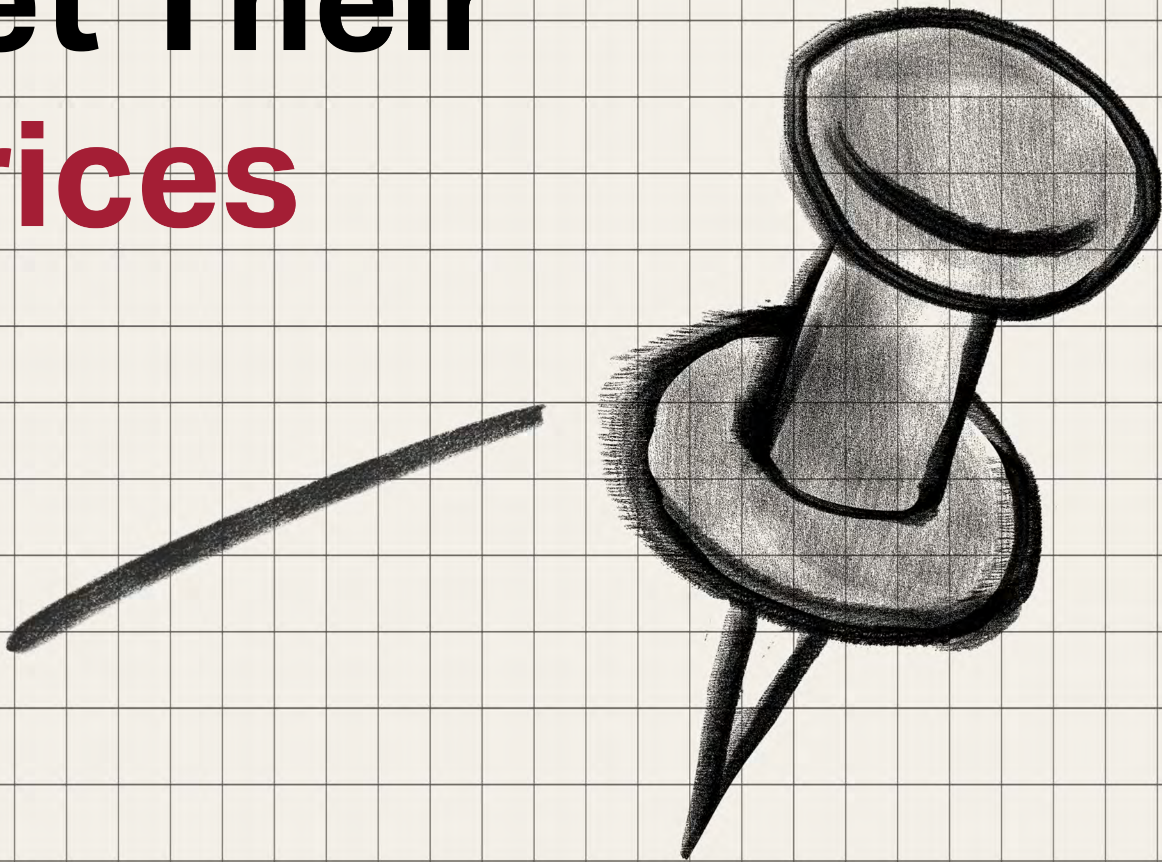
How Colleges Set Their Prices



The Need for Federal Oversight of "Cost of Attendance" in Higher Education

BRYCE MCKIBBEN

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The Hope Center for Student Basic Needs

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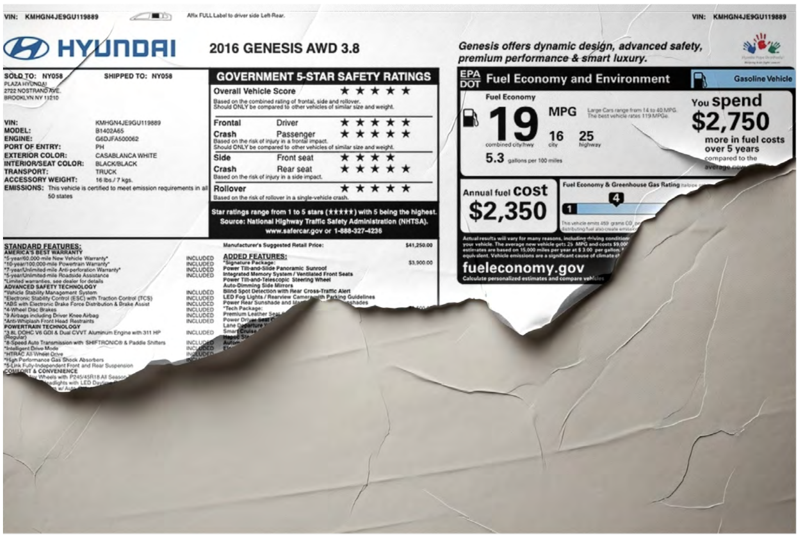
Executive Summary

College costs in the United States have steadily risen for decades. These costs—especially the cost of living—have grown so much that the price of obtaining higher education has now become one of the top reasons that students stop out of college or skip a college degree altogether.[1] As a result, there has been a substantial decline in the number of people who think college is worth it and pursue two- and four-year undergraduate degrees after high school.

However, the concept of college "cost" is far more complicated than it may seem, and the so-called "sticker price" of higher education is exceptionally opaque. Sticker prices for college students bear little resemblance to the famous window decal that's required to be displayed in all new cars sold in the United States.

That famous "Monroney sticker" signage gives anyone who has ever shopped for a vehicle the essential information about the price, equipment, mileage, warranty, and other consumer information for the very expensive product they're looking to buy. Colleges provide no such consistent transparency to their customers. While policymakers have pursued a range of transparency and consumer information tools for higher education, the price of college today shares more in common with the notoriously opaque cost of health care than it does a new car.



Colleges and universities usually control at least a portion of their "direct charges" to students, and when they do, they essentially set their own prices—especially *tuition and fees*. At public institutions, state funding and governing boards play a heavy role in determining how much a student (or their family) will need to foot the bill. However, the costs of other basic necessities like food, housing, and transportation often burden students and their families much more, and these costs of living can determine whether students can stay in college and obtain a degree or credential. Sometimes, these non-tuition costs are obscured or altogether omitted from the consumer information sources most families will see.

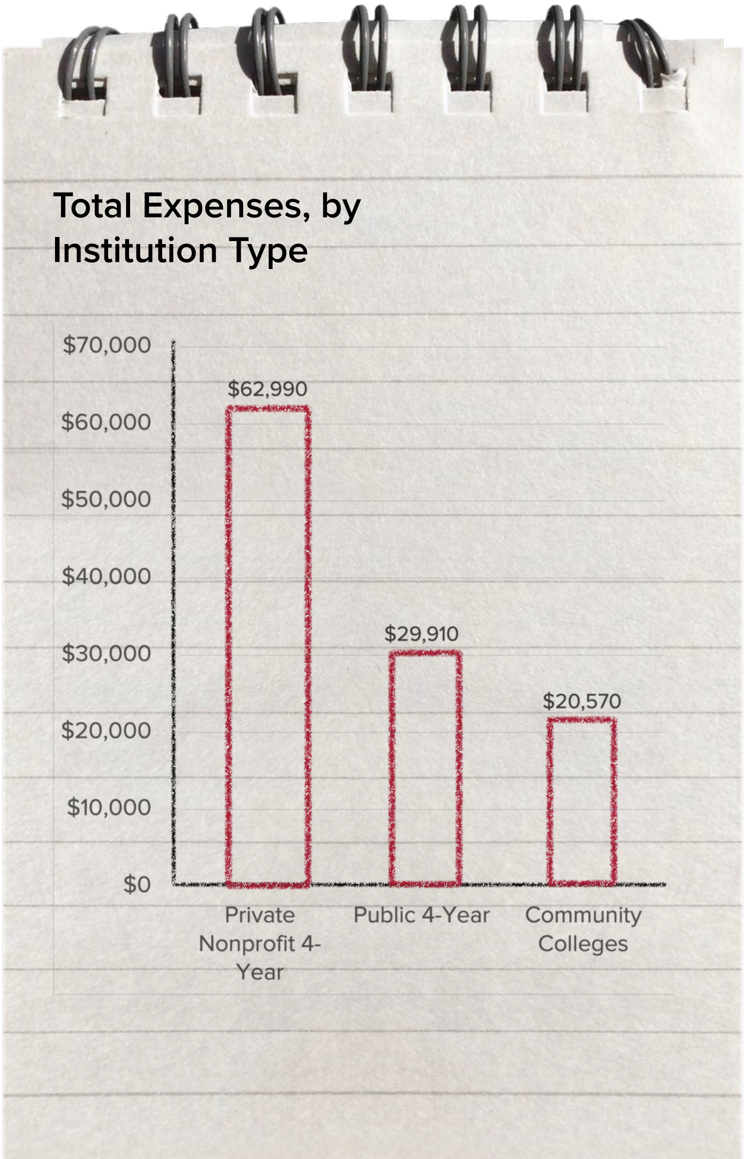
A student's "cost of attendance" (COA) is supposed to include all the basic and essential expenses they will confront in higher education in one simple estimate. From this amount, grants and scholarships are subtracted. The resulting grand total is known as the "net price." This is the amount a student is expected to pay—and the number families use to determine whether they can afford to pay.

Yet a significant number of students and their families report being confused about exactly how much an associate or bachelor's degree might really cost them.[2] And there's little doubt as to why because the system is notoriously confusing.

The average annual cost of attending an in-state public four-year college today (before aid is applied) is nearly **$30,000**.[3] Even without considering inflation, that would amount to a minimum of more than $120,000 for a bachelor's degree over the "standard" four years (and many students will take longer than that to finish).

At public community colleges, the annual cost of attendance is a bit lower than a four-year college, around $20,600 per year—making it an attractive option for students looking to save on college costs. Private nonprofit colleges continue to have the highest sticker prices of all sectors, at nearly $63,000 per year.

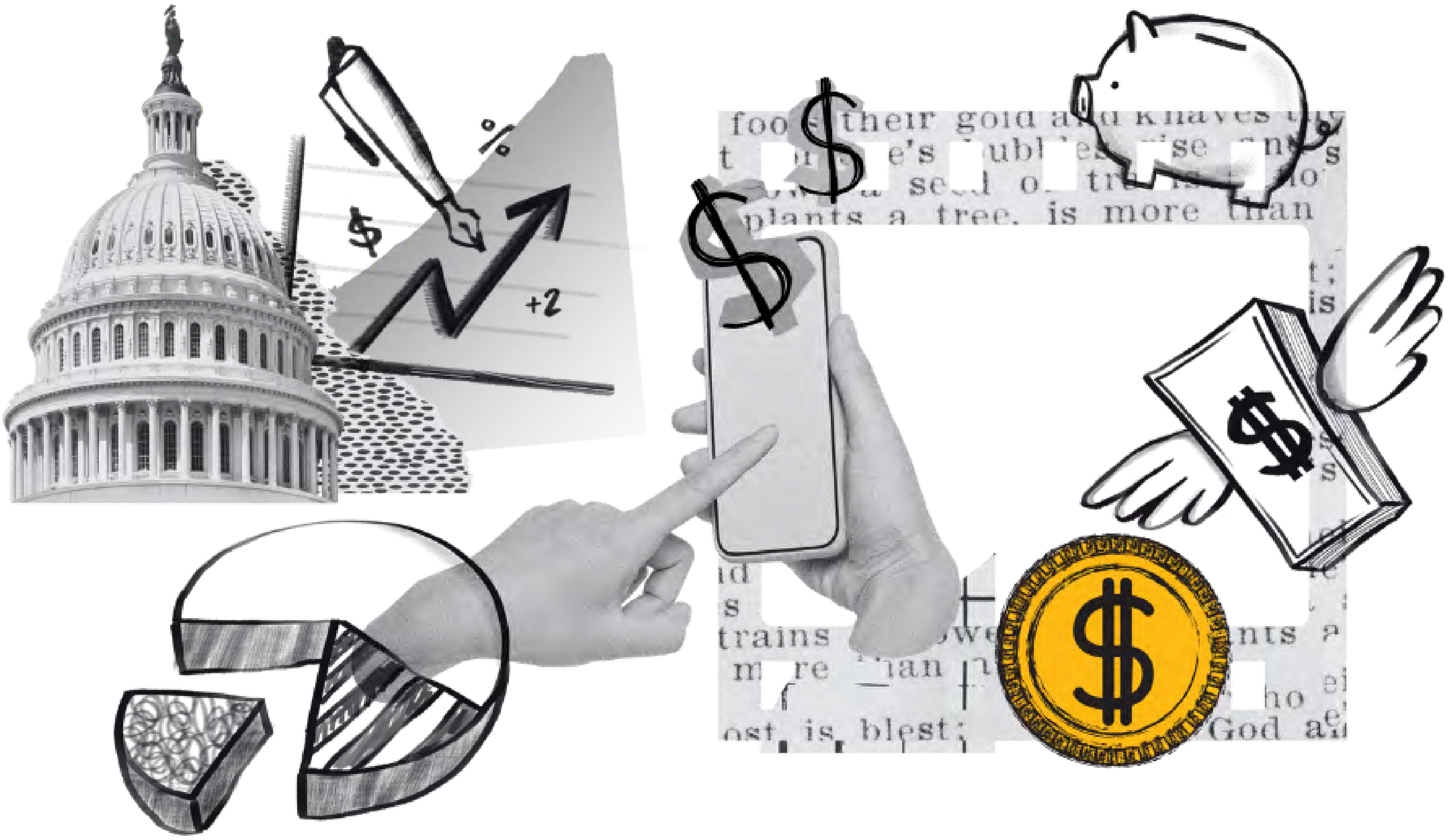
Most students will receive some grants or scholarships to offset these sticker prices. That resulting net price, after financial aid, is a better predictor of the amount students will be required to pay. However, the first number in this equation—the COA—plays an extremely important role in setting the table. The COA serves as an upper limit on how much aid most students can receive to attend college.



Schools' methods to determine their sticker prices are highly unregulated, and students and families are understandably exhausted. The federal government—both Congress and the U.S. Department of Education—have largely outsourced the calculation of COA to colleges themselves and trusted them to construct fair and reliable estimates. This policy choice has had consequences. **Colleges don't always calculate these costs for students transparently; sometimes, they miss the mark entirely.** Colleges also face a complicated and sometimes conflicting set of incentives in calculating their COA—such as wanting to appear more affordable relative to competitors, signaling to potential applicants, and trying to limit student debt.

If COA estimates don't fairly represent what students need to pay for their bills, eat, and keep a roof over their heads, **students can run out of financial aid** and—frequently—any money in the bank. Without enough funds to pay their bills, students may be forced to drop out of college together, imperiling their careers and our collective economic prosperity.

In the other direction, if COA is *overstated* or inflated, a student or family with sticker shock might opt against pursuing a degree otherwise in reach, especially after their financial aid and own contributions are factored in—perhaps thinking college is just too expensive. **The consequence of inaccurate COA estimates in either direction is lower enrollment.** These outcomes are unacceptable at a time when the country needs more students enrolling in and completing higher education.



Congress recently took steps to improve the transparency of COA and granted new regulatory authority to federal agencies to step in. However, these powers remain untapped. Setting rules for COA that help students and families receive accurate, transparent, and upfront pricing will unlock countless consumer benefits. **This report explores why COA matters for students and what new rules for these key estimates can do to improve their lives.**

Introduction

For many decades, students and families have been raising concerns about rising college prices despite durable boosts in earnings for those with a college degree. Adults in the United States who have not enrolled in higher education, students more often cite the cost of a degree or credential as the most significant barrier holding them back from higher education than any other factor.[4]

College costs are also one of the top three reasons *current students* have considered dropping out, behind only "emotional stress" and "personal mental health reasons."[5] Among prospective students, the cost of college is nearly tied for the top consideration in choosing where to attend. A recent survey of community college students who stopped out, or aspired to college but did not enroll, confirmed that the cost of higher education was a major factor in their decision-making.[6]

The price of higher education is a political issue, too. Polls consistently show that the voting-age public is exasperated with the ever-increasing cost of higher education.[7] That simmering discontent is a significant reason that policymakers and practitioners have sought out innovative solutions to lower the cost of college. This pressure has also induced some college leaders to consider short-sighted moves that make their college appear "cheaper" by underestimating the total costs that students and families will have to shoulder.

In this report, "cost" is used to describe an amount students and families pay, not the amount that takes to provide the education to the student or the expense to the school.

Therefore, we use "cost" and "price" interchangeably in this report, although the terms can be distinct in different contexts.

"Cost of attendance" represents the total sticker price for students, before any financial aid or scholarships are subtracted.

The risks for students from **under**estimating expenses are high. They can run out of grant aid, scholarships, and loan funds to help them cover their basic expenses. Undercounting is the more concerning of the two possible outcomes due to its risk to student success.

However, in some cases, overworked college staff can also **over**estimate student costs. Overestimates might happen out of pure oversight because financial aid offices aren't fully aware of market trends or have not updated the data they use to construct these budgets. Other colleges may have a more questionable motive, such as wanting to use their price to signal potential applicants that they offer an exclusive educational experience—although colleges usually do so through tuition and fees.[8]

Wealthy families often filter their college choices by price and prestige. These incentives play out in wildly divergent ways at the institutional level through countless variations in management and decision-making.

Ensuring that colleges accurately calculate (and communicate) their "cost of attendance" (COA) is a crucial step for helping students understand, prepare for, and manage the high price of college. Reliable COA estimates also have a very practical, dollars-and-sense impact—determining the amount of financial assistance students can receive to finance their higher education expenses, and how much of their savings or earnings they're expected to contribute. These estimates also factor heavily into how students make decisions about where to enroll in higher education and have significant implications for federal expenditures—including Title IV financial aid, public benefits, and tax benefits.

In other areas of consumer finance, regulators have rightly targeted the "junk fees" that hide the full price of a product or result in surprise fees at the end of a purchase.[9] These fees are found in all areas of modern life and go far beyond the exploitative add-ons like a concert ticket processing fee or a hotel amenity fee. In the context of higher education, students can be equally shocked and surprised by unavoidable expenses that their cost of attendance, and financial aid package, didn't account for.

Some college students find that their COA housing estimates are far too low for what it actually costs to rent an apartment (especially with today's numerous application fees and security deposits). Others struggle to buy groceries and cook nutritious food within the amount their college says is affordable. And more students find it challenging to secure reliable transportation that gets them to and from classes, or off-campus jobs, within their financial aid budget."Worse yet, students might confront costs for essential needs like internet service or a cell phone plan that haven't been factored into their COA at all—and, therefore not fully covered by their financial aid. These are common, unavoidable expenses for most students. As such, college's COA policies can fail to reflect the more complex demographics of today's students. Health insurance is another prime example; students who utilize health insurance provided by their school (when it is available) usually have their premiums added to their COA, as it is a direct charge. Students who are older and working, with their own health insurance coverage, often have to appeal for that cost to be included as a "miscellaneous" expense or risk having it remain an unrecognized cost.

Recent changes under federal law from the *FAFSA Simplification Act* provide an opportunity to increase transparency for students and expand available federal, state, and institutional aid. These statutory changes lifted an outdated ban that previously barred any commonsense federal regulation of COA—especially non-tuition components like food, housing, transportation, child care, and other basic necessities. The law also introduced new requirements on how institutions calculate and communicate these costs to students. **However, as of today, the U.S. Department of Education has not yet acted to use any of its newfound authority to regulate the cost of attendance.**

What is "Cost of Attendance"?

The concept of "cost of attendance" (COA) is relatively straightforward. It is an estimate that colleges create for their students of the types of costs and expenses they will face for a given year of higher education. The college provides estimates in each of the appropriate components and a single COA total with everything added together.

Under federal law, the components of COA include costs such as:

- Tuition and fees
- Books and course materials
- Supplies and equipment
- Food
- Housing
- Transportation
- Dependent care for parenting students (e.g. child care)
- Study-abroad expenses
- Disability-related expenses
- Fees for federal student loans
- The cost of obtaining a license, certification, or professional credential (e.g. a teacher certification); and
- Other "miscellaneous" expenses, like clothing, hygiene products, and health care, but with limitations and exceptions (more on this later)

In some instances, COA is referred to as a "budget" for the student. This number and its components are far more than an educated guess—in cases where the costs are known, especially tuition and fees, the colleges are especially required to be accurate.

Components of COA fall into two primary categories—**direct** and **indirect** costs. Direct costs are ones charged by the school itself, including tuition, fees, and food and housing if the college offers such services. Indirect costs are all the other living costs that a student obtains on their own.

Direct Costs	Indirect Costs
Commonly charged • Tuition • Required fees • On-campus housing (e.g. residence halls) • On-campus meal or dining plans • Student loan fees ***Less commonly charged (sometimes only upon request)*** • Optional fees and late fees • Course materials directly billed to the student • Transportation billed to the student (e.g. transit cards or subsidies) • On-campus child care billed directly to the student • On-campus health care or insurance	• Off-campus housing (rent, deposits, fees, etc.) • Food and groceries purchased off-campus • Textbooks, course materials, and classroom supplies • Technology, such as a laptop • Internet service and cell phone plan • Child care and other dependent care expenses (including food and housing), and caregiver expenses • Clothing, laundry, and personal hygiene • Transportation purchased by the student (transit, gas, airfare, health, and moving expenses) • Disability expenses • Study abroad expenses • Health insurance and care • Costs or fees for obtaining professional licensure or certification

Colleges have much more line of sight into their direct costs—they charge them, after all—but they're also responsible for creating reliable estimates of the indirect charges students will face in a given year of college enrollment.

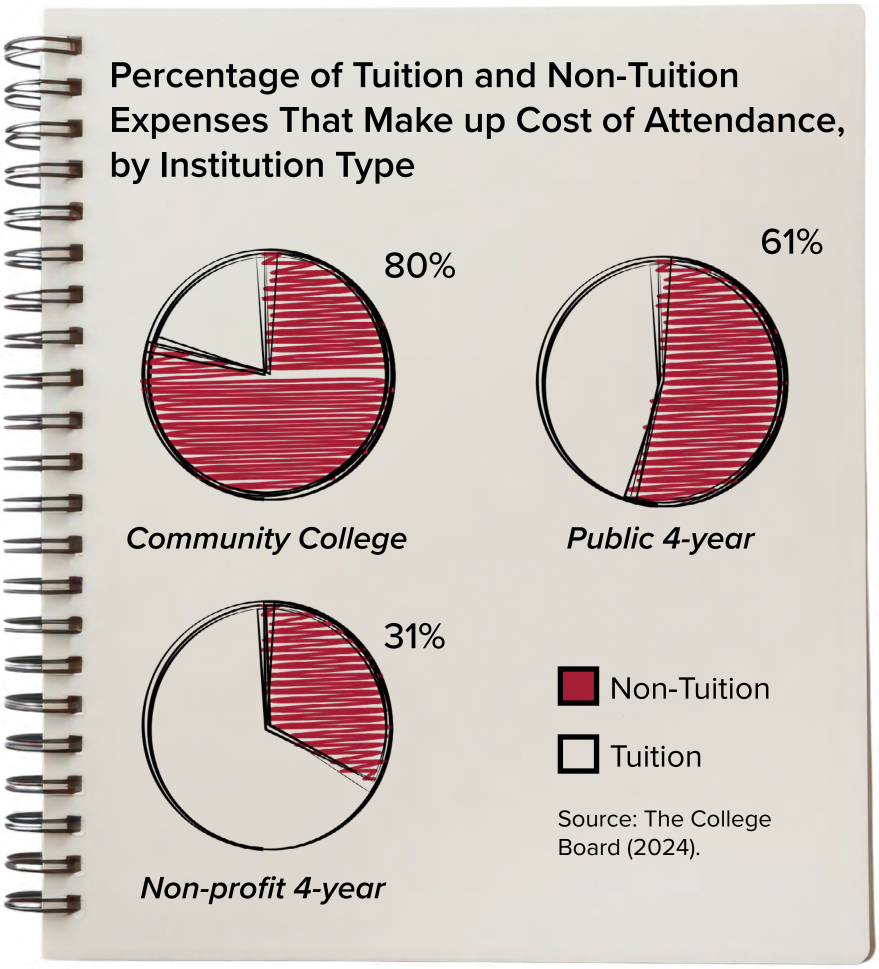
The U.S. Department of Education's **2024-25 Federal Student Aid (FSA) Handbook** describes COA as the *"cornerstone of establishing a student's financial need"* because it ultimately impacts how much grant, scholarship, and loan aid a student can and should receive.[10]

Federal law, embedded in the *Higher Education Act,* defines the cost of attendance by enumerating which components are to be included. It also sets some limits based on whether students are enrolled at least half-time and whether they live on or off-campus. Finally, the law requires colleges to disclose COA elements on their websites. The *FAFSA Simplification Act* introduced some changes to COA, which are detailed later in this report. The U.S. Department of Education also issued some basic implementing guidance when the changes took effect for the 2023-24 award year.[11]

This report will dive further into what is—and probably should be—included in COA and how colleges can and do interpret federal statutes and regulations.

Regulating Cost of Attendance Estimates is Urgent

College is expensive and students have never needed more support. The cost of tuition, fees, and living expenses steadily rose in most sectors (in inflation-adjusted terms) until the COVID-19 pandemic in 2020.[12] Congress mitigated this continuous increase in prices through a historic infusion of $76 billion in federal cash to students and institutions to help them avoid stopping out of college.[13]



From 2020 through 2023, students received emergency aid grants, which reduced their net price[14], and colleges received flexible operating dollars to help them keep tuition steady despite declining enrollment. As a result, the rise in total college costs has slowed in real terms.

Additionally, undercounting in COA—for example, when colleges do not adjust their cost of living estimates annually according to inflation in rent or food—can lead to the appearance of slowing growth in college costs or even a decline in net prices even when students are paying more out of pocket. Pursuing a college degree is still among the largest financial decisions a student or family will ever make.

Living expenses such as food, housing, textbooks, child care, health care (including mental and physical health), transportation, hygiene, and other basic necessities have generally increased more rapidly than tuition and fees, and inflation in these costs has vastly exceeded the growth in family incomes.

In fact, "non-tuition" expenses now make up **80 percent** of the annual cost of attending a community college and **61 percent** of the price of a public four-year college. Most college students in the United States attend one of these institutions.

And at more expensive private nonprofit four-year institutions, non-tuition expenses still account for 31 percent of the cost.[15] The calculation of COA estimates for these non-tuition expenses has profound implications for student access, persistence, and success as students struggle to afford ever-increasing costs of living.

College prices and insufficient financial support have increasingly resulted in high levels of basic needs insecurity and student debt. Nationally representative federal data have revealed that more than 4.3 million students are experiencing food insecurity, and 1.5 million are experiencing homelessness.[16] Data from voluntary surveys indicate more than half of students (56%) would have difficulty finding $500 in cash *or* credit in the case of an emergency.[17] These students are attending college in financially precarious situations.

Students are also struggling at higher rates than households not enrolled in higher education (non-students), likely because they are simultaneously shouldering the cost of college while trying to afford their basic needs. For example, the rate of food insecurity among all U.S. households in 2020 was 11 percent[18], but 23 percent among undergraduate students—in other words, students were twice as likely to be experiencing food insecurity as all other households.

As confirmed by extensive national surveys by organizations like The Hope Center for Student Basic Needs, Community College Survey of Student Engagement, and Trellis Strategies, different groups of students experience needs insecurity and utilize resources at widely varying rates.[19] Students from systemically marginalized backgrounds, including Black, Latine, Native, and Indigenous students, immigrants, LGBTQ+ students, parenting students, and students with low incomes are especially likely to report struggling financially or experiencing difficulty affording their basic needs.

Given that they are struggling with non-tuition costs and confronting widespread financial hardship, students must have accurate and reliable information about these expenses. Students and their families need to make plans—to the best of their ability—to afford or finance these expenses, get ahead of emergencies, and be able to stay enrolled and graduate. Apartment security deposits, higher-than-expected grocery costs, emergency car repairs, and surprise utility bills can all throw students off course from a degree or credential.

Cost of Attendance Estimates Vary Widely

To help students prepare for the major and often life-altering expenses of college, institutions estimate their COA with allowances based on students' general circumstances, such as whether the student is living on or off campus and whether they have a meal plan. For most institutions, housing is both the largest portion of COA and the most expensive of all non-tuition costs.

Students and families rely on the transparency of these costs to decide basic living arrangements and how to finance higher education. However, **research indicates significant and often inexplicable variations in living-cost allowances**, even when colleges are geographically close.

A foundational analysis on this topic on this topic appearing in *The Journal of Higher Education* found that *nearly half* of all colleges' estimated living costs are **at least 20 percent above or below the actual living costs** for a student living modestly with a roommate in their county.[20] As many as one in three colleges estimated those living expenses at least 20 percent lower than the actual cost of living—meaning students who enrolled at those schools would face unexpectedly high costs when they got to college.

Underestimation was twice as common as overestimation, meaning that colleges are more frequently shortchanging their students. For-profit colleges were more likely to understate the true costs than public and nonprofit colleges.

The same research found that higher enrollment of Asian, Black, and Hispanic students was associated with lower living-cost allowances; and colleges with higher family incomes among dependent students had higher allowances, raising significant equity concerns.

A similar examination of federal data by the New America Foundation found that, within the average U.S. county that has more than one institution of higher education, off-campus housing estimates vary by as much as $6,448 between the nearby colleges.[21] Another analysis noted that a surprising number of colleges lowered their living cost estimates while simultaneously raising tuition—keeping their sticker prices steady, even though inflation typically increases both of these costs at the same time.[22] In such cases, the school would get more revenue from tuition while the student would have fewer resources to afford their basic needs. While these variations could be accidental or a product of limited resources, rather than intentional, the implications for equity in student outcomes are nonetheless quite significant.

At the local level, the Tennessee College Access & Success Network (TCASN) compared the cost of living estimates at one community college in the state against the Massachusetts Institution of Technology *Living Wage Calculator*.[23] This sophisticated tool uses a range of federal and private datasets to calculate the cost of basic needs like child care, food, health care, housing, internet and mobile service, and transportation for different household sizes. TCASN found that, at just one college, the projected basic expenses for students typically exceeded the college's COA non-tuition allowances by **thousands of dollars**—and the gap was particularly pronounced for parenting students.

These variations and shortcomings could easily be accidental or a product of limited resources among those who create the cost estimates (rather than intentional miscalculation). Nonetheless, the implications for equity in student outcomes are very significant.

Potential Impacts of Inaccurate Estimates

When colleges do not accurately estimate their living-cost allowances relative to actual student needs, it may deprive students of the total federal, state, or institutional financial aid they would need to cover the full price of college. It can also affect their college choice process, influence their living decisions, and negatively impact students' chances of success.

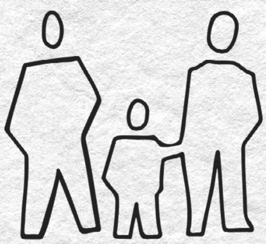
Inaccurate estimates can also have impacts on student choices even after they decide to enroll. Faced with a higher-than-necessary estimate for off-campus expenses, a student might choose to live at home to save money without knowing that their college's estimate for living costs is inaccurate. This, in turn, would keep them from being closer to campus and accessing the higher levels of financial aid they would have otherwise qualified for.

Alternatively, artificially high calculations for off-campus rent could make residence halls look cheaper by comparison and drive students to choose on-campus housing, creating a revenue stream for the college that is not always in the students' best interest. College finance and business officers, and other senior administrators, may be interested in this outcome. However, an underestimate of living expenses for living off-campus could limit the total grant, loan, and scholarship aid a student needs to afford the actual bills they need to pay for these real-world expenses.

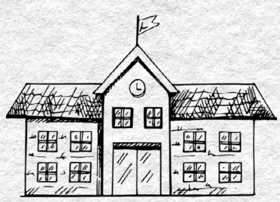
Example Types of Living Arrangements

Off-campus, solo renter
$1,500 per month
$18,000 annually

Off-campus, renter with roommate(s) -
$1,000 per month
$12,000 annually



Off-campus, with family
$5,000 per month
$6,000 annually



On-campus, residence hall
$1,300 per month
$15,600 annually

Widespread underestimation of college costs could also negatively affect federal and state accountability and transparency efforts, such as improving affordability and reducing student debt. For example, net price calculators mandated by Congress are less effective if the underlying COA is underestimated because students and families are not calculating an accurate or reliable price.

Colleges and universities can also manipulate their COA to appear less expensive or to limit student borrowing artificially. For-profit colleges, and non-degree programs in other sectors that are subject to "gainful employment" debt-to-earnings rules, can face stiff competition for similar pools of students. These colleges may prioritize keeping their overall costs low if they risk federal oversight for direct costs or see peer institutions offering lower-priced programs.

Advocacy efforts to increase financial aid, such as the Pell Grant and campus-based aid, are also undermined when living costs are underestimated. The maximum Pell Grant now covers its lowest share of college costs since the program was established more than 50 years ago.[24] If COA is being underestimated broadly, resulting national data may give policymakers the false impression that federal financial aid covers more of the total cost of college than it actually does, which holds back momentum to increase federal and state grant aid.

Populations of students who face additional barriers to higher education, such as parenting students, especially need clear and accurate information to estimate their costs and seek out more aid. For example, data from the 2020 National Postsecondary Student Aid Survey indicate that 18% of undergraduates and 28% of graduate students have dependent children, representing **more than 4 million parenting students** in higher education.[25]

Parenting students are also disproportionately at risk of basic needs insecurity. One analysis found that parenting students, in particular, have next to no affordable college options and would have to work 52 hours per week, on average, to cover child care costs and tuition at a four-year public college.[26] Black, Latine, and Asian parenting students suffer extremely high rates of basic needs insecurity, potentially harming their young children if the students are not able to provide adequate shelter, nutrition, and care.[27]

Yet, the Government Accountability Office (GAO) conducted a review in 2019 to determine whether colleges provided information on their websites about the "dependent care allowance" that had long been authorized by federal law—a longstanding element of COA—found that *two-thirds* of the colleges they reviewed failed to disclose the dependent care allowance to their students on their websites.[28] The GAO also calculated that an estimated 2.6 million parenting students at the time could potentially benefit from a dependent care allowance, because they were borrowing less than federal limits allowed.

The GAO recommended that the U.S. Department of Education take further action to increase the transparency of COA for parenting students. They asked the agency to publish additional information in guidance for financial aid administrators that would remind colleges of this option for students. Unfortunately, then-Secretary DeVos declined to issue such guidance, and all of GAO's recommendations remain unmet as of October 2024.

As previously mentioned, the *FAFSA Simplification Act* now requires each element of COA to be disclosed on institutions' websites—including the dependent care allowance—but there has not yet been a systematic review for compliance with this requirement.

Older adult students also face substantially higher child care, housing, and health care expenses than younger students. These students use more health care services, are more likely to support family members financially, and typically need larger, family-friendly, or more accessible housing. Off-campus housing estimates that assume renting a small bedroom with a roommate may be particularly out of sync with older students' lived realities.

One study calculated that expenses for older adult students exceed standard COA estimates by an average of **$8,800** each year.[29] Older students are working hard to obtain their degrees despite being out of school for quite some time but are facing unrealistic calculations that limit their ability to obtain sufficient financial aid. Given that re-engaging adult learners is essential to meeting national and state degree attainment goals, COA underestimates for older students are especially counterproductive.

The COA is also difficult for many students and families to find.

It is often not available in plain language terms on an institution's website. Even the most basic communication of costs—the financial aid offer—frequently does not contain this information. Another major GAO analysis of college financial aid, published in 2022, found that *more than half* of colleges did not include the total COA along with all the key costs in their financial aid offers to students.[30]

Recognizing the need for transparency, Congress acted to require institutions to publish each of the components of their COA estimates *"on any portion of the website describing tuition and fees of the institution."*[31] Also, new "administrative capability" regulations, which took effect July 1, 2024, require institutions to disclose each component of COA in their financial aid offers and other communications.[32] It remains to be seen how institutions are responding to these relatively recent statutory and regulatory changes in COA.

Colleges Face Complicated COA Incentives and Limited Guidance

Colleges have limited guidelines for calculating COA at their disposal. As a result, they can easily get their calculations wrong. Federal guidance also says little about the specific methods, tradeoffs, and implications of different approaches to estimating COA. The lack of clear federal guidelines and training places added burden on financial aid administrators and offices who typically spearhead the COA estimate process.

Financial aid administrators have navigated high levels of workload, stress, and low pay, particularly during the 2024-25 FAFSA cycle. Even before this challenging experience, financial aid offices reported high rates of burnout and turnover during the pandemic.[33]

The most recent **Federal Student Aid (FSA) Handbook**—the go-to reference guide for major questions for financial aid administrators—states in a hands-off manner that *"each school must determine the appropriate and reasonable amounts to include for each eligible COA category."*[34]

How should beleaguered financial aid administrators exercise their duty to remain "appropriate and reasonable?" The FSA Handbook does not say.

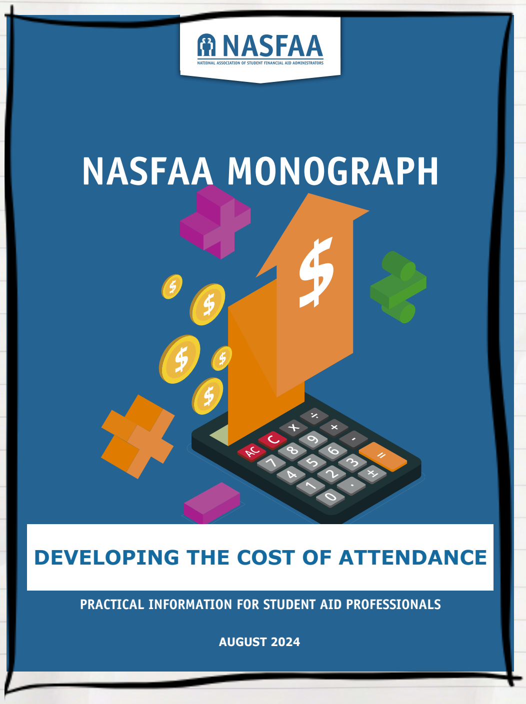
It simply advises financial aid offices that *"in most cases, you can use average expenses…rather than actual expenses"* and includes the following vague suggestion:

> *"There are a **variety of methods** to arrive at average costs for your students, such as conducting periodic surveys of your student population, assessing local housing costs or other pertinent data, or other reasonable methods you may devise which generate accurate average costs for various categories of students."*

The National Association of Student Financial Aid Administrators (NASFAA) produces a more detailed guide for their member institutions on constructing COA estimates, known as their COA "monograph," which it began publishing in 1977.[35] A previous version of the monograph noted that it arose from *"the profession's continuing desire to self-regulate."*[36] Without more precise federal rules, financial aid administrators were left to train themselves and their peers.

The current version of the NASFAA guide does suggest specific sources and methods for developing COA estimates—but also acknowledges that calculating COA may involve incentives that are not always data-driven:

> *"Cost of attendance can be a political hot issue on a campus. For example, if there are several regional public universities in an area, a school may find itself pressured to keep its COA in line with the other schools nearby.*
>
> *For institutional budgetary reasons, an FAA may be **pressured to keep COA low** or not increase it over a certain amount each year. With net price calculators and new measures of evaluating institutions based on net price, the pressure to be more affordable can lead to scrutiny of the COA by senior administrators."*



NASFAA Cost of Attendance Monograph

The NASFAA monograph and related trainings provide an important resource and necessary tool for colleges. But not all financial aid offices at all types of institutions are required to use these resources. There has not been a systematic, wide-scale review of how all institutions arrive at their COA estimates, including their decision-making processes.

However, one recent widescale study of COA processes revealed a wide range of institutional processes and staff involved in the creation and review of estimates, particularly non-tuition costs.[37] Unfortunately, the study also noted that institutions are frequently unaware of the true indirect expenses their students routinely shoulder.

While financial aid administrators undoubtedly operate under significant time and resource constraints that limit their ability to maintain reliable COA estimates, there are reasons to believe this is not the most important limiting factor. Institutions of higher education must meet revenue and expenditure requirements and, like other business entities, are prone to mistakes and human error, conflicting incentives, and—on infrequent occasions—fraud and abuse.

Even when rising living costs and inflation would necessitate updates to an institution's COA, administrators may be wary of raising their sticker price when it could reduce the number of applications to the institution or otherwise negatively affect the colleges' rankings or prestige. Many, if not most, financial aid administrators would advocate for a fair COA calculation for their students no matter the conflicting internal pressures at hand. Still, they are often not the sole decision-makers in this process, and almost always report to another senior administrator at their institution who may need to sign off on the COA estimate.

When determining off vs. on-campus housing differences, some colleges might consider internal pressures to ensure that their auxiliary services, like residence halls and dining services, are competitively priced and can generate sufficient revenue for the college.[38] Some colleges require students to live on campus for some or part of their academic experience due to similar financial interests or considerations, even though many students prefer or need to live off-campus.[39] These considerations could lead to conversations about whether off-campus housing estimates in COA made students more or less likely to consider on-campus housing. As a result of recent budgetary pressures, many colleges are again looking toward auxiliary services like food and housing for potential revenue.[40] These factors can easily distort colleges' calculation of direct charges.

Closer federal oversight of COA could make it much easier for financial aid offices to accurately calculate COA, as it could remove some of the more discretionary areas where financial aid administrators are likely to come under pressure from other institutional objectives that could compete with student interests.

Regulatory Pressure

Institutional leaders may also be incentivized to keep their prices low to succeed under the new "**Gainful Employment**" (GE) and "**Financial Value Transparency**" (FVT) regulations which started to go into effect in mid-2024. Colleges are already preparing for the release of the debt-to-earnings information in early 2025.[41] However, as a result of the recent 2024 elections, the fate of these regulations is unclear.[42]

The GE regulations require for-profit colleges and non-degree programs in all sectors to prove their graduates can afford early student debt payments and are making at least as much as the typical high school graduate who did not attend college.[43] This rule was adopted largely in response to high levels of debt relative to poor earnings outcomes at for-profit colleges. The GE rule generally excludes living costs like housing and food from the federal monitoring of career program student debt levels. However, the rules could also increase price sensitivities and concerns for college leaders.

The FVT rules will also provide information to prospective students of all types of programs to help them make informed decisions about where to enroll, including typical earnings outcomes of graduates, average borrowing, financial aid options and, yes, *cost of attendance*.

These consumer disclosures may make some colleges concerned with appearing "too expensive" even though their COA estimates may be already too low for students to meet their basic needs. In cases of undercounting, adjusting COA elements higher could give students more ability to draw down financial aid and budget for their actual expenses—increasing their chances of success, even if it attracts regulatory scrutiny.

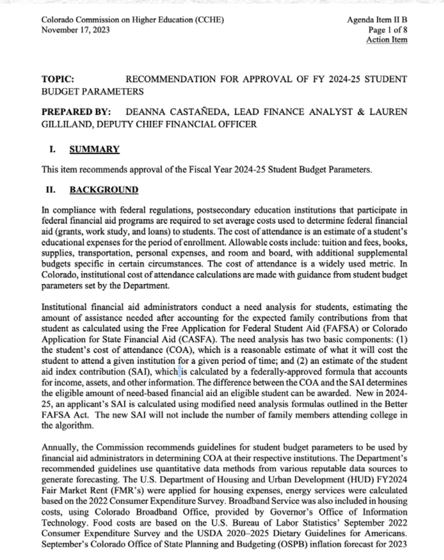
Potential for State Policy

Reducing the price of college is necessary—politically, morally, and economically—but not if the calculation of those prices is inaccurate or misleading to students. This fundamental tradeoff—sometimes pitting student needs against financial and reputational motivations—calls for more oversight and better guidelines to ensure fair results.

State officials have suggested further action may be needed to regulate COA.[44] For example, the Colorado Commission on Higher Education provides annual "student budget parameters" to institutions of higher education which provides guidelines for financial aid administrators in calculating their estimates of housing, food, transportation, personal expenses, books and supplies, child care, computer allowances, and medical care.[45]

Additionally, California recently passed a bill that requires most public institutions in the state to "estimate and adjust cost of attendance information for student parents" by proactively advertising the dependent care allowance and making any COA adjustments for all parenting students.[46] The state adopted the law as part of a comprehensive effort to support parenting students in higher education.

How States Could Support College's Cost of Living Estimates



Colorado Commission on Higher Education (CCHE)
November 17, 2023

Agenda Item II B
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Action Item

TOPIC: RECOMMENDATION FOR APPROVAL OF FY 2024-25 STUDENT BUDGET PARAMETERS

PREPARED BY: DEANNA CASTAÑEDA, LEAD FINANCE ANALYST & LAUREN GILLILAND, DEPUTY CHIEF FINANCIAL OFFICER

I. SUMMARY

This item recommends approval of the Fiscal Year 2024-25 Student Budget Parameters.

II. BACKGROUND

In compliance with federal regulations, postsecondary education institutions that participate in federal financial aid programs are required to set average costs used to determine federal financial aid (grants, work study, and loans) to students. The cost of attendance is an estimate of a student's educational expenses for the period of enrollment. Allowable costs include: tuition and fees, books, supplies, transportation, personal expenses, and room and board, with additional supplemental budgets specific in certain circumstances. The cost of attendance is a widely used metric. In Colorado, institutional cost of attendance calculations are made with guidance from student budget parameters set by the Department.

Institutional financial aid administrators conduct a need analysis for students, estimating the amount of assistance needed after accounting for the expected family contributions from that student as calculated using the Free Application for Federal Student Aid (FAFSA) or Colorado Application for State Financial Aid (CASFA). The need analysis has two basic components: (1) the student's cost of attendance (COA), which is a reasonable estimate of what it will cost the student to attend a given institution for a given period of time; and (2) an estimate of the student aid index contribution (SAI), which is calculated by a federally-approved formula that accounts for income, assets, and other information. The difference between the COA and the SAI determines the eligible amount of need-based financial aid an eligible student can be awarded. New in 2024-25, an applicant's SAI is calculated using modified need analysis formulas outlined in the Better FAFSA Act. The new SAI will not include the number of family members attending college in the algorithm.

Annually, the Commission recommends guidelines for student budget parameters to be used by financial aid administrators in determining COA at their respective institutions. The Department's recommended guidelines use quantitative data methods from various reputable data sources to generate forecasting. The U.S. Department of Housing and Urban Development (HUD) FY2024 Fair Market Rent (FMR's) were applied for housing expenses, energy services were calculated based on the 2022 Consumer Expenditure Survey. Broadband Service was also included in housing costs, using Colorado Broadband Office, provided by Governor's Office of Information Technology. Food costs are based on the U.S. Bureau of Labor Statistics' September 2022 Consumer Expenditure Survey and the USDA 2020–2025 Dietary Guidelines for Americans. September's Colorado Office of State Planning and Budgeting (OSPB) inflation forecast for 2023

Colorado's Student Budget Parameters for COA Cost of Living Estimates

- Set each college's estimate directly using a statewide survey or agency data
- Set regulations providing for how colleges establish their estimate
- Approve each college's estimate
- Publish guidelines for how colleges can establish their estimates
- Monitor or approve how each college establishes their estimates
- Collect colleges' estimates and compare those to nearby colleges and the state's own estimates
- Simply collect the estimates

Adapted from: Tandberg, D., Kelchen, R., Pingel, S. (2018, March). *Cost of living estimates for financial aid purposes: Should states get involved?* State Higher Education Executive Officers.

States that provide COA guidelines and data sources to institutions support these colleges in their efforts to construct or revise their estimates by pointing them in the right direction. It can also mitigate internal incentives from other staff and administrators within a college that could otherwise lead to over or undercounting. The U.S. Department of Education should take note.

Sources for Cost of Attendance Calculation

There are a variety of administrative data sources available for institutions of higher education to consult in crafting their COA estimates. Which methods colleges use, and when, are an important area for future research. Colleges can use one or more strategies to create their COA estimates, particularly for indirect charges (costs of living). They then report their COA to the U.S. Department of Education.[47]

Indirect Cost Components:

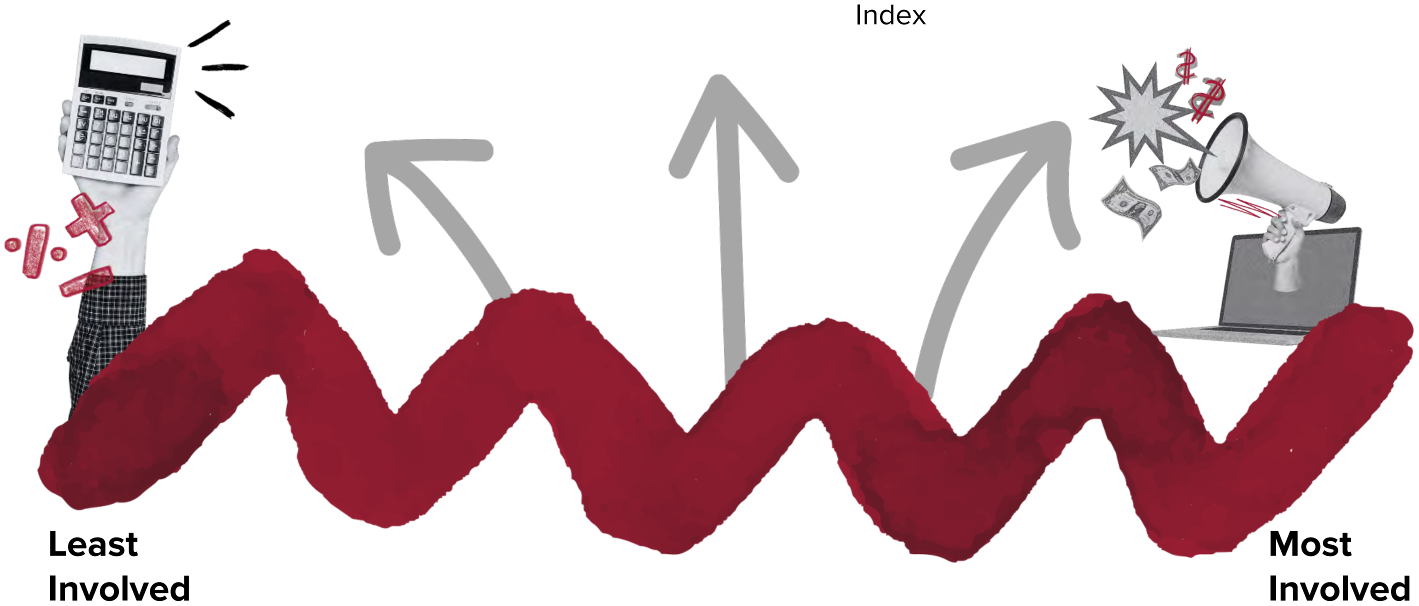
- Books and supplies
- Off campus Housing
- Transportation
- Personal Expenses
- Meals
- Loan Fees

Singular Method[1]:

- Consumer Price Index
- The College Board
- Bookstore/Housing Vendors
- % Increase from Prior Year
- Market Allowances

Multiple Method[2]:

- Expense Surveys
- Peer Institutions
- Market Allowance
- Academic Research
- Consumer Price Index
- The College Board
- Bookstore/Housing Vendors
- % of Direct Cost Increase



Note: [1] Singular Method: One data component is used to determine indirect cost component. [2] Multiple Method: Two or more cost components are used to analyze and inform the determination of indirect cost component.

Colleges have manypotential ways to evaluate student expenses which vary widely in their level of involvement and burden on the college. Source: Ruggless (2023).

Surveys

As NASFAA mentions, many colleges ask students about their costs by surveying those who have enrolled about their actual or estimated expenses. The colleges also sometimes survey property owners or landlords about housing costs. The depth and frequency with which colleges conduct these surveys have not been quantified. However, one qualitative analysis found that student expense surveys for COA are generally developed without the research expertise or knowledge typically involved in designing surveys or questionnaires.[48]

For example, asking students how much they pay for housing can return inaccurate data if surveys do not also ask how many people a student is living with to assess whether they are keeping their rent costs low by living in an overcrowded apartment.

Some surveys are administered without an Institutional Review Board (IRB) process or without other survey expertise to ensure reasonable response rates and minimize response bias.

Additionally, it is not widely known whether institutions that utilize student surveys routinely follow up with students to evaluate the COA estimates—for example, to inquire whether students found food and housing allowances adequate for the expenses they incurred.

The College Board

The College Board offers "guidance for living expenses" on their website, which they indicate is based on data from the most recent years' Consumer Expenditure Survey (CES), produced by the U.S. Bureau of Labor Statistics.[49] The numbers are adjusted by 35 Metropolitan Statistical Areas, including both 9-month and 12-month varieties, and "low" and "moderate" estimates.

Within the document, it is noted that *"The budgets should not be confused with the actual boarding expenses experienced by an on-campus student" and*, further, that the budgets *"**are intended as broad guidelines** or starting points which should be adjusted to local economies, individual situations, and Department of Education Cost of Attendance guidelines."* As a result, colleges that adopt the College Board figures should adjust them based on their local context to ensure their cost of living estimates are accurate.

On-Campus Services & Peers

Other colleges may solicit estimates from auxiliary services or affiliated vendors and contractors, such as campus bookstores or food service and housing providers. However, in such cases, these services are typically included in the institution's direct charges.

Alternatively, colleges might look to peer institutions directly (e.g. colleges in their metropolitan statistical area or region), looking to stay roughly in line with their immediate neighbors. As described above, such approaches can carry risks for students, as there is no guarantee that peer institutions are also setting their estimates accurately.

Local, State, and Federal Datasets

Perhaps the most reliable of all the sources for COA estimates are other local, state, and regional government datasets and indices that reflect what consumers actually pay. For housing costs, local rental and mortgage markets differ significantly by geographic location and urbanicity.

The previously mentioned Consumer Expenditure Survey (CES) produced by the U.S. Bureau of Labor Statistics (BLS) is a rigorously evaluated, nationally representative dataset with hundreds of types of expenditures that can be disaggregated by a wide range of demographic variables.

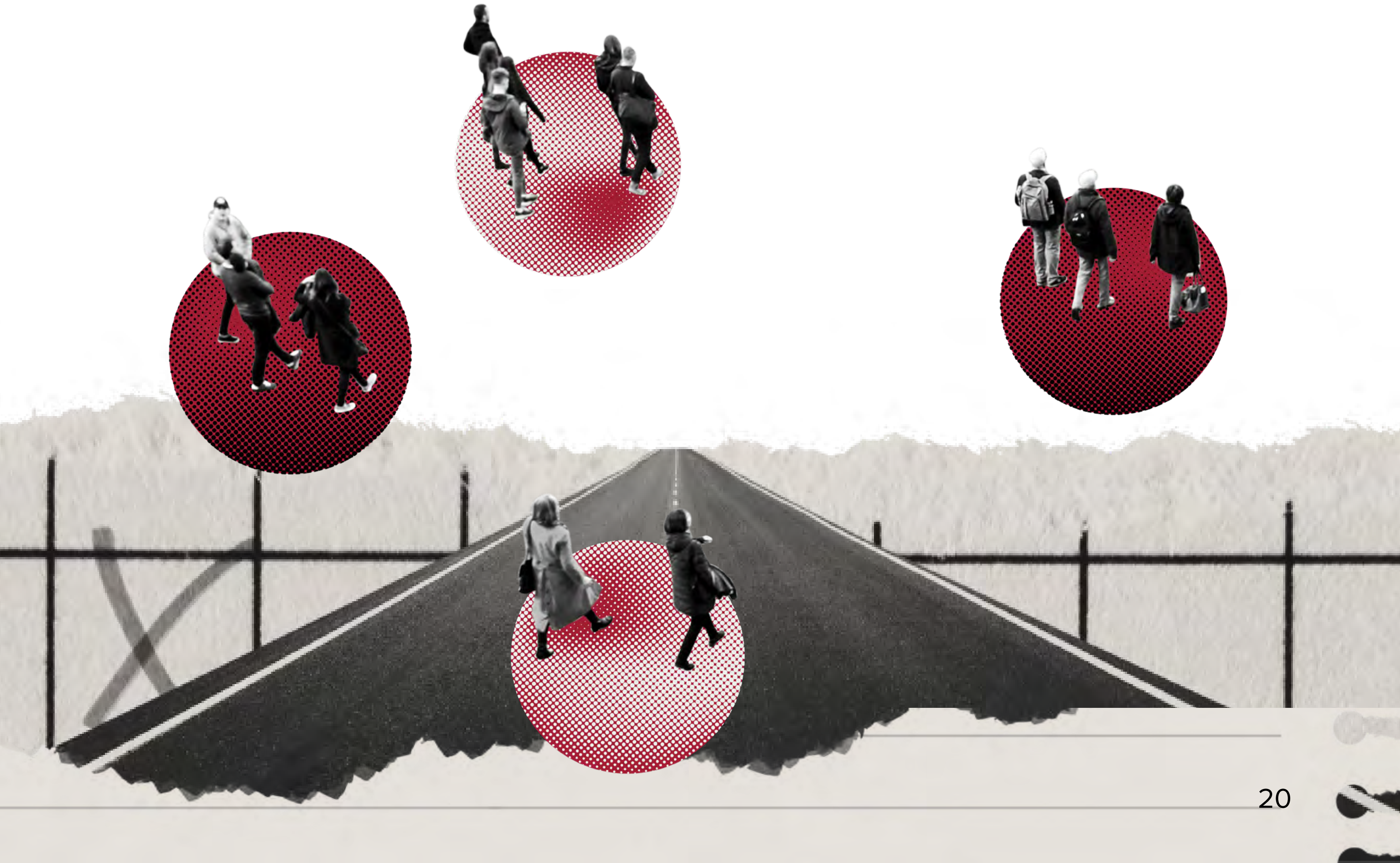
However, little is known about whether and how colleges routinely consult this government data source. One complaint about the CES survey is that it is data collected at the county level, but there are often variations within counties—particularly larger counties that may have urban, suburban, and rural areas. State-level datasets would contain similar drawbacks.

One group of students' living costs are always determined using the help of a government dataset—**veterans** attending school with their Post-9/11 GI Bill benefits. These veteran students receive a "monthly housing allowance" with their Post-9/11 GI Bill that is based, in part, on the cost of living near the campus location where they attend classes.[50] They also have rates that differ for students with and without dependents.

The housing costs for veterans are derived from a sophisticated Department of Defense (DOD) process for calculating local housing rates, which are updated annually according to median rents for different types of housing (i.e., apartments, townhouses/duplexes, and single-family homes of varying bedroom sizes) using residential vacancy listings from multiple listing services (MLS), subscription-based commercial rental housing datasets, web-based listing platforms (e.g., Zillow), real estate property management companies, and contact with local landlords.[51] The DOD's estimates for gas, water, and electricity utilities are calculated using the U.S. Census Bureau's American Community Survey and updated using the BLS Consumer Price Index.

By using DOD's advanced database, veterans attending school also typically benefit from automatic inflationary increases; the housing portion of their allowance increased by 12.1% in 2023, and 5.4% in 2024 to account for rapid inflation.[52] However, even with all of these generous and highly tailored calculations, veterans on the Post 9/11 GI Bill still report having to work or borrow to afford their housing costs[53] like most non-veteran students.

This report does not seek to evaluate the relative reliability of specific sources and methods for constructing COA. However, how colleges arrive at their conclusions, seek student feedback, update their estimates, and pressure-test their assumptions is a critical component of understanding the role that COA estimates play in the student experience—and topics that regulators should pay close attention to.



Recent Changes in Federal Law

While the fundamentals of COA and its components have remained relatively consistent for decades, federal law has made adjustments that are impacting the way that schools construct their estimates.[54] The *FAFSA Simplification Act* induced the most substantial changes to COA in recent memory by updating terminology and increasing transparency for students. These federal reforms could move the needle toward helping students receive aid and resources to meet their needs, including:

- Food allowances must reflect the cost of three meals a day to ensure students get adequate nutrition, regardless of whether the student lives on or off campus;
- Dependent students living at home or with family will receive a food and housing allowance (an amount that greater than $0, as some colleges had often estimated it), reflecting the reality that students living off-campus with family still have living costs and often contribute to groceries and rents/mortgages with their parent(s) or guardian(s);
- Students with dependents who wish to live on campus will receive a separate on-campus housing allowance, given higher costs for family housing;
- Transportation will always receive a separate allowance, which must now include costs for a student coming and going to their place of work;
- Tuition and fees will always be separately listed from required equipment, materials, or supplies to avoid bundling and increase transparency for students;
- Each COA element must be publicly disclosed on the institution's website anywhere that it discusses tuition and fees, including the dependent care allowance;
- The phrase "room and board" transitions to the more commonly understood phrasing "housing and food;"
- Students attending less than half-time can still receive an allowance for the purchase of a personal computer;
- Costs for incarcerated students are expanded to include other required expenses; and
- Any student who must obtain a license, certification, or a first professional credential, to work in their program will receive an allowance for such cost.

These changes went into effect during the 2023-24 award year, as authorized by Congress.[55] But perhaps most importantly, the *FAFSA Simplification Act* removed a longstanding ban in federal law that prevented the U.S. Department of Education from regulating the components of COA other than tuition and fees.

Before Congress removed this ban, the U.S. Department of Education could not issue any regulations – even through the negotiated rulemaking process – to establish guidelines or guardrails for how COA estimates are constructed. **Now, with the possibility of federal rules on the table, it is timely and appropriate to explore paths to improve institutional practice in constructing COA for non-tuition costs.**

Federal agencies also have the authority to issue interpretive guidance on COA. While agency guidance does not have the same force of law as statute or regulation, it is an important step in answering common questions, moving the federal government toward focusing on an important policy issue, protecting students, and generating institutional compliance and feedback.

Policy Recommendation: The U.S. Department of Education Should Establish COA Guidelines

Given the need to establish consistency, transparency, and reliability for COA estimates, best practices for calculating COA estimates should be established through technical assistance, guidance, and regulation. The agency may wish to first approach the issue through guidance to immediately address the most significant issues that create unreliable COA estimates. However, more durable regulations are needed, especially now that Congress has removed the ban on regulating the non-tuition components of COA.

Data-driven calculations

Institutions typically employ a wide range of formal and informal methods of calculating the non-tuition elements of COA—from using government or administrative datasets, to surveying students, to inquiring with housing and child care providers—but they are not required to choose a source based on objective data. The U.S. Department of Education should strongly suggest or require that institutions choose a data-driven method for calculating each COA component.

The NASFAA guide for constructing COA states that *"explaining detailed breakdowns of items included in each COA component as well as underlying assumptions is essential for consistency over time, for justifying estimates, for making [professional judgment] decisions, and for deriving consumer information."*[56] For housing costs for off-campus students, institutions should establish whether their calculation is based on whether the student shares costs (i.e., has one or more roommates) or lives alone (i.e. efficiency or studio apartment), indicate the assumption on financial aid offers and COA websites, and justify their decision based on a reasonable and appropriate assessment of the availability of local housing options and student demographics.

Documentation and reporting

Institutions are not currently required to report or disclose the methods they use to construct COA. Each college should report its method(s) directly to the U.S. Department of Education with the appropriate reference or citation. The method should be externally verifiable, particularly by federal agencies, state authorizing bodies, and accreditation agencies for oversight purposes. When a student survey is used as a data source, the institution should maintain records of the survey instrument, the raw survey data, and any data analysis or conclusions. And institutions should disclose their method(s) of COA calculation directly to students and families on the website where COA is required to be listed or, at a minimum, be required to produce the requisite documentation upon request.

Transparency and disclosure

The price of attending an institution of higher education is a basic element of consumer information but is often difficult for students and their families to discern. In addition to the statutory requirement to post COA on the website, the U.S. Department of Education should additionally strongly suggest or require that each element of COA and the total COA be accessible directly from the institution's homepage (possibly with a standard icon or phrasing) and included on all financial aid offers, with each component also described in plain language.

COA should always be referred to as "cost of attendance" to promote consistency between institutions that will better enable students and families to comparison shop.

The institution may choose to offer a net price calculator on such a website to contextualize the COA. Estimates related to student housing should clearly disclose the assumptions made by the institution (i.e. living alone or with roommates).

In addition to federal guidance, Congress could pass legislation to simplify and standardize financial aid offers, such as the *Understanding the True Cost of College Act,* which would enable more comparison shopping and put colleges on a similar footing for how they disclose COA to students.[57]

Regular updates

Living costs often change rapidly for students and other households due to shifts in supply, demand, or inflation rates. For example, data indicate that rent increases have outpaced inflation since late 2022.[58]

COA estimates should accurately represent the current housing price burden on students. Therefore, colleges should update their COA regularly and, at a minimum, every year—a cadence that should be strongly suggested or required.

The U.S. Department of Education should strongly consider establishing a standardized update calendar for all institutions—based on the scheduled availability of reliable housing cost data—to facilitate comparability, oversight, and the ability to provide timely technical assistance to financial aid professionals. And, in cases when housing costs are increasing rapidly, such as during times of high inflation, colleges should be encouraged to revisit their estimates more frequently.

Survey guidelines

Survey response rates may vary by student characteristics, leading to nonresponse bias.[59] For example, students with low incomes, parenting students, older students, and those lacking internet connectivity may be less likely to respond.

Some surveys also conflate the expenses a student needs to meet with how they eventually spend their limited funds; a student who experiences basic needs insecurity and decides to cut their food intake below nutritious levels, or put off essential medical care, may report lower expenses, leading to underestimation. Colleges may also already field a variety of student surveys throughout the year related to basic needs, campus climate, or student engagement and satisfaction, which could induce survey fatigue. **Financial aid professionals are not typically trained in survey administration and design.** If an institution insists on using surveys instead of administrative data to determine COA, the guidance and regulations should require or strongly suggest that such student expense surveys are rigorously designed and representative of the study body by including appropriate weights related to age, race and ethnicity, and income. Surveying may necessitate oversampling to ensure that disaggregation is possible for systemically marginalized groups and testing survey questions with student focus groups or faculty researchers.

Students with dependents or married students

COA's shortcomings lead to significant shortfalls in COA estimates for students who have dependent children of their own, are older, married, or otherwise cannot live with one or more roommates in the same way that younger students can. Inaccurate COA estimates deny these students critical access to financial aid, even the ability to borrow. For example, non-tuition expenses exceed COA by an average of $8,800 per year for all older students and by $10,900 for older students with dependent children.[60] The U.S. Department of Education should strongly suggest or require that colleges publish a separate COA estimate for all parenting students.

The rules should describe which dependent care expenses must be included, including all expenses during school-related activities and the cost of providing food and housing to such dependent(s). The statute indicates that dependent care allowance "includes, *but is not limited to"* costs that occur during class time, study time, fieldwork, internships, and commuting, which clearly requires support for the child's food, housing, and other basic needs.[61] These rules will also support the *FAFSA Simplification Act*'s adjustments to the federal methodology to enhance financial aid eligibility for single parents, which increases the amount of income that parenting students have protected and makes more single parents eligible for Pell Grants.

Basic necessities

Institutions currently have broad latitude to define the costs that are included in *"miscellaneous personal expenses."* The U.S. Department of Education should establish minimum standards for institutions to include certain types of necessities when calculating this allowance—and move certain best practices into regulation. For example, NASFAA recommends that the "miscellaneous" allowance account for clothing, toiletries, laundry, personal hygiene, and a cell phone plan—all of which are necessities for most students.[62]

Having a cell phone, in particular, is an essential need for students and far from a luxury allowance; institutions often ask their students to provide cell phone numbers for text-based communication and emergencies. Today, nearly all students must have broadband internet access to succeed with their coursework. The COVID-19 pandemic induced significant changes in student living arrangements and educational modalities.

More students than ever before are taking hybrid or fully online coursework and using online course materials, which often necessitate a stable and quiet place to live with fast internet connectivity or at least ready access to libraries and flexible workplaces with the requisite technology.[63]

COA estimates should account for each of these basic needs and common expenses for students and create consistency between institutions.

Health care

The statute governing COA clearly authorizes the "miscellaneous personal allowance" to include all health care costs for students. However, not all institutions include health care in this component, and the FSA Handbook doesn't mention it.

Does the Income Protection Allowance (IPA) cover health costs?

The FSA Handbook states that *"in general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption."* (Chapter 3, Application and Verification Guide).

However, these FSA guidelines do not appear in the *Higher Education Act*. The intent of the IPA is to protect a student or family's maintenance of a basic standard of living. But this does not mean that items informing the IPA are to be excluded, reduced, or modified from the COA. Food, housing, transportation, clothing, and personal care should also appear in the COA.

To promote student success, **health care costs should be included in a student's COA estimate**, regardless of whether the expenses are insured or uninsured.

Federal guidelines should not only ensure health care is always included in each institution's COA estimate but clearly articulate the specific categories required for colleges to adequately account for the health needs of their students. These categories should go beyond health insurance premiums to include out-of-pocket or uninsured costs, including co-pays, vaccinations, lab work, urgent care, prescription drugs, over-the-counter medicines, vision care, and mental and behavioral health care.

Colleges that offer their own health services on campus must ensure all such costs of care, not just insurance premiums, are included in their estimates. For example, if students have a copay, they should be afforded at least a few visits per year. Transportation to and from health care services could be included in either the transportation component of COA, or alongside health care expenses in the miscellaneous category. Federal guidance should address these options.

Housing

When institutions create their housing allowances, they should include all related expenses required of students, per the statutory reference to "rent *or other housing costs.*" Some institutions may mistakenly calculate only rent when constructing off-campus housing estimates. However, students are still likely to face application fees, security deposits, renters' insurance, maintenance, and utilities.

A security deposit could be several thousand dollars. Even if some of the deposit is ultimately refundable, landlords often unfairly limit, or take a long time to process, any refunds. Students need access to funds to afford these upfront expenses in order to matriculate successfully. Students with low incomes are especially likely to need such funds. First-year students may also need larger housing allowances for such reasons. At a minimum, colleges could offer a clear professional judgment option to adjust COA for students needing new housing.

For institutions that operate affiliated housing facilities and are calculating housing allowances for on-campus students, the institution should include any related costs or fees typically assessed to students as part of the residence hall or student housing process.

Some housing costs are likely to be incurred before the student begins an academic year to ensure they can secure their housing before the start of the term. Therefore, in addition to ensuring COA estimates are accurate, institutions should examine their disbursement procedures to ensure students can get timely access to aid.

Transportation

Transportation expenses should always include a student's ability to get to and from their classes and where they live. However, the statutory changes from the *FAFSA Simplification Act* now ensure the transportation allowance captures essential expenses like a student's commuting time to and from work. Colleges must also base their transportation estimates on students' full range of transportation expenses, such as gas, transit fares, maintenance, insurance, and airfare.

Unfortunately, public transit is often inaccessible for many students; 43 percent of community colleges do not have a transit stop within walking distance of campus.[64] Even where transit is available, routes and schedules may not accommodate student needs. As a result, owning a vehicle is often a necessity for students—not just at rural institutions. As a result of redlining policies, Black and Latine households are also more likely to live further from public transit and work.[65] People with disabilities also face limited transportation options. For those who already own a car, expenditures should include fuel, insurance, and maintenance.

The U.S. Department of Education should also consider reversing its ban on COA allowances accounting for vehicle purchases or car payments, a policy that does not appear in *the Higher Education Act*. Many students—particularly rural students—may be unable to realistically get to campus without their own vehicle, or their existing vehicle could break down while enrolled. The ban may also lead some institutions to erroneously avoid including any car-related expenses in their COA, even insurance and maintenance costs necessary for ongoing transportation.

If the agency does not explicitly reverse the ban on vehicle purchases, students should at least be able to pursue a professional judgment to account for their unique transportation circumstances if they need to purchase or maintain a low-cost or used vehicle to get to and from college, home, and work. Federa guidance could help raise these additional circumstances.

Branch campuses

Given the wide variation in living costs by geographic location, COA must reflect where students attend college. Under current practice, colleges could construct COA at a system level, even if their campuses are not proximate. Colleges should produce separate COA estimates for each campus location within a given system or reporting entity if the institution of higher education has one or more branch campuses or satellite locations.

Interaction with Income Protection Allowance (IPA)

As mentioned above, the FSA Handbook states that *"in general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption."*[66]

However, this language does not appear in the *Higher Education Act* itself. Congress created the IPA to recognize that students and families needed to use a portion of their income to maintain a basic standard of living, and not all income could be devoted to covering college costs.

However, the percentages and categories listed in the FSA Handbook are not grounded in the statute, and Congress has since overhauled the IPA formulas.

Additionally, nowhere does the law, guidance, or FSA Handbook state that items that may have informed the creation of the IPA should be excluded, reduced, or modified from the COA. For example, just because medical care is mentioned in the FSA Handbook as a component of the IPA does not mean institutions should not calculate medical or health care costs under COA. Likewise, food, housing, transportation, and clothing, and personal care items should not be reduced or modified, as doing so would undermine Congress' intent in specifying those as components of COA.

Federal guidance should clarify that cost of attendance is not to be adjusted based on the IPA. The U.S. Department of Education should remove language in the FSA Handbook regarding percentages undergirding the IPA, as it serves no purpose in calculating the SAI or administering financial aid and is not reflective of current Congressional intent.

Professional judgment

Students get their COA or Student Aid Index adjusted on a case-by-case basis by financial aid administrators if they have certain unexpected or unusual costs that may differ from the allowances set by the institution. However, students rarely use professional judgment (PJ), and many may not be aware of the option. Some colleges have also been reluctant to utilize the PJ process for fear of attracting a program review, which results in federal examinations and audits of their practices.

Other financial aid offices have struggled with the inherent complexity of the requirement to make PJ determinations on a "case-by-case basis" for example, when a set of circumstances may apply to more than one student. Even if multiple students face similar food shortages, housing evictions, or surprise medical bills, the college is morally obligated to address these situations and is not prohibited by any law or regulation from adopting similar responses, so long as each student applying for a PJ is subject to a holistic review of their circumstances.

Within the 2024-25 FSA Handbook, the current guidance for PJ specifically includes harmful language that suggests any PJ for "recurring costs" may be "unreasonable" while specifically mentioning adjustments for *"standard living expenses" (e.g. utilities, credit card expenses, children's allowances, etc.)."* The FSA Handbook then again repeats the language about IPAs already covering "modest living expenses."

This language is not aligned with the *Higher Education Act* and should be removed. Many of the statutorily-cited examples of PJ circumstances are recurring, such as tuition expenses at an elementary or secondary school; additional family members enrolled in college; and severe disabilities of the student or other member of the student's household. Adjustments for living expenses under PJ should not be limited by the U.S. Department of Education simply because they are recurring.

The U.S. Department of Education should also strongly suggest or require that all students applying for financial aid are made aware of the opportunity for professional judgment and provided with the relevant procedures and contact information. They should also take proactive steps to minimize program reviews for the appropriate use of the PJ process.

Timeline

The COA is intended to reflect the reasonable costs necessary for students to attend a college in a given year. The FSA Handbook states that colleges *"may not include in a student's COA costs (if any) for a period of non-attendance."*[67] However, the total amount of time students are enrolled and on or near campus within a 12-month timeline differs for each student, and being "enrolled" is not synonymous with being in class.

Some colleges use a "nine-month expense" period for their COA estimates to correspond to a nine-month academic calendar (e.g. leaving out a summer term). The College Board's Guidance for Living Expenses includes both 9- and- 12-month estimates. However, these time periods do not appear in the *Higher Education Act*, which typically refers to award years.

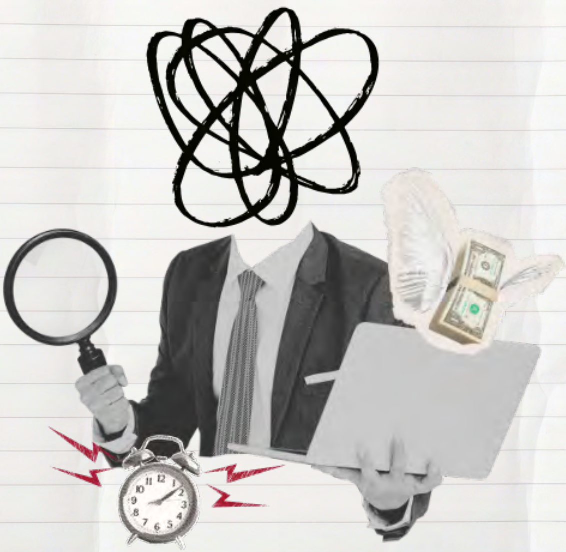
Higher education has also been slowly moving toward a year-round model, especially after Congress restored the year-round Pell Grant in 2017. Additionally, while many students work part or full-time, it is not reasonable to assume that all students have the financial resources to pay for living costs between all periods of their coursework—and students already express high levels of financial and basic needs insecurity. Because students incur living costs just before the beginning of a term, just after the end of a term, and during periods of academic breaks—all when they are still actively enrolled as students—federal guidance should help colleges understand the timelines for their COA estimates up to 12 months.

Require federal support for colleges

Financial aid professionals already have demanding workloads and significant time and resource constraints. The U.S. Department of Education should supply the technical assistance necessary to effectuate these new rules and equip financial aid professionals with the tools they need to refer to government datasets or design high-quality student surveys.

The U.S. Department of Education should task itself to provide regular trainings and guidance on methods for calculating COA, and eventually memorialize this requirement in its regulations. This could include tutorials on how institutions can analyze the public use microdata available from the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey; the benefits and drawbacks of various federal datasets; ways to benchmark institutions in the same geographic area; and alerts when notable trends or economic conditions may warrant an update to living cost estimates.

For institutions that insist on using student surveys, the agency could provide sample survey designs, sampling methodology, and administrative procedures. It may also be helpful for the U.S. Department of Education to study and project the amount of staff time needed to ensure reliable COA estimates under the new rules to help financial aid professionals advocate for additional resources from their institution to support this critical work.



STRESSED OUT: A 2023 survey, prior to the recent FAFSA difficulties, showed that **56%** of financial aid employees were likely to seek other employment in the next year.

Source: CUPA-HR's 2023 Higher Education Employee Retention Survey.

Perhaps eventually, the U.S. Department of Education should establish the expertise and processes to provide indirect cost estimates directly to the colleges themselves, similar to how the U.S. Department of Veteran Affairs obtains estimates for veterans using the Post 9/11 GI Bill. This assistance could help financial aid offices that can't afford the time it takes to create and routinely update reliable estimates.

Using data available from government sources, the U.S. Department of Education could provide estimates of food, housing, transportation, child care, health care, and other common expenses that institutions could readily adopt, consider, or adjust. The agency could also develop these estimates in partnership with state higher education and grant agencies.

Conclusion

With so many students struggling to meet their basic needs, and the increasing costs of living, the COA estimates for non-tuition costs play a profound role in students' and families' decisions about where to attend college and how best to set themselves up for financial success once they get to campus.

The recommendations in this report to increase federal oversight and guidelines for COA cost of living estimates can bring reliability, consistency, and improvement to developing and disclosing higher education expenses for students and families.

The research documenting variations and shortcomings in COA estimates demonstrates a clear need. Also, the possibility of conflicting institutional interests and pressures in the COA development process can quickly get in the way of what students need. Overwhelmed financial aid administrators could use additional tools and guidelines to help them focus on the best interests of their students and families.

Thankfully, Congress recently handed the U.S. Department of Education new rulemaking authority to establish this overdue federal oversight. The agency can also move incrementally, first by issuing guidance and expanding training opportunities, and later by considering durable regulations. Students preparing to attend higher education need reliable information about how much they will pay to attend higher education, use educational materials, and complete their coursework.

Given the significant need for accurate cost estimates and the growing role of living costs, **it is time for the U.S. Department of Education to address how the major elements of COA are calculated for students and families**.

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About The Hope Center for Student Basic Needs

The Hope Center for Student Basic Needs at the Lewis Katz School of Medicine at Temple University is an action-oriented research, policy, and capacity-building center, removing barriers to college student success and well-being through:

- Research: investigating students' lived experiences with basic needs insecurity and evaluating interventions;
- Policy: informing and advocating for systemic policy change to make college more affordable and secure college students' basic needs; and
- Practice: collaborative coaching with colleges, universities, and states on meeting students' basic needs through systems transformation.

To learn more about the report author, Bryce McKibben, and The Hope Center for Student Basic Needs, visit https://hope.temple.edu/about-hope-center.

For media inquiries, contact hcpress@temple.edu.

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