



## THE WHITE PAPER

Your Guide to Life Planning

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**Tori Patrick**  
President  
Progressive Strategies Financial  
Group  
27201 Puerta Real Suite 300  
Mission Viejo, CA 92691  
949.204.3800 702.893.1500  
Fax: 702.549.1900  
[Tori@psfgwealth.com](mailto:Tori@psfgwealth.com)  
[www.psfwealth.com](http://www.psfwealth.com)  
CA Insurance Lic#

### Behind the Sticker Shock: The Real Cost of College

The numbers are enough to rattle the bank accounts of even financially comfortable families. Ivy League bastion Harvard College will charge \$58,607 for the 2014-2015 academic year. That figure, which is 3.9% higher than the \$56,407 price tag for the previous year, includes tuition, room and board, and fees. Yale announced similar cost increases for the coming academic year -- a 4% jump to \$59,800.<sup>1</sup>

Elite schools aside, the sticker-shock of attending college is still very real. Nationwide, the total average cost of a year at a private four-year college was \$40,917 for the 2013-2014 academic year, while four-year public colleges came in at \$18,391.<sup>2</sup>

#### Published Vs. Net Price

But there is more to the story than the so-called "published" costs. These eye-opening amounts are based on the full price that colleges list in their admissions documentation -- and that only the wealthiest families are asked to pay. Dig deeper into the numbers and you will find that the majority of college students pay nowhere near the published costs. Instead, most qualify to receive some form of financial aid that brings the total cost down to a more manageable bottom line. This dollar amount is referred to by The College Board and others in the field as the "net-price" tuition.

For instance, using Harvard as an example, a majority (nearly 60%) of its freshman class this fall will receive needs-based financial assistance from the institution that amounts to, on average, about \$12,000 per student annually.<sup>3</sup> This is separate from any government aid qualifying students may receive.

Putting the net-price calculation into a broader context, after accounting for financial aid, the average student at a four-year private college paid tuition and fees of \$12,460 in the 2013-2014 school year. Add to that average room and board charges of \$10,830, and the estimated total net price would have been \$23,290 -- a far cry from the published total price of \$40,917.<sup>4</sup>

A similar pattern emerges when comparing the published versus net cost of attending a four-year public college. For these students, financial aid and tax offsets brought their tuition and fees down to an average net cost of \$3,120 for the 2013-2014 academic year compared with the published cost of \$8,893. When combined with the full charge for room and board, the total net cost for a year at a public college was \$12,620 -- significantly less than the published rate of \$18,391.<sup>5</sup>

#### What's Behind the Numbers Game?

Why does this two-tiered pricing scheme exist in the first place? Published, or list, prices have long been used by the U.S. government to track college-tuition inflation. Taken at face value, these prices measured the cost of college for affluent families that did not qualify for any form of financial assistance. They, in essence, paid the full list price. But that left the rest of the population -- from upper middle class and more needy families -- with a distorted sense of what a college education might cost them.

Over the past decade, the Bureau of Labor Statistics -- the government body responsible for tracking and reporting college costs -- has been gradually adapting its calculations to include the effects of financial aid and to provide a more accurate accounting to the general public.

So, while you may still lament the seemingly rapid rise in college costs -- some of which has been brought on by deep cuts to state budgets since the Great Recession -- take heart in knowing that the numbers you may be hearing don't apply to the vast majority of American families.

<sup>1</sup>Harvard Magazine, "Harvard College Announces Admissions, Term Bill," March 27, 2014.

<sup>2</sup>The College Board, "Average Published Undergraduate Charges by Sector, 2013-14."

<sup>3</sup>*The Harvard Crimson*, "Tuition Will Increase by 3.9 Percent, Largest Percentage Increase in Seven Years," March 28, 2014.

<sup>4</sup>The College Board, "Trends in Higher Education, Average Net Price for Full-Time Students over Time -- Private Institutions."

<sup>5</sup>The College Board, "Trends in Higher Education, Average Net Price for Full-Time Students over Time -- Public Institutions."

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