Statement before the U.S. Senate Committee on Health, Education, Labor and Pensions
On Reforming Financial Transparency in Higher Education

Pulling Back the Curtain on College Prices

Tuition, Financial Aid, and Price Transparency in Higher Education

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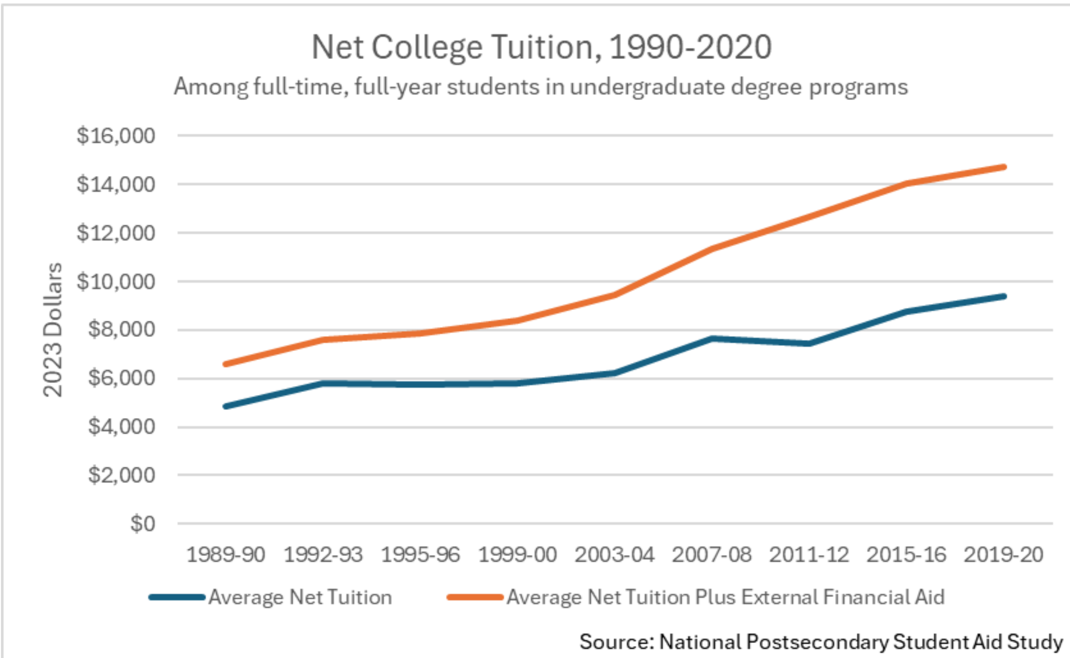
Good morning, Chairman Cassidy, Ranking Member Sanders, and distinguished members of the Committee. Thank you for the opportunity to testify today on the important subject of improving price transparency in higher education. My name is Preston Cooper, and I am a senior fellow focusing on the economics of higher education at the American Enterprise Institute (AEI), a nonprofit, nonpartisan public policy research organization based here in Washington, DC. My comments today are my own and do not necessarily represent the views of AEI, which does not take institutional positions.

It's not controversial to say that college costs too much. Even worse, the high prices that colleges and universities charge are typically not transparent to students or the public. Opaque pricing makes it difficult for families to plan for higher education expenses. Even worse, this lack of transparency neuters price competition between institutions, which itself raises the cost of college. Tackling price opacity can therefore make higher education more competitive and affordable—and fortunately, the federal government has several options on the table to improve price transparency.

The Rising Cost of College

The cost of college has risen much faster than overall consumer price inflation—indeed, college prices have grown more rapidly than the vast majority of other consumer goods and services.[i] The government has attempted to wage war on rising college tuition by increasing financial aid over the last several decades. Unfortunately, colleges have raised tuition faster than taxpayers can keep up. Much as the Red Queen said to Alice, we have to run faster—just to stay in place.

Between 1990 and 2020, the average net price that college students pay after applying grant and scholarship aid rose 93 percent in inflation-adjusted terms. The average student pays around $9,400 per year after subtracting grant aid. If we include both the student's contribution and the taxpayer's contribution (in the form of Pell Grants, state grants, and other noninstitutional sources of aid), average net tuition in 2020 was $14,700.[ii]



Rising net tuition is not for lack of public investment. State government funding for public colleges and universities reached a record high in 2024 on a per-student basis.[iii] Congress has repeatedly increased the Pell Grant.[iv] States have invested more in their financial aid systems.[v] The average college student now receives $5,300 per year in financial aid from sources outside their institution; this figure has tripled in real terms since 1990. Low-income students, who are the intended beneficiaries of most financial aid programs, receive over $11,000 per year from financial aid.[vi]

The government's considerable investment in financial aid represents a missed opportunity. Imagine if, instead of hiking tuition, colleges had restricted their price increases to the rate of overall consumer price inflation starting in 1990. Rather than simply slowing the rise in net tuition, increases in the Pell Grant and state aid since then would have *reduced* tuition. Under this alternative scenario, tuition for the average student at a four-year public college would be effectively free today.[vii]

This hasn't happened because colleges have captured increases in financial aid rather than passing them along to students. Higher education's opaque pricing system, in which it's next to impossible for students to determine how much financial aid they are receiving and what they will actually have to pay, is at least partially responsible.

How Colleges Conceal Their True Prices

The outrageous "sticker prices" some colleges advertise online—which can exceed $100,000 per year—are not indicative of what most students actually pay for their education.[viii] Almost two-thirds of college students, and over 80 percent of low-income college students, receive some grant or scholarship aid that brings down tuition to a "net price" that they will actually pay.[ix] But how much aid any given student will receive—and therefore what her net price will be—is typically not apparent upfront.

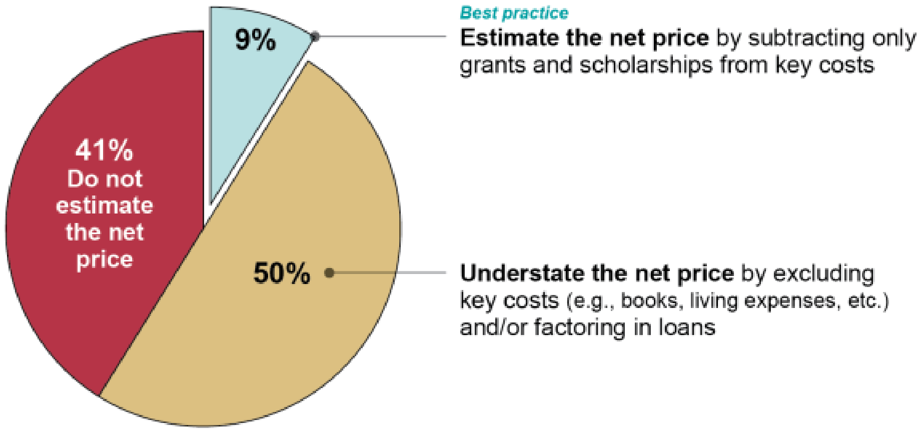
That is because colleges use their financial aid programs to price-discriminate, or charge different prices to different students based on their perceived ability and willingness to pay. There is nothing wrong with this in principle. Many industries charge consumers different prices for similar products. I might pay more for an airline ticket if I fly direct during a busy period, while I might pay less if I fly at six in the morning and accept a layover. But there's a key difference between normal price discrimination and pricing in higher education. Using online tools, I can look up what the prices are for various airline tickets almost instantaneously, which enables me to "shop around" for the best deal. This gives airlines an incentive to offer reasonable prices, since I can decide to go with a competitor if I think the price is too high.

It's not so in higher education. Students generally do not learn their net prices ahead of time. For a student to find out what she will pay, she usually needs to apply to college, be accepted, and receive a financial aid offer letter. Every college application involves costs in time or money. Most students apply to between one and three colleges—and may be accepted to just one, or none of them.[x] By the time a student receives her aid offers and learns the net prices of the colleges to which she applied, her options are extremely limited. It's much harder to "shop around" for the best deal when your choices are so constrained. Walking away from a bad deal might mean not going to college at all.

That also assumes students can decipher the financial aid offers they receive. While banks must provide home mortgage borrowers with a standardized disclosure form listing key costs and figures, colleges are not required to give students a standardized aid offer.[xi] Instead, colleges are free to present information on financial aid, student loans, and net prices in highly misleading ways.

A 2022 report from the Government Accountability Office (GAO) found that 91 percent of a representative sample of financial aid offers did not include an accurate net price. Some offers understated the net price, for instance by counting student loans as "aid." Meanwhile, 41 percent of offers did not include a net price at all—leaving students to decipher the award letters to determine how much they would be responsible for paying.[xii]

Estimated Extent Colleges Follow Best Practice to Inform Students How Much They Will Need to Pay (the Net Price) in Financial Aid Offers



Source: GAO analysis of school year 2021-22 aid offers from a nationally representative sample of colleges. | GAO-23-104708

Note: Estimates in this figure have margins of error of plus or minus 7 percentage points or fewer.

Egregious practices abound. GAO highlighted one financial aid offer which listed a net price of just $351. But the school reached that figure by subtracting over $40,000 in federal student and parent loans—meaning the true net price was over 100 times higher. Other institutions do not clearly label loans as "loans," instead substituting shorthand terms like "PLUS." These refer to Parent PLUS loans, but use of just the word "PLUS" can easily be mistaken for, say, grants or institutional aid. One offer letter mentioned in GAO's report packaged a student with roughly $25,000 in student loans, despite never using the word "loan."[xiii] This chicanery leads students and families to pay more for college than they think they will before starting the application process. Research shows that students often underestimate how much student debt they've taken on, and some students don't realize they have debt at all.[xiv]

Moreover, financial aid offers are usually given on an annual basis—meaning that for new students, the aid offer covers only the first year of college. After a student has been enrolled in a particular institution for a year, she is more captive to the school. There is time and effort involved in transferring between colleges, and students usually cannot transfer all of their credits.[xv] That gives colleges more power to reduce financial aid awards for returning students, thereby raising net prices even further. According to estimates by Mark Kantrowitz, upperclassmen face an annual net price $1,400 higher than the net price they paid as freshmen.[xvi]

Students usually cannot know what they will pay before applying to college. There is no guarantee that the price they pay during their freshman year will hold for all four years of college. Many financial aid offers are designed to mislead, making it difficult for students to understand their costs or how much they are borrowing. All this has given colleges the upper hand. Institutions have exploited this lack of price transparency to raise tuition and capture the investments taxpayers have made in financial aid. While observers have recognized this problem, past efforts to fix it have fallen short.

The Shortcomings of Net Price Calculators

Institutions—along with some third-party organizations—have built so-called “net price calculators” to help students understand what they might pay for college before they apply. While well-intentioned, and often an improvement on the status quo, these efforts fall short of providing true price transparency. A truly useful net price calculator would operate much like a price-comparison tool for airfares: It would provide rapid, precise, and binding prices. A student should be able to instantaneously look up the exact price they would pay at any given institution, which the school in turn would have to honor. That is how price comparison tools like Kayak, Skyscanner, or Expedia work—but net price calculators for higher education don’t meet the same standards.

Net price calculators that rely on publicly available data, such as the net price data reported through the Integrated Postsecondary Education Data System (IPEDS), have key shortcomings.[xvii] Institutions report net prices within five broad categories of student family income, and report only average net prices rather than ranges.[xviii] Lags in data reporting mean net price information is several years old (the most recent data as of this writing were from the 2022-23 academic year), which makes it less useful as prices can rise and financial aid award patterns can change. Moreover, net prices by family income are only reported for students receiving Title IV federal student aid, which excludes over 40 percent of undergraduates.[xix] These limitations mean that calculators based on the IPEDS net price data are of limited utility to students.

Federal law requires institutions participating in federal aid programs to host net price calculators on their own websites.[xx] These calculators may consider an institution's proprietary pricing algorithms when producing net price estimates, and they may be updated with real-time data on tuition charges and financial aid. But these net price calculators often require significant effort on the student's part to use. Some colleges ask prospective students about the remaining value of their parents' mortgage and the balance of their parents' retirement plan, along with other financial data that may be difficult for students and college counselors to retrieve on their own.[xxi] Financial aid professionals report that most students don't complete the pages and pages of queries these net price calculators require.[xxii] This makes it difficult to know the net price at any one institution, let alone compare prices across several college options. Moreover, many net price calculators yield ranges for possible net prices rather than precise estimates. The gap between "low" and "high" net price estimates can be $20,000 or more at some institutions, making it difficult to plan financially for educational expenses.[xxiii] Finally, net price calculators are not binding. Schools are still free to charge a higher net price than the calculator showed once the student actually applies to college and receives a financial aid offer. And there is nothing to stop institutions from raising net prices in later years.

Today's net price calculators are a far cry from the ideal world of transparent, comparable, and binding prices. Fortunately, Congress has unique power to improve price transparency in higher education.

Solutions to Price Opacity

There are several policies that could improve the state of price transparency in higher education. The below reforms range, in rough order, from incremental to more fundamental changes to the way college pricing operates in the United States.

Triple down on better data. Publicly available data on net prices, which largely comes from the National Center for Education Statistics, through IPEDS, is suboptimal for the reasons enumerated above. But the Trump administration is currently engaged in the Financial Value Transparency initiative, begun under its predecessor, to compel reporting of detailed, student-level data on net prices.[xxiv] The administration should publicly report this data wherever possible, taking appropriate steps to protect student privacy. Congress can help by officially authorizing the Financial Value Transparency data-collection efforts—or go further by creating a postsecondary student-level data system through the bipartisan, bicameral College Transparency Act.[xxv] While better data will not create full price transparency—even the best data will be reported with a lag—it will give students and families far greater insight into the typical net prices charged at different colleges. Students will therefore have some ability to compare net prices before they apply and can elect to avoid colleges that charge too much.

Standardized financial aid offers. When a family applies for a home mortgage, their bank must give them a standardized disclosure form listing key facts about the loan. Members of Congress have introduced various proposals to standardize financial aid offer letters as well, such as Senator Chuck Grassley's (R-IA) Understanding the True Cost of College Act.[xxvi] Standardized financial aid offers should list grants and loans separately, and include a clear net price that does not subtract out loans. Students who borrow ought to receive information about loan volumes, interest rates, origination fees, and estimated monthly payments. Where possible, students should also receive information about their expected earnings after leaving college, so they can judge whether the amounts they're borrowing are reasonable.

Four-year price guarantees. Students must attend college for multiple years to complete a degree—yet colleges have considerable power to hike prices after the first year. The College Cost Reduction Act, introduced last year by Representative Virginia Foxx (R-NC), would have required certain institutions to offer a "maximum total price guarantee."[xxvii] As a condition of some federal funding, colleges would be required to communicate upfront how much students would need to pay over the course of their entire degree program—not just the first year. This would bar institutions from raising prices later on in a student's college career and give prospective students certainty regarding the full costs of their education. The federal government would not directly set prices—but colleges would need to disclose the full price of their educational offerings upfront.

Binding net price calculators. While the federal government requires colleges to offer net price calculators as a condition of federal funding, it could go a step further and require these calculators to give precise and binding net prices to prospective students before they even apply. After prospective students submit their Free Application for Federal Student Aid (FAFSA), institutions would be required to use only this information to provide students with a maximum net price should they request one. The institution would have to honor this price should the student decide to apply and enroll. The federal government could also compile these estimates into a universal net price calculator in order to facilitate price comparisons across many institutions. While such a system would mark a significant departure from the way college pricing currently operates, such comparable, precise, and binding net price figures would make tuition far more transparent and encourage price competition between institutions, bringing down college costs for all students.

Conclusion

America's students deserve more transparency around how much they will pay for college. Unfortunately, the college pricing system is opaque, which hamstrings competition between institutions and leads to students paying more—and borrowing more—than they should. But through collecting better data, standardizing financial aid offers, and compelling institutions to offer binding estimates of net prices, Congress has the power to pull back the curtain on what students will really pay for college—leading to a virtuous cycle of competition that will bring down one of the most stubbornly high-cost consumer services in the modern economy.

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