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Subject: Cohort-based Tuition Models

A cohort-based tuition model, also referred to as a guaranteed tuition, tuition lock or fixed-rate tuition model, is a form of tuition policy in which a cohort of matriculating students pays a fixed rate of tuition for some specified period of time (typically four years for public universities). Under this model, the institution estimates the total amount of tuition revenue needed for a fixed period of time, and then spreads that cost evenly over that same period. Year-to-year tuition increases charged to each new cohort vary in response to the institution's changing budgetary needs. Most often, the plans cover only tuition for entering freshmen for four years; however, some plans cover mandatory fees and/or room and board, additional years beyond four, or have been offered to transfer, out-of-state and/or graduate students.

Cohort-based tuition models are still in the exploratory stage. According to the U.S. Department of Education's IPEDS data, out of 320 institutions that were offering guaranteed tuition rates in 2014, only 33 were public four-year colleges and universities (with the for-profit sector accounting for the bulk of the remainder). Public four-year universities currently offering cohort-based tuition include the University of Colorado, the University of Kansas, Western Oregon University, and George Washington University. The state of Illinois is currently the only state to enact guaranteed tuition legislation applying to all in-state students at public four-year institutions; however, both Texas and Oklahoma have required all public universities to offer incoming students the option of a fixed tuition payment plan for four years. Other institutions, such as the University System of Georgia and Central Michigan University, offered guaranteed tuition plans in the past but have since discontinued their programs. Others, such as Western Oregon University, have modified their programs since their inception (more information under "Further Thoughts," page 2).

The remainder of this brief describes observed effects of cohort tuition models on both students and institutions.

Effects of Cohort-based Tuition Models on Students

While cohort-based tuition plans may not reduce the actual cost of attendance—and in some documented cases, they have actually increased costs—the predictability of future tuition rates may allow for better financial planning for students and their families. That said, as most cohort-based tuition plans do not include a guarantee for course fees and room and board, students could still be presented with significant unexpected expenses from year to year.

A fixed rate of tuition for a limited period of time (e.g. 4 years) may also have a positive impact on time-to-degree, by incentivizing students to complete their education faster than they might otherwise in order to avoid higher new rates. However, according to a 2014 report authored by Sandy Baum of The Urban Institute and George Washington University, Marie McDemmond, president emeritus at Norfolk State University, and Gigi Jones with the U.S. Department of Education Institute of Education Sciences, there is no evidence that these plans actually affect retention or graduation.

Because institutions are assuming the need for additional funds in future years, but since tuition for each cohort of students is fixed, students will typically pay more in their first two years than they would under a traditional model, but this is balanced by students paying less than they would have otherwise during the last two years. This becomes a disadvantage if a student leaves an institution after a year or two and doesn't realize the "savings" of the second two years. Students who do not graduate before the tuition guarantee expires may also face large jumps in tuition costs when they become subject to the "new" student rate.

Under the cohort-based tuition model, the effects of increasing costs are necessarily borne almost exclusively by incoming students. Locking in a tuition rate for continuing students leaves institutions with one option – to increase (perhaps significantly during a financial crisis) tuition for incoming students – which could raise concerns about equity, as two students taking the same class could be paying significantly different tuition rates depending upon when they enrolled.

Effects of Cohort-based Tuition Models on Institutions

If an institution were to have stable sources of external funding and consistent enrollment numbers, the predictability of fixed tuition rates could make financial planning easier from an institutional perspective. However, since most institutions experience inconsistent enrollment numbers and face variable state appropriations, investment returns, and private support, cohort tuition models can threaten an institution's ability to respond to changing circumstances and short-term budgetary needs. In some cases, this has proven dire: Illinois's twelve public universities (which all have cohort tuition models) were unable to raise tuition rates during a nearly year-long state budget standoff that halted the provision of state funding to the institutions. As a result of the situation, Chicago State University was forced to cut its school year short in the spring of 2016, and Moody's Investors Service downgraded the credit rating of three state universities. To safeguard against these types of situations, an institution could theoretically set a high fixed tuition rate that buffers the institution from unexpected revenue losses. However, this strategy would likely face opposition from students, families and legislators, and could be limited by state-level tuition policies.

While the financial constraints of a cohort tuition model cannot be ignored, an institution that implements such a model using relatively competitive tuition rates could experience an increase in student demand. The promise of affordable and stable tuition rates might attract more students to an institution, which would allow the institution to be more selective with its admissions and would potentially provide more enrollment stability. This, in turn, could help the institution attract (and retain) higher quality faculty and staff.

Further Thoughts

It is worth noting that a number of institutions that previously offered a cohort-based tuition plan have since discontinued or modified them. As mentioned previously, the University System of Georgia and Central Michigan University are among those who discontinued the plans after implementation. Georgia cited decreased budget flexibility and necessary budget reductions as the cause, and CMU ended its plan due to uncertainty regarding state funding. Western Oregon University (WOU) opted to continue its fixed tuition program (in effect since 2007), but made modifications to it in the face of decreasing state appropriations. In addition, WOU reinstated a traditional tuition plan that had been eliminated in 2011; students may now choose between the two.

Further, student demand, in at least some situations, has also been questionable. In Texas, where in 2014 all public universities were required to begin offering incoming students the option of a fixed-rate tuition plan for four years, the number of students choosing the plan ranged from zero at some universities to roughly half of incoming freshman at the University of North Texas (whose plan also offered students a rebate of up to $4,000 if they graduated on time). Some students may find that "frontloading" the cost of their education isn't possible at the time they enroll due to their financial situation, or may feel the plans are too much of an overall risk.

Again, some students likely appreciate having a fixed-rate option when it comes to paying for their tuition. However, diminishing the risk to either the student or the institution under this model invariably increases the risk to the other, and its implementation should be carefully considered.

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