

## Tuition Discounting in Unprecedented Times

*As the pandemic drives more students to independent schools, business officers need to focus on big-picture strategies for tuition policies and other factors.*



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**T**his past spring brought us many news stories about the rise in applications to independent schools as a result of the pandemic. One standout story focused on Florida independent day schools that received a sudden bump in applicants from families outside the state — particularly from the Northeast. Given the frustrations with the prospect of full-time distance learning in public schools in the 2020-21 school year, families were ready to do something they never imagined — move to Florida so their children could enroll in independent schools that remained opened for in-person learning.

At Palm Beach Day School, 47% of all new students in 2020-21 came from New York City and surrounding suburbs. Applications shot up 140% from March to September 2020. St. Andrew's School in Boca Raton saw a similar increase, with 12% of all new students coming from the Northeast. Other Florida independent schools did not give out enrollment numbers, but many noted that they were at full capacity with more inquiries coming in.

A second news story focused on the rise in applicants to boarding schools for the 2020-21 school year, for similar reasons. Many boarding schools remained opened this past academic year and developed protocols to create social bubbles so students could return to in-person school and be as safe as possible. Families that had never considered boarding schools suddenly saw them as an excellent option for their children.

Western Reserve Academy, a prime focus of an article in *The New York Times*, saw a 20% jump in applications for the 2020-21 school year. During the summer of 2020, the school admitted 53 additional students (compared to 17 the prior year) and added eight more transfer students during the year. Other boarding schools saw a similar rise in applicants. According to the article, 36% of New England boarding schools reported an increase in students in a year in which the same schools lost many international students.

As one head of school noted, "It's a different world."

Not all independent schools saw such an increase. Schools in New York City and other urban areas, for instance, lost students this past year as families with means left the cities. But according to the National Association of Independent Schools (NAIS), 58% of independent schools reported an increase in interest between the summer of 2019 and the summer of 2020. Clearly, the combination of in-person classes, high-quality distance-learning programs with low teacher-student ratios, and the overall excellence and safety of independent schools drew families the schools might not otherwise have attracted.

As we shift our focus to the fall of 2021, we hope the schools that were able to grow their enrollment can retain their students post-pandemic, and that schools that lost students will regain them as life returns to some version of normal.

While these stories confirm the value of independent education, it's important to remember that pre-COVID-19, independent schools had long faced significant challenges related to rising tuition. As independent schools start to map out their 2022-23 tuition plans this fall, it's great to know that families value what our schools offer.

### **A SLIPPERY SLOPE?**

But we encourage schools not to see the pandemic-driven surge in applicants as an opportunity to let down their guard. To strengthen our market position, ensure our financial health, and meet our missions, we need to keep an eye on the tuition-related data and what that indicates for tuition setting and tuition discounting policies.

For the past 20 years, the independent school community — and private higher education — has felt enormous pressure to develop strategies to attract and retain families as tuition prices have outpaced the cost of living.

As with top colleges and universities, the quality of independent schools remains clear, but tuition costs are high and continue to grow while families' ability to pay has not kept pace. A particularly important marker of these tuition-driven pressures is the parallel rise in tuition



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discounting. This includes financial aid, merit aid and scholarships, and tuition remission, and is an area that needs particular attention.

The 2021 the National Association of College and University Business Officers (NACUBO) Tuition Discounting Study reveals that the tuition discount rates at private colleges reached a record high just before the pandemic. According to the study, 361 private, nonprofit colleges and universities reported an estimated 53.9% average institutional tuition discount rate for full-time, first-year students in 2020-21, and 48.1% for all undergraduates.

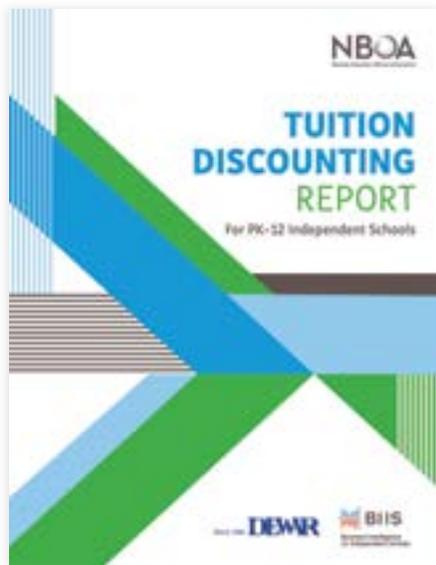
In other words, by providing such discounts and scholarships, these institutions gave up about half the revenue they otherwise would have collected. Both these percentages are record highs. Between 2010 and 2020, tuition discounting for first-time undergraduates at private colleges and universities rose from 42% to 52.6%. Another study indicates that 85% of undergraduates at four-year colleges and universities receive some form of discount.

As with independent schools, tuition discounting at private colleges and universities is the main strategy employed to attract and enroll a full complement of students, but the NACUBO survey makes it clear that this practice is “not a fail-safe solution.” After adjusting for inflation, net revenue from tuition and fees at the college level fell by 1.3% over the past four years.

“Even before the COVID-19 crisis, private colleges and universities were significantly discounting tuition and fees, and some institutions were struggling with enrollment and net revenue,” said Ken Redd, senior director of research and policy analysis at NACUBO. “The study provides an important historic benchmark to consider as we head into an unprecedented era in higher education finance.”

## DATA-DRIVEN TUITION POLICIES

Inspired by the NACUBO study, we've conducted our own NBOA survey of tuition discounting in independent schools. The 2021 NBOA Tuition Discounting Report for PK-12 Independent Schools, analyzing data from 176 member schools, was published last month and is available for download at [NBOA.org/tuition](https://www.nboanet.org/tuition).



Generally, we know rising tuition at independent schools has outpaced the ability and/or willingness of full-pay American families to invest in our missions. As with our counterparts in higher education, we are steadily increasing tuition discount rates to continue to attract families.

Our numbers, thankfully, are better than those of higher education. While their discounts have climbed over 50%, collectively, ours have risen 18%. Still, the current practice of offering tuition discounts is showing its harmful effects on our annual budgets and long-term financial projections. And the rate of tuition discounting is trending up; 68% of surveyed schools said their tuition discount has increased over the past three years.

The problem, of course, is that by offering more discounts to more families, we're putting more pressure on fundraising, endowments and alternative revenue sources to cover tuition losses. Our research indicates schools, with some exceptions, are already suffering from these practices, both in the short and long term.

There is some good news. Mark Mitchell, vice president at NAIS and recently elected member of the NBOA Board of Directors, points out that during the past decade, independent schools have done a much better job of keeping tuition increases at a manageable rate of 3% to 4% per year. However, the concomitant rise in tuition discount rates makes it clear that our schools' success depends on paying very

close attention to the related data and key markers of change.

There is no end to the debate about the expense of private colleges and universities or the cost of an independent school education. The decisions schools make depend in large part on both mission and school-specific issues.

## CONSIDER THE BIG PICTURE

What matters, however, is that all schools engage annually in high-level discussions about tuition setting and tuition discounts. At NBOA, one of our goals is to track the related data nationally. We also encourage individual schools to get in the habit of studying this data and benchmarking their tuitions and tuition discounts regionally and nationally.

Mitchell points out that schools tend to focus too intently on internal factors. They relate tuition primarily to matters such as teacher pay and benefits and programmatic needs (such as funding for additional STEM facilities and classes). “But it's best to balance the internal with the external factors — understand the specific dynamics at play in your school,” he said. In other words, creating benchmark data and identifying the markers of pressure on tuition rates are essential to the long-term health of our schools.

Every once in a while, we'll read that the independent school model, like the model in higher education, is “broken.” Perhaps. Perhaps not. It's certainly under enormous pressure. For independent schools, a key lesson from 2020-21 is that families and children want to attend in-person programs in high-quality schools. To this end, the past year is an important reminder of the value of our collective work.

From a business perspective, our job is to build a comprehensive, responsive tuition plan that maximizes the long-term health and missions of our schools. Along the way, we need to understand the pressures that challenge us from meeting these goals. One key marker is our tuition discounting rates. We plan to pay close attention and hope you will, too. **N**