

# Information, Accountability, and College Costs: The Need for Standardized Living Cost Calculations in Higher Education

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Rapidly increasing college costs faced by students and their families are a critical policy concern impacting educational opportunity in the United States. Non-tuition costs, primarily room and board, account for at least half of the total cost of attending college. Accurate information on these costs is vital for families determining which colleges they can afford and for ensuring that eligible students receive the financial aid they need for postsecondary success without taking on too much debt. Despite the importance of reliable cost information, current law allows each school to determine its own methodology for calculating living costs, even for students living off-campus. *We find that using inaccurate living cost estimates leads one-third of colleges and universities to understate their actual costs of attendance for students living off-campus by at least \$3,000.*

Inaccurate living cost information makes it extraordinarily difficult for students and their families to select the colleges that best suit their financial circumstances and it makes it difficult to compare institutional performance in order to hold schools accountable for costs. To address this issue, we propose an amendment to the upcoming reauthorization of the Higher Education Opportunity Act tasking the Department of Education (ED) with calculating living costs based on existing federal data. In the meantime, ED should develop a clear method for determining living costs to ensure

that institutions in close proximity report comparable costs that reflect a very modest standard of living. These changes will improve both the quality and transparency of costs for students while also reducing the burdens faced by institutions to determine these costs themselves.

## The Key Role of Living Costs

Skyrocketing tuition is a well-documented concern for both families and policymakers. Less well known is that non-tuition costs, mostly living costs typically described as room and board, account for at least half of the total cost of attending college. The College Board reports that in 2014-15, the average student attending an in-state public university and not living at home paid \$9,410 in tuition, as compared to \$14,200 in housing, food, and miscellaneous costs.

Accurate information on these costs is critical for families trying to make smart decisions about which schools they can afford. This is why the federal government requires colleges to report estimates of living costs for students living on and off campus. The government allows colleges wide latitude in how they calculate costs, however, leading to estimates that vary in accuracy. Inaccurate cost information can result in families making poor financial decisions. When reported costs are higher than actual costs, families can be scared away by high sticker prices. Reported costs that are too low can lead to students realizing too late that their chosen colleges are more expensive than they budgeted for, pushing some students to drop out.

Living costs are a primary determinant of financial aid awards and thus affect the distribution of federal and state aid. Eligibility for federal aid is capped at each school's cost of attendance. This cap only works for students if the full cost of attendance is reflected in each institution's living allowance. If a college's cost of living allowance is less than actual costs, families must make up the difference from other sources. Hard-working students who receive outside scholarships may have their federal aid reduced to ensure that their total aid package does not exceed total cost of attendance. When a college's living cost allowance is too low, these students lose financial aid that they need to cover their actual costs of attendance.

Policymakers seek to control costs by holding colleges and universities accountable for them. The misinformation created by inaccurate estimates of living costs undermines the validity of the costs of attendance stated by schools. Comparing inaccurate costs will lead to poor decisions. Moreover, under the current law, it is easy for colleges and universities to manipulate the living-cost portion of the cost of attendance in order to appear less expensive.

## What We Find

In a recent study conducted by the Wisconsin HOPE Lab, we investigated several aspects of institutional living cost allowances. We focused on students living off campus away from home, who comprise fully 50% of all college students—just 13% of undergraduates live on-campus and the rest live with family. We explored variation in stated allowances among colleges and universities located in the same region, and compared colleges' living cost allowances to those produced by standard cost measures that account for location-specific cost differences. We found that about half of all colleges report stated allowances that are off by at least \$3,000. Colleges located in the same area report widely varying living costs. For example, colleges in Washington, D.C. claim living costs ranging from \$9,387 to \$20,342, while in Milwaukee those figures range from \$5,180 to \$21,276. Compared to these standardized measures of living costs, about one in three colleges and universities understate the actual costs of attendance by at least \$3,000, and 17% overstate them. These inaccuracies force students and their families to undertake significant financial decisions without the facts necessary to make good choices. In total, at least 2,800 colleges and universities participating in Title IV federal student aid programs are likely presenting inaccurate information, negatively impacting the financial allocation decisions of at least 5.5 million students.

## Policy Recommendations

Standardizing living costs calculations will help students and families make better college decisions and ease colleges' reporting obligations.

In order to provide families with accurate cost information and to ensure that eligible students receive the financial aid necessary for postsecondary success, Congress should amend U.S. Code § 1087(II) "Cost of attendance". In the upcoming reauthorization of the Higher Education

Opportunity Act, the U.S. Congress should amend the section on cost of attendance (20 USC § 1087(II)). This amendment should task the Department of Education with calculating living costs for all colleges and universities using existing federal data. In the meantime, the Department should develop a clear method for colleges to calculate living costs to ensure that allowances are comparable for institutions in close proximity to each other. Either of these changes would substantially improve both the accuracy and transparency of college living cost allowances while reducing workloads for colleges and universities already strained by reporting obligations.

**Title IV Participating Institutions, Undergraduate Headcount Enrollment and Total Dormitory Capacity (Fall 2013) by Proximity to Country-Based Cost of Living Estimate**

	Institutions (N)	Undergraduates Living Off-Campus
Within \$3,000 of county-based cost estimate	3,630	9,222,721
\$3,000 or more beyond county-based cost estimate	2,801	5,502,504
Above by \$3,00+	693	942,781
Below by \$3,000+	2,108	4,559,723
Total	6,431	14,625,225

For more information on the study, the full version of the working paper can be accessed [here](#).

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