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The Hidden Costs of Higher Ed

By NOAH S. BERNSTEIN

OVER the next few weeks, millions of Americans will be heading off to college, and despite the promise of need-blind admissions, more of them than ever will be struggling to pay for it. It's not just the economy's fault: even as they publicize lavish financial aid packages, colleges and universities are making it harder for average American families to afford higher education, while making it easier for the wealthy.

In the past, families and students covered their tuition with lump payments at the beginning of each semester. To ease the burden of such large bills — recent data shows that tuition and fees have increased 439 percent from 1982 to 2007 — many colleges have instituted monthly payment plans, while charging zero interest. Even many families that could afford to pay an entire semester upfront find such plans appealing.

Though such plans have undoubtedly allowed a greater number of modest-income students to go to college, they can actually end up unintentionally raising tuition costs. While the plans typically don't charge a fee for payments made by check or direct deposit, they tack on a hefty charge for credit card payments.

Why? Because most institutions outsource the management of their plans to private companies, which have to make a profit. They charge universities a fee for processing credit card payments, and the schools pass those costs on to students and families, amounting to over a thousand dollars or more per year in some cases.

For example, some of the top liberal arts colleges in America, including Williams, Amherst and Wellesley, use a company called Tuition Management Services, where the fee is 2.99 percent for each payment made by credit card. At Amherst, where tuition, room and board cost \$53,370, that's an extra \$1,595 if all payments are made by credit card. Even at Swarthmore, which runs its plan in-house, the fee is 2.6 percent, or an extra \$1,330 a year.

This hits the middle and working classes particularly hard. Struggling families often face rough patches during which they don't have enough cash on hand to make such payments, and so have to go to their credit cards — and pay the fees. Meanwhile, wealthy families that

can afford to simply write a check upfront each month avoid both credit card fees and interest payments.

To be fair, monthly payment plans intend to help lower-income families afford college. But they have also had the unintentional consequence of creating bonuses for the wealthy and added impediments to the less well-off.

Another way colleges and universities stack the deck is by allowing students or their parents to front the costs of two, three or even four years of school, thereby locking in current tuition prices; some schools even offer discounts for prepayment. Families receiving financial aid are typically excluded from prepayment options.

Of course, only the wealthy can afford to pay even a single year of college upfront, let alone multiple years. And yet, with annual tuition increases running between 4 percent and 10 percent, those who can afford to pay early end up paying significantly less.

Why do colleges and universities, which promote themselves as need-blind, even have programs like this? The original justification was to bolster their revenues quickly, so they could invest them in the stock market. But with the current economic malaise and unreliable financial markets, colleges can no longer depend on consistent or high returns.

Monthly payment plans, and prepayment plans, thus pack a double punch. On one hand, they make it more expensive for struggling families to send their children to college. On the other hand, they make it cheaper for wealthy families to do so. And given how long it takes these days to pay off college debt, these disparities will have ramifications long after students have graduated from college.

Our institutions of higher learning cannot continue to offer their best deals to a privileged few. Our country needs colleges and universities to recruit and cultivate talented young people from diverse backgrounds. To do so, we must ensure that children from working families have the mechanisms not only to obtain college admission and afford to attend without compromising their studies, but also to be free to enter the economy relatively unburdened by debt.

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