McKinsey & Company

Ten considerations for reopening US higher education

Financial impact and mitigation

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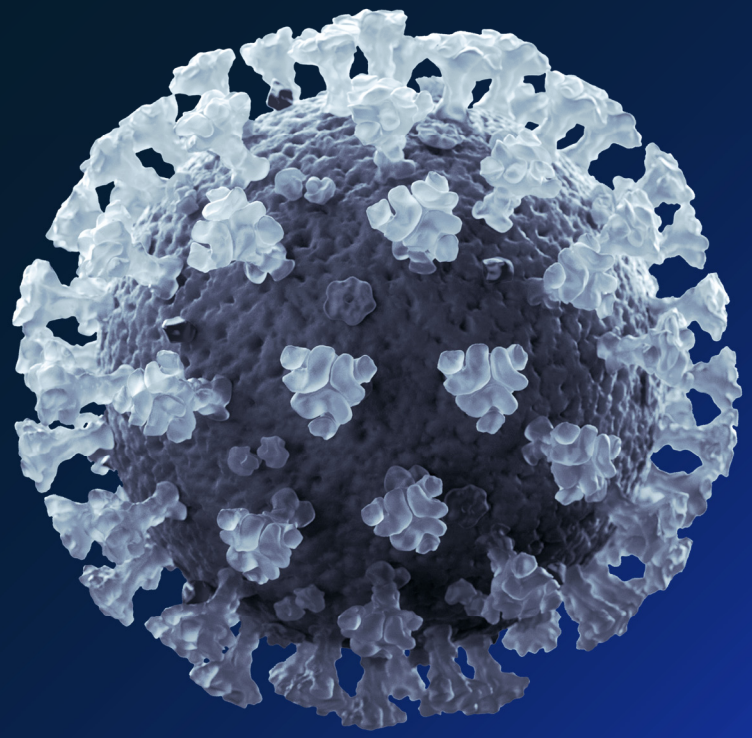
COVID-19 is, first and foremost, a global humanitarian challenge.

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.



US higher-education institutions face uncertainty about reopening.

While recognizing the uncertainties inherent in discussing any timeline for returning to pre-outbreak normalcy, this document strives to lay out key considerations for reopening higher-education institutions.

10 considerations for universities for reopening their campuses

1

Local conditions and health-system capacity

A) Relevant regulatory guidelines

B) Infection status

C) Social and economic context

D) Key work enablers (e.g., K–12 school systems, transit)

E) Other local university responses

2

Testing, tracing, and other protections

A) Testing

B) Contact tracing

C) Confirmed cases and quarantine policy

D) Other campus-wide health and safety policies

3

Protection for vulnerable populations

A) Health and safety

B) Learning enablement and equity

C) Financial challenges

D) External factors

4

University safeguards

A) Classroom and faculty

B) Research & student laboratories

C) Residential occupancy

D) Dining

E) Student activities

F) Offices

G) Athletics

5

Scenarios for reopening

A) Objectives and risks of reopening

B) Sequence of opening core activities in different scenarios

C) Restricting campus activity after reopening

D) Case examples

6

Maximizing mission in the next normal

A) Learning

B) Research

C) Service

D) Student life

E) Alumni

7

Detailed operational planning

A) Preparation required to reopen

B) Resources required (supplies, personnel)

8

Governance and compliance

A) Governance

B) Adherence and change management

C) Data tracking

9

Communications

A) Communicating in a crisis

B) Engaging university stakeholders

10

Financial impact and mitigation

A) Financial impact of each scenario

B) Mitigating actions to close the gap

10A: University leaders can analyze the financial impact of three reopening scenarios for the 2020–21 academic year

	Reopening scenario	Key implications for higher education
1	**Fully in-person**	Colleges start the 2020–21 school year in-person. There may be an impact on revenues from possible lower tuition and fees (eg, lower international enrollment), room and board, auxiliaries (eg, loss of athletics revenue) and higher costs of health and safety controls (eg, facilities cleaning/maintenance). Schools with strong campus culture and student experience may gain enrollment.
2	**Hybrid model (eg, some stakeholders fully in-person, all stakeholders partially in-person)**	Colleges start the 2020–21 with a hybrid model. Issues may include lower revenues from tuition and fees, room and board, and auxiliary revenues (eg, bookstore, conferences) and some higher costs (eg, IT) than fully in-person scenario. Schools planning for hybrid delivery will be most agile in case of resurgence, though they may incur costs associated with both in-person and remote scenarios.
3	**Fully remote**	Colleges start the 2020–21 school year online. There may be a major decline in revenues from tuition and fees, room and board, and auxiliary revenues (eg, dining), accompanied by higher IT costs to support remote work and online learning. Schools with strong brands and online capabilities stand to gain enrollment amidst a spike in attrition and switching.

10A: Stress tests can be performed to test the impact of each scenario on revenues for Fall 2020

Details to follow

Revenue type	Nature of impact: Fully in-person	Nature of impact: Fully remote
Tuition and fees	Partial reimbursements or losses in student activity fees (eg, student affairs, commencement)	Losses in student activity fee revenues due to remote operations
	Potential decline in enrollment and tuition revenue, particularly among international or out-of-state students	
Federal and state funding	Possibility of direct funding under CARES Act Potential decline in state funding driven by reduced tax revenues	
Research[1]	Nominal impact on operations, limited impact on research funding/revenues unless significant program delays or cancellations result in decreased funding	Stalled research projects resulting in decreased funding and grants Loss of research facility rental and corporate fee revenues
Endowment	Shrinkage in endowment values due to market losses Reduction in investment income and nominal drop in permitted statutory draws for operations for FY21	
Advancement	Potential for significant decline due to market losses, impacting donor capacity and willingness to donate, and new tax laws on athletic contributions[2]	
Auxiliary	Reduction in merchandizing and bookstore sales/drop in vendor commissions Reduced rent and lease revenues from low utilization of leased cafes and services	Loss of merchandizing and bookstore sales/vendor commissions Loss of rent and lease revenues from low utilization of leased cafes and services
	Loss of hotel and conference rental revenues in case of repurposing facilities for academic or residential purposes, parking fees, facility rental fees	
Athletics	Potential drop in conference participation revenue share due to tournament cancellations Reduced funding from NCAA, ticket revenues and media rights revenues	
Housing	Potential loss in student housing revenues due to decreased enrollment, and potential reimbursement to allow for physical distancing in residence halls	Loss in student housing revenues
Dining	Potential loss in dining and meal plan revenues due to decreased enrollment Loss in third party vendor commissions in cases of outsourced services	Loss in dining and meal plan revenues

The nature and magnitude of impact is likely to vary by size and brand of institution, student demographic, and online preparedness
The revenue impact of the “hybrid” scenario will fall in between the “fully in-person” and “fully remote” scenario and differ based on hybrid approach

1. Changes in research funding support will have greater effect on research-focused institutions;
2. Private support for all institutions dropped 17% during Great Recession from $29.1B peak in 2007-08 to $24.3B trough in 2009-10.

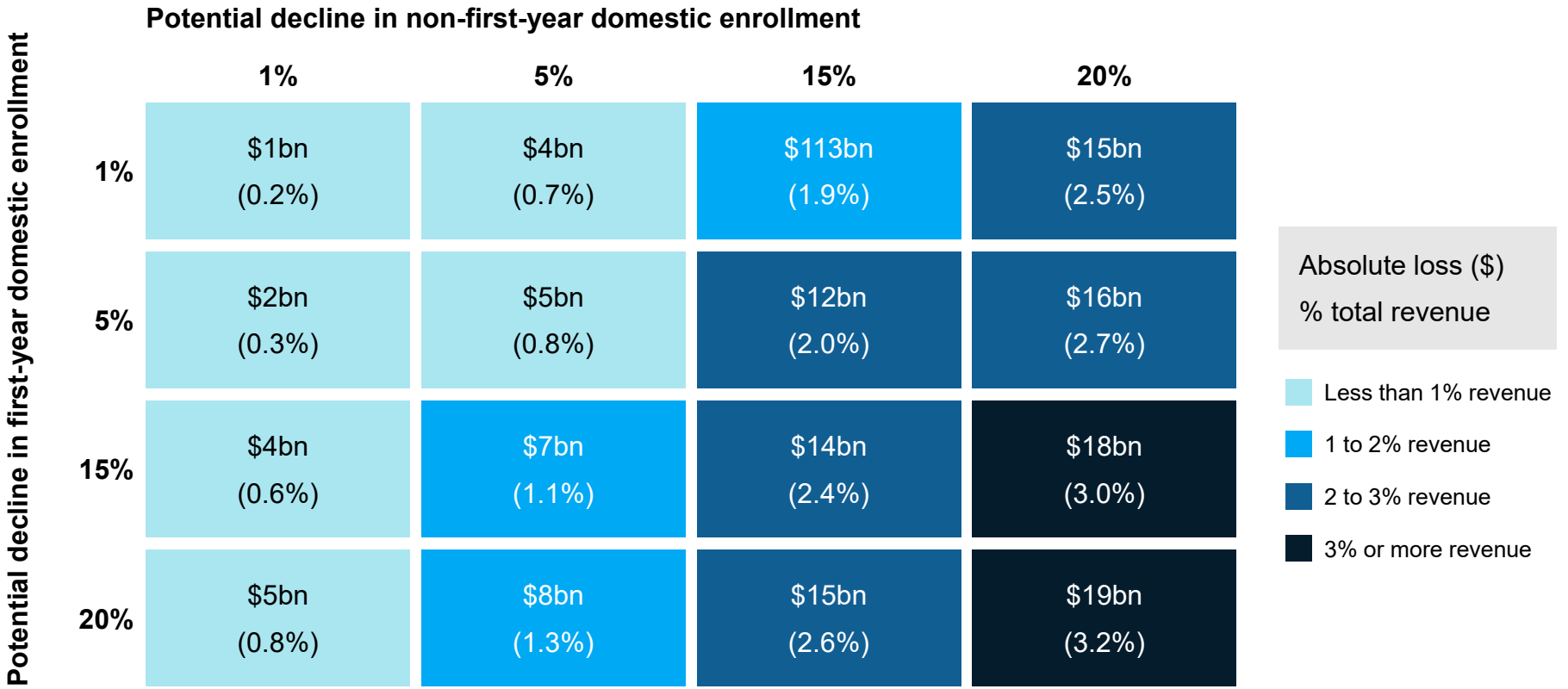
Source: web search, press releases from US universities

10A: Declines in domestic undergraduate enrollment could lead to as much as $19 billion in revenue losses

All four-year postsecondary schools, domestic undergraduates only

A McKinsey survey suggests there may be up to a 15% drop in first-year enrollment in the case of a remote fall 2020.

Estimated tuition and fee loss by level of undergraduate domestic enrollment decline



Note: Analysis assumes US citizen graduate students on average contribute 1.76x more net tuition per student (NPSAS), international undergraduate students contribute 2.66x more, and international graduate students contribute 2.24x more compared to US citizen undergraduates. Percent revenue figures reflect percent total revenues, and not just tuition and fees.

Source: IPEDS; NCES National Postsecondary Student Aid Study 2015–16 (NPSAS); McKinsey COVID-19 Higher Education Enrollment Survey Wave I, conducted April 21–28, 2020.

10A: Based on a 'moderate' decline in domestic undergraduate enrollment, institutions may face losses in revenue of ~0.5 to 2.0%

Potential tuition and fees revenue losses from decline in domestic undergraduate enrollment

Type of institution		Total annual revenues	Potential revenue losses by scenario[1] $, (% of total revenues)		
			Low 5% first year 1% non-first year	**Moderate** 15% first year 5% non-first year	**High** 20% first year 15% non-first year
Public flagship university	40,000 total enrollment 70% undergraduate, 15% international 20% revenue from tuition and fees	**$3bn**	**$5mn** (0.2%)	**$18mn** (0.6%)	**$40mn** (1.3%)
Small public university	10,000 total enrollment 85% undergraduate, 5% international 25% revenue from tuition and fees	**$200mn**	**$1mn** (0.3%)	**$2mn** (1.2%)	**$5mn** (2.7%)
Small private nonprofit university	8,000 total enrollment 80% undergraduate, 7.5% international 40% revenue from tuition and fees	**$200mn**	**$1mn** (0.5%)	**$4mn** (2.0%)	**$9mn** (4.4%)

Note: Analysis assumes domestic graduate students on average contribute 1.76x more net tuition per student, international undergraduate students contribute 2.66x more, and international graduate students contribute 2.24x more compared to domestic undergraduates for public universities and 1.32x, 2.04x, and 1.70x more respectively for private nonprofit universities.

Source: IPEDS; NCES National Postsecondary Student Aid Study 2015–16 (NPSAS)

10A: Beyond losses in domestic undergraduate enrollment, declines in international and graduate enrollment may multiply revenue losses

Additional factors affecting revenue losses

International vs domestic student population

Schools more reliant on international students may experience greater tuition and fee losses, especially given potential limitations on international travel. On average, **international students pay 2.2x (grad students) to 2.7x (undergraduates) more** than domestic students in net price.

Graduate vs undergraduate student population

Schools more reliant on graduate students may experience greater tuition and fee losses as on average, **graduate students pay 1.8x more** compared to undergraduate students in net price.

Reliance on tuition and fee revenue

Institutions have different levels of reliance on tuition and fee revenues: 40% of revenues come from tuition and fees for small private nonprofits compared to 25% for small public schools and 20% for large public schools.

Other factors[1]

Maturity of **online capabilities** (possible shift to high online capability institutions)

Reliance on out-of-state students (possible shift to in-state institutions and/or institutions closer to home)

Cost of attendance (possible shift to lower cost options, including more in-state public institutions)

Rank and reputation (highly desirable schools may limit enrollment losses)

Impact of COVID-19 on **geographic location** (locations with high COVID-19 prevalence may see greater enrollment declines)

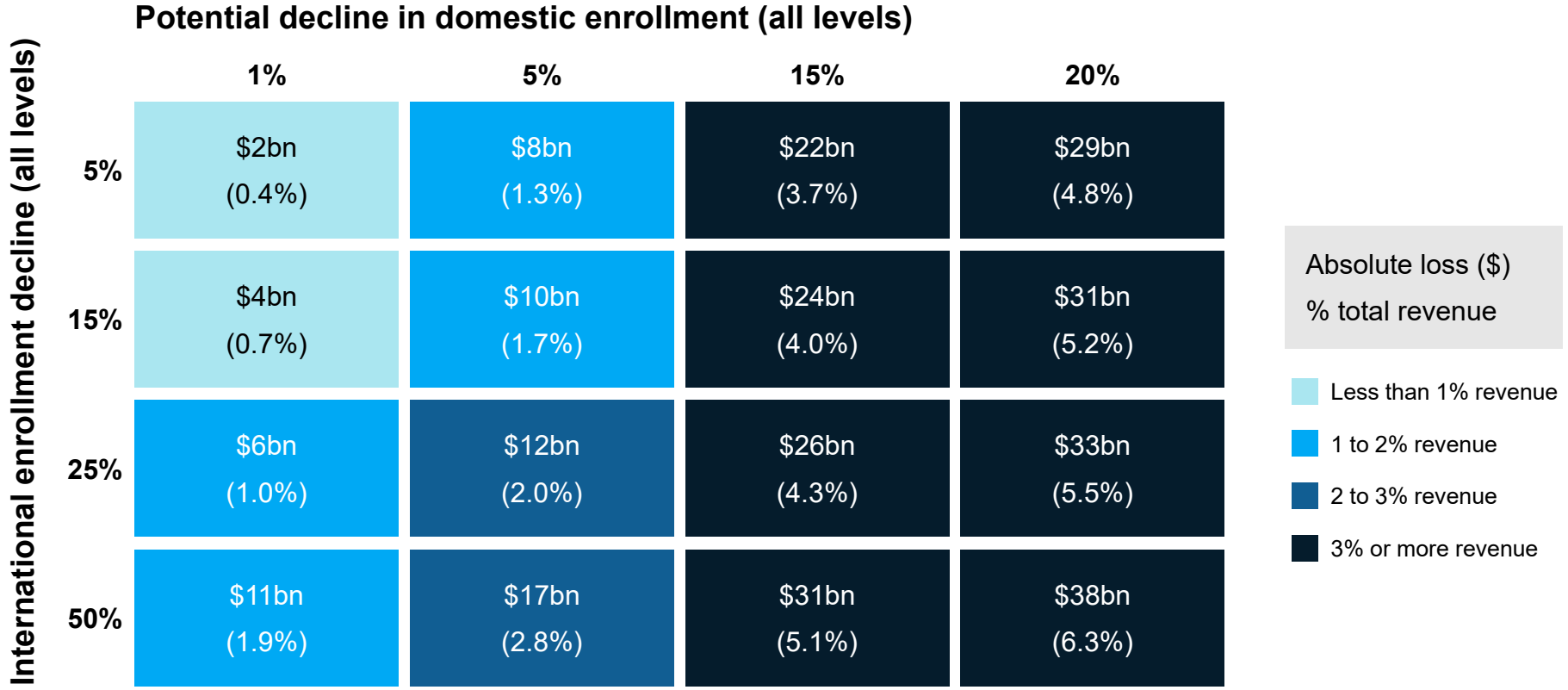
1. These factors largely represent shifts in student enrollments from some institutions to others and are excluded from subsequent modeling.

Source: IPEDS; NCES National Postsecondary Student Aid Study 2015–16 (NPSAS)

10A: International and graduate enrollment could roughly double the revenue losses from declines in domestic undergraduate enrollment

All four-year postsecondary schools, graduate and undergraduate students

Estimated tuition and fee loss by level of domestic and international enrollment decline



Note: Analysis assumes US citizen graduate students on average contribute 1.76x more net tuition per student (NPSAS), international undergraduate students contribute 2.66x more, and international graduate students contribute 2.24x more compared to US citizen undergraduates. Percent revenue figures reflect percent total revenues, and not just tuition and fees. ACE estimates that schools will see 15% total enrollment loss, including a 25% decline in international enrollment.

Source: ACE; IPEDS; NCES National Postsecondary Student Aid Study 2015–16 (NPSAS)

10A: Based on a 'moderate' decline in overall enrollment, different types of institutions could face losses in revenue of ~2 to 3%

Potential tuition and fees revenue losses from decline in overall enrollment incl. international and graduate[1]

Type of institution		Total annual revenues	Potential revenue losses by scenario[1] $, (% of total revenues)		
			Low 5% international 1% domestic	**Moderate** 25% international 5% domestic	**High** 50% international 20% domestic
Public flagship university	40,000 total enrollment 70% undergraduate, 15% international 20% revenue from tuition and fees	**$3bn**	**$13mn** (0.4%)	**$65mn** (2.2%)	**$173mn** (5.8%)
Small public university	10,000 total enrollment 85% undergraduate, 5% international 25% revenue from tuition and fees	**$200mn**	**$1mn** (0.4%)	**$4mn** (1.9%)	**$12mn** (6.0%)
Small private nonprofit university	8,000 total enrollment 80% undergraduate, 7.5% international 40% revenue from tuition and fees	**$200mn**	**$1mn** (0.6%)	**$6mn** (3.0%)	**$19mn** (9.5%)

Note: Analysis assumes domestic graduate students on average contribute 1.76x more net tuition per student, international undergraduate students contribute 2.66x more, and international graduate students contribute 2.24x more compared to domestic undergraduates for public universities and 1.32x, 2.04x, and 1.70x more respectively for private nonprofit universities.

1.Low includes 15% international student decline (undergraduate and graduate) and 1% domestic student decline; moderate 25% international and 5% domestic; high 50% international and 15% domestic.

Source: IPEDS; NCES National Postsecondary Student Aid Study 2015–16 (NPSAS)

10A: Stress tests can be performed to test the impact of each scenario on costs for fall 2020

Details to follow

Cost type	Nature of impact: Fully in-person	Nature of impact: Fully remote
Faculty	Potential increase in personnel costs on IT and health services training Potential increase in faculty stipend and adjunct hiring costs to meet online learning and student support needs	Likely increase in personnel costs on IT and health services training Spike in faculty stipends to meet online learning and student support needs
Staff	Potential increase in staff hiring costs to meet online learning and student support needs and IT and health services training Ongoing fixed salary costs for research and auxiliary support Likely increase in onboarding and training costs for essential roles (eg, contact tracing)	Spike in staff hiring costs to meet online learning and student support needs and increase in IT and health services training Potential reduction in overtime and student worker spending
Healthcare and Insurance	Potential increase in utilization of on-premise health clinics based on prevalence of illness[1] Nominal impact to costs associated with student health plans	Potential increase in utilization of telemedicine to address mental health issues Potential decrease in costs associated with student health plans assuming regional access/ coverage
IT	Investments needed in infrastructure and licenses in the case of supporting individuals with remote working and online learning needs	Significant investments needed in infrastructure and licenses due to remote working and increased number of online classes/students
Operations and Maintenance	Significant increase in facilities maintenance and repairs, utility expenses, and spending on operational health and safety safeguards (resources, personnel, equipment, deep cleaning and sanitization, etc) Deferral of nonessential capital projects	Significant reduction in utility expenses due to limited campus operations Reduced spending on facilities maintenance and repairs Deferral of most capital projects
Other external spend	Nominal impact on external spend, travel and catering costs due to slightly reduced operations, though potentially offset if cancelled contracts with travel companies, venues, caterers, etc are uninsured	Significant reduction in external spend, travel and catering costs due to limited campus operations, though potentially offset if cancelled contracts with travel companies, venues, caterers, etc are uninsured Increase in marketing/vendor costs for virtual admissions, student engagement, etc

The nature and magnitude of impact is likely to vary by size and brand of institution, student demographic, and online preparedness
The revenue impact of the “hybrid” scenario will fall in between the “fully in-person” and “fully remote” scenario and differ based on hybrid approach

1. Highly dependent on course of pandemic; high infection and mortality rates could generate stark increases in insurance costs

Source: web search, press releases from US universities

10B: Universities can take mitigating actions to lessen potential financial losses (1/3)

Revenue levers

NOT EXHAUSTIVE

Revenue category	Example levers
Programming	Consider offering a larger suite of online-only graduate degrees to serve students newly seeking education as result of economic slowdown. Provide curriculum that bridges high school and ensures readiness for freshman online curriculum.
Retention	Offer zero-interest loans for students and families. Keep tuition, housing, and fees flat and offer financial aid to distressed students. Offer paid jobs for students to assist staff and administrators with various difficulties of remote environment (eg, yield assistants, social media managers). Create a virtual student center with virtual student activities that students can participate in to maintain connectedness (see section 10 for additional information).
Yield	Consider expanding incoming “online-only” freshman class size to increase enrollment and create a waitlist of candidates who could be extended in-person admittance to fill in enrollment dips; extend decision deadline. Leverage size of alumni base in marketing communications to help students visualize paths to their careers of interest. Conduct targeted outreach to local high schools and call prospective students regarding their enrollment decision (see section 10 for additional information).
Research	Optimize research portfolio based on funding availability and institutional capabilities in a post-COVID-19 landscape.
Asset utilization	Repurpose unused housing or facilities for COVID-19 related uses, eg temporary housing for healthcare workers, quarantine facilities, etc. Sell excess capacity from on-campus utility generation, eg solar.

Source: Industry expert interviews, government/public health websites (including, but not limited to, sources available at CDC.gov, WHO.int), and press research (including, but not limited to, sources available at NYT, WSJ, and specific Fortune 1000 or equivalently large international company websites)

10B: Universities can take mitigating actions to lessen potential financial losses (2/3)

Spend levers

NOT EXHAUSTIVE

Expenditure category	Example levers
Capital projects	Pause or postpone all nonessential capital projects (eg, those unrelated to safety, facility repairs, virus research). De-scope and de-spec essential capital projects to lower-cost alternatives.
IT	Manage cross-department software agreements and licenses; for example, consider the following: • Aggregate volume into standard configurations • Synchronize maintenance and updates • Introduce demand management • Build portal/catalog of enterprise-wide software agreements Cull unused licenses and subscriptions. Explore public and private partnerships to build necessary technology infrastructure.
Procurement	Re-negotiate the top three vendor contracts that expire in 2020. Negotiate volume discounts for new direct and indirect expenditure categories (eg, hand sanitizer).
Facilities	Consolidate facilities management across all departments. Reduce leased real estate portfolio to reflect current demands for space.
Dining	Reduce number of catering services used; reduce number of food suppliers to reduce administration costs.

Source: Industry expert interviews, government/public health websites (including, but not limited to, sources available at CDC.gov, WHO.int), and press research (including, but not limited to, sources available at NYT, WSJ, and specific Fortune 1000 or equivalently large international company websites)

10B: Universities can take mitigating actions to lessen potential financial losses (3/3)

Spend levers

NOT EXHAUSTIVE

Expenditure category	Example levers
Resources and services	Suspend discretionary spending above a certain threshold (eg, $2,500) and require preapproval (eg, from the dean). Introduce campus policy requiring department justification for academic resources and/or external service providers in cases where internal resources and services can be leveraged.
Travel and events	Restrict university-sponsored travel and events.
Faculty and staff	Implement hiring freezes for nonessential positions in the near term. Invite senior administrators and other highly paid employees to make additional voluntary contributions. Temporarily suspend university-paid retirement contributions. Temporarily reduce salary for employees earning more than the federally mandated 403(b) contribution threshold. Encourage voluntary unpaid leave, including extended sabbaticals and seasonal leave. Eliminate annual salary increases for faculty and staff where possible. Reduce or eliminate overtime pay. Redeploy staff where possible (eg, to university health system).

Hiring freezes, pay reductions, and reductions in workforce may be considered only as a last resort.

Can we change to: “Source: Industry expert interviews, government/public health websites (including, but not limited to, sources available at CDC.gov, WHO.int), and press research (including, but not limited to, sources available at NYT, WSJ, and specific Fortune 1000 or equivalently large international company websites)