



Views

Designing a Net Price Calculator

March 4, 2011

By **Lucie Lapovsky**

Beginning October 2011, the federal government will require all colleges and universities to have a “net price calculator” on their websites, with the goal of giving individual students and their families a clearer sense of how much they themselves might pay for a degree at a particular institution.

The design of this calculator and the issues that colleges will face in deciding what to reveal in their calculator, and how to present the information, are many and complex. Presidents and boards need to understand the issues involved, as missteps could get their relationships with students off to a bad start or put their institutions at a competitive disadvantage against peers.

This requirement, put in place as part of the Higher Education Opportunity Act of 2008, came about in large part because most students pay a price that is less than the institution’s published tuition and fees, but students currently have no systematic and consistent way of estimating what the net price of each college they are thinking about attending will actually be. More than 80 percent of the students at private institutions, and significant numbers of students at public colleges, receive institutional grants.

Current published information on institutional financial aid provides the average institutional tuition discount rate at an institution but provides no data on the tuition rate that a specific student will actually pay; individual students cannot calculate what they will pay from the average. Some students may get a full scholarship to attend an institution and thus pay \$0, while other students will pay the full price of tuition. Beyond this, there are no protocols as to how institutions distribute their aid, so the same student may receive very different aid offers from similar institutions.

In addition to the financial aid provided by institutions, students also may receive financial aid from federal and state governments and private sources. While the federal aid will usually be the same irrespective of which institution the student attends, the state aid could vary widely, depending on whether the student is attending an institution in her home state, and if so, whether the institution is public or private. Finally, the aid offered by institutions will differ significantly from one institution to another, as institutions use differing criteria to award their aid.

In most cases, the estimated out-of-pocket cost that the net price calculator will provide will be less than the published price; it is hoped that giving students a good estimate of what they will actually have to pay to attend a specific college will increase the range of colleges that they will consider. Some institutions award aid only to students who have unmet financial need, while there are a handful of institutions that award all of their aid based on student characteristics other than financial need.

Asking the Right Questions

There are many factors institutions should consider when designing their calculator. They include the following:

1. Will you require the student to identify himself before completing the calculator or will you let students use your calculator anonymously?
2. What level of accuracy do you want; are you willing to underestimate the award or overestimate it?

3. How much do you want to reveal about the student characteristics that your college takes into account in calculating financial aid awards?

4. How long should it take to complete the calculator?

5. In sharing the results of the calculator, will you tell the student how much he will receive from your institution in aid or how much he will owe? Will you include loan funds in these responses or just grant funds?

As these few questions indicate, the design of this calculator and the issues that colleges will face in deciding what to reveal in their calculator are many and multifaceted. The awarding of financial aid has gotten very complex, and the tactics that institutions use to maximize net revenue may have overtaken the basic value structures of the institution -- such as providing aid differentially by gender or providing meager aid to very poor students and aiding middle-income students more generously.

Much of the tactical implementation has been left to consultants, and boards and presidents may have little awareness of the very basic decisions that are being made in the awarding of their institutional aid. In designing the calculator, many of these tactics will become apparent and should motivate serious institutional discussions by the top administration and the board.

Who Are You?

Beginning with the question on student identification, a college needs to balance several concerns. Asking students to identify themselves will give institutions the ability to contact the student and keep track of the estimated award that it has provided to the student should the student eventually apply to the institution.

On the other hand, doing so is likely to reduce the number of students using that institution's calculator, as it will take more time to complete and some students want to experiment with a variety of assumptions to see the various awards they will receive, remaining anonymous. Furthermore, there are no guarantees that students will provide accurate information; thus the value of the information to the institution will be uncertain.

It will be in the best interest of each college to provide as accurate an estimate as possible for prospective students, while not erring on the side of overestimating the award and not getting too complex. The rationale for providing as accurate an estimate as possible is that this is an important piece of information for students in making their college choice decision and an overestimate of the price that the student might have to pay could discourage the student from applying. Also, once students become aware of the calculators, they are likely to "shop" different institutions using price as a more important variable than they have in the past.

That said, we know that price is not the final or even most important determinant of which college to attend, but it certainly does influence college choice decisions -- especially at the front end when students are deciding which colleges they should seriously consider.

Clearly, overestimating an award will provide challenges to the admissions and financial aid office when the final award is made, as students will feel that they have been misled by the institution if all the data they provided on the calculator is still valid. This will not be a productive way to begin a relationship. Meanwhile, underestimating the award may lead a student to remove that institution from consideration inappropriately.

The Money Questions

There are two very different sorts of information that most schools will need to collect: financial information and all other information related to student characteristics.

If we start with financial information, colleges and universities have to decide how much information they want to get at this stage of the process. Schools may want to consider providing students with two alternatives: one which basically requests much of the FAFSA information and a second choice which requests a few key items of income information and contains multiple provisos about additional data requirements in order to receive/calculate the final award.

Many students in their initial reviews of colleges do not yet have all their FAFSA information, and even if they do they may not want to spend the time inputting all this data for multiple schools if they are just searching for an aid estimate; they may also be uncomfortable providing this level of detail on confidential information in this environment.

Beyond Finances

Gender may be one variable that a college uses in calculating its financial aid awards -- aiding men and women differently. The rationale behind doing this is that men and women often have very different "yields" for colleges, with women having significantly higher yields at most liberal arts colleges. Do these institutions want to acknowledge this publicly? If they do, then gender needs to be one of the inputs for the calculator and the calculated award will differ based on gender.

Another variable many colleges consider when awarding aid is the student's anticipated major; students who identify different majors when they are using the calculator will sometimes find that their award will change depending on their choice of major. The upside of differentiating awards by multiple characteristics is that an institution will more closely estimate the actual award; the downside is that the institution will be revealing some things that it may not want in the public domain. As colleges make different decisions on how to proceed on issues like this, they may advantage or disadvantage themselves vis-à-vis their competitors.

There are many other questions that an institution may want to include in its net price calculator. Asking for this data to run the net price calculator reveals even more about institutional values and priorities.

For example, an institution may ask questions about activities in which the student has participated such as community service, leadership, athletics, musical talent, etc. Questions asked often include the religious affiliation of the high school the student attended, whether or not the student is a legacy and what groups the student may have belonged to such as girl or boy scouts, high school honor societies, etc.

The choice of questions asked reveals what student characteristics the institution is willing to reward. Some colleges ask these questions because they have endowed scholarships in certain areas and want to make that aid available to these students; this may get schools to a level of detail that is more than is necessary for the calculator. Alternatively, an institution may view this as important information about itself that it wants to reveal.

Presenting ...

Beyond deciding how to calculate an award, college officials must decide how to present the results. A quick review of the calculators that are already available on the Internet shows a broad range of presentations. These vary from telling the student how much institutional aid she is likely to qualify for (see [Carroll College's calculator](#)) to how much total aid ([federal, state and institutional](#)) she is likely to receive to how much out of pocket she and her family will have to pay (see the calculators for [Williams College](#) or the [University of California at Santa Cruz](#)).

The presentation of the results offer significantly different pictures to the student and her his family, and may obfuscate comparisons among institutions. There are some institutions that show the award by beginning with the total cost of attendance, then showing all the aid available and covering the family contribution with loan funds -- implying that no family contribution is required.

Some colleges give very detailed packages showing the various types of aid that the student would receive, even naming the institutional scholarship that they would give to the student. Some just include grant funds and leave a gap to be made up by family contributions, loan and work, while others come down to a zero bottom line using loan funds to cover all unmet costs. Serious consideration should be given by colleges as to how they want the results presented.

Institutions must be aware that there will be students who will try different combinations of variables on their calculators to see how to maximize their awards. Students can do this by using the calculator several times and changing their assumptions each time.

Some of this may be very useful; for example, a student who tries the calculator with different SAT scores and sees how higher scores increase the award can decide to retake the SAT and try for a better score. Students who see that their award will improve if they change major may indicate a different preference from their preferred major, to try to maximize their institutional aid.

The institutional calculators will reveal the value that institutions place on different student characteristics and will tell students and others who look at the calculator a lot about the institution. Institutions will want to be sure that they do not disadvantage themselves relative to other institutions in how the net price is calculated and how they present the information to students.

Lucie Lapovsky is an economist, consultant, and former president of Mercy College.