

# PAYING FOR TERTIARY EDUCATION: The learner perspective

## SUMMARY

While tertiary education continues to be considered a largely public enterprise, students and their families are making substantial contributions both to the cost of tuition and to other expenses associated with study, in a number of countries. The share of expenditures of tertiary education institutions covered by students and their families now ranges widely, from a negligible amount in Denmark, Sweden and Austria to almost 40 per cent in the United States, and over half in Korea and Japan. The share of spending has been increasing in different ways in different countries, such as new imposition of fees, reductions in subsidies to goods and services bought by students, and a greater rate of enrolment expansion in private than in public institutions.

But the private cost of tertiary education also varies widely for different students and their families within individual countries. Those who enrol part-time, who enrol in certain courses or institutions, who enrol in private institutions, who are above a certain age or who fail to exceed a certain level of academic achievement even though they qualify for courses, can all end up bearing higher costs. Countries need to consider whether existing financing policies push students down certain tracks rather than enabling them to follow pathways that meet their needs. A “level playing field” of finance is a more useful starting-point than the structures that exist for historical reasons.

What effect do private costs have on student choices? While it is difficult to disentangle the many influences on student behaviour, expansion in some countries has not seen an increase in the representation of low income families. It should be emphasised that evidence of the links between private payments and behaviour remains limited and uneven.

Nonetheless, both the allocation of costs to different students and their families and how those costs, once allocated, are to be financed have to be looked at carefully to maximise the degree to which all aspiring students can take choices about a wide range of study options and routes.

### 1. INTRODUCTION

During the 1990s, increasingly varied forms of tertiary education have become available to a growing number of students. These trends of growing participation and diversification have not simply been driven by “supply-side” decisions by governments to fund places. A major driving force has been demand – the choices made by learners (see OECD, 1997a and 1998). Decisions by young people and adults to participate in tertiary education have always been influenced partly by economic considerations – notably the trade-off between earnings forgone while studying and the greater prospective future earnings that result. Recently, the economic component in private decisions about participation has grown in the many countries where individuals are having to contribute more than in the past to the cost of tuition and living expenses.

So analysis of the financing of tertiary education needs to move beyond the question of how many places are provided by governments and institutions. It should also look at the contribution made by students and their families, at the incentives that exist for them to invest in tertiary education, and at how they respond to these incentives. Such an analysis needs to identify the different costs actually incurred by different learners according to what, when, how and where they study. An understanding of student costs and incentives seems essential if countries are to adopt a more strategic approach to tertiary education policies, reflecting a new view of the student – in the words of Australia’s West Committee, as a “sophisticated client” rather than a “passive consumer” (DEETYA, 1998).

This chapter considers evidence on three aspects of individual decisions to invest in tertiary education. First, it charts the degree to which the visible costs of tertiary education are being borne more than in the past by students and their families. Second, it analyses the patterns of how these costs fall, pointing to important variations according to the situation of each student, which can be difficult to justify if students are to have equal chances under highly diverse circumstances. Third, the chapter looks at the impact of private financing on participation and overall spending levels, finding a complex picture that does not show clear effects of the imposition of costs on students and households.

Figure. 4.1 The costs of tertiary education

Visible costs	Invisible costs
<p><b>Direct cost of education provided</b> Covered by payments to educational institutions, mainly via:</p> <ul style="list-style-type: none"> <li>– Block grants from governments</li> <li>– Student fees funded by governments</li> <li>– Fees paid by students from own means</li> </ul>	<p><b>Forgone earnings</b></p>
<p><b>Other expenses associated with studying e.g.:</b></p> <ul style="list-style-type: none"> <li>– Equipment and books</li> <li>– Living expenses</li> <li>– Transport</li> </ul>	

### 2. PRIVATE SPENDING ON THE “VISIBLE” COSTS OF TERTIARY EDUCATION

Tertiary education is still considered a mainly public enterprise, yet involves a substantial and growing degree of private financing for its “visible” costs. These costs (see Box 4.1) include both the cost of tuition and other spending that needs to be incurred in order to study.

The amount incurred by students for fees and other education-related expenses differs among countries according to taxation and spending policies and to the willingness of governments to support students, influenced by whether they are studying full- or part-time, and whether they are living in their families’ homes. To some extent the patterns of attendance that have helped determine these subsidy patterns are breaking down. More mature students, whose numbers are increasing, are more likely to have established their own households and to prefer part-time and distance learning to full-time, on campus study. New forms of study often incorporate periods of work. Increasing numbers of students of all ages work while following studies. In some cases the siting of new institutions in underserved areas or a toughening of restrictions on entry to local institutions have affected the proportions studying while living at home.

**BOX 4.1 WHAT IS MEANT BY “VISIBLE” COSTS OF TERTIARY EDUCATION?**

This chapter focuses on the “visible” cost to learners of participating in tertiary education. These are defined as all those things that must be paid for in order to study. They include direct payments to institutions for tuition as well as other fees for application, examination or registration. Other costs of study, not paid to institutions, include the purchase of books, equipment and supplies. Visible costs also include important types of spending that are needed to make study possible even though they are not on academic items: notably on lodgings, meals and transportation.

As portrayed in Figure 4.1, it is not only students who bear the direct cost of providing tertiary education – indeed, in most European countries it has traditionally been financed almost entirely by block grants from governments to institutions. The alternative is for institutions to receive fees for each student, although students do not always bear all, or any, of the cost. One option is simply to pay government grants to institutions, but on a per-student rather than block grant basis. Another is to repay to students some of the tuition fees that they incur, through grants, tax breaks or subsidised loans. Employers also sometimes help with tuition costs. This chapter is concerned principally with the *net* cost that falls on the student or household. The same applies to indirect costs such as board and lodging, which may also be partly defrayed by government through grants or subsidies to services.

The “invisible” cost of time devoted to studies by learners is not included in this analysis. This consists of earnings forgone for the duration of the study period. Insofar as some earnings would need to be used for living expenses had the student not enrolled, this part of earnings forgone should not be counted as fully additional to the visible costs including room and board. Earnings forgone represent a significant share of the costs borne by learners, and these enter into decisions of individuals about whether to participate in tertiary education as well as the choice of study option (*e.g.*, part-time study while employed as opposed to full-time study without earnings from employment).

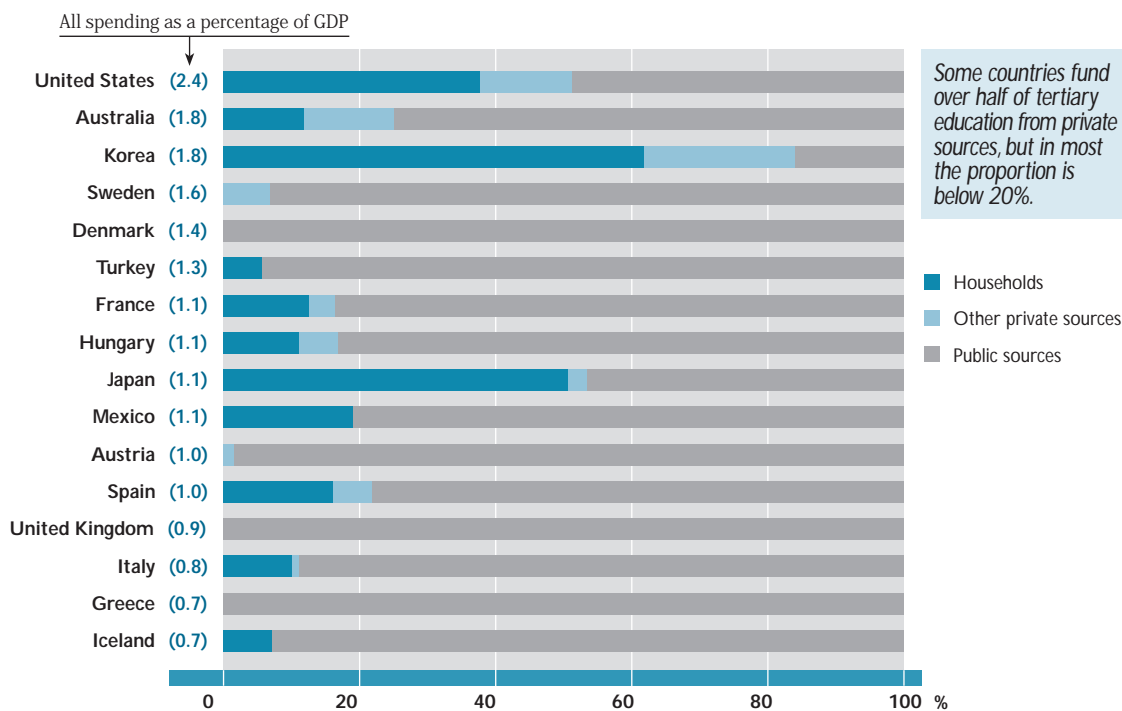
The perspective of costs differs for tertiary institutions and for public authorities. The former look at the programmes and teaching through which learning is organised and supported and how these are financed, while the latter are concerned with all resources required to permit learning, encompassing instruction and living costs, forgone earnings and incentives and barriers to participation of learners.

Public funds to help students and their families meet tertiary education costs are provided in a variety of ways, including grants, student loans, allowances and tax breaks. While repayment of loans or deferred payment of contributions or charges are made from the graduate’s income, in most such schemes governments help reduce the private costs. They do so through mechanisms such as guaranteeing the principal, imposing below-market interest rates, paying interest while the student is enrolled or on behalf of the graduate in periods of low earnings. They may also forgive debt or payment obligation if borrowers enter particular fields or occupations, die before the obligation is paid or experience low earnings over a lifetime. By some estimates, these features lead to implicit subsidies ranging from 10 to 50 per cent or more of the loan amount, with the balance constituting private or household spending on tertiary education.

Some countries concentrate support to students rather on allowances and subsidies that make meals, housing and other services cheaper; in the Czech Republic and France, such measures are estimated to amount to over 0.2 per cent of GDP. In the French case, it is estimated that these subsidies to students are almost one-fifth as great as direct spending on tertiary institutions. Such subsidies do not favour all students evenly: those who study full-time and who are dependent on their parents gain most, which raises issues of targeting.

Comparative data on spending by students and their families on tertiary education are limited. Available data for a number of countries permit comparisons of private payments for tertiary education to institutions and household payments as a separate component of private

Figure 4.2  
**The private contribution to tertiary education**  
 Spending on educational institutions, by source



Source: OECD Education Database.

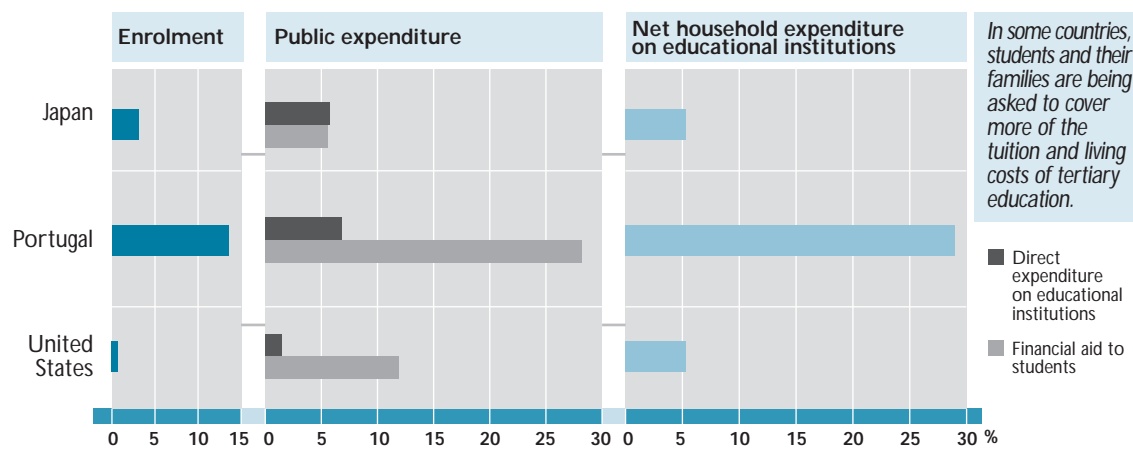
Data for Figure 4.2: page 81.

payments.<sup>1</sup> As shown in Figure 4.2, the share of educational expenditures of tertiary institutions covered by individuals, businesses and other private sources together, *net* of public financial aid to students and subsidies to other private entities, ranges widely in OECD countries, from a negligible amount in Denmark, Greece and the United Kingdom to over half in the United States, Korea and Japan, with five other countries (Australia, France, Hungary, Mexico and Spain) obtaining 15-25 per cent of funding from private sources.<sup>2</sup> Figure 4.2 also puts the total tertiary education spending on institutions in context, by expressing it as a percentage of GDP. It is worth noting that some of the countries with the highest total spending relative to national income, such as the United States, Australia and Korea, muster these resources with substantial help from private means. Conversely, in several countries with relatively low overall spending such as Austria, the United Kingdom and Greece, private sources tend to contribute relatively little.

But these tendencies are not rigid rules: Australia for example spends two-thirds more as a share of its GDP on tertiary education than Japan, but only 25 per cent of this spending in Australia compared to 54 per cent in Japan comes from private sources.

Household<sup>3</sup> payments to tertiary education institutions, *net* of money refunded for example in government grants to defray tuition costs, also vary widely as a source of funds for tertiary educational expenditure. The net household share of expenditure averages about 12.9 per cent for the sixteen countries with comparable coverage in the data. As shown in Figure 4.2, households in Korea and Japan cover much more of the costs in their countries (62 per cent and 51 per cent, respectively) than do their counterparts in most European countries. In Europe, spending by students and their families accounts for less than 20 per cent of expenditures on tertiary education institutions, with the shares greater than 10 per cent in Spain, France, Hungary and Italy.

Figure 4.3  
**Growth in funding for tertiary education by source in the early 1990s**  
 Average annual percentage increase



Source: OECD Secretariat, based on country-provided information for thematic review of the first years of tertiary education.  
 Data for Figure 4.3: page 81.

A notable trend is that the net amount contributed by households to tertiary education expenditures increased in several OECD countries in the first half of the 1990s. As shown in Figure 4.3, net household spending increased by an average annual rate of 5 to about 30 per cent in three countries for which trend data are available. The data refer to household spending on tuition costs *net* of financial aid to students to cover those costs.

Individual data on countries show that in those countries where household spending on tuition fees, education-related services and living costs is increasing, the growth is due to one or more of four factors.

**a.** Enrolments have increased, as in Australia, France and Portugal, contributing to increases in the volume of spending on tertiary education by households in those countries. While enrolments have also grown in such countries as Finland, the impact is less owing to nearly full public support for tuition and living costs. Nevertheless, Finnish students may finance their living costs with a bank loan guaranteed by the government which obliges repayment, and younger students commonly receive at least some additional support from their parents.

**b.** Fees, charges or contributions have been increased or newly imposed in a wide range of

1. The available data do not cover expenditure on other tertiary-level options. Coverage of other “visible” costs of other education-related and living expenses is uneven and incomplete. Moreover, the attribution of expenses by source, including households, is problematic. Third-party transfers to learners or their families, *e.g.* from employers, are not recorded in most system or institutional accounts and tax breaks are unevenly reported. Some of these shortcomings can be addressed through well-designed surveys of prospective and current students and their families which draw on financial records and the use of diaries; such surveys have been carried out in some countries. Another approach is to develop “notional” profiles of costs and sources of financing (*e.g.*, Johnstone, 1985 and Table 4.1 below). These provide benchmarks against which countries can be compared, but fail to take into account more diverse pathways and combinations of studies. A more significant problem is definition. There is no agreed means to account for the public subsidy and private shares of student loan or deferred payment schemes or tax breaks. Uneven coverage arising from the inability to address these definition and measurement issues is likely to become a more significant problem as diverse patterns of participation become the norm and the use of student loans, tax credits and other alternative financing schemes increases.

2. Private expenditure on tertiary education institutions includes grants and contracts including those negotiated with employers for customised teaching, endowment income and alumni giving. Borrowing from private banks, even if guaranteed and partly subsidised by governments, are reported by some countries in the OECD Education Database as private expenditures other than by households. It is *net* of public financial aid to students and public subsidies to other private entities, but does not exclude the value of tax breaks provided for educational expenses.

3. “Household” refers to individual students and their families.

countries. This applies in Portugal, the United States and Japan, but also to Australia, the Netherlands, Italy, the United Kingdom and New Zealand. Some governments draw on fees to cover a greater proportion of the costs of large volume participation in tertiary education, so the growth in subsidies to students helped households meet only a share of the increased costs in those countries.

**c.** The cost of education-related goods and services other than instruction has risen, or subsidies for them per student are lower. Information on education-related and living expenses are uneven, but country-provided data indicate increases on such expenditure over the 1990 to 1994 period of about 7 per cent in Japan and 5 per cent in the United States. The Netherlands has reduced the subsidy to cover these expenses, as have the United Kingdom, Finland, Germany, and New Zealand. The shift has resulted partly from a relative increase in the volume of student loans that, even taking into account features which reduce the costs to students of loan origination and repayment, require students or their families to assume a larger share of tertiary education costs. In Germany, for example, those eligible for financial aid receive equal parts grant and loan; in Sweden and Norway, the loan component accounts for 70 per cent of the support provided to financial aid recipients.

**d.** A higher percentage of enrolment in some countries is in independent private institutions<sup>4</sup> with higher fees that have to cover nearly the full cost of tuition: this is the case in Portugal, Japan, Korea and the United States among other countries. In Portugal, virtually all spending by students and families on tertiary education institutions in 1995-96 went to private universities and polytechnics. Those institutions accounted for about one-third of overall enrolment, up from about 20 per cent in 1990.

It is important to recognise that rises in tuition fees, in private institution enrolments and in educational costs generally do not necessarily imply that increased private spending has been accompanied by falls in public expenditures on tertiary education. As shown in Figure 4.3, in Japan and the United States, public spending on tertiary education institutions has increased despite rising tuition fees, partly because enrolment continues to grow,

the share of enrolment in public institutions has been maintained and financial aid to students has grown. There also remain countries that have financed expansion mainly out of public budgets, and where private spending for tertiary education remains negligible. One such country is Finland, as already noted; others are Denmark, Sweden, Belgium (Flanders) and Germany.

In countries with means-tested financial aid or tuition fees, parents are expected to cover part of the net private cost of their children's participation in tertiary education. In these and other countries, parent or family support is provided for younger students in a variety of ways, as is support provided by the families of mature age students. Less visible intra-family transfers, such as housing for the student family member or cash gifts from grandparents, can be difficult to quantify. It is clear however that they are significant in value. Drawing on information collected in a 1994 survey carried out by the *Observatoire de la vie étudiante*, Eicher and Gruel (1996) estimate that somewhat more than 40 per cent of the resources for students are provided by parents in the forms of direct cash support, payments on behalf of students or in-kind support for lodging and meals. While the amounts provided by parents are less for students who are older and live away from home, they account on average for over one-fifth of the resources available to students in this group.<sup>5</sup> According to survey data in the United States, grandparents and other relatives provide as much as 10 per cent of "out-of-pocket" costs for low income students.

Some of the costs falling on students and families can be recouped through tax breaks, which reduce tax liabilities to reflect parent and family contributions to educational costs. Information on the value of tax breaks is not readily available on a comparative basis. For the United States, tax

4. The terms "independent private" and "private" are used interchangeably in this chapter to refer to institutions which receive most of their core funding from non-government sources.

5. The estimates refer, respectively, to all students and to students from a middle class background (parents who are shopkeepers, crafts workers, heads of firms and mid-level professionals), aged 24 or older and who live away from home. See Eicher and Gruel (1996), Tables 2.13, 2.26, 2.27 and p. 85.

expenditures account for about 3 per cent of the costs of tertiary education, a proportion that is expected to increase sharply with recently-enacted legislation providing for an additional \$7 billion per year in tax reductions for students and their families. To place this sum in perspective, about \$50 billion in financial aid was awarded to tertiary education students in 1995-96.

So the pattern of private spending on tertiary education is complex. It is increasing in magnitude and scope in many countries, but it does not obviously displace public spending or even necessarily take a growing share of an expanding level of provision. There are also ways in which public support can play new or expanded roles, for example through the increase in tax breaks. The one generalisation that can be made is that private means are increasingly being brought into an evolving *partnership* to cover the cost of educating a widening section of the population at tertiary level.

### 3. WHO PAYS WHAT?

The proportion of spending on tertiary education that falls to students and their families is far from evenly spread within each country. The split between public subsidy and private contribution differs significantly according to various study options or student characteristics including time spent studying, type or field of course, control of institution, age and academic achievement, among others. Such differences are important for the (dis)incentives that they create to study. The broad approach to lifelong learning described in Chapter 1 above would in general argue against financing arrangements which have the effect of channeling students into specific and rigid routes at particular ages, rather than permitting learners to make choices among programmes according to whether they meet individual needs. This does not mean that costs should be exactly equal for every student, but that the reasons for difference and the effect of different incentives should be carefully considered. This becomes all the more important in the light of new, innovative approaches to the financing of household spending for tertiary education. Brief descriptions of some of those approaches are provided in Box 4.2 (page 67).

Table 4.1 (page 64) shows how public support and private contributions differ according to the

attributes of students and the study options they choose. Costs can vary according to:

#### *Part- or full-time study*

Part-time learners face higher costs than full-time students in a number of countries. In Sweden and the United States only those enrolled half-time or more are eligible for such support. In Denmark and the Netherlands, students following courses in Open Education or Open Universities, usually on a part-time basis, pay tuition fees which generally are greater than those paid by full-time students (full-time students in Danish tertiary education pay no tuition fees). In the Dutch and Danish cases, fees in open learning programmes are set at the discretion of the providing institution. Part-time attendance is recognised in Australia, where students enrolled less than full-time assume a Higher Education Contribution proportional to their course load. Part-time students are not eligible for support through the Youth Allowance. In most OECD countries, employers cover all or part of fees for employees following courses part-time.<sup>6</sup> In a number of European countries, there is no clear distinction between full- and part-time study. However, in some of these countries, students who do not complete “on time” most or all of the first one or two years of a student programme may lose eligibility for grants or for low or no tuition fees.

#### *Whether university course*

In some countries university students are treated more favourably than others. In Japan, most special training colleges charge nearly full-cost fees; the same is true for career schools (but not community colleges) in the United States. In both countries, students following courses at these types of tertiary education institutions are eligible for student financial aid to cover all costs. Advanced vocational studies in TAFE Institutes in Australia attract higher levels of public support relative to educational costs; learners in these programmes are eligible for financial aid.

6. Funding arrangements are highly variable, within and among countries. This is, in part, because the distinction between regular study programmes and continuing professional education or customised training modules is increasingly blurred. See OECD (1995).

Table 4.1  
**Variables associated with differences in costs to tertiary education students and their families, selected countries**

	AUSTRALIA	AUSTRIA	DENMARK	FINLAND	FRANCE	GERMANY
<b>Part- or full-time studies</b>	Part-time students have access to HECS, but no Youth Allowance support.		Fees for part-time students in Open Education vary by programme, as decided by each institution.			
<b>Whether university</b>	Students in other tertiary education courses pay lower fees and have access to Youth Allowance.					
<b>Field of study</b>	Higher HECS charges for students enrolled in high cost, high demand and popular fields; Income contingent payment of HECS, favouring arts and sciences courses.			Loan with mortgage-type repayment, favouring professional programmes.		Half of support is loan with mortgage-type repayment, favouring professional programmes.
<b>Public or private institution</b>	Students in private institutions pay higher fees, and have no access to HECS; students attending private institutions have access to Youth Allowance provided that the institution is accredited.					
<b>Age</b>	Means-test includes parents' resources to age 24.	Support provided to parents of students to age 26; student support to age 39.	No age limit; more support is provided if student is more than 29 years old or living away from home; social welfare beneficiaries retain benefits for two years of study.	More support is provided if student is more than 20 years old or living away from home; targeted programme of means-tested support for students aged 25-64.	Support to age 26.	Support to age 30.
<b>Academic achievement*</b>		Limited number of merit awards; no support for change in orientation after 2 years; time-limited support (loss of support if student is more than one-year behind in the study programme).	Time-limited support, corresponding to the prescribed duration of the study programme plus 12 months.	Time-limited support (55 months for 1 <sup>st</sup> degree).	Time-limited support (6 years for DEUG).	Limited number of merit awards.



	JAPAN	NETHERLANDS	NEW ZEALAND	NORWAY	SWEDEN	UNITED STATES
<b>Part- or full-time studies</b>		Fees for part-time study set at discretion of institution and at Open University (Open University provides support to one-third of students).			Support for students enrolled half-time or more.	Support for students enrolled half-time or more.
<b>Whether university</b>	Students in special training colleges pay fees; about 1% of these students receive support to cover the fees and living costs.					Support for fees and living costs is available to all tertiary education students in eligible programmes.
<b>Field of study</b>	Loan with mortgage-type repayment favouring professional fields; graduates in some fields exempted from repayment.	Loan with income contingent repayment, favouring arts and sciences courses.	Loan with income contingent repayment, favouring arts and sciences courses.		70% of support is loan with income contingent repayment, favouring arts and sciences courses.	Loan with mortgage-type repayment, favouring professional fields; graduates in some fields exempted from repayment.
<b>Public or private institution</b>	Students in private institutions pay fees (75% greater than public); about 10% of undergraduate students in private 4-year institutions receive public support for fees and living costs.	Students in public and approved private institutions are eligible for support.	Students in public and private institutions are eligible for support.	Students in public institutions and recognised programmes in private institutions are eligible for support.		Students in public and private institutions are eligible for support.
<b>Age</b>		Support to age 27.	Means test includes parents' income to age 24.	Support to age 65; social welfare beneficiaries retain benefits, but receive reduced support.	Support to age 45.	Means test includes parents' resources to age 24; welfare beneficiaries generally do not retain benefits.
<b>Academic achievement*</b>	Highest academic achievers admitted to highly competitive public institutions, where fees are lower.	Fees can increase after 6 years; time-limited support (grant eligibility is maintained if 50% of study points completed in every year; loan converted to grant if degree is completed in 6 years).		Time-limited support (5 years, 8 years for long degree programmes).	Time-limited support (6 years).	Limited number of merit awards; support contingent on "satisfactory progress".

\* Includes both direct favouring of academic achievers and time-limit to funding that create higher costs to slower completers.  
 Source: OECD Secretariat, based on country-provided data for thematic review of the first years of tertiary education and supplementary materials.

### *Field of study*

Students undertaking courses in the sciences or certain professional programmes may face costs or incentives which favour those fields over others. In some countries, higher tuition fees for courses in the sciences, engineering and medicine have been established to take into account the higher costs of instruction in those fields. This is the policy now in place, on a system level, in Australia where a differentiated Higher Education Contribution is assessed at one of three levels according to the cost, demand and earnings potential associated with the units of study in which a student enrolls. In New Zealand and the United States, differential fees are imposed by a limited number of institutions, but in most countries such distinctions are not made. (Further details on the Australian and New Zealand experiences can be found in Box 4.2.) The cases of Japan and Portugal are different: sciences, medical and engineering programmes are offered mostly in public institutions as part of a full range of courses, while private institutional providers mostly offer programmes embracing the arts, social sciences and professions (other than health fields). A student choosing to enrol in the latter fields will, on average, incur higher tuition fees.

Complementary to differential tuition fees are targeted financial aid and the forms of financial support provided to students. Grants may be targeted on students in some fields, including the sciences; forgiveness of accumulated student loan debt may be offered as an incentive to graduates of those fields, on condition that they take up employment in particular posts or locations. This applies in Japan and the United States, but there is experience with the approach in other countries. More generally, the conditions governing repayment of student loans or contributions can affect the relative attractiveness of studies in different fields. Mortgage-type student loans found in Finland, Japan and the United States impose a schedule of defined payments over a fixed term. These conditions tend to favour enrolment in fields leading to good employment options, high and steady earnings prospects and greater scope for job mobility, such as professional studies in law, business and health-related fields. Income-contingent arrangements in which repayments or deferred payments increase with income, or are

reduced during periods when income is below a minimum threshold, lower the disincentive to enrol in fields with low, less certain or less stable employment and earnings prospects such as the arts and sciences. Income-contingent schemes are found in Australia, the Netherlands, New Zealand and Sweden.

### *Public or private institution*

As referred to above, the highest fees tend to be faced by students studying at independent private institutions. This effect is mitigated in some countries such as Japan by access to grants and loans, and in the United States, financial aid related to student means and the costs that they face create greater balance. In several European countries, including the Netherlands and Norway, students enrolled in private institutions are eligible for financial aid if they are following an approved or recognised course. Countries that regard private institutions as providing an important part of tertiary education opportunities may ask whether there should be any discrimination at all between the level of subsidy going to public and private institutions, or at least whether there is a case for aiming for a more balanced cost for students, so that they may choose among institutions on non-financial grounds. New tertiary education finance policies adopted in Portugal seek to establish just such a balance: financial support for students attending private universities and polytechnics will be increased more rapidly than funding made available to students enrolled in public sector institutions, eventually leading to student funding which narrows the differences between public and private institutions in terms of the *net* costs faced by students and their families.

### *Age*

In some countries, governments have policies that provide more favourable support to those who have just left school than to older groups. The age at which eligibility for student support terminates is 26 in France, 27 in the Netherlands, 30 in Germany, 39 in Austria, 45 in Sweden and 65 in Norway. Finland has a targeted programme of means-tested support for adults aged 25-64; the means testing directs financial aid to those who are unemployed or otherwise lack resources to support education-related and living costs

**BOX 4.2 WHO PAYS WHAT: EXAMPLES OF NEW FINANCING APPROACHES**

*Differentiated student contributions by field*, in Australia are based on three criteria: differences in underlying costs, the earnings potential of graduates from the field and the popularity of the course. Courses are assigned to one of three bands for the differentiated Higher Education Contribution (HEC): Band 1, A\$3 300, Band 2, A\$4 700 and Band 3, A\$5 500. On the basis of estimated cost profiles, course in arts, humanities and the social sciences are assigned to Band 1; computing, sciences and engineering to Band 2; and medicine, dentistry and veterinary science to Band 3. Taking into account criteria of earnings potential and student demand, units of study in some higher cost courses such as nursing and visual and performing arts are placed in Band 1 while units of study in some lower cost fields such as business and economics are placed in Band 2 and law is placed in Band 3.

*Institution-established tuition fees*, in New Zealand to cover the implicit gap between state-provided support to the public institution and anticipated costs. Large institutions charge a flat fee for all programmes; the majority differentiate fees according to the underlying cost of the course or the level of tuition subsidy which under the “study right” policy can differ by age and prior enrolment status of the student as well as the course.

*Means-tested tuition fees*, in the United Kingdom. From 1998-99, new full-time undergraduates will be required to contribute up to £ 1000 towards annual tuition fees. The state will meet the balance of tuition costs and cover proportionately more of those costs for students from lower income families.

*Time-limited student financial aid* :

- converted from loan to grant if student completes 50 per cent of study points in every year and all study points toward a degree in 6 years, as of 1998-99 in the Netherlands;
- up to 55 months for living costs while undertaking a course leading to a first degree, in Finland.

*Income-contingent student loan repayment or deferred payment of student contribution* in Australia, the Netherlands, New Zealand, Sweden and the United Kingdom. In the New Zealand programme, students may take out loans to cover tuition fees, course-related costs and living costs, up to a fixed maximum for each component. The interest rate is set each year, based on 10-year bond rates plus a 0.9 per cent risk premium. Repayment is proportional to the borrower’s income at a rate of 10 cents on every dollar of income above a threshold (set at NZ\$ 14 300 in 1996-97); when a borrower has low or no income in a given year, the interest due for that year is written off. Loan balances are adjusted to ensure that their value remains constant in real terms.

*Tax breaks for tertiary education spending*, in the United States which allow a credit for expenses against taxes owed or deductions to reduce income subject to taxation. From 1998, a non-refundable tax credit can be claimed of up to US\$1 500 of the first US\$ 2 000 of out-of-pocket tuition fees per person in each of the first two years of tertiary education *or* 20 per cent of the first US\$5 000 in tuition fees per family, net of any federal educational aid. The tax break is phased out at about US\$70 000 to US\$100 000 in income. Further, taxpayers can exclude from income up to US\$5 250 of employer-provided education assistance, and deduct some or all interest paid on student loans during the first 60 months of repayment and some contributions into savings plans for tertiary education expenses. Investment income in these plans is subject to no or deferred tax. Taxpayers can claim as dependents all family members who are 18 to 24 years of age and enrolled full-time.

while enrolled. Under a distinctive “study right” policy in New Zealand, per student funding to institutions is provided at 95 per cent of the base rate for students who are under 22-years-old and enrolling for the first time in tertiary education, with eligibility extending up to three years. Students who do not meet the criteria are funded at 75 per cent of the base rate. Some institutions, but not all, differentiate fees according to the level of study right funding. The policy is under review, partly because institutions that cater to target populations receive relatively less funding.

In those countries where parents are expected to contribute toward the costs of their children’s education, a trend has been to extend that responsibility further into the student’s young adult years, to age 24 in Australia, New Zealand and the United States and to age 26 in Austria. Those students in their early twenties who do not receive parental support face higher costs, and therefore may choose to delay participation until they can establish financial independence. In other countries, such as Finland and Denmark, students are considered financially independent of parents. Another policy which affects the costs faced by adults is the treatment of social welfare benefits of students, including unemployment insurance. In Denmark and Norway, beneficiaries retain this support during studies (in Denmark for two years), although they receive greatly reduced student financial aid. As benefits generally are greater than subsidies provided to students, this policy eliminates a potential disincentive to commence or return to tertiary-level studies. However, the calculations may differ under particular circumstances, so that a single policy may lead to higher costs for some adults and lower costs for others.

### *Academic achievement*

Tertiary education finance policies may work to impose higher costs on students other than the most academically prepared, able and talented, in direct and indirect ways. Students other than the highest achievers comprise a growing proportion of the intake into tertiary education, as participation rates in tertiary-level studies approach half or more of each generation. More and more individuals with a wider range of talents, interests and capabilities now aspire to

and enter tertiary education. Policies will need to take these differences into account, to a greater degree and perhaps in new ways.

At present, in Germany and the United States among other countries, those with higher academic achievement compete for a limited volume of merit awards and, if successful in the competition, incur lower costs than other students. In Japan and also in Portugal, overall tuition fee and financing policies work in the same direction. Demand for places in public universities in these countries exceeds the number of funded places, which means that admission is restricted to higher achievers. The result is that students other than the top academic achievers who aspire to university studies have as their only option private universities, which charge tuition fees closer to full cost. In Japan, the relevant policies are under review or being revised in ways which will extend public funding to students other than the highest academic achievers. The ongoing university reform seeks to widen the criteria for selection, thus weakening the reliance on narrow achievement tests for admission.

A number of countries, including Austria, Finland, France, the Netherlands, Norway, Sweden and the United States, apply rules that increase fees or reduce financial support for students who do not maintain steady progress toward a given qualification. Such policies may work to the disadvantage of all but the most directed and high achieving students. Others who are qualified but also bring different capacities and talents may require somewhat more time to complete coursework or decide that a new programme orientation will better suit their needs. Although policies vary in detail and may not be applied rigidly, most countries now provide less flexibility and impose higher costs on those who require more time: in Austria as in Belgium (Flanders), financial aid is withdrawn if a student fails to complete successfully a defined part of a course in a given period; in Denmark, students may draw on their eligibility for financial aid for the number of months corresponding to the prescribed duration of their chosen study programme, plus twelve months. In a number of other countries, including the Netherlands and Finland, financial support is also time-limited. (Details on the programmes in these two countries can be found in Box 4.2.)

For individual students, differences in costs will depend on a greater range of factors than those described above. First of all, some individuals will be faced with a combination of the characteristics that affect the costs to be covered. For example, a part-time student who is also of mature age could have two cost disadvantages compounded.

A second factor adding to cost differences is the fact that course lengths vary. First degree/diploma programmes can range from two to five years or more in duration, and some students take longer than the prescribed time to complete, for a variety of reasons. In France, ten different pathways through tertiary education are followed by those pursuing an advanced specialised qualification, the *Diplôme d'études supérieures spécialisées* (DESS), to complete their studies (Observatoire des coûts, 1997). Owing to differences in the duration of studies arising from the types of course followed, to changes in orientation and to the need to delay or retake courses at each of three stages (*cycles*) leading to the DESS, student earnings actually used to cover education-related and living costs could vary from one student to another by more than 40 per cent. The differences are important, as student earnings account for about a quarter of resources from all sources which students have available to meet such costs.<sup>7</sup>

It is important to consider individual circumstances when deciding on time limits for student support. It is understandable that governments restrict in many cases the amount of public subsidy allocated to any one student. But the design of funding arrangements needs to avoid the assumption that every student will follow a preset pathway determined by governments. Students have different needs and interests, and the funding system should be sensitive to this – aiming to provide flexible opportunities rather than assuming that each student will follow a traditional route. The French case clearly shows that flexibility is not always without financial cost, and in the United States and other countries delays are often associated with a failure to complete a study programme.<sup>8</sup> But in redesigning financing arrangements, the study combinations desired by learners and needed in the economy and society need to be taken into account.

A key implication is the need to take a fresh look at structures for financing tertiary education. Financing arrangements largely adapted from those in place when there was “less traffic” in and less diversity of demand for tertiary education seem less able to respond to the volume and patterns of participation, characteristics and circumstances of learners and the diversity of learning aims. To strengthen the opportunities of potential students to make informed decisions about the choices, greater transparency is needed not only on the different types, settings and timing of studies but also on their respective costs and on the amounts and forms of financial support available. Beyond this, tuition fee and financial aid policy should introduce greater neutrality among tertiary education study options.

#### 4. RESPONSE TO INCENTIVES

New financing strategies aim not only to mobilise needed resources from a wider range of public and private sources but also to influence student behaviour in ways that make tertiary education more cost-effective. The aim is to provide wide access to a range of study options while encouraging students to move more rapidly to complete their study programmes. One way of assessing the success of these strategies is to look at how learners respond to various incentives.

It is hard to determine the precise impact of the level of student and family payments for tuition on learner behaviour, partly because the payments cannot be seen in isolation from other “visible” costs as well as grants, tax expenditures and other subsidies and partly because a host of other factors come into play. Thus, countries in which students and their families pay more to tertiary education institutions have participation rates which vary

7. Estimates by the OECD Secretariat. The duration of studies leading to the DESS ranges from 5 to 7.29 years, depending on the pathway followed (Observatoire des coûts, 1997). On average, student earnings account for 25.6 per cent of estimated direct and in-kind resources available for education-related and living costs (Eicher and Gruel, 1996).

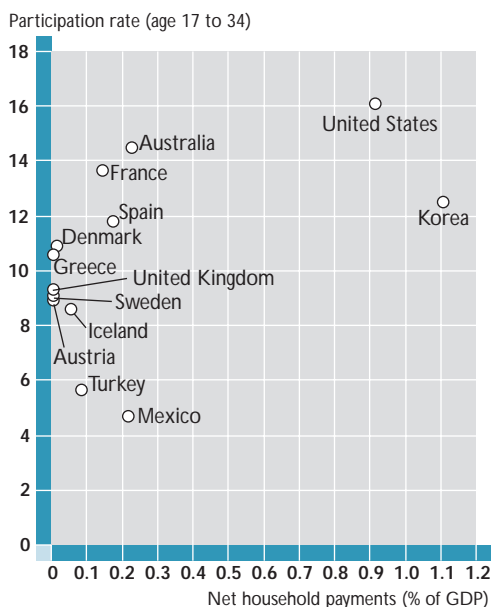
8. It is difficult to interpret data on rates of completion of study programmes. For a variety of reasons, students may choose to extend the duration of their studies through alternating periods of work or other activities and formal learning. Not all students undertaking tertiary-level studies seek a degree or diploma. See OECD (1997a and 1998).

widely (Figure 4.4a). For a group of countries, there is a very weak tendency for higher household payments to be associated with short completion times (Figure 4.4b). Such associations as can be observed must be treated with considerable caution, as many factors influence participation and study duration.

Looked at from another angle, students can be used as a vehicle for allocating public funds to tertiary education institutions and, through this means, introduce an incentive for programmes and teaching to be organised in ways that meet student needs and so reduce the costs of failure and mismatches. Public funding of institutions based directly on student enrolments, already in place in the majority of OECD countries, provides such an incentive. The incentive is more transparent when public funds, in the form of student financial aid, augment the funds provided by students and their families. But, as shown in Figure 4.5, there is no close correspondence between the level of payments of students, from their own means or through student financial aid, and average programme costs.

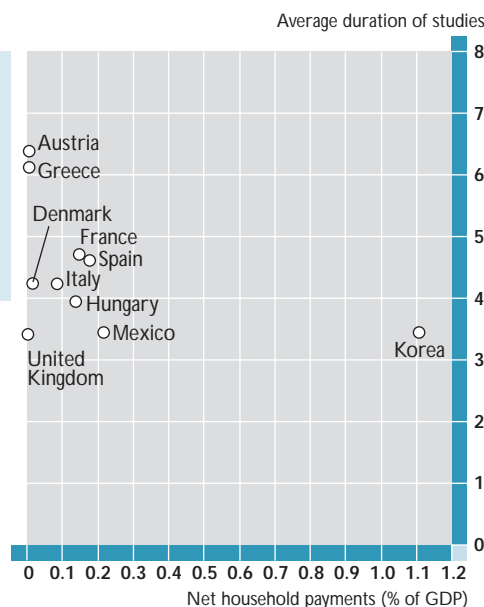
These patterns should not necessarily be taken to mean that payments by or through students and their families have no incentive effects. There is evidence that net costs can influence the enrolment decisions of young people from low income families and there is some indication that adults also are sensitive to costs when making enrolment decisions. Available data in several countries indicate that participation rates from low income or lower class families have not increased with expansion. In the United States, the participation rate of young people from the lowest income quartile changed very little from the late 1970s into the mid-1990s, while that of the highest income quartile rose by 10 per cent. In Japan, after strong increases through the 1970s, the representation of students from the lowest income quintile did not increase over the 1980s and is judged, by some analysts, to be below their share in the population (Kaneko and Kitamura, 1995). In some contrast, students from working class families in the United Kingdom apparently increased their representation in full-time first-degree and diploma courses, in the fifteen years to 1993 (Smithers and Robinson, 1995).

Figure 4.4a  
Household contributions to costs and participation rate



Where students and their families pay for a large share of tertiary education, participation varies but study duration tends to be short.

Figure 4.4b  
Household contributions to costs and average duration of studies



Source: OECD Education Database.  
Data for Figure 4.4: page 82.

Figure 4.5  
Expenditure per student over the average duration of studies and final sources of funds for tertiary education institutions, 1994



Source: OECD Education Database.

Data for Figure 4.5: page 82.

A host of factors account for these patterns, so it is not easy to separate out the role played by the costs faced by students and families of limited means. In this respect, recent Australian experience provides a good case study: the numbers of students of low socio-economic status (SES) have increased in proportion to the 30 per cent growth in enrolment over the first half of the 1990s, but their share of enrolment in 1996 stood at 15.5 per cent, about the same as in 1990 (Meek, 1998). Over this period, a Higher Education Contribution charge was introduced, with revenues earmarked for tertiary education. However the scheme allows students to defer payment until they leave tertiary education and payments are linked to income. So the need to marshal additional resources at the time of enrolment apparently would not have slowed the rate of growth in participation of students from low SES families. Other factors may play a decisive role. Students from such backgrounds may be averse

to taking on an obligation for deferred payment, against an unfamiliar if not uncertain prospect for improved employment and earnings later. Where young adults from low SES families use their earnings to cover family expenses, greater subsidies may be required to encourage and enable participation.

A substantial body of research in the United States confirms that changes in net costs to students from low income families do affect the likelihood of enrolment and, further, that these students may be the most sensitive to such changes (see, e.g., McPherson and Schapiro, 1991). The finding is important, pointing to the need to investigate and to take account of the consequences of seeking greater participation of students and families in financing tertiary education.

Finally, where there has been a shift from grants to loans to finance student tuition fees, charges or living costs, the impact of prospective and actual debt and repayment obligations is far from clear. Students respond in part by taking on part-time work. In many countries, a high proportion of full-time students have employment. Some countries and institutions recognise that this development needs not just to be taken into account but potentially used to good advantage: well-managed work experiences can complement a student's learning experiences. Nonetheless, the scale of student debt is increasing in some countries: in Canada, for example, the average debt load of a graduate is expected to increase from Can\$ 13 000 in 1990 to Can\$ 25 000 in 1999 when the proportion of borrowers with debts larger than Can\$ 15 000 will reach 40 per cent. New measures to help manage student debt provide a tax credit on interest payments and introduce changes in the Canada Student Loans programme for interest write-off, extended repayment and partial debt reduction for those with relatively low incomes.

Loan financing does not occur in isolation, but is linked to other individual and family consumption, investment and savings decisions over the lifecycle. There are important implications for the implementation of a lifelong approach to learning: families which, on the margin, would have spent money for early childhood education

or additional out-of-school enrichment to complement school instruction may be more likely to set money aside for the payment of fees for tertiary education. Even where the repayment of loans is income-contingent, adults who are repaying them may have fewer resources to spare for their own further learning or for their children's early educational experiences. These choices arise out of a new balance between, on the one hand, enhanced incomes for a large share of a generation which gives greater capacity to absorb additional expenses, and on the other a new obligation spread widely in the population to pay or repay the costs of tertiary education. *How* the shift in the sharing of the costs of tertiary education – from the public (or parent) to the learner – is realised may be as important as *what* those shares will be.

## 5. CONCLUSIONS

It is not easy to encapsulate, using presently available data, the complex ways in which students and their families are investing money

in tertiary education. But it is clear that an analysis of the way tertiary education is financed needs to look at who pays what for learning, not just at the funding level of institutions. A preliminary conclusion is that many students are investing resources in their own learning, and may well become more effective learners as a result of having this financial stake. But, it is important that incentives are not skewed in ways that reduce the study opportunities for some groups. The most obvious is low-income households, whose members have never participated much in tertiary education and could be further put off by rising private costs. But it is also important to consider the rationale for existing structures that may unduly favour students who go down a particular well-established track, rather than those who wish to pursue pathways more precisely geared to their own needs. As far as possible, governments should aim to permit these pathways to be planned across a "level playing field", in which undue obstacles do not arbitrarily determine the route. ■

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