

Grade Inflation and the Good-Student Discount

ONE OF THE MOST POPULAR DISCOUNTS offered to qualified consumers by private-passenger automobile insurers is the good-student discount. Generally, the discounts apply to high school and college students who are ranked in the top 20 percent of their class, have a grade average of B or better, or have a grade-point average (GPA) of 3.0 (out of 4.0) or higher. With auto insurance premiums reaching thousands of dollars for families with teenage drivers, the discounts, ranging from 5 percent to 25 percent, can result in substantial savings.

There are slight variations on who qualifies for the good-student discount, depending on the insurance company's parameters. At State Farm, for example, all married male and unmarried female drivers under age 25 who are full-time high school, college, or university students qualify based on the metrics mentioned above. In addition, State Farm offers the discount to students included on the dean's list or honor roll and to students under age 25 who have already graduated from a four-year college or university with a cumulative scholastic record meeting the aforementioned requirements. Home-schooled students whose performance ranks in the upper 20 percent from a list of approved national standardized exams are also eligible for the good-student discount.

One relevant change implemented by nearly every state—graduated licensing—has significantly affected younger drivers. Though legislation varies by state, many base their systems on a model law developed by the National Committee on Uniform Traffic Laws and Ordinances. This model specifies a three-stage program with minimum length and threshold requirements for entry into each stage:

- (1) A learner's phase of at least six months, during which no driving is allowed unless a licensed driver over age 21 is present in the vehicle;
- (2) An intermediate phase of at least six months, including no nighttime driving without supervision by a licensed adult driver. The hours covered are up to each state but must cover some period between 10 p.m. and 6 a.m.;
- (3) During the first and second phases, no safety belt or



zero tolerance (alcohol-related) violations are allowed for drivers under 21 years of age, and they must remain free of accidents and convictions.

Early analysis of graduated licensing is promising. According to a study conducted by the Insurance Institute for Highway Safety, there has been a 23 percent overall reduction in the per capita crash involvement rate of 16-year-old drivers in California. The impact of these changes is found in the high-risk situations

specifically addressed by graduated licensing—nighttime crash rates went down 27 percent, and crash rates with teen passengers decreased 38 percent.

At the same time, a number of insurers have discontinued discounts for teenage drivers who successfully completed driver's education training, based on objective research that suggested no discernible improvement in automobile insurance claims experience. However, because of a strong statistical correlation between good grades and on-the-road loss rates, the good-student discount remains popular.

The premise behind the good-student discount is that good students are more responsible in other areas of their lives, including being better drivers. In addition, the market leaders in the automobile insurance lines are using their rate structure to signal parents that in addition to monitoring their children's academic progress, careful attention to their teenage driver's learning experience during their early driving practices is also a necessity.

What's in a Grade?

However, a cultural phenomenon has the potential to disrupt this popular discount program. Various research studies, using empirical evidence, suggest grade inflation is pervading universities nationwide. (See figure on page 71.) According to Michael Gordon of Rutgers University, the

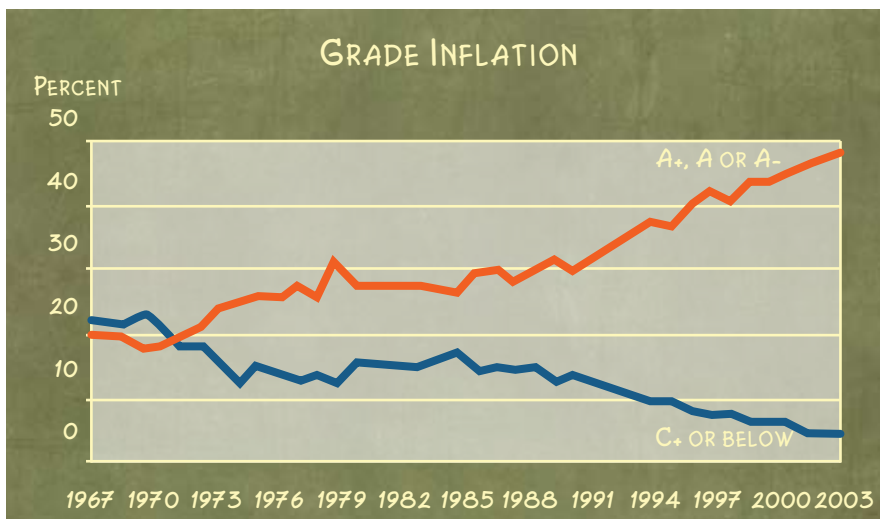
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first of many empirical studies reported an average increase of 0.404 points in GPAs at 134 colleges from 1965 to 1973. Surveys reveal that American collegians in the 1990s devoted less time to attending class, preparing written assignments, and studying than their predecessors but received the same or even higher grades.

A report co-authored by Henry Rosovsky and Matthew Hartley of the University of Pennsylvania analyzed changes in SAT scores and increases in remedial education nationwide. They concluded that GPAs have steadily risen over the past four decades, but student work hasn't improved enough to justify such growth.

Reasons suggested by Rosovsky and Hartley include student evaluations' role in pressuring professors to water down content and grade higher in order to receive better evaluations (which has taken on greater importance with the increasing use of part-time adjuncts who shoulder more and more of the university's teaching burden); university responses to the Vietnam War and accompanying campus turmoil of the 1960s (including faculty who themselves used graduate school as a refuge from the draft and were hesitant to assign low grades to students that might jeopardize their academic deferments); and the rise of the "student as consumer" concept in the 1980s, when students (and their parents) began to view education as a product and grades as an indicator of educational quality.

Other possible explanations exist as well. The official addition of pluses and minuses at many educational institutions has essentially replaced the old A, B, C, D scale with an A, A-, B+, B scale. The preoccupation with both equity and conformity in the American educational system also promotes uniformly high grades. Larger state schools with publicly accessible information on course-grade averages may find them disseminated in readily avail-



able booklets, which can adversely affect course enrollments in challenging classes with stringent grading policies.

Economic factors also play a major role in grade inflation. State-run scholarship programs, first initiated by Georgia in 1993, may also play an unintended role. The Georgia HOPE scholarship program, which covers all or part of tuition and fees at public colleges for 128,000 Georgians, requires recipients to have a B average or better. Other state programs have similar requirements. Faculty and university administrators are under increasing pressure to recruit and retain students.

Obviously, a student with satisfactory grades is more likely to remain in school. Competition for top-performing students has become fierce, especially for minority students in light of the diversity movement adopted by many educational institutions. Some have even suggested that as a reason for the increase in minority enrollments, although that argument has been refuted by other researchers.

Other objective measures and anecdotal evidence appear to support this trend. Of the 47,317 applications received at UCLA for this fall's freshman class, nearly 21,000 had GPAs of at least 4.0. A federal study found that the average high school GPA increased from 2.68 to 2.94 between 1990 and 2000. Nearly 23 percent of college freshmen in 2005 reported their

average grade in high school was an A or better, according to the Higher Education Research Institute at UCLA. In 1975, the percentage was about half that number.

In an analysis by School-Match, an education audit company, more than 70 percent of schools and districts had average GPAs significantly higher than what standardized test scores indicated they should have been. It's not unusual to see between 30 and 40 valedictorians from a single high school. Another study of nearly 5,000 undergraduates from a variety of institutions found that between 1969 and 1993, the number of As awarded increased nearly fourfold.

The problem may be most acute at private schools with high academic reputations. In 1966, only 22 percent of Harvard grades were in the A range. Thirty years later, that number was 46 percent. In 1996, 82 percent of Harvard seniors graduated with academic honors, and that number rose to 91 percent in 2001. At the University of Chicago, the average grade rose from 2.5 in 1965 to 3.26 in 1999, with even greater increases in subjective humanities courses versus the hard sciences.

Stanley Kurtz, senior fellow at the Ethics and Public Policy Center, notes that the results at Harvard prompted an investigation that concluded grade inflation was a serious problem at the institution. Other schools and educational organizations

have also gotten involved with studying the issue. According to Kurtz, University of Colorado president Hank Brown recently floated the idea of disclosing class rank on student transcripts as a way of combating grade inflation. President Brown had his own class rank on his transcripts when he graduated from UC in 1961, but the practice had eventually been discontinued.

James Felton and Peter Koper of Central Michigan University have proposed that professors calculate what they refer to as a “real GPA” on the basis of a student’s nominal GPA. The real grade in any given class would be found by scaling the average grade in the class to 2.0 or C, and then an individual student’s grade would be adjusted relative to this metric. Another variation of this would be to include on a student’s transcript a specific course grade and the average grade for that course of all students.

According to Felton and Koper, this reform would actually reverse the pressures that drive grade inflation. Professors who routinely awarded high “nominal” grades would be stigmatized as low “real” graders, and administrators would begin to reprimand, rather than reward, the professors who taught in that manner.

Princeton University has gone as far as capping the number of As that can be awarded. In the past, there was no official policy on this issue, and nearly half the grades awarded in an average Princeton class were either A pluses, As, or A minuses. Now each department is limited to no more than 35 percent of its students receiving As each semester.

Over-Inflation May Cause Damage

What does grade inflation entail for the private-passenger automobile insurance industry? Most of the studies identified regarding the issue of grade inflation and proposed solutions focus on colleges and universities. There are significant indicators that also suggest grade inflation is prevalent at the high school level as well. Perhaps it’s a more acute problem, from an insurer’s perspective, in that high school-level drivers are generally less experienced and less mature than college-level drivers.

It appears that even with higher grades awarded over the past 30 years or so, there hasn’t been a movement to subsequently adjust the parameters that qualify an insured for the good-student discount. However, there is ongoing concern over the driving records of teen drivers. A 1998 study underwritten by the Insurance Institute revealed that 16-year-old drivers had an accident rate 10 times higher than the rate for drivers between the ages of 35 and 39. Statistics compiled by Ford Motor Co. show that about 6,400 people between 15 and 20 were killed in car crashes each year from 1991 to 2001. This concern is exacerbated by the demographic bulge of teenagers who are the children of the baby boomers. At the same time, budgetary concerns have curtailed or eliminated driver education programs at a number of high schools.

One of the basic questions boils down to this: Are today’s A and B students, many of whom would not likely qualify for the good-student discount under the grading scales of a few decades ago, justifying the discount they’re receiving?

Perhaps they are. An analysis of loss ratios for teenage drivers may illustrate that, even after adjusting for the good-student discount, they’re a profitable enough segment of business to maintain the status quo. Competitive market forces may also be driving the reluctance to adjust standards to reflect grade inflation.

Another possibility is that when combined with the driving history of their parents, the aggregate automobile insurance coverage for the entire family yields positive returns. However, since one study found that only between 10 percent and 20 percent of students receive grades lower than a B minus, it appears that fewer and fewer teenage drivers don’t qualify for the good-student discount.

Should Insurers Care?

If educational institutions are looking for ways to accurately classify students and provide a true bonus/malus system for academic performance, should insurance companies have similar concerns? If class ranking becomes a popular methodology

for combating grade inflation, perhaps that should be the overriding factor in determining good students, in effect replacing the B or 3.0 measures as qualifiers.

An additional potential reason for the lack of initiative in this area by insurers is that changes in driver behavior (i.e., cell phone usage while driving, etc.), regardless of driver age, may be a more pressing issue for automobile insurers. Continued improvement in automobile design may also balance out the increase in young, inexperienced drivers now qualifying for the good-student discount. According to a National Highway Traffic Safety Administration report, federal motor vehicle safety standards and various safety technologies saved over 328,000 lives from 1960 to 2002. Such advancements as airbags, safety belt use, energy-absorbing steering assemblies, anti-lock brakes, improved door locks, fuel systems, and child restraints have successfully reduced the severity of automobile accidents.

There may be little incentive to address this issue because of changes in the actuarial dynamics that determine the insurance premium. Credit scoring, for example, has been determined to have higher credibility in future claims probability and may be weighted to a greater degree relative to driver age and experience.

Another possible position is that grade inflation may be topping out at many institutions. Unlike the consumer price index, there is a ceiling on what percentage of students can have a 4.0 GPA or receive an A plus. That a number of educational institutions are acknowledging the problem and attempting to resolve it may show that the trend may eventually be reversing.

Finally, while there may be a significant increase in the number of high school and college students qualifying for the good-student discount, the number of qualified applicants who actually seek out this discount may be low enough to maintain current criteria. Otherwise, an enterprising insurance company might be tempted to scrap the good-student discount, adjust premiums by the amount of the discount for all students, and support the change with a huge marketing campaign. ●