THIRD WAY

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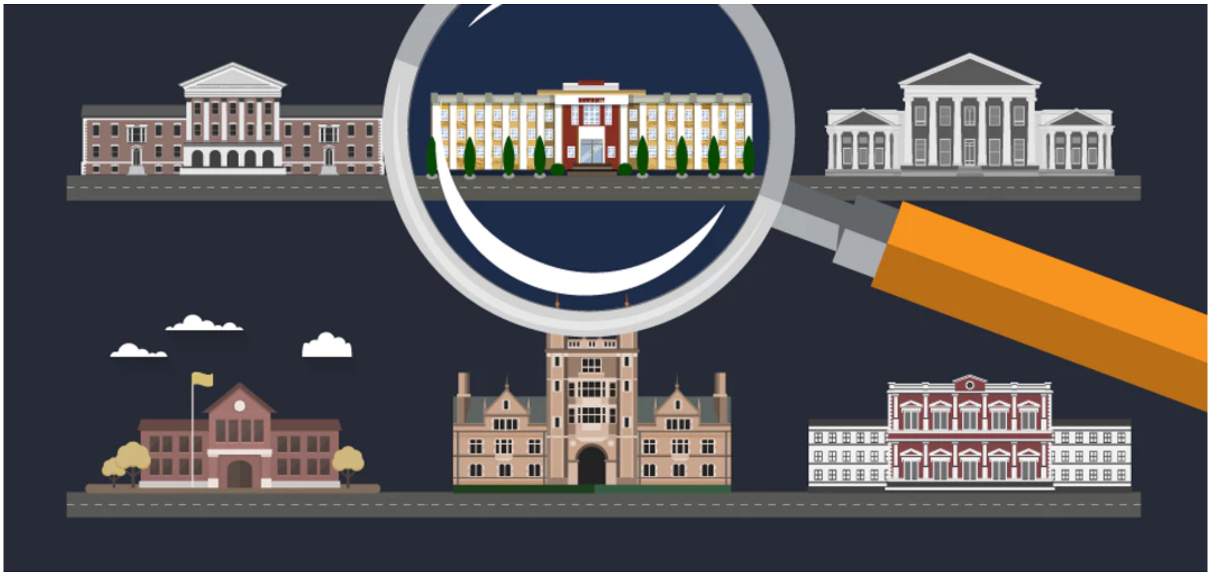
Measuring Results: How Does Our Higher Education System Use Student Outcomes?



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Before making one of the biggest purchases of their lives, prospective homebuyers go through an extensive inspection process. A certified expert gives the home a thorough evaluation to judge the integrity, functionality, and overall safety of a home's various components. Having this type of quality assurance mechanism gives homebuyers the peace of mind they need to make an investment that will best meet their financial and housing requirements.

But what about one of the second largest purchases someone can make in their lives—a college education? With over 5,000 institutions currently receiving $130 billion in taxpayer dollars each year, you might expect that a comparable "inspection" process exists to make sure institutions are providing value to students worthy of their tuition checks. And with such a large annual investment in higher education, you might think that the federal government would have mechanisms in place to thoroughly vet the institutions that receive federal funding.

However, a closer examination reveals that our current quality assurance systems in higher education have gaping holes. Too many of them fail to take into account the factors that matter most—student outcomes. This includes key pieces of information like whether students graduate, whether they get well-paying jobs after attending, and whether they can repay their loans. As a result, we end up with mechanisms that 1) fail to provide consumers with the information they need to figure out where to invest their time and money, and 2) allow low-performing institutions to continue admitting students year after year, with a stream of tax dollars to follow.

This memo provides a brief explanation of how the federal government currently uses student outcomes in its higher education quality assurance systems and explores actions that are being considered at the federal level to better target federal funds to institutions that serve students well.

What are Student Outcomes?

Higher education is a necessity in today's job market. So it is more important than ever that we make sure that our higher education institutions are providing the value students need to graduate, get good jobs, and repay their loans. To help determine how our institutions are performing, the federal government publishes information that shows the actual outcomes of students who have attended institutions across the Unites States.

To assess the quality of the education students are actually getting, the U.S. Department of Education (Department) publishes three crucial metrics. First, the Department puts out information on how many students return to an institution after their first year and how many students graduate. [1] In addition to knowing whether students complete their degree, it's also important to know if they are succeeding in the job market. To help assess this, the Department recently began releasing median salaries of former students who used federal grants or loans to attend ten years after enrollment, as well as the percentage of those students who earn more than a typical high school graduate

($25,000). And finally, the Department also recently began publishing the share of students who are able to begin paying down their loans within three years after leaving.

These metrics of student success are now readily available, but they are used sparingly, if at all, in determining which institutions have access to the massive annual taxpayer investment in higher education.

How Does the Federal Government Currently Use Student Outcomes?

Right now, there are three main requirements that the federal government relies upon to monitor the value and quality a college provides to its students, including: 1) Accreditation; 2) Cohort Default Rate; and 3) Gainful Employment.

Accreditation

As a way to ensure that GI Bill funds were being used effectively in the 1940s and 1950s, the federal government turned to the accreditation system as a gatekeeper over the influx of federal funds flowing to institutions of higher education following World War II. [2] All institutions that receive federal money though student grants or loans are required to be accredited through one of the 13 national or regional accreditation agencies recognized by the Department. [3] In short, accreditation is a seal of approval that is supposed to provide an important signal to students and families about whether a school offers a quality education. [4]

What it measures:

The *Higher Education Act* (HEA) provides a number of standards that accreditors must incorporate when determining which institutions should or should not have access to federal funding. This includes the assessment of an institution's curricula, faculty, facilities, fiscal and administrative capacity, recruiting and admissions practices, student support services, and program length. [5] Through the HEA, Congress also required accreditors to look at student achievement; however, it included no information about how to accomplish that mandate or what accreditors should measure as part of the accreditation process. In fact, the law actually prohibits the Department from setting a minimum graduation rate, loan repayment rate, or any other outcomes measure requirement in order to maintain its status as an accredited institution. [6] This means that private accreditors are solely responsible for determining whether and how they choose to incorporate student outcomes when making a determination about a school's ability to access federal financial aid. Although some accreditors have chosen to incorporate a handful of student outcomes into their review process--including degree completion, job placement, and licensure exam pass rates—many do not incorporate any at all. [7]

Where it falls short:

Although accreditation is the gateway for institutions to receive federal funds, even the worst student outcomes do not necessarily prohibit an institution from becoming and remaining accredited. This means that even though some institutions leave the vast majority of their students degreeless, underemployed, and with unmanageable debt, they can still maintain full accreditation status, advertise themselves as an accredited institution, and continue to receive money from the federal government. [8]

How this plays out in the real world:

One example of how this mechanism can allow low-performers to fall through the cracks is Olive-Harvey College, a public college located in Chicago, Illinois, that predominately awards certificates in transportation and materials moving. This institution displays some troubling outcomes across multiple measures, including the fact that it only graduates 9% of its first-time, full-time students, has only a third of its loan-holding students earning more than the average high school graduate six years after enrolling, and has only 10% of its former borrowers able to begin paying down their loans within three years of leaving. [9] Even with these troubling outcomes, this institution remains fully accredited, receiving its last stamp of approval in 2010-2011. [10]

Cohort Default Rate

The Cohort Default Rate (CDR) was put into place in response to soaring loan default rates during the early 1980s recession. At the time, enrollment at colleges across the United States had swelled, and many new colleges cropped up to meet the demand. Unfortunately, as more and more low-performing providers entered the college market, loan defaults also surged to an alarming 20% of all students. [11] To put this in perspective, during the peak of the housing crisis in 2010, 90-day mortgage delinquencies peaked at only 10%. [12] Congress soon put a CDR test in place to tame the crisis, limiting an institution from being able to receive federal financial aid if too many of its students defaulted within two years of beginning repayment on their loans (this changed to three years in 2008). [13] This was a way of drawing attention to—and cutting off access to taxpayer dollars for—institutions that were thought to be preying on low-income students, who often have more difficulty repaying their educational debt.

What it measures:

Institutions that have a CDR of 30% or higher for three consecutive years, or 40% for one year, lose eligibility to participate in the federal student loan and grant programs. [14] In other words, if an institution has 100 students who have taken out loans, and 30 of those students fail to make payments and consequently default on those loans within three years of beginning repayment, that institution will have a CDR of 30%, meaning the school will have failed the CDR test for that year. If that institution fails the 30% CDR test for two consecutive years after the first failure, they would then lose the ability to receive federal student aid. And if an institution ever has a CDR of 40%, they become ineligible for financial aid after only one year.

Where it falls short:

While CDR was initially effective in its intent to safeguard students from attending low-performing or predatory institutions, it has since become less effective and easier to manipulate than originally envisioned. [15] For one, there are many students not captured in the CDR measurement, including those who struggle to repay their loans, barely staying out of default. While those students may be in financial hardship and not actually paying down their loan principle, their inability to do so is not reflected in an institution's CDR, which only measures technical defaults. This has been amplified over the last couple of years with the expansion of income-based loan repayment programs, protecting student borrowers and giving them relief, which is good, yet making defaults a less useful metric when judging institutional performance. [16]

Additionally, CDR fails to take into account deferment or forbearance (two options that allow students to temporarily reduce or delay payments on their loans due to special circumstances like financial hardship or enrollment in graduate school). So, while there were $25.4 billion in federal loans that were in deferment due to economic hardship in 2016 alone, the students holding these loans do not count against an institution's CDR. [17] Some institutions and loan servicers have taken advantage of this loophole to encourage former students to enter forbearance or deferment status, bumping them outside the measurement for CDR.

The popularity of these workarounds has meant that the Department is now using CDR to cut off aid to very few institutions. This year, only 11 out of the more than 5,000 institutions that participate in the student loan programs lost their eligibility to receive federal student aid due to CDR sanctions. [18] Those 11 schools only enrolled less than 2,000 of the more than 16 million students nationwide. [19]

How this plays out in the real world:

National College is a two-year, for-profit college that mainly focuses on preparing students for health care jobs. It displays a three-year CDR of only 9% for its former students—well within the eligibility requirement. However, only 12% of its students are able to pay down the principal on their loans. [20] This means that out of the 2,029 students that took out federal loans within fiscal year 2013-2014 and 2014-2015, only 243 were able to begin paying down their loans by at least $1 within three years after leaving. Even though nine out of 10 National College students are unable to pay down their educational debt, this school still remains safe by current CDR standards.

Gainful Employment

Career colleges play a vital role in helping the U.S. workforce stay competitive. Yet especially in recent years, some have saddled students with unmanageable debt and limited opportunities for post-college labor market success. In 2014, to address rising concerns about the career college industry made public through Government Accountability Office reports and Congressional hearings, the Department established a rule to ensure that students within these programs were earning enough to repay their educational debt. [21] This defined and enforced a 1992 Congressional requirement that any career education program needs to "lead to gainful employment in a recognized occupation." [22] This standard applies to every program at for-profit institutions and every certificate and non-degree granting program at public and private non-profit institutions.

What it measures:

In order for institutions to continue to receive federal student aid (taxpayer-funded grants or loans) for programs covered by the Gainful Employment rule, they must demonstrate that the program's graduates earn enough to adequately repay their loans by meeting a certain debt-to-income ratio. This information is calculated by the Department using two formulas:

- (1) A program's **annual income debt-to-earnings ratio** is calculated by dividing the average graduate's annual loan payment amount by either the mean or median annual earnings for its graduates, whichever is higher (i.e. *more* generous to the program).

- (2) A program's **discretionary income ratio** is calculated by dividing the average graduate's annual loan payment by their discretionary income, which is defined as their earnings that exceed 150% of the federal poverty line (again taking the higher of the median or mean). This figure is supposed to measure whether a graduate earns enough to make loan payments after covering basic expenses.

In order to lose access to federal student aid, a program must fail both of these measures in two out of any three consecutive years, or be on the cusp of failing—in the "warning zone"—for four consecutive years (for a more detailed explanation, see our explainer). This year, 803 out of 8,638 programs failed. Out of the programs that failed, the median salary at the typical program was $18,927 within two to four years after graduation (significantly lower than the $25,000 made by the average high school graduate), and 114 of these programs actually had the majority of its graduates earning below the federal poverty line. The typical student loan debt at these failing programs was $23,000. [23] If these programs do not demonstrate a sufficiently lower debt-to-income ratio this year, they could lose access to federal aid in 2018.

Where it falls short:

While the Gainful Employment rule covers over 29,000 programs at all types of institutions, it only covers certificate-granting and non-degree programs public and private non-profit institutions, leaving out associate's and bachelor's degree programs. This means that out of the 16 million students currently enrolled in a higher education program across the country, only 2.6 million are covered by the rule. [24]

In addition to this limitation, it should be noted that the Department is currently considering scrapping this rule. It has already taken administrative steps to weaken and delay much of the current rule and, on June 14, 2017, Secretary Betsy DeVos announced that the Department would reconsider the Gainful Employment rule altogether. [25] Many suspect this will mean rolling back the pieces of the rules that currently put poor-performing programs at risk of losing federal funding. If these rules are undone, the federal government will continue to fund programs that have little return on investment for students and taxpayers alike. This will cost taxpayers over $4 billion over the next decade. [26]

How this plays out in the real world:

One of the programs that failed the Gainful Employment rule during its first year was a graduate certificate program for those studying theatre at Harvard University. The median salary for those who graduated from the program was $32,600. But, on average, the typical graduate took out over $78,000 to attend. [27] Soon after learning of their results, Harvard froze enrollment within that specific program, so that it could “evaluate the program and undertake vital strategic planning to address, among other things, student funding mechanisms." [28] Around 300 failing programs across the country have followed suit and closed down all together, showing that these regulations have already weeded out programs that leave their graduates with poor labor market outcomes and unmanageable debt. [29]

Steps to Better Incorporate Student Outcomes

Given many of these shortfalls, there has been renewed interest from policymakers across the political spectrum in finding ways to better safeguard taxpayers and students alike from programs that don't provide them real value. Here are just a few:

Shifting the Focus of Accreditation

Legislators on both sides of the aisle see accreditation reform as one of the few federal levers that exists to improve college quality and value. In 2015, Senator Lamar Alexander released a white paper asking for feedback on better ways to ensure quality through our accreditation system, and last year, Senators Elizabeth Warren (D-MA), Dick Durbin (D-IL), and Brian Schatz (D-HI) introduced the Accreditation Reform and Enhanced Accountability Act of 2016, a bill that requires accreditors to take student outcomes into account as part of their approval process. The bill would also task the Department with setting outcome thresholds for institutions, such as a minimum graduation rate, in order to receive federal funds. [30]

Updating Cohort Default Rate to Repayment Rate

The ineffectiveness of Cohort Default Rates has been well documented, and there is bipartisan agreement that avoiding technical default does not mean that students are repaying successfully. [31] One way to fix this would be to update the current CDR metric so that it instead measures loan repayment rates. This would require the federal government to look at the percentage of students able to pay down at least $1 on the principal of their federal loan over a certain time period, as opposed to just the share of loan defaults. Since this is information that the Department already has, the additional burden on institutions would be limited. Updating the CDR to repayment rate would be a more robust and reflective measure of an institution's general return on investment, looking at students' overall financial health and limiting the potential for schools to manipulate the metric. Not only can the repayment rate act as an effective performance indicator for policymakers to protect student borrowers, it can also provide an incentive for institutions to promote timely and successful repayment among their students.

Requiring Institutions to Have "Skin in the Game"

Some say that current outcomes-based measures like Gainful Employment and CDR are too narrow and more comprehensive accountability measures should be added to the system. One suggestion is to require institutions to have more "skin in the game" when looking at student outcomes. Often referred to as "risk-sharing," the idea is to make sure institutions share in the responsibility for their students' success. One recent bipartisan risk-sharing proposal was the *Student Protection and Success Act* introduced by Senators Orrin Hatch (R-UT) and Jeanne Shaheen (D-NH) in 2015, which would make institutions with poor loan repayment rates responsible for paying back a portion of the taxpayer money borrowed by students to attend. [32] Since the announcement of this legislation, there have been a number of risk-sharing proposals released by experts in the field with similar goals. [33]

Conclusion

As college costs and the demand for college-educated workers continue to rise, the stakes are as high as ever for making sure higher education institutions are improving students' lives and spending taxpayer dollars wisely. Policymakers are beginning to see that the quality of our higher education system needs to improve, and institutions bear some responsibility if they wish to continue to receive federal support. Just as prospective homeowners rely on home inspections to provide the proper information to inform their purchase, students and taxpayers need an accurate evaluation of their investment in a higher education. But without proper federal policies in place that take student outcomes into account, we will continue to let poor-performing institutions fly under the radar and harm students by saddling them with debt and no degree to show for it. That is why we need new federal measures to better reflect the true value postsecondary programs bring to the students they serve.

TOPICS

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END NOTES

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