

Exploring the Topic of Indirect Costs to Today’s Higher Education Students

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Students and their families have faced a steady rise in the cost of attending college over the last several decades, even after taking financial aid into account.¹ Most of the attention has been paid to tuition and fees, which have risen about twice as fast as inflation since the early 1980s.² But tuition and fees are but one component of the full cost of attendance, which includes indirect costs such as room and board, books and supplies, and other living expenses. In fact, tuition and fees represent less than 40 percent of the total cost of attendance for students attending four-year public colleges and universities, and just one-fourth of the cost of attendance for community college students.³

The cost of attendance and the net price (defined as the cost of attendance less all grant aid received) are of great importance for students, colleges and universities, and policy-makers alike. Federal regulations prohibit students from receiving a financial aid package larger than the total cost of attendance, which limits borrowing to any unmet financial aid a student has after grants and work-study. If students are not able to access financial aid (including loans) in order to cover reasonable living expenses within the cost of attendance, they will be forced to work more than an optimal amount (typically 15–20 hours per week). That could adversely affect persistence and completion rates. But if the cost of attendance provides for additional funds beyond basic living expenses, a student might be encouraged to overborrow and the net price of attendance (critical for accountability purposes) will be unnecessarily high. Both of these events can adversely affect colleges and universities, so they have at least some incentive to accurately estimate living expenses.

The process for setting tuition and fees is relatively straightforward, as colleges and universities set tuition and fees based on a combination of last year’s amounts, state appropriations and political considerations, and students’ willingness to pay. Room and board prices for on-campus students are typically set so the college or university at least breaks even on its costs. Currently, institutions have a substantial amount of flexibility in how they estimate these indirect costs. The National Association of Student Financial Aid Administrators (NASFAA) regularly issues guidance to its members on best practices in estimating these costs based on relevant federal statutes and the experiences of its members.⁴

WHAT ARE INDIRECT COSTS?

- Indirect costs are all portions of the total cost of attendance except tuition and fees.
- This includes books and supplies, room and board, transportation, insurance, a small entertainment allowance, and other personal expenses.

WHAT IS INCLUDED IN INDIRECT COSTS?

Indirect costs include three main categories:

Books and Supplies

This category includes materials that are separate from tuition and fees but also required for coursework, including textbooks, equipment, and laboratory or art supplies. The allowance for books and supplies can vary by major and/or program due to different book and equipment requirements.

Room and Board

The allowance for students living on campus is based on the price of campus housing and meal plans, and may not always cover the most expensive available options (such

WHY ARE INDIRECT COSTS IMPORTANT?

- At public colleges and universities, indirect costs make up about two-thirds of the total cost of attendance, while tuition and fees account for only one-third of the cost of attendance.
- Colleges and universities have considerable flexibility in developing indirect cost estimates, with the U.S. Department of Education and professional associations providing only general guidance.
- Correctly estimating indirect costs has implications for students (determining in part whether they can access enough financial aid to pay for college) and institutions (indirect costs affect the net price and how much students can borrow).

as living without a roommate). Students living off campus with their parent(s) may receive an allowance for room and board to cover contributions toward rent and food costs, but most colleges and universities do not provide any allowances, and the allowances are not reported in the Integrated Postsecondary Education Data System (IPEDS). The room and board allowance for off-campus students not living with their parent(s) is set based on reasonable costs for a modest residence, which includes insurance, utilities, and food expenses. These allowances can vary across students based on their living arrangement before entering college (i.e., owning vs. renting), whether they have dependents, and any special dietary needs.

Other Living Expenses

This category includes all other items students must pay for while attending college. The transportation allowance includes public transportation or commuting expenses between home and campus for students living off campus and funds for a limited number of trips home during breaks for students

living on campus. (Students enrolled in online programs may receive a smaller transportation allowance.) Health insurance premiums may be included in this category if health insurance is not provided by the institution or the student's parent or spouse. The cost of purchasing a computer may be included in the cost of attendance on an individual basis, as long as the purchase is sufficiently documented. The final category of other living expenses—miscellaneous personal expenses—includes costs for laundry, recreation, and clothing. If laundry and recreational facilities are included in room and board, they are excluded from other living expenses.



HOW ARE INDIRECT COSTS ESTIMATED?

Indirect costs are estimated using different time periods, depending on the type of credentials offered by an institution. The vast majority of colleges and universities offering associate, bachelor's, and graduate degrees estimate and report indirect costs on an academic year (nine-month) basis. But most colleges and universities offering shorter-term certificate programs (primarily for-profit institutions) estimate costs for the entire length of the program and report costs for their six largest programs of study. In order to compare indirect costs for academic year and program reporters, costs for program reporters must be scaled to a nine-month basis.

Colleges and universities set allowances for indirect costs in a number of ways. NASFAA recommends that financial aid offices survey their students on a regular basis in order to set a baseline number for indirect costs. While a survey can provide valuable information, it can be difficult for overburdened financial aid offices to get results from a representative sample of students. Additionally, if students have adjusted their expenditures to reflect an unnecessarily high or low indirect expense budget, the true needs of students may not be reflected. NASFAA also recommends that colleges and universities look at expenditure data from national surveys with localized data such as the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey in order to set indirect costs. Institutions may also set living allowances based on surveys of apartment owners or other people with information about local costs, or they may simply base the current year's allowance on last year's allowance.

Because the circumstances of individual students can vary considerably based on distance to campus, marital status, number of dependents, or field of study, financial aid administrators have the authority to revise indirect cost allowances through the use of professional judgments. In order to receive a professional judgment to allow for larger living allowances (and hence a higher cost of attendance and the ability to take out more in loans), students have to provide documentation that their individual circumstances justify higher indirect costs.

HOW LARGE ARE INDIRECT COSTS?

Indirect costs make up a significant portion of the total cost of attendance in most sectors of higher education. The tables below show the cost in dollars of attendance components by institutional type for the 2013-14 academic year (from IPEDS).⁵

TABLE 1

On-campus students	Public four-year	Public two-year	Private nonprofit
Total cost of attendance	\$21,624	\$14,410	\$39,567
Tuition and fees	\$8,180	\$3,645	\$26,349
Room and board	\$8,949	\$6,315	\$9,283
Books and supplies	\$1,234	\$1,297	\$1,169
Other expenses	\$3,261	\$3,153	\$2,766
Percent of the cost of attendance as indirect costs	62.2%	74.7%	33.4%

TABLE 2

Off-campus, no family	Public four-year	Public two-year	Private nonprofit	For-profit (academic year reporters)	For-profit (program reporters)
Total cost of attendance	\$22,064	\$16,404	\$37,092	\$28,500	\$25,981
Tuition and fees	\$8,079	\$3,313	\$23,390	\$15,023	\$12,428
Room and board	\$9,048	\$7,871	\$9,031	\$7,880	\$8,361
Books and supplies	\$1,228	\$1,361	\$1,161	\$952	\$1,036
Other expenses	\$3,709	\$3,859	\$3,510	\$4,645	\$4,156
Percent of the cost of attendance as indirect costs	63.4%	79.8%	36.9%	47.3%	52.2%

In public four-year colleges and universities, over 60 percent of the total cost of attendance consists of indirect costs (although it should be noted that some colleges and universities require non-local students to live on campus for at least one year). The percentage is even higher at community colleges, where living expenses make up nearly 80 percent of the cost of attendance. The percentages are lower at private nonprofit institutions (about 35 percent) and for-profit institutions (about 50 percent), where tuition is much higher than at public institutions.

ARE INDIRECT COSTS ACCURATELY ESTIMATED?

To examine whether the indirect cost allowances for living expenses provided by colleges and universities accurately reflect local living costs, the author conducted research on the topic with Sara Goldrick-Rab, professor of educational policy studies and sociology at the University of Wisconsin-Madison, and Braden J. Hosch, assistant vice president for institutional research, planning, and effectiveness at Stony Brook University (NY).⁶ We constructed indirect cost allowances for the 2013-14 academic year based on data from the U.S. Department of Housing and Urban Development (median rent for an efficiency apartment), U.S. Department of Agriculture (low-cost food plan), Consumer Expenditure Survey (transportation and miscellaneous expenses), and the Kaiser Family Foundation (health insurance), all adjusted to the county level using the County Cost of Living Index when appropriate.

DO INDIRECT COSTS REFLECT ACTUAL LIVING EXPENSES?

- Recent research (Kelchen, Hosch, and Goldrick-Rab 2014) estimated county-specific living expenses using data on each indirect cost component.
- They found that 56 percent of colleges and universities provided living allowances within \$3,000 of the estimated cost of living.
- However, 33 percent of colleges and universities provided living allowances at least \$3,000 below estimated living expenses, while 11 percent of allowances provided by colleges and universities were at least \$3,000 above estimated expenses.

We found that 56.4 percent of colleges and universities reported living cost allowances within \$3,000 of our estimated living

costs, with public four-year institutions more likely to provide accurate estimates and certificate-granting for-profit institutions less likely. But 32.8 percent of colleges and universities provided living allowances at least \$3,000 below our estimates (particularly in the two-year sector), while 10.8 percent provided allowances at least \$3,000 above our estimates. We also found large differences in living allowances within the same city or metropolitan area, suggesting a lack of consistency in how colleges and universities provide estimates.

CONCLUSION

Indirect costs make up the majority of the total cost of attendance for more than half of American college students, yet little attention has been paid to what is included in those costs and how colleges and universities set students' indirect cost budgets. This brief summarizes the components of indirect costs and the magnitude of these costs, and discusses whether the estimates accurately reflect students' living expenses.

As Higher Education Act reauthorization continues to be discussed, more research needs to be conducted on the topic of indirect costs. Particular attention should be paid to best practices regarding setting indirect cost budgets and how to best account for the varying needs of individual students.

RESOURCES

College Board. 2014. Trends in College Pricing. Washington, DC: College Board.

<http://trends.collegeboard.org/college-pricing>.

Kelchen, Robert, Braden J. Hosch, and Sara Goldrick-Rab. 2014. "The Costs of College Attendance: Trends, Variation, and Accuracy in Institutional Living Cost Allowances." Paper presented at the annual meeting of the Association of Public Policy and Management. <http://wihopelab.com/publications/Kelchen%20Hosch%20Goldrick-Rab%202014.pdf>.

National Association of Student Financial Aid Administrators. 2014. "Developing the Cost of Attendance." Monograph, December. <http://www.nasfaa.org/EntrancePDF.aspx?id=438>.

¹ From an economic perspective, what students and their families pay is the price of college, while the expenses needed to provide the education is the cost. But since cost is commonly used in place of price, the author follows that convention here.

² <http://trends.collegeboard.org/college-pricing>

³ Author's calculation using data from the Integrated Postsecondary Education Data System (IPEDS) Student Financial Aid survey.

⁴ <http://www.nasfaa.org/EntrancePDF.aspx?id=438>

⁵ Tables were created by the author using the Student Financial Aid portion of the IPEDS dataset: <http://nces.ed.gov/ipeds/datacenter/>. Off-campus students living with their family are excluded because no room and board allowance is provided in the IPEDS data.

⁶ The paper is available at <http://wihopelab.com/publications/Kelchen%20Hosch%20Goldrick-Rab%202014.pdf>.