Are You Getting What You Pay For?
A New Proposal for Accountability in Higher Education
The benefits of getting a college degree are clear—a better job, better pay, more financial security and economic mobility. Knowing this, the federal government spends $122.4 billion in grants and loans each year helping students access college and supporting institutions of higher learning across the country. On both sides of the aisle, this is viewed as a valuable investment. And without this funding, many colleges would have to close their doors and the vast majority of students would have to stop their education at high school because they could not afford to get a postsecondary degree or credential.

Unfortunately, much of the money that the federal government spends on higher education is either wasted or doesn’t live up to its transformative promise, and Congress is sending billions of dollars to institutions of all sorts that leave students mired in debt or with no credential to show for their work. America still has too many potential students who do not enroll in college, but the real crisis in American higher education is a quality and completion crisis. Just 60 percent of students who start college actually finish. Each year, one million former students default on the debts they took on to pay for college. Nationally, just 46 percent of students owe less on their loans three years into repayment than when they left postsecondary education.

As Congress works to reauthorize the Higher Education Act, we have a unique and timely opportunity to set the expectation that federal spending on higher education will yield more return on investment for both students and taxpayers. This important shift to address student outcomes should be approached with caution and balance, but Congress must be bold. At this moment in time when a postsecondary degree or credential has become a necessity for economic success in our country we cannot afford to keep wasting so much public funding on colleges and programs that simply don’t work for students.

Fixing our outcomes crisis in higher education requires creating new incentives and goals for institutions to do the things that are more likely to lead to long-term success for their students at every institution that receives financial aid. This starts with creating baseline consumer protections that ensure colleges will not and cannot take advantage of their students through practices like aggressive marketing and recruitment, overpriced programs, or flat-out lies. That is why Senators Hassan and Durbin’s PROTECT Students Act, which strengthens the 90/10 rule, bans predatory practices such as mandatory arbitration, and holds career training programs accountable for equipping their graduates to get gainful employment is a critical starting point.

In addition, the federal government must ensure students and taxpayers get a return on their investment by setting minimum expectations for completion, value, and access. Used together in a balanced way these components can help identify which federally-funded institutions are in need of support or sanction to ensure that they are focused on student success.

Colleges need to get more students through to graduation. It’s one of our best insulators against loan default, delinquency, and other forms of economic distress. Non-completers are three times as likely to default on their loans, even though they often have less than $10,000 in debt.
Graduates, by contrast, are at least 20 percentage points more likely to pay down their loans at every point in time after repayment than non-graduates.\textsuperscript{vi}

The federal government should also ensure that students get value for their investments at federally-funded institutions. An education is a bad deal if it consistently costs too much to attend, leaves graduates in jobs that won’t pay the bills, or burdens students with debt they cannot afford. If a student goes into debt for a degree that provides no significant improvement in employment opportunities then that student will be more likely to default and end up worse off for their effort.\textsuperscript{vii}

Finally, there must be a counter-weight to ensure that institutions do not appear to improve outcomes when in reality they have simply further restricted access. Our system must continue to ensure institutions offer meaningful access to all types of students, particularly those who come from lower-income backgrounds or who are otherwise traditionally underrepresented in higher education. In 2016, students in the highest-income bracket had a college graduation rate that was four times higher than those in the lowest-income bracket,\textsuperscript{viii} and most colleges across the country graduated less than half of the Pell students they enrolled.\textsuperscript{ix} This is not in our economic or moral interest and must be addressed. A new Higher Education Act should commit to supporting and incentivizing the enrollment and success of low-income students, which could be addressed through codifying the ASPIRE Act, introduced by Senators Coons.

Of course, the federal government must also recognize that the higher education sector is diverse and schools struggle with completion and value for different reasons. While it is crucial to know if institutions are generally setting their students up for success, and act to ensure that federal dollars flow only to schools that do, federal policy must also differentiate between schools that can’t invest more in their students and those that could but won’t. Disturbingly, many federally-funded schools spend most of their tuition dollars on things other than student instruction and services, with some schools spending under a quarter of the tuition students pay on actually teaching them.\textsuperscript{x} Meanwhile, other colleges are spending every penny available on teaching and serving students, yet struggle because they are under-resourced and serving predominantly low-income students who can’t afford to pay more.

Institutions make choices every day, and those decisions make a huge difference when it comes to whether students access and complete higher education. During a hearing on federal accountability policy, Dr. Adam Looney testified that, “poor student outcomes are caused by low-quality institutions and programs. While disadvantaged students are concentrated in programs with poor outcomes, the research is clear on the direction of causality. The problem is the schools, not the students. Not all institutions lead to success.”\textsuperscript{xii} Federal policy must change that dynamic at every single school that receives federal financial aid.

Every federally-funded school should be expected to provide students and taxpayers a return on their investment and leave students better off for having enrolled. While it is not realistic to expect a 100% success rate, federal policy can certainly set floors that would reasonably
incentivize student success. To advance the goal of a balanced, moderate move towards federal policy that expects a return on investment, following is an outline of what this new system could look like:

**Commit to Consumer Protection Safeguards**

Crafting a stronger set of incentives for colleges and universities must begin with strengthening baseline consumer protections. Doing so will tackle the most predatory institutions whose behavior is so egregious that federal policy cannot even begin to consider questions of completion and value. Recent history has shown that most, but not all, of these predatory institutions are private for-profit colleges. For-profit institutions intrinsically lack the built-in oversight mechanisms that public and non-profit colleges have, like a governance system that does not have a financial stake in their actions. And while for-profit colleges serve around 10% of students, they account for 34% of all federal student loan defaults, making these schools an extremely risky investment for both students and taxpayers. In this *Higher Education Act*, we need to acknowledge that predatory schools that consistently make choices on behalf of investors and not students need to have heightened oversight.

We should do this by:

- Maintaining the only current bottom line on negative student outcomes in existing law, the Cohort Default Rate, but strengthening this measure to address loopholes that schools are exploiting to push students into forbearance and deferment so they are not counted in that school’s cohort default rate calculation. We know that default is one of the worst, life-damaging situations in which a school can leave its students—subjecting students to bad credit, the inability to take on future debt, like a home mortgage or car loan, and wage and tax garnishment and we must strengthen this basic consumer safeguard to ensure that students are not taking out loans to attend an institution that leaves large portions of its paying customers in default.

- Codifying the *PROTECT Students Act*, introduced by Senators Durbin and Hassan, to ensure students and taxpayers are not scammed by predatory colleges.

**Implement a New Accountability Framework Based on Student Success Outcomes**

Simply ensuring most students don’t default on their loans is necessary, but not sufficient. We must also hold institutions accountable for providing and pricing education in a way that provides a reasonable return on student and taxpayer investment at all institutions that receive federal financial aid.
Step 1: Set Clear Bottom Lines.

The Secretary must identify schools that fail either of the following metrics:

- **Metric 1 – Completion:** Degree-granting institutions with average graduation or transfer rates below 20% for two out of three consecutive years or certificate-granting institutions with average completion rates of below 67%. This rate should be measured at two years for certificate-granting institutions, four years for institutions that predominantly award associate’s degrees, and six years for schools that predominantly award bachelor degrees.

- **Metric 2 – Value:** It is critical to determine whether a school is providing a return on investment to students and taxpayers that is commensurate with the price of attendance. This measure could take a variety of forms, including a debt-to-earnings ratio, a price-to-earnings metric, or a strong repayment rate that measures not just whether students default but whether they can actually repay their loans. Holding schools accountable for the percentage of students who are able to pay down at least $1 in their loan principal five years after leaving school would ensure that schools cannot escape responsibility simply by pushing their students into government programs that are intended to protect borrowers, like income-driven repayment systems. Instead, taxpayers should know whether the school is setting students up to actually repay their federally-funded loans.

The Secretary shall notify any school of a failure to achieve either of the metrics and require it to complete a plan to address the metric(s) it failed, as detailed below.

Step 2: Take into Account Institutional Choices.

Federal policy should recognize that schools may not meet the benchmarks outlined above for different reasons. Some may come up short because they simply do not have enough resources to adequately meet the needs of the students they enroll. Others, meanwhile, may make conscious choices to insufficiently invest in teaching, learning, and student success that are yielding poor outcomes.

Sanctions or supports in this federal system should be differentiated based upon the distinction between those that are making significant investments in their students and those that could, but chose not to do so.

The Secretary of Education would carry out this analysis by comparing an institution’s tuition per full-time equivalent student (FTE) to its spending on instruction per FTE, based on existing reporting to IPEDS and audited financial statements. This ratio would be calculated for all institutions that fail the metrics outlined above. Over time this screen could be adjusted to capture other student support services beyond instruction that are designed to help students
graduate (currently, those services are not distinguished from spending in federal data system from metrics that in no way helps students succeed, such as marketing and recruitment).

The spending screen also provides a way to acknowledge the complex interplay of demographics in an accountability system. While demographics are by no means destiny, we also cannot be completely blind to the interactions of who an institution enrolls and the results it achieves. Examining financial priorities provides a middle ground solution. Instead of complex adjustments based on student demographics that have questionable equity implications, it asks whether a school is reasonably invested in helping those it enrolled. Institutions that do not demonstrate strong financial values get a tighter leash, while those that do are given more opportunities and help to improve. This approach also ensures institutions face no disincentives to turn away access for students who might be less likely to succeed as long as it exhibits the right financial priorities.

Institutions that come up short on the outcomes metrics would be placed into two groups:

1) Those that spend less than one-third of every tuition dollar on student instruction.

2) Those that spend one-third or more of every tuition dollar on student instruction.

Apply consequences based upon the spending threshold

Institutions that come up short on student outcomes would face different consequences based upon how much of their resources they devote to student success.

Schools that spend less than one-third of every tuition dollar on instruction

These institutions should face greater consequences because they have chosen not to invest in student success. Consequences for these schools include:

- The school’s failing outcomes will be listed prominently on FAFSA forms and the College Scorecard, and the U.S. Department of Education (the Department) will publish a list annually of the schools that are under sanction for failing to provide value to students.

- The school must put a prominent warning on their website and application materials alerting all applicants for financial aid of its status as a sanctioned institution and of its poor student outcomes.

- Institutions that do not meet the benchmark on the same measure of completion or value they initially failed twice in a three-year period lose access to federal financial aid.

Schools that spend one-third or more of every tuition dollar on instruction
Institutions in this group have demonstrated a financial commitment to student success but still may be struggling with student outcomes. While these institutions must improve, they should be given more assistance and opportunity to do so. Consequences for these institutions include:

- The school is required to do an analysis of why it is failing either of these metrics, which includes quantitative exploration of which students did not succeed and what decisions or supports at the institutional level would result in improved success outcomes. This evaluation may include examination of: available student support services, local job markets, programmatic reviews of majors and coursework offered, academic and career counseling, programs to address basic needs like food insecurity and homelessness, programs to support non-traditional students, access to remedial coursework, academic tutoring, mental health services, changes to athletic program that might free up funding for student support services, and other factors.

- Each institution will be required to submit this evaluation to the Department and its accreditors. It must then submit an improvement plan on how it plans to address these failures including specific action steps to improve outcomes for all students, especially low-income students, first-generation students, and students of color. This plan must be approved by the Department and the school’s accreditor, as well as its state for public colleges and universities.

- Institutions that do not achieve the goals outlined in their improvement plan within five years must undertake a significant governance change as approved by the Department, their accreditor and the state. If they continue to fail to achieve their goals for another three years they would lose access to Title IV federal grants and loans.

- Public or private nonprofit institutions in this group would receive additional financial support from a new federal grant program to help implement improvement plans and increase student outcomes.

**Preserve Access**

We must not allow schools to use bias against low-income students to limit access in pursuit of improved student outcomes. Schools must maintain at least the same proportion of Pell students they have in the year this law is passed or be subject to a bias sanction.

**Access:** As measured by a three-year rolling average, schools whose Pell enrollment declines significantly shall be required to:

- Pay a fine based on full-time equivalent students and lose access to federal campus-based aid programs such as Federal Work Study and Supplemental Education Opportunity Grants.
Similar to Senator Schatz’s College Equity Act, complete a review to identify the institution’s policies that contributed to the reduction in access and draft an improvement plan that describes specific activities to grow Pell students’ enrollment. This improvement plan must be approved by the Department, the accreditor, and the states if it is a public college or university.

- If a school does not achieve or exceed its original Pell enrollment within five years, the fine will double every two years until the school achieves or exceeds its original Pell enrollment.

**Improved Technical Assistance and Best Practice Sharing**

- Accrediting agencies and the Department shall provide ongoing feedback and technical assistance to help all such institutions address the findings from these internal reviews and share best practices with other institutions, including through the expansion of the federal clearinghouse of best practices for colleges to increase college completion rates, particularly for low-income students, first-generation students, and students of color.
Endnotes


