Tuition discounts play a shadow role in the rising cost of college

DENVER — The cost of attending college continues to rise, with tuition increases outpacing national inflation. One often overlooked cause is the practice of tuition discounts, according to a report released today by the Education Commission of the States.

Tuition discounts are financial incentives that public colleges and universities award to some students, often in the form of merit awards or needs-based grants. There are several reasons why colleges offer tuition discounts, including a desire to draw in students with the ability to pay full tuition or those who can boost the college’s academic profile.

However, tuition discounts are considered a form of price discrimination since colleges and universities charge different prices to different students. Because the practice requires institutions to inflate published tuition rates — and low-income and minority students pay particular attention to those published rates — the strategy may actually diminish access for underserved students.

“This report shows that discounting has become increasingly prevalent among public institutions, most notably public research institutions,” said Sarah Pingel, an ECS researcher and co-author of the report. “Policy leaders should be aware of the impact of these practices on tuition pricing in their state.”

Key findings from the report:
- The average discount rate for four-year public research institutions jumped from 26 percent in the 2002-03 school year to 32.9 percent in 2011-12.
- The average published tuition and fee rate for four-year public institutions in 2008-09 was $6,811, but the average net revenue per student was $5,564 — a difference of more than 18 percent.

To help manage college costs, some state policymakers have pursued the strategy of implementing strict tuition caps. Though imprecise, tuition price caps can slow the expansion of price discrimination policies. By controlling the “sticker price” of tuition, policymakers can limit the degree to which campuses can discount it.

What states are doing:
- In New York, 2011 legislation limited year-to-year resident tuition increases in the CUNY and SUNY systems to $300 per year between 2011-12 and 2015-16. Additionally, the bill required that nonresident tuition increases could not exceed 10 percent over the prior year.
- In Colorado, a 2014 bill increased state support to higher education by $100 million but capped tuition increases at 6 percent.
- In Virginia, the 2008 legislature doubled the size of an existing fund that rewarded institutions that kept tuition increases at or below 4 percent.
- In Iowa, the Board of Regents froze tuition for public four-year institutions for the two-year period from 2012-2014. For the 2014-15 fiscal year, the freeze was offered in exchange for a 4 percent increase in state appropriations.

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