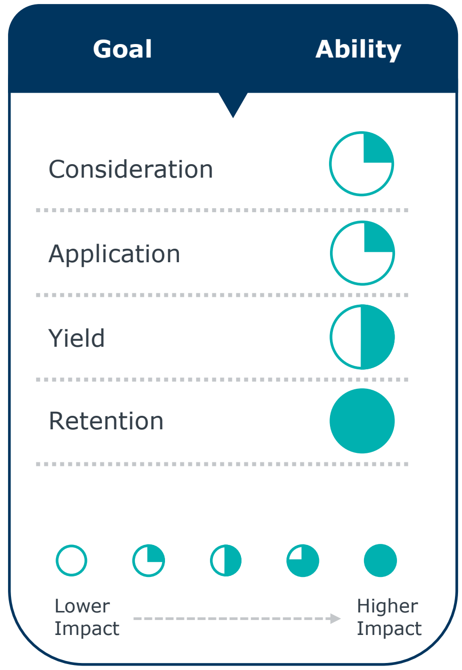
Tuition & Price Guarantees

Defuse Outer-Year Price Shock with Predictable Costs

Tuition and price guarantees are programs by which an institution makes a commitment to hold some part of their cost of attendance (COA) constant across the time—generally capped at four years—that students are enrolled at the institution. Tuition is raised annually for incoming students, but then held constant at that level for each entering cohort (i.e., their price is locked in once they enroll).

These programs provide predictability for incoming students and families, and lessen outer-year price shock, which helps address financial attrition. They do not, however, generally lower the overall cost of attendance, so they should not be considered an affordability measure.

These programs allow for messaging about transparency and predictability in the admissions process, but also require explaining why costs are comparatively higher in the first year, compared to peer institutions.



How Comprehensive is Your Guarantee?

TUITION ONLY

Institutions guarantee a set tuition for a set number of years (generally four) but may increase fees and other charges annually.

TUITION & FEES

In addition to holding tuition constant, institutions commit to holding stated fees constant across an enrollment period as well.

NET PRICE GUARANTEE

Institutions guarantee a fixed total cost to incoming students when they enroll and absorb any variable costs instead of passing them onto the student. Room & board is also generally included.

What Else May Vary?

1 **Who is eligible?**

Will the guarantee apply only to incoming first-time full-time students? Will transfers also be eligible? Will all students be put into a guaranteed cohort, or will students opt in?

2 **How long is tuition guaranteed?**

Many institutions cap the years they guarantee tuition to four, to encourage completion, but fifth year students may only be raised one cohort.

3 **Additional scholarship funding**

Catalog other costs that may be a barrier to underrepresented students, such as study abroad and textbooks, and consider providing dedicated scholarships.

Source: EAB interviews and analysis.

Offering Transparency and Predictability to Prospects

How Tuition and Price Guarantees Can Help Achieve Enrollment Goals

Diffuse Outer Year Price Shock and Reduce Financial Attrition

Low- and middle-income families often select institutions based on attractive first-year prices, but changes to tuition and fees in subsequent years can cause "outer year price shock." This results in stop-outs and drop-outs due to unexpected increases in cost of attendance. High attrition rates, in turn, deter prospective students from enrolling. Tuition and price guarantees provide students and families with the predictability and transparency in pricing across all four years, allowing them to think through costs for their entire time in college.

Appeal to Planning-Minded Families with Cost Predictability

Affluent families often want to plan for all four years of college but are unable to do so because of lack of cost information beyond the first year. Tuition and price guarantees provide upfront cost information for all four years of college, allowing families to plan ahead. This may lead to a higher volume of applications from more affluent households.

Deliver a Differentiated Pricing Message in Recruitment Conversations

There's very little that universities can do to seem cheap to students. Volatility in pricing—often accompanied by adversarial haggling in the form of price negotiations—adds to the persistent negative sentiments about college costs. The simplicity and predictability of tuition and price guarantees allow institutions to reduce difficult conversations about pricing changes with students and families. They allow you to say: "This is the price, there are no hidden fees, your out-of-pocket expense will stay the same for all four years. It's as simple as that. Now let's talk about the value of our education."

Source: EAB interviews and analysis.

Pre-Implementation Analyses

Determining the Need for and Implications of a Tuition or Price Guarantee

1 Need/Fit

	Yes	No
We have significant outer year financial attrition due to price sensitivity	☐	☐
We serve a significant number of affluent families who crave predictability for planning purposes	☐	☐
We field a lot of questions and complaints from students & parents about cost and transparency	☐	☐
Our prospects are frustrated with the level of pricing transparency at our institution	☐	☐
We are losing prospective students to institutions with simpler messaging about cost	☐	☐

2 Feasibility

	Yes	No
We are a private institution with ample ability to set and control our own price	☐	☐
We are a public institution that is confident in our ability to work with our state legislature to agree to hold price constant	☐	☐
We have modeled our ability to absorb unexpected increases in cost (e.g., inflation or healthcare premiums) which can no longer be passed on to students	☐	☐
We will be able to maintain or increase enrollment, even with higher first year tuition	☐	☐
We are at least 18 months from the date we hope to roll out a price guarantee	☐	☐
We are prepared to address—through counseling and aid—the impact higher first-year tuition may have on the enrollment of low-income students	☐	☐

Source: EAB interviews and analysis.

Implementation Guidance

Program Design and Planning

Determine the Scope of the "Cost" Guarantee

EAB recommends institutions implement as comprehensive a price guarantee as possible because its primary benefit is predictability of cost (and constant tuition with fees that rise annually does not provide that). That said, institutions must balance several decisions in setting the parameters for how comprehensive the guarantee will be, including:

- What portion of total COA will be held constant and guaranteed? Tuition only? Tuition and fees? Tuition and fees and room & board?
- For how long is this price guaranteed? What price will students pay in their fifth year? Can those who take longer to complete appeal a price increase?
- Who is eligible for the guarantee? First-time full-time students only? Transfers? Is everyone pathed into a guarantee cohort, or will students opt in?

Above all, EAB recommends full transparency. Any costs that may vary based on student choices (e.g., room & board) should be clearly communicated up front so that there are no surprises down the road that may lead to financial attrition. If a student takes longer to complete than the guarantee allows, EAB recommends only raising their tuition one level—not to the current price—to minimize attrition.

Financial Modeling and Setting the "Right Price" for Four Years

Careful financial planning is required to analyze the unraveling of fees and setting a feasible four-year price. Price guarantees largely shift financial risk from students to institutions as any unexpected increase in costs will be absorbed by the institution, instead of being passed down to all students in the form of higher prices every year.

Institutions typically need to increase prices for first-year students by 7-12% in the first year to ensure the expected cumulative NTR/capita for all four years remains constant. In setting prices for each cohort of students, take into account factors including the effect of higher first-year prices on headcount, NTR impacts of improvements in retention and four-year graduation, and the institution's appetite for uncertainty. Universities' financial aid optimization model may need to be adjusted to incorporate the impact of NPG on different student segments. Institutions must also decide if they will hold nominal tuition constant for each cohort for four years, or if they will hold price constant for students by matching any tuition increases each year with corresponding increases to aid.

Consistent Key Staff Collaboration Throughout Design and Implementation

Dedicate at least 12-18 months to designing and implementing a price guarantee. Most institutions report needing more time to plan the mechanism than implement it. Across that time, a large, cross-functional implementation team should meet weekly, including: the registrar, bursar, financial aid, IT, admissions, and the CFO/controller's office.

Source: EAB interviews and analysis.

Implementation Guidance

Targeted Marketing & Communication Plan

Keep Messaging Simple—and Focused on Transparency and Predictability

A price guarantee provides a differentiated cost value proposition based on predictability and transparency, as well as simplicity. Institutions should then keep the message as simple as possible, as that is the appeal: "There are no surprises, no unexpected costs," "the price will never change," and "your scholarship will never lose its value."

A centralized website with FAQs, a press release, your financial aid letter, and all admissions email campaigns and brochures should reinforce this simple message. You may also consider a central email repository that could respond to incoming questions.

Train Frontline Staff to Emphasize Message then Pivot to Value

The simplicity of a price guarantee is appealing because it may reduce difficult conversations and back and forth with prospective families about cost. With a firm policy in place, admissions and recruitment staff should be clear and brief about the benefits of the guarantee, and then quickly shift the conversation to value. The less you're talking about price, the better.

Produce Marketing Materials Tailored by Income Segments

The appeal of a price guarantee will vary by income segment. As such, the extensive marketing campaign that accompanies the rollout should include tailored materials addressing the most likely concerns of specific student income segments, as well as outreach packets to feeder high schools.

Prepare to Address Questions on Higher First-Year Tuition and Four-Year Cost

To make the finances work on a price guarantee, first-year tuition will necessarily be higher. Be prepared to address this with prospective students who will be looking at your price next to other similar institutions, who will seem inexpensive by comparison. Prospective students and families may also not be accustomed to considering the cost of all four years up front, resulting in some price shock from that. Mitigate this risk with information campaigns and marketing about the value of predictability and transparency, and similar if not lower, overall cost.

Consider Equity Implications

Higher first-year costs may dissuade low-income students from applying, hampering diversity and inclusion efforts. Be sure to address this head-on with messaging and counseling, ensuring them of the aid available to support their enrollment.

Source: EAB interviews and analysis.

EAB's Recommendations in Action

How Institutions Implement Key Components of Price Guarantees

The below institutions exemplify various aspects of a successful tuition or price guarantee and rollout, in accordance with EAB's recommendations:

University of Dayton | Miami University | Western Illinois University | Ohio University

	Examples	Why it Works
Provide Full Cost Transparency	• Make the guarantee inclusive of all tuition and fees, whenever possible • Where exceptions must exist (e.g., variant housing costs for example), lead with proactive, transparent messaging	• For predictability and transparency to feel true to families, there must be no surprise costs • Even small surprises or variations in cost can cause attrition for price sensitive families
Shift Recruitment Conversations from Price to Value	• Differentiate your institution in price conversations with messaging focused on transparency • Simplify pricing messaging to "the price will never change"	• Change the conversation to focus on predictability and transparency when you can't compete on price with lower-cost institutions • The simplicity of a price guarantee may reduce difficult conversations about pricing changes with students and families
Target Marketing to Affluent Families	• Focus admissions marketing materials on cost predictability for planning purposes • Send targeted marketing materials to affluent families • Focus financial counseling conversations on four-year planning	• Appeals to financially sophisticated families who want to be able to plan across four years • Provides differentiated value from peer institutions in cost conversations

Source: EAB interviews and analysis.