

## TUITION PREPAYMENT PROGRAMS AND STUDENT BODY DIVERSITY

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*This paper discusses issues surrounding tuition prepayment programs, a relatively new form of higher education finance, with a focus on the potential impact of such programs on financial aid and student body diversity. It summarizes the history of tuition prepayment programs, describes the target group for such programs, and explores the implications of such programs for participant and non-participant financial aid. It concludes with a recommendation for a program design that might overcome some of the challenges that existing and defunct plans have faced.*

Faced with a decreasing pool of high school graduates ("Coping With Costs the Wyoming Way," 1987) and increasing price competition from state-funded institutions (Minard, 1985), private colleges and universities must consider applying new tools for recruitment and financial aid. The concept of prepaid tuition programs, through which a state or institution sells contracts guaranteed to cover all or a portion of a future student's higher education costs, is one alternative that private institutions should examine (Rothschild, 1992). Such programs offer a definite advantage over individual savings plans for families who wish to save for their children's education, because states and institutions can seek the advice of professional fund managers more easily, diversify their holdings more broadly, and invest with a longer-range perspective (Anderson, 1987; Anderson, 1991; Davis, 1995).

However, questions regarding the financial viability of existing tuition prepayment programs abound (Button & Koselka, 1994; Evangelauf, 1988; Rothschild, 1992). In addition, critics of prepayment cite concerns that these programs might limit an applicant's choice of institutions (Anderson, 1987; "Coping With Costs," 1987; Minard, 1985; Rothschild, 1992). Evangelauf (1988), Hodel and Layzell (1989), Minard (1985), and Rothschild (1992) have also noted that student affairs administrators and other interested parties, including alumni, worry that institutional prepayment programs might adversely affect an institution's control over admissions standards or tuition

rates. Another area of interest is the potential effect of tuition prepayment programs on student body diversity, especially during an era in which colleges and universities have been attempting to increase enrollment among underrepresented groups ("Coping With Costs," 1987; Hodel & Layzell, 1989; Rothschild, 1992).

This paper will focus on the impact of tuition prepayment programs on student body diversity. First it will present an overview of the history of tuition prepayment programs. Second, it will describe the target group for such programs. Third, it will summarize the effect that prepayment has on the financial aid eligibility of the target group. Fourth, it will explore the implications of prepayment programs on the ability of institutions to meet other students' financial needs. Finally, it will briefly discuss the primary obstacles to successfully implementing such programs at private institutions and offer a possible solution.

### THE HISTORY

The first tuition prepayment program was founded at Duquesne University during the summer of 1985 (Minard, 1985). Patrick J. Fleming, the vice president in the Pittsburgh office of national insurance broker Fred S. James & Company, devised the program as a method of increasing Duquesne's future enrollment. In 1985, a prospective student could purchase four years' tuition starting in 1999 for \$5,593. Duquesne anticipated that the same tuition would cost a non-prepayed student \$51,912. Within the first six months of its existence, the families of 482 future students had purchased contracts through the program, and *Forbes* declared that tuition prepayment was "clearly a bright idea whose time has come" (Minard, 1985, p. 39). In 1988, however, with its tuition rising faster than predicted, its investments earning substantially less than anticipated, and only 639 participants in its program, Duquesne was forced to discontinue sales of new contracts (Button, 1993).

Canisius College, which began offering \$7,000 contracts in 1986 for four years' worth of tuition in 2004, worth an estimated \$120,000, had also suspended its program by 1988 (Jaschick, 1988). It attracted only 21 participants, more than the programs at The College of Saint Rose (13), Quincy College (12), Gannon University (7), and Nichols College (4) had enrolled in similar time spans (Evangelauf, 1988). By 1992, few of the single-institution programs continued to accept new enrollees (Rothschild, 1992). As

Evangelauf (1988) notes, however, many of these private institutions had designed their programs for alumni and had therefore limited their market appeal.

In contrast, state agencies promote their programs to a wider audience. Michigan opened the Michigan Education Trust (MET) in 1988 and had attracted 55,000 participants by 1991 (Blumenstyk, 1991). In the same period, Florida's plan enrolled over 138,000 future students (Rothschild, 1992). However, state programs have encountered obstacles. For example, taxation issues postponed the start of the MET from its approval in 1986 until two years later (Jaschick, 1988). Questions regarding the ability of the Michigan program's investments to cover future tuition demands caused the state to suspend sales in 1991 (Blumenstyk, 1991). An adjusted version of the MET opened in October 1995 (Healy, 1995). The new program offers contracts at a fixed price instead of using a sliding scale that varies charges based upon the age of the participant. As a result, when the MET reopened, the cost of enrollment had almost doubled from its pre-suspension level to \$19,800.

Broad promotion does not guarantee success for state programs, either. Wyoming, which in 1987 became the first state to offer tuition prepayment, closed its program in 1995 after selling fewer than 700 contracts (Davis, 1995). Like most state plans, Wyoming's limited its participants to enrolling in a public institution within the state and permitted sales only to state residents. The plan introduced in Massachusetts in 1995 allows students to enroll in any of 67 public and private colleges, including such flagship institutions as Amherst College and Boston University. Rather than selling contracts that guarantee to cover full tuition, it sells certificates that cover a percentage of the tuition at each institution. This percentage varies by institution but remains fixed over time. The program also welcomes enrollments from outside the state, and succeeded in enticing more than 200 residents of Connecticut, New Hampshire, and Rhode Island to make purchases during its first year. A plan implemented by Texas in early 1996 promised to include over 70 institutions, more than half of them private.

### THE TARGET GROUP

The target group for tuition prepayment programs is composed of children from middle- and upper-middle-class families who will attend college as

traditional-aged students. Like other education savings plans, tuition prepayment programs are aimed primarily at families with "disposable income" which generally includes the middle- and upper-middle-classes (Anderson, 1987; Hodel & Layzell, 1989; Rothschild, 1992). Hodel and Layzell (1989) define *disposable income* as the money available for "non-essential" goods and services" (p. 26), such as college tuition. Upper-class families can usually afford the investment advice, diversification of assets, and long-range outlook that tuition prepayment programs offer (Anderson, 1991). Families with lower socioeconomic status generally do not have the resources to invest in savings plans (Hodel & Layzell, 1989; Rothschild, 1992).

In addition, prepayment is best suited for traditional age, first-time students (Hodel & Layzell, 1989; Rothschild, 1992). Prepayment contracts cost less and provide better returns the further in advance they are purchased, with the exception of those purchased in the revised MET program (Button & Koselka, 1994; Davis, 1995; Healy, 1995; Hodel & Layzell, 1989). This means that the parents of a newborn will usually pay a lower premium over current rates and receive a higher overall yield than the parents of a high school student if they purchase contracts in the same program on the same date. Adults who decide to attend college would benefit from a prepurchase program only if they begin their financial planning years in advance.

The market for tuition prepayment programs, then, is the family of a future college student who would fit today's definition of "traditional" in terms of both age and socioeconomic status (Hodel & Layzell, 1989). For institutions struggling to increase the diversity of their student bodies, such plans would appear to be counterproductive because they would enhance the ability of traditional students to attend without improving institutional accessibility to lower income, older, or returning students. However, when the implications of tuition prepayment programs on financial aid are considered, such plans can actually be viewed as increasing financial aid opportunities for, and thus improving accessibility to, non-traditional students.

### THE IMPACT ON PARTICIPANT FINANCIAL AID

Tuition prepayment programs reduce participants' financial aid eligibility in two ways. First, the United States Department of Education has ruled that tuition prepayment contracts should be viewed as student assets when determining the expected family contribution (Rothschild, 1992). Because

students are required to contribute as much as 35% of their assets toward college costs, this ruling reduces the amount of aid that participants can receive. Second, prepaid tuition directly reduces the cost of attending college (Davis, 1995). This reduction diminishes the amount of financial need that participants have and lowers their financial aid eligibility. Participants lose from both the asset and the cost side of the financial aid equation.

However, the typical middle- or upper-middle-class student would probably receive a package of loans rather than need-based grants and scholarships even without participating in a prepayment program (Davis, 1995). A reduced package of loans would still be available to participants with unmet need, but participants would take a smaller portion of an institution's financial aid resources.

#### THE IMPLICATIONS FOR INSTITUTIONAL FINANCIAL AID

The reduction in financial need among this group of "traditional" students would leave additional financial aid resources available for others, especially lower-middle- and lower-class students (Rothschild, 1992). In effect, by offering a program that allows middle-income families to ensure their children's college education, colleges and universities can allocate additional funds to benefit low-income families. Although much of this aid would be in the form of loans, it would still be a welcome addition to the funds that institutions can offer. In addition, private institutions, which depend upon full-pay students to support need-based scholarship programs (Breneman, 1994), might experience an increase in paid tuition. Such an increase would translate to expanded pool from which to draw need-based scholarships, especially among institutions devoted to increasing their diversity.

These two forms of additional aid availability might help private institutions offer more attractive financial aid packages to non-traditional students than they currently do (Rothschild, 1992). The responsibility for informing these students about the increase in available funding would fall on the individual institution. Colleges and universities that wish to improve their student body diversity should target information regarding increased opportunities for support to the students whom they most wish to attract. By presenting themselves to non-traditional students as more affordable, private institutions will help to broaden their accessibility to under-represented groups, increasing the potential for diversifying their student body.

#### CONCLUSION

The implications of tuition prepayment programs on student body diversity comprise only one policy area that private institutions must examine when they consider whether to implement such a program. The most pressing concern of these institutions must be whether they can successfully invest the funds to cover tuition increases. As this paper has indicated, most private institutions that have tried selling tuition contracts have suspended sales, because they have been unable to attract enough participants to make their programs financially viable (Evangelauf, 1988; Jaschick, 1988; Rothschild, 1992). Many state programs have encountered obstacles because they restrict institutional and individual participation. The Massachusetts plan is certainly a step in the right direction, but the future student's choice of institutions is still limited.

The creation of a tuition prepayment consortium modeled after this plan, but comprised of a variety of institutions nationwide, might solve these problems (Anderson, 1991; Evangelauf, 1988). Such a program would offer participants the opportunity to choose from among public and private colleges and universities in their state and elsewhere. The diversity of participating institutions would encourage widespread, rather than focused, marketing efforts. These factors should attract more participants than current and defunct plans have, increasing the ability of the consortium to invest successfully.

The concept of tuition prepayment is relatively new to the field of higher education finance. Additional experimentation and investigation could uncover a program that answers the criticisms encountered by pioneer programs. The implementation of that tuition prepayment program will provide an additional method for traditional students to save money for tuition. It will also signal the opening of new opportunities for non-traditional students to find the financial assistance that they need to attend private institutions.

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