some colleges encourage the practice. Carnegie Mellon University, for example, tells students it would like the chance to match offers made by other colleges.

Given two equally qualified students -- one wealthy, one poor -- a college that aspires to a higher place in the pecking order may offer merit aid to the wealthier student because it knows the poor student will get offers of aid from other, more prestigious colleges. The bet, officials say, is that the wealthier student will accept, improving the college's yield and, ultimately, its prestige.

"Economics prevails," says William F. Elliott, Carnegie Mellon's vice president for enrollment. "Colleges will do what is necessary and appropriate for them to do to build their best class. Are some kids getting more money to enroll where they might anyway? Maybe, but that's the economics of it."

The airplane analogy does not fit perfectly. Colleges argue that having higher-achieving students in the other seats improves the quality of the education. "It's not an arithmetic process for us," Mr. Thompson says. "It's about, 'What can they contribute?'"

Colleges also point out that they have not abandoned needy students. Still, they acknowledge, there are only so many dollars to spend, and a dollar given in merit often means one not given for need. According to the National Center for Education Statistics, in 1999-2000, 51 percent of students in the highest income quartile got aid from private colleges, up 10 percentage points over four years, and 18 percent got aid from public colleges, up five points. By contrast, the percentage of middle- and low-income students getting aid from private colleges remained flat (at 63 percent and 56 percent).

Similarly, a report in May from the Lumina Foundation found that in fall 1995, the lowest-income students received about 2 percent more money from private colleges than families with incomes between \$60,000 and \$80,000; four years later they received 29 percent less on average. And while families with incomes above \$100,000 still get the smallest grants, the amount of those grants was growing faster than that given any other

income group -- by almost 145 percent.

Discounting is a delicate equation. Several years ago, for example, George Washington was particularly aggressive in courting National Merit Scholars. "It took a few years to work that particular generosity through our system," says Mr. Trachtenberg. As other colleges often do, George Washington compensated by offering fewer deals the following year.

When the University of Notre Dame fell short on its return on endowment investments last year, it had to raise tuition by 6.5 percent, compared with a more typical 4.9 percent the year before. A good part of that increase, says Joseph A. Russo, director of student financial services, went to covering discounts; still, he says, merit-within-need has helped Notre Dame create its most diverse freshman class ever.

In the worst cases, institutions discount themselves out of business. When Bradford College in Massachusetts closed in 2000, three-quarters of the students were paying, on average, less than half the sticker price. When the college fell short by 31 students, officials said then, it had no choice but to close.

Many people complain that discounting has pushed financial aid past its original aim: allowing students who could not afford college to attend.

"The kids getting merit aid are going to do well in life in any case," says Michael S. McPherson, former president of Macalester College and an economist who has written extensively on tuition. "Reducing the price to them is a benefit to them, but it doesn't serve any larger social purpose." Mr. McPherson and others suggest a system that would look something like what the elite colleges used to do: share information and agree on how much aid to offer, as a way of limiting tuition increases and the amount of merit aid. But even if the Justice Department decided that this did not violate antitrust rules, such agreements might be hard to enforce.

"The feds can tell you what they want you to do with their money," says Mr. Elliott, at Carnegie Mellon. "But when institutions are putting more of their own money on the line, the trustees are saying, 'Why are we living within these restraints the federal government is putting on us?' If that means they want to buy students or buy whomever they want, in the great American way, I don't think any third party is going to dictate how an organization is going to spend its money."

Others say that as much as they don't like merit aid, restricting it would be unrealistic in this market. "In some abstract, Platonic ideal, I'm probably against it," Mr. Trachtenberg says. "In the world in which I'm obliged to live, I have to use my tools."

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