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The U.S. University Model May Not Be Sustainable, Study Finds



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If you've been watching the meteoric rise of college tuition over the past several years, the following may surprise you: Nearly half (47%) of financial planning staff at U.S. universities believe the current business model is unsustainable, according to a study by consulting firm [Kaufman Hall](#).

Sixty-four percent of respondents acknowledge that higher education is behind most other industries in terms of adopting modern financial planning practices and tools, and 66% say they aren't prepared to respond quickly to change, or were unsure if they could use existing tools and processes to do so.

"Where the pinch is really happening right now is with a lot of small, private liberal arts colleges around the country," says Charles Kim, managing director of Kaufman Hall.

The first issue, he says, is that high school graduates are in decline in many markets, so it's more of a struggle for smaller, non-differentiated schools to attract enough of a student body to cover their expenses. Secondly, although many colleges have relied on tuition increases to fund inflation and all the things they needed to do, it's getting harder to keep raising rates in the face of stagnant family income and negative price tag attention.



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“A lot of folks are saying, ‘Okay, there’s this really nice liberal arts college 30 miles from my house and it’s been around for 100 years, but it costs \$35,000,’” Kim says. “It’s less than some of the elite institutions, but it’s still a lot, and they’re starting to question, ‘Is it worth it? Is there a different way for my child to get educated?’”

What’s also happened is that as tuition has gone up over the years, so has financial aid. “There’s actually a tuition discount study published by NACUBO,” Kim says. “That number has gone up, from somewhere in the 30s and 40s to 50% and 60%, meaning that if tuition is \$10,000, they’ve gone from giving out \$3,000 to \$4,000 of aid, on average, to giving out \$5,000 to \$6,000. And you’re covering that from your own resources.”

Now, he says, most schools are doing something like this—discounting tuition by giving out financial aid—so consumers expect it and the market is competitive. So if smaller schools don’t keep up the practice, they’ll lose students. “But if they keep that up, they’ve got to keep sending more and more money,” Kim says.