Will the Real College Net Price Please Stand Up?

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Outline

- NPC – A Consumer Centered Approach
- Federal Net Price Calculator Template
- The accuracy of Federal Template EFC Estimates
- The Grant Aid "Look Up" Tables
- Need for Grant Aid Data Normalization

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1

Net Price Calculator -
A Consumer Centered Approach

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Net Price Calculator

The Higher Education Opportunity Act (HEOA) requires all postsecondary institutions participating in Title IV federal student aid programs to post a net price calculator on their websites by October 29, 2011

- ✓ Use the Department of Education's Net Price Calculator template
- ✓ Develop a customized version that must include, at a minimum, the same elements as the Department's version

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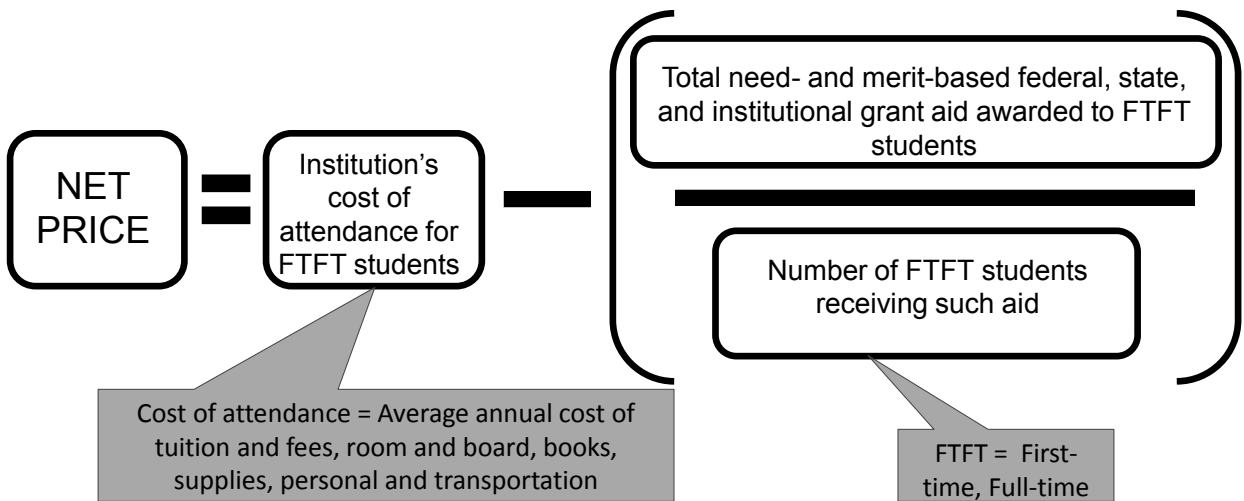
Net Price Calculator

Purpose:

"to help current and prospective students, families, and other consumers estimate the individual net price of an institution of higher education for a student. The calculator shall be developed in a manner that enables current and prospective students, families, and consumers to determine an estimate of a current or prospective student's individual net price at a particular institution."

P.L. 110-315, sec. 132 (h) (1).

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Net Price Definition

$$ \text{NET PRICE} = \text{Institution's cost of attendance for FTFT students} - \frac{\text{Total need- and merit-based federal, state, and institutional grant aid awarded to FTFT students}}{\text{Number of FTFT students receiving such aid}} $$

Cost of attendance = Average annual cost of tuition and fees, room and board, books, supplies, personal and transportation

FTFT = First-time, Full-time

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Net Price Calculator

- A consumer centered approach
- A college planning tool to Students and families
- An enrollment management tool to Schools
- Provides a measure of college affordability

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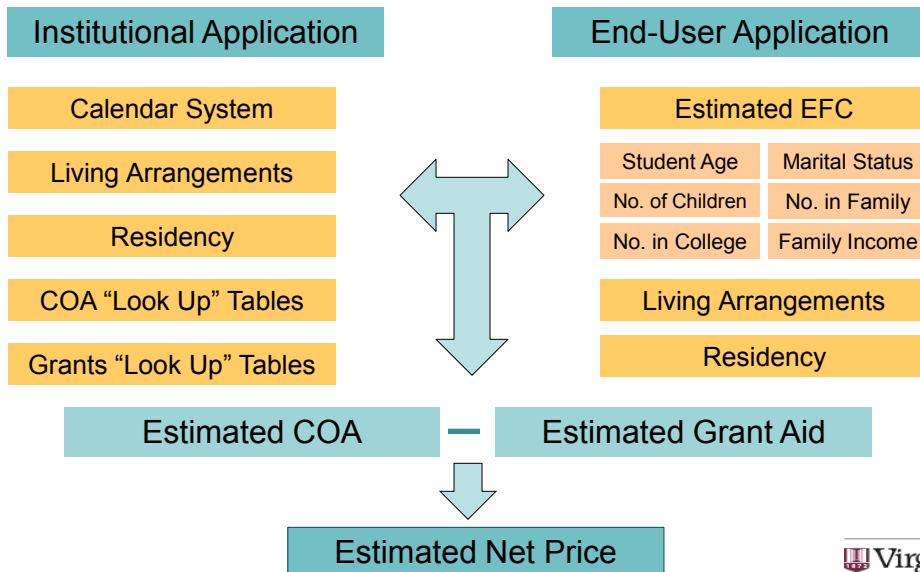
Net Price as a Measure of Affordability

- Affordability - not simply a measure of "ability to pay"

- Affordability - a function of:
  - ✓ The cost of education
  - ✓ The total financial aid (gift aid & need-based self-help aid)
  - ✓ The students' and families' expected benefits of a college education
  - ✓ Families 'ability to pay' the college net price
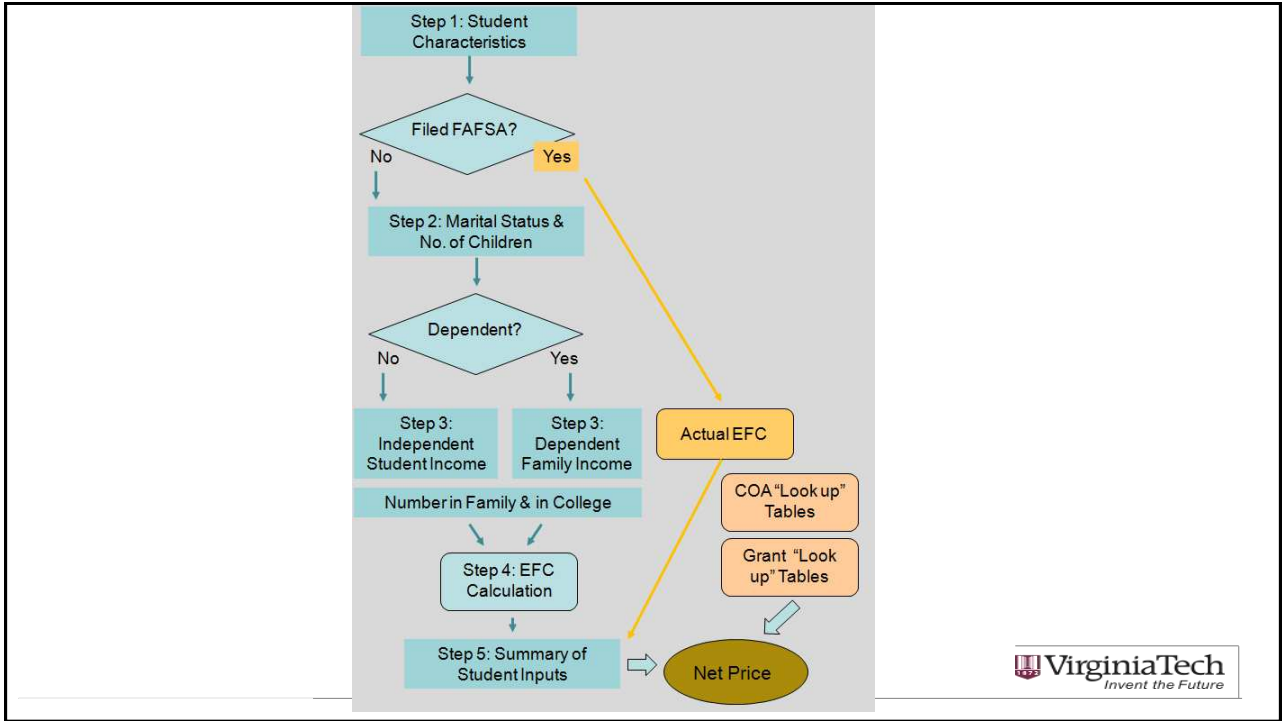 - ✓ Families 'willingness to pay' the college net price

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The NPC Federal Template

The NPC Federal Template

Institutional Application	End-User Application
Calendar System	Estimated EFC
Living Arrangements	Student Age / Marital Status / No. of Children / No. in Family / No. in College / Family Income
Residency	Living Arrangements
COA "Look Up" Tables	Residency
Grants "Look Up" Tables	

Estimated COA — Estimated Grant Aid

Estimated Net Price

5

"It's a capital mistake to theorize before one has Data." (Sir Arthur Conan Doyle)

Estimated Net Price -

Approximate but Transparent

Estimated Net Price

Major factors that affect the accuracy of the net price estimate are related to the EFC and the three components of the net price formula:

- EFC
- Student Population of Interest: FT/FT
- COA Data
- Grants and Scholarships Data

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Accuracy of the Federal Template EFC

- Is the Federal Template EFC Reasonably Accurate?
- The template uses a look-up table populated with data from the FAFSA applications database to identify a median EFC
- The Median EFC varies by Dependency, Income Level, Family Size, and Number in College.
- Calculated Federal Template EFC and compared to Actual EFC

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Accuracy of the Federal Template EFC

2008-09 FAFSA: Number of Applicants and Median EFC by Income Level, Dependency, Family Size, and Number in College

Source: U.S. Department of Education, Office of Postsecondary Education, 2008-09 Merge File

Dependency Status	Income Level	Family Size	Number in College	N	Median
Dependent	30,000 - 39,999	02	1 child in college	147,900	2,255
			2 children in college	61	1,560
		03	1 child in college	188,931	1,684
			2 children in college	45,645	1,175
			3 or more children in college	19	893
		04	1 child in college	130,616	811
			2 children in college	59,455	814
			3 or more children in college	5,419	659
		05	1 child in college	61,318	10
			2 children in college	33,265	315
			3 or more children in college	8,710	439
		More than 5	1 child in college	33,777	0
			2 children in college	21,816	0
			3 or more children in college	10,117	0

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Distribution of Students by Actual EFC and Fed. Template EFC:

(Results of Simulation using University Data)

Expected Family Contribution (EFC)	In-State			Out-of-State		
	Actual EFC	Estimated EFC	Change (Est. - Actual)	Actual EFC	Estimated EFC	Change (Est. - Actual)
$0	99	173	74	49	88	39
$1 - $1,000	71	76	5	39	26	-13
$1,001 - $2,500	105	116	11	43	45	2
$2,501 - $5,000	150	153	3	44	52	8
$5,001 - $7,500	121	135	14	40	51	11
$7,501 - $10,000	139	136	-3	53	50	-3
$10,001 - $12,500	112	75	-37	51	37	-14
$12,501 - $15,000	130	71	-59	62	32	-30
$15,001 - $20,000	139	236	97	50	150	100
$20,001 - $30,000	89	15	-74	72	8	-64
$30,001 - $40,000	76	215	139	47	132	85
Over $40,000	170	0	-170	121	0	-121
No EFC / FAFSA	148	148	0	82	82	0

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Comparing Fed. Template EFC and Actual EFC:
(Results of Simulation using University Data)

- Using Federal Template EFC…two out of three students are placed on an incorrect EFC range

- This finding is consistent with other previously conducted analysis comparing actual EFC and Fed. Template EFC

	In-state	Out-of-state
Total Number of students With EFC	1,401	671
Number of students With EFC Match	503	196
Number of students with EFC Mismatch	898	475
Number of students Moved to Next EFC Range	583	34
Percentage of Mismatches	64%	71%

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Grant Aid "Look up" Table

EFC Range	In-State			Out-of-State		
	Student Count	Average Grant	Median Grant	Student Count	Average Grant	Median Grant
$0	99	$11,354	$11,771	49	$15,994	$13,761
$1 - $1,000	71	$10,538	$11,021	39	$12,020	$12,921
$1,001 - $2,500	105	$9,538	$9,631	43	$12,595	$12,061
$2,501 - $5,000	150	$7,435	$7,851	44	$8,100	$8,411
$5,001 - $7,500	121	$6,100	$5,560	40	$6,864	$4,000
$7,501 - $10,000	139	$5,138	$4,770	53	$4,932	$3,100
$10,001 - $12,500	112	$4,027	$3,760	51	$3,633	$3,100
$12,501 - $15,000	130	$3,247	$2,930	62	$3,728	$2,200
$15,001 - $20,000	139	$2,398	$2,000	50	$3,475	$2,376
$20,001 - $30,000	89	$2,406	$2,000	72	$4,096	$3,000
$30,001 - $40,000	76	$2,789	$2,000	47	$5,541	$5,000
Over $40,000	170	$2,050	$2,000	121	$4,900	$5,000
No EFC / FAFSA	148	$3,203	$2,000	82	$11,092	$5,000

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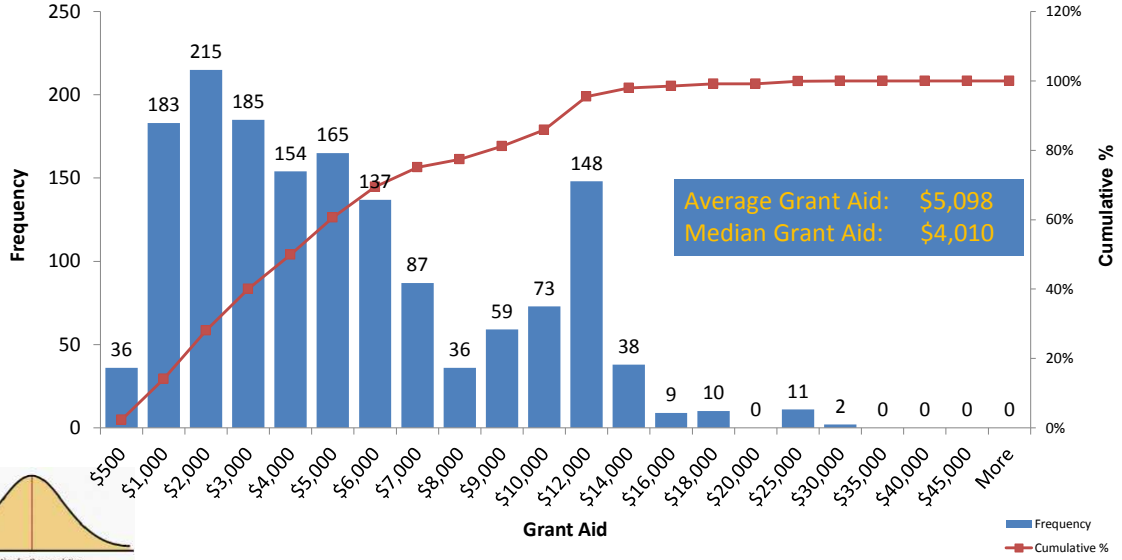Figure 1. Distribution of FTFT Grant Aid Recipients: In-State

Figure 2. Distribution of FTFT Grant Aid Recipients: Out-of-State
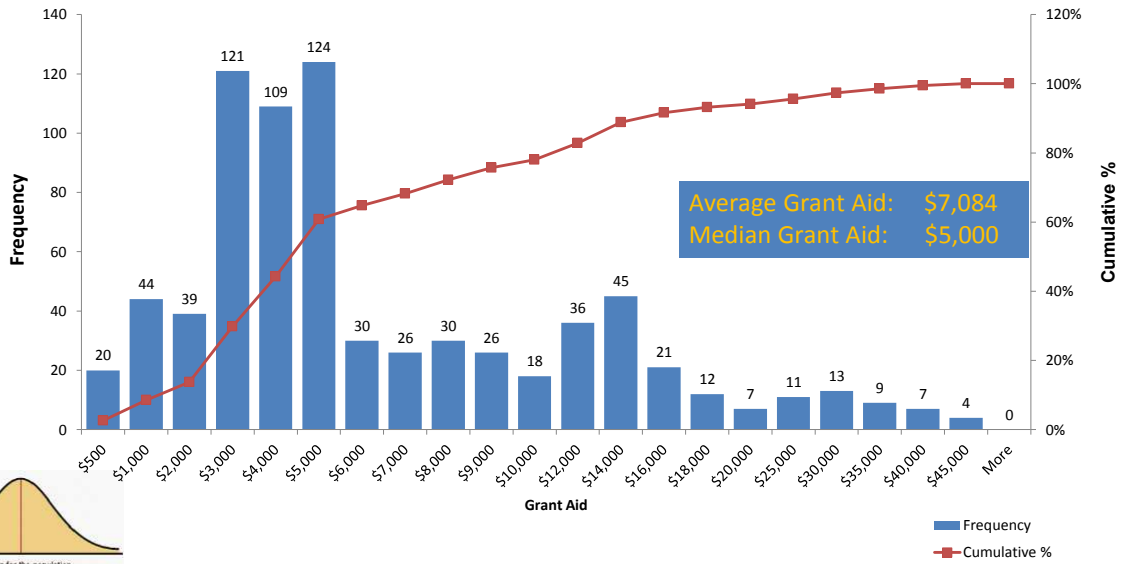
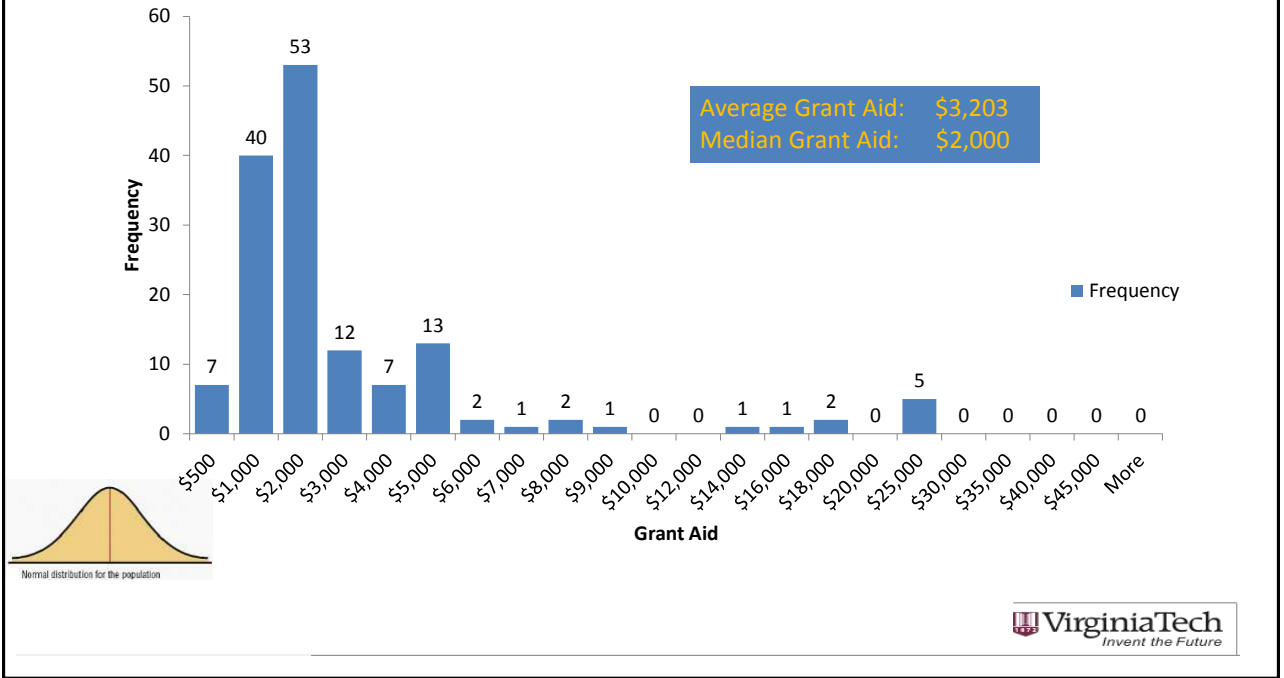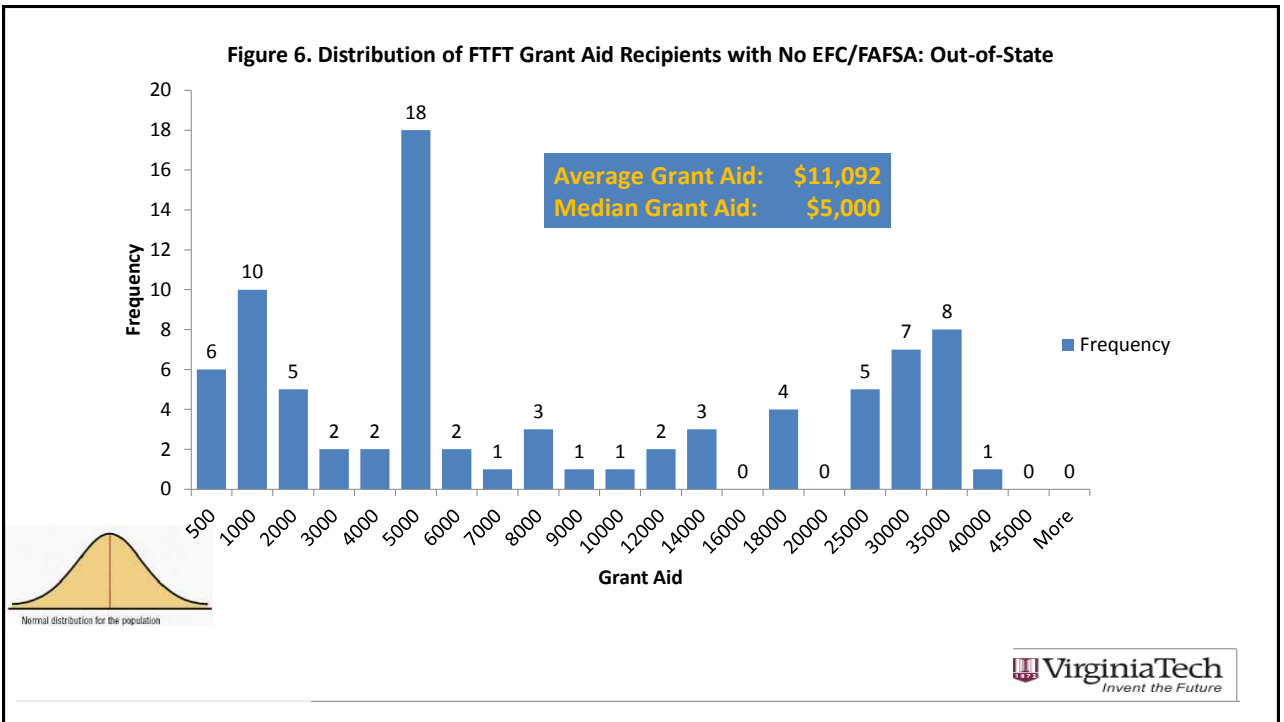Figure 5. Distribution of FTFT Grant Aid Recipients with No EFC/FAFSA: In-State

Average Grant Aid: $3,203
Median Grant Aid: $2,000

Figure 6. Distribution of FTFT Grant Aid Recipients with No EFC/FAFSA: Out-of-State

Average Grant Aid: $11,092
Median Grant Aid: $5,000

- **To normalize or not to normalize – Is that the question?**
- **The cumulative effects**
of over-approximation

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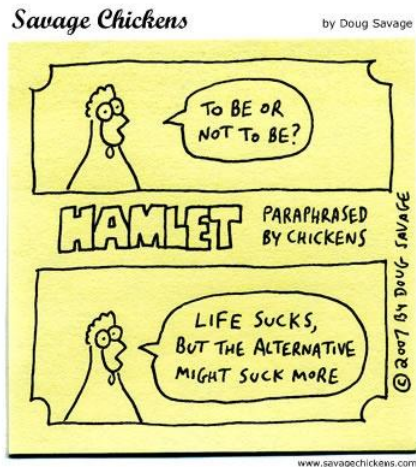
Why Data Normalization?

- Distribution of grant aid data - far from being uniform/symmetrical

- Median grant aid is a better measure than average, but this is not enough

- Data normalization to address special circumstances

- Institutions have to make a choice:

  - Analyze distribution of grant aid data and be **approximately RIGHT or**

  - Use raw grant aid data and be **Precisely WRONG**

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Effect of Special Categories on Net Price Estimate

Special Student/program Category	Effect on Grant Aid Estimate	Effect on Net Price Estimate
Late Filers	**Understate**	**Understate**
Withdrawals	**Understate**	**Understate**
One Term Enrollment	**Understate**	**Understate**
Athlete Students	Overstate	Overstate
ROTC Grants/VA benefits	Overstate	Overstate
Honors Students	Overstate	Overstate
Employee-related tuition waivers	Overstate	Overstate
Study Abroad	Overstate	Overstate

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Policy Implications

- The federal template may not generate reasonably accurate EFC estimates…estimated net price probably not as accurate as the one from a customized template
- Change the fed template to allow prospective students to use actual EFC, if they got one
- Computing robust net price estimates – a process of converting data into information
- Institutions should conduct peer analysis – peers' net price impacts how your net price looks to students when they compare it with peers' net price.

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Questions

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