

Indexed Tuition Programs: Removing the Financial Aid Stigma

Private-independent schools have, for decades, offered financial aid to those unable to afford the full cost of tuition. Using a need-based formula, schools have typically awarded financial aid as a discount for which an applicant applies.

Schools have reported that, over the past decade, financial aid programs, with the stated goal of providing discounts to families who cannot afford full tuition, have been effective in serving families with high need. However, middle- and upper-middle-income families have, widely, not applied to schools with financial aid programs. It is surmised the determination process for financial assistance—which requires that families provide a great deal of personal financial information, including pay stubs, mortgage information, and tax forms—is onerous. Additionally, the arduous task leaves the applicant feeling detached and unvalued by the school because they can't afford the full tuition. Their perception is that they are recipients of the school's charity to correct their inability to pay the tuition. The stated outcome—we provide discounts to families who demonstrate need—is precisely what has discouraged middle- and upper-middle-income applicant families from applying. These middle-income families make a good living and do not need or want the school's goodwill to make ends meet, and thus they view private education as a luxury beyond their reach. This discount system has led to what many refer to as the "barbell" effect on admission. The school can attract high-income and low-income families. However, middle-income families are mostly absent from the enrollment mix.

In response, schools have explored ways to overcome the negative aspects of the financial aid program, finding success with indexed tuition or sliding scale tuition programs. As School Head, explore these essential changes to evaluate the efficacy of your discount program.

First, one must understand that an indexed tuition program does not increase the number of dollars a school has available for discounts. Neither does it change the mathematical procedure of determining how much a family can pay. Instead, indexed tuition programs shift the school's language, which changes the way schools treat families applying for indexed tuition. The most effective indexed tuition programs change the narrative from "we have need-based financial aid (the school's goodwill) for families who demonstrate need (charity)," to "we understand that there is great diversity in families' income and assets. The indexed tuition program recognizes those differences and provides a range of tuition so that we charge the rates that are right for our families." These changes enable a family to feel pride in their ability to provide private school education for their children and eliminates feelings of inadequacy as recipients of the school's goodwill.

Further, many schools publish the range of tuition that is possible under the indexed tuition program. They also include information about the indexed tuition program in admission materials given to every applicant family. This change helps middle-income families overcome the "sticker shock" of high

tuition, making the program schoolwide, and a normal part of the admission process. Schools report significant increases in applicants from middle- and upper-middle-income families without a negative impact on higher-income applicant families.

Tuition Discount Guidelines

Schools must safeguard their value proposition. We recommend that schools limit the percentage of families on indexed tuition to no more than 30% of the student body. Further, we recommend that day schools, with the primary marketplace stance of low "Price," limit their indexed tuition discounts to 10% to 12% of gross tuition revenue.* Schools with a primary marketplace stance of "Product" or "Process" can allocate discounts equal to 20% to 22% of their gross tuition revenue. Boarding schools should strive for 51% of their families to pay the full tuition rate, with 49% of the population on an indexed tuition program. Large endowments allow boarding schools additional flexibility in the number of students receiving discounts.

Increasing the number of middle-income families not only makes a school more reflective of the socioeconomic makeup of its community, but more middle-income families improve enrollment and increase the reach of discount dollars. Consider the following scenario at our fictional school, *Exempli Gratia* Academy.

Four years ago, the School Head moved away from a need-tested financial aid discount program to a sliding scale tuition model. The school that has a primary marketplace stance of "Process," discounted its gross tuition revenues by 15%. Under the financial aid program, the school would have about 20 new financial aid applicants a year, all with high need. The school would heavily discount its high annual tuition rate for a family applying for need-based aid. As a result of moving to a sliding scale tuition model, the applicant pool doubled. As predicted, mission-appropriate students from middle-income families began applying the first year of the program. Three years into the new indexed program, the applicant pool has increased by 30%, and the financial aid applicant pool doubled to 40 students. The school has increased enrollment for the last three years, giving 40% to 60% indexed tuitions to more families, and decreasing the number of high-discount indexed tuition decisions. The outcomes include:

- an increase to the enrollment of 30 students; and
- a boost to the average tuition received per student.

This change to approach and presentation for indexed tuition decisions matters. If private schools are sincere in their desire to attract more middle- and upper-middle-income families, while the mathematical procedure to determine the right tuition does not change, schools have to make this process feel nonthreatening, welcoming families into a conversation about making the cost of educational opportunities at your school reflective of their finances. Not only will the language of your marketing materials about tuition discounts change, but your interactions with every

family also take on new meaning. Each school will foster an approach that welcomes families into a process, and will no longer talk about financial aid as an award, removing need-based language, and establishing a goodwill mindset. The school focuses on welcoming more families into the community through an increased admission pool, allowing parents to feel pride that their children have the opportunities offered by these programs. **I&P**

* See "Becoming a 'Price-Value' School: Concepts and Steps," *Ideas & Perspectives*, 45-7-28.