

## Differential Tuition

### BACKGROUND AND POLICY CONTEXT:

Academic Plan II proposes a closer examination of policies and principles that govern differential tuition. While discussions about tuition differentials often provoke concerns about equity, it is important to remember that costs of attendance are far from uniform. Some students receive scholarships; others have access to school-, state- or federally-based aid; some majors apply special fees; graduate students pay more than undergraduates; non-residents pay more than residents; and in some disciplines (e.g. pharmacy, law) differential pricing has been the rule for so long that it goes unnoticed. The question is not whether to have differential tuitions, but whether the institution can and should develop broad policy the help guide their development and implementation.

Action Item #136 speaks to this issue. “*The Vice President for Academic Affairs in consultation with the President, will appoint a task force to explore principles for the design and implementation of differential pricing mechanisms.....*”

### Policy Statement

- **Programmatic Goals and Objectives.** The fundamental basis for tuition differentials must be advancement of academic programs. A tuition differential should be tied to specific academic goals within a particular program. The program should be able to identify specific initiatives that will enhance the overall quality of the program – i.e., what could the program accomplish with additional revenues, and how much will it cost to achieve those goals? Differentials should be used to build quality in *existing* academic programs rather than expanding into new degree programs. Differentials may be most suited to high-cost programs, particularly those in which costs are driven in part by external factors such as accreditation standards.
- **Enrollment Management.** Tuition differentials should not be used as a tool of enrollment management – that is, as a means of influencing student demand for specific programs (e.g., reducing demand through higher pricing). Such efforts may prove counterproductive. (Pharmacy, for example, recently experienced a significant *increase* in applications after a sizable tuition increase.) Moreover, differential pricing may add a layer of confusion that, in some instances, could act as a hindrance to student recruitment efforts. The task force recognizes that some programs at the undergraduate level (e.g., Criminal Justice) may have greater student enrollments than they can manage effectively with current resources; enrollment in such programs is more reasonably regulated through admissions requirements than by pricing mechanisms.
- **Differential Pricing at the Undergraduate Level.** The University should NOT employ tuition differentials at the undergraduate level. This recommendation is based on several factors, including a desire to leave student choice of majors and programs of study relatively

unconstrained by considerations of price; administrative burdens resulting from a variety of differentials; difficulty in administration of financial aid programs; political ramifications; and avoidance of students' "gaming the system" (e.g., remaining undeclared as long as possible).

Note: The task force considered the possibility of distinguishing between upper and lower division coursework for tuition purposes (i.e., adding a differential to upper division courses). In light of substantial cross-over of students between lower and upper division courses (e.g., freshmen and sophomores enrolled in 3000 and 4000 level courses, and upper level students enrolled in lower division courses) and many of the same issues cited above with respect to differentials generally, the task force rejected this distinction as well.

- **Current Tuition as a Base Line.** Current tuition and fee levels should be considered a base line. It seems clear that the University currently does not have programs that are overpriced, particularly in comparison with the market. Therefore, the task force does not recommend pricing differentials that would result in *lower* prices for any particular programs.
- **Access.** Student access to academic programs remains critical. We must not price students out of programs, particularly students from Wyoming. It may be important to earmark a portion of increased revenues generated from a differential to need-based scholarship assistance. In addition, the size of any tuition differential should take into account salaries for graduates in the field, to ensure that graduates retain the ability to service greater student loan debt.
- **Cost of Attendance.** When considering the impact of tuition differentials, it is important to focus on total cost of attendance (including room and board, books, etc.) rather than tuition rates alone when considering issues of access, affordability, etc. In some instances, for example, a 30% increase in tuition may result in only a 5-10% increase in the overall cost of attendance.
- **Revenue Generation.** Tuition differentials make sense only when they could generate significant additional revenues for academic programs. A considerable difference exists between those programs in which students are primarily cash payers (e.g., Law, MBA, Pharmacy) and those whose students are primarily on graduate assistantships or whose tuition is otherwise discounted. (Engineering, for example, typically does not accept graduate students who are not fully funded by either a state or a grant-supported graduate assistantship. A tuition differential for a graduate program in engineering, then, would have little financial impact on the academic program.) Tuition differentials are particularly suited to programs that experience high student demand so that tuition discounting is unnecessary.
- **Incentives/Return of Revenues.** In those programs with significant revenue-generating capacity, there must be an incentive in the form of a return of additional revenues to the program. Students who bear the increased burden of a differential should be the primary beneficiaries of revenues that are generated. In determining the appropriate sum to return to an academic program, a reasonable estimate of additional revenues should be made based on

historic enrollment patterns. While adjustments may be made periodically if student enrollment patterns change significantly, sensible planning for both the program and the University would suggest that a fixed sum be added to the program's permanent Section 1 budget rather than making yearly adjustments based on minor enrollment fluctuations.

- **Market Position/Comparison to Peers.** Tuition differentials must be tied to programmatic goals, but also should be sensitive to market position, including perceptions in the market that are influenced by price (e.g., “you get what you pay for”). An academic program seeking a tuition differential will be better positioned if it can show that even with a differential, the program's pricing will be modest in comparison to a reasonable group of peer institutions. (For example, the differential could be subject to the constraint that it will leave the program's tuition in the lower half or lower quartile of the peer group.) For any tuition differentials, consideration should be given to building in regular adjustments to account for inflation and to enable a program to keep pace with peer institutions.
- **Program-Specific Fees.** While the task force recognizes that academic programs vary widely in terms of cost, it agrees with the recent institutional trend away from program-specific or course-specific *fees* (as opposed to tuition) as a means of generating additional revenues. The task force believes that cost of attendance must be transparent, and that hidden costs in the form of program or course fees should be avoided. As tuition increases generate corresponding increases in academic support budgets, academic departments should begin reducing current program- and course-specific fees, with the ultimate goal of eliminating them entirely.
- **“Enterprise” Opportunities.** This report does not address “entrepreneurial” programs, primarily through Outreach, in which specific academic initiatives may be well-positioned for a market niche that has high student demand and is not particularly sensitive to pricing (e.g., UW's current Executive MBA program and certificate programs in surveying and real estate). The University should continue to recognize the potential for such “enterprise” opportunities. Indeed, some elements of these entrepreneurial programs may serve as a model for other academic programs considering a tuition differential.

In addition to the recommendations provided by the task force, it is recommended by the university administration that funds received from differential tuition rates not be used to provide existing faculty members additional compensation that other faculty on campus would not enjoy (either in terms of timing of raises or amounts). Funds received from differential tuition rates might be used to create new faculty positions and thereby lower student-faculty ratios (consistent with quality enhancement).

Approved by the UW Board of Trustees at the March 2005 BOT meeting.