

Liverpool Hope University

April 28, 2009

Financial Innovation and Experimentation in Higher  
Education in the United States and England

Donald E. Heller

PENNSTATE



COLLEGE of EDUCATION

CENTER FOR THE STUDY OF HIGHER EDUCATION

## Snapshot of tertiary education in the U.S.

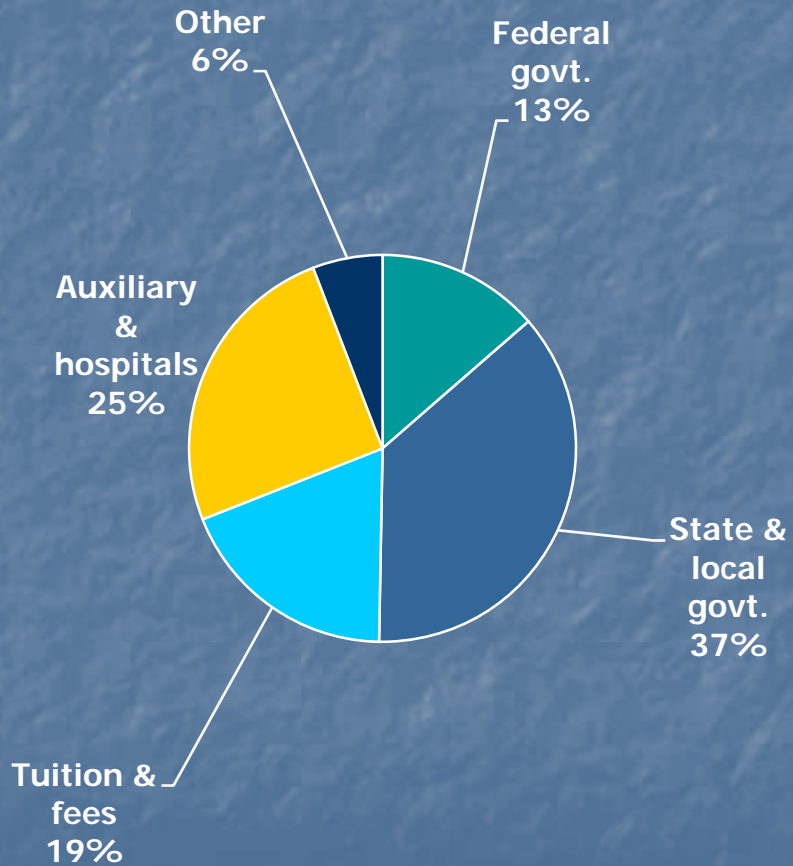
- 4,200 accredited institutions (40% public/60% private)
- 18 million students
  - 74% in public institutions, 26% private
- 1.5 million bachelor's degrees
  - 700,000 sub-baccalaureate degrees/certificates
  - 700,000 post-baccalaureate degrees
- 3.4 million employees (1.3 million faculty)
- Expenditures: approx. \$400 billion in 2005-06 (£267 billion)

# Control of HEIs in the US

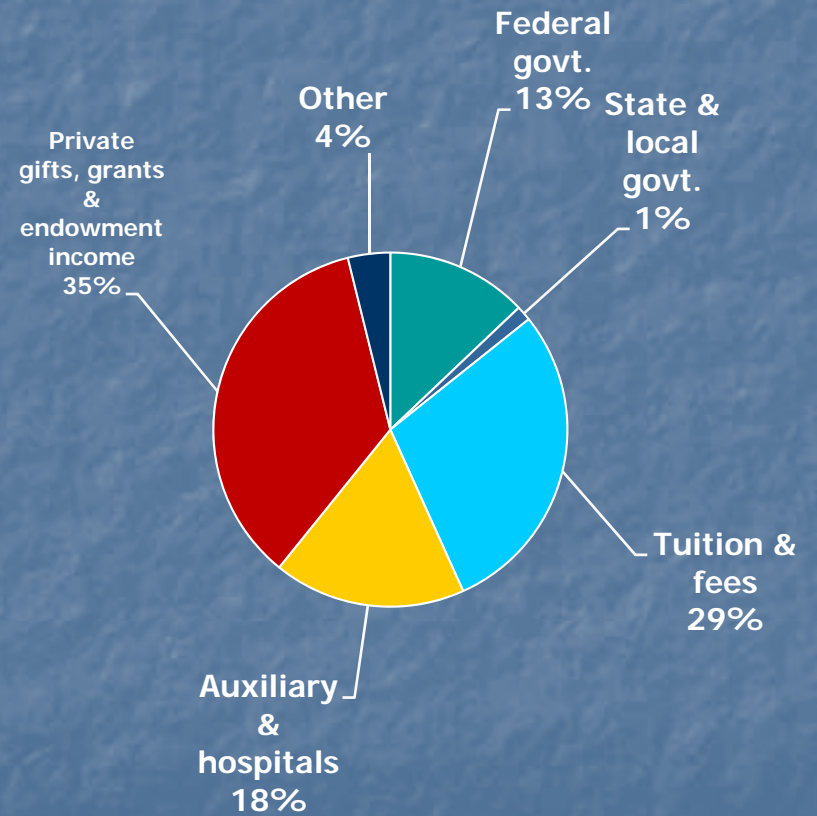
- Private, not-for-profit institutions (20% of enrollment)
  - Non-governmental, autonomous boards, must be accredited to qualify for public financial aid, public charities
- Private, for-profit corporations (6% of enrollment)
  - Businesses, autonomous control, must be accredited to qualify for public financial aid
- Public institutions (74% of enrollment)
  - State government agencies, varying models of control
    - Strong state control, controlled by higher education agency with weak institutional governing boards
    - Weak state control, with strong institutional autonomy and governing boards
    - Mixed model, with strong state control over some HEIs and weak over others
    - Systems

# Sources of revenues, 2005-06

Public (\$246B)



Private (\$152B)

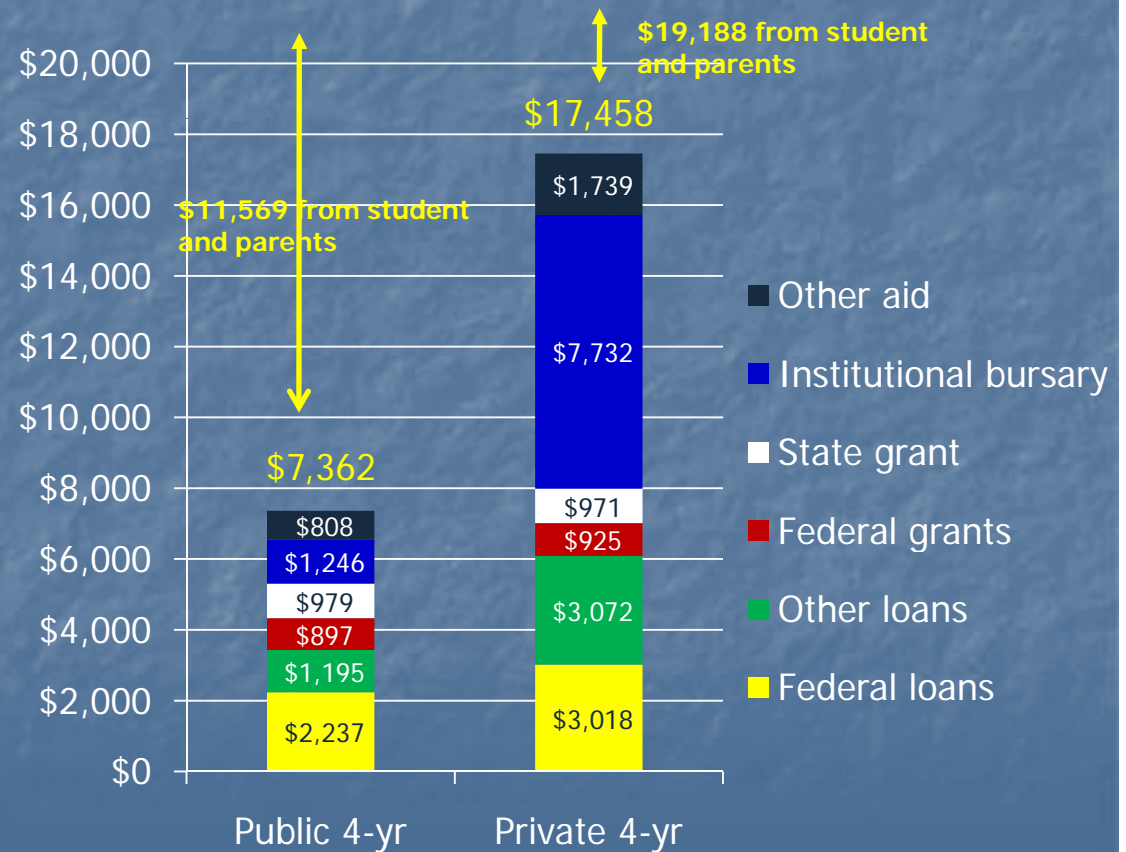
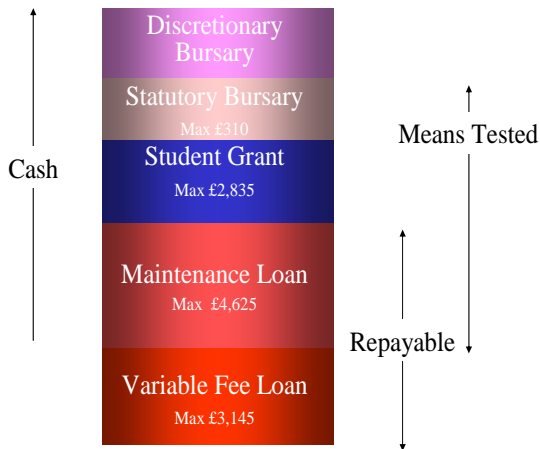


# Summary of student financing in the two countries

Cost of Attendance, England:  
£10,915 (outside London)

Cost of Attendance, US\*:  
\$18,931      \$36,646

Student financial support 2008/09



# Opportunities for financial innovation

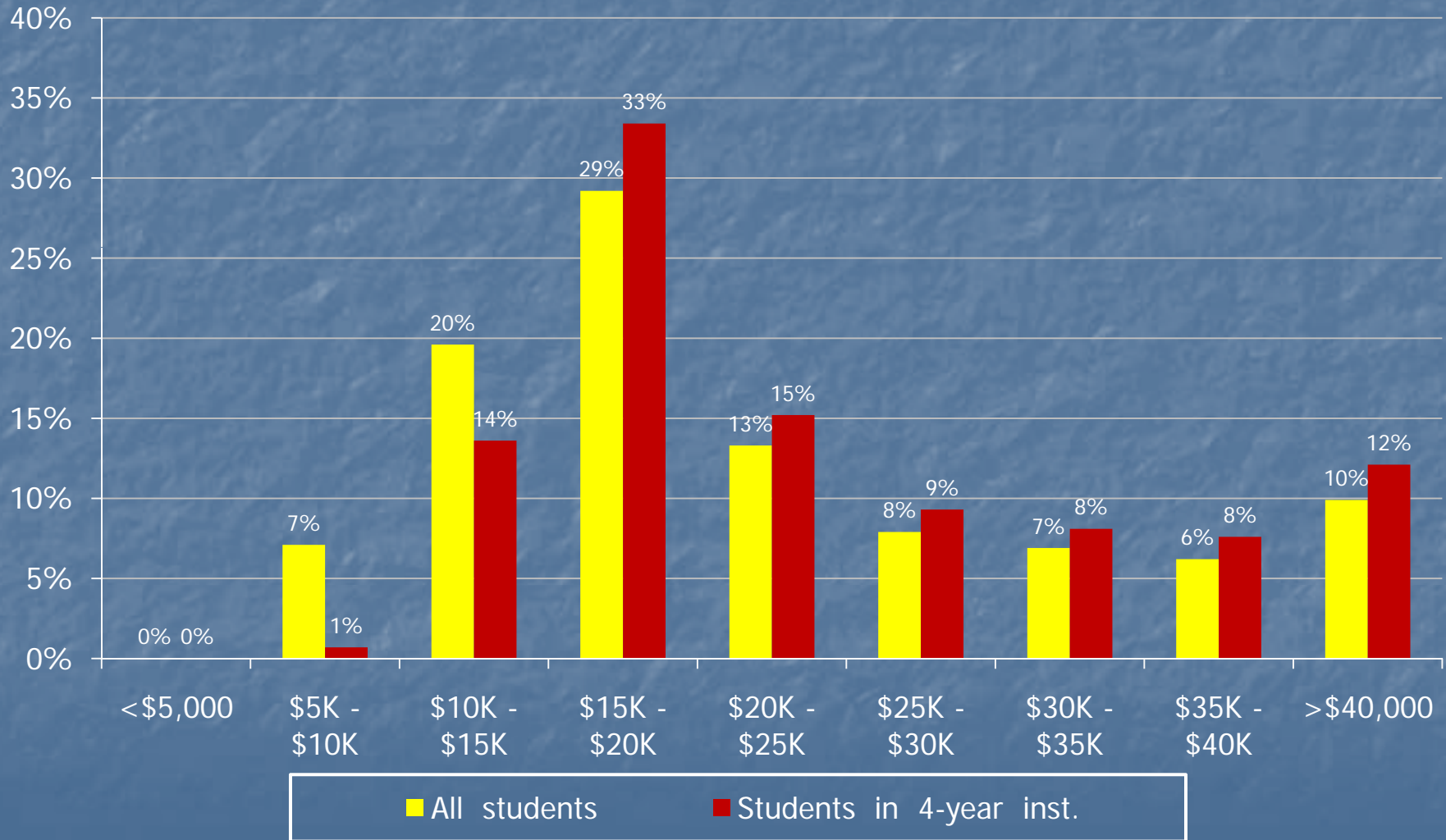
## US

- Mixed public/private system
- Large degree of institutional financial autonomy
- Variety of financial aid types, sources, and programs
- Use of the tax code

## England

- Largely centralized financing system
- Small number of HEIs
- Willingness to make structural changes

# Distribution of students in US by cost of attendance



# Examples of recent financial innovation in the US

- Varying tuition rates
  - Has created more of a market based on price
  - Price increases, price cuts, fixed-price guarantees
- Merit-based grants
  - Has influenced choice, but not access
- Private gifts and endowments
  - Important for both private *and* public HEIs
- But. . . . little innovation in loans
  - Almost all federal loans are traditional 10-year repayment without ICR
  - Tinkering at the edges: discounts on origination fees, discounts for automatic debit of payments, etc.
  - Little large-scale loan forgiveness innovation
  - Exception: development of private loan market

# Examples of recent financial innovation in England

- 2004 Higher Education Act
  - Variable fees – in theory
  - True bursary scheme, both mandatory and non-mandatory
  - Tuition loans
- Fund raising and endowments
  - Restricted largely to a handful of institutions
  - Need to overcome cultural barriers
- Opportunities
  - 2009 financing review

## Questions and discussion

<http://www.personal.psu.edu/deh29>