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So, You Are Worried About Your Discount Rate?

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If you are worried about your discount rate, join the chorus. Few institutions are pleased with rising discount rates.

Concern is fine, but it is important to understand the drivers of discount rates before settling on a plan to reduce them. For many private colleges and universities, reducing discount rates is neither realistic nor desirable. A reality check is in order.

If you enroll needy students, your discount rate is going to be high and will likely increase every time you raise tuition.

Colleges and universities with Federal Pell Grant eligibility exceeding 40% of the population are going to have high discount rates. Reducing discount rates at such schools is like trying to squeeze blood from a turnip. You cannot increase the amount families pay if they do not have the money. Decreasing financial aid expenditures will reduce new student enrollments, increase attrition rates and simply transfer discount expenditures into outstanding receivables.

Consider a real example. The following is a financial aid package for a needy student at a college trying to control its discount rate by capping institutional grants at $12,000. Assume tuition, fees, room and board at this school is $36,500.

Federal Pell Grant	**$ 6,345**
Subsidized Direct Loan	**$ 3,500**
Unsub Direct Loan	**$ 2,000**
State Grant	**$ 3,500**
Federal Work-Study	**$ 2,000**
College Grant	**$12,000**
Total	**$29,345**

While an arbitrary cap will control the discount rate, the impact of the approach means that this student will owe $7,155 plus books, when the government formula indicates the family is able to pay nothing. Consider the possibilities when students are offered unrealistic packages:

1. If it is a prospective new student, the family may do the math and elect not to attend.

2. If it's a currently enrolled student, the family may decide that continued enrollment is not financially feasible, and the student will transfer or drop out.

3. A prospective student may elect to enroll anyway and hope that the $7,155 balance can be addressed in the future. It is more likely, however, that the student will not be allowed to enroll for the following term because of the outstanding balance and will now be counted in the institutional attrition rate and will definitely not be counted in the graduation rate. The student will not even be able to transfer, as most colleges and universities withhold academic transcripts for students with outstanding balances.

4. A continuing student may elect to re-enroll anyway and hope that the $7,155 balance can be addressed in the future. It is more likely, however, that the student

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Inside this issue:

Good News

Congratulations to the enrollment team at Emory & Henry College. While enrollments nationally declined by 4.5%, the liberal arts college increased new student enrollment this Spring by 64%, despite the challenges of the economy and the pandemic!

SO, YOU ARE WORRIED ABOUT YOUR DISCOUNT RATE? CONTINUED:

will not be allowed to enroll for the following term because of the outstanding balance and will now be counted in the institutional attrition rate and will definitely not be counted in the graduation rate. The student will not even be able to transfer, as most colleges and universities withhold academic transcripts for students with outstanding balances.

Keep in mind that under scenarios three and four, the student leaves owing money to the college, but also departs with a sizeable student loan debt that they are unlikely going to be able to pay.

5. Whether it's a new or returning student, it is always possible that the family will miraculously find another $7,155+ in resources by winning the lottery, or perhaps, through the generosity of a friend or relative. In this case, the institution has controlled its discount rate without negatively impacting total enrollment counts, cash flow, retention or graduation rates. Of course, when the student tries to re-enroll the following year, the same financial obstacle will exist, but there may not be a lottery ticket or another generous relative available to bail out the family.

This example is not at all unusual at colleges and universities. It can be caused by an institutional aid cap, unreasonable financial aid gapping practices, ill-informed leveraging schemes or just inappropriate financial aid packaging policies. The bottom line is that such outcomes occur due to institutional financial aid budgets that are based on whim or desire and are capricious or random, instead of being based on accurate research and reason.

Unrealistic institutional aid targets are most disturbing at schools purporting to provide access and serve under-represented populations. If the probable outcome of an unrealistic aid budget and packaging model is attrition, then one must ask if at-risk students are righteously served at such schools, or would they have been better off attending college elsewhere, or not attending college at all?

Be careful how you use PLUS loans to fill packaging gaps.

Parent Loans for Undergraduate Students (PLUS) can be an excellent option for a family with some ability to pay. Perhaps a parent loan makes more sense for a family unwilling to tap funds from investments. It is also an effective means for families who have the monthly income to add a loan payment to their expenses. Unfortunately, PLUS loans are increasingly offered to families who cannot afford them.

- I have personally seen hundreds of PLUS loans approved for parents of students eligible for Federal Pell Grants.
- Families with low incomes are very likely to default on these loans.
- While PLUS loans for financially disadvantaged families might serve the short-term Accounts Receivable needs of colleges and universities, they can be financially devastating for families.

College administrators are right to monitor and be concerned about discount rates. It is important, however, to understand the financial characteristics of the students and families you serve. It is a mistake to initiate policies to control your discount rate that are likely to result in fewer new student enrollments, attrition and unreasonable financial hardship for families. There are other ways to control expenditures and generate revenue with intelligent financial aid award policies.

ENROLLMENT GROWTH STRATEGIES FOR POST-PANDEMIC REALITIES

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With spring in the air and more Americans getting vaccinated every day, there's much to look forward to for the Fall 2021 semester. But before we get ahead of ourselves, how are your enrollment strategies for this upcoming semester working?

Despite reports of "application inflation," students applying to more than 10 institutions simultaneously, and the fact that some colleges interpret the increased number of applications as a sign of their growing popularity and reputation, there is a hard reality: although many students are serious about their applications at several campuses, they also may find it easier than ever to apply and be accepted by a multitude of schools given the test-optional status of so many higher education institutes due to the pandemic. Furthermore, many of today's high school seniors have been unable to travel to visit campuses in-person due to travel restrictions, so students may be casting a wider than usual net this year. To avoid a hard landing come August when the

Enrollment Growth Strategies for Post-Pandemic realities cont'd:

true enrollment numbers come in, we offer some advice on how best to develop a growth philosophy based on sound marketing and innovative programs.

First, let's survey the landscape. During a recent discussion about enrollment trends and practices hosted by the Council of Independent Colleges at its (virtual) annual Presidents Institute, countless veteran presidents commented on the intensity of the student-recruitment process and the need for new practices. No impetus in our lifetime has caused the need for change quite like the COVID crisis. Online view books and virtual campus tours are no longer nice extras, but crucial necessities for student recruitment. Virtual open houses require a new kind of savvy. It is no longer essential that only enrollment counselors are adept at making real connections with students virtually. Many stakeholders across campus – faculty, campus life and student activities staff, and yes, even the president – must be compelling in a virtual format.

Second is the budget reality. In earlier columns we suggested that private colleges and universities with endowments under $100 million should have a "critical mass" (full-time residential enrollments) of at least 1,500. This is necessary to drive the operating budget and provide the services necessary for a high-performing, student-centered college or university.

Finally, institutions need to commit to a true growth philosophy. We developed a strategy in the 1990s that Scott has tested at multiple institutions. It has received widespread attention in Michael K. Townsley's *Small College Guide to Financial Health: Weathering Turbulent Times*, James L. Fisher/James V. Koch's *The Entrepreneurial College President*, and a variety of trade publications. We have shared the still-relevant concept with countless institutions since with good success.

How did it work?

At the time, Scott was in a congested market competing with larger, less expensive state schools within an easy drive. To differentiate his small residential, liberal arts college, he led the addition of high-impact intercollegiate athletic teams and activities to enhance the brand. If prospective students wanted to attend football games in a stadium that sat tens of thousands, they could choose a state university. But if they preferred to experience the sport more intimately (including, for athletes, the increased likelihood of playing time), they would attend the smaller private college.

Such strategies need not impact quality. In fact, a review of the top national liberal arts colleges in last year's *U.S. News and World Report* reveals that some of the top ranked colleges have many athletic teams (Williams College, for example, sponsors 32 varsity teams).

So here is our advice to make this concept work:

• The president must have an enrollment and student-activity vision, serving as the primary spokesperson and advocate of the strategy.

• The college should utilize experienced enrollment counsel to develop an enrollment matrix that will control the discount rate and produce a significant return on investment. Many of our colleagues have utilized John Dysart of The Dysart Group.

• At the same time, institutions should utilize counsel to evaluate the effectiveness of chief enrollment officers and their teams, based on specific objectives and outcomes.

• Gift dollars and, if necessary, some leveraged borrowing should be dedicated to high-impact facilities. Most colleges have completed makeovers to their athletic facilities, for example. Common features include artificial turf, lights, all-weather tracks, and improved locker and weight facilities as well as training rooms.

• Simultaneously, adding extra-curricular and co-curricular activities that will utilize these facilities and boost enrollment is a wise move. A marching band is a good example that will also support the music program.

• The revitalized facilities can enable the college to attract a new brand of coach, responsible for recruiting scholar athletes who will be successful on and off the field or court.

We also recommend the following:

• Reconsider the use of part-time faculty and staff in key positions. Part-time employees generally do not produce positive results in recruitment or retention.

• Create cost-effective, synergistic partnerships to support the library, learning resources, and technology—all important to ensuring student success.

• Supplement traditional program growth with a student-centered, non-traditional program for learners of all ages. Consider online offerings for majors in rapidly growing fields like allied health, data science, and information systems.

• Utilize branding and marketing dollars wisely. Although most successful brands are not created overnight, judicious use of resources can result in a highly effective, long-term strategy.

• Periodically utilize external counsel to evaluate results objectively. (Again, The Dysart Group has a good history in this area).

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The Dysart Group is a higher education consulting firm specializing in enrollment management. We have provided enrollment management services to nearly 200 colleges and universities throughout the United States with extraordinary results.

Admissions

We have worked collaboratively with colleges and universities to significantly grow enrollment. Our institution-specific recommendations have helped colleges and universities increase the number of admission applications as much as three-fold. Improved communication strategies and new tracking metrics have resulted in higher folder completion rates and increased the number of students accepted for admission.

Financial Aid/Pricing/Net Revenue

Client institutions have been able to transform policies and practices to significantly improve financial aid operational efficiency, design better targeted institutional scholarship and grant programs, stabilize or reduce discount rates and utilize scarce institutional aid resources to specifically support recruitment and retention objectives.

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