

Creating a “Receipt” for Higher Education



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When you make a major purchase in your life, you usually have a good idea of what you’re paying for. When you go to the doctor, you get a detailed explanation of benefits that outlines the services the office performed, how much each procedure cost, the amount covered by insurance, and how much you’re responsible for paying as a patient. The same is true for buying a television, getting a new iPhone, or even waiting for the lengthy receipt that accompanies your purchase at CVS.

But in higher education, there’s often little transparency around what exactly you’re buying. In fact, it’s nearly impossible to discern whether institutions of higher education are primarily spending their money on marketing, fancy amenities, or instruction and support services for their students. Since the average student spends over \$16,000 of their own money every year to attend the institution of their choice (even after all scholarships and grants are deducted),

it’s critical for them to understand exactly how their money is being spent. ¹ That’s why Congress should pass a simple solution: a “receipt” for higher education. Institutions receiving tax dollars through federal grants and loans should have to disclose how they are spending students’ money—including the percentage spent on marketing and recruitment, instruction, academic support, and student services, so that consumers can make better choices about where to make one of the biggest investments of their lives.

The Problem

Students (or potential students) have almost no idea how institutions spend their money.

Postsecondary education is often the second largest investment that someone will ever make, beyond buying a house. That’s why students have a right to more information about what they’re paying for and what they’re getting in return, similar to a home inspection and Truth in Lending report that one receives before purchasing a home. ² Yet once a student cuts a tuition check for the amount owed after grants and scholarships, there’s almost no clarity about where that money is going. But institutions *do* have a clear accounting of where tuition money is being spent. That’s because every year, institutions eligible to receive federal student aid are already required to report financial information to the Integrated Postsecondary Education Data System (IPEDS), including their sources of revenue, categories of spending, and any potential liabilities that are outstanding (see screenshot of the survey below). ³ Yet this information is tucked away inside a U.S. Department of Education (Department) database, a place where students and families are highly unlikely to ever go.

Part C-1 - Expenses by Functional Classification

Most recent fiscal year ending before October 2018					
Report Total Operating AND Nonoperating Expenses in this section					
Line No.	Expense: Functional Classifications	Total amount	Prior Year Total Amount	Salaries and wages	Prior Year Salaries and wages
		(1)		(2)	
01	Instruction	<input type="text"/>		<input type="text"/>	
02	Research	<input type="text"/>		<input type="text"/>	
03	Public service	<input type="text"/>		<input type="text"/>	
05	Academic support	<input type="text"/>		<input type="text"/>	
06	Student services	<input type="text"/>		<input type="text"/>	
07	Institutional support	<input type="text"/>		<input type="text"/>	
10	Scholarships and fellowships expenses, net of discounts and allowances (from Part E, line 11)				
11	Auxiliary enterprises	<input type="text"/>		<input type="text"/>	
12	Hospital services	<input type="text"/>		<input type="text"/>	
13	Independent operations	<input type="text"/>		<input type="text"/>	
14	Other Functional Expenses and deductions CV=[C19-(C01+...+C13)]	<input type="text"/>		<input type="text"/>	
19	Total expenses and deductions	<input type="text"/>		<input type="text"/>	

students and families how much of their money is being used to fund instructional and non-instructional services. Just as students have a right to know whether an institution will provide them with a good chance at graduating and obtaining a financially secure job, students and families also have a right to understand how their educational dollars are being allocated by the institution they plan to attend. Having clearer, more concise information could help guide their college choices and give them a better sense of which institution may ultimately serve them best.

Institutions spend a lot of money outside of academic instruction and support services.

Some institutions spend an inordinate amount of money on student recruitment, with the worst reaching nearly \$10,000 per student.⁴ One college alone—the University of Phoenix—spent almost twice as much on marketing than Apple in 2009.⁵ Without this information regularly being made available to consumers, it's impossible for a prospective student to know how much he or she would be paying toward actual instruction and support services as opposed to extraneous costs designed to simply have more students enroll and boost an institution's bottom line. This lack of transparency also makes it difficult for policymakers to understand how many taxpayer dollars (through federal grants and loans) are being allocated toward non-instructional activities, whether that be student recruitment, building construction, or executive salaries.

The Solution

A “receipt” for higher education would provide prospective students with information on how their money will be spent before they choose to make one of the biggest purchases of their lives. Each student should be provided with a receipt based on the net price they pay—the total cost they will be responsible for after all scholarships and grants—which would include a read-out of how that money will be used. Based on the financial information that institutions already report to IPEDS, this receipt should reflect the institution's expenses within the previous year to provide the most recent and accurate accounting of where the money paid to an institution goes. It should also include a new “marketing and recruitment” bucket, as this non-instructional expense accounts for a large portion of some institutional budgets and may indicate to consumers that a school is more interested in cashing checks than providing quality teaching and learning.

This receipt should be provided to students at the same time they receive their financial aid award letter from an institution, whether they be first-time or returning students. The receipt would break down the total amount a student would pay that year and the approximate contribution they will make toward each institutional expense, projected based on the last

year's actual budget. Below is a sample of what this receipt could look like if a student paid the

average net price of \$16,000 and their institution’s total expenses equal \$60 million:

Expense	Cost	Percentage of Total Expenses	What you will pay for this year: \$16,000
Instruction	\$20 million	33.3%	\$5,328
Research	\$6 million	10%	\$1,600
Public service	\$1 million	1.6%	\$256
Academic support	\$3 million	5%	\$800
Student services	\$2 million	3.3%	\$528
Institutional support	\$3 million	5%	\$800
Auxiliary enterprises	\$4 million	6.7%	\$1,072
Hospital services	\$1 million	1.6%	\$256
Independent operations	\$7 million	11.7%	\$1,872
Marketing and recruitment	\$13 million	21.6%	\$3,456

Providing this information to students before enrollment would give them a better understanding of how an institution spends their money and whether they’re getting the best bang for their educational buck. It may also encourage a wiser use of resources by institutional administrators, as students and families will have a much clearer idea of whether their money is being used on instructional support and student services, as you would expect most anticipate, or on activities that have nothing to do with student success. Just like any other large purchase one makes, students have a right to know how an institution stewards the money they pay it to carry out the mission at-hand.

Critiques and Responses

This would place undue burden on institutions.

Creating a “receipt” of this nature would place a minimal burden on institutions, as institutions already provide all of this information except for marketing and recruitment to the Department through the financial component of the IPEDS annual survey.⁶ While the amount that each student pays may be different, calculating how their money is being spent should actually be quite simple. Institutions can use similar software that they use to produce

their financial aid award letter to determine their net price. Then it becomes a simple allocation based off an institution's previous year's expenses, which have already been reported to the Department. Many institutions already have third-party vendors who do this type of work for them. The Department could also provide software for smaller institutions to populate each receipt, as it has previously done with financial aid award letters through its EdExpress software system. ⁷

Students won't use this information to make better college decisions.

While some students may not understand what certain expenses are, a receipt based upon their net cost would provide them with a general understanding of what they are paying for—and a significantly better understanding than most prospective students have today. If an institution is spending most of its resources on non-instructional services, such as marketing or recruitment, this may indicate that the institution prioritizes bringing new students into an institution, rather than providing the ones who are there with a quality education. This public airing of their finances may also incent institutions and those that help govern them (including state policymakers) to think more wisely about which expenses best promote long-term student success.

Institutions bring in revenue outside of tuition, so it's not fair to assume that the amount students pay is directly allocated toward each expense.

Some institutions may bring in other revenue outside of tuition, such as investment income, donations, and federal and state appropriations. Therefore, some expenses may be paid with outside sources, rather than the amount students pay themselves. However, since some institutional revenue streams are outside of students' control, it makes sense to only provide a receipt that is prorated based upon the actual amount that each student pays him or herself, rather than adjusting for revenue that comes from outside sources. For consumer purposes, this will provide the clearest picture of how a student's money will be used at the institution they choose to attend.

Conclusion

With the increasing cost of college, now more than ever, students and families deserve a clear indication of how their educational dollars are being spent. However, right now in higher education, there is very little information provided on what kind of services students are paying for, even though the average student pays nearly \$16,000 of their own money to attend the postsecondary institution of their choice. This simple policy fix — providing a receipt for higher ed — illuminates how students' money is actually being spent, so that they can make the best choice possible about where to make one of the biggest investments they will ever make.

ENDNOTES

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