Paying for College

What Is Affordable?

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“One Chart That Makes It Clear College Is Becoming Unaffordable”[1]

“5 Reasons College Has Become Unaffordable for the Masses”[2]

“Even the Well-Off Find College Unaffordable Now”[3]

As these headlines indicate, it is easy to say that college is “unaffordable.” But we must think carefully about what that means. We might base the amount students can reasonably pay for college on their families’ annual income less necessary expenses. But we could also argue that students and their families should save and borrow, paying for college with income earned over multiple years. Moreover, because of the wide range of available institutions and programs and prospective earnings, paying any price might be considered affordable for some credentials but not for others.

The complexity of the issue precludes any simple answers as to whether or not college is affordable. To think carefully about the question, we need to know what students are paying for and how they are paying for it, not just simple averages or aggregate figures. A new Urban Institute website brings together information on the prices of different college paths and the resources that institutions, governments, and students from different backgrounds draw on to cover their expenses, providing insight into how people pay and how much it is reasonable for them to pay.

Going to college can mean different things to different students. Students pursue short-term certificates, associate degrees, and bachelor’s degrees typically requiring four or more years of full-time study. Some go on to graduate school to earn master’s, doctoral, or professional degrees. Postsecondary institutions include for-profit colleges, public two-year colleges (i.e., community colleges), public four-year colleges and universities, and private nonprofit colleges and universities. These institutions offer a wide range of programs at a wide range of prices.

To assess college affordability, we must understand the resources students have, including assets and past, current, and future income. College is an investment in the future, with financial and nonfinancial benefits that extend over a lifetime, so future resources, as well as funds available at the time of enrollment, are relevant.

Evaluating the affordability of a college option requires considerable information beyond student income and published tuition and fee prices. The question “Is college worth it?” may be more meaningful than “Is college affordable?” Although it should be feasible to monitor the affordability and value of college across options and over time, simple yes or no answers will likely remain elusive.

Students, Institutions, and the Public Share Costs

Providing quality postsecondary education is expensive. Even with greater success in reducing costs, operating a successful higher education system will continue to require considerable resources. Some costs are invisible to students because published tuition rarely covers all expenses institutions incur. Public colleges and universities receive a significant—though declining—portion of their revenues from state and local governments, which means that taxpayers are paying part of the bill. Many private nonprofit institutions supplement tuition and fee revenues with income from endowments, annual giving, and other private sources. In both the public and private nonprofit sectors (but not the for-profit sector), tuition revenue often does not cover the actual cost of providing education.

Although many public and private nonprofit institutions subsidize students, tuition and fees cover an increasing portion of the cost of education, shifting more of the burden to students. In addition, students must pay for books, supplies, and living expenses. Finally, another cost of going to college is time. While enrolled in school, students cannot work as much and earn as much as they could otherwise, limiting their ability to pay for housing, food, and other basic expenses.

Grants and Discounts Reduce Prices

Financial aid covers some of the expenses students incur. Grants and tax credits from federal and state governments, tuition discounts from colleges and universities, and aid from employers and other private sources all significantly lower the net prices many students pay. Student loans allow borrowers to postpone paying for college but do not diminish the overall burden or reduce net prices. In the 2015–16 academic year, grant aid averaged an estimated $5,900 for full-time students at public four-year colleges, $19,300 at private nonprofit colleges, and $4,000 at community colleges (Ma et al. 2015). But aid varies from student to student, and under what circumstances a student qualifies for aid varies by source and type of aid.

Most federal grant aid comes through the Pell grant program, supporting 7.6 million recent high school graduates from low-income families and older undergraduates in 2015–16, and through veterans’ and military grants, providing larger amounts of money to fewer students. Federal tax credits subsidize more students than the grant programs and go much further up the income scale than the need-based aid programs (Baum et al. 2016).

State grant aid varies considerably across states. The average student in some states receives more than $1,000 a year, but other states award little or no aid. Many states give aid only to students with very limited ability to pay on their own. In other states, high school grades and test scores determine who receives grants (NASSGAP 2016).

Institutions provided about 1.5 times as much grant aid to undergraduates as the federal Pell grant program in 2015–16, but the distribution of that aid differs by institution type. Community colleges and for-profit institutions do not provide much institutional aid (Baum et al. 2016). Private four-year nonprofit colleges and universities tend to provide the most grant aid, but public universities also charge many students less than the sticker price. Most institutional aid is based on need, although it funds many students whose income is too high for them to qualify for Pell grants. But many colleges also distribute aid to students they are interested in attracting because of academic records, athletic abilities, financial capacity, or other characteristics.

The many possible combinations of aid from different levels of government and types of institutions make it difficult to predict the true price of college. At the very least, any estimate of students' available financial aid depends on family size and income, age, type of institution, and whether they plan to enroll full time or part time.

Students Pay Out of Income Earned before, during, and after College

The net price of college is the cost that remains after subtracting both the invisible subsidies that make published tuition prices lower than the full cost of education and the financial aid that does not have to be repaid. To pay the net price, students rely on a combination of income they or their parents earn before, during, and after college.

Some students enter college in the fall after graduating from high school. Many of these students come from families with income above the national average. These are families who, despite low personal savings rates, have the capacity to save for college in advance. Other students, particularly those who have been working for a while, may have set aside their own funds to put toward their education. But for reasons including low family income, unusual financial circumstances, or individual preferences and priorities, many students enter college with no savings.

Though many students work while attending college, the declining purchasing power of the minimum wage combined with the rapidly rising price of college has diminished the portion of expenses these earnings can cover. But student income during college can still make a difference, and middle- and upper-income parents who keep working while their children are in college can also contribute.

Some students, through a combination of parental support, financial aid, savings, and earnings, pay for college out of pocket, but many others must rely on borrowing. More than 7 million undergraduates borrowed an average of about $6,600 in federal Stafford loans in 2015–16 (Baum et al. 2016). Borrowing for college is investing in future financial capacity. Just as entrepreneurs borrow to set up businesses they hope will earn positive returns, students borrow for college expecting to earn enough to repay their loans and attain a higher standard of living.

Data on earnings by age and education combined with average tuition and fees allow for an estimate of when a college graduate's earnings begin to exceed the price of going to college. A typical graduate entering the workforce at age 22 with a bachelor's degree, rather than at age 18 with a high school diploma, can expect the extra earnings from having a college degree to cover all costs, including forgone earnings and tuition and fees, about 10 years after graduation.

Outcomes for any individual student are uncertain, however. Not all students who enroll in college graduate, and even those who do may find the earning potential of their certificates or degrees to be inadequate. Even with the best guidance about where and what to study and how much to borrow, some graduates cannot both repay their loans and maintain a satisfactory standard of living. For this reason, strong insurance programs, such as income-driven repayment plans for federal student loans, are critical for students taking on the risk of borrowing from future income to attend college.

Toward a Clearer Conversation on Affordability

The affordability of a particular college path is not determined solely by how much money students have when they enroll. Regardless of the sticker price and the circumstances of their enrollment, students should expect their certificates or degrees to improve their long-term standard of living. If this is not a realistic expectation, the education is not affordable.

Rather than simply comparing prices with incomes, we should focus on measuring the amounts students actually pay for different educational opportunities and the full range of options students have for financing their education. If one option requires an increasing portion of a student's present and future resources, that option is becoming more difficult to afford. It is unreasonable to draw a firm line between what is affordable for a student and what is not, as personal preferences and priorities will determine whether the student is willing and able to make the necessary sacrifice or trade-off between present and future consumption opportunities. But we might be able to define what people in different circumstances would have to give up to pay for postsecondary education.

The Urban Institute website provides data that can inform these questions. But it does not offer definitive answers on affordability across students and institutions. Because of the diversity of higher education and the complex concept of affordability, no single metric can define affordability. But the data can inform a more nuanced conversation among those concerned with supporting students' ability to invest in a college education.

Notes

1. Tyler Kingkade, “One Chart That Makes It Clear College Is Becoming Unaffordable,” *Huffington Post*, June 18, 2014, http://www.huffingtonpost.com/2014/06/18/college-tuition-unaffordable-growth-median-income_n_5505653.html.
2. Daniel de Roulet, “5 Reasons College Has Become Unaffordable for the Masses,” Student Caring, August 23, 2013, http://studentcaring.com/5-reasons-college-become-unaffordable-masses/.
3. Hamilton Nolan, “Even the Well-Off Find College Unaffordable Now,” *Gawker*, August 9, 2012, http://gawker.com/5933249/even-the-well-off-find-college-unaffordable-now.

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NASSGAP (National Association of State Student Grant and Aid Programs). 2016. *46th Annual Survey on State-Sponsored Student Financial Aid*. NASSGAP.

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