

WELFARE REFORM FOR HIGHER EDUCATION:
BLOCK TUITION AND TAX STEWARDSHIP

by:

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The Issue of Time-to-Degree

Because of increasing pressure on legislatures to expand services while containing costs and reducing taxes, state institutions of higher education are being held to greater levels of accountability for the use of taxpayer funds. Legislators are demanding that university administrators seek out and eradicate anything perceived as wasteful, even student mismanagement of state education subsidies. Governments are investing tremendously in public higher education and are increasingly expecting that investment to be maximized. In fact, the Florida activists have placed dollars-to-graduates outcome goals for tax subsidies (Florida Council of 100, 2004).

One important point of contention in the debate over efficient use of taxes is the importance of the time students require before graduating. “Time-to-degree” measures involve analysis of the number of years or semesters students incur between initial enrollment and degree completion (Alabama Commission on Higher Education, 1997). While the bachelor’s degree has traditionally been thought of as a four-year degree, completion in four-years has become an anomaly at many state schools. Only one quarter of students who attend Oklahoma State University, for example, are likely to graduate within four years (Schmidley, 2003).

Besides measuring efficiency by semesters, some researchers and policymakers calculate the number of semester or quarter hours of courses students complete on their paths to degree completion. In an analysis of Kentucky’s state schools, bachelor’s graduates averaged nearly six years in college and completed an average of 141 semester hours and attempted 156 semester hours on their way to degrees only requiring an average of 128 semester hours. Kentucky students had 14 times greater chance of taking

more than four years to graduate than they were to graduate within four years (Sugarman and Kelly, 1997). Nationally, the average time-to-degree has become 57 months and 12 enrolled semesters (Knight and William, 2000).

There is a significant drawback to considering efficiency by counting semesters to completion. Semesters counted include summer semesters which may not facilitate students enrolling in a full 15 hours (Hall, 1999) and (Knight and William, 2000). Therefore, a student who enrolls in 15 hours each regular semester and 12 hours each summer semester could conceivably graduate in less than four years, yet complete more than eight semesters. If analysts merely considered semesters-to-degree, such a situation may be considered as inefficient whereas the same situation analyzed by years-to-degree would be considered a success.

Regardless of the methodological difficulties in measuring academic and economic efficiency, it is clear that students are taking more time in college than college is supposed to require. Many policymakers are actively involved in interpreting what the increased time means for states and what needs to be done to improve the situation. In an op-ed piece for the *Miami Herald*, the president of St. Thomas University, Franklyn Casale (2004), argued that the low tuition at state universities, due to tax subsidies, creates a moral hazard for students. Casale contrasts this with the cost of private education, which actually encourages students to wisely use and maximize their time and money.

The concepts and effects of moral hazards have been widely known for some time. Edward Prescott (2004), who received the 2004 Nobel Prize in economics, has written about the deleterious effects government taxes and subsidies have on labor

productivity. If students are considered workers producing degrees it may well be that the government has created disincentives for student productivity. If this is the case, the situation should be changed because the outcome is going to be economically harmful to both individuals and society, just as moral hazards in tax structures are generally and specifically harmful.

Costs to the State

In Florida's State University System (SUS), the taxpayers bear the brunt of the costs, nearly 80%, for educating students (Council for Education Policy, Research and Improvement, 2004). Taxpayers subsidize \$7,500 annually for each full-time, regularly enrolled student ("A new compact," 2004). On average, the total cost to the state for producing one graduate, including losses from failed students, is \$39,800 (The Florida Council of 100, 2004). In a study of subsidies and costs of Texas higher education, researchers determined that the state paid \$24,948 for four years of education and an additional \$3,402 for every additional year a student required to graduate from college (Texas Higher Education Coordinating Board, 1996).

Taxpayers and schools lose more than the obvious tuition subsidies from lagging students. Volkwein and Lorang (1996) found the most common reason for full-time students to delay graduation was taking only 12 hours per semester, instead of the standard 15 hours. Students who enroll in 12 hours and live on campus are likely to take full advantage of campus services, yet such students pays less in fees per semester.

Bowling Green State University set a goal of decreasing average time-to-degree because university officials felt the need to increase efficiency in the use of

appropriations (Knight and William, 2000). Texas discovered that if just one-third of their students who take more than four years to graduate could actually graduate in four years, the state would save \$37 million (Texas Higher Education Coordinating Board, 1996). Kentucky's state schools could potentially save \$39 million over ten years if they were able to prevent students from failing courses or taking courses that will not be needed for graduation (Sugarman and Kelly, 1997).

Reasons for Lengthened Time-to-Degree

Aside from op-ed pieces about moral hazards, policymakers must understand exactly why students take too long to graduate if policy is going to be modified to facilitate more appropriate time-to-degree. While students who fail significant numbers of courses do impact the average time-to-degree, the predominance of students extending college are those who simply enroll in too few classes during many semesters (Sugarman and Kelly, 1997). Those students who take more than four years to graduate can generally be categorized in two ways. First, some students feel their financial need prevents them from dedicating themselves to 15 semester hours of courses per semester. Second, there is a group of students who willfully choose to delay graduation because they simply enjoy the freedom of college life (Volkwein and Lorang, 1996). Anxieties about the responsibilities of adulthood that come with graduation cause some students to artificially maintain their adolescence by extending college (Sugarman and Kelly, 1997).

Interestingly, researchers have found contradicting information when objectively evaluating causes for extension and qualitatively asking slower gradulators why they were slow. Nearly one-third of extending students reported that family obligations caused them

to move more slowly. More than one-third of extending students claimed a contributing factor for their slower progress was changing majors (Hall, 1999). However, many students who do graduate in four years work just as much as do the extending students (Knight and William, 2000). The key factor was not really the number of hours worked, but the student's perception of their own financial situation and need to work (Volkwein and Lorang, 1996). There are minor differences in rates of being married and having children when comparing those students who graduate in four years and those who take more time (Hall, 1999). Whether a student is of traditional college age (18-24) or non-traditional (25+) is not a factor in time-to-degree. In fact, students who are independent for financial aid purposes may actually be more likely to graduate within four years (Knight and William, 2000; Sugarman and Kelly, 1997).

Academic preparation may not be a significant factor in lengthening time-to-degree. Students who take longer to graduate are actually more likely to have at least a 3.0 GPA. Scheduling conflicts do not seem to be an important issue, either. While some may presume extending students had difficulty enrolling in the necessary classes, students who graduated in four years were actually more likely to report difficulties registering for the classes they needed, more likely to have dropped courses they did not like, and more likely to report having to take courses with a less preferred professor because they could not schedule the preferred professor's class (Volkwein and Lorang, 1996).

Students who take more than four years to graduate actually appear to be deliberate about their slowness. Volkwein and Lorang (1996) compared the results of a first-year student survey, which asked students to predict when they would graduate, with

the actual outcomes of those students. The researchers found virtually all full-time students who graduated in four years predicted they would graduate in four years. Conversely, more than half the full-time, first-year students who took more than four years predicted they would take more than four years. Further, three-quarters of students taking more than four years were content with taking longer. Hall (1999) found that most extending students completed courses they knew were not needed for graduation, but chose those courses for reasons of intellectual curiosity about the subject matter. Still, Florida's Council for Education Policy, Research and Improvement (2004) found that one-third of extenders blamed poor academic advising for at least some of their delays.

Because of the cost of subsidizing the extra courses many students choose to complete, Florida had mandated a surcharge on excessive extra hours. John Hitt, president of the University of Central Florida, has called the surcharge "an intellectual curiosity tax" ("Faculty Senate Minutes," 1998). In reality, however, taxpayers are paying the intellectual curiosity tax when they subsidize the curiosity of students. To insinuate that asking students to pay their own way is somehow a tax is to be disingenuous at best and intellectually dishonest at worst. Legislators may be more inclined to mandate accountability if university administrators display such lack of concern for the efficient use of taxpayers' money.

How to Push Progress

Various organizations involved in education policy across the nation are proposing methods of reining in the costs to taxpayers for public higher education. One

contentious idea is the use of block tuition, which would charge a flat rate for all full-time students within a minimum and maximum semester hours threshold. An early step in the accountability upsurge was the move by states to reduce state subsidies for students not making satisfactory progress toward degrees. Typically, students were required to pay more of their own educational costs after the students exceeded a certain number of semester hours well in excess of the number required for graduation. The move toward excess hours fees was based on the high number of students completing well over 150 hours before attaining a bachelor's degree (Alabama Commission on Higher Education, 1997).

As an incentive for students to make adequate academic progress, Alabama proposed excess hours fees, block tuition and even a rebate for students who complete college early. Incentives can have a powerful effect on worker motivation. Incentives can have a notable impact of behavior. The state of Florida recently used financial incentive to rebuild a highway after Hurricane Ivan. When the hurricane literally destroyed a section of Interstate 10 in Pensacola, Florida, a construction company was able to rebuild a bridge in just 17 days. The key factor is accomplishing such an urgent task was the government attached a monetary incentive to the deadline (Nickinson, 2004). As David Schmidley (2003), president of Oklahoma State University, stated in his proposal for block tuition, "We need to evaluate incentives, such as block tuition, that will change student behavior and reward them for taking more hours."

Block tuition should act as an incentive to encourage students to take more courses. Block tuition is beginning in Alabama, Kentucky, Oklahoma and Florida (Alabama Commission on Higher Education, 1997; Schmidley, 2003; Council for

Education Policy, Research and Improvement, 2004; Sugarman and Kelly, 1997). Block tuition may be new in the public realm, but it has been common among private universities for some time. As Franklyn Casale (2004) noted in his op-ed, a student's investment in private school tuition acts as motivation for success. Block tuition also motivates. Rational decision-makers may choose to maximize their own financial investment and gain more hours for the same cost.

Students who attend private colleges are much more likely to graduate in four years. The average time-to-degree within the Independent Colleges and Universities of Florida is 4.1 years (Atherton, 2004). More than three quarters of students at private schools complete their degrees within four years, whereas less than half of public school students do so. Even within minority groups, four year graduation is substantially more likely at a private school. Whether considering all students, black students, white students, Hispanic students, or Asian students, each group has at least a 15% advantage by attending a private school. Students at private schools are as likely to graduate in four year as public students are to graduate within six years (National Association of "Independent colleges and universities," 2004). The financial incentive becomes clear when total educational cost is considered for the average public students and the average private student. Despite private schools costing more in tuition, the total cost of a private education is less than a public education. The extra year or more common in public schools adds costs in housing, food, transportation and other areas ("Twelve facts that may surprise you," 2004).

The advantage of private education is not caused by student backgrounds. Private schools enroll notably larger percentages of minority students, non-traditional students,

“at-risk” students and students who have dependents, as well as comparable percentages of financially disadvantaged students (Atherton, 2004; “Independent colleges and universities,” 2004; “Twelve facts that may surprise you,” 2004).

Private schools appear to be doing impressively better jobs of progressing students, despite having no advantage in student demographics. Casale (2004) proposed it is the student pressures to maximize financial outcomes that ensure private schools cultivate success.

Personal and Social Costs of Slow Time-to-Degree

Although students who progress slowly often claim economic hardship prevents them from enrolling in more classes, the evidence from private schools does not seem to support the assertion. Still, as the block tuition concept has advanced, there has been angry response from some who think the plan is economically prejudicial. For example, one mother wrote a letter to the editor of the Tallahassee Democrat stating, “All this block tuition scam does is give yet another perk to the wealthy whose kids can attend college like it’s summer camp.” This mother explained how her daughter could not enroll in 15 hours because the daughter worked “20-30 hours a week” (Gellepis, 2004). The same sentiment was echoed in the *Miami Herald*’s (2004) opinion that block tuition is detrimental to the working class. Unfortunately, while there is often talk of public investment in education, too rarely does anyone discuss the personal investment in education and the rational economic benefits of pursuing robust degree progress.

Individuals should be anxious to make sacrifices for higher education and view those sacrifices as an investment in their own future (Department of Business, Economic

Development and Tourism, 1998). Someone with a bachelor's degree is expected to make nearly \$1 million more in lifetime earnings than someone with only a high school diploma (Day and Newburger, 2002). In fact, the pay gap between the college educated and non-graduates has been increasing for decades as globalization and technology have made unskilled workers unable to compete (Department of Business, Economic Development and Tourism, 1998). Further, higher education usually results in enhanced fringe benefits, such as health insurance and retirement accounts. Plus, college graduates are less likely to become disabled due to workplace accidents (Boesel and Fredland, 1999).

There are incredible opportunity costs when students take only 12 hours, instead of 15 or even 18. Students would be better served by working less and borrowing more. They would need to keep in mind that the borrowing is an investment in themselves. By delaying graduation, people lose the higher graduate income, the increased retirement savings, and the head start on their own career development (Alabama Commission on Higher Education, 1997). Estimates are that the direct return on investment for college education is 12% annually, with at least another 12% in indirect returns. Delaying graduation causes an average of 29% immediate increase in educational costs (Schmidley, 2003).

In terms of retirement, the wonder of the 401(k) plan is the compound interest. If a traditional student graduates at 21 years old and works until 65, the person may collect 44 years worth of retirement savings. Delaying graduation one year, and therefore delaying the start of retirement savings, would result in the loss of the 44th year of compound interest. Similarly, delaying career entrance one year may result in the student

perpetually being one year behind, in terms of pay and position, where the person may have been had he or she finished in four years. The lifetime loss of income could be significant. There is also the possibility that delaying graduation, and hence career entrance, could also delay future major purchases. Potentially, the person may wait one additional year to purchase a house, or may have less money to put down on the house. The result of the delayed purchase will be lost equity.

Rather than discussing the economically disadvantaged students who cannot afford to take 15 hours, activists should discuss the need for disadvantaged students to pursue their educations full-force. Rather than being only wealthy students who can afford to go full-time, administrators should stress only the fabulously wealthy could possibly afford to do anything but attend full-time. Few other students besides those who have no concern for money can rationally afford to waste opportunity-attending school less than 15 hours per semester.

Traditional aged undergraduates who are not supporting a family and a mortgage would likely be better served borrowing the money needed to work fewer hours and attend school for more hours. Block tuition could have the great effect of motivating students to commit to school and graduate on time or even early. While 12 hours per semester would require five years to graduate, increasing course load to 18 hours would allow students to graduate in 3 years. Suddenly, investing in education by foregoing the temporary benefit of working 30 hours would yield a two-year advantage on career, retirement savings, and more. If block tuition can hold back costs for taxpayers while encouraging students to make wiser decisions, block tuition may just be as successful in public institutions as it is in private institutions.

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