Is Your Discount Rate Too High?

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Understanding Discount Rates

- Market Realities
- Definition of Discount Rate
- Discount Rate Trends
- Drivers
- Packaging Options
- Control Expenditures
- Sample Reports
- Summary
The Market Realities

Declining Demographics
Increased Competition
Growing Costs
Stagnant Outside Aid
Higher Discount Rates
Declining Net Tuition Revenue
The Financial Aid Arms Race
The Number of High School Graduates is Declining
One-Third of Colleges Saw Their Average Net Tuition Revenue Decline
Question 4: Include grants funded by your institution that were awarded to entering first-time, full-time freshman. These include grants awarded on the basis of students' financial need, academic merit, athletics, or any other criteria your institution may use. Also include that any grants that were funded by restricted and unrestricted endowment income. DO NOT include: federal or state grant aid, private scholarships, institutional matches for externally funded student aid grants, transfers from the current fund to student loan funds, tuition waivers/tuition remission, tuition benefits for institutional employees or their dependents, or tuition exchange programs.
• Tuition Remission/Benefits
• FSEOG and FWS
• Full-Time versus Part-Time
• Endowed Funds
• Non-Discounted Programs
• Room and Board Charges
• Freshmen Definition
When You Don’t Understand the Definition

- Public Discount Rate of 26%
- Actual Discount Rate of 36%
- $6,498,000 in Accounts Receivable
- Enough to Fund $3,000 in NBFA
- 42% Effective Discount Rate
- 51% Retention Rate
- 29% Six-Year Graduation Rate
Source: NACUBO Tuition Discounting Study, 2007 to 2018; data are as of the fall of each academic year. *Preliminary estimates.
Discount Rate
Drivers

Drivers We Cannot Control

Drivers We Can Control
Discount Rate

Drivers We Cannot Control
Location Matters

- Cost of Doing Business
- State Scholarships and Grants
- Competition
East Coast Market

Tuition Rates  Higher

Costs  Higher

Higher Discount Rates
State Grants

VTAG $3,400

NJTAG $12,938
Competition

35 Colleges in Boston

60 Colleges in Iowa

30 Private Colleges in Iowa

NAIA Athletics

Financial Aid Arms Race
Enrollment Characteristics

- Geographic/Ethnic Diversity
- Residence Hall Rates
- Financial Need
Diversity

Average Income

- Asian: $74,297
- White: $60,256
- Hispanic: $42,191
- Black: $35,398
Residential Status

Bar chart showing the difference in earnings between Commuter and Resident series 1.

- Commuter: $22,500
- Resident: $32,000
# Financial Need and Finding Those “Full Pay” Students

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Number of Children</th>
<th>% of Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $30,000</td>
<td>931,000</td>
<td>22.27%</td>
</tr>
<tr>
<td>$30,000 to $50,000</td>
<td>762,000</td>
<td>18.23%</td>
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<tr>
<td>$50,000 to $70,000</td>
<td>654,000</td>
<td>15.65%</td>
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<tr>
<td>$70,000 to $90,000</td>
<td>531,000</td>
<td>12.70%</td>
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<tr>
<td>$90,000 to $110,000</td>
<td>393,000</td>
<td>9.40%</td>
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<tr>
<td>$110,000 to $130,000</td>
<td>277,000</td>
<td>6.63%</td>
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<tr>
<td>$130,000 to $160,000</td>
<td>255,000</td>
<td>6.10%</td>
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<tr>
<td>$160,000 to $200,000</td>
<td>162,000</td>
<td>3.88%</td>
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<tr>
<td>$200,000 to $250,000</td>
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<tr>
<td>$250,000+</td>
<td>124,000</td>
<td>2.97%</td>
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Discount Rate Drivers

Drivers We Can Control
Institutional Programming

- Low Enrollment Majors
- Fine Arts
- New Offerings
- Scholarship Athletics
Institutional Aid Programs

- Number of Programs
- Renewal Requirements
- Percentage Scholarships
- Stacking Rules
- Control Authority
- Design and Predictability
Packaging Options

- Flat Targets Versus Percentage
- Design of Merit Aid Programs
- Gaps and Caps
- Tuition Increases
- Outside Reductions
- Private Sources
Cost Savers

- Level Packaging
- Federal Direct Loans
- Federal Work-Study
- Endowed Funds
- Retention
Impact of Level Packaging-3% Tuition Increase

<table>
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<tr>
<th>Year</th>
<th>Institutional Aid</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year One</td>
<td>$10,000</td>
<td>$20,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Year Two</td>
<td>$10,000</td>
<td>$20,900</td>
<td>$30,900</td>
</tr>
<tr>
<td>Year Three</td>
<td>$10,000</td>
<td>$21,827</td>
<td>$31,827</td>
</tr>
<tr>
<td>Year Four</td>
<td>$10,000</td>
<td>$22,782</td>
<td>$32,782</td>
</tr>
</tbody>
</table>

Institutional Aid: 33%
Other: 32%
Total: 31%
Other: 30%
Impact of Federal Direct Loans

Year One:
- Direct Loan: $5,500
- Institutional Aid: $10,000
- Other: $4,500
- Total: $20,000

Year Two:
- Direct Loan: $6,500
- Institutional Aid: $9,000
- Other: $4,500
- Total: $20,000

Year Three:
- Direct Loan: $7,500
- Institutional Aid: $8,000
- Other: $4,500
- Total: $20,000

Year Four:
- Direct Loan: $7,500
- Institutional Aid: $8,000
- Other: $4,500
- Total: $20,000

Percentage Breakdown:
- Direct Loan: 33%
- Institutional Aid: 30%
- Other: 27%
- Total: 100%
Federal Direct Loans Combined with 3% Tuition Increase
Federal Work-Study

- REDUCES GRANT OFFERS
- SOME WILL NOT WORK
- SOME WILL WORK FEWER HOURS
- SOME WILL WORK PART OF YEAR
- BENEFITS OF STUDENT LABOR
- RETENTION BENEFITS
Maximize Endowed Funds

- Integrate: Integrate Into Financial Aid Plan
- Replace: Replace Merit and Need-Based Offers
- Award: Award in September
- Work: Work with Donors
Reduce Costs with Retention

- Federal Direct Loans
- Tuition Increases
- Reduced Stress on Resources
- Housing Changes
Sample Financial Aid Reports

- Returning Students
  - Financial Aid Applications
  - Packaged
  - Ready for Disbursement

- Admission Applications
  - Financial Aid Applications
  - Packaged
  - Ready for Disbursement

Average

- $11,422

- $9,600
Consider That Your Discount Rate Might Be Too Low
Questions?
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