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A Newly Proposed Earnings Standard for Higher Education Is Surprisingly Tough

Jason D. Delisle, Jason Cohn

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(Grant Faint/Getty Images)

During the Obama administration, the "gainful employment" rule aimed to ensure that career-oriented college programs were adequately serving their students by measuring graduates' debt-to-income ratio. Although the Trump administration repealed this rule, the Biden administration wants to revive it (PDF) but with an additional—and much tougher—test. For career-oriented programs to keep access to federal grants and loans, they must also show former students earn more than high school graduates.

Feedback

The logic behind a high school earnings test is compelling. A postsecondary education should theoretically increase someone's earnings above what they could earn without it. But it turns out to be a surprisingly difficult test for many programs to pass.

Our calculations show that compared with the debt-to-income test, the high school earnings test would increase the number of failing undergraduate certificate programs by more than fivefold and would establish a standard high enough to render the debt-to-income test unnecessary.

This drastic increase in the number of failing programs could suggest many programs provide too little value for their students or that the high school earnings test is just an unrealistically high bar. In either case, the debt-to-income test no longer serves a purpose if the high school earnings test is enacted.

Are two tests better than one?

Under the debt-to-income test, median annual loan payments for a cohort of graduates cannot exceed 8 percent of their earnings and 20 percent of their earnings above 150 percent of the federal poverty level. The idea is that programs are considered to lead to gainful employment if graduates earn enough to afford their loans.

Under the high school earnings test, median earnings among graduates must exceed the median earnings for a working 25-to-34-year-old with only a high school diploma (or GED) in the state where the program is located. Nationally, median earnings for high school graduates in this age group is $25,569 and ranges from a low of $20,859 in Mississippi to a high of $31,294 in North Dakota.

In theory, the two tests should perform separate but complementary functions. The earnings test ensures that on an absolute level, the program pays off for graduates, while the debt-to-income test would screen for programs where graduates' earnings exceed high school earnings but where excessive debt levels still make the program financially risky.

Using US Department of Education data on program graduates, we find that the twin tests would not work this way in practice. The high school earnings test sets a much higher bar for programs to clear than the debt-to-income test, making the debt-to-income test redundant.

Nearly Half of Programs Covered by the Gainful Employment Test Fail, and the Earnings Test Accounts for Almost All of That Effect

	Pass debt/income	Fail debt/income
Pass Earnings	50.7%	0.4%
Fail Earnings	40.8%	8.1%

Source: Authors' calculations using US Department of Education gainful employment data released March 2022, https://www2.ed.gov/policy/highered/reg/hearulemaking/2021/index.html?src=rn.
Notes: Table excludes programs with missing earnings and/or debt data. Estimates are based on the gainful employment rule proposed in a Biden administration discussion draft published at a March 14–18, 2022, rulemaking session.

We estimate 49.3 percent of programs covered by the gainful employment rule would lose eligibility for federal aid under the Biden administration's proposal. That is, 40.8 percent would fail the earnings test but would pass the debt-to-income test, another 8.1 percent would fail both tests, and 0.4 percent would fail only the debt-to-income test. (For our analysis, we use only one year of data, but under the proposed rule, programs would only lose eligibility if they fail the same test twice in any three consecutive years.) If the proposed rule included only the high school earnings test, 48.9 percent of programs fail, compared with 49.3 percent failing under the two-test rule. In other words, the debt-to-income test adds almost no additional quality assurance than using the high school earnings test alone offers.

How policymakers can fine-tune the gainful employment rule

Using multiple tests to screen out low-quality education programs can make quality assurance policies more sensitive to the diverse characteristics of our higher education system. But multiple tests also creates complexity. A single test, on the other hand, has the advantage of simplicity but risks being overly broad. The Biden administration's proposed gainful employment policy appears to combine the downsides of each approach: it is both complex and broad.

As the administration works to finalize its proposed rule, it could consider either simplifying the policy by dropping the debt-to-income test and using only the high school earnings test or adopting a lower threshold for the earnings test, which would make the debt-to-income test relevant. We estimate that the two tests would be equally difficult to pass and disqualify an equal number of programs (8.5 percent of programs per test) if the earnings threshold were reduced to about *half* the median earnings for a working 25-to-34-year-old with only a high school diploma or GED.

Although that is a much lower standard than the administration proposed, the reduction must be that large if the two tests are to perform distinct and complementary functions and result in a more nuanced quality assurance policy.

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