

Differential Tuition

Varying Tuition Rates by College, Program, Major, Modality, or Level

Differential tuition is the purposeful variation of undergraduate tuition rates by program, course, course level, modality, or residency. This pricing model recognizes the differences among programs' operational costs and audiences' willingness or ability to pay.

At its basic level, most institutions already have some type of differential tuition (e.g., charging higher tuition rates for out-of-state students than in-state, course fees). Increasingly, however, institutions are further differentiating price by charging different rates for different programs based on their costs or what students are willing and able to pay.

There are multiple ways institutions can implement differential tuition based on the academic college, program, or major in which a student is enrolled. Each of these methods (tuition, fees, or financial aid) comes with advantages or disadvantages that become more pronounced as the amount of the differentiation grows. As colleges and universities struggle to realize the net tuition revenue gains needed to cover costs, and the returns of basic discounting diminish, differentiating price by academic area is one of the last levers administrators have to pull.

EAB's First Take

Differential tuition as a pricing strategy is still evolving, but EAB expects more institutions to pivot to this model.

The following guidance represents EAB's understanding and recommendations of differential tuition to date.

Methods of Differentiation and Potential Drawbacks



Academic College

Dependent on the college in which students enroll



Program

Applied at program level (e.g., engineering vs. English)



Major

Certain majors within programs cost more



Course

Applied at the course level (e.g., fee for any business class)



Level of Student

Higher rates for upper levels



Modality

Different rates for face-to-face and online courses

Steering Low-Income Students Away

Students may be forced to choose program based on cost, resulting in fewer enrollments among low-income students in higher priced programs. This may force low-income students to choose majors they can afford.

Perceived Devaluation of Programs

Students may perceive programs that are less expensive as less valuable in terms of post-graduate job prospects, potential earnings, and academic program quality. In contrast, students may expect higher-cost programs to provide greater value in terms of ROI and program quality.

Administrative Complications Abound

Administrators must maintain multiple tuition plans and more complex tuition planning models. Meanwhile, current and prospective students may struggle to calculate and understand the different tuition rates.

Accounting for Demand and Costs to Maximize NTR

How Differential Tuition Helps Achieve Institutional Goals



1

Maximize tuition revenue by leveraging market demand for programs

Some programs, such as business and engineering, are in higher demand among students and employers than others. This can allow institutions to charge more for these degrees without hampering enrollment. Students may also be willing to pay more for a program that gives them a greater likelihood of a high starting salary.

2

Self-sustain programs with high operating costs

Certain programs are more expensive to provide than others because of either costly equipment, expensive faculty, or small class sizes. High-cost programs, coupled with additional funding pressures elsewhere, can be difficult to fund from general tuition revenue alone. With differential tuition, however, programs that require additional funding can generate additional revenue to cover the costs. As a result, high-cost programs do not need to rely on subsidization from programs with lower operating costs.

3

Reallocate revenue toward new and expanded programs and services

By benefiting from students' higher willingness or ability to pay for popular programs, differential tuition allows institutions to invest in student services (e.g., professional development), program expansion, or new programs altogether to better meet student demand.

4

Cross-subsidize lower-demand but mission-critical programs

Programs with lower demand can struggle to cover all their costs. The additional money raised through differential tuition can help keep these programs afloat. Differential tuition may even allow institutions to lower tuition in low-demand programs to generate more enrollment.

Pre-Implementation Analyses

Determining the Need for and Implications of Differential Tuition

1 — Need/Fit

	Yes	No
We need to generate more net tuition revenue	<input type="checkbox"/>	<input type="checkbox"/>
We already do financial aid optimization	<input type="checkbox"/>	<input type="checkbox"/>
We have not been able to generate more net tuition revenue per capita	<input type="checkbox"/>	<input type="checkbox"/>
Strong demand is concentrated among a few programs and at our institution	<input type="checkbox"/>	<input type="checkbox"/>
Those high-demand programs have high cost of instruction and/or are more highly remunerative than others	<input type="checkbox"/>	<input type="checkbox"/>
Decreased state funding has made it difficult to meet certain program costs	<input type="checkbox"/>	<input type="checkbox"/>
We lack the resources to invest in new programs within high-demand fields at our institution	<input type="checkbox"/>	<input type="checkbox"/>
Our lower-cost programs can no longer subsidize our higher-cost offerings	<input type="checkbox"/>	<input type="checkbox"/>

2 — Feasibility

	Yes	No
We have students willing and able to pay higher prices for certain programs because they see the high potential return on their education (e.g., promising job outlooks or high starting salaries)	<input type="checkbox"/>	<input type="checkbox"/>
There is enough student and employer demand for certain programs at our institution that students won't balk at increased rates	<input type="checkbox"/>	<input type="checkbox"/>
We have sufficient aid mechanisms to subsidize the cost of higher-cost programs for low-income students	<input type="checkbox"/>	<input type="checkbox"/>
We have the plan for a transparent planning and implementation process	<input type="checkbox"/>	<input type="checkbox"/>
We have the control to keep all differential tuition rates abundantly transparent to students once implemented	<input type="checkbox"/>	<input type="checkbox"/>

Implementation Guidance

Program and Rate Determination



Differentiate Tuition by Program

In general, institutions should differentiate tuition by program or college rather than by specific major or course. It can be easier to justify different rates under this model because the student experience is more noticeably different by program than it is by major or course. In making this decision, administrators should consider:

- **Equipment Costs:** Equipment for chemistry or engineering programs, for example, is typically more expensive than typical classroom equipment
- **Faculty Salaries:** Faculty who teach specialized courses often have job prospects outside of education, requiring institutions to entice them with higher salaries
- **Class Size:** Fields such as nursing often require smaller course sizes, which necessitates higher spending on faculty and staff for these programs
- **Job Outlooks:** Students in fields with growing job prospects are often willing to pay higher tuition knowing they will find employment soon after graduating



Consider More than Just Cost and Demand When Determining Tuition Rates

Administrators must weigh several other factors that may adjust actual program cost to students. While the extent to which these factors inform an increase or decrease in proposed rates depends on institutional context, leadership should consider:

- **Rates at peer institutions:** Ensure your campus is in line and competitive
- **Student loan debt load:** Consider projected student debt burden of certain programs in finalizing differential pricing
- **Graduate salaries:** Graduates of programs with higher starting salaries are often willing to pay higher tuition knowing they will have a higher return on investment



Roll Differential Fees Up into Differential Tuition

Tacking on multiple fees (e.g., technology, program-specific, enhancement) for certain programs can both confuse and irritate students. This may facilitate a sense of distrust among students. Avoid this by rolling fees up into differential tuition.

Implementation Guidance

Control and Revenue Allocation



Central Control vs. Decentralized Control

Central management of differential tuition may help institutions mitigate certain issue posed by differential tuition (e.g., complexity, equity), while still allowing for revenue to be reallocated to support costs of the programs or colleges the model is intended to support.



Revenue Reallocation

Administrators should establish clear formulaic processes for how revenue flows back to specific programs (e.g., central administration takes the base-level tuition and the difference between the base and the differential is kept by the individual colleges). Revenue should be allocated to program-specific instructional costs (i.e., equipment and salaries), program improvements, and financial aid.

Prioritize Transparency



Keep Students Informed Throughout Planning to Increase Transparency

Planning and implementation should involve extensive communication with students to avoid overwhelming them with a daunting matrix of fees. Institutions can achieve this by:

- Consulting student governance groups, holding general open meetings, and identifying discipline-specific student organizations with heavy involvement from students in affected programs
- Making specific, transparent plans for how additional revenue will be used (e.g., upgrade equipment, support student services, launch programs)



Clearly Outline Differential Tuition for Current and Prospective Students

Differential tuition can make it difficult for prospective students to know what their bill will be until they enroll or even until they declare a major. This makes it difficult to communicate to a student what they will pay for college unless they know very specific details that may not be finalized for several semesters (e.g., major). To mitigate these issues, institutions should:

- Centrally and publicly outline supplemental tuition charges where current and future students can compare the cost of different programs
- Limit the number of ways by which tuition is differentiated (e.g., by program, modality, course)

In some cases, mock bills and price calculators may help students predict their costs. However, if a net price calculator requires too many scenarios (e.g., classes, modality), it can be impossible for students to use it effectively.

Source: EAB interviews and analysis.

Implementation Guidance

Student Equity



Implement and Maintain Mechanisms to Support Low-Income Student Access

Differential tuition models risk shutting low-income students out of high-demand and potentially highly remunerative programs by making the cost of tuition too high, forcing them into lower-cost programs. That alone, however, should not prevent institutions from implementing differential tuition policies because the risk can be mitigated. In fact, maintaining a single-rate tuition policy can still hurt equity because students in lower-cost majors end up subsidizing the tuition for students in higher-cost majors. Institutional leaders should support low-income students through need-based scholarship opportunities to ensure they have access to more expensive programs, and communicate this clearly to prospective students.

Restrictions



Impose Barriers to Restrict “Gaming” of the System

Students can avoid some additional costs under differential tuition models by enrolling in a lower-cost program for the first few years before switching majors (e.g., clearing certain pre-med credit requirements through the College of Arts and Sciences before switching to courses offered by the medical school). Administrators should implement systems to limit this phenomenon while still maintaining flexibility for students with extenuating circumstances (e.g., a requirement that at least a certain number of credits be obtained through the college in which a student’s major is declared).