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Bad Public Policy: The Gainful Employment Regulation

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

The regulation may penalize institutions that have a positive economic impact on students and it disproportionately affects students who have been historically underserved by traditional higher education.

Claim– The gainful employment 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.

The Department's Metrics Are Highly Negatively Correlated, Calling Into Question The Metrics Themselves

451 fail the Debt-To-Earnings (DTE) metric

943 fail the programmatic Cohort Default Rate metric

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

If the DTE metric does not predict default rates and vice versa, it calls into question the validity of these metrics in defining good programs and bad programs.

The Regulation Would Eliminate 22% Of Private Sector Programs And Deny Access To Higher Education To 7.5 Million Students

The Department fails to account for demographics:

- Where you start out in life has an impact on your lifetime earning potential. The gainful employment regulation fails to take this into account.
- Its common sense – poorer students have to borrow more to invest in their education.
- The gainful employment regulation would cut off opportunity for millions of students.

The Department fails to account for economics:

- Measuring earnings from the first few years after program completion is myopic and tells an incomplete story.
- The gainful employment regulation fails to look at the macroeconomic picture.
- By the Department of Education's own admission it would eliminate programs that have a net positive benefit for students.

Source: Department of Education NPRM

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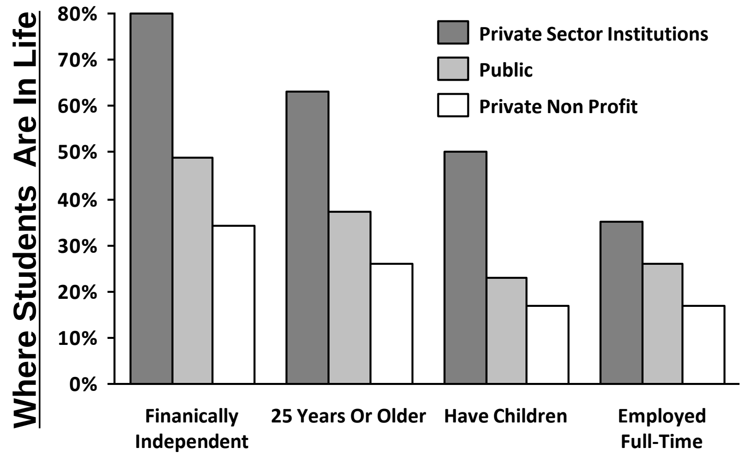
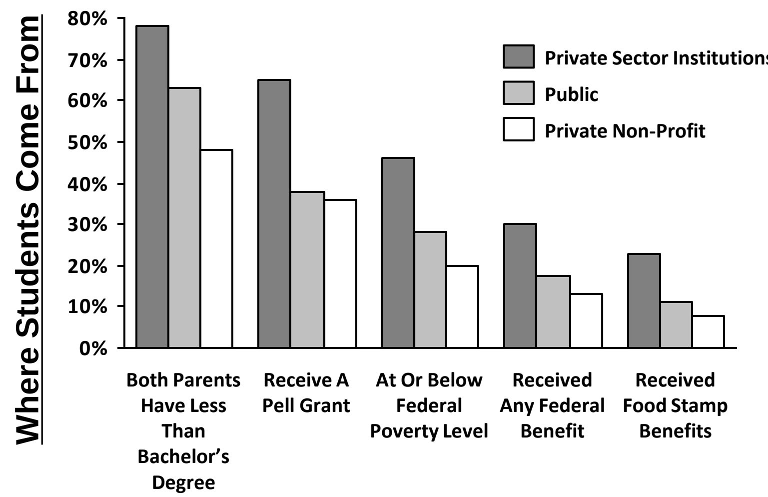
Life Circumstances Have An Impact on Economic Outcomes; The Regulation Fails To Take This Into Account

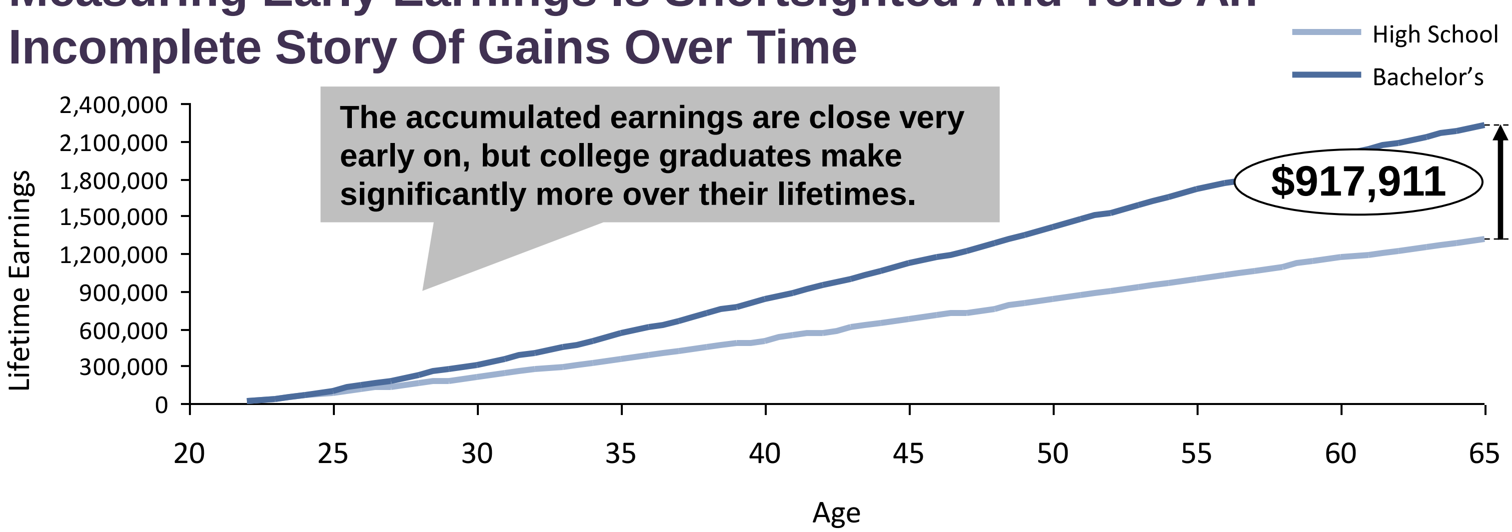
The regulation does not account for the simple fact that the students who attend private sector institutions have different backgrounds and life experiences on average than their peers who are at other institutions.

- **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.
- **Non-Academic Responsibilities –** If a student has a family of their own, they will need to borrow money to invest in their education.





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



- **Earnings grow over time and growth is steepest in the early stages of a career.**
- **Research shows that for each year of schooling the average student earns an increase 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. Department of Education, National Center for Education Statistics, 2011-12 National Postsecondary Student Aid Study; and, Beginning Postsecondary Students: 2004–2009; Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement.

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Spring 2014

Executive Summary

The gainful employment regulation does not achieve its claimed purpose of identifying programs that fail students, and may actually harm the very students it is intended to help. The regulation may penalize institutions that have a positive economic impact on students and it disproportionately affect students who have been historically underserved by traditional higher education. An analysis and public comment by Northwestern University economist Dr. Jonathan Guryan and Dr. Matthew Thompson of Charles River Associates addresses these issues in detail. This is a brief summary of those findings.

The Department's flawed economic arguments:

- **Measuring early earnings is myopic and tells an incomplete story.** The regulation looks only at the first few years of earnings. This approach fails to take into account lifetime earnings or the overall economic landscape.
- **The regulation fails to look at the macroeconomic picture.** 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 inevitably be hurting the very people they are trying to help.
- **By the Department's own admission it would eliminate programs that have a net positive benefit for students.** Eliminating programs that have a positive economic impact on students' long-term earning potential is poor regulation.
- **The Department's metrics are highly negatively correlated.** If the DTE metric does not predict default rates and vice versa, it calls into question the validity of these metrics in discerning good programs from bad programs.

The Department's flawed demographic arguments:

- **Where you start out in life has an impact on your lifetime earning potential. The regulation fails to take this into account.** Traditional institutions are not educating new traditional students with high-risk backgrounds. Without private sector institutions, these students would not be receiving higher education. In addition, private sector institutions are educating these students for in-demand skills.
- **Its common sense – poorer students have to borrow more to invest in their education.** The regulation is stacked against students who need to borrow more – the exact students who private sector institutions are educating.
- **The regulation would cut off education opportunity for millions of students.** Proponents are making the case that these students would be better off without education, when in reality cutting off education means cutting off opportunity. Not only would this hurt students and employers seeking job-ready graduates, but it is also contrary to the President's own goal of increasing the number of college graduates.

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

Goal

The Gainful Employment regulation's claimed purpose is to ensure that students get an education that brings them a measurable economic benefit without untenable debt.

Reality

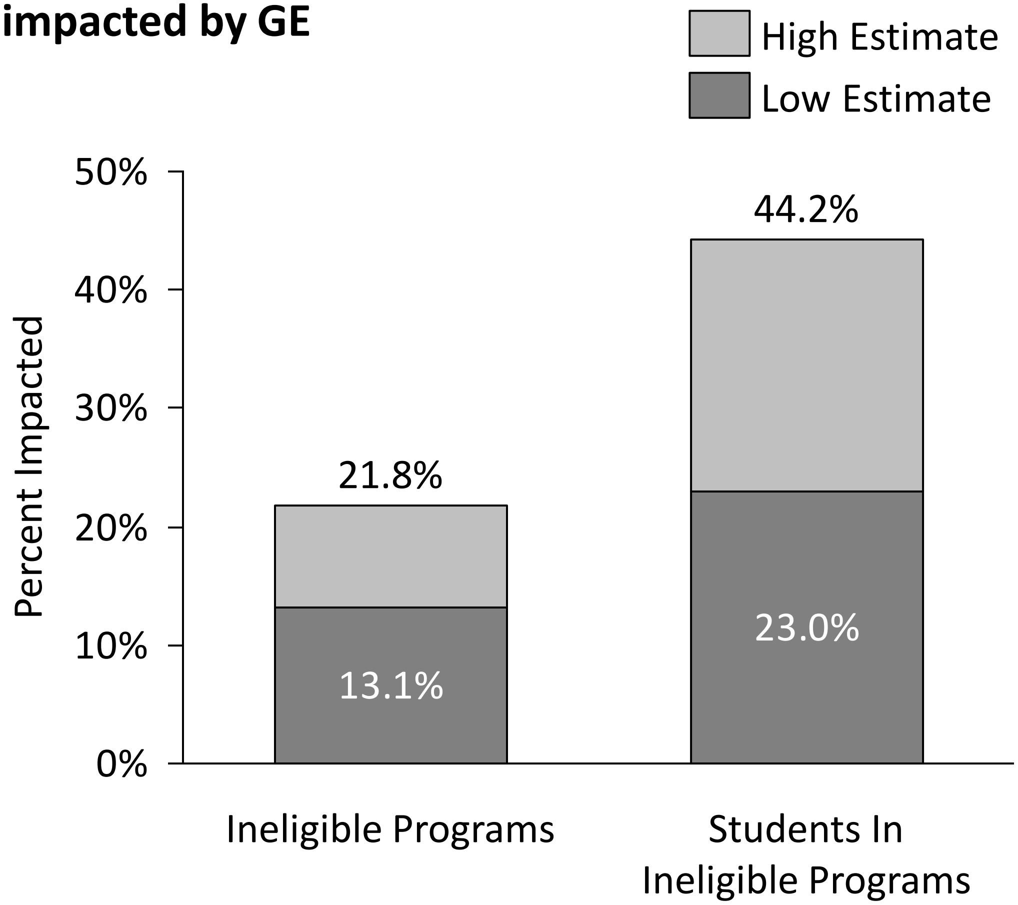
In reality the Gainful Employment regulation will deny millions of students access to programs that have a net economic benefit, and disproportionately impact students of color, women and the economically disadvantaged.

The Regulation Would Close Programs And Force Millions Of Students To Lose Access

The gainful employment regulation will have an enormous impact on private sector programs

Potentially 21.8% of programs could fail, which would cause 44.2% of private sector students to lose access to postsecondary education

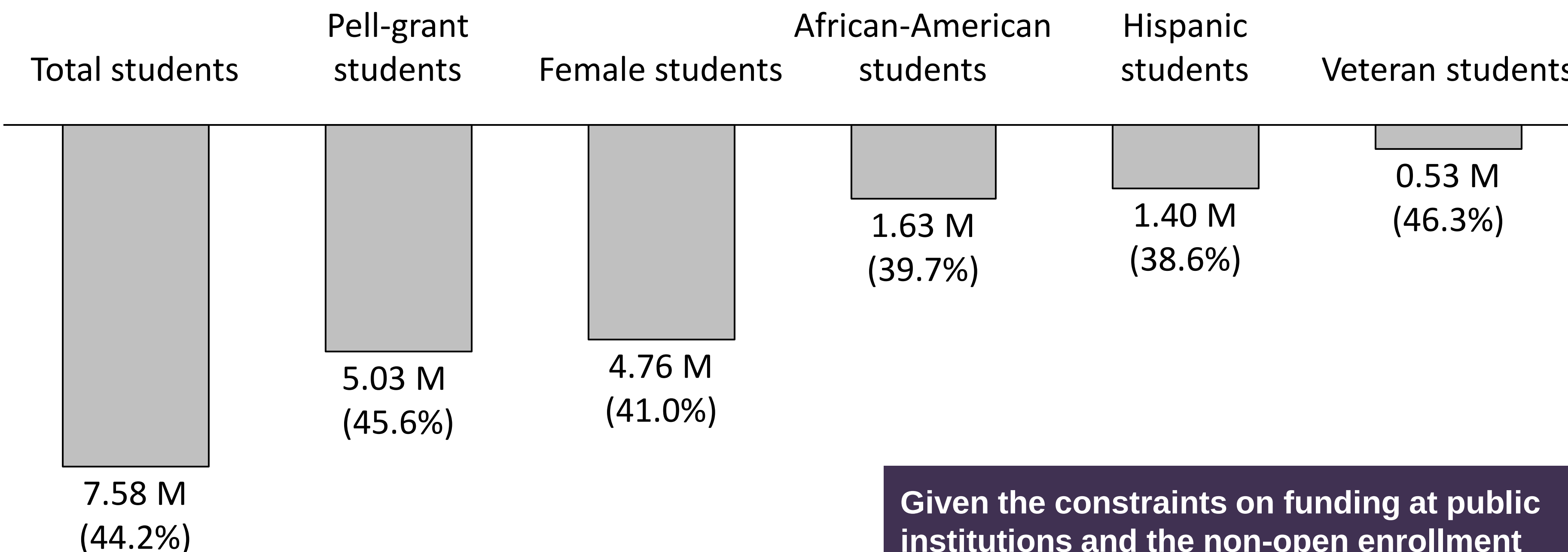
Estimates of the percent of students and programs impacted by GE



Source: Charles River Associates, Impact Analysis

The Regulation Would Cut Off Educational Opportunity For Millions Of Students

Number of students impacted by GE (2014 – 2024)



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

* Percentages represent the proportion of each demographic that would be affected

Source: Charles River Associates, Impact Analysis

Higher Education Has A Positive Impact On Earnings, Which Is Why People Choose Education

Jane is a 22 year old high school graduate making $1,400 a month. She has two choices: get a credential or maintain the status quo.

Jane Gets a Credential	
Monthly Earning:	$2,000 a month
Monthly Debt:	$250 a month
Monthly Net Income:	$1,750 a month

Jane Does Not Pursue Higher Education	
Monthly Earning:	$1,400 a month
Monthly Debt:	$0 a month
Monthly Net Income:	$1,400 a month

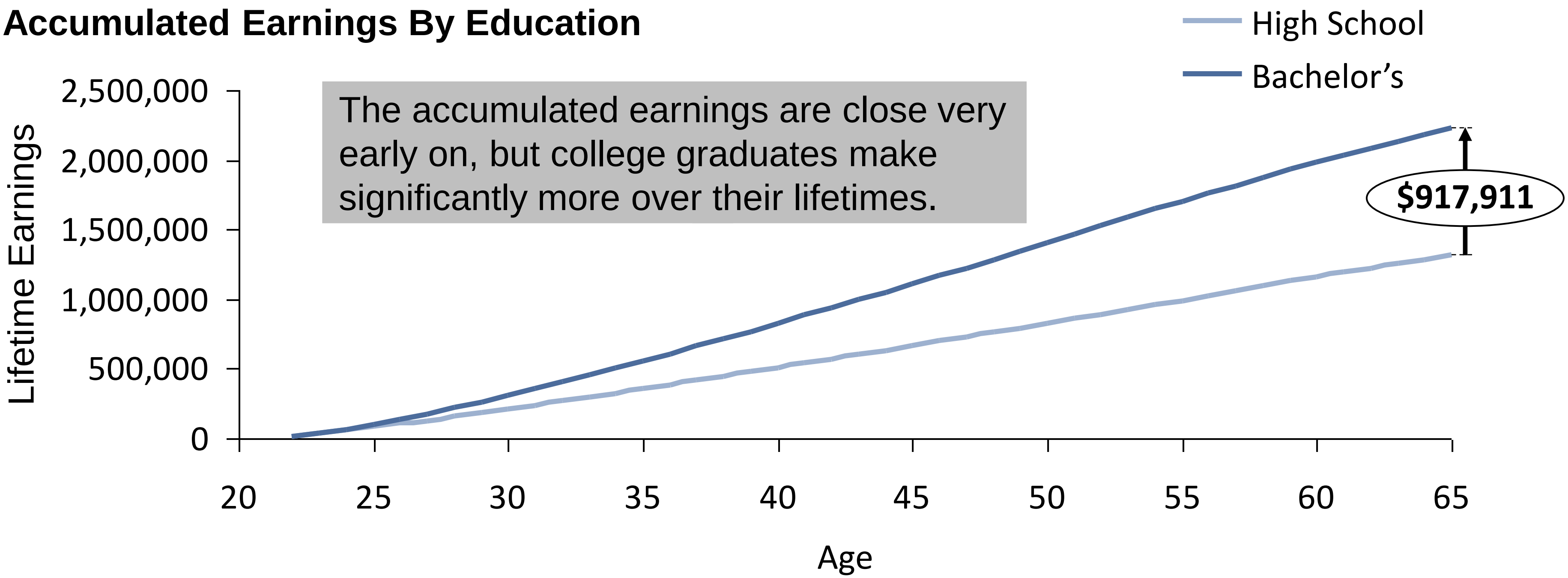
$350 more in monthly take home pay

Jane's immediate net monthly income is $350 higher after going to school, but the gainful employment regulation would fail her program due to her debt to earnings ratio. The regulation should judge programs based on change in overall well-being rather than a static measure of income.

Source: Department of Education GE Informational Rates, averages for a failing (DTE > 0.08) 4-year proprietary program

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

Accumulated Earnings By Education



- **Earnings grow over time and growth is steepest in the early stages of a career.**
- **Research shows that for each year of schooling the average student earns an increase between 7 and 15 percent.**
- **People choose to invest in education because it gives them the greatest likelihood of future economic success.**

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

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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

Failing GE		Passing GE	
Annual Loan Payment	$3,000	Annual Loan Payment:	$2,000
Earnings after graduation:	$23,000	Earnings after graduation:	$26,000
Earnings w/o attending school:	$17,000	Earnings w/o attending school:	$25,000
Net Benefit:	**$3,000**	**Net Benefit:**	**-$1,000**

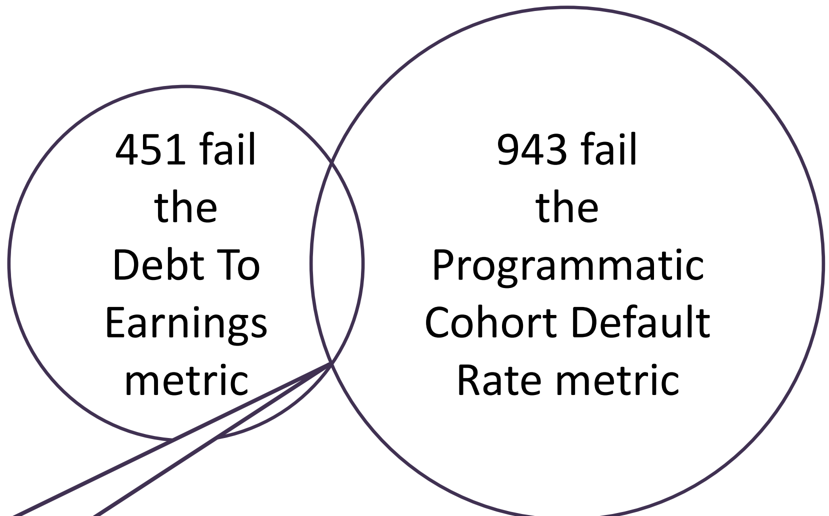
Eliminating programs that produce both a short-term and lifetime net benefit to students is directly counter to the regulations stated goal

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

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 calls into question the validity of these metrics in defining good programs and bad programs.

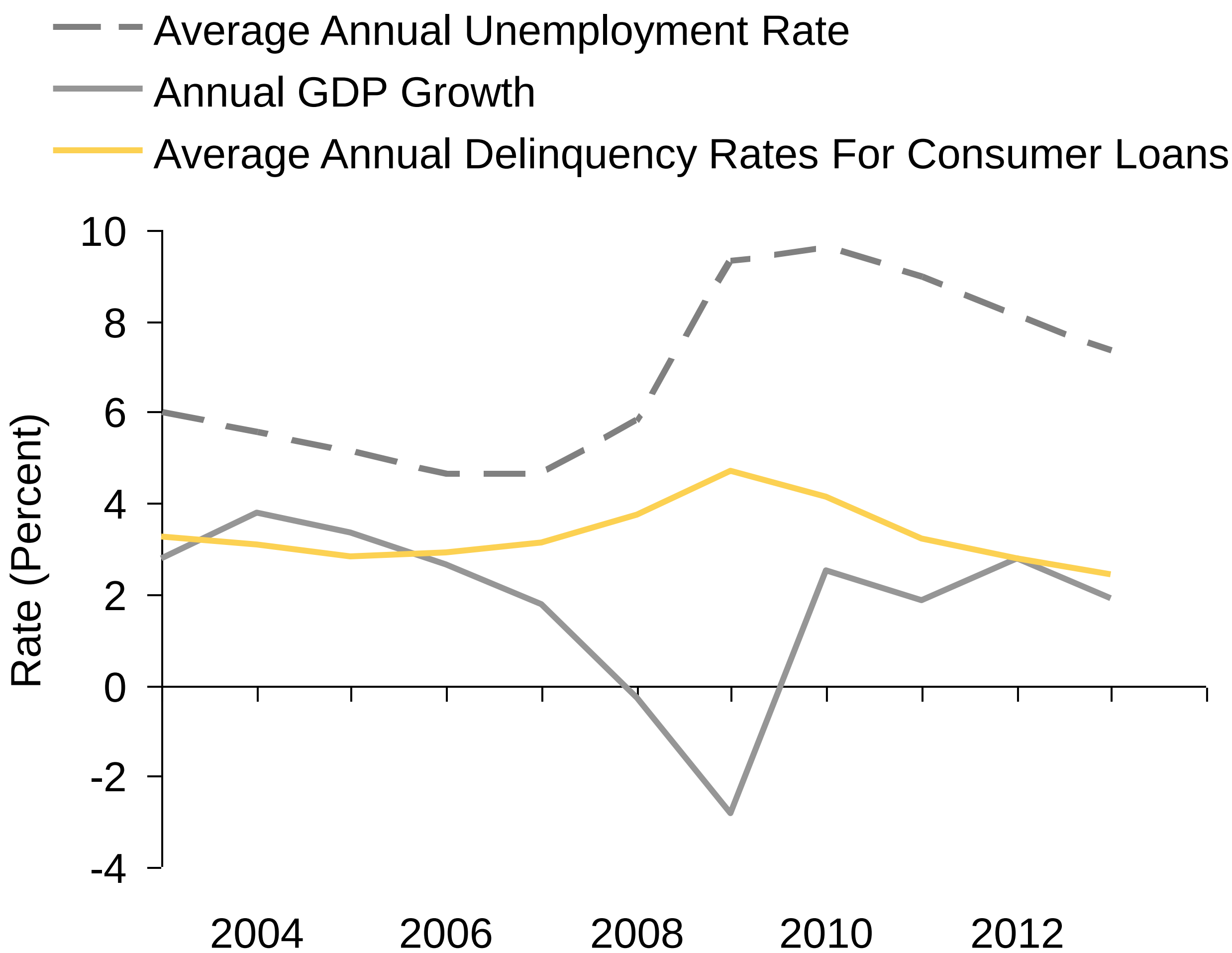
Source: Department of Education NPRM

The Regulation Fails To Take Into Account Macroeconomic Impacts

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.

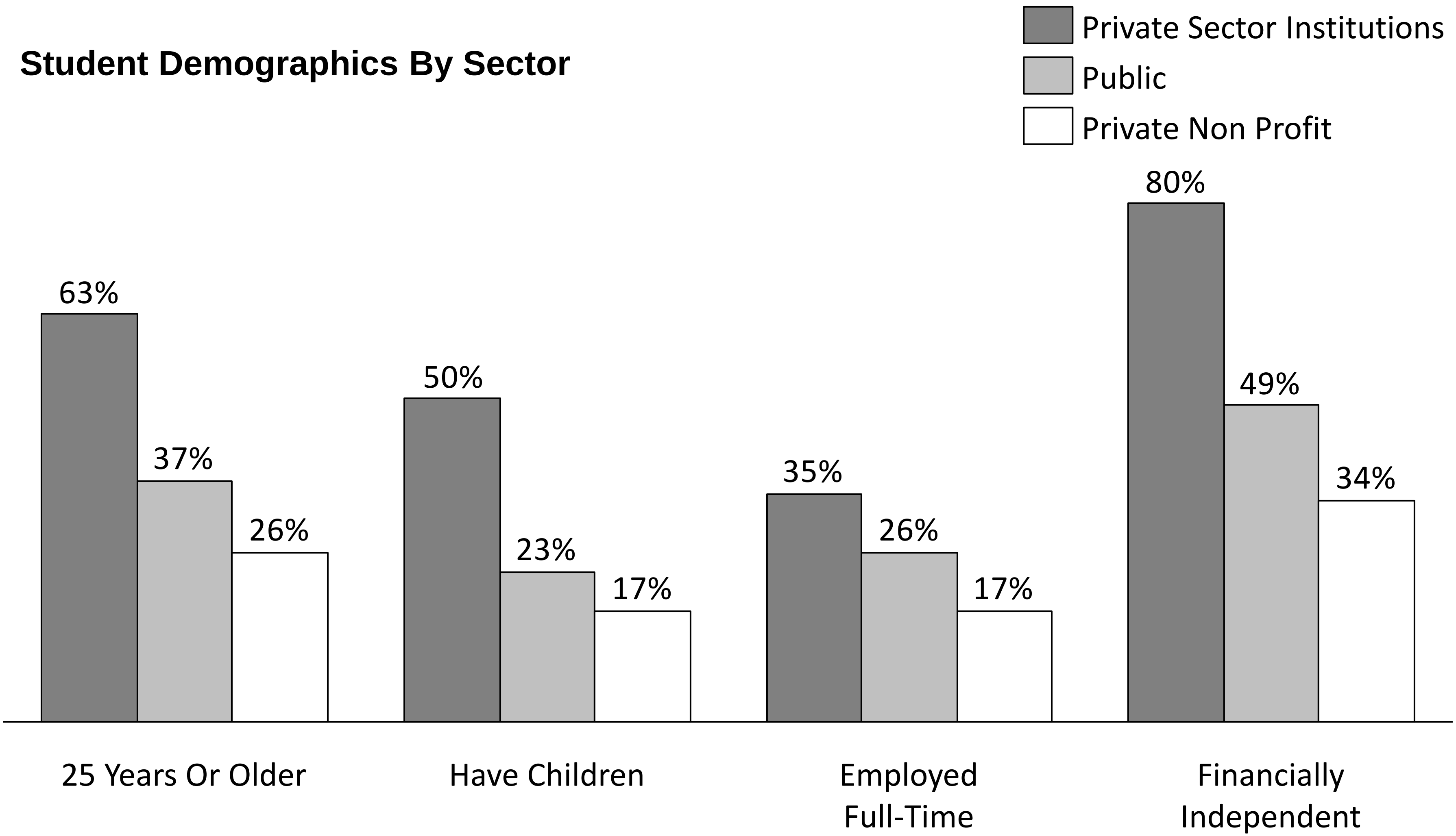
By not taking a broader look at the entire picture, the department will be hurting the very people they are trying to help.

Economic Indicators And Delinquencies



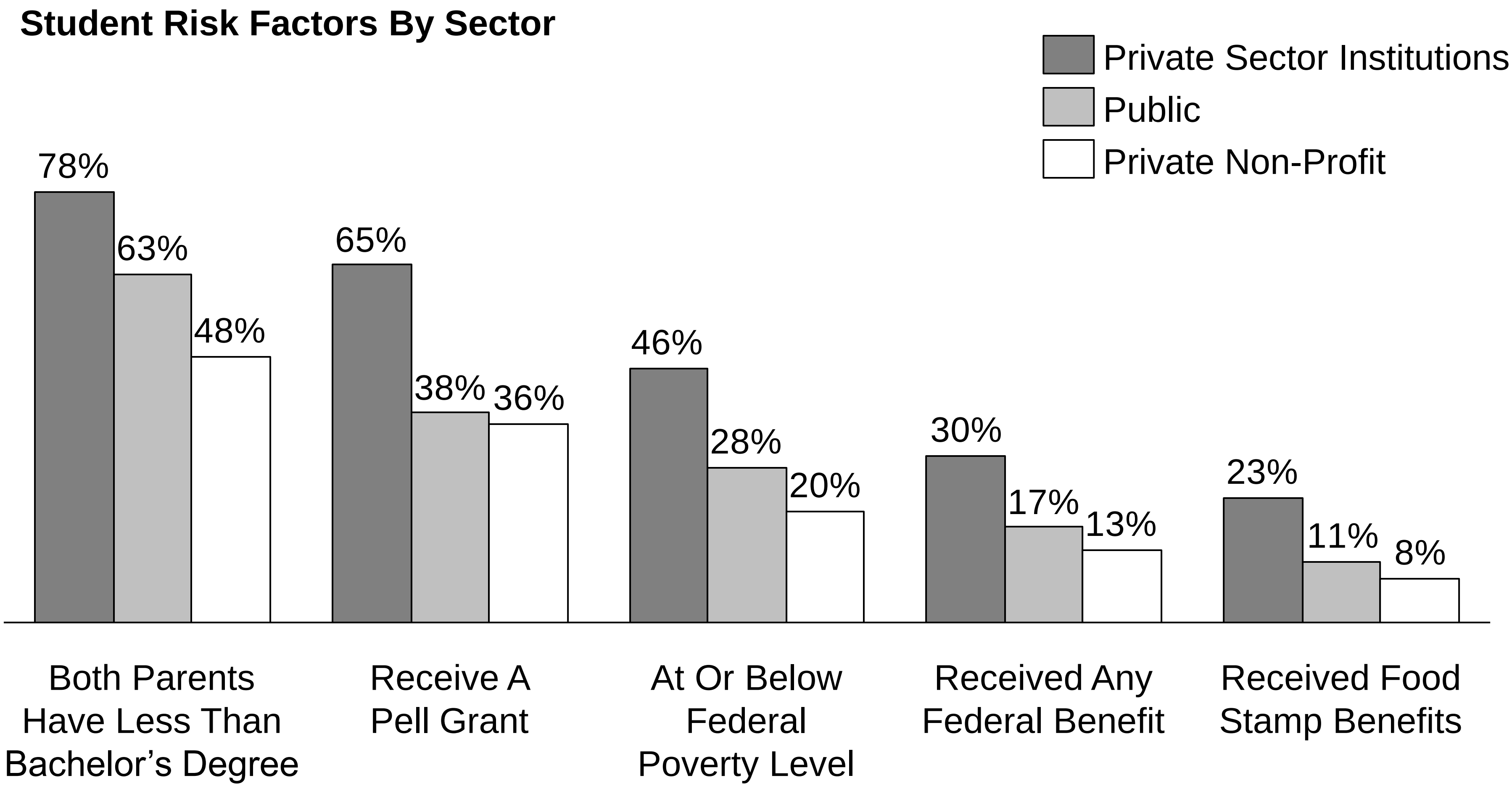
Source: BLS, World Bank, St Louis Federal Reserve

Private Sector Students Are At A Different Place In Life Than Their Public And Non-Profit Peers



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

Private Sector Institutions Educate An Entirely Different Demographic Than Other Institutions



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

It's Common Sense – Poorer Students Have To Borrow More To Invest In Their Education

Because the regulation is based on borrowing, it will disproportionately impact those who need to borrow, often those with high-risk backgrounds.

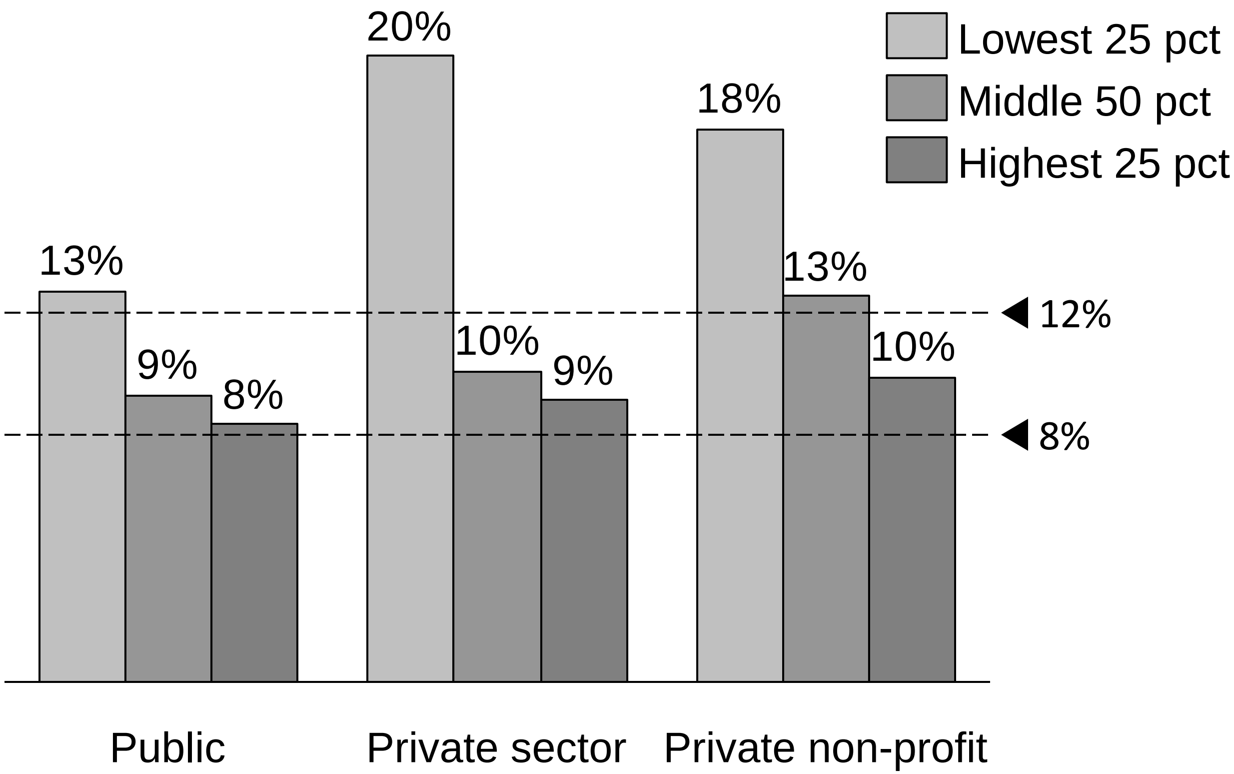
Because these students are not being served by traditional institutions, the concentration of these students will lead to program failure.

Factors in borrowing need

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.
Non-Academic Responsibilities	• If a student has a family of their own, they will need to borrow money to invest in their education.

The Regulation Would Incentivize All Institutions To Limit Access To Low-income Students

Average debt-to-income one year after graduation by income percentile at time of enrollment



Across sectors, independent students who start out with the lowest income have the highest debt-to-income ratios after graduation

Source: US Department of Education, National Center for Educational Statistics 2008/2009 Baccalaureate and Beyond Longitudinal Study; Average monthly loan payment as a percentage of monthly income among bachelor's degree recipients who borrowed for their undergraduate education, and were repaying their loans 1 year after graduation. Independents income percentile at time of enrollment (2006.)

Questions The Department Of Education Has Failed To Address:

- ***Question**: Why is the Department not measuring earnings gain and lifetime earnings, but instead arbitrarily focused on early year earnings?*
- ***Question**: Why does the Department refuse to use metrics that adjust for student circumstances and calculate the net benefit of postsecondary credentials?*
- ***Question**: How does the Department propose to serve the traditionally underserved students who lose access?*
- ***Question**: To fill the gap created by the regulation, does the Administration plan on spending the billions of dollars necessary for students to attend public institutions at their current subsidized tuition rates?*
- ***Question**: Does the Department think that the 7.5 million people who will be denied access to postsecondary education by the regulation will be better off in life by not getting a degree or certificate?*