Can We Afford Higher Education?

By Betsy Amster

The 1974 New Yorker cartoon says it all. “Good day, madam,” announces the middle-aged salesman, tipping his hat to the housewife at the door. “I’m working my son’s way through college.”

More than a decade ago, when that cartoon was first published, a Syracuse University education—including tuition, room and board, and related expenses—cost roughly $4,000 a year. Today, that figure is closer to $15,000.

That increase is, in fact, comparatively modest. Other schools of similar stature have fared less well in the effort to keep prices down. Resident students will spend, for example, approximately $17,000 this year at Northwestern University, $17,400 at Cornell, $17,850 at Boston University, and more than $18,000 at Columbia.

In the last seven years, the cost of a college education has begun to rise more quickly than the inflation rate, reversing the pattern of the 1970s. Based on present trends, it is estimated that 18 years from now—when today’s newborns reach college age—one year of higher education may well set them and their parents back $36,000.

To explain the rapid run-up in fees, college administrators cite steep increases in insurance rates, faculty salaries, utilities, equipment costs, and student financial aid and a precipitous drop in grant and scholarship aid from the federal government. In their own defense, they cite studies showing that college costs have risen no faster over the past 15 years than medical care, energy, or the price of a new house.

But the fact remains that most parents and students find a college education one of the most expensive purchases they will ever make. According to Joseph V. Julian, vice president for alumni relations at SU who, as a staff associate of the Kettering Foundation, has researched the national implications of student debt, “A family that has to educate two kids will probably pay more in college costs than the value of their real property.”

Why College Costs So Much

Inevitably, the question of whether colleges and universities are “greedy” (as Secretary of Education William Bennett claims) can’t
help but arise in the public mind. College administrators counter that charge by pointing to the astronomical increases in fixed costs that colleges must cover—costs that bear no relation to the Consumer Price Index.

According to the Commission on Independent Colleges and Universities (CICU), though the Consumer Price Index (CPI) increased by 110 percent between 1974 and 1984, student financial aid rose 230 percent, nonprofessional wages rose 300 percent, social security tax rose 300 percent, health insurance rose 300 percent, equipment costs rose 200 percent, and utilities rose by 300 percent. These are all conditions that affect college campuses particularly.

In the last six years, faculty salaries have gone up dramatically. Such increases have been necessary, college administrators feel, for colleges to stay competitive with nonden educational employees, especially where technical and business faculty are concerned.

Faculty raises compensate for years of inadequate adjustments during the late 1970s—the era of double-digit inflation. As the CICU points out, the purchasing power of faculty salaries dropped by 28 percent between 1974 and 1981.

“Since 1981,” according to the commission’s report, “independent colleges have raised faculty salaries by an average of $8,361, almost $3,000 beyond the Consumer Price Index per faculty member. Despite these dramatic salary increases, faculty salaries for the decade continue to lag behind the CPI by $940 per faculty member.”

In the same period, equipment expenditures have become more and more burdensome, not only because increasingly sophisticated equipment requires colleges to reach deeper into their pockets but because the federal government is no longer willing to foot as much of the bill. Where the government once picked up 30 percent of the tab for college research and development equipment, today it is willing to pay only 12 percent. Such a withdrawal of support, according to the CICU, leaves colleges “mostly on their own in narrowing the technological gap between themselves and industry.”

Federal financial aid has also leveled off, leaving colleges and their private supporters holding more of the bag. Between the 1981-82 and 1985-86 school years, according to the CICU, independent colleges increased their spending on financial aid by 300 percent, from $904 million to $3 billion. But even an increase of that order cannot close the gap between what a college education costs and what students and their families can pay. According to Frank S. Saurman, SU’s director of financial aid, Syracuse alone administers more than $50 million a year in financial aid from federal, state, and university-based sources—an impressive sum, but one that falls short of students’ aggregate need by about $25 million.

**The mix of public and private aid that makes higher education possible is changing.**

The type of federal aid available to students and their parents has changed, as well. “Seven years ago, about two-thirds of the financial assistance that we administered was in the form of grants or scholarships,” says David C. Smith, dean of admissions and financial aid at SU. “Today, it’s a little less than half.”

That’s because the Reagan administration has moved loans center stage and cut funding for grants that don’t have to be repaid. Says Julian, “The new fact of life confronting middle- and low-income students at private and public colleges alike is that the big-ticket item in their financial package is going to be the guaranteed student loan.”

Nationally, loans have increased from representing 17 percent of all financial aid to 55 percent in the last decade. Meanwhile, the volume of student loans rose from $1.1 billion in 1976 to $10 billion in 1986. Now that the Reagan administration has raised the ceiling on student loans in certain instances from $2,500 a year to $4,500, students may routinely graduate from college a good deal more than $10,000 in debt.

**Saddling Students with Debt**

Few college officials feel comfortable with the heavy burden of debt that federal loan programs place on students. “My own instinct would be that we don’t want to go too far in that direction,” says Michael McPherson, author of *The Ends and Means of Student Aid* and chairman of the economics department at Williams College. “I think we’re doing it thoughtlessly, without any discussion—we’re backing into it because it’s the simplest way to go.”

“The college must fill gaps left by the steady erosion of federal support,” wrote Alice Stone Ilichman in a recent *New York Times* essay; Ilichman is president of Sarah Lawrence College and a 1958 SU graduate. “Each year since 1980, more students discover they are no longer eligible for federal grants and loans... What’s a college to do? Come up with the money.”

“How you pay for your education colors it for you,” adds Julian. “I think when we give students grants, we’re telling those students that we value them. If we tell those students that there’s education available, but go out and borrow, and use your own nickel, we’re encouraging a privatist view of education. I’m not sure that’s compatible with the major objectives of higher education.”

For anyone involved in higher education, the implications of student debt are hard to ignore. College officials worry that with less grant money available, fewer and fewer disadvantaged students will be able to afford a college education.

“I think what you may see is more homogeneous student bodies across the country,” observes Julian. “Moreover, the educational enterprise will suffer if the campus population lacks diversity.”

“It is critical to America that the...
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W hat strategies are available to parents facing steep college costs? The answer depends on when they sit down and begin to plan for their children's education.

Parents of Young Children

Parents of very young children should take heart. Time is on their side. College costs may rise, but if parents are able to begin putting aside money soon after their child is born, years of compounded yields will work on their behalf.

For example, a zero-coupon bond bought today for $208 will grow to $1,000 by the year 2005. For a couple with a newborn child, a lump sum investment of $10,000 in zeros will yield nearly $50,000 (before taxes) by the time the child graduates from high school. (Figures supplied by the investment firm Dean Witter.)

Of course, not all parents are in a position to sock away such a large amount of money at once. Eric Berg, a business and financial reporter for The New York Times, has pointed out that for a couple with a three-year-old child and a combined annual income of $50,000, an investment of $140 a month, or about 5 percent of their take-home pay, will add up to some $40,000 after taxes by the time their child is ready for college. Double that amount to $280, and the same couple will have $80,000 to help defray college costs. Such an example assumes that the money is placed in an instrument whose annual return is 6.5 percent—a yield well within reach at current interest rates.

Under the new tax law, trust funds are a far more limited option than they once were. Today, a child under 14 may receive only $500 a year tax-free. The next $500 is taxed at 15 percent, and any money over $1,000 is taxed at the parents' highest rate.

Parents of Older Children

What about parents of children about to fly the coop? Different strategies are in order, all of which depend on the assets these families have available.

For individuals who own highly appreciated securities and whose children have already decided on a college, one option is the Charitable Term Trust. Such a trust enables them to donate cash or assets to the university, to receive a charitable deduction for a portion of the gift, and to have their children retain income payments for a period of time.

According to William O'Brien, SU's director of planned giving, a gift of $50,000 in stocks whose original costs basis was $10,000 would not only avoid $40,000 in capital gains but also gain the donor a charitable deduction of $34,000 in the year the gift was made. At the same time the donor's children would receive the income generated from the trust—currently 8.5 percent a year for five years—to help pay college expenses.

Home equity loans are another option, for families who own a home. Under the current tax law, it's still possible to deduct the interest on such loans when they're used for education, together with the amount of the mortgage already paid off, which cannot exceed the home's market value.

Some universities, like Syracuse, are more than willing to make special arrangements to help families juggle college costs. SU's 12-Month Payment Plan makes it possible to spread out over 12 months a full year's tuition, room, and board. And the University's Pre-Paid Tuition Plan allows parents who want to avoid future tuition hikes to prepay all four years of undergraduate tuition at once.

Loans, Scholarships, Grants

Financial aid offices, high school guidance offices, and local libraries are gold mines of information on the hundreds of different loan, scholarship, and grant programs currently available from public and private sources. And local lenders are the place to go for applications for Parent Loans for Undergraduate Students and federally subsidized Guaranteed Student Loans, among other programs.

Meanwhile, universities such as SU attempt to bolster financial aid resources based within their own institutions. This fall, for example, Syracuse has initiated a campaign to raise $12 million in new scholarship endowment funds.

For parents, no one option is likely to provide all the answers. Diligent research is key. To assemble the best possible financial package, families should be prepared to spend time exploring all their options.

—B. A.
"And if students graduating with debt are deterred from home ownership, I think it has serious implications for how they relate to the schools from which they graduated."

**Avoiding the Parent Trap**

Right now Washington provides about $4 billion in grants and about $10 billion in student loans. As the federal government continues to grapple with a massive annual deficit, it's difficult to be optimistic that more grants will be made available.

"We live in a markedly changed world," McPherson observes. Before World War II, he explains, higher education was available only to a fairly small elite. Members of that elite had high enough incomes that financing a college education didn't present a problem. "Since the GI Bill, though, we've had a major expansion in the aspirations for higher education. Over that time, a lot of the increasing financial burden has been picked up by governments. But I think we're now moving into an era where that governmental share is unlikely to grow.

"If costs continue to rise and aspirations stay high," McPherson continues, "it seems likely that the increases are going to be picked up by families. That means facing up explicitly to the question of how different generations will help shoulder the cost."

College administrators believe that if parents are to continue to play a substantial role in financing their children's college education, then systems must be developed to help them plan and pay for it.

Some states and schools are selling tuition "futures"—lump sum investments made to a state trust or to a particular school when children are young. Some experts, however, feel such plans are impractical because they make commitments on behalf of children—and schools—before either has had a chance to evaluate the other. They also worry that such plans may not prove to be financially sound and that state governments may be called on to cover any shortfalls. A variety of other plans, from educational IRAs to savings bonds, are currently under discussion in legislatures across the country.

**The Growing Private Role**

For families that simply cannot afford those options, the answer remains outright financial aid. Colleges and universities must extend more financial assistance to students and are turning therefore to private sources. Unless prevalent attitudes toward government support change, private aid represents the higher education system's best bet for continued health through the end of the century.

Private aid plays an increasingly important role as the number of high school graduates declines and colleges are forced to compete for the most promising students. Nationwide, the number of high school graduates is expected to shrink by 30 percent by the end of this decade.

"The institution's purpose is diminished quickly if it doesn't have an able and worthy student population," says Smith, who oversees some 4,000 admissions at SU a year. Of these entering students, 70 percent receive some sort of financial assistance. "The goal of financial aid is to take the impossibility of the costs of being here and convert them to the possibility of enrollment," Smith explains. "For us to be healthy, we need to be able to say to the most academically worthy student, 'Cost need not be a factor in your choice to come here.'"

"These days," Smith adds, "we see ourselves depending more and more on the generosity of individuals, corporations, and foundations to preserve the concepts of equal access and equal choice."

**The True Worth of a College Education**

Has higher education become too expensive for the country to afford? Not according to McPherson, who sees education as a social burden that, for the time being, must be shouldered by the private sector.

"My own view is that as a society we can afford higher education," McPherson says. "The issues really surround finding the right ways to finance it. I think we should think about it in lifetime terms, not in terms of where people can get the cash this week."

In a recent editorial advocating government support of higher education, C. Mark Lawton, president of the Commission on Independent Colleges and Universities (and a 1961 SU graduate), listed three purchases he had made in 1961: a car ($1,200), a television ($100), and a year at SU's Maxwell School ($1,600).

In 1986, seven cars and eight television sets later, Lawton made the same three purchases in a single year. This time around, he writes, the car cost him $15,000 (an increase of 1,150 percent), the television $600 (an increase of 500 percent), and his son's tuition at the University of Rochester $10,500 (an increase of 556 percent). Clearly, in the intervening years, tuition costs kept pace with the cost of many other consumer goods and services, most of them far more perishable.

Despite the pinch they feel in their pocketbooks, most Americans agree on the value of higher education. A recent Gallup Poll cited in The New York Times showed that the percentage of Americans who believe that a college education is very important almost doubled—jumping from 35 percent to 65 percent—between 1978 and 1985.

Such faith in education is justified, in part, by the earning power associated with a college degree. As the Times pointed out, the Census Bureau estimated in 1983 that men who have completed four years of college can expect to earn between $1.19 million and $2.75 million in 1981 dollars over the course of their working lives. On the other hand, men with a high school degree are likely to earn between $880,000 and $1.87 million.

In the words of Lawton, "The cost of college cannot be compared to candy bars, stereos, televisions, or cars. A college education is a durable good with worth and value that increases throughout one's lifetime."

**BETSY AMSTER** is a literary agent and freelance writer now based in New York City.