

The Higher Education Opportunity Act of 2008 requires every college or university that administers federal student assistance to make available and accessible the information consumers need to understand its cost of attendance and to make accurate comparisons across institutions. One element of the legislation is a soon-to-be-enforced mandate that colleges and universities host a net price calculator on their websites. But will this indeed bring transparency to the issue of cost? Or will the net price calculators only increase public confusion and frustration?

THE NET PRICE CALCULATOR MANDATE: A TOUGH ACT TO FOLLOW

by Virginia R. Buege

For the past decade, the soaring cost of college has been a prominent point of public debate and a favorite topic of the media. So in mid-February when The University of the South (Tennessee), better known as Sewanee, pledged to cut their 2011-12 fees by 10 percent, it was no surprise when prospective and current students celebrated the news and the story received a lot of favorable, high-profile press.

“Bucking Trend, College Will Cut Price,” declared *The New York Times* article featuring Sewanee Vice Chancellor John M. McCardell, Jr. announcing the news. “The university has made a bold and perhaps risky move,” explained McCardell. “But given the realities of higher education in the current economy, we believe that some college or university needed to step up and say, ‘Enough.’”

However, those in the know were a bit more cynical about what the University’s cost-cutting move actually would mean for students. In a *New York Times* editorial on the subject, Sandy Baum, emerita professor of economics at Skidmore College (New York) and a



frequent commentator on the economics of higher education, called attention to the practice of discounting, the use of non-need-based aid, and the difference between sticker price and net price. Regarding Sewanee’s price reduction, Baum concluded, “Indeed, many (most?) students may not experience any decline at all in the net price they pay.”

And therein lies the problem: Most students and their families are in the dark about what the real cost of college might be for them. The terms “discounting,” “sticker price,” and “net

cost” baffle them when they simply want to know what the bottom line will be for their pocketbooks.

Enter the net price calculator (NPC). Mandated by politicians and intended to bring transparency to the issue of costs for consumers, NPCs are required for nearly 7,000 post-secondary institutions by October 29, 2011. The mandate applies to all Title IV institutions that enroll full-time, first-time degree- or certificate-seeking undergraduate students; in other words, most four-year colleges and universities as well as community colleges, technical schools, and even for-profit institutions are affected by the requirement.

But with only a few months left to become compliant, many institutions have yet to find an NPC solution. More troubling, the public seems scarcely aware of their existence. Will the NPC be the solution Congress anticipated?

THE CALCULATOR MOVEMENT

Since America’s post-war college boom, there has been a steady and lively discussion about the cost and

value of post-secondary education. But in the last decade, with a perfect storm of declining economic conditions, increasing consumerism, and deteriorating graduation rates, the debate has reached a fever pitch. Issues like access, affordability, quality, and accountability in higher education have been deliberated on Main Street and on Pennsylvania Avenue.

“After the Spellings Commission [2005-06], the political climate included lots of discussion about controlling college costs,” recalls Jim Miller, coordinator of enrollment research at the University of Wisconsin-Superior and current president of the National Association for College Admission Counseling (NACAC). “The press was focused on sticker price, and some in Congress suggested we should put limits on college costs.”

Others made the case that it was inappropriate to paint all colleges and universities with the same brush stroke. “Private colleges argued that their tuitions weren’t as high as they appeared once one considered discounts, particularly in response to need,” says Nathan Mueller, principal at Hardwick-Day, a higher education consulting firm that focuses on enrollment optimization. “So Congress basically said, ‘Fine. Show people the real net cost.’”

Thus the “calculator movement” began with a push toward transparency.

As defined in the Higher Education Opportunity Act (HEOA), the net price calculator’s purpose is “... to help current and prospective students, families, and other consumers estimate the individual net price of an institution of higher education for a student. The calculator shall be developed in a manner that enables current and prospective students, families, and consumers to determine an estimate

of a current or prospective student’s individual net price at a particular institution.”

To help institutions meet the NPC requirement, the Department

“We don’t have any empirical data on this, but it seems that the Fed’s NPC is too simplistic for most institutions. We anticipate most will include some customization at a minimum.”

—HALEY CHITTY

Spokesperson for the National Association of Student Financial Aid Administrators

of Education has designed a fully functional calculator template. Colleges and universities may use the calculator template or develop their own customized calculator—either in house or with the help of a third-party vendor—so long as it includes the same minimum elements as the Department’s template. Using student-entered data, the Department’s calculator allows prospective students to determine their estimated net price at an institution based on the following basic formula: the average price of attendance for full-time, first-year undergraduates minus the average need-based and merit-based grant aid.

Available at no cost to all Title IV post-secondary institutions, the Department’s template is available online and includes a Quick Start Guide designed to walk users through the basic steps required to configure and use the federal NPC. Annual updates to the template will be provided every August.

THANKS, BUT NO THANKS

Despite the fact that it is free and simple to configure, the federal template might not have many takers, according

to Haley Chitty, a spokesperson for the National Association of Student Financial Aid Administrators (NASFAA). “We don’t have any empirical data on this, but it seems that the Fed’s NPC is too simplistic for most institutions,” says Chitty. “We anticipate most will include some customization at a minimum.”

Director of Financial Aid Mike Scott quickly ruled out the Department of Education’s template for Texas Christian University. “Choosing an NPC just because it’s easy and free and slapping it up on your website might not be the best option for your school,” he says.

“The federal NPC is fine, but we never seriously considered that option,” explains Scott. “Among other concerns, I also think there are huge marketing implications associated with how this data is presented, and we wanted something more personalized to present our information on pricing.”

Beloit College (Wisconsin) did actually download the template to experiment with it in house. “We thought it was quite good,” says Nancy Benedict, Beloit’s vice president for enrollment. “I give the Feds a lot of credit for giving colleges a tool that is effective for schools that use the Federal Methodology.” But the federal template won’t be the calculator Beloit College uses.

“We recognize that Beloit operates in a different world than the Federal Methodology, and we needed to modify the way the calculator operates on our website to better reflect our robust merit program,” says Benedict. “We simply needed a more sophisticated product.”

Most detractors cite the federal template’s “one-size-fits-all” formula as the main disadvantage, suggesting that for most institutions the formula is so generic it will result in numbers that are inaccurate.

Student Aid Services tested the federal template's methodology for determining Expected Family Contribution (EFC) with 149,490 actual dependent and independent students' financial profiles. When run through the federal template, seven out of 10 were \$500 or more outside their correct Federal Methodology EFC range.

Myra Smith, executive director of financial aid services at the College Board, agrees with Benedict that the Department of Education's template can work for institutions with limited gift resources, but she is quick to point out that few colleges and universities have such simple financial aid strategies. There are all kinds of imperatives at all kinds of schools, she notes, and the federal template simply does not account for any distinctions made between students based on the cost or merit side.

The main reason the federal template won't work for most institutions boils down to its use of averages, says Smith.

"The troubling part of using averages is that no one is really average."

SELF-HELP

Just prior to the HEOA's authorization in 2008, Stanford University (California) had launched an online estimator to help families understand how the University's new financial aid policies would affect them directly. At the time, few vendors offered the services Stanford sought, so they built their own calculator.

"For a school like Stanford, with relatively straightforward need-based financial aid strategies, creating a calculator that expresses our policies is somewhat easier," says Karen Cooper, director of financial aid. "I fully recognize that other schools have much more complicated methodologies, and creating a calculator is likely to be far more challenging [for those colleges]."

"Whether you build it yourself or farm it out is a tough call," says Rod Oto, director of student financial aid

services at Carleton College (Minnesota). "Even if you have the internal IT resources to build it, you have to have the additional time and resources to test, test, test."

Although Carleton worked with Hardwick-Day, creating the NPC was still a hands-on, labor-intensive process for the College. First, Carleton had to address what type of calculator they wanted to feature—essentially choosing between a simple, easier-to-use calculator or one that is more accurate but requires more inputs from the user (Carleton went with the latter). But even after creating a calculator that replicated the College's Institutional Methodology to their satisfaction, Carleton took a great deal of time confirming that the calculator was easy enough to use. Oto believes the extra time was essential. "The price estimator is meant to be a service to families," he says, "and if it's too confusing for them to bother using it, it won't really help them."

CUSTOMIZING THE FEDERAL CALCULATOR TEMPLATE

Federal legislation allows colleges and universities to customize the Department of Education's calculator template, build their own calculators in house, or use a third-party net price calculator (NPC). However achieved, every NPC must include at a minimum very specific input and output elements.

The required inputs must include data elements to approximate the student's Expected Family Contribution (EFC), such as income, number in family, and dependency status or factors that estimate dependency status.

Output elements must include the following:

- Estimated price of attendance
- Estimated tuition and fees
- Estimated room and board
- Estimated books and supplies

- Estimated other expenses (personal expenses, transportation, etc.)
- Estimated total grant aid
- Estimated net price
- Percent of the cohort (full-time, first-time students) that receive grant aid
- Caveats and disclaimers, as indicated in the Higher Education Opportunity Act

A customized NPC can ask for additional inputs—such as other asset information, high school GPA, test scores, or contact information—in order to more accurately assess EFC and possible merit qualifications, but it cannot require them in order for the user to access the calculator.

Source: *Integrated Postsecondary Education Data System (IPEDS)* 

Time and money were both considerations for deciding how to build the University of South Dakota's NPC. Scott Pohlson, dean of enrollment, says the decision to go to a third party for assistance with their calculator came easily. "Given the state of public financing, the truth is that it was easier to go out of house," he says. "We knew instantly that we wouldn't make the deadline if we did this ourselves."

"Lots of institutions have told us that the initial instinct was to build it themselves," says Kevin Crockett, president and CEO of Noel-Levitz. "But they soon realized their IT office doesn't have the bandwidth to build or keep up with federal compliance over time, so they are more comfortable turning it over to a professional."

For many institutions, it was natural to partner with vendors with whom they previously have worked. As a CSS/Financial Aid Profile subscriber, Pomona College (California) turned to the College Board for its NPC solution. "For us it made sense to continue using the same information in the calculator that we were already using in financial aid," says Mary Booker, Pomona's director of financial aid.

Capitalizing on the limitations of the federal template, outside firms are offering calculators that more accurately reflect Institutional Methodology and, in some cases, design and messaging elements that better reflect the college or university's brand. Of course they vary, but most third-party NPCs augment the basics of the federal template with features that allow institutions to calculate student achievement-related merit aid, segment by student population (in-state or out-of-state, first-year or transfer), ask additional asset questions, clarify the number of dependents, include self-help aid, and provide users with an option for further contact with the financial aid office.

BALLPARKING COSTS

The misgivings about the HEOA mandate are significant, and counselors on both sides of the admissions desk worry about the potential unintended consequences of NPC use. Stealth shopping, undermatching, erroneous calculations, and gaming the system are frequently mentioned, but the foremost cause of concern seems to be related to the possibility that consumers' expectations might exceed the intention of the NPC to provide an *estimate* rather than a *final* net price that students and parents should bank on.

Alice Kleeman, college advisor for Menlo-Atherton High School (California), has watched families use estimators and believes they can help demystify the subject of financial aid. She plans to recommend that families use the NPC, with a caveat: "The net price calculator will be a useful tool if it is regarded as *one step* in the continuum of zeroing in on a family's precise college costs," says Kleeman. "That continuum ends only when an offer of admission and a financial aid award are in hand."

Wisconsin-Superior's Miller speculates the NPCs could be problematic for public institutions where funding is tenuous and limited. "Need-based aid at state schools tends to be a finite amount of money," says Miller. "And when it runs out, it's out."

"The worry here is that a student who runs the net price calculation in January might get an idea of what she would receive if she filed the FAFSA immediately. The problem is that if in fact the student doesn't apply for financial aid until April—or worse, later—she could find herself with a very different aid package, even though her situation hasn't changed," he says. "What kind of algorithm can account for that?"

Calculating merit-based aid can be equally vexing. Highly selective

Kenyon College (Ohio) is still fine-tuning its NPC as it relates to their very small merit award program, admits Jennifer Delahunty, Kenyon's dean of admissions and financial aid. "This year, our academic profile in the Early Decision pool has taken a huge leap—up 31 points," she says. "How are we to account for who will qualify for merit in our net price calculator?"

The truth is, calculating costs for students is rarely easy. Traditionally, awarding aid had taken time, effort, and in some cases, professional judgment. So capturing all of the nuances of aid in a calculator is impractical.

Even with these challenges, Delahunty believes the NPC mandate is a step in the right direction for removing some of the mystery of price and cost in higher education. "The NPC will help families ballpark their costs," she says. "But that's a very important element: It is an estimate, not a definitive answer."

Even so, how well will the public tolerate mere estimates during their college searches? Critics point out that the legislation was intended to not only help college-bound students better understand the actual cost of any institution, but also to allow them to make accurate comparisons across institutions. And this simply won't be possible, because families won't be working with one NPC, but dozens, predicts Jon McGee, vice president for planning and public affairs at the College of Saint Benedict and Saint John's University (Minnesota).

"You can argue that colleges award aid differently, so they should have different calculations," says McGee. "But consumers simply will see different calculators with different results, perhaps from similarly looking schools. Families using the NPCs will still be left bewildered about costs—just *earlier* in the process."

ADDING UP TO ACCESS

No one denies that cost is a huge factor related to college choice and that it would be better if families could cut through the clutter and know their real costs sooner rather than later. As Anna Burkhalter, director of college counseling for The Northwest School (Washington), says, “The exciting part of an NPC is that it does provide information where there is a gaping hole right now. What other product [besides higher education] do we have to commit to in so many ways before we know what the cost will be to us?”

On the other hand, she thinks the absence of the “human touch” in the calculator is worrisome. “Giving a student the numbers without any explanation leaves the potential for

a high degree of misinterpretation, especially with less educated families,” says Burkhalter.

For more than a decade as president of the National Center for College Costs (NCCC), Dave Murray has helped families of all backgrounds navigate the financial aid process to understand that college is an option they can afford. “So many families have no idea that college is not only attainable for their student, but probably also paid for,” says Murray. “Bringing that kind of education and realism to students and their parents is awesome—and a powerful motivator, especially to young students.”

But as noble as the intent of the NPC mandate might have been, Murray is doubtful it alone will solve the issue of access. “It’s one thing to have a fully

functional tool—and we’re not even there yet [with the NPC],” says Murray. “It’s another thing to have the necessary counseling to interpret the data and to assist with all the other aspects of the admissions and financial aid process.”

MOVING BEYOND THE MANDATE

“One of the media’s favorite messages is that high-cost schools are out of touch,” says Carleton College’s Oto. “With net price calculators, we have an opportunity to show that we are trying to get it right.”

That means colleges can’t just put the tool out there and walk away, and the disconnect between sticker price, cost, and value will be solved, even if that’s all the mandate requires. “We

IF YOU BUILD IT, WILL THEY USE IT?

by Virginia R. Buege

Today’s consumers turn to calculators for other big purchases, like mortgages and automobiles. So will using a net price calculator (NPC) be a natural for college-bound students and their parents?

“Absolutely,” says Kevin Crockett, president and CEO of Noel-Levitz. “The demand for an NPC is on the rise.”

Crockett cites his company’s “E-Expectations 2010” survey of college-bound students. When asked to identify the value of interactive features on college websites, respondents ranked a “cost calculator” as the third most valuable feature, just behind online applications and campus visit request forms. Of the students polled, 68 percent said that cost calculators would add “a lot” or “extreme value” to a college website.

In practice, however, only 34 percent of those same respondents replied that they had ever used an online cost calculator. Similar results were published in the May 2010 edition of Art & Science Group’s “Student Poll,” which indicated that only 26 percent of high school seniors said they or their family had used an online calculator.

The “Student Poll” survey further revealed that calculator use varied by household income, with usage higher in the upper income brackets (25%) than in the lower income brackets (8%). In the highest income bracket families (\$100,000 and up), parents are using the calculators; in the lowest income bracket families (those earning less than \$40,000 a year), it’s the students, rather than their parents, who are accessing the calculators.

These findings don’t surprise Nancy Benedict, vice president for enrollment at Beloit College (Wisconsin). “The range of calculators out there now varies widely in sophistication, making it very difficult for families to trust the results or to understand affordability.” She hopes the NPC mandate will prompt colleges to expand upon the bare minimum required and provide calculators that will allow families to predict with a little more precision the actual cost of education.

“The cynical part of me expects there to be a lot of flurry and conversation when it’s launched,” says Benedict, “but then the NPC will lose its sparkle, and it will all go back to business as usual.” 

need to do more to get it in the hands of the right people, which certainly includes the uninitiated—the first-generation and low-income students. They need more help and prompting to use this type of tool,” says Oto.

Kent Barnds, vice president for enrollment, communication, and planning for Augustana College (Illinois), thinks that greater public awareness of net price calculators will move the question of affordability further up in the admissions funnel. And he believes this is a good thing, although not without its own set of challenges for college enrollment officers.

“We will have to do a better job communicating about price and value,” says Barnds. For Augustana, that means it is no longer feasible or practical to meet a family at a college fair and expect to refer them to the financial aid office for the discussion about real cost and net cost.

“I have an obligation to train my admissions staff to be more fluent in the language of financial aid and value—and the inefficiencies of the NPC,” says Barnds. “It is up to us to make [the NPC] work for our students and our institutions.”

CALCULATING SUCCESS

In November 2010, *The New York Times*’ “The Choice” blog featured the topic of net price calculators. The responses in the comments section varied widely, but all were telling.

Identifying herself as a college consultant, one reader wrote that she thinks “it sounds like one more gadget that may not be a real benefit to anyone.” Another commenter remarked, “This is yet another tool with variables that colleges can manipulate to look more appealing. No thanks.” And a third, identifying himself as a parent, asked: “What’s wrong with our own calculators? Ours showed us, in advance, that we needed to raise a couple of tens of thousands of dollars before we even thought about setting foot in college.”

As the deadline for HEOA compliance approaches for post-secondary institutions, it’s not yet clear if college-bound students are aware of the pending availability of net price calculators or whether they would ever be inclined to use or trust them. (That said, it is probably only a matter of time before the likes of *U.S. News & World Report* or *The Princeton Review* draws greater attention to NPCs via case studies or rankings, thereby putting them on the radars of more high school students and their families.)

Nevertheless, the cost of higher education is an issue for most families, and not one that is likely to go away any time soon. Will Congress’s net price calculator shed light on the issue and bring transparency to the issue of cost? Or will NPCs further increase public inquiries, confusion, and frustration?

Only time will tell, but colleges and universities would do well to prepare themselves for all eventualities. The HEOA mandate may be fulfilled by the deadline in October, but for most institutions, that’s when the real story begins. 

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