

Meeting the Federal Net Price Calculator Mandate

Written by: Bill Smith, Carri Frechette, David Childress, Marc Alexander

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Executive Summary

In August of 2008, President Bush signed the federal reauthorization bill for postsecondary education. Titled the Higher Education Opportunity Act, the bill created a regulation that requires virtually all postsecondary institutions to disclose the difference between the “sticker price” and the actual net price a student might pay to attend. This provision was designed to increase awareness of the actual cost of college attendance, but as a new mandate on almost all institutions of higher education, it created a question for college administrators: How will the value and affordability that we demonstrate to prospective students and their families on a calculator compare to our peer institutions?

Years before the federal mandate became law, numerous institutions began offering financial aid estimators. For example, three years ago, Bradley University—a private Illinois institution with 5,000 undergraduate students—moved from forecasting a small number of net price estimates on paper to offering thousands of such estimates online. David Pardieck, Bradley’s director of financial assistance and associate director of enrollment management, said: “In order to best serve our student population, we are dedicated to providing a fully transparent financial process. Our advanced NPC makes our university distinctive in the marketplace. We believe in the value of a Bradley University education and stand behind our actual cost of attendance.”¹

A number of other institutions also posted financial aid estimators before the HEOA was signed, including Amherst College, Arcadia University, Lake Erie College, the Massachusetts Institute of Technology, Princeton University, St. Xavier University, Trinity College, the University of New Haven, Williams College, and Yale University. These institutions decided before the mandate that estimators could be a way to differentiate themselves and to communicate their message of affordability.

After Congress mandated that schools post an NPC, the U.S. Department of Education assembled a Technical Review Panel (TRP). The TRP was assigned the difficult task of developing recommendations to guide the design of a single calculator that could be used by a wide variety of institutions, from small career schools to major research universities. The U.S. Department of Education’s NPC meets HEOA requirements, asks few questions for fast and easy use, and requires no licensing fee.

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The federal template calculator provides a relatively inaccurate net price estimation for most prospective students, most of the time. A test of the federal template calculator’s EFC methodology on 145,000 actual

dependent and independent students' financial profiles found that 7 out of 10 students fell outside of the correct Federal Methodology (FM) EFC range, with an average discrepancy of \$6,187.ⁱⁱ Even when the federal template calculator assigns a student to the correct EFC range, it can produce an inaccurate grant aid estimate because it uses need-based criteria to determine merit aid.

Institutions that have fully considered their NPC options express concern that implementing a relatively inaccurate net price calculator, like the federal template calculator, can discourage students from applying, because an institution can appear less affordable than it may actually be. The federal template calculator also can create a disparity between estimates and actual aid awards, which may disappoint or anger students and their families. To prevent these problems, institutions have the option of building their own NPC or partnering with an NPC service provider.

Institutions can decide to build an NPC in-house. However, the complexity of developing an accurate net price calculator will require significant, precious information technology resources and the involvement of multiple departments. Most IT departments will face steep learning curves about need analysis, awarding criteria, packaging policies, and aid regulations. Furthermore, the NPC will have to be maintained and updated on an annual basis.

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options or that, more broadly, want to integrate financial aid and enrollment strategies will also require a customized alternative NPC. A customized calculator is, almost always, the best choice for those institutions that want to provide aid and net price estimates that are accurate when compared to their actual award letters.

An alternative NPC can do much more than simply meet the NPC requirement. Integrating an alternative calculator into a college's admissions, enrollment and marketing strategies gives schools a powerful tool to establish and reinforce dialogue with prospective students. Users who are given the

opportunity to get additional college information are likely to provide their name and contact information. Since high school students are often seeking information on college costs during grades 10 and 11, an NPC lets colleges identify desirable prospects early in their college search.

The management reports that are available from alternative NPC providers can generate a variety of critical information about prospective students. Allowing users to register as they use the NPC means colleges can capture important information about specific students, including their academic and demographic profiles, to help in the institution's recruitment efforts. Data can be collected on each individual usage of the calculator. In addition, aggregate data allows colleges to identify who is using the NPC and to sort that data by EFC, income and other categories.

Institutions choosing to contract with an alternative NPC vendor will want to evaluate the level and type of service provided. Some vendors provide templates in which the institution is responsible for creating awarding rules that affect the outcome of the calculations, as well as for testing and validating that the rules they have created are yielding correct results. Another important difference among vendors is the ownership and use of data. Some vendors retain ownership of data collected by the NPC, using it for their

own lead generation and marketing. Some even limit a college's access to data generated by users of its NPC. Other vendors guarantee that data generated by an institution's NPC belongs solely to the institution. This distinction is important and may warrant special attention from college administrators involved in enrollment strategy.

The net price displayed by the federal template calculator will often indicate to families that significant cost remains after likely grant aid is awarded. Alternative NPCs let colleges show what additional resources are available to meet the net price. Those resources might include loans and work-study programs. Alternative NPCs can also help to communicate the value and affordability of an institution's education by highlighting deferred payment plans, estimated monthly loan payments, employment statistics after graduation, or any other pertinent data.

A well-designed, custom NPC—one which accurately captures institutional and student-specific nuances of need, merit and military aid-award packaging—will be the best way for most institutions to demonstrate value and affordability. For many institutions, the “sticker price” is higher than the actual amount paid by most students to attend, and therefore, an accurate NPC can encourage more students to seek admission.

As postsecondary institutions determine how they will meet the federal requirement, they should consider the following:

- Can we tolerate projecting inaccurate estimates to prospective students?
- Will the NPC that we choose reflect well on our institution relative to peer institutions?
- Is it important that we own the data collected, or are we comfortable with an NPC that allows the provider to own and use the data?
- How will the NPC integrate and support our enrollment and financial aid strategies?

After reviewing net price calculator research, including this document, and answering these pivotal questions, postsecondary institutions will be in a better position to select the net price calculator that best fits their needs and priorities.

i Telephone interview David Pardieck March 24, 2010.

ii The sample used for this analysis consisted of 145,490 students. For the 102,353 dependent students, 35% had a Pell-Eligible EFC. 33% of the dependent student households had an income of \$50,000 or less; 33% were between \$50,000 - \$100,000; and 34% had an income greater than \$100,000. For the 43,137 independent students, 67% had a Pell-Eligible EFC. 64% of the independent student households had an income of \$30,000 or less; 16% were between \$30,000 - \$50,000; and 19% had an income greater than \$50,000. To determine the degree of inaccuracy for a particular institution, we advise that institutions may want to conduct their own testing based on income or EFC distribution ranges that are consistent with their applicant or enrolled student population. Student Aid Services will be testing the federal template calculator with different income and EFC distributions for future versions of this analysis.

About Student Aid Services, Inc.

Student Aid Services is the leading provider of net price calculator technologies and services to college enrollment and financial aid offices. The company is the exclusive provider of the *ThinkAhead™ Net Price Calculator* to more than 165 campuses nationwide and is widely recognized as having the most accurate, flexible and sophisticated technology in the market. The company also operates the StudentAid.com Web service, which provides the innovative *College Cost & Planning Report™* to prospective students. This unique report educates individuals on the cost of college and their eligibility for student aid; it also provides information on how to make the best college choice. For large corporations, the company offers *TuitionHelp™*, a range of services that assists such entities in providing employees with cost-effective tuition reimbursement programs, student aid assistance services and individualized college planning consultations.

For more information on the *ThinkAhead Net Price Calculator*, please see www.StudentAidServices.com or contact us to order a copy of *Choosing a Net Price Calculator: Information, Considerations and Comparisons*, a booklet that summarizes our technology, our corporate ownership and the services we provide related to higher education.

