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HEPI Questions and Answers

What is the Higher Education Price Index (HEPI)

The Higher Education Price Index (HEPI) is an inflation index, released each July, that is designed specifically for higher education and is a more accurate indicator for colleges and universities than the Consumer Price Index (CPI).

From its inception in 1961, HEPI was produced by Research Associates of Washington, D.C. In 2005, Commonfund Institute assumed management of the Index. The Institute manages the database, publishes the Index, and makes available analytical and descriptive materials using HEPI data.

The HEPI report is published using the July HEPI figure, which may be subject to a further small adjustment when the last of the underlying data items are finalized in November.

Why is HEPI a better price inflation measure than CPI for colleges and universitities?

Compiled from data reported by governmental and industry sources, HEPI measures the average relative level in the prices of a fixed basket of goods and services purchased by colleges and universities each year through current fund educational and general expenditures, excluding research. HEPI includes eight categories that cover most of the current operational costs of colleges and universities and is an essential tool enabling schools to determine increases in funding necessary to maintain purchasing power and investment. The CPI, on the other hand, measures goods and services that consumers buy for day-to-day living.

What are the HEPI categories?

HEPI categories are based on price data for 45 budget components that all schools can report, organized in eight component sub-indexes: faculty salaries; administrative salaries; clerical salaries; service employee salaries; fringe benefits; miscellaneous services; supplies and materials; and utilities.

How do HEPI and the CPI differ?

The bulk of educational costs are related to personnel, mainly college faculty, whose salary increases are usually different from those measured in the CPI, which includes salaries of city wage earners and salaried clerical workers. As a case in point, from 1980 to 2000 the price of goods and services purchased by colleges and universities increased by 154 percent, while inflation measured by the CPI increased by 118 percent. Using HEPI, colleges and universities would have received 16.5 percent more support per student.

While HEPI is composed of the eight categories previously mentioned, the CPI includes: food and beverage; housing; apparel; transportation; medical care; recreation; education and communication; and other goods and services. All taxes directly associated with the purchase and use of the items are included in the index.

Another difference between the two indices is the treatment of changes in quality. HEPI is a straightforward measure of costs, whereas the CPI is a measure of “quality-adjusted prices.” For example, assume that it costs $2,000 to replace an older computer that originally cost $1,500. The new computer, however, is twice as fast as the old one. HEPI would report that as a $500 price increase, while the CPI would report the new computer as a $500 price decrease due to the “quality adjustment.”

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Why is the CPI provided in the HEPI report different from the one(s) published by the bureau of labor statistics (BLS)?

The BLS updates CPI statistics monthly. They also provide a six- and 12-month average change; January-June, July-December and January-December. The CPI values reported on Commonfund's website for HEPI are based on fiscal year (July 1 through June 30) 12-month averages rather than the monthly (or point-to-point) CPI values usually reported by the BLS.

What is included in the annual HEPI update?

The HEPI Update contains a comprehensive analysis of the HEPI and its components for a given year, together with a sensitivity analysis and an overview of the effects of inflation on institutional funding and faculty salaries.

Does HEPI apply to all operational expenses?

No, but it covers a substantial portion of standard budget expenses.

How is HEPI used?

HEPI is used primarily to project future budget increases required to preserve purchasing power. It is a measure of inflation for current operations, for budget hearings to justify the minimum funding requirements to maintain purchasing power, and a guideline for trends in other expense areas such as faculty salaries. Additional indicators include:

- Index values, which may be projected into the future to estimate the degree of change in expenditures that will be necessitated by anticipated price changes;
- Past expenditures, which may be compared with movements in a price index to ascertain whether spending has kept pace with price level changes;
- Dollar incomes, which may be deflated by a price index to identify trends in the level of real purchasing power of funding by various sources; and
- Price indexes, which may be used to provide automatic "inflation adjustment" of various administrative and contractual transactions.

Why is HEPI valuable?

HEPI has been widely recognized as the only benchmark to effectively monitor changes in the purchasing power of higher educational institutions. Further, as many institutions have found HEPI to be a practical tool in the successful establishment of important policies, Commonfund wishes to ensure that it continues to be produced accurately and widely disseminated within the higher education community.

By reporting only price increases, without quality or quantity changes, the series documents the additional revenues required for continuation of "business as usual." To achieve this purpose, the price index attempts to hold constant all other factors, keeping constant the mix of purchases, and implicitly, the mix of their general use by a single type of consumer.