APSCU
ASSOCIATION OF
PRIVATE SECTOR COLLEGES
AND UNIVERSITIES

Bad Public Policy:
The Gainful Employment Regulation

October 14, 2014

The Gainful Employment Regulation Fails To Meet Its Stated Goals And Objectives

Goal

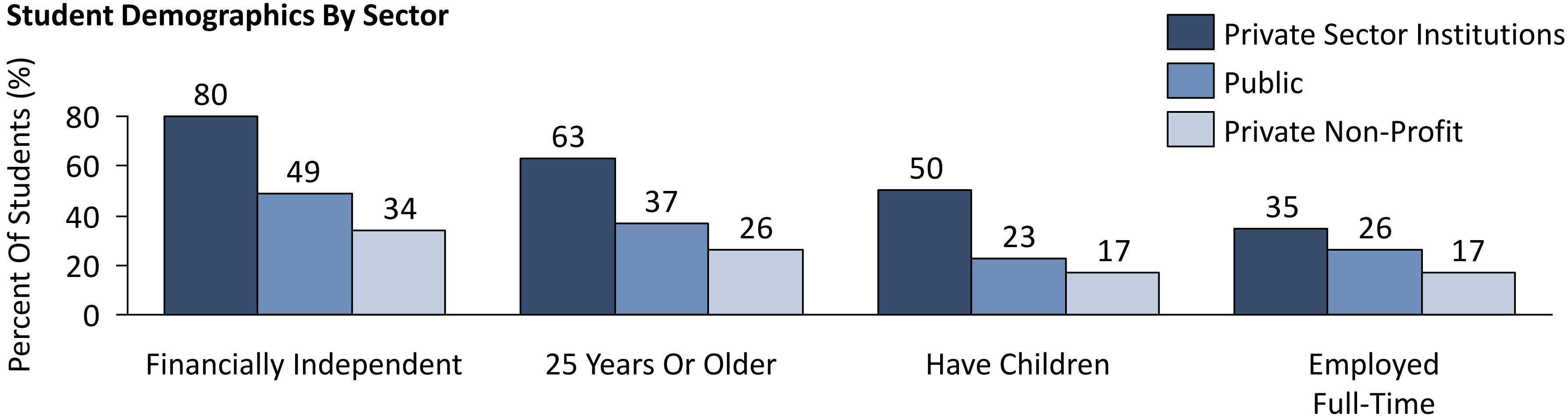
The gainful employment (GE) regulation's claimed purpose is to ensure that students get an education that brings them a measurable economic benefit without untenable debt.

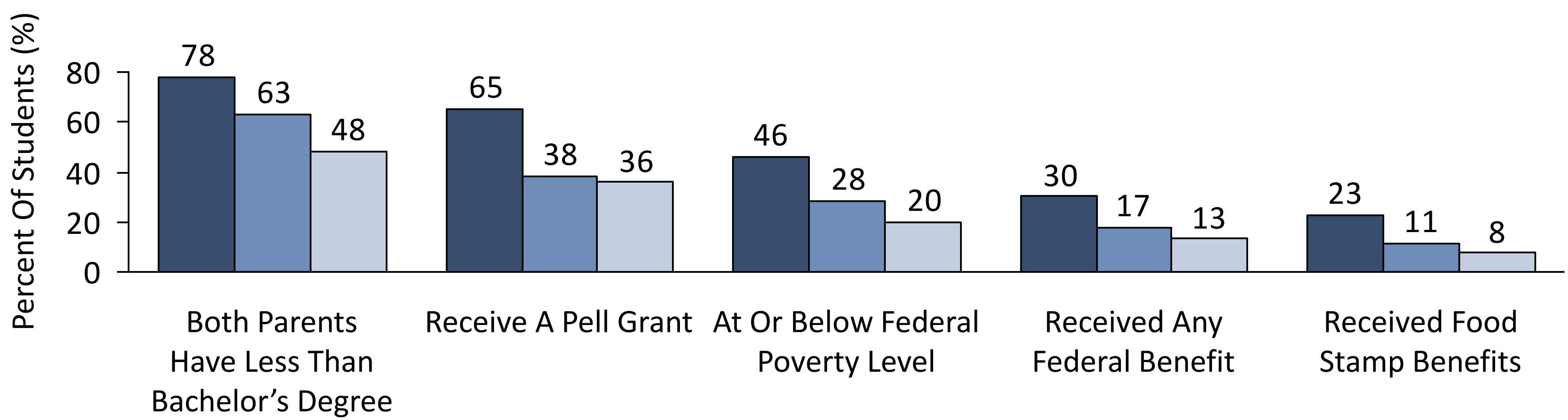
Reality

In reality, the gainful employment regulation will deny millions of students access to programs that have a net economic benefit and disproportionately impact students of color, women, and the economically disadvantaged.

Private Sector Institutions Educate More New Traditional Students Than Their Peers

Student Demographics By Sector





Source: U.S. Department of Education, National Center for Education Statistics, 2011-12 National Postsecondary Student Aid Study

Lower Income Students Have To Borrow More To Invest In Their Education

Factor	Explanation
Lack of Savings	• A student with little or no savings will need to borrow more money to invest in postsecondary education.
Lack of Family Financial Support	• If a parent/family cannot afford to help a student invest in a postsecondary education, the student will have to borrow more to afford tuition.
Additional Responsibilities	• If a student has a family of their own, they will need to borrow money to invest in their education.

Borrowing And Access:

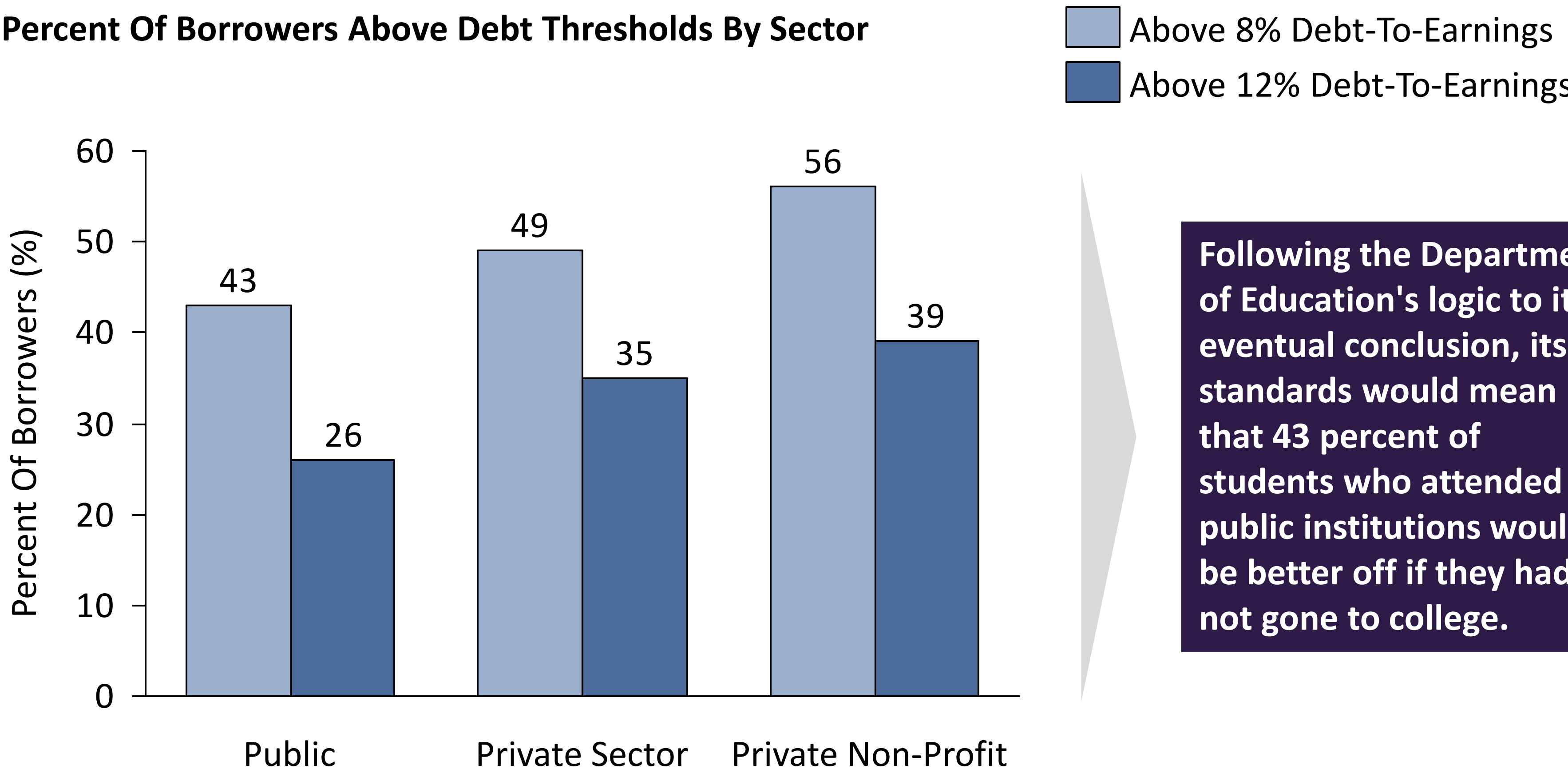
- **Low income students are more likely to borrow.**
- **These students are not being served by traditional institutions.**
- **The regulation judges programs based on the amount students borrow.**
- **Therefore, gainful employment will punish programs that enroll lower income students.**

The Administration's Rhetoric About Its Rating System Does Not Equal Reality On Gainful Employment

Ratings System Rhetoric:		Gainful Employment Reality:
"A viable system… must thoughtfully measure indicators like earnings, to avoid overemphasizing income or first jobs…" - Deputy Under Secretary Jamienne S. Studley	≠	**Early year earnings are a core component of the regulation's metrics.**
"The best question of all… is what institutions are successfully contributing to college completion with a meaningful education for students with the least income and the least historic opportunity…" - Deputy Under Secretary Jamienne S. Studley	≠	**The regulation ignores the fact that private sector institutions are significantly more likely to serve low-income, first generation, and minority students and have much higher graduation rates than community colleges.**
"If we create a ratings system that pushes institutions to accept fewer low-income students, then we've failed." - Under Secretary Ted Mitchell	≠	**The regulation evaluates programs that serve low-income students on measures of income and loan repayment, which could lead institutions to accept fewer of these students.**

The Gainful Employment Regulation Is Arbitrary And Capricious: Debt-To-Earnings Metric

Percent Of Borrowers Above Debt Thresholds By Sector



Following the Department of Education's logic to its eventual conclusion, its standards would mean that 43 percent of students who attended public institutions would be better off if they had not gone to college.

Source: US Department of Education, National Center for Educational Statistics 2008/2009 Baccalaureate and Beyond Longitudinal Study; Percentage of first-time bachelor's degree recipients with ratio of monthly payments to monthly income over 8% / 12% among those who borrowed for their undergraduate education and were in repayment 1 year after graduation.

The Gainful Employment Regulation Is Arbitrary And Capricious: Programmatic CDR Metric

pCDR is inconsistent with the institutional CDR enacted by Congress and the Department is clearly manipulating CDR calculations

As Default Rates Drop, So Does Confidence in How the Education Dept. Counts Them
*"...the Education Department's last-minute tweak of its own numbers..., **has reanimated the debate over default rates, long derided as a poor measure of institutional quality**."* (Kelly Field, *The Chronicle of Higher Education*, 9/25/14)

Default Rates Dip (Slightly)
*"Several higher education observers questioned whether the department has the statutory authority to alter how the default rates are calculated. In addition, they said the decision to apply those changes only to a small subset of institutions -- those closest to failure -- **could be viewed as arbitrary from a legal standpoint**."* (Michael Stratford and Paul Fain, *Inside Higher Ed*, 9/25/14)

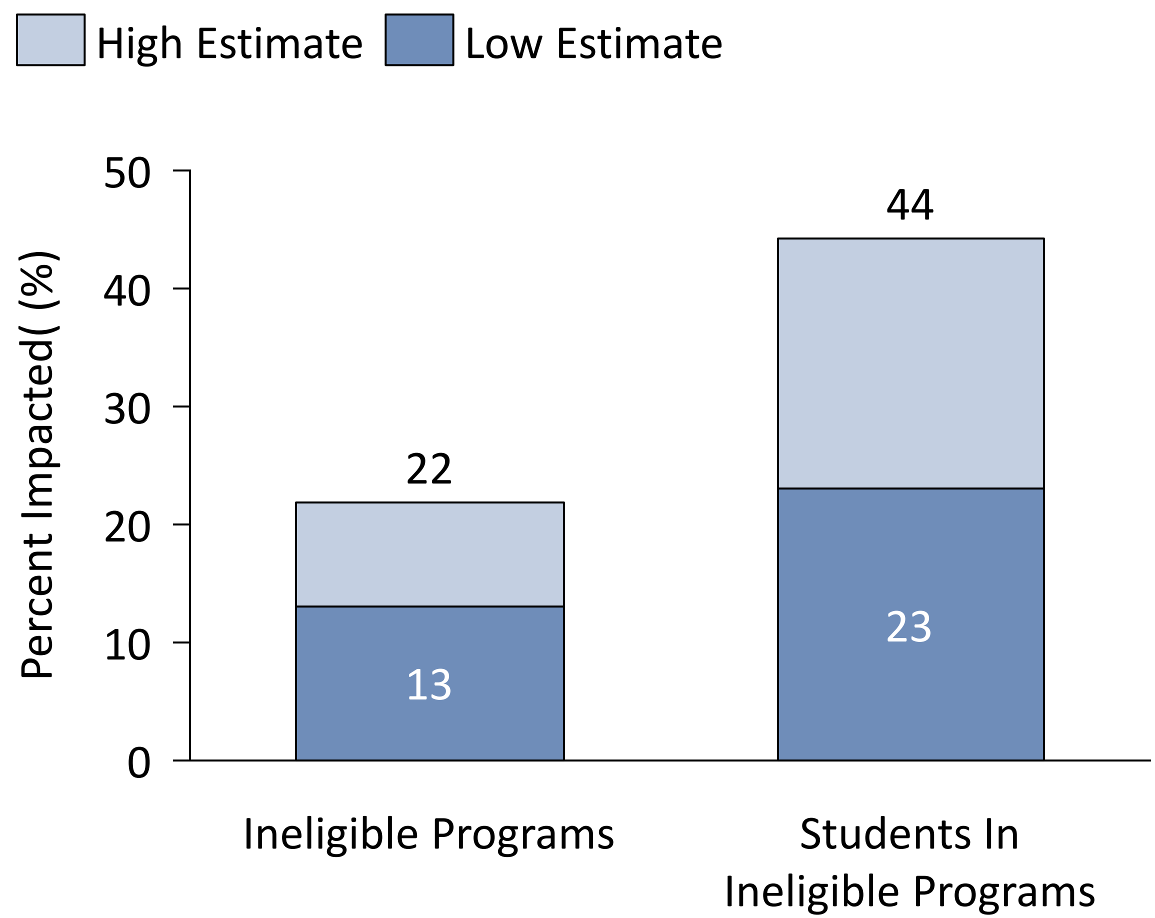
Reprieve on Default Rates
*"Jee Hang Lee, vice president for public policy and external relations at the Association of Community College Trustees, said the **department's default data was messy.** 'Clearly the department was unable to sanction any institution based upon the data,' he said."* (Michael Stratford, *Inside Higher Ed*, *9/24/14)*

GE Could Close Programs And Force Millions Of Students To Lose Access, Defeating The President's 2020 Goal

Impact On Students:

- The gainful employment regulation will have an enormous impact on private sector programs.
- Potentially 22 percent of programs could fail as a result.
- These programs serve 44 percent of private sector students.

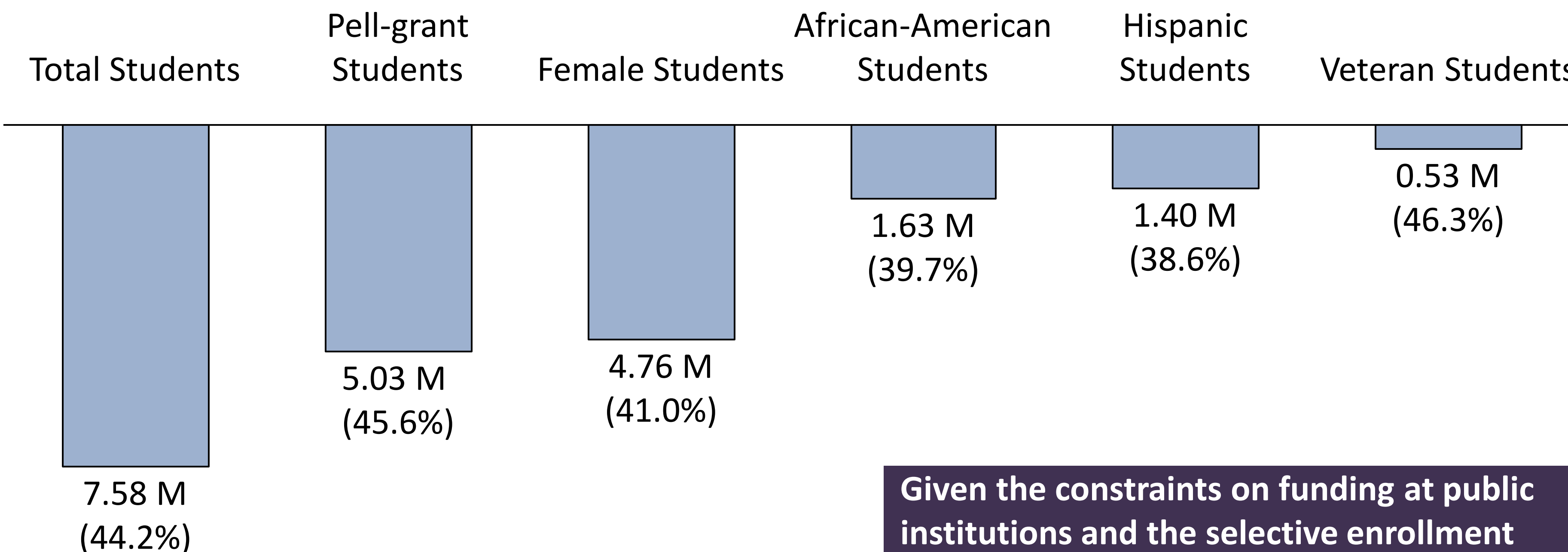
Percent Of Students And Programs Impacted By GE



Source: Charles River Associates, Impact Analysis

Millions Of New Traditional Students Lose Higher Education Access And Opportunity

Number Of Students Impacted by GE (2014 – 2024)



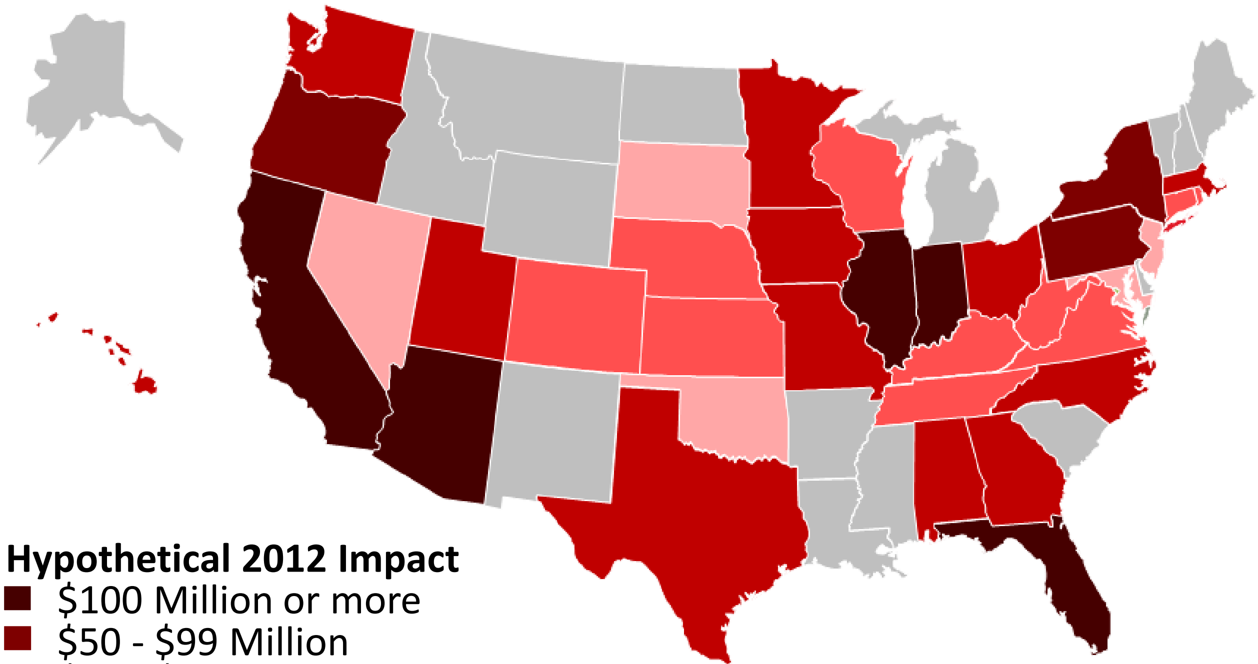
* Percentages represent the proportion of each demographic that could be affected at private sector institutions

Given the constraints on funding at public institutions and the selective enrollment policies of most non-profit institutions, the department's calculations about students finding alternative programs are overly optimistic.

Source: Charles River Associates, Impact Analysis

The Regulation Will Cost States More Than $1.7B A Year Based On 2012 Enrollment In The Private Sector

Additional Funds Needed By State To Make Up For Effects Of Gainful Employment*



Hypothetical 2012 Impact

- $100 Million or more
- $50 - $99 Million
- $10 - $49 Million
- $1 - $9 Million
- $0 - $1 Million
- Unavailable

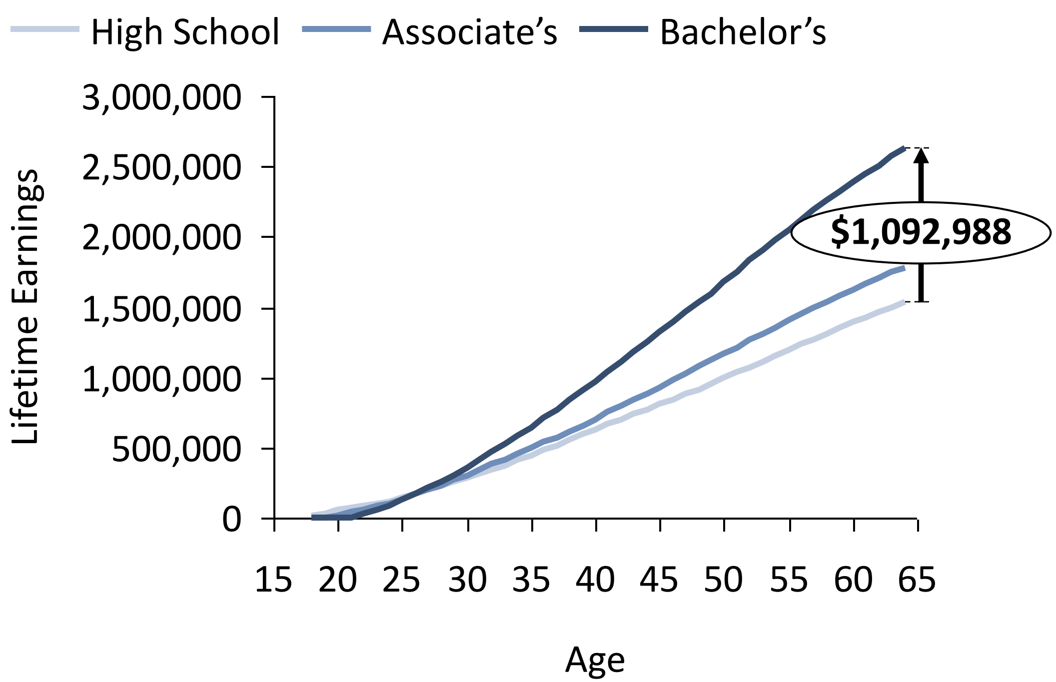
2012 Gainful Employment Bill By State:
Arizona: $509 M
Indiana: $408 M
Illinois: $355 M
California: $260 M
Florida: $254 M
All States: $1.7 B+

*Cost to educate 2012 graduates from "failing" and "zone" programs at public colleges

Source: Jorge Klor de Alva and Mark Schneider, Nexus Research and Policy Center

Measuring Early Earnings Is Shortsighted And Tells An Incomplete Story Of Gains Over Time

Accumulated Earnings By Education



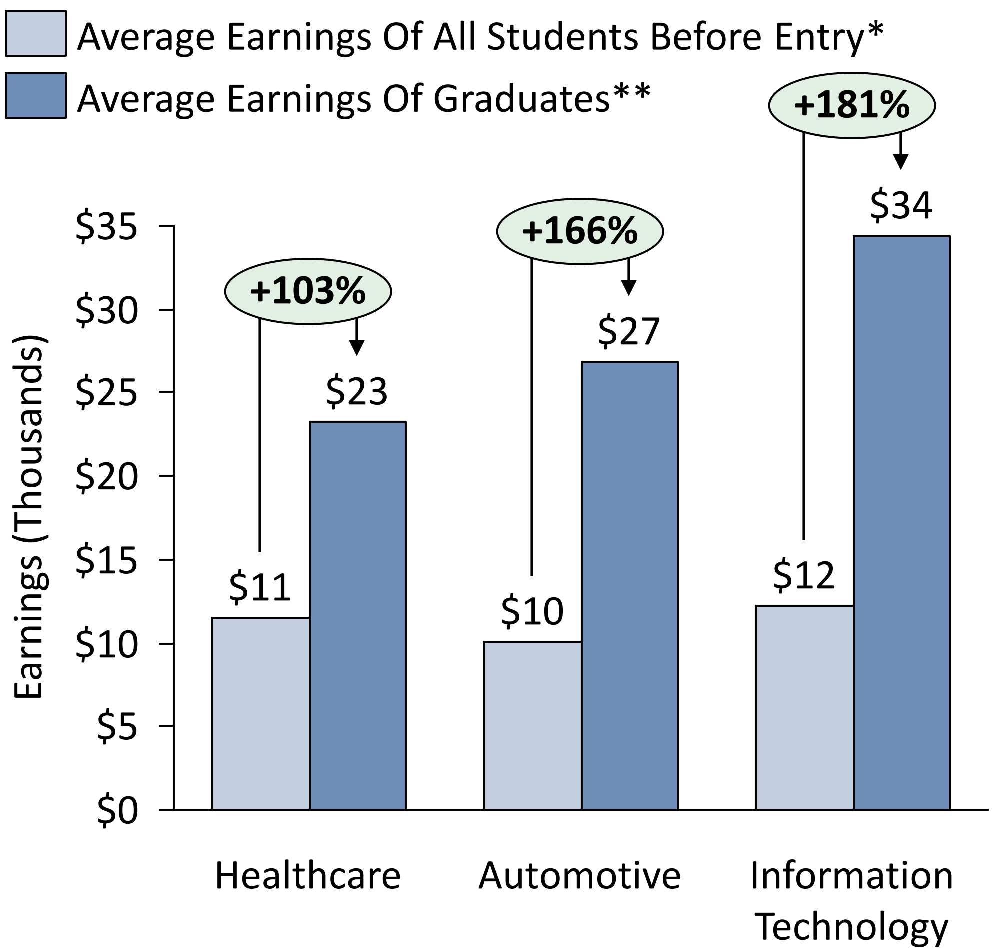
Sandy Baum, Senior Fellow at the Urban Institute & Research Professor at the George Washington University Graduate School of Education and Human Development: *"There are measurable differences in average earnings between high school graduates and those with any level of postsecondary education, including those who have not earned credentials. As with bachelor's degree recipients, the earnings premium for associate degree holders tends to grow with age."* (Sandy Baum, "Higher Education Earnings Premium: Value, Variation, and Trends," *The Urban Institute*, 2/14)

- **The accumulated earnings are close very early on, but college graduates make significantly more over their lifetimes.**
- **Research shows that for each year of schooling, the average student receives an earnings increase of between 7 and 15 percent.**
- **People choose to invest in education because it gives them the greatest likelihood of future economic success.**

Source: U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement

Private Sector Institutions Provide Graduates With Earnings Boosts Greater Than 100% In High Demand Fields

Earnings Before And After Receiving An Associate's Degree



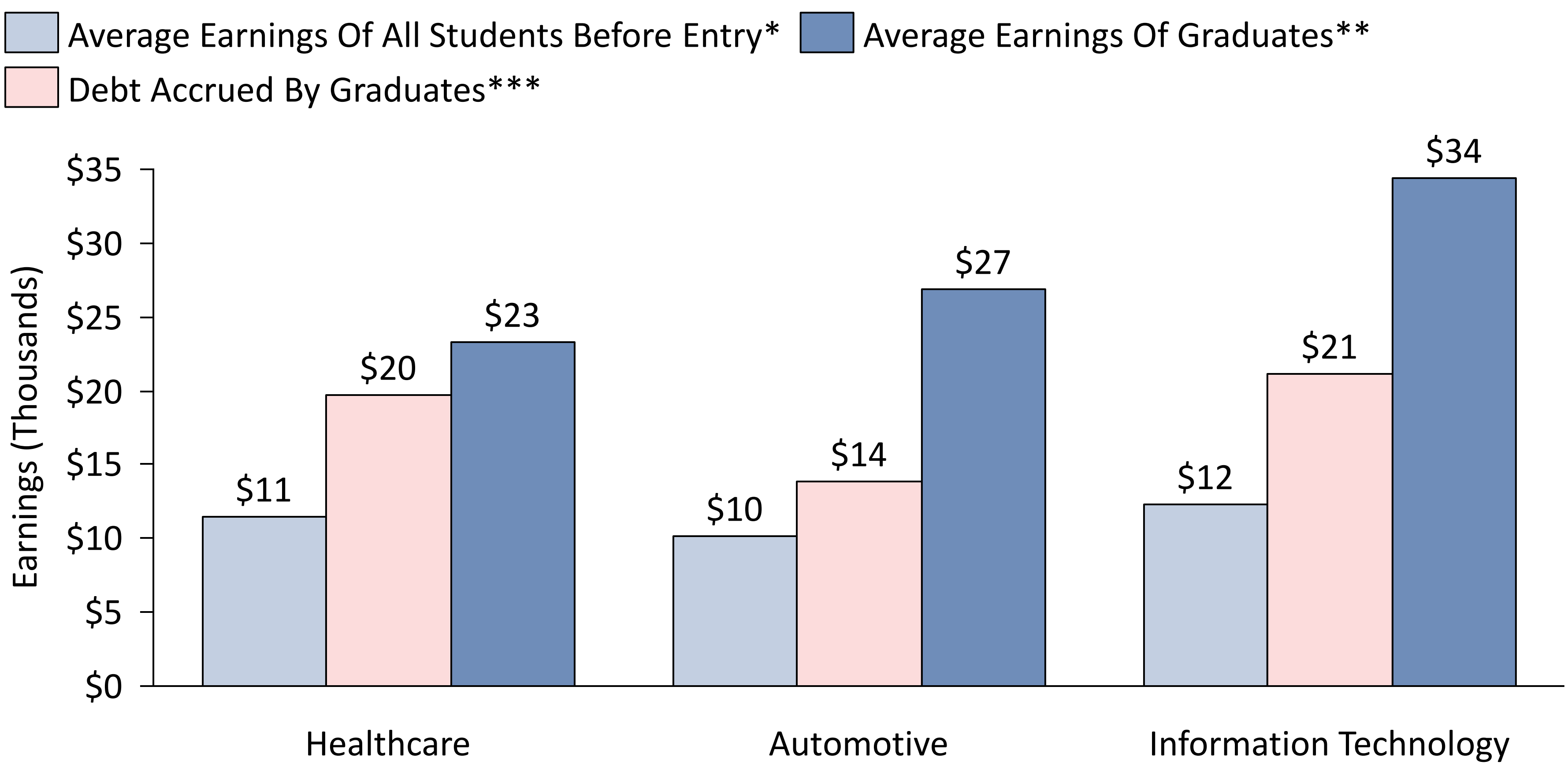
Significantly Increased Earnings

- As the Department has noted, the "vast majority" of programs offer an earnings gain.
- These gains in earnings are completely ignored by the gainful employment regulation.
- Rather than arbitrarily using early year earnings, the regulation should examine the relative increase in earnings to measure the benefit private sector students receive from their programs.

Source: *APSCU Analysis of ISIR Data
** Department of Education Gainful Employment Informational Rates, Average Earnings for Proprietary Institutions by CIP Group

Earnings By Graduates Of Private Sector Institutions Outpace Debt Accrued

Debt Compared To Earnings Before And After Receiving An Associate's Degree

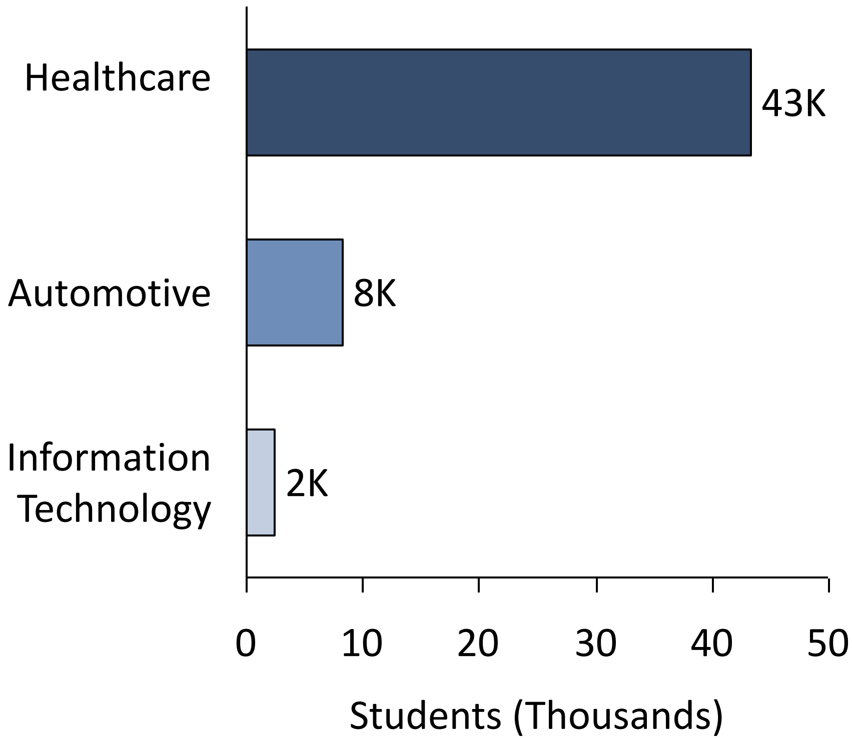


Source: *APSCU Analysis of ISIR Data
** Department of Education Gainful Employment Informational Rates, Average Earnings for Proprietary Institutions by CIP Group
***APSCU Analysis of Department of Education Gainful Employment Informational Rates, Annual Loan Payment

The Gainful Employment Regulation Will Shut Down Beneficial Programs

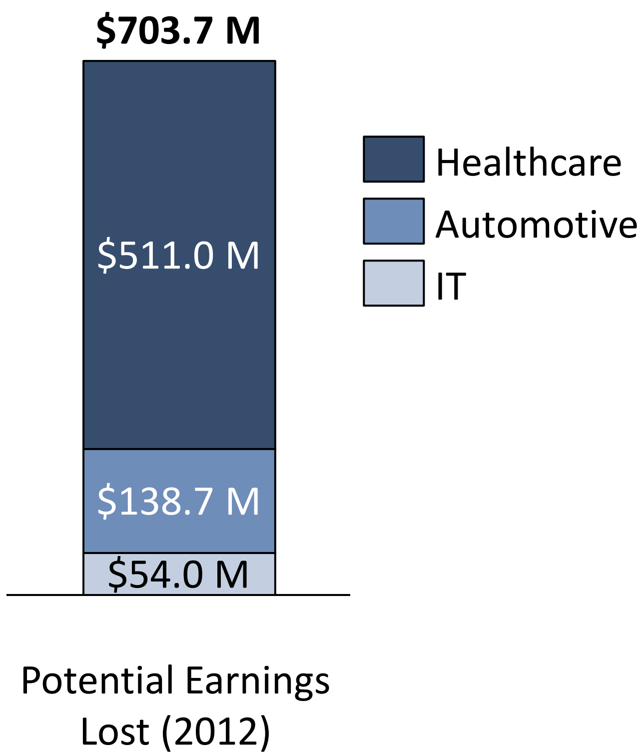
Tens of thousands of graduates benefited from programs that would fail the regulation.

2007-08 Graduates In "Failing" Programs



For IT, automotive, and healthcare graduates alone, this represents over $700 million in potentially lost earnings from the regulation.

One Year Of Potential Earnings Lost Due To The Regulation



Source: Department of Education Gainful Employment Informational Rates, Analysis by CIP Group

The Gainful Employment Regulation Shuts Down Programs That Economically Benefit Students

"There likely is an earnings gain in the vast majority of the programs that we evaluated."
– Department of Education

Program Failing GE		Program Passing GE	
Annual Loan Payment	$3,000	Annual Loan Payment:	$2,000
Earnings After Graduation:	$23,000	Earnings After Graduation:	$26,000
Earnings Without Attending School:	$17,000	Earnings Without Attending School:	$25,000
Net Benefit:	**$3,000**	**Net Benefit:**	**-$1,000**

Eliminating programs that produce both a short-term and lifetime net benefit to students is directly counter to the regulation's stated goal.

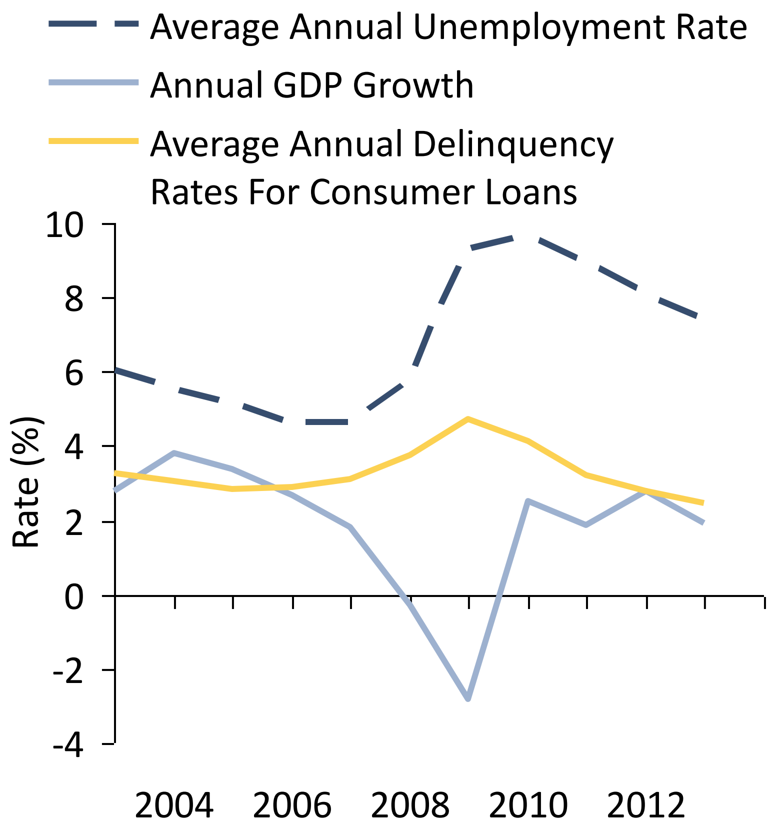
Source: U.S. Department of Education blog post, 4/11/14

The Regulation Fails To Take Into Account Macroeconomic Impacts

Macroeconomic Factors

- Because delinquencies spike during recessions, the regulation will lead to "good programs" failing during poor economic times and "bad programs" passing during better economic times.
- By not taking a broader look at the entire picture, the department will be hurting the very people they are trying to help.
- First year earnings decline by roughly 10 percent for a worker who graduated during a large recession.

Economic Indicators And Delinquencies



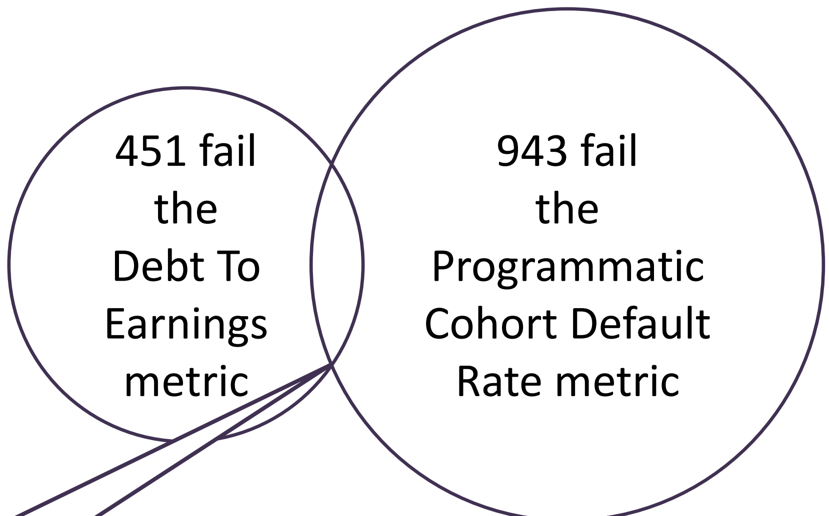
"[Lower wages] persist for the first several years of a career [if the individual graduated during a recession], averaging to a roughly 1.8% earnings loss per year over the first 10 years." *(Joseph G. Altonji, Lisa B. Kahn, Jamin D. Speer, "Cashier Or Consultant? Entry Labor Market Conditions, Field Of Study, And Career Success," National Bureau of Economic Research, 9/14)*

Source: BLS, World Bank, St Louis Federal Reserve, National Bureau of Economic Research

The Metrics Are Highly Negatively Correlated, Calling Into Question The Metrics Themselves

Debt To Earnings (DTE):

A metric based on the amount of debt a student incurs to attend a program in comparison to their discretionary income.



Programmatic Cohort Default Rate (pCDR):

Programmatic Cohort Default Rate measures both completers and non-completers of a program's default rate.

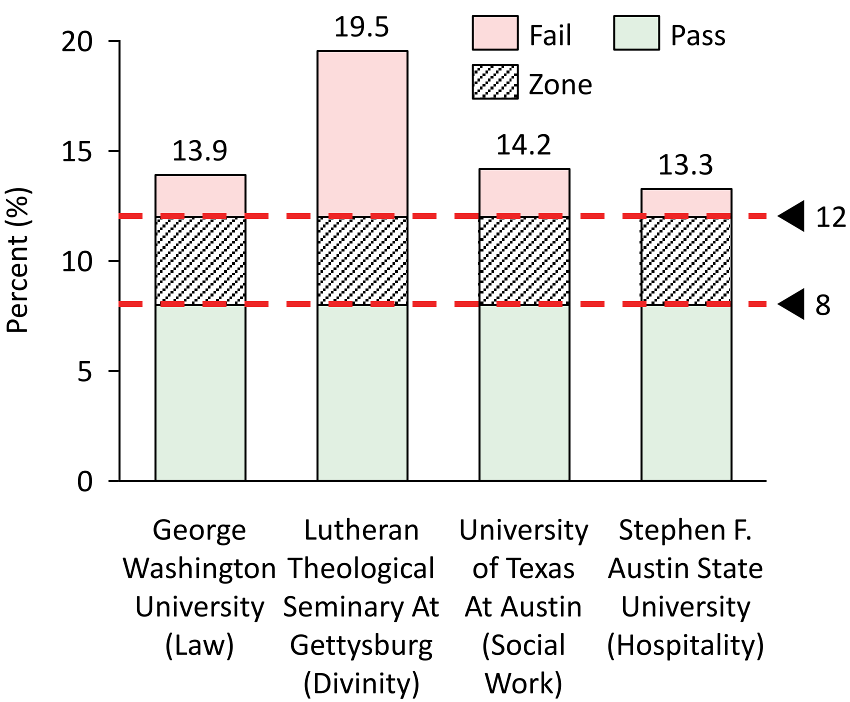
Just 94 programs (1.2% of all examined) fail both metrics

If the DTE metric does not predict default rates and vice versa, it means that they do not measure the same thing, calling into question the validity of these metrics.

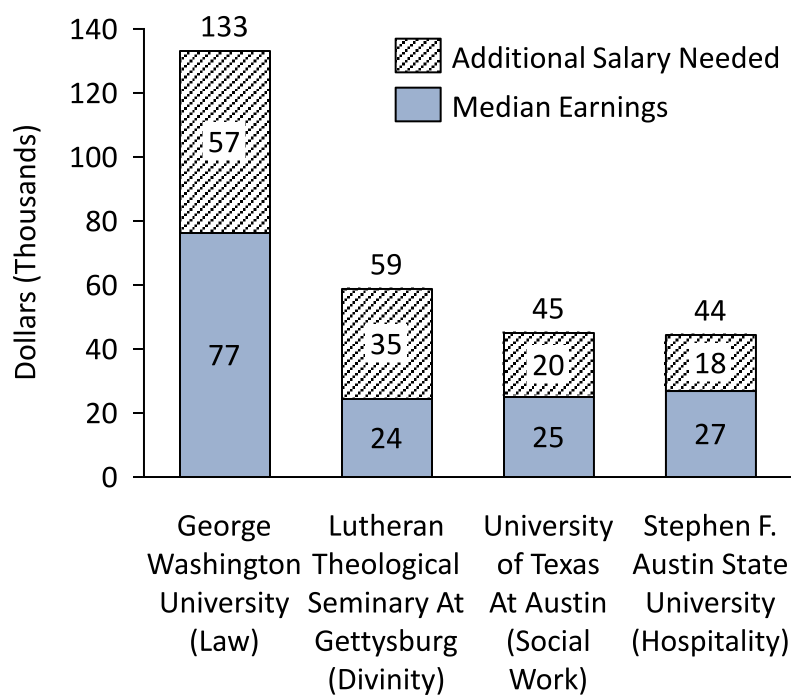
Source: Department of Education NPRM

If The Debt-To-Earnings Metric Were Applied Across All Sectors, Many Programs Would Fail

Public And Private Non-Profit Programs That Fail GE Because Their Debt-To-Earnings Ratios Are Too High



Program Median Earnings And Additional Salary Needed To Pass GE Regulation



Debt-To-Earnings:

- Programs across multiple disciplines in the public and private non-profit sectors would fail if the regulation applied to them

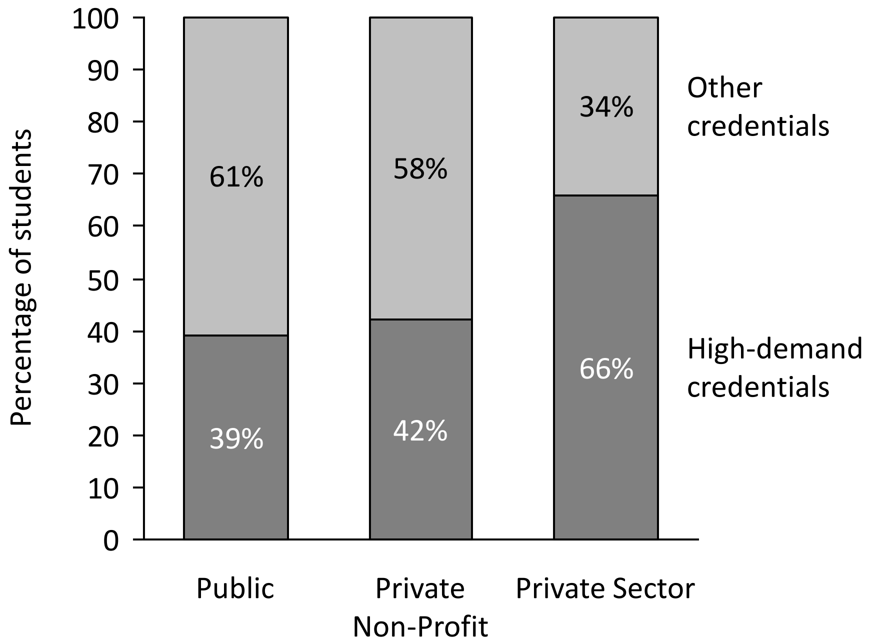
A Major Portion of Programs in Texas Public Universities Would Fail:

- Between 28 and 54 percent of programs in the Texas Public Universities system would fail

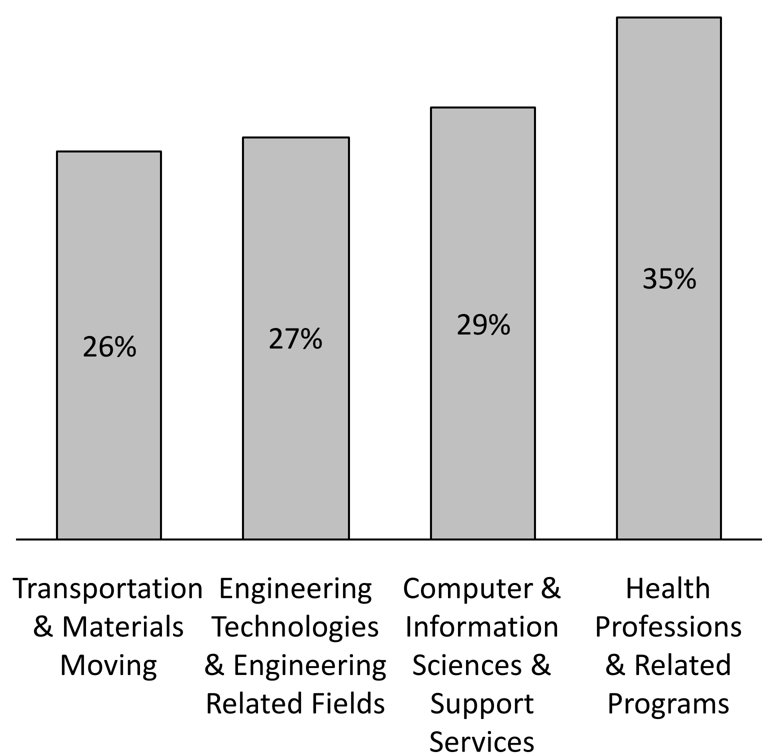
Source: APSCU Analysis of Current Population Survey and Institutional Websites; AEI

Private Sector Institutions Educate A Greater Proportion Of Students In High Demand Fields

Ratio Of Program Completions In High Demand Credentials



Percentage Of Awards Conferred In High Demand Fields By Private Sector Institutions

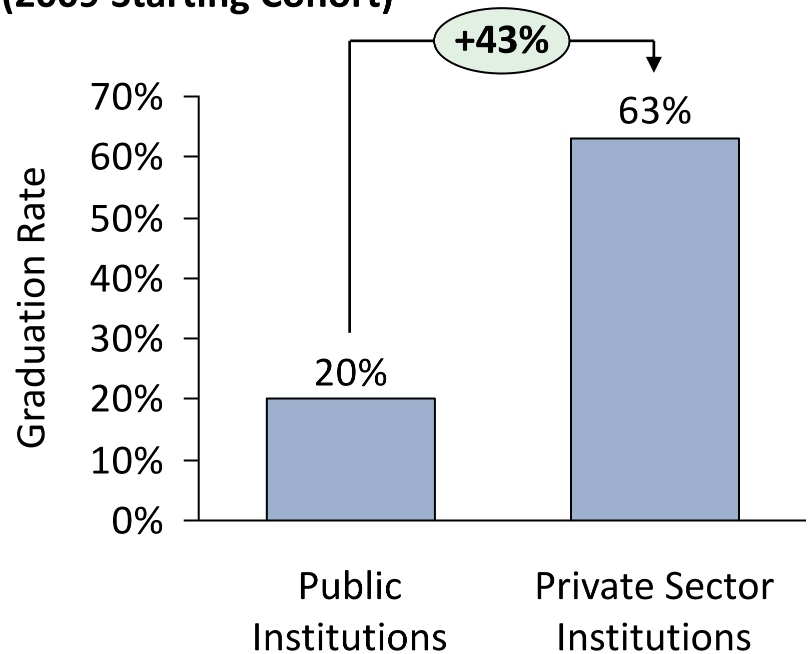


- Over 868,000 degrees and certificates were conferred by private sector institutions during the 2010-2011 school year
- This represents about 18 percent of all degrees conferred in the U.S. that year
- Private sector institutions have been more responsive to market demand than public and private non-profit institutions

Source: Department of Education, NCES, 2012 IPEDS surveys

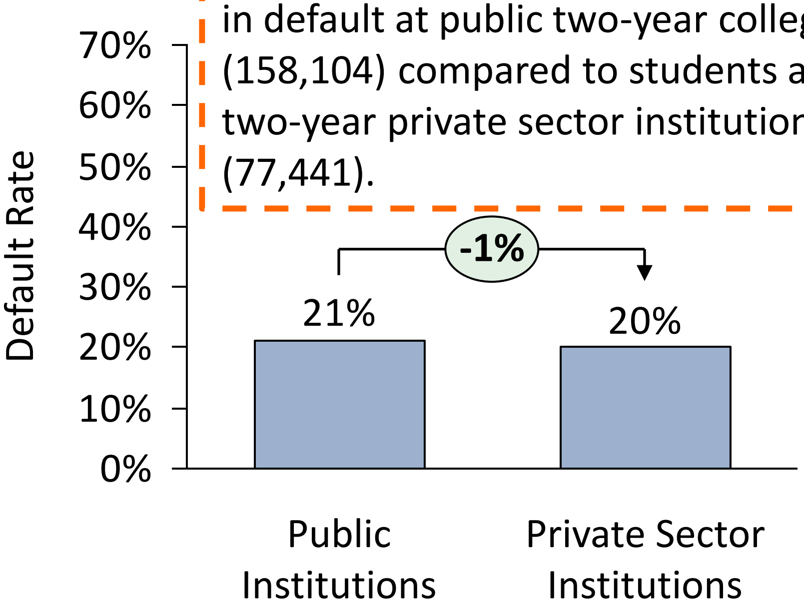
Private Sector Institutions Have Higher Graduation Rates And Lower Default Rates Than Community Colleges

Graduation Rates At Two-Year Institutions (2009 Starting Cohort)



Cohort Default Rates At Two-Year Institutions (FY 2011)

Twice the number of borrowers are in default at public two-year colleges (158,104) compared to students at two-year private sector institutions (77,441).



- Private sector institutions and community colleges serve similar student populations in terms of demographics, risk factors, and academic goals.
- The fact that gainful employment could potentially shutter programs that graduate students at rates significantly higher than the alternative, while having lower default rates, demonstrates another piece of flawed logic behind the regulation.

Source: U.S. Department of Education

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