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Tuition Discounting: A Discussion for Independent Schools

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The practice of tuition discounting—charging different students different prices for the same educational opportunities—is a relatively recent feature of independent K-12 education. Most independent schools provide some amount of financial aid for students from families with a documented financial need. Discounts to published tuition and fee rates are most often provided to students whose financial resources are inadequate to allow them to enroll without some form of assistance. For today's independent schools, there are significant benefits to offering tuition discounting, though the practice does not come without its challenges.

How Deep A Discount?

Most often, schools discuss financial aid in terms of a fixed line item the institution's overall budget. For example, if a school establishes a \$10 million annual budget and offers \$500,000 in financial aid, the school is expected to operate for the year on the \$9.5 million remaining. This financial aid represents a discount from the tuition "sticker price." Continuing with this example, if it becomes necessary to discount \$600,000 in order to arrive at the \$9.5 million revenue needed to operate, this option may be preferable to falling short of the \$9.5 million by holding fast to the arbitrarily defined \$500,000 financial aid line in the budget. The issue at hand is the suggestion to move away from a fixed line item amount for financial aid to a more flexible financial aid line item with a primary focus on revenue.

Unlike financial aid derived from investment earnings or designated contributions, the aforementioned financial aid is referred to as tuition discounting. Independent schools use revenue from contributions or earnings to cover the cost of financial aid; however, few independent schools have ample income to fully fund tuition discounting for all who may need it. Accordingly, most schools subsidize their tuition from operating income.

Independent K-12 schools can look to post-secondary education as an example, where colleges and universities have historically discounted tuition at a percentage approximat-

ing 40 percent on average. Many universities in the United States not only discount tuition at this level but also provide some form of this institutional discounting to approximately 80 percent of the students. Though independent schools can see the viability of tuition discounting in the post-secondary model, it may not be prudent for an independent school to replicate the deep percentages the universities can sustain. Post-secondary education benefits from the availability of financial aid beyond tuition discounting scholarships, including Pell Grants, Stafford Loans and other guaranteed or subsidized student financial aid.

Benefits

Tuition discounting can serve two major roles for independent schools: leveraging financial aid in order to grow enrollment in an effort to maximize revenue and as a tool to increase socioeconomic diversity within the school.

Leveraging financial aid in order to grow enrollment for the purpose of maximizing tuition revenue is only an option for schools currently not enrolled at capacity. Only when space is available and the additional tuition received is greater than the actual expense associated with the enrollment will a school realize a revenue benefit. For each school the actual expense related to an enrollment will vary but will include the cost of lunches, field trip expenses, text books, etc. Another obvious expense vs. revenue discussion is the point at which a school finds it necessary to add additional faculty or staff to accommodate the additional students. Therefore, the real revenue benefit from discounting occurs when a school is under-enrolled based on their facility and staffing capacity.

The use of tuition discounting for the purpose of increasing socioeconomic diversity is also relevant for independent schools. Escalating tuitions and ancillary costs have priced out many families from the middle class, creating an economic barrier. Many independent schools have responded to the opportunity to create vibrant learning environments by enhancing social and cultural diversity, offering limited num-

bers of full tuition financial aid packages.

Often, the greatest number of middle class students in an independent school are the children of faculty members, enrolled through tuition remission programs. Although faculty tuition should be considered a valid form of tuition discounting, especially when distributed to faculty as “need based” aid, schools seeking to increase student diversity may benefit from tuition discounting that goes beyond faculty tuition remissions.

Dangers

In spite of the potential benefits of tuition discounting for independent schools, there are also dangers, including potential loss of revenue by discounting tuition for students who replace full tuition students in a school at enrollment capacity; the long term commitment to tuition discounts for students admitted in the lower grades; and the possible public relations difficulties that accompany aggressive discounting without an objective need-based rubric.

Schools that are under-enrolled and operating at below student capacity must make an important financial and cultural decision: Is it more desirable to fill an empty desk with a student paying a partial tuition rather than leaving the desk empty and receive no tuition? It is possible to increase net revenue by admitting students paying partial tuition when there is low or minimal increase in actual costs.

Some experts within the independent school community have suggested in recent years that it is time to consider increasing our faculty-to-student ratios. Given that enrollment capacity is often understood in terms of class size or faculty-to-student ratio, it is possible that a school actually has additional enrollment capacity if indeed a school is open to increasing class size. Although it is possible that a school actually experiences a facility limit on increasing enrollment, for those restricted only by class size decisions, it is worth considering growing enrollment to realize additional revenue.

Tuition discounting commitments for lower grade students may have long-term implications and should be carefully considered as part of a school’s overall strategic planning. Given that it is an understood best practice to continue financial aid for students once admitted and funded on a financial need basis, it could be problematic if tuition discounting is used extensively in lower grades to meet a short-term revenue or enrollment need. If a student is admitted on a need basis in lower grades and then subsequently occupies a desk that could otherwise be filled by a student paying full tu-

ition, the school will realize a loss of revenue in future years. This situation is not necessarily a problem, given a school’s strategic purpose; however, the point is that when engaging into additional tuition discounting initiatives, a school should understand and accept the long-term affects of its strategy.

A school may also face potential complications created by parental discussions about the topic. If tuition discounting is not administered according to consistent and objective criteria, a school can create dissatisfaction among constituents who feel overlooked for discounts. To use tuition discounting strictly as a marketing tool might leave a school in a position of vulnerability, both from a revenue perspective as well as from the public relations perspective. Whether the tuition discounting is need-based or merit-based, the criteria must be strategic, consistent with the school’s mission and applied fairly.

Strategy

The benefits of a well-planned and strategic tuition discounting process can allow an independent school to grow enrollments, provide educational opportunities to students from middle class families, increase social and cultural diversity and to maximize tuition revenue. Although a strategy that calls for increasing tuition discounting is not necessarily beneficial to all independent schools, for many it is an approach that should be considered as part of their strategic planning. All tuition discounting strategies should include a discussion on enrollment capacity, need for socioeconomic diversity, and long-term impact on revenue. However, in a challenging economic climate where most schools are facing revenue concerns, the recommendation to grow enrollments by tuition discounting makes a great deal of sense for most.

Dr. Steve Robinson has served as President of SAIS since July 2007. Visit www.sais.org/president for more information.