

Affordability & Predictability

Finance Subcommittee Meeting
March 24, 2015

What have we done?

- We have developed a **long-range financial plan** for the University.
 - Subject to board-approved annual budgeting
 - Sources and uses were discussed at the November meeting
 - Board actions were taken at the Executive Committee meeting in February and at today's Finance Committee meeting.
- We have crafted a proposal that addresses increased **affordability for Virginians**.
 - TJ21 state legislation declared as state policy to improve affordability for low-income and middle-income students and their families.
 - The Governor's Commission on Higher Education, chaired by Tom Farrell, specifically asked state higher education institutions to address middle class families that are "squeezed because tuition continues to rise yet financial aid through grants is limited or non-existent."
- We are creating a proposal for offering families an option for **tuition certainty** and have built an assumption on **tuition predictability** into the financial plan.

Defining Affordability

- ❖ The **definition of middle income** was developed by the Top Jobs of the 21st Century-created Higher Education Advisory Committee (400% of the federal poverty definition; **roughly \$100,000 for a family of four**)
- ❖ The two primary reasons students make decisions on college: **prestige and cost**
- ❖ **70% of all Virginia households have annual household income of less than \$100,000**
- ❖ **Improving net price** makes it **more affordable** for a growing proportion of Virginia high school graduates to attend UVA

Affordability

Interim Report of the Governor's Commission on Higher Education Reform, Innovation and Investment (December 20, 2010):

"The Commission has focused on the particular **affordability challenge faced by middle-income students and their families**. Wealthy Virginians generally can afford to pay for college, and they even get a subsidy from taxpayers: those attending independent colleges qualify for TAG payments, and at public institutions in-state tuition is substantially lower than the actual cost to educate the student. At the low-income end of the spectrum, needy Virginians traditionally have qualified for ample federal grants and/or loans. **In the middle, however, families are squeezed because tuition continues to rise yet financial aid through grants is limited or nonexistent.**"

Source: <http://docs.house.gov/meetings/SM/SM00/20130710/101074/HHRG-113-SM00-20130710-SD003-U9.pdf>, p. 104

Objectives of New Model for Affordability for UVa

Continue to meet 100% of demonstrated need and maintain need-blind admissions policy

Reduce need-based loans and increase grants for Virginians

Lower net price for roughly 70% of Virginian families (low and middle income Virginians who demonstrate financial need), effectively relieving the “middle-class squeeze”

Ensure that Virginians’ actual cost of education continues to place the University as one of the nation’s best values in higher education

Reduce Need-Based Indebtedness for Virginians

- *Minimize role of loans as part of financial aid strategy.*
- *\$10,000 reduction in maximum indebtedness after four years*

	<u>Current Model</u>	<u>New Model</u>
For low-income Virginians:	\$14,000	\$4,000
For all other Virginians:	\$28,000	\$18,000

Impact of Student Debt Relative to Disposable Income

- College graduate's average salary: \$40,750 for first job post-graduation
- After tax income: \$31,066

	<u>Current Model</u>	<u>New Model</u>
<i>Low-income Virginians</i>		
Maximum need-based indebtedness	\$14,000	\$4,000
Monthly loan payment	\$146 per month	\$50 per month
<i>All other Virginians with need</i>		
Maximum need-based indebtedness	\$28,000	\$18,000
Monthly loan payment	\$316 per month	\$188 per month

Assumes interest rate of 4.7% and term of ten years.

Data Sources: University Career Services, <http://www.finaid.org/calculators/loanpayments.phtml>

Funding to Reduce Need-Based Indebtedness for Virginians

- Two \$1,000 step increases to be fully phased in by 2019-2020:
 - In-state students entering Fall 2015: 15-16 base tuition + \$1,000
 - In-state students entering Fall 2016: 16-17 base tuition + additional \$1,000 (total step increase of \$2,000)
- Current in-state students are exempt from step increases.
- Tuition revenue generated from the step increases will be used to fund tuition grants.

Socio-Economic Diversity

"A robust financial aid plan is critical to our efforts to enroll a diverse and talented class of students each year.

Improving our existing aid model to** limit student loans, and thereby **decrease debt, should positively impact student application and enrollment decisions and make us more competitive with our peer institutions."

-- Greg Roberts, Dean of Admission

Tuition Certainty

- For planning purposes, financial model assumes base annual tuition increases at inflation (estimated at 2.5%) plus 100 basis points, or an additional 1%. The actual annual change could be impacted (positively or negatively) by factors such as changes in Board policy, philanthropic success, changes in state policy or appropriations, etc.
- For Virginia students/families who want the certainty of a guaranteed four-year base tuition price, the University will develop a four-year fixed-price base tuition contract *option* that will be available at a reasonable *premium*. (This guarantee is exclusive of fees and school-specific tuition differentials.)

Endowment

- We recommend that the University establish a long-term objective of building an endowment for need-based scholarships that fully funds tuition grants to provide relief to the operating budget, thereby promoting enhanced affordability and financial predictability.
- An endowment of \$1 billion would independently fund the current level of tuition grants.

Why Now?

1. Financial aid award packages are going out to accepted students on Monday, March 30th
2. Proposal immediately lowers need-based indebtedness on existing and incoming in-state students
3. Reinforces University's leadership position as best value in higher education

Questions for Discussion

1. Is this something we as a University want to do?

- The Finance Subcommittee believes reducing debt for Virginians is the best way to increase affordability.
- We believe this is an important goal and one that distinguishes us as a leader among universities.

2. Are these the right amounts?

- We believe that decreasing student debt by \$10,000 for middle- and low-income Virginians, commensurate with two \$1,000 increases of tuition is the most compelling scenario.

3. Is a step increase in in-state tuition the best way to pay for it?

- The Finance Subcommittee considered all revenue levers before looking at a step tuition increase. Those levers are being used to fund the growth of the University (with predictable tuition increases in line with inflation plus one percent) as well as the strategic priorities plus generational faculty turnover that will total almost \$500 million over seven years.
- A tuition step increase is best way to fund decreasing student debt as it is a predictable and sustainable revenue source, allowing us to make the long-term commitment to minimizing debt load on students.

UVa In-State Tuition & Fee Rates

	2015 Entering Class	Expected 2016 Entering Class (after 3.5% predicted increase)
In-State	\$13,468	\$13,939
Out-of-State	\$43,764	\$45,296