By Donna Davis

A LITTLE OFF THE TOP

Can lowering tuition rates widen and diversify applicant pools? "Everything is on the table."

When Converse College, a women's college in Spartanburg, South Carolina, announced in the fall of 2013 that it was cutting its tuition rate 43 percent, the move drew headlines. Media outlets like *The New York Times* identified a trend—small, private colleges breaking away from the "high-tuition, high-discount" model in order to attract more students.

Other private colleges have cut tuition, though not as dramatically as Converse. They include Alaska Pacific University, Ave Maria College in Florida, Ashland University in Ohio and Belmont Abbey College in North Carolina. Starting in fall

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2014, Converse College's tuition "reset" means the price will drop to $16,500 a year from the 2013 published rate of $29,000, and that is before scholarships and financial aid are applied. Converse President Betsy Fleming says the school can make the cuts because very few of its 700 students were paying the full rate. Most received discounts averaging 56 percent, funded by the college or federal and state financial aid sources. At the same time, the college was losing potential middle-income students who looked at the "sticker price" and didn't bother to apply, thinking they could not afford it.

Fleming says the response has been "phenomenal." Applications were up 6 percent and deposits had risen 12 percent as of February. She expects Converse will welcome 12 percent more undergrads in the fall. Select students will still be able to compete for merit scholarships, but the school's $39 million endowment will fund those gifts. The college can now spread those endowment funds more broadly to aid more students with merit awards.

✂ OFFSETTING THE CUTS

Independent schools are also cutting tuition rates with the same goal—growing enrollment. In February, two central Massachusetts schools announced lower tuitions for their youngest students for the 2014 – 15 school year. Bancroft School in Worcester reduced its pre-kindergarten and kindergarten tuition 42 percent, from $21,450 to $12,500, and its first-grade tuition 30 percent, from $23,700 to $16,500. At the same time, tuition increases for grades two through 12 are rising 3.5 percent, the lowest hike in years. The 480-student school is paying for the restructured tuition rates with endowment funds and budget cuts.

In Grafton, Touchstone Community School announced lower tuition rates of $13,500 for pre-kindergarten and kindergarten. Pre-K students will see a 15 percent decrease from $15,950, and kindergarten tuition will fall 25 percent, from $18,300. The school will offset the cuts with a predicted decrease in demand for financial aid and a 5 percent tuition increase for grades one through eight at the 100-student school.

Although Touchstone had frozen tuition in the early grades for four years, "that did not seem to be enough," Head of School Susan Diller says. "We decided to be more proactive. We wanted to make the early years more attractive and affordable." It's too early to assess results, Diller adds, but "at the very least, this will put us on people's list. We want them to come through the door and see what we offer."

Like their higher education counterparts, the two schools are hoping to boost enrollment in the face of economic and demographic challenges. The slow economic recovery from the Great Recession has kept some families from choosing independent schools. And the current "baby bust" has reduced the pool of young students. The U.S. birth rate fell for the fifth year in a row in 2012, to a record low of 63 births per 1,000 women, according to the Centers for Disease Control and Prevention. In the New England region, independent schools reported a drop of 5 percent or more in applications in pre-K, kindergarten and first grade for 2014 – 15, according to the Association of Independent Schools of New England's 2014 Admission Report survey.

"The past five years have been a period of challenge and change here and at other independent schools locally and around the country," Bancroft Headmaster Scott R. Reisinger said in a news release announcing the cuts. "The changing demographics and financial profile of potential applicants to Bancroft's pre-K and kindergarten programs has meant more competition than ever for a smaller pool of potential students. The situation required new thinking." The cuts bring the school's tuition rates for lower grades in line with other schools in the competitive Worcester-area private school market.

So far, the feedback has been positive, says Sue Cranford, Bancroft's director of admissions and institutional advancement. "We have had people calling and saying they can consider us now. Even the current families have reacted well. We all want the school to thrive."

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—Sue Cranford, Bancroft School

Oak Knoll School of the Holy Child, an independent Catholic K – 12 school in Summit, New Jersey, slashed its tuition for K – 4 students beginning with the current school year. Under the Strategic Tuition Initiative, kindergarten tuition fell by more than a third, from $22,900 to $14,500, and tuition steps up gradually through grade four at the 540-student school.

Several factors prompted the cuts, says Head of School Timothy J. Saburn. Like its counterparts in New England, Oak Knoll's area has seen a decline in younger students. The school also faces a unique competitive mix—its tuition lies between those of low-priced diocesan schools and high-priced non-faith-affiliated independent schools. Oak Knoll's administration and board looked at those challenges in light of the school's mission to make a high-quality Catholic education more affordable for young families facing difficult economic times and decided to make "significant" cuts, he adds.

The program helped to spark a 76 percent increase in kindergarten applications for the current school year, and other New Jersey schools have inquired about the initiative, Saburn says. Because of the tuition decrease, families in the lower grades who had been receiving financial aid no longer needed that help.

For schools considering cutting tuition, Saburn recommends "looking honestly at your expenses and revenues, what your market and competitive environment are and the demographics in your area."

✂ THE POWER OF PERCEPTION

The media attention around tuition cuts, especially regarding private colleges, also has other independent school trustees and administrators asking if a similar approach could work for their schools.

Robert R. Sedivy, an independent school consultant based in Bloomfield, Connecticut, has fielded some of those questions. In a memo to clients and colleagues in January, Sedivy urged them to think about the effect a drastic tuition decrease could have on families' trust. "Some independent schools that have gotten into big discounts, maybe it will make sense for them," he says. "But for the majority I think it would undermine the credibility of the school. Parents will say, 'You mean the tuition that you have been charging us year after year isn't really the real number? What is the real number and why should I believe you?'"

Sedivy advises looking at tuition rates and discounts to see if they are in line with the school's financial sustainability strategy.

Even with some schools cutting tuition, independent school discount rates have not reached higher education levels. According to the National Association of College and University Business Officers (NACUBO), the discount rate at higher education institutions has risen every year since 2005, when it stood at 38 percent for first-time, full-time freshmen. In NACUBO's 2012 Tuition Discounting Survey, the rate reached 45 percent—the highest ever. NBOA's 2011 Financial Position Survey found that for independent day schools, tuition discounts (financial aid and tuition remission) ranged from 7 percent to 26 percent for day schools and 13 percent to 44 percent for boarding schools. The median tuition discount was about 13 percent for day schools and 23 percent for boarding schools.

Sedivy advises looking at tuition rates and discounts—need-based, merit-based, tuition remission and other forms of aid—to see if they are in line with the school's financial sustainability strategy. "Is it judicious? Is it running out of control? Are they out of line with what most schools are doing?" Schools that approach a discount rate of 40 percent or more risk that sustainability, he says.

Sacha Litman, managing director of Measuring Success, has fielded the same inquiries about tuition cuts. "A question I get a lot from board members and others is whether affordability is the ends or the means. They think that if they cut costs and lower tuition, they will become sustainable and will

keep enrollment up. We've found it's just the opposite."

Measuring Success, based in Washington, D.C., provides data-driven consulting services for nonprofit organizations. The company's research has found that the only factor that contributes to maintaining or increasing enrollment is perceived quality. Higher perceived quality leads to more inquiries, which drives enrollment and allows schools to set tuition closer to the actual cost of educating a student—a process Litman calls the "virtuous cycle."

Being the "loss leader" in your market can lower perceived quality, Litman says. "Why would someone buy a $50,000 BMW when they can get the same engine in a $30,000 car? It all comes down to perception. Sometimes higher tuition does have the suggestion that the school is a more valuable item," Litman says.

Back at Converse College, Betsy Fleming says the tuition cuts are succeeding because they were part of a strategic plan that emphasized quality first. "Before 2007, we assumed that everyone knew why we were good at what we did, but with the new strategic plan we realized the importance of communicating quality to families trying to make a big choice, letting them know what sets us apart." Some of those distinguishing factors include faculty accolades, Fulbright scholars and NCAA Division II sports teams.

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✂ MANY APPROACHES, MIXED RESULTS

Two miles north of Converse, at Spartanburg Day School, cutting tuition "just didn't work," says Business Manager Palmer Ball, who is also a Converse alumna and former vice president of finance for the college.

About a decade ago, the school raised tuition 15 percent. The result—60 students left the first year and 20 the next, mainly in the lower school. "We decided to do something dramatic to reverse a downward trend," Ball says. Spartanburg cut tuition in the lower school. Enrollment increased, but not enough to cover the overall loss of revenue from the tuition restructure. "It took us seven years to get back to the level we had been charging in the grade with the largest tuition cut."

Lowering the price failed at Spartanburg for several reasons, Ball says. First, lack of competition in the small town made drastic tuition cuts less effective than they might be in an area with more independent schools. "We are the only NAIS school and SACS-accredited school in town, and we are currently $8,000 more a year than our closest competitor's tuition. Lowering our price did not make us appear less expensive," she says. Second, very few students in the lower grades had financial aid, so the school didn't realize any financial aid savings with the tuition restructure. Instead, less income was produced from the full-pay students, who represented the majority of the classes.

St. Paul's School for Girls in Brooklandville, Maryland,

“At what point does tuition go beyond the reach of the people you want in the school?”

—Paul Ibsen, Providence Day School

decreased middle school tuition 5.4 percent and upper school tuition 1.1 percent in the 2011 – 12 school year. The results were surprising, says CFO Kate McKew. “Our attrition was the lowest it had ever been that year, so (the cuts) were a big success with parents, but we did not see (results) in the recruitment of new students. We stayed flat—from 418 to 414 students.” Looking back, McKew says, a better approach might have been to include a separate item such as textbooks in tuition rather than decrease tuition.

The Children’s School, a 400-student elementary school in Atlanta, has considered tuition cuts the past two school years and rejected the idea both times, according to Liz LeBlanc, director of finance. The school’s enrollment for 3- and 4-year-olds had dropped off and kindergarten waiting lists had shrunk. However, the school had a good retention rate and wanted to maintain its low student-teacher ratio. “We looked at the numbers two ways—reduce tuition and have more students or keep it the same and have fewer,” she says. “Our bottom line actually looked better keeping tuition the same.”

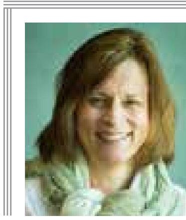
Independent schools seeking more students do have other options besides tuition cuts. Duke School in Durham, North Carolina, and other independent schools got their own headline in *The New York Times* in February for their indexed tuition plans, which allow parents to pay in proportion to their resources instead of applying for financial aid (see related article, page 22). Other schools have elected to freeze tuition, gradually raise tuition rates as students progress from preschool, or limit tuition increases—a tactic that Providence Day School in Charlotte, North Carolina, chose.

For years, parents at the K – 12 school didn’t resist tuition increases of 6 percent to 10 percent because schools were providing additional services, says Paul Ibsen, assistant head of school for finance and management. “But then 2008 came along and our clientele said, ‘wait a minute, we can’t afford these increases.’” So the school lowered those increases from 5 percent to 6 percent to 2.5 to 3 percent, and also trimmed the budget. Pay increase rates have fallen and teachers had to add sections, but the school has seen no layoffs or departures. And enrollment has rebounded from a low of 1,501 students in 2010 – 11, to a capacity 1,588 for the current school year.

Like Sedivy and Litman, Ibsen is wary of tuition cuts. “Independent schools are heavily dependent on tuition revenue; we don’t have the federal and state money and grants that colleges get.” A 1 percent cut in tuition would take about $300,000 out of Providence’s budget. “That’s not easy to find,” he says. Schools can add students, increase workloads, or cut programs. “You have to ask what you want to cut that makes you what you are.”

Ibsen adds, however, that schools that continue to raise tuition—even at limited rates—need to ask themselves if those increases are financially sustainable. After all, “at what point does tuition go beyond the reach of the people you want in the school?”

The discussion of what is sustainable and economically viable for schools and families needs to include all sorts of ideas—class size, workloads, program cuts, tuition increases and even tuition cuts. “Everything is on the table,” Ibsen says. ■



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