REVIEW OF TUITION STRATEGIES FOR THE UNIVERSITY OF CALIFORNIA

Last year, UC President Janet Napolitano called upon the University to develop a tuition plan that would keep tuition “as low as possible, and ... as predictable as possible.” In developing a plan, the University considered many different approaches to setting tuition and evaluated their potential impact on students, families, and the University.

The resulting strategy – the University’s long-term plan for tuition and financial aid stability – reflects a unique combination of features not found in any other strategy. These features include:

- **Stability** – Predictable tuition levels for both new and continuing students
- **Shared Responsibility** – Provisions for reduced tuition levels if the State provides adequate resources
- **Affordability** – A strong, sustained commitment to financial aid
- **Clarity** – Provisions that are easily understood by students and parents, and that campuses can administer with as little administrative overhead as possible
- **Fairness** – Terms that apply to all students at every campus and in every major

The University considered the alternative approaches described below, some of which have been implemented by other public and private universities. Each, however, had shortcomings that would have disadvantaged future generations of UC students and their families.

**DIFFERENTIAL UNDERGRADUATE TUITION BY CAMPUS, MAJOR, OR STUDENT LEVEL**

Universities can – and often do – charge different levels of undergraduate tuition to students in different circumstances. Several public and private universities charge different rates to different categories of undergraduates, and most public university systems charge different rates to students attending different campuses. The rationales for these strategies are not always consistent, but they typically include some or all of the following:

- prospects for higher tuition revenue by charging more for majors or campuses that are in high demand by students;
- recognizing different instructional costs for students in different majors, at different campuses, or at different stages of their education; and
- acknowledging higher potential future earnings for students in certain majors or from certain campuses, which should enable those students to pay more than others for their undergraduate degree.

Adopting differential tuition at UC would represent a significant departure from UC’s historic approach to tuition-setting and raised several concerns:

- UC has long believed that students should choose between campuses and majors based on their interests, talents, and “fit” – not cost.
- UC charges a systemwide tuition rate for what is intended to be a similar, equally excellent instructional program at every campus. Any real or perceived stratification of campuses caused by different tuition levels could fundamentally alter the nature of UC as one university.
- Charging higher tuition for upper-division students (a common practice elsewhere) would disproportionately impact transfer students.
• Prospective students and their families would have a harder time estimating the cost of attending UC, since tuition could vary based upon many different factors (campus, major, etc.).
• UC tuition remains below the average of its public comparison institutions, suggesting there is remaining opportunity for modest increases at every campus, benefitting all campuses equally.
• State-funded Cal Grant awards may not cover tuition differentials, and implementation would need to take into account how UC would continue to meet its financial aid goals.

COHORT-BASED TUITION PLANS

To address concerns about unpredictable tuition increases for continuing students, the University examined cohort-based tuition models that provide entering undergraduates with a preset tuition schedule for four years. Year-to-year increases in tuition charged to new students vary to meet the institution’s changing budgetary needs. Under such models, students who remain enrolled beyond four years are typically assessed the same tuition paid by incoming students, which is generally higher – providing an incentive for students to graduate within four years.

Under this approach, predictability is improved for continuing students only. Locking in current tuition levels for continuing students could result in larger tuition increases and more volatility for new students. Since continuing students would be promised a fixed tuition schedule, any revenue required beyond that amount would have to be generated by those students who are subject to the “new” student rate – i.e., new freshman and transfer students, along with students who are enrolled for more than four years.

Other concerns include:
• As with differential rates plans, prospective students and their families would have a harder time estimating the cost of attending UC, since tuition could vary greatly from cohort to cohort.
• A cohort-based plan could raise concerns about equity, since two students taking the same class and taking advantage of the same student services could be paying significantly different tuition rates based upon when they first enrolled.

The proposed tuition plan takes advantage of the central benefit of cohort-based plan – the predictability of tuition level – but avoids the equity challenges noted above.

REPLACING TUITION WITH A TAX ON ALUMNI EARNINGS/PAY-IT-FORWARD

Proposals to replace tuition and other charges at public colleges and universities with a tax on students’ postgraduate earnings have emerged in various contexts. For example,
• In 2012, a group of UC Riverside students called FixUC developed a “Student Investment Proposal” that called for replacing UC tuition and on-campus housing charges with an income tax paid by UC alumni for 20 years after graduation.
• In 2013, the Oregon state legislature unanimously passed a bill calling for an official study of such a plan, referred to as “Pay It Forward.” Several other state legislatures have considered or passed similar bills.

While innovative, such models raise conceptual and operational issues that limit their viability as practical funding strategies for the University. For example:
• Collecting the “alumni income tax” and administering the program would be extremely difficult, while the proposal would also be difficult for colleges to explain to students.

• Low-income students – like their higher-income counterparts – would be expected to set aside 5 percent of their postgraduate earnings to finance their education, in addition to repaying the student debt they would likely have incurred to cover costs other than tuition.

• UC would stop collecting tuition and on-campus housing revenue from successive cohorts of entering students for several years before it could begin to recoup revenue from those students as they graduate, creating a significant cash-flow problem.

• UC’s financial risk would increase as UC’s budget, like that of the State, would become highly dependent on a single factor: personal income.

Higher annual borrowing limits for existing federal student loan programs would provide many of the same advantages as the proposals described above while avoiding many of the disadvantages. Students at every income level could choose to enroll with no up-front tuition payments, and loan repayments would be kept at a manageable level. (The new “Pay As You Earn” repayment plan is now available for most U.S. federal student loans.)