



BRIEF ANALYSIS

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Is College Too Expensive, Or More Affordable Than Ever?

by **Adrienne Aldredge**

To the 10.5 million students in college each year and their families, college affordability is a major concern. With annual regularity, news headlines warn about rising college costs. Tuition at four-year public universities, for example, jumped an average of 14.1 percent last year. But is college truly less affordable today? Thanks to an explosion in federal grants, state aid and tax credits, the average student pays less than ever for a public university education.

College Tuition: Then and Now. According to the College Board, which tracks tuition changes, there was little, if any, real growth in the cost of going to college throughout the 1970s. Over the next decade, however, tuition and fees grew much more rapidly than the Consumer Price Index (CPI). And over the 10-year period ending with the 2003-2004 academic year, average tuition and fees rose 47 percent (\$1,506) at public four-year colleges and universities (in constant 2003 dollars).

But most students still attend colleges that charge less than \$10,000 in tuition and fees annually:

- Of all students attending four-year schools, 29 percent are enrolled in colleges charging less than \$4,000 in tuition and fees.
- Almost 70 percent attend schools with published tuition charges of less than \$8,000.

The Sticker Price Versus Out-of-Pocket Costs.

The true price of a college education is much like the sticker price on a new car window: few people really pay it. According to a recent *USA Today* analysis, students pay only a fraction of the tuition “sticker price” at four-year public universities when grants and tax breaks are counted. Keep in mind that nearly

three-fourths of full-time students attend public colleges and universities.

- Students last year paid an average of just 27 percent of the tuition “sticker price” at four-year public universities.
- Between the 1997-98 and 2002-03 academic years, the published tuition price at public universities rose 18 percent to an average of \$4,202 (see the Figure).
- Average tuition *paid* at those schools, however, fell 32 percent during the same period, from \$1,636 to \$1,115.

During recent years, the federal and many state governments have legislated substantial tax breaks and grants for middle-class families. In most cases, published tuition prices overestimate a family’s out-of-pocket costs by a large margin.

Federal Aid Has Exploded. Government financial aid, excluding loans, reached a record \$49 billion in 2003. As a result, attending a public university is much cheaper now than it was even six years ago.

■ A record \$105 billion in financial aid (including loans) is available to students and their families, an increase of 12 percent over last year.

■ States awarded \$6.9 billion in aid last year — an average of \$467 per student.

■ Almost 60 percent of undergraduate students

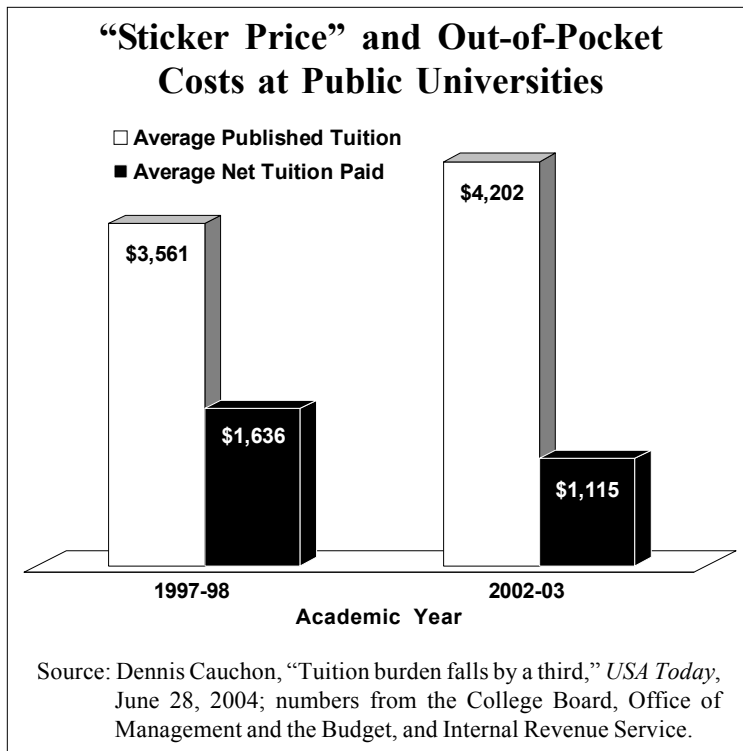
receive some form of financial aid.

■ Federal Pell grants, which target low-income students, have doubled to \$12 billion since 1998.

College Tax Credits for the Middle-Class.

Middle-class families reap the greatest rewards from seven new college tax credits and deductions and plenty of financial aid based on both need and merit. Among them:

- The Hope Scholarship Credit, started in 1998, reduces federal income taxes by up to \$1,500 per year of college for each college student in a family.
- The Lifetime Learning Credit reduces taxes by up to \$2,000 per family and can be taken for an



BRIEF ANALYSIS

No.482

Page 2

unlimited number of years; however, it cannot be used along with the Hope credit.

In 2003, 6.5 million families received tuition tax credits that reduced taxes an average of \$1,350 per return.

State Merit Aid Has Grown. Notably, state-financed merit scholarships are the fastest-growing financial aid for college. Georgia's HOPE scholarships (unrelated to the federal Hope Scholarship Credit) pay full in-state tuition for students who earn a B average in high school.

- Forty-one states awarded \$1.2 billion in merit aid in 2003, up 118 percent from 1998.
- At the University of Georgia, 98 percent of in-state freshmen are HOPE scholars and pay no tuition.
- Colorado is implementing the nation's first college voucher plan, giving every high school graduate up to \$2,400 toward tuition.

States that struggle to keep their best students at home are having great success with such scholarships — Louisiana, New Mexico, South Carolina and West Virginia have followed Georgia's lead.

Subsidized Loans. Growing evidence indicates that increased federal financial aid has actually contributed to tuition hikes and discouraged college saving. The federal government guarantees or subsidizes about \$50 billion in student loans each year, at interest rates well below the market rate and with easy repayment terms. Low payments and longer terms encourage students to take on more debt than they can comfortably repay.

Because grants and scholarships are often conditioned on family assets as well as income, the money parents put aside for college sometimes makes their children ineligible for aid. Among the effects of these policies:

- Some 39 percent of first-year, full-time dependent undergraduates borrowed money for college in academic year 1999-2000, and 80 percent of that borrowing was guaranteed by the federal government.
- Current student loan limits are extremely high — \$23,000 for dependent undergraduates — and may encourage borrowing over saving for college.
- A Hart Research Associates poll found that half of parents surveyed had saved less than \$1,000 for college.

While the student loan default rate has dropped to about 5.5 percent, taxpayers must still make up the difference between what students borrow and what they actually repay.

The "Private-School Model." Some public universities are imitating the "private-school model" of setting tuition: a high list price and big scholarships. They raise tuition rates and then qualify for bigger federal and state grants, which can be passed on to students in the form of scholarships and grants.

Consider Miami University, a public school in Ohio, which will move to the private-school model this fall:

- The university raised in-state tuition to match out-of-state tuition, \$19,718.
- Students from Ohio will then get automatic scholarships to make up the difference.
- After raising tuition rates, the school received a record 15,000 applications for 3,500 spots in the next freshman class.

Since federal Pell grants and many state grant programs distribute money based on a formula that increases grants when tuition is higher, the private-school model allows colleges to charge wealthier students more and use that money for extra aid to low-income students.

Lifetime Income Benefits. Even though the list price of tuition has risen dramatically in recent decades, attending college still yields a large net benefit in terms of increased future income. In the long run, a college degree pays for itself many times over:

- In 1999, full-time, year-round workers with a bachelor's degree earned 1.8 times the annual income of workers with only a high school diploma.
- A college graduate can expect to earn on average \$2.1 million in his lifetime, nearly twice as much as a worker with only a high-school diploma.
- Even a worker with an associate's degree can expect to earn about \$400,000 more than a high school graduate over the course of his working life.

When viewed from a long-term perspective, college pays off.

Conclusion. With the recent expansion of federal, state and private aid, a college education is well within financial reach for most low-income students. At this point, any new federal government spending on higher education should be limited to a modest expansion of the Pell grant program; it should not include new tax credits or more loan programs. The government should also consider subsidizing loans only for low-income students, allowing private lenders to provide education loans to middle- and upper-class students.

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