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Putting Private School Tuition in Perspective

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"The price of a private education is no longer the price of a Chevy; it's now the price of an Audi." That's what one of the school's former board chairs said to me a few years ago after he had been out shopping for cars. His comment made me realize that there are a variety of ways to put private school tuitions in perspective.

The Cost Disease

My board chair's remark reflects what most heads of school, trustees and private school parents know: the price of an education has risen faster than the rate of inflation. This phenomenon is known as the Baumol-Bowen effect or cost disease, which posits that the costs of labor intensive industries, such as education, increase faster than the costs of goods and services that can benefit from technological and other productivity innovations.

Indeed, according to National Association of Independent School (NAIS) statistics, between school years 2002-2003 and 2012-2013 the average medium tuition for 9-12 day schools rose 58 percent (from $14,972 to $23,673), and the average medium tuition for 9-12 boarding schools rose 66 percent (from $28,175 to $46,775)—during a period of 2-3 percent annual inflation in which the CPI index rose by only about 27 percent. In expensive cities like New York, tuition levels are often significantly higher than the national average and, likewise, tuition increases tend to be greater in metropolitan areas where the demand for a private education exceeds the supply of spaces.

The price of a private school education, with its hallmark low student-faculty ratios and extensive services and programming, will likely continue to rise faster than inflation. Online and blended learning may have an impact, but it is only fundamental changes in the current model—expansion of class sizes, increased student-faculty ratios, reduced administrative overhead, consolidated offerings—that will result in tuition reduction.

Education as a Long-Term Investment

Equating private school tuition to the price of luxury cars reflects not just the quality and extent of offerings. Like a luxury good, private school education is a discretionary expense, since all children in America are entitled to a public education paid for mostly by property tax revenues. Where the luxury goods analogy fails is that education, whether private or public, is a long-term, annual investment in a student's future, and thus earns a return—unlike many more traditional luxury products, the appreciation potential of some of those goods notwithstanding. If the return on a private school education is sufficiently higher than the return on a "free" public school education, then a private school education might in some sense be a better deal even though it costs more, though it's exceedingly hard to precisely measure educational returns, particularly for individual students.

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Since the comparison between tuition and the price of a car is memorable but imperfect, it's perhaps more instructive to put private school tuitions in perspective by comparing the tuition of a private school education to the cost of a public school education.

According to a recent news release by the Census Bureau (May 21, 2013), in fiscal year 2011, the 50 states and the District of Columbia spent on average $10,560 per student on public education. That average number masks significant regional differences. Eight of nine states in the Northeast were ranked among the top 15 in spending, led by New York at $19,076. New York City also had the highest cost among the 100 largest school systems in enrollment, topping out at $19,770.

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Many people are surprised by how much a public school education costs, and it certainly helps to put private school tuitions in perspective. Boarding schools are even more expensive, given the room, board and other residential services they provide and the additional expense of maintaining extensive facilities and campuses. Thus, not surprisingly, these schools' boarding and even day tuitions tend to be higher.

"Tuition Runs Out Day"

Of course, the tuition of a private school often doesn't cover the full cost of the education it provides. Rather, schools rely on a sort of 3 D's—Donations, enDowment returns and Debt—to cover the operating gap and to fund capital expenses. How large a subsidy a school provides varies widely, depending on many factors, including most notably the market position and wealth of a school. The difference between the price (tuition) and the actual cost of a private school education represents the subsidy that every family whose child attends the school receives.

To illustrate the point that every private school student benefits from the generosity of others and to develop a future commitment

to giving among current students, some schools have begun annually celebrating "tuition runs out day," the approximate day during the year when, had they just been relying on tuition dollars, they would have run out of money to pay their expenses. At our school, that day occurs sometime in February, which means that the final three to four months of the school year are subsidized for all students by both current gifts, in the form of unrestricted annual fund contributions and restricted donations to support current programs, and past charitable gifts, which flow into our budget through our endowment draw.

The Complexity of Tuition-Pricing

The wealth and market position of a school determines just how much each student's tuition is subsidized in a surprisingly complex way. For some schools that struggle to fill their classes with the number or quality of students they desire or can accommodate, financial aid represents a tuition discount. Since so many of a school's costs are fixed (e.g., facilities costs) and so many others are quasi-fixed or at least not fully marginal (in the sense, for example, that you need a first-grade teacher whether you have 5 or 20 first-graders, though you have some latitude to expand class sizes or combine your first- and second-grade classes), it's arguably better to fill a seat with a student—particularly a strong student—whose family can partially pay the tuition than with no student at all, especially because full enrollments, selectivity and quality tend to attract other families and students.

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Those schools fortunate enough to have robust admission pools make a trade-off between the level of subsidy and the amount of money available for financial aid and other expenses. Some schools opt to keep tuitions low because they recognize that the published tuition or sticker price can discourage many families and students from applying. Others decide to increase tuition at a greater rate, so that they have more money for financial aid for those families who can afford to pay. In both cases, again, optics matter; as an unusually low price can suggest reduced quality, so can an unusually high price. In any case, there is no right or wrong approach, but it's important for heads and boards of trustees to understand the complexities of the trade-offs and consider the nuances of the optics.

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Calculating Financial Aid

Just as setting tuitions is complex, so too is establishing the amount of financial aid, and again, the calculation varies according to school circumstances. To my knowledge, only a handful of schools have sufficient endowments to cover the full financial need of every student who is admitted and enrolls. Many schools, as described above, use financial aid as a tuition discount to fill their classes; others use financial aid to increase the diversity and quality of their student bodies.

There are two common misperceptions concerning the relationship between tuition and financial aid that are worth dispelling. On the one hand, some full-pay families incorrectly believe that schools' financial aid policies are solely responsible for driving tuitions higher. For those schools using financial aid as a tuition discount to fill their classes, the discounted tuition is actually a marginal revenue, not an added expense. Even for those schools with adequate pools of full-pay families, financial aid expenses seldom account for the full subsidy that all students enjoy— that is the difference between a school's tuition and the cost of educating each student.

On the other hand, families who cannot afford the full tuition of a private school, which today includes low-income, middle-income and many higher-middle-income families, too often assume that a private education is beyond their means when they see the published tuition. To mitigate such "sticker shock," schools have begun to include financial aid calculators on their admission websites so families can quickly calculate the approximate net tuition they would likely pay.

It Comes Down to Value

As the head of a boarding school, I usually view tuition with an institutional lens, but my husband and I also have two children in private school, so I know firsthand that for parents the calculus is slightly different, centering not on the relative cost of a private school education, but rather on the value of such an education.

Ultimately, whether the price of a private education is the price of a Chevy versus the price of an Audi, two or three times the cost of a public school education, or 3/4 or 4/5 of the cost of the education provided doesn't really matter. Rather, what matters to parents is whether the value of the education that our children receive equals or exceeds the net cost to us. As long as we parents perceive it does, we will continue to enroll our children in private schools.

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