

A Closer Look at College Affordability: The Link between Living Allowances and Student Debt

An Essay for the Learning Curve by CJ Libassi and Zachary Mabel
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Nontuition expenses are a major component of the total cost of attendance at many colleges, but policymakers concerned with college affordability often focus only on curbing tuition prices. Understanding whether institutions use discretion when setting nontuition costs—and if so, whether this has consequences for how students pay for college—could inform new strategies for curbing nontuition expenses and making college more affordable.

We investigated these questions by focusing on college living allowances, the largest component of nontuition expenses at most institutions. We find that much of the variation in living allowances across institutions is not explained by factors expected to drive price differences (i.e., local living costs and student living arrangements). This provides evidence that institutional discretion plays an important role in how colleges set living allowances.

We also find that average living allowances tend to be systematically lower at less selective institutions. This has potential equity implications regarding the costs students face and how much financial aid they can receive to attend college. Lastly, we show that students borrow more, on average, at colleges that set arbitrarily high living allowances. Although student borrowing can have both positive and negative impacts on college and later life outcomes, these findings suggest that regulating how colleges set living allowances would help students and families.

College Living Allowances Are Intended to Reflect Actual Living Costs

Colleges are required by law to establish living allowances for housing, food, transportation, and other expenses that students incur while they are enrolled. In addition to tuition and fees, living allowances are a major component of the total cost of attending college. They are also an important factor in determining how much students can borrow in federal student loans, as borrowing amounts are capped at the total cost of attendance. In their first year of college, for example, financially dependent undergraduates are eligible to borrow up to \$5,500 in federal loans or the net cost of attendance, whichever is lower. Students who attend institutions that set larger living allowances may therefore be eligible to borrow more to attend college. The opposite may be true for institutions that set smaller allowances.

In theory, the living allowances colleges set are intended to reflect the actual living costs students are expected to incur. Because students who live on campus, off campus, or at home with family have different housing expenses, colleges are encouraged to set different living allowances by housing arrangement. The average living allowance might differ between colleges because student living arrangements vary across institutions. All else equal, a nonresidential college where most students live at home is expected to have a smaller average living allowance than an institution where students are required to live on campus. Living allowances may also differ by college because the cost of living varies around the country. For example, living expenses in San Francisco are 1.67 times those in Chicago.¹ The living allowances set by colleges in San Francisco are expected to exceed those set by colleges in Chicago to reflect this difference.

College Living Allowances Vary Widely, Even within the Same Geographic Areas

In practice, however, colleges have broad discretion over determining the size of their living allowances, and as a result, allowances vary considerably across colleges, even after accounting for differences in local living costs and student living arrangements. Figure 1 shows the extent to which living allowances for students living off campus without family differ across colleges that operate in the same metropolitan area.² In most metropolitan areas, the difference between the 25th and 75th percentiles of the living allowance distribution across colleges exceeds \$5,000. Indeed, prior research finds that almost half of all colleges set living allowances at least 20 percent above or below actual local living costs.³

¹ “Cost of Living Calculator,” NerdWallet, accessed June 30, 2022, <https://www.nerdwallet.com/cost-of-living-calculator/compare/chicago-il-vs-san-francisco-ca>.

² In all analyses in this essay, we restricted the sample to Title IV–eligible public institutions and private nonprofit institutions. We excluded for-profit institutions because more than 40 percent did not report living allowances to IPEDS.

³ Robert Kelchen, Sara Goldrick-Rab, and Braden Hosch, “The Costs of College Attendance: Examining Variation and Consistency in Institutional Living Cost Allowances,” *Journal of Higher Education* 88, no. 6 (2017): 947, <https://doi.org/10.1080/00221546.2016.1272092>.

FIGURE 1

Distribution of Living Allowances for Students Living Off Campus without Family across Colleges That Operate in the Same MSA



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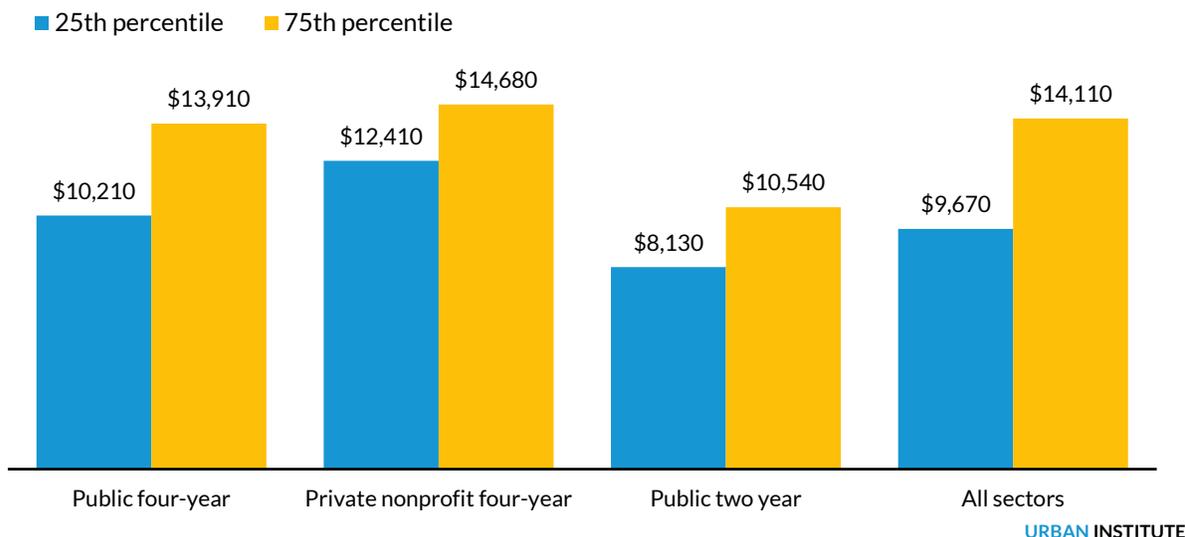
Source: 2017–18 Integrated Postsecondary Education Data System data via the Urban Institute’s Education Data Portal.

Notes: MSA = metropolitan statistical area. The number of public two-year, public four-year, and private nonprofit institutions in each MSA is listed in parentheses.

We also find that the pattern of results in figure 1 extends nationwide. Figure 2 shows the 25th and 75th percentiles of the living allowance distribution overall and by sector after adjusting for differences in local living costs and student living arrangements across colleges. Those differences explain 55 percent of the variation in average living allowances across colleges, which means that 45 percent of the variation may be attributable to the discretion institutions have in setting allowance amounts. As a result, the difference between the 25th and 75th percentiles of the adjusted living allowance distribution exceeds \$4,000 across all institutions and is between \$2,300 and \$3,700 within each sector. In summary, colleges do appear to adjust their living allowances to account for local living costs and student living arrangements, but these factors leave unexplained a lot of the variation in living allowances across colleges.

FIGURE 2

The 25th and 75th Percentiles of the Adjusted Living Allowance Distribution, Overall and by Sector



Source: Living allowance data come from 2017-18 Integrated Postsecondary Education Data System data via the Urban Institute’s Education Data Portal.

Note: Adjusted living allowances are calculated by adding the mean living allowance for all institutions to the residual for each institution from a regression of average living allowance on the Bureau of Economic Analysis’s county-level regional price parity index values and the share of each institution’s students who live on campus, off campus with family, and off campus without family.

Living Allowances Tend to Be Systematically Lower at Less Selective Institutions

We next examined whether colleges that set living allowances much lower or much higher than expected based on local living costs and student living arrangements share common characteristics.⁴ Figure 3 shows average institutional characteristics for colleges that set living allowances considerably lower and higher than expected, where “much lower” denotes the bottom 25 percent of colleges where average living allowances are lower than expected and “much higher” denotes the top 25 percent of colleges where average living allowances exceed expectations. On average, institutions categorized as “much lower” are smaller than institutions categorized as “much higher” (747 versus 1,313 undergraduates enrolled) and less highly selective (72 percent versus 60 percent admission rate).⁵ Furthermore, because student sorting by institution type is widespread in US higher education,

⁴ For this analysis, we estimated an institution-level regression of the average living allowance on the percentage of full-time undergraduates that received Title IV financial aid living on campus and living off campus with family, and the local cost of living in the area in which each college operates, as measured by the US Bureau of Economic Analysis’s regional price parities (RPPs). We then calculated the residual for each institution and grouped institutions into quartiles based on the distribution of residuals across institutions.

⁵ These differences in part reflect the fact that public two-year institutions are slightly underrepresented in the top quartile and public four-year institutions are slightly underrepresented in the bottom quartile. If colleges set living allowances higher or lower at random, then within each sector, one-quarter of institutions would be represented in each quartile. In fact, 18 percent of public four-year institutions are included in quartile 1 and 19 percent of public two-year colleges are included in quartile 4.

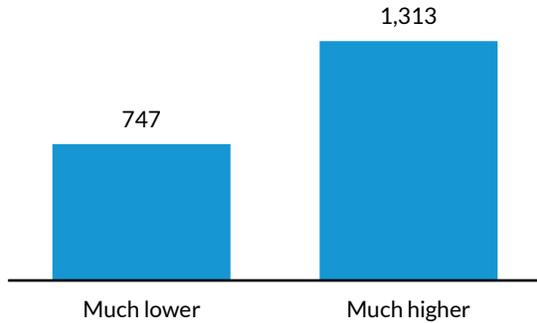
institutions that set living allowances considerably lower than expected tend to enroll more students from low-income backgrounds than institutions that set living allowances considerably higher than expected. Fifty-one percent of students attending institutions in the “much lower” group receive federal Pell grant aid, on average, compared with 40 percent of students attending institutions in the “much higher” group, and 11 percent of students attending institutions in the “much lower” group are from families with household incomes in excess of \$110,000 versus 22 percent of students attending institutions in the “much higher” group.⁶ By setting living allowances systematically lower than expected, less selective institutions may be limiting the borrowing capacity of students from low-income backgrounds more than their high-income peers.

⁶ Interestingly, although low-income students are overrepresented at bottom-quartile institutions, nonwhite students are overrepresented at top-quartile institutions. The average proportion of students that identify as nonwhite across the bottom and top quartiles is 43 percent and 51 percent, respectively.

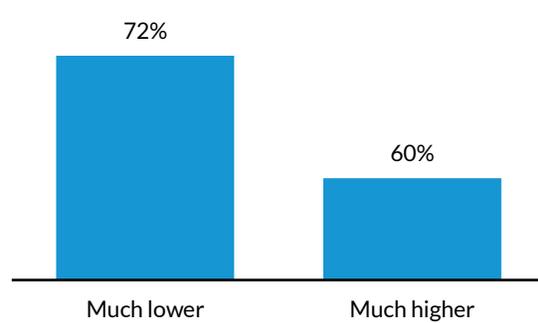
FIGURE 3

Key Predictors of Institutions with Living Allowances Much Lower or Much Higher Than Expected

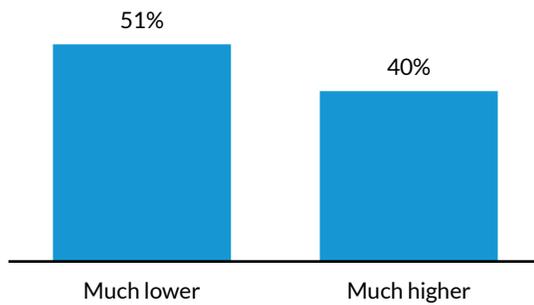
Fall enrollment



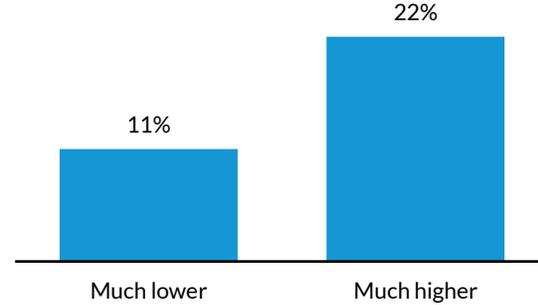
Admission rate



Share of students receiving Pell grants



Share of students with family incomes above \$110,000



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Source: Living allowance data from 2017–18 Integrated Postsecondary Education Data System data via the Urban Institute’s Education Data Portal.

Note: Results are based on an institution-level regression of average living allowance on the share of full-time undergraduates that received Title IV financial aid living on campus and living off campus with family, and the local cost of living in the area in which each college operates as measured by the US Bureau of Economic Analysis’s regional price parities. After estimating the model, we calculated a residual for each institution and grouped institutions into quartiles based on the distribution of residuals across institutions. Institutions categorized as “much lower” have residuals in the bottom quartile, and institutions categorized as “much higher” have residuals in the top quartile.

Students Tend to Borrow More at Colleges That Set Higher Living Allowances

We turn next to whether institutional discretion over setting living allowances is associated with student loan borrowing. Understanding this relationship is complicated because many factors influence the financial aid packages students receive and their borrowing decisions. In addition to living allowances, financial aid is also determined, in part, by the tuition and fees colleges charge and students’ financial need, both of which also vary across colleges. Therefore, to better isolate the relationship between living allowances and student loan amounts, we must account for other determinants of student borrowing that may be associated with the living allowances each college sets.

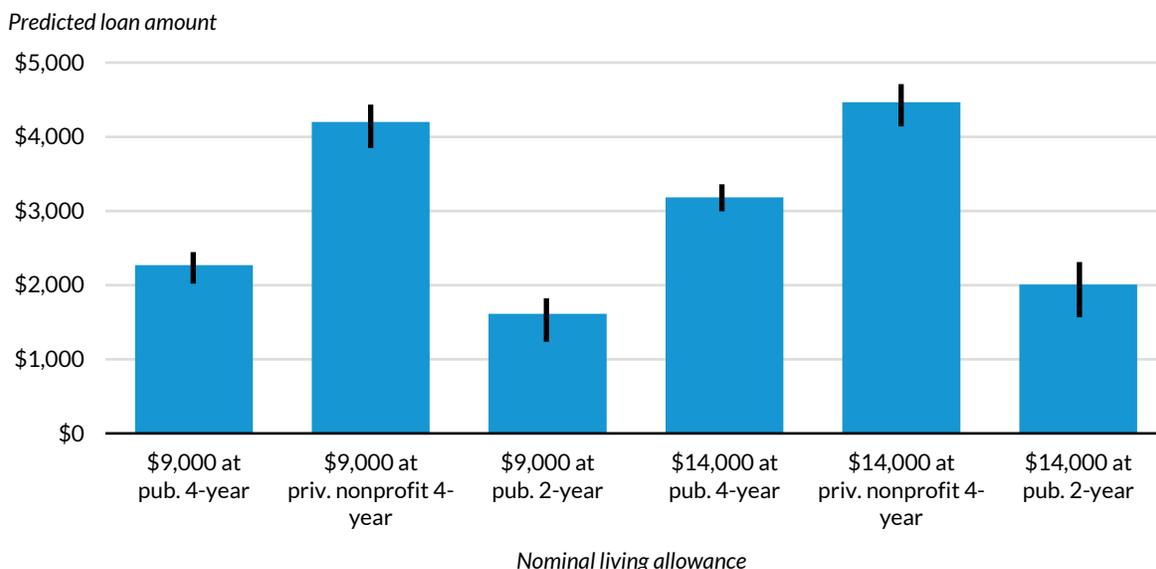
We linked administrative data on institutional location, cost, financial aid receipt, and undergraduate student body composition that colleges report to the Integrated Postsecondary Education Data System (IPEDS) to data on local living costs published by the US Bureau of Economic Analysis to build a statistical model that controls for factors that influence living allowances and factors that influence financial aid awards that may also be associated with the size of the living allowances each college sets.⁷ Figure 4 shows the results from this analysis separately for public two-year, public four-year, and private nonprofit four-year institutions. For each institution type, we report the predicted amount full-time undergraduates borrow in educational loans during their first year of college at two prototypical institutions: one with an average living allowance of \$9,000 and one with an average living allowance of \$14,000.⁸ This analysis allows us to examine how average borrowing amounts likely differ across two institutions that are similar except for the living allowances they set.

⁷ This analysis uses IPEDS data for the 2017–18 school year and is limited to first-time, full-time undergraduates because colleges report information on financial aid receipt by aid type only for this subgroup of students. Specifically, we estimated linear regressions that control for the following institutional characteristics: sector; percentage of first-time undergraduates enrolled full time; percentage of first-time, full-time undergraduates that are male, white, Black, Hispanic, Asian, and two or more races; percentage of first-time, full-time undergraduates that received Title IV financial aid with family incomes less than \$30,001 and between \$30,001 and 48,000, \$48,001 and \$75,000, and \$75,001 and \$110,000; percentage of first-time, full-time undergraduates that received Title IV financial aid living on campus and living off campus with family; average tuition and fees paid by first-time, full-time undergraduates; and the local cost of living in the area in which each college operates, as measured by the US Bureau of Economic Analysis’s RPPs. Because we were primarily interested in understanding the relationship between living allowances and student debt at the institutional (rather than student) level, we estimated regressions at the college level without student enrollment weights.

⁸ Those values approximate the 25th and 75th percentiles of the unadjusted distribution of average living allowances across colleges in the data.

FIGURE 4

Predicted Amount of Loans Taken Out (Including Zeros) for Students Borrowing in 2017–18 at Different Points in the Living Allowance Distribution



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Source: Institutional data are for 2017–18 and come from the Integrated Postsecondary Education Data System and the College Scorecard via the Urban Institute’s Education Data Portal.

Notes: Predictions come from a regression of the unconditional amount of loans borrowed in 2017–18; the interaction between sector and adjusted living allowance amount; regional price parity index value for the core-based statistical area; the average tuition and fees for full-time students in 2017–18; and the percentage distributions of gender, race, income, and students’ living arrangements. The plot shows values between approximately the 25th and 75th percentiles of the unadjusted living allowance distribution. Data include only public four-year, nonprofit four-year, and public two-year institutions.

The results in figure 4 indicate that first-year students borrow more, on average, at colleges that use their discretion to set higher living allowances. At public four-year colleges, the average borrowing amount is \$2,269 at a prototypical institution where the average living allowance is \$9,000 versus \$3,183 at a similar institution where the average living allowance is \$14,000. In other words, undergraduates who attend a college that sets the higher living allowance for reasons not explained by local living costs and student living arrangements are predicted to borrow 40 percent more, on average, during their first year compared with students who attend a college that sets the lower living allowance.⁹

We estimate smaller but still meaningful differences in average first-year student loan amounts across private nonprofit four-year institutions and public two-year colleges. First-year students attending a private nonprofit four-year institution where the average living allowance is \$14,000 are

⁹ We also find that the probability of loan borrowing increases with the size of the average living allowance, so the 40 percent increase in the average amount borrowed captures the fact that students facing higher living allowances are more likely both to (1) take out student loans and (2) borrow more when they do.

predicted to borrow 6 percent more, on average, than students attending an institution where the average living allowance is \$9,000. The analogous difference across the two prototypical public two-year colleges is 24 percent.¹⁰

Implications for Policy and Practice

How to pay for college weighs heavily on the minds of many students and families. Living allowances are an often-overlooked component of college costs, and institutional discretion over setting those allowances can drive large differences in real or perceived affordability across colleges. This can affect where students enroll, their prospects of completing college, and their financial return on investment.

Given concerns that students are borrowing more to finance their postsecondary educations and that many borrowers are struggling to repay their loans, it may be tempting to conclude that colleges that set arbitrarily high living allowances harm students by increasing their debt burdens.¹¹ We caution against this interpretation because student borrowing can have both beneficial and detrimental impacts on college and later life outcomes. If students borrow more to attend institutions where completion rates and postgraduation earnings are low, then more generous living allowances may be harmful.¹² But at high-quality institutions, more borrowing can improve student outcomes when financial constraints would otherwise inhibit academic performance and degree attainment.¹³ Our findings are therefore likely to have cross-cutting implications for student well-being.

A more clear-cut takeaway from our findings is that institutional discretion over setting living allowances causes students and families unnecessary confusion. Choosing which college to attend can be difficult, and comparing how much institutions cost is often an important factor in the decisionmaking process. Implementing some degree of living allowance standardization across colleges, such as regulating how colleges adjust for differences in local living costs, would likely help consumers. The federal government already regulates similar types of price setting in other policy arenas. For instance, the US Department of Housing and Urban Development sets fair market rent values across local areas to determine payment amounts for housing voucher and assistance programs.¹⁴ Likewise, the Centers for Medicare & Medicaid Services (CMS) adjusts payments to health care providers based

¹⁰ The estimated loan amount differences between the prototypical public four-year institutions, private nonprofit four-year institutions, and public two-year institutions are statistically significant at the 1 percent, 10 percent, and 5 percent levels, respectively.

¹¹ Josh Mitchell, *The Debt Trap: How Student Loans Became a National Catastrophe* (New York: Simon and Schuster, 2021); and Judith Scott-Clayton, “[The Looming Student Loan Default Crisis Is Worse Than We Thought](#)” (Washington, DC: Brookings Institution, 2018).

¹² Howard R. Gold, “Who’s at Fault for Student-Loan Defaults?” *Chicago Booth Review*, May 13, 2019, <https://www.chicagobooth.edu/review/whos-fault-student-loan-defaults>.

¹³ Sandra E. Black, Jeffrey T. Denning, Lisa J. Dettling, Sarena Goodman, and Lesley J. Turner, *Taking It to the Limit: Effects of Increased Student Loan Availability on Attainment, Earnings, and Financial Well-Being* (working paper, National Bureau of Economic Research, Cambridge, Massachusetts, 2020).

¹⁴ “Fair Market Rents (40th Percentile Rents),” US Department of Housing and Urban Development, Office of Policy Development and Research, accessed June 30, 2022, <https://www.huduser.gov/portal/datasets/fmr.html>.

in part on local area cost differences.¹⁵ Most importantly, the recently passed FAFSA Simplification Act empowers the US Department of Education to regulate nontuition expenses that contribute to the total cost of attendance at colleges and universities.¹⁶

Providing a specific recommendation for how to standardize college living allowances is beyond the scope of this essay. But we believe the US Department of Education could follow a process similar to CMS and construct college-specific price indexes for distinct geographic areas that account for the unique expenses living allowances are intended to cover and regularly update those indexes every few years.¹⁷ The department could also convene an advisory panel akin to the Medicare Payment Advisory Commission to provide independent guidance and expertise on setting prices.

Standardizing how colleges set living allowances promises several benefits. It would simplify cost comparisons across institutions, make net price a more accurate and useful measure of college affordability, and more closely align student loan borrowing to the real cost of college attendance.

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¹⁵ Juliette Cubanski, Christina Swoope, Cristina Boccuti, Gretchen Jacobson, Giselle Casillas, Shannon Griffin, and Tricia Neuman, “A Primer on Medicare: Key Facts about the Medicare Program and the People It Covers,” Kaiser Family Foundation, March 20, 2015, <https://www.kff.org/report-section/a-primer-on-medicare-how-does-medicare-pay-providers-in-traditional-medicare/>.

¹⁶ Benjamin Collins and Cassandra Dortch, “The FAFSA Simplification Act” (Washington, DC: Congressional Research Service, 2022).

¹⁷ For more information on the CMS cost-adjustment process, see Jessica Farb, *Medicare: Information on Geographic Adjustments to Physician Payments for Physicians’ Time, Skills, and Effort* (Washington, DC: Government Accountability Office, 2022).

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