ASPEN ECONOMIC STRATEGY GROUP
aspen institute

POLICY BRIEF
FEBRUARY 2025

Transparency in College Pricing: Still More Work to Do

Phillip Levine*

Confusion about college pricing is longstanding and persistent. Such confusion stems from the gap between the full cost of attendance, or "sticker price," and the lower net amount that many students pay after receiving need-based or merit-based financial aid awards. Media reports about college costs frequently cite full sticker prices, perpetuating misinformation and confusion about the actual cost to families.

Fewer students today pay the sticker price than in previous decades. As of the 2019–2020 academic year (the latest year for which data are available), only 26 percent of in-state students at public colleges and 16 percent of students at private, nonprofit colleges paid the full sticker price. For many students, financial aid lowers the price of attendance below that level. But even among higher-income students who are ineligible for need-based financial aid, in 2019–2020 only 47 percent and 28 percent paid the stick er price at public and private non-profit institutions, respectively; for rest of these students, merit-based aid lowered the cost.

Confusion about the cost of college persists despite developments during the past decade that have attempted to clarify how much different students will pay. A 2023 survey conducted by the Association of American Universities found that nearly half of US adults surveyed mistakenly think that universities charge all students the same tuition, regardless of family income. The Lumina Foundation-Gallup State of Higher Education 2024 study finds that less than one-quarter of US adults without college degrees could estimate—to within $5,000 of the actual figure—the annual net cost of a bachelor's degree from a public college.

This policy brief assesses recent efforts to improve transparency in college pricing and concludes that we still have a long way to go. Improving students' and families' understanding about college pricing will equip them to make informed decisions.

* Katharine Coman and A. Barton Hepburn Professor of Economics, Wellesley College

The need for transparency in a system with variable pricing

College pricing is complicated because the existence of financial aid (whether need-based or merit-based) means that different students pay different prices even at the same college. The process of determining the amount of that aid is opaque—and so, by extension, is college pricing.

The simplest solution would be to replace our current system with one where everyone pays the same price. That approach is obviously undesirable, though, since it would make college unaffordable for many lower-income students. Another simple solution would be to make college free to all students through public funding, like the existing US K–12 system of public education is. The obvious obstacle to implementing such a system is generating sufficient public revenue. For the purposes of this report, I set that potential scenario aside.

However, as a partial step in that direction, many colleges and universities have recently implemented free tuition programs for students from lower- and middle-income families. This move eases but does not solve the problem of nontransparent pricing. For one thing, "free" typically doesn't really mean free. Students still must cover living expenses under many of these programs. Many students may even find their expenses do not change when an institution adopts a free-tuition policy. In some respects, these policies may even be less transparent than the current system, as discussed further below.

A system of variable pricing makes economic sense, but it needs to be designed simply—so that students can understand it and make informed educational decisions.

How the system used to work

As recently as two decades ago, college prices at an individual level were a black box. Sticker prices were posted, but little detail regarding individual pricing was available. Prior to acceptance to a college or university, no pricing information was available. Only after a student was accepted in the spring would they receive a financial aid offer that told them, often in convoluted terms, how much they would need to pay.

Eventually, policymakers recognized the limitations of this system, and the federal government took steps to help. In 2007, the Department of Education introduced a tool called the FAFSA4caster, which has recently been recast as the Federal Student Aid Estimator. It enabled students to estimate the federal financial aid they would receive based on fewer financial inputs than current net price calculators typically require. It was limited, though, because it only included estimates of federal financial aid, like Pell Grants. It excluded financial aid provided directly by institutions, which plays a large role in lowering students' net prices at many four-year colleges and universities.

The Department of Education created additional tools to help promote price transparency. These tools include the College Navigator website, which was also introduced in 2007. It still exists, but it has been largely superseded by the College Scorecard, which launched in 2015. These sources provide extensive, useful data regarding colleges and universities nationwide, including fields of study, graduation rates, and the like. They also contain data on the average net price students pay at each institution. But these net price statistics have significant weaknesses:

- They are affected by the income distribution of enrolled students, which may differ across schools.
- They represent averages, when a median is a much better statistic for such purposes.
- They provide no pricing information for students whose finances are not "average."

Average net prices for students within certain income bands at specific institutions are also available, but those data are also limited by the use of averages. Plus, the income cutoffs on which they are based have not changed over 15 years, despite changes in the cost of living.

In 2008, Congress took an important step forward, enacting legislation to amend the Higher Education Act to require institutions to introduce net price calculators (NPCs) by 2011. In theory, these tools were intended to overcome these information gaps. Users would enter financial details that were less burdensome than those required for full, formal aid applications, and they would receive an estimated net price.

These tools improved transparency, but they had important limitations. They were often hard to use, requiring users to enter tax information that might not be easily accessible, for instance. Sometimes they were even hard to find on a college's website. They have not improved much in recent years.

Another important limitation of these net price calculators is that they provide a single, best estimate of the net price. But the financial details that users enter into an NPC are more limited than the details listed on a full financial aid application, so the actual net price a school charges may be higher or lower than the NPC estimate. Nothing in these tools captures the potential discrepancy between the estimated and actual net price. Staff in financial aid offices can attest to families' confusion generated by NPC estimates that don't end up matching ultimate financial aid offers.

These steps taken to improve the clarity of prices moved them out of a black box, but the light was still dim.

Developments over the past decade

More recent developments have further improved transparency. The most notable recent change in federal financial aid came with the introduction of "FAFSA Simplification," which was enacted in 2020 and rolled out in the 2023–2024 academic year. It vastly reduced the details that families need to provide when applying for financial aid. One improvement is a much easier process for transferring income data from the government's Internal Revenue Service database to the FAFSA.

However, implementation of the new policy was chaotic. The new system largely collapsed for technical reasons, preventing applicants the initial year from determining how much federal financial aid they were eligible for until very late in the admissions season. This problem was compounded by the fact that colleges rely on that information to generate their own financial aid awards using institutional resources. They were unable to do so without the FAFSA results. Overall, the first year of the policy didn't simplify anything.

While the initial rollout of FAFSA simplification wasn't successful, the idea behind the effort still has merit. It originated from calls many years ago for a financial aid application small enough to fit on a postcard, asking families to answer just a few questions. The goal was worthy—the complexity of the financial aid system hindered access; it needed to be simplified. But the postcard approach may have been unrealistic. The 2020 law settled on asking fewer questions than the old FAFSA had but more than would fit on a postcard. Still, a simplified form, once properly implemented, will facilitate application and students' knowledge of the federal financial aid to which they are entitled.

Unfortunately, even an easier-to-use FAFSA only determines the amount of federal financial aid a student will receive. How institutions respond in terms of modifying their processes for allocating their own aid is yet to be determined, limiting the impact on transparency.

The other recent major national effort at making college pricing more transparent is the College Cost Transparency Initiative (CCTI).[1] This effort—a collaboration among hundreds of public and private four-year colleges as well as community colleges—aims to simplify and standardize the information provided on financial aid letters. It originated as a response to a Government Accounting Office report criticizing that process.

The CCTI demonstrates that colleges and universities can work together to solve important, common issues. Improving these offer letters is a worthy goal. Providing a clear and uniform presentation of the exact price students will pay improves transparency by making it easier to compare prices across institutions. But this information comes only after a

[1] I served as a subject matter expert and member of the technical team for the task force that created this initiative.

student is accepted into college. It does not affect price transparency earlier in the college search process, which is critical if we are to improve college access.

Colleges and universities are also acting individually to do a better job of marketing their affordability than they have in the past. Use of the term "free tuition" is becoming common. It is designed to bring in students who would otherwise not consider an institution because they perceive it to be too expensive.

The University of Michigan's experience with the "HAIL Scholarship," first introduced in 2015, contributed to this trend. It promised free tuition to low-income students. Research showed that it led many more of them to apply to and enroll at the university. Free sells.[2]

Do such offers of free tuition improve transparency or provide misleading information? At Michigan, lower-income students received free tuition and some additional aid to cover some or all living expenses even before the HAIL program. The scholarship was purely a marketing device to convey the message of affordability, and it worked.

But not all institutions that market free tuition offer enough aid to cover living expenses, and lower-income students may need to pay thousands of dollars to live and eat on campus. For instance, the Excelsior Scholarship in New York offers free tuition to students with incomes under $125,000. But low-income students who can afford to pay very little to attend college are still expected to pay thousands of dollars per year in the form of living expenses to attend one of New York's public university centers. That reality may not line up with those students' perceptions of what free tuition means. It may actually harm transparency.

In 2017, in an effort to help provide simpler pricing information earlier in the college search process, I created MyinTuition Corp.—an independent nonprofit organization that provides students with a simple financial aid estimator, offering them a sense of their college costs along with a 90 percent confidence interval based on just a few financial characteristics, including annual income and the value of the most common asset types. It now serves dozens of colleges and universities nationwide.[3] They are largely private, highly selective institutions where lower-income students are underrepresented. MyinTuition still serves a small share of the higher-education market, though.

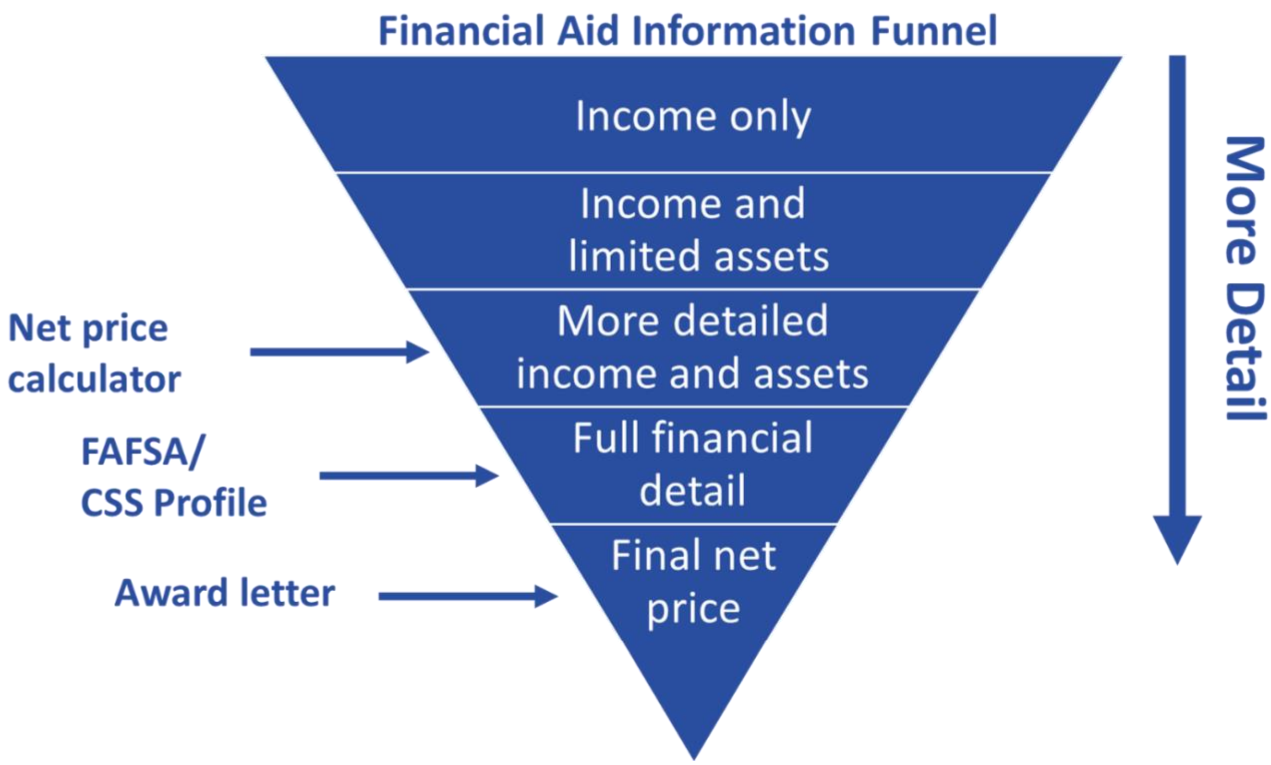
[2] That program has since been replaced with the "Go Blue Guarantee," which similarly offered free tuition to these students but also required a complicated application process. Direct-marketing efforts to promote that program beyond broader, publicly available information were not as successful. The authors attribute the greater success of the HAIL scholarship to the greater pricing certainty it offers.
[3] I am the founder and CEO of MyinTuition Corp.

Creating a "financial aid information funnel"

The preceding discussion raises the question: How should the financial aid system work to effectively communicate prices for individual students? In past analyses, I proposed a conceptual framework akin to a college admissions funnel. In that context, the idea is to start off with a wide mouth at the top of the funnel that attracts a lot of students and then narrow the pool step by step.

First, schools send students information to help them choose where to apply; then students submit information to those institutions; eventually, a class is enrolled.

Regarding college pricing, I described the concept of a "financial aid information funnel." The top of the funnel is designed to provide cost estimates to many students as easily as possible. Users would enter minimal financial information—perhaps just their annual family income. Based on that information, they would receive an initial ballpark estimate, accompanied by a reasonably wide margin of error. This step would start the process and make clear that—for most students—the sticker price is unlikely to be the relevant price.



To narrow this funnel at the next stage, students and families would provide limited additional financial details, like the value of their stocks and bonds along with their cash in the bank, so that institutions could provide more-precise aid estimates. A net price calculator would come next. It might require families to enter some information from their tax forms, but the estimate would improve again. Finally, they would complete formal financial aid applications, including the Federal Application for Financial Assistance (FAFSA) and, for some schools, the CSS Profile (an additional financial aid application administered by the College Board and used by some colleges). Students would then receive official financial aid award letter(s) from the school(s) they applied to, indicating the actual net price they would pay if they enrolled.

Students and families may be willing to invest more in providing those greater details if college prices consistently fall within a range they are able and willing to pay. The idea is to move them slowly through the system without inadvertently closing any doors along the way simply because of misperceptions about price.

Where do we go from here?

College cost transparency remains a topic of concern among policymakers. No new laws have been enacted in the past few years, but there has been considerable legislative activity. For instance, Representative Lisa McClain (R-MI) introduced the College Cost Transparency and Student Protection Act (HR 1311) in 2023. It would largely mandate the voluntary activities that hundreds of colleges and universities adopted by participating in the College Cost Transparency Initiative to unify the content of financial aid award letters. The same year, Representative Brett Guthrie (R-KY) revived a previously proposed Net Price Calculator Improvement Act (H.R. 1214) to address some of the shortcomings of the earlier net price calculator mandate. Unfortunately, both proposals maintain a focus on the bottom of the financial aid information funnel, when the central impediments to transparency in college prices lie at the funnel's wide top.

There is still interest, though, in an upward expansion of the funnel. MyinTuition recently introduced an "instant net price estimator" that requires families to enter only their family income as part of interactive online tool specific to the host institution. It provides ballpark estimates of a school's net price accompanied by a sizeable range, acknowledging the imprecision of estimates based solely on family income. But it quickly conveys that the sticker price is not relevant for most families. This estimator is currently available at Washington University in St. Louis, with expansion to other colleges planned by the fall. This new tool isn't a complete solution to the college cost transparency conundrum, but it is a step in the right direction.

Substantive steps to provide pricing information at the top of the funnel are necessary to help solve the lack of transparency in college pricing. Not only would such efforts improve the decision-making of prospective students, they would also have broader social benefits. Currently, the media struggles to accurately represent what students can expect to pay for college. Policymakers may be similarly confused, making it difficult for them to incorporate pricing realities into debates on new legislation related to college access. The ability to quickly and easily communicate to these audiences with a more realistic estimate of the prices that colleges charge, and to whom, would be beneficial.

College may not be right for everyone, but one critical component of the decision to attend is its cost. If students do not even begin to explore college affordability, how can they make well-informed decisions? We need to provide a better path for them to begin to learn what those costs might be earlier in their college decision-making journey.

About The Author

Phillip Levine
Katharine Coman and A. Barton Hepburn Professor of Economics Wellesley College

Phil Levine is Katharine Coman and A. Barton Hepburn Professor of Economics at Wellesley College, a research associate at the National Bureau of Economic Research, and a non-resident Fellow at the Brookings Institution. He has also served as a senior economist at the White House Council of Economic Advisers. Phil received a BS degree with honors from Cornell University in 1985 and a PhD from Princeton University in 1990. He has been a member of the faculty at Wellesley since 1991. He has written dozens of journal articles and five books devoted to the statistical analysis of social policy and its impact on individual behavior. His most recent book, A Problem of Fit: How the Complexity of College Pricing Hurts Students – and Universities (University of Chicago Press) analyzes the system of pricing in higher education and ways that we can change it to improve access. Levine is also the founder and CEO of MyinTuition Corp., a non-profit organization that supplies a vastly simplified financial aid calculator to dozens of colleges and universities.