Gainful Employment Proposal: Impacts and Consequences

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Department of Education Proposed Gainful Employment Regulation

Metrics

- Median debt level
- 8 percent debt-to-income ratio
- 25th percentile of annual earnings calculated by Bureau of Labor Statistics
- Loan repayment period of 10-years

Alternatives:

- 90 percent graduate repayment rate
- Actual earnings

What Problem are We Solving?

- ED hypothesis seems to be that programs exist that require students to assume “too much” debt relative to likely earnings, and those need to be ended by formula, rather than increased consumer disclosure

ED Proposal Based on Flawed Process

- **No Data Presented to Support Gainful Employment Rationale or Metrics**
  - Reference to public comment period—only five comments specifically about our sector out of 226
- **We Understand that Assessment May Be Based on Limited Program Population**
- **CCA FOIA request made February 2010**
  - Request denied April 7, 2010
  - Appeal filed April 15, 2010
- **Department of Education Lacks Statutory Authority to Take this Step**

CCA Commissions Study to Get at Answers about Basic Premise and "Unintended Consequences"…

- Dr. Jonathan Guryan, Associate Professor of Economics, University of Chicago Booth School of Business and
- Dr. Matthew Thompson, Vice President, Charles River Associates
- Survey of CCA Members
  - Representing Wide Range of Programs and Over 600,000 Students and over 10,000 Programs
  - Modeled ED Gainful Employment Metric to Analyze Impacts on Programs and Students

Major Findings of Study Show…

- Over 360,000 Students a Year Displaced
- At Historic Growth Rates, 5.4 Million Students Displaced through 2020
- Limits Access Opportunities for Education in Critical Professions, Including Healthcare and Information Technology
- Disproportionate Impact on Minorities and Women
- At Risk Programs Actually Generate Better Loan Repayment Results

Major Findings of Study Show…

- Number of Students Impacted First Year
  - 68,000 (29%) Black Non-Hispanic Students
  - 79,000 (35%) Hispanic Students
  - 16,000 (44%) Asian Students
  - 179,000 (25%) Women

- Expected Number Impacted by 2020
  - Black Non-Hispanic Students – Over 1 Million
  - Hispanic Students – Over 1 Million
  - Asian Students – Over 230,000
  - Female Students – Over 2 Million

ED Proposal Based on Faulty Premise

- Do Programs Generating the Highest Levels of Debt Result in Highest Levels of Default?

- No…Our Data Demonstrate the Inverse
  - Students that Enter those Programs Most Likely to Fail ED Metric have Lower Default Rates than Their Counterparts in Programs That Pass

ED Proposal Based on Faulty Premise

- Does the Proposal Impact Just a Small Number of Outlier Programs and Students?

- No…Our Data Suggest that Impact on Accessibility is Widely Felt
  - One of Every Three Students are in Programs that Fail the Test
  - News Reports Suggest Community and State Colleges Dealing with Cuts Ill-Prepared to Pick up Displaced

ED Proposal Based on Faulty Premise

- Should Such a Measure Focus on Earnings Immediately After Graduation?

- No…Economists Agree that Education is an Investment that Pays Out over Time
- Benefits of Education should be Measured in terms of the *Increase* in Earnings, not the Level of Earnings

  Benefits include:

  Reduced unemployment

  Increased access to health care and health insurance

ED Proposal Based on Faulty Premise

- Will the Proposal Impact All Students Equally?

- No…The Debt Limit Disproportionately Impacts Students with Limited Resources
  - Education is a Source of Social Mobility
  - Proposal Denies Access to Populations Otherwise Underserved by Higher Education
  - Proposal Affects Students who Need to Borrow for Higher Education

What is a better approach?

Key Elements Include:

- It should be consumer focused
  - It should be student, not program-based
  - The institution should provide additional information to ensure that students can make educated decisions about borrowing
- It should be marketplace focused
  - It should be based on employer validation
  - It should be based on licensing and certification validation

Conclusions

- Informed Consumers Not Regulatory Attempts to Pick Program Winners and Losers

  According to economists Richard H. Thaler and Cass R. Sunstein, authors of the book *Nudge*, "[private and public choice architects] are self-consciously attempting to move people in directions that will make their lives better. They nudge."

- Debt to Earnings Ratio Based on Faulty Premise and Without Research

- In Taking this Step Department of Education has Moved Beyond Its Statutory Authority

Conclusions (cont'd)

- CCA Research (Guryan-CRA) Shows inverse correlation between high debt to income ratio and repayment and widespread unintended consequences

- CCA Offers Consumer Focused, Marketplace Focused Alternative
  - Higher Education Provides the Gateway to Career
  - But Earnings Play Out Over Lifetime
  - Disclosure Plus Extends Process in Place
  - Equips Consumer while Avoiding Dramatic Unintended Consequences
  - Helps Assure Broad Access to Quality Education

Appendix A: Methodology

Determining the Impact of the Department's Proposed Gainful Employment Regulation

- CCA Commissioned Study by Jon Guryan, Ph.D., Associate Professor of Economics, University of Chicago Booth School of Business and Matthew Thompson, Ph.D., Vice President, Charles River Associates
- Data Call to CCA Member Institutions Starting March 2, 2010
- Database Developed with Records for over 640,000 Students and 10,000 Programs in over 450 Campuses in 45 states (not including AK, DC, DE, MT, ND and VT)
- Scope includes Students Pursuing Certificates and Degrees at All Levels

What is the proposed regulation?

- In order to continue to receive Title IV funds, the median debtor in a program must have a debt to expected earnings ratio of less than 8%.
- Debt is calculated as the annual payment (assuming a 6.8% interest rate and a 10-year repayment schedule) made on the median debt amount (including those with no debt) for graduates in a given program.
- Expected earnings are calculated as the weighted average of the 25th percentiles of earnings from any occupations the individual could expect to have upon graduation from a given program.
- Alternatives include 90 percent repayment and use of actual earnings instead of BLS earnings

What is Rationale for Specific Metrics?

- Why 8 percent and not 20 percent debt-to-income ratio?

  According to the report prepared for College Board by Sandy Baum and Saul Schwartz in 2006, *How Much Debt is Too Much? Defining Benchmarks for Manageable Student Debt*, "while we have not found documentary evidence to verify the origin of the 8 percent rule, it seems clear that it arose from mortgage underwriting standards….the shortcomings of the 8 percent rules as a justifiable benchmark for manageable student loan payments are apparent…" (Page 3)

  Rather, Baum and Schwartz states that: "…the payment-to-income ratio should never exceed 18 to 20 percent….Our suggestion is *not* [in original] that 20 percent of income is a reasonable debt-service ratio for typical borrowers. Rather, it is that there are virtually no circumstances under which higher debt-service ratios would be reasonable."(Page 12)

What is Rationale for Specific Metrics?

- Why 10-year and not 20-year repayment period?

The gains from education accrue over the full career and not simply in the first few years, or even 10 years, after graduation. Therefore the repayment period should conform to the full career or at least over a 20 year span.

Applying a consumption model to education, Baum and Schwartz stated that "one of the major goals of student loan programs is to allow young people to borrow in anticipation of future income." They caution that "the model does, however, suggest that evaluations of student debt levels that focus on borrowers' financial status while in school or in the first years after entry into the labor force may lead to underestimates of reasonable levels of borrowing for education." (Page 2)

What is Rationale for Specific Metrics?

- Why the median debt level?

  By using the median debt level half of the students are necessarily below that level, which is counter to the intent of targeting those students whose debt level is excessive.

  If Department of Education wants to identify the “bad actors” and reduce unintended consequences, it is more reasonable to focus on programs in which 75 percent or 90 percent of the students exceed the proscribed level of debt.

How to Estimate the 25^{th} Percentile of Earnings?

- The correspondence between CIP codes and BLS occupation codes is important
- The choice to use a weighted average of 25^{th} percentiles is important
- The estimate of earnings does not distinguish by degree level
- How to weight information from different occupations is important

Analyses based on data submitted by CCA member institutions

- Methodology:
  - Calculate the 25th percentile of earnings according to Department of Education method
  - Calculate the 25th percentile of earnings using individual CPS data
  - Calculate the median loan amounts taken by students in programs at CCA member institutions
  - Compare the median loan amounts with the maximum debt allowable under the 8% rule using the different measures of the 25th percentile of earnings

Appendix B: Study Details

Major Findings of the CCA Study: Impact on Programs – Degree Programs More Heavily Impacted

- 18 Percent of All Programs "Fail" the 8 Percent Debt Limit
- 18 Percent of Certificate Program Students Impacted

Impact more than double on students at Degree–Level Programs

- 40 Percent of Students in Two- and Four-Year Programs Impacted

Major Findings of the CCA Study: Impacted Programs have Lower CDRs

- The Cohort Default Rate for All Students is Lower for Impacted Programs (9.8%) than those Not Impacted (12.2%)
- The Cohort Default Rate for Graduates only is Lower for Impacted Programs (3.6%) than those Not Impacted (6.4%)

Major Findings of the CCA Study: Impact on Students in the Hundreds of Thousands

- 33 Percent of All Students Impacted
- 360,000 Students Would Lose Eligibility in First Year
- 5.4 Million Students between Now and 2020

Major Findings of the CCA Study: Severe Impact on Women and Minorities

- 68,000 Black Non-Hispanic Students Impacted First Year
- 79,000 Hispanic Students Impacted First Year
- 179,000 Women Impacted First Year
- By 2020, over 1 Million Students per Group (above) will be Impacted

Major Findings of the CCA Study: Impact on High Demand Occupations

- 14 Percent of Health Professional and Related Clinical Sciences Programs, including Nursing would Fail
- 19 Percent of Computer and Information Sciences and Support Services Programs would Fail
- 26 Percent of Education Programs would Fail

Major Findings of the CCA Study: Impact on High Demand Occupations

- 46 Percent of Engineering Related Technology and Technician Programs would Fail
- 32 Percent of Communications, Journalism and Related Programs would Fail
- 39 Percent of Mechanic and Repair Technology Programs would Fail

Appendix C: Disclosure Proposal

Disclosure Basics

- **HEOA Additional Information Requirements: Effective July 1, 2010**
  - The price of attendance
  - Net price calculator
  - Prices of books
  - Detailed financial aid information
  - Completion or graduation rate of certificate- or degree

Disclosure Basics (cont'd)

- **HEOA information requirements: Effective July 1, 2010**
  - Placement in employment, types of employment obtained by graduates of institutions degree and certificate programs
  - Types of graduate and professional education in which graduates of the institution's four-year degree programs enroll
  - Information published by Department of Education for students at any time that information regarding loan availability is provided
  - Detailed entrance and exit counseling for student borrowers
  - Detailed private education loan disclosures

Disclosure Plus Proposal

- Identification of one or more occupations for which the program helps the student prepare

- Annual wage and salary information reported at 25^{th} and 75^{th} percentile of the identified occupation(s) from the Department of Labor's Occupational Information Network (O*NET) or a link to O*NET with an explanation that the prospective student can find labor market and wage and salary information on that site relating to employment in various occupations

Disclosure Plus Proposal (cont'd)

- Wage and salary data for graduates from the most recently completed year for which data are available, if the institution collects such data for the purposes of this section

- Average federal student loan indebtedness of graduates of the institution with respect to attendance at that institution, on a program, degree-level, or institution-wide basis

Disclosure Plus Proposal (cont'd)

- Average institutional loan indebtedness of graduates of a program, degree-level, or institution-wide basis, if the institution provides institutional loans to its students as defined in 668.28(a)(5)(i)

Disclosure Plus Proposal (cont'd)

- Percentage of graduates who borrowed private student loans with respect to their attendance at that institution, on a program, degree-level, or institution-wide basis

- Expected annual loan repayment amounts for the average Federal and institutional student loan indebtedness, on a standard 10-year repayment plan and at least one other repayment plan

Disclosure Plus has Teeth

- **Department of Education has regulations to address misrepresentation –**

  Key elements include:
  - Misrepresentation is any false, erroneous or misleading statement a title IV eligible institution makes directly or indirectly to a students, a prospective student, or any member of the public, an accrediting agency, state agency, or the Secretary
  - A misleading statement includes any statement that has the capacity likelihood or tendency to deceive or confuse.

  If determination of misrepresentation, Secretary may revoke or limit institution's participation in Title IV program

Measures of Gainful Employment

- __Independent Employer Affirmation__ – At least once every three years, not fewer than three employers independent of the institution and each other confirm that the program's objectives, curriculum and measures for assessment of student achievement align with knowledge and skills that are used by employees in performing job duties of occupations at the employer that are related to the program. An institution with multiple locations or multiple institutions under common ownership could use the same employer verification for the same program taught at multiple campuses to avoid undue burden; or

Measures of Gainful Employment

- **<u>Licensure/Certification</u>** – The program prepares graduates to take state or professional licensure or certification examinations required or preferred for employment in the field. To the extent that the licensure or certification authority has a required pass rate, the institution would be required to be in compliance with those requirements.

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