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# The Living and Miscellaneous Expense Allowance Used to Calculate Minnesota State Grants

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Dr. Gerald Setter died unexpectedly in 2008 after completing most of the in-depth analysis reflected in this report. The Office of Higher Education is grateful for his thoughtful insight, hard work and nearly 30-year commitment to public service.

## Introduction

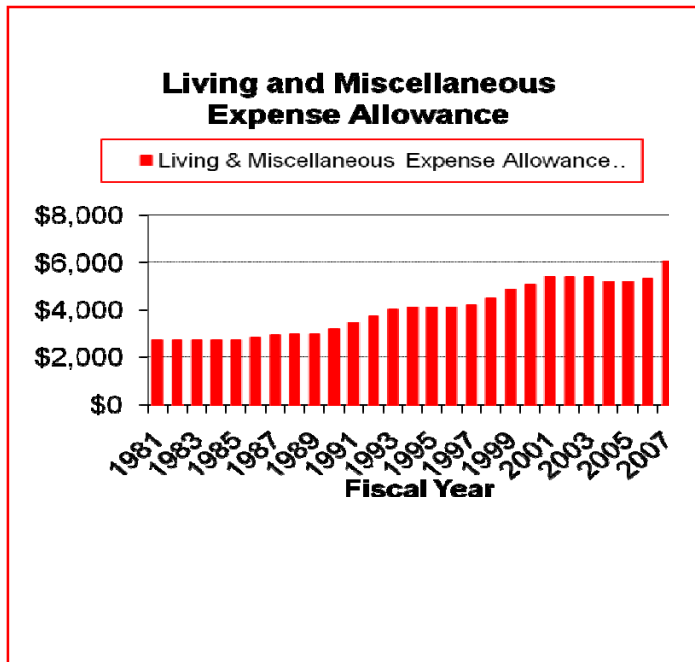
In *Overview of the Design for Shared Responsibility*, the role of the Living and Miscellaneous Expense Allowance in defining the Recognized Price used in the calculation of Minnesota State Grants was described. The LME is intended to recognize a frugal student's cost of attending college beyond charges for tuition and fees.

LME amounts used to calculate Minnesota State Grants from Fiscal Years 1981 through 2007 are shown in the table to the right. It should be noted that the LME was temporarily increased from \$5,350 to \$6,065 to spend out a projected funding surplus for Fiscal Year 2007. The LME was subsequently set at \$5,900 for Fiscal Year 2008 and \$6,200 for Fiscal Year 2009.

This chapter explores whether the LME provides an adequate measurement of the cost of maintaining a modest living standard while attending college by comparing the LME to the rate of inflation and other standard measures of basic living costs such as the federal poverty threshold, consumer spending surveys and campus budgets used to award financial aid.

### The Living and Miscellaneous Expense Allowance, LME, Used in the Minnesota State Grant Program

Fiscal Year	LME
1981	\$2,750
1982	\$2,750
1983	\$2,750
1984	\$2,750
1985	\$2,750
1986	\$2,850
1987	\$2,960
1988	\$2,985
1989	\$2,995
1990	\$3,170
1991	\$3,465
1992	\$3,750
1993	\$4,033
1994	\$4,115
1995	\$4,115
1996	\$4,115
1997	\$4,200
1998	\$4,500
1999	\$4,885
2000	\$5,075
2001	\$5,405
2002	\$5,405
2003	\$5,405
2004	\$5,205
2005	\$5,205
2006	\$5,350
2007	\$6,065



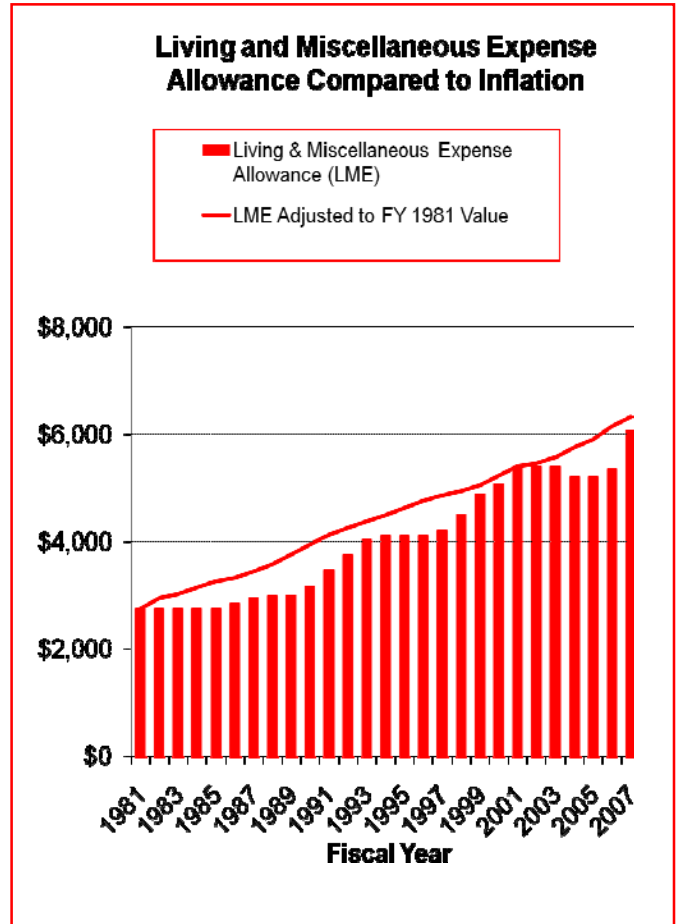
# LME Comparisons

This section compares Minnesota’s Living and Miscellaneous Expense Allowance to various indices and provides a context in which to understand the current LME dollar amount as a measure of a frugal standard of living.

## LME Compared to Inflation

One measure of the change in prices consumers face is the Consumer Price Index. Minnesota State Grant’s LME was \$2,750 in Fiscal Year 1981 and is used as the starting point in the chart to the right. The initial LME was based on an average room and board cost of \$1,813 as reported by campuses to the U.S. Department of Education, with an additional amount included for books and miscellaneous expenses. The 1981 value was adjusted each year by the Consumer Price Index to obtain the line shown in the chart to the right.

For most years, the LME has not kept pace with inflation. The Fiscal Year 2007 LME value of \$6,065 is somewhat less than the 1981 value adjusted for inflation of \$6,324.

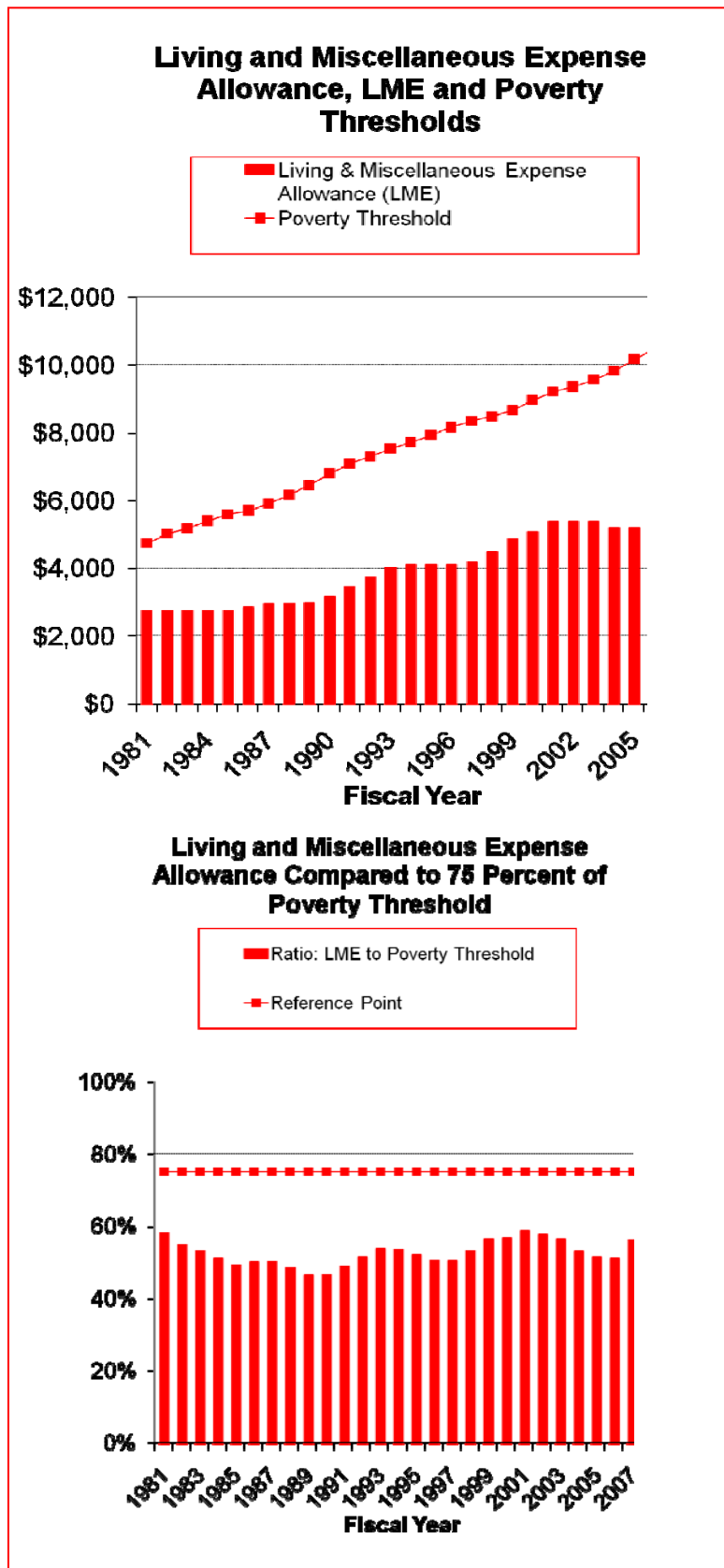


## LME Compared to the Poverty Threshold

A common measure of the living standard of frugal individuals is the poverty threshold used in the calculation of many government benefits. The poverty threshold is determined by the Census Bureau and reported annually. For purposes of this comparison, the poverty threshold for a single individual under age 65 was used.<sup>1</sup> The poverty threshold has grown continually from \$4,729 to \$10,787 over the period, 1981 to 2007. The values of the poverty index and LME are shown on the upper panel to the right.

An important difference between the LME and the poverty threshold is that the LME is intended to cover the period of attendance during a nine-month academic year while the poverty threshold is intended to cover a 12-month period.

To account for differences in the length of time covered by LME and the poverty threshold, a reference point of 75 percent of the poverty threshold is used in the chart in the lower panel. The LME has always been significantly below the 12-month poverty threshold. The LME decreased from 58 percent in 1981 to 46 percent in 1989; the ratio then increased to 59 percent in 2001; and subsequently, dropped to 56 percent in 2007.



Source: Poverty thresholds from Census Bureau, *Current Population Survey*, various years.

<sup>1</sup> In this section, the poverty threshold for the calendar year is compared to the LME for the fiscal year; for example, poverty threshold for calendar year 2003 is compared with the LME for Fiscal Year 2003.

## **LME Compared to Average Undergraduate Budgets**

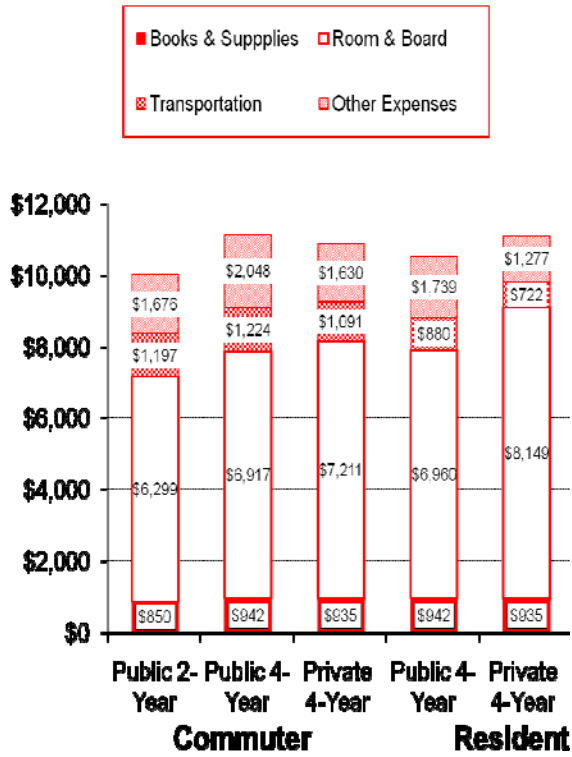
Average budgets used by campus financial aid offices provide a measure of comparison to the LME used to calculate Minnesota State Grants. Campus budgets are constructed for a number of purposes. One purpose is to provide prospective students with a realistic picture of the cost of living on campus.

Another purpose is to determine financial aid packages. Set too high, the resulting financial packages can put unneeded pressure on the resources of the campus. Set too low, students might not qualify for as much federal, state and private financial aid as they would at another institution.

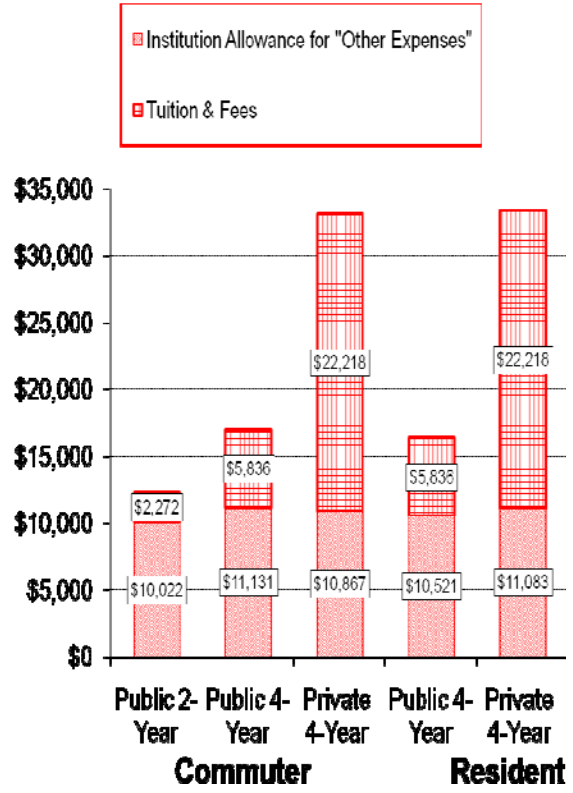
The College Board (2006) annually conducts a budget survey of colleges and universities and reports weighted averages by type of institution and location of students relative to campus. The results for Fiscal Year 2007 are shown on the next chart. These averages are collected on an institutional basis and weighted by enrollment to reflect the average student. The components of the typical allowance for “Other Expenses” are shown on the left panel. The “Other Expenses” portion of undergraduate budgets ranged from \$10,022 to \$11,131 compared to the LME value of \$6,065 used to calculate Minnesota State Grants in Fiscal Year 2007. The full price of attendance figures including tuition and fees are shown on the right panel on the next page.

## Average Undergraduate Prices of Attendance, 2006-2007

### Components of Institutions' Allowance for "Other Expenses"



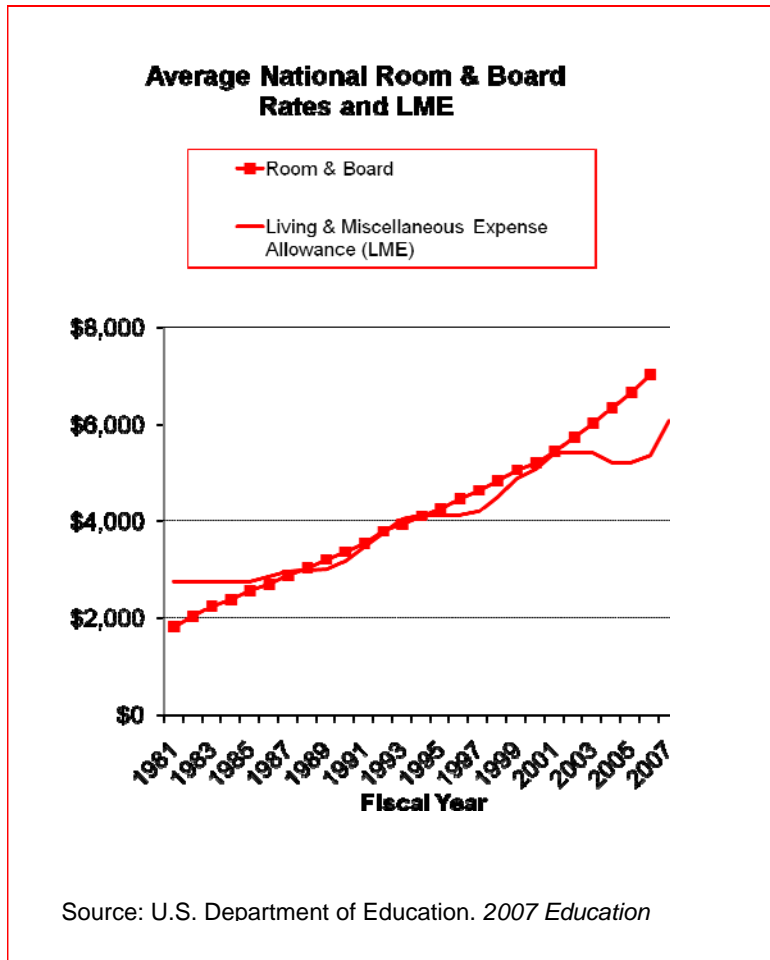
### Total Institutional Posted Prices



Source: College Board, Trends in College Pricing (2006)

## LME Compared to Campus Room and Board Rates

The U.S. Department of Education collects average room and board rates for full-time students in degree granting institutions. In Fiscal Year 1981, the first year a statewide LME was established, the average room and board rate reported by the U.S. Department of Education was \$1,813, as shown on the panel to the right.<sup>2</sup> The LME used for calculating Minnesota State Grants that year was \$2,750, based on the average room and board rate and an additional amount for books and miscellaneous expenses. In Fiscal Year 2007, the average room and board rate was \$7,379 compared to the LME of \$6,065.



<sup>2</sup> See Table 312 of the *2005 Economic Digest* prepared by the U.S. Department of Education. These data were accessed at [nces.ed.gov/programs/digest/d05/tables/dt05\\_312.asp](http://nces.ed.gov/programs/digest/d05/tables/dt05_312.asp) (March 21, 2007).



## **LME Compared to Minnesota Room and Board Rates**

Room and board rates charged by Minnesota institutions provide another measure of comparison to the LME used to calculate Minnesota State Grants.

**Campus Room and Board Rates:** The price of on-campus room and board in Minnesota varied from \$3,640 to \$8,592, as shown in the next table.<sup>3</sup> Only those campuses reporting on-campus room and board rates to the U.S. Department of Education were included. These data do not identify differences in services provided in the base price, such as internet access.

Twenty of the 34 Minnesota campuses have room and board rates for students living in campus residence halls higher than the recognized Living and Miscellaneous Expense Allowance of \$6,065, as shown in the fourth column on the following page. The 14 with lower rates are shown in the third column.

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<sup>3</sup> See [nces.ed.gov/ipeds/cool/](http://nces.ed.gov/ipeds/cool/) (Accessed March 27, 2007).

## Campus Room and Board Rates 2006-2007

Institution	2006-2007 Room and Board Rate	If Less Than LME (\$6,065), Amount Less	If More Than LME (\$6,065), Amount More
Augsburg College	\$6,604		\$539
Bemidji State University	\$5,628	\$(437)	
Bethany Lutheran College	\$5,278	\$(787)	
Bethel College	\$7,140		\$1,075
Carleton College	\$8,592		\$2,527
College of St. Benedict's	\$6,898		\$833
College of St. Catherine	\$6,432		\$367
College of St. Scholastica	\$6,514		\$449
Concordia College	\$5,090	\$(975)	
Concordia University	\$6,596		\$531
Crossroads College	\$5,700	\$(365)	
Crown College	\$6,654		\$589
Gustavus Adolphus College	\$6,400		\$335
Hamline University	\$7,280		\$1,215
Macalester College	\$7,982		\$1,917
Martin Luther College	\$3,640	\$(2,425)	
Minneapolis College of Art & Design	\$6,160		\$95
Minnesota State University, Mankato	\$5,099	\$(966)	
Minnesota State University Moorhead	\$5,356	\$(709)	
North Central University	\$4,934	\$(1,131)	
Northwestern College	\$6,460		\$395
Oak Hills Bible College	\$4,450	\$(1,615)	
Pillsbury Bible College	\$4,208	\$(1,857)	
Southwest Minnesota State University	\$6,240		\$175
St Cloud State University	\$5,250	\$(815)	
St. John's University	\$6,496		\$431
St. Mary's University	\$5,920	\$(145)	
St. Olaf College	\$7,400		\$1,335
University of Minnesota Crookston	\$5,488	\$(577)	
University of Minnesota Duluth	\$5,722	\$(343)	
University of Minnesota Morris	\$6,150		\$85
University of Minnesota Twin Cities	\$7,200		\$1,135
University of St. Thomas	\$6,882		\$817
Winona State University	\$6,430		\$365

Source: U.S. Department of Education COOL Web site

## Adding a Book and Supply Allowance

The price of attending college includes expenses beyond room and board. Books and supplies have become a major expense of attending a postsecondary education. Although each student faces a unique set of book and supply requirements, an annual book and supply estimate of \$935 was used for purposes of this section, based on the average value reported by the College Board (2006).

Adding the room and board rates reported in the previous section and the \$935 estimate for books and supplies, 28 of the 34 campuses were calculated to have prices higher than \$7,000, which is the recognized LME plus book and supply allowance of \$7,000 (\$6,065 + \$935), as shown in the next table.

**Campus Room and Board Rates + Book & Supply Allowance, 2006-2007**

Institution	Campus room & board + book & supply allowance	If less than LME + book supply allowance (\$7,000), amount less	If more than LME + Book supply allowance (\$7,000), amount more
Augsburg College	\$7,539		\$1,474
Bemidji State University	\$6,563		\$498
Bethany Lutheran College	\$6,213		\$148
Bethel College	\$8,075		\$2,010
Carleton College	\$9,527		\$3,462
College of St. Benedict's	\$7,833		\$1,768
College of St. Catherine	\$7,367		\$1,302
College of St. Scholastica	\$7,449		\$1,384
Concordia College	\$6,025	\$(40)	
Concordia University	\$7,531		\$1,466
Crossroads College	\$6,635		\$570
Crown College	\$7,589		\$1,524
Gustavus Adolphus College	\$7,335		\$1,270
Hamline University	\$8,215		\$2,150
Macalester College	\$8,917		\$2,852
Martin Luther College	\$4,575	\$(1,490)	
Minneapolis College of Art & Design	\$7,095		\$1,030
Minnesota State University, Mankato	\$6,034	\$(31)	
Minnesota State University Moorhead	\$6,291		\$226
North Central University	\$5,869	\$(196)	
Northwestern College	\$7,395		\$1,330
Oak Hills Bible College	\$5,385	\$(680)	
Pillsbury Bible College	\$5,143	\$(922)	
SW Minnesota State University	\$7,175		\$1,110
St Cloud State University	\$6,185		\$120

Institution	Campus room & board + book & supply allowance	If less than LME + book supply allowance (\$7,000), amount less	If more than LME + Book supply allowance (\$7,000), amount more
St. John's University	\$7,431		\$1,366
St. Mary's University	\$6,855		\$790
St. Olaf College	\$8,335		\$2,270
University of Minnesota Crookston	\$6,423		\$358
University of Minnesota Duluth	\$6,657		\$592
University of Minnesota Morris	\$7,085		\$1,020
University of Minnesota Twin Cities	\$8,135		\$2,070
University of St. Thomas	\$7,817		\$1,752
Winona State University	\$7,365		\$1,300

Source: Room & Board Rate, U.S. Department of Education COOL Web site  
Book & Supply Allowance, College Board, Trends in College Pricing (2006)

### **Adding a \$50 Weekly Miscellaneous Expense Allowance**

Adding a \$50 weekly miscellaneous expense allowance to the Minnesota campus room and board amounts and the \$935 book and supply expense allowance used in the previous section resulted in amounts in excess of the current LME at all reporting institutions, as shown in the next table.

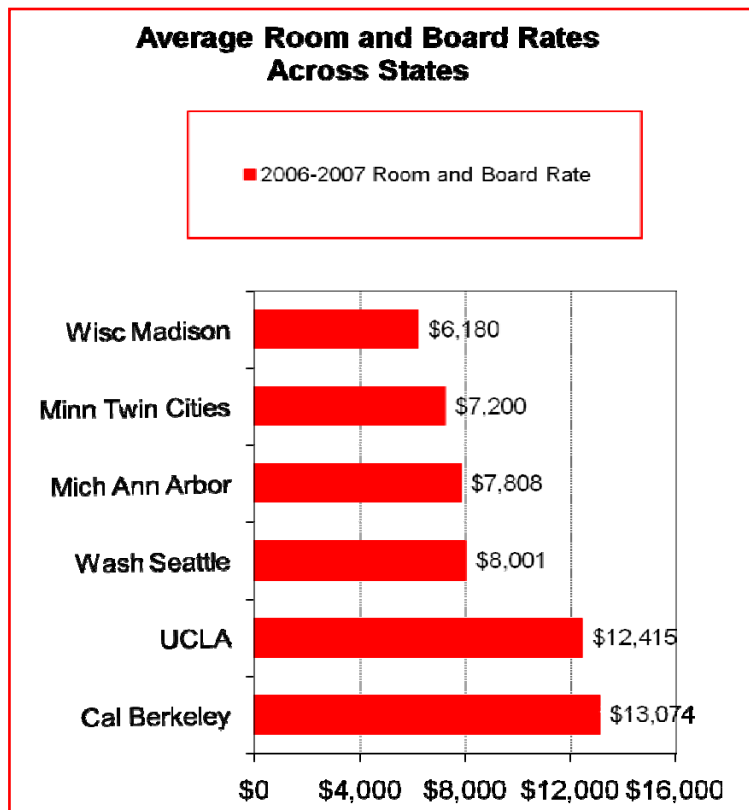
**Campus Room and Board Rates + Book & Supply Allowance +  
\$50 Weekly Miscellaneous Expense Allowance, 2006-2007**

<b>Institution</b>	<b>Books &amp; Supplies + Book &amp; Supply Allowance + \$50 Weekly Allowance</b>	<b>If Less Than LME + Book Allowance + Weekly Allowance (\$8,500), Amount Less</b>	<b>If More Than LME + Book Allowance + Weekly Allowance (\$8,500), Amount More</b>
Augsburg College	\$9,039		\$2,974
Bemidji State University	\$8,063		\$1,998
Bethany Lutheran College	\$7,713		\$1,648
Bethel College	\$9,575		\$3,510
Carleton College	\$11,027		\$4,962
College of St. Benedict's	\$9,333		\$3,268
College of St. Catherine	\$8,867		\$2,802
College of St. Scholastica	\$8,949		\$2,884
Concordia College	\$7,525		\$1,460
Concordia University	\$9,031		\$2,966
Crossroads College	\$8,135		\$2,070
Crown College	\$9,089		\$3,024
Gustavus Adolphus College	\$8,835		\$2,770
Hamline University	\$9,715		\$3,650
Macalester College	\$10,417		\$4,352
Martin Luther College	\$6,075		\$10
Minneapolis College of Art & Design	\$8,595		\$2,530
Minnesota State University, Mankato	\$7,534		\$1,469
Minnesota State University Moorhead	\$7,791		\$1,726
North Central University	\$7,369		\$1,304
Northwestern College	\$8,895		\$2,830
Oak Hills Bible College	\$6,885		\$820
Pillsbury Bible College	\$6,643		\$578
Southwest Minnesota State University	\$8,675		\$2,610
St Cloud State University	\$7,685		\$1,620
St. John's University	\$8,931		\$2,866
St. Mary's University	\$8,355		\$2,290
St. Olaf College	\$9,835		\$3,770
University of Minnesota Crookston	\$7,923		\$1,858
University of Minnesota Duluth	\$8,157		\$2,092
University of Minnesota Morris	\$8,585		\$2,520
University of Minnesota Twin Cities	\$9,635		\$3,570
University of St. Thomas	\$9,317		\$3,252
Winona State University	\$8,865		\$2,800

## Campus Room and Board Rates in Other States

Another point of comparison is the residence hall room and board rates across states. The University of Minnesota-Twin Cities was used as the Minnesota reference point. The on-campus room and board rate was compared with a set of public flagship institutions in other states.<sup>4</sup>

For Fiscal Year 2007, the University of Minnesota on-campus room and board rate is the second lowest rate charged by these six flagship institutions, as shown on the chart to the right.



Source: U.S. Department of Education COOL Web site

## LME Compared to Consumer Expenditure Data

The Minnesota Office of Higher Education replicated a student expenditure study completed by Paulin in 2001. Paulin's study used three years' worth of data (1996 through 1998) from the Bureau of Labor Statistics' Consumer Expenditure Survey to estimate quarterly expenses for students and nonstudents. In replicating this study, the Minnesota Office of Higher Education used five years' worth of data (2001 through 2005). The results offer a potential benchmark for comparing the LME with reported student expenditures.

To ensure expenses were applied to individuals, the sample used was chosen from respondents who lived alone and had never married. Additional constraints were age range (18 to 22), education level (from high school graduate to no more than an associate degree), and housing tenure (only renters were included in the sample). Individuals were classified as students if they were attending college full time.

Based on reported expenditure data, the weighted average 2001 through 2005 quarterly non-tuition and fee expenses for students was \$3,187. When multiplied by three to estimate expenditures for a 9-month academic year, the result is \$9,561, which exceeds the Fiscal Year 2007 LME of \$6,065 by \$3,496.

<sup>4</sup> For the definition of this comparison group, see Minnesota Office of Higher Education (2007), p. 32.

## The LME Debate

Whether or not to include a LME in the Recognized Price of Attendance has been discussed. If included, how to arrive at an appropriate LME amount is challenging. Points of view vary widely. The following four points of view about the living and related expenses are often heard in debates and provide points of reference.

- **Not relevant.** Attendance does not interfere with a student's normal means of paying the price associated with a frugal life style. From time to time, including the LME in the Recognized Price for Minnesota State Grants is challenged. The implication is that tuition and fees are the only relevant price component for students.
- **Relevant and measured as opportunity costs.** Acknowledges a loss of income resulting from being unable to participate in the labor market fully (or at all) because of attending a postsecondary institution. This concept is often present in the language of those trying to understand decisions regarding investing in postsecondary educations relative to pursuing employment opportunities. The recognition of opportunity costs presumes students are foregoing the benefits of having income. Opportunity costs vary by student and labor market conditions; students (or potential students) who can command higher salaries face a higher price of attending than individuals who have little income producing potential in the labor market. Undergraduate financial aid policies in the United States have rarely considered opportunity costs. By way of contrast, Sweden historically has recognized students should be able to have the same standard of living as their peers who are not attending.<sup>5</sup> This view accepts opportunity costs as an appropriate measure of living and miscellaneous expenses.
- **Relevant and measured as an offset to income.** Living and Miscellaneous Expenses should be used as a deduction from income in calculating Assigned Family Responsibilities. Living and miscellaneous expenses, however measured, could be treated as offsets to income in the calculation of Assigned Family Responsibilities. Currently, a number of deductions and allowances are embedded in the calculation of the Expected Family Contribution within the Congressional Methodology federal need analysis formula. Some argue that the LME should be added as an additional offset, given that the income protection allowance used in the federal need analysis formula does not provide an offset against parental income for dependent students.

The state, in this case, would recognize that covering the living and miscellaneous expenses of a student affects a family's ability to contribute to college costs. Such a deduction would have the effect of lowering the Assigned Family Responsibility for those families who have an Assigned Family Responsibility greater than zero. However, adding an LME deduction would have no effect on the lowest income families who have no Assigned Family Responsibility.

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<sup>5</sup> See Johnstone (1986) and Hansson (1988).

- **Relevant and measured as price components.** Explicitly recognize the price of purchasing the items necessary to maintain a frugal to modest life style. Student financial aid administrators have historically included living costs as part of students' price of attendance. In creating Title IV federal financial aid programs, the federal government continued this historical practice and required campuses to establish student budgets that included allowances for living and miscellaneous expenses beyond the tuition and fees charged by institutions. From the beginning, the Minnesota State Grant program has included an allowance for living expenses as a price component. Since Fiscal Year 1981, the state has specified a uniform amount to be considered rather than relying on the campuses to set the value for students attending their campus.



## Findings

Current State Grant policy explicitly recognizes student living expenses as a legitimate component of the price of attending college. All colleges factor in living costs when determining budgets used to package financial aid as do many other states in their state grant award formulas. Both the LME and living expenses contained within college financial aid budgets are intended to represent costs associated with a frugal lifestyle while attending college. When compared to other measures of living expenses, the LME generally falls short:

- The LME used in Minnesota has not kept pace with inflation, as measured by the Consumer Price Index. Using 1981 as the starting point, the actual LME has lagged behind its inflationary value for almost every year. For the most recent year measured, Fiscal Year 2007, the actual LME of \$6,065 lagged behind its inflationary value of \$6,324. (The base LME for Fiscal Year 2007 was \$5,350 and only temporarily increased to \$6,065 to spend out a projected funding surplus for the program.) The LME was permanently increased to \$5,900 for fiscal year 2008 and \$6,200 for fiscal year 2009. The inflationary value of the LME for 2008 would be \$6,655.<sup>6</sup>
- The LME has been set below the federal poverty threshold for a family size of one, with the LME value of \$6,065 for Fiscal Year 2007 representing 56 percent of the poverty threshold. However, the federal poverty threshold is based on costs associated with a 12-month period. Still, when adjusted to a nine-month period equivalent to an academic year, from 1981 through 2007, the LME has ranged from 66 to 84 of the nine-month federal poverty threshold.
- The LME is significantly less than the living cost components used in budgets set by campuses across the country to package financial aid. Based on data collected by the College Board for Fiscal Year 2007, the “other expenses” portion of undergraduate financial aid budgets ranged from \$10,022 to \$11,131, while the LME was set at \$6,065. While the 1981 \$2,750 LME was originally based on the average room and board rate of \$1,813 reported by the U.S. Department of Education that year, plus an additional amount for books and other expenses, the Fiscal Year 2007 LME of \$6,065 is now below the Department’s 2007 average room and board rate of \$7,379.
- Using the Fiscal Year 2007 campus room and board rates reported by the U.S. Department of Education for 34 campuses in Minnesota, plus a book allowance of \$935 and a weekly miscellaneous expense allowance of \$50, all campuses had expenses that exceeded the \$6,065 LME used for the State Grant program. Campus costs exceeded the LME by a low of \$10 to a high \$3,770, with an average excess of \$2,496.

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<sup>6</sup> CPI Inflation Calculator, U.S. Department of Labor Bureau of Labor Statistics. [www.bls.gov/data/inflation-calculator.htm](http://www.bls.gov/data/inflation-calculator.htm)

- Based on U.S. Census data from the Consumer Expenditure Survey for the 2001 to 2005 period, average total expenses for books, equipment and supplies, housing, food, transportation and other expenses for 18 to 22 year old students enrolled on a full-time basis were \$2,584 per quarter. When multiplied by three to estimate expenses for a nine-month academic year, this results in average expenses of \$9,561, which exceeds the Fiscal Year 2007 LME of \$6,065 by \$3,496.

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