



# ACCOUNTABILITY IN HIGHER EDUCATION

FOR-PROFIT COLLEGES AND BEYOND

OPPORTUNITY AMERICA WORKING  
GROUP ON FOR-PROFIT COLLEGES

DECEMBER 2021





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## ABOUT THE ORGANIZATION

Opportunity America is a Washington-based nonprofit promoting economic mobility—work, skills, careers, ownership and entrepreneurship for poor and working Americans. The organization’s principal activities are research, policy development, dissemination of policy ideas and working to build consensus around policy proposals.

## ACKNOWLEDGMENTS

Members of the Opportunity America working group on for-profit colleges gave generously of their time and insight to produce this paper. We met intermittently over more months than any of us care to count. Members gave presentations, crafted outlines, wrote chapters and offered thoughtful input on repeated drafts of the report. We’re grateful to the handful of external presenters—policy thinkers and practitioners not part of the group—who informed our discussion with research and sometimes provocative opinions. Special gratitude goes to our funder, Donald Graham, who helped launch the project and then disappeared, never asking about our deliberations, never interfering, never offering input of any kind, but leaving us to find our own consensual policy proposals.

The views expressed in the pages that follow are those of members of the working group, not the institutions with which they are affiliated.

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# EXECUTIVE SUMMARY

Like too many issues in education, the question of how to regulate for-profit colleges and universities has become deeply politicized.

Legitimate questions about how to encourage market-driven investment in career-oriented education while protecting students from exploitation have been drowned out by partisan posturing and unproductive fights over ideology and motives.

Even more troubling, in the absence of congressional action, regulation of for-profit colleges seesaws back and forth with every new US president, depending on which political party is in control of administrative rulemaking.

In this context, in June 2019, Opportunity America convened a working group of educators and education policy thinkers with a range of perspectives to seek a set of common principles to guide regulation of for-profit colleges. Our goal: not to invent something completely new but rather to develop a practical approach that acknowledges current political realities and leverages existing rules familiar to lawmakers. This paper is the result of that initiative.

Our ideologically diverse group agrees on the following principles:

- We embrace greater accountability for all institutions of higher education regardless of their governance structure. Poor labor market outcomes relative to program cost and student loan burdens affect all types of colleges.

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We embrace greater accountability for all institutions of higher education regardless of their governance structure.

- We encourage some modifications to the gainful employment rule championed by the Obama administration. Most importantly, we believe, the rule should take account of macroeconomic cycles and labor market fluctuations, encourage improvement through best practices rather than through greater selectivity in admissions, and include students who enroll but do not complete their programs.
- Along with a debt-to-income standard for graduates, we propose measuring student completion. We urge regulators to set minimum acceptable levels for completion and debt-to-earnings outcomes at all types of institutions, for-profit and nonprofit.
- We urge greater supervision of rapid changes in college enrollments, whether they are expanding or contracting.

No member of the working group is completely satisfied with our consensual product. Some who began the journey with us in 2019

dropped out before the end. And more forceful advocacy, both critical and approving of for-profit institutions, is included in these pages in two sidebar boxes.

But together, we believe, our proposals would be an improvement to the nation's current approach to for-profit colleges, with the

added advantage that because they are bipartisan, they might survive a change of political parties in the White House. In offering these recommendations, we hope to encourage others of good faith to set aside their differences in the interest of consensual public policy that benefits students.

# INTRODUCTION

**T**he Covid-19 pandemic has changed America forever—few things will be the same when the tide finally recedes. But the challenges facing higher education have not abated.

The Great Recession triggered a decade-long drop in college enrollments. Even as the need for education grows in a globally competitive knowledge economy, tuition continues to rise, state funding lags, and completion rates remain discouragingly low. Enrollment declines have been most pronounced among learners whose progress is most urgent: low-income students, minority students, older students, and others in need of a path to middle-class security. Americans are less confident about the quality of higher education and more concerned about its value than at any time in recent decades. And now, in the wake of the pandemic, hundreds of institutions are facing severe financial strains.

Neither the Obama administration's push to expand college-going nor the Trump administration's deregulatory approach could fix a higher education system that many, including recent education secretaries from both parties,

say costs too much, delivers too little, and is insufficiently accountable for results.

Among the questions policy must address: How do we ensure the quality of higher education for all students, especially low-income students and students of color? How do we incentivize colleges to provide superior education for the students who need it most without encouraging the wrong reaction—institutions turning their backs on these learners and recruiting only the better prepared? How do we lower prices and restore faith in higher education? How do we support innovation—both technological and pedagogical?

Convened by Opportunity America in 2019, a group of higher education experts with widely varying perspectives and vantage points met regularly over two years to discuss the possibility of bipartisan reform. Our goal: to return to a not-too-distant past, when people of good faith with diverse viewpoints could put dogma aside, agree on key problems, and make an honest effort to reach consensus. Despite our varied orientations, we shared a desire for a higher education system characterized by:

- More academic rigor
- More opportunity for students
- More incentives to deliver quality at a reasonable cost to a broader population
- More predictability and transparency for all parties

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How do we ensure the quality of higher education for all students, especially low-income students and students of color?

The issue that first brought us together was for-profit colleges, a subject of years of bitter controversy between left and right. But when the disparate members of our group—including both tough critics and strong advocates of the for-profit model—found common ground on that issue, it emboldened us to go further, proposing regulation for a broader swath of higher education.

We agreed early on that it's a mistake to paint all for-profit—or nonprofit—colleges with the same brush. Both nonprofit and for-profit institutions can produce impressive outcomes, and both can fail their students, producing dismal results. A school's business model alone does not drive learning outcomes, and we agreed that any regulation designed to ensure that students and taxpayers are well served should go beyond any one type of institution. But we also agreed that the for-profit business model creates unique incentives, requiring greater scrutiny and more stringent regulation of proprietary colleges than nonprofit institutions.

### A changing landscape

The postsecondary landscape has changed significantly since 1992 when the Higher Education Act was first amended to hold for-profit institutions accountable. The once bright line between for-profit and nonprofit institutions has blurred. It is no longer possible in the way it once was to make a clear distinction between vocational and nonvocational institutions and programs. The typical for-profit institutions of an earlier era—small, often unaccredited trade schools focused on one industry or a handful of industries—have given way to regionally accredited universities attended by students seeking bachelor's, master's, and doctoral degrees in a range of professional disciplines.

Nonprofit institutions are also changing. Many have become more career-oriented, with programs in information technology, health

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The once bright line between for-profit and nonprofit institutions has blurred.

care, and business among the fastest-growing fields of study at many nonprofit schools. Many learners, including working adults and returning students, attend online programs, once almost exclusively the purview of for-profit colleges. Indeed, the largest and fastest-growing online institutions are now nonprofit colleges, many with a business model strongly reminiscent of the for-profit playbook. At the same time, several for-profit institutions have become nonprofits, raising questions about the efficacy of limiting accountability measures to the for-profit sector alone.

Important differences remain among different types of colleges and college offerings. Short sub-baccalaureate programs designed to prepare students for the labor market, for example, are not the same as bachelor's degree programs with broad academic educational goals. And our group does not assume that all regulations will be equally appropriate for all institutions and all programs.

Nevertheless, we agree as a group that all institutions of higher education should be held accountable for student outcomes, and we believe the blurring of the lines between nonprofit and for-profit schools makes it possible to hold them both to some of the same metrics, starting with student loan debt relative to employment outcomes.

Student loan debt burdens learners at all types of colleges and universities. There are many ways to measure student outcomes and the value of an educational experience. Incurring debt is not the only risk students take or the only indicator of potential trouble. But growing debt raises urgent questions—and not just in

the for-profit sector, where reliance on loan debt is most pronounced.

Postgraduation employment outcomes are also relevant for every college category. Post-secondary education prepares students for life, not just for jobs. But annual surveys going back more than 50 years suggest that many students' primary motivation for attending college is to enhance their job prospects. Accordingly, our group believes, it's appropriate for the federal government, as the leading provider of student aid and loans, to look beyond completion, holding all colleges accountable for labor market outcomes and graduates' ability to service and repay their loans.

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Postgraduation employment  
outcomes are relevant for  
every college category.

Our group agreed that the for-profit business model creates unique incentives for proprietary institutions. Some regulations should be tailored to their special circumstances, and our proposal includes provisions to address these unique challenges. But we also agreed that tax status alone is a poor proxy for student outcomes, and in the long run we hope to see our approach applied to all institutions, regardless of their business model.

The changes we propose are incremental, designed to build on existing regulation. We're mindful of the cost of regulatory compliance at a time when most colleges and universities are struggling financially. We also try to anticipate how institutions will react to new outcomes-based regulation, and we try to minimize the likelihood that this will cause colleges to limit access to higher-risk students by taking account of the student population of each school while requiring and incentivizing a more inclusive approach.

Our rubric is not comprehensive; there are many details to be worked out. But we believe these principles are practical and can be applied in today's political and economic context.



# US HIGHER EDUCATION FAST FACTS

**18%**

Percentage of degree-granting institutions in the US that are for-profit (317.20)\*

**79%**

Percentage of nondegree-granting training centers in the US that are for-profit (317.30)

**2**

Number of the five largest degree-granting institutions that are for-profit (312.10)

**6**

Number of the 100 largest degree-granting institutions that are for-profit (312.10)

**11**

Number of degree-granting for-profit institutions with more than 15,000 students (312.20)

**316**

Number of degree-granting public and private nonprofit institutions with more than 15,000 students (312.20)

**1,108,043**

Increase in the number of students attending for-profit institutions between 2005 and 2010 (303.20)

**1,209,508**

Decrease in the number of students attending for-profit institutions between 2010 and 2018 (303.20)

**11%**

Percentage of all enrollments that were at for-profit institutions, 2010 (303.20)

**6%**

Percentage of all enrollments that were at for-profit institutions, 2018 (303.20)

**66%**

Percentage of enrollments in nondegree-granting vocational programs that are at for-profit institutions (303.20)

**5%**

Percentage of enrollments in degree-granting institutions that are at for-profit institutions (303.20)

**58%**

Percentage of students enrolled in degree-granting for-profit institutions who are nonwhite (306.40)

**48%**

Percentage of students enrolled in degree-granting public institutions who are nonwhite (306.40)

**42%**

Percentage of students enrolled in degree-granting private nonprofit institutions who are nonwhite (306.40)

**69%**

Percentage of students enrolled in degree-granting for-profit institutions who are 25 and older (303.50)

**23%**

Percentage of students enrolled in degree-granting public and private nonprofit institutions who are 25 and older (303.50)

**\$23,470**

Average net price for first-time, full-time, degree- or certificate-seeking students at four-year for-profit institutions, all income groups (331.30)

**\$26,820**

Average net price for first-time, full-time, degree- or certificate-seeking students at four-year private nonprofit institutions, all income groups (331.30)

**\$13,670**

Average net price for first-time, full-time, degree- or certificate-seeking students awarded Title IV aid at four-year public institutions, all income groups (331.30)

**\$21,990**

Average net price for first-time, full-time, degree- or certificate-seeking students awarded Title IV aid at four-year for-profit institutions, lowest quintile income group (<\$30,000) (331.30)

**\$20,200**

Average net price for first-time, full-time, degree- or certificate-seeking students awarded Title IV aid at four-year private nonprofit institutions, lowest quintile income group (<\$30,000) (331.30)

**\$9,170**

Average net price for first-time, full-time, degree- or certificate-seeking students awarded Title IV aid at four-year public institutions, lowest quintile income group (<\$30,000) (331.30)

**72%**

Percentage of full-time students at for-profit institutions who received Pell Grants, 2015–16 (331.90)

**42%**

Percentage of full-time students at public and private nonprofit institutions who received Pell Grants, 2015–16 (331.90)

**77%**

Percentage of full-time students at for-profit institutions who received federal loans, 2015–16 (331.90)

**50%**

Percentage of full-time students at public and private nonprofit institutions who received federal loans, 2015–16 (331.90)

**83%**

Percentage of degree-granting institutions that have closed since 2012 that are for-profit (317.50)

*\* The data in this table are drawn from the most current digest tables available from the National Center for Education Statistics, Digest of Education Statistics, [https://nces.ed.gov/programs/digest/current\\_tables.asp](https://nces.ed.gov/programs/digest/current_tables.asp). Numbers in parentheses indicate which table in the digest the figure in that row is drawn from. All data are rounded to the nearest whole number.*

## OPINION

# WHY DO FOR-PROFIT INSTITUTIONS NEED SPECIAL ATTENTION?

Concern over the well-being of students who attend for-profit institutions does not arise out of a bias against a financial structure but out of historical reality. Past expansions of federal student aid, including aid to veterans and increased availability of loans, led to growth in the for-profit sector and aggressive actions on the part of these institutions to recruit students who come with federal funding. When too many examples of fraud and abuse arise, the government imposes restrictions—or at least threatens to—and the wave subsides. Until the next time.

Misrepresentation of employment outcomes, exploitative private loan programs, and school closings that leave thousands of students with high levels of debt and credits they can't transfer: all are clear signs of the risk of under-regulating the for-profit sector. These all too frequent abuses do not mean that nonprofit institutions always offer high quality or that for-profit institutions never do. But they underscore the urgency of focusing on the for-profit sector when designing strategies to rein in abuses.

The problem is not necessarily that individuals with bad intentions are in charge. For-profit institutions face unique incentives, and even in the best of circumstances, market-induced striving for rapid enrollment growth can lead to problematic actions. For-profit colleges spend considerably more on advertising than do other institutions, with recruitment of more and more students, regardless of their chances of success, a central goal. And of course, a share of the institution's revenues goes

to profits rather than into the educational enterprise or other public service activities.

The profit motive serves society well in many circumstances, but in higher education, the combination of market forces, the profit motive, and the availability of federal funds creates pressures that drive the provision of high-quality educational experiences down the list of institutional priorities.

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The problem is not necessarily that individuals with bad intentions are in charge.

The higher education market is distinctive in that students—the “customers”—have a limited basis for judging the quality of what they are buying. Very few students at for-profit institutions pay with their own money. Federal student aid covers much of the tuition and fees, and employers sometimes contribute. Consumer protection is clearly critical in a market of this kind.

Public and private nonprofit institutions are overseen by governing bodies that do not share in their profits. Even without strong accountability standards from the federal government, they are accountable to state officials and boards of trustees. For-profit institutions, in contrast, make decisions on behalf of owners and investors. Their primary responsibility is the bottom line, not the educational mission.

*Continued on page 12*

*The Opportunity America working group does not endorse the arguments put forward in this short opinion essay or the one that follows on the facing page. The group was split roughly evenly, with about half of us leaning toward each of these positions, and our consensual proposal reflects a dialogue between the two perspectives.*

## OPINION

# WHY FOR-PROFIT INSTITUTIONS?

With all the challenges facing American higher education—sinking enrollment, squeezed budgets, reduced public confidence—does the system even need for-profit institutions? In light of the well-publicized collapses of the Corinthian and ITT chains and allegations of misconduct at several other institutions, might we not be better off without for-profit colleges altogether?

In fact, whatever the faults of some, proprietary institutions as a group play an important role in American higher education. Three areas where for-profit colleges have led: innovation, capacity building, and serving the needs of nontraditional students.

### Innovation

The for-profit institutions that pioneered online learning in the 1990s faced withering skepticism and condescension from the traditional higher education establishment. Virtually everyone ridiculed online education except students, who jumped at the chance to get access to instruction without having to travel to a campus. Online learning made classes available to many adults whose jobs, families, or geographic location foreclosed access to traditional education.

Only after for-profit institutions demonstrated these benefits, generating robust student demand, did more risk-averse traditional institutions acknowledge the opportunity presented by online education and begin experimenting with new ways of delivering content. And it was a good thing they did. Absent that experience, traditional institutions worldwide would have been paralyzed by the Covid-19 pandemic.

Other innovations pioneered by for-profit colleges have faced similar skepticism but ultimately have been embraced across higher

education. Among the most significant: an emphasis on graduates' work readiness, continuous assessment of learning outcomes, wide use of learning science, placement of campuses convenient to commuting routes, practitioner faculty, outreach to underserved markets, high-touch student support, flexible and varied terms, structured degree or credential pathways, and new programs to support emerging industries.

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Whatever the faults of some, proprietary institutions as a group play an important role in American higher education.

This innovation confounds the conventional view that the laws of the marketplace that reward value and differentiation do not “work” in higher education. All these new practices were undertaken by institutions prepared to put capital at risk to create long-term value for investors by creating long-term value for students.

For-profit colleges have a particular advantage when it comes to vocational education—for two reasons. They are often more willing or able to invest in equipment and facilities to attract students, and because they are often focused on the need to add value, they often make a more concerted effort to offer programs aligned with local labor market demand.

It's no accident that employers in many fields—culinary arts, audiovisual production, automotive repair, and many types of medical training—show a preference for for-profit

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There is mounting evidence that students from for-profit institutions have worse employment outcomes than similar students with similar credentials from other institutions. For-profit students borrow significantly more than others and account for a disproportionate share of student loan defaults. It's not just that these institutions enroll more at-risk students, but that these students suffer from the way their schools operate.

Differing demographics and levels of academic preparation contribute to disparate outcomes, both within and across different types of colleges. But at-risk students fare much better at some institutions than at others.

Completing credentials is a critical metric. Employment opportunities, income, and debt repayment are also important measurable outcomes. And of course, learning—academic, social, personal, and intellectual—is central to educational success. Incorporating student characteristics into expectations about outcomes cannot mean accepting low completion rates, poor preparation for the labor market, and high rates of loan default among students attending institutions where many students face significant barriers to success.

Some for-profit institutions serve students well. Some public and private nonprofit institutions do not. And recent examples of institutions changing their status from for-profit to nonprofit highlight the difficulty of drawing

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By definition, for-profit

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a bright line between different categories of colleges. Targeted, sector-specific standards create incentives for institutions to reclassify themselves to avoid constraints, and the federal government should hold all postsecondary institutions participating in federal student aid programs accountable for student outcomes.

At the same time, by definition, for-profit institutions have goals and incentives different from those of other institutions—and this must be taken into account when designing a regulatory system.

college graduates. And for-profit educators' greater willingness to risk capital to test new practices and new education technologies provides a service to their public-sector counterparts who are unable to risk taxpayer dollars on unproven approaches.

Unlike public colleges, often seen as the default choice for students in their catchment area, for-profit institutions must generate enrollments. They survive only by demonstrating that they offer something different and better than the often less-expensive alternatives. This gives them an inherent incentive to innovate, and if they disappeared, we would risk losing the laboratories where much new thinking in higher education originates.

## Capacity building

For-profit colleges are the “flex” in an otherwise largely inflexible system of higher education. They benefited disproportionately when economic conditions boosted college enrollment between 2000 and 2010, and they suffered disproportionately when enrollments shrank in the following decade. What enabled them to adjust, absorbing both the costs of building new capacity and the downside losses, was their investment-driven business model.

Private investors, not taxpayers, funded the tens of billions of dollars' worth of expansion that permitted the large increase in student enrollment in the early 2000s.<sup>1</sup> Then, when student numbers dropped, it was those same investors, not taxpayers, who bore the costs of closing empty facilities. Many of these backers took a loss on their investment—but that was the risk they took, sparing taxpayers the capital costs of creating capacity.

It's a cycle all but sure to repeat, as college enrollment rises and falls in years ahead. States will inevitably strain to add classroom seats in high-enrollment periods—and taxpayers ought to see the for-profit sector as a welcome partner.

## Nontraditional students

Long before many Americans saw the need, for-profit colleges focused on providing access to underserved students—adult learners, those with lower incomes, and those from minority communities. Now, with virtually all institutions turning their attention to these learners, the for-profit sector's experience can be instructive for others.

Even today, for-profit institutions are responsible for 28 percent of the undergraduate degrees earned by African American students and 25 percent of the undergraduate degrees earned by Hispanic students, many of them learners who could find no other institution to meet their needs. For-profit college graduation rates may be lower on average than at other institutions, but evidence suggests that they perform as well or better when compared to institutions that serve comparable student populations.

Why do black Americans enroll disproportionately in for-profit institutions? One reason is capacity, according to Frank Harris III, codirector of the Community College Equity Assessment Lab at San Diego State University. “Where else could they go?” Harris asks. “We can't call this problematic if we [at nonprofit colleges] don't increase capacity. The largest producer of black BAs and PhDs is University of Phoenix. [Before] we criticize them, we need to see why we are not doing a better job to meet [these students'] educational goals.”

Some for-profit institutions have failed their students, as some traditional colleges do. But they have also welcomed millions of students with few other options and served these learners well, preparing them to succeed in the workplace and beyond. As the nation struggles to overcome persistent racial inequities, there is much to learn from for-profit colleges and their long history educating students of color and other traditionally underserved learners.

## WHAT WE ALL AGREE ON

1. We agree that all institutions must be held accountable. For-profit institutions face unique incentives and require special attention. But the nation needs a comprehensive postsecondary regulatory system. Regulations must be designed to protect all students and be meaningful at all institutions.
2. We do not propose detailed regulations. What we agree on is the spirit and the direction of the change that's needed.
3. We agree that whenever possible, regulation should focus not on institutions but on the program level.

The challenge: not all programs of study are easily defined and distinguished, especially not programs offering liberal arts education. And many programs are too small to yield meaningful metrics.

Nevertheless, we believe that all programs should be included in any regulatory scheme, even if that means combining programs to generate useful data. Small programs should not be allowed to escape accountability.

In cases where program-level accountability is not possible, a pragmatic response may be institution-level accountability. But then all our proposed measures should apply to the whole institution.

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We agree that whenever possible, regulation should focus on the program level.

# RECONSIDERING ACCOUNTABILITY

**A**ny discussion of accountability in higher education must acknowledge the enormous complexity of the universe being regulated. Every program and institution makes different implicit and explicit promises. Student ages and aspirations vary widely. It's difficult to quantify quality or compare labor market outcomes, either across regions or economic cycles. And public subsidies vary dramatically across political jurisdictions and categories of colleges.

But despite this variation, our group believes it's possible to articulate some basic regulatory principles that can be applied evenly and fairly across all of higher education.

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We propose leveraging but  
modifying previously proposed  
debt-to-earnings measures.

Building on a foundation laid down by other efforts to hold institutions accountable for student employment outcomes, we propose leveraging but modifying previously proposed debt-to-earnings measures, making those metrics more versatile while adding new measures of program completion and growth.

Among other goals, our proposals are tailored to address concerns growing more acute every year about the large number of students with outstanding loans who have not completed degrees. We also hope to mitigate the volatile enrollment cycles seen at many adult-serving institutions—ups and downs that can lead to rapid erosion in program quality and financial instability. Despite an array of existing regulations designed to protect student and taxpayer interests, neither of these challenges have been squarely addressed.

## Accountability for all

As the distinction between academic and vocational programs blurs and the burden of student loan debt grows, weighing heavily on learners at all types of colleges, we advocate increased accountability for all institutions, irrespective of their governance structure.

We acknowledge that many nonprofit institutions focus primarily on academic subjects that provide no occupation-specific preparation. But we believe they too should be held accountable for student employment outcomes. After all, their students also invest time and money, and they too incur debt that will have to be repaid after graduation.

## Program-level metrics

We believe that whenever possible, programs, not institutions, should be held accountable.

Many factors influence postgraduation labor market outcomes: student ability, achievement, and preparedness; the quality of education and training students receive; and the prestige of the institution that delivers it. Few, if any, existing accountability measures distinguish among these factors, disentangling what the student brings from what the college provides. Program-level accountability puts the focus more squarely on the college.

The US Department of Education has made significant strides toward meaningful program-level transparency, primarily through improvements to the College Scorecard data dashboard. But the Scorecard is underused, and even with the improvements, it remains difficult for consumers to sort programs by price and labor market outcomes.

We acknowledge that it may be difficult to distinguish the earnings effects of programs at some institutions, particularly those focused on the liberal arts, where majors are less distinct than at colleges centered on vocational instruction. But it's beyond the scope of our group to offer more than general principles, and we leave it to the regulators who we hope will keep our ideas in mind as they craft an accountability metric—something more granular than institutional accountability—for cases of this kind.

## A debt-to-earnings metric applied to all types of colleges

The debt-to-earnings metric established by the gainful employment rule negotiated and litigated during the Obama administration was not a perfect tool. But despite our varying perspectives, our group agrees it is a useful measure.

The debt-to-earnings metric reflects the dynamic between the labor market benefits of a

college program and the debt incurred to complete it, and while there may be reasonable disagreement regarding penalty thresholds and the consequences of poor performance, we believe any new accountability structure should build on it.

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## All students are entitled to the same protection afforded to students in proprietary schools.

But we propose to adjust how it's applied and address some problems not addressed by the Obama-era gainful employment rule, including students who incur debt but do not complete a college program.

The US Department of Education's declared goal in promulgating the rule was to safeguard students and taxpayers.<sup>2</sup> It was designed to lead to the closure of three different types of poor-performing institutions: those with high dropout rates, those that did not prepare students well enough to get jobs using skills acquired in the program, and those that train students for fields with such low wages that they do not justify the program costs.<sup>3</sup> The assumption was that any program that fails these basic tests would lead to high levels of loan default, leaving students and taxpayers saddled with large bills for unpaid debts.

We believe these risks are present at all types of institutions. All students are entitled to the same protection afforded to students in proprietary schools, and the gainful employment rule should be applied across the universe of higher education.

## A framework for comparing likes with likes

Many factors outside of an institution's control can affect labor market outcomes irrespective of a program's quality. The inherent difficulty of the subject matter, the length of the program, enrollment standards, tuition rates, and student demographics all have consequences for employment outcomes. So do macroeconomic factors, which can vary significantly over time and geographic location and, as the pandemic made clear, can change abruptly.

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We advocate for a system that compares programs to similar programs.

For this reason, we believe programs should be measured and judged relative to comparable programs at other institutions. And in some cases, it may be more appropriate to require that schools make programmatic adjustments than to sanction them. But all schools should be held to a minimum performance threshold, and poor outcomes below a certain absolute level—or significant variation from the mean—should not be tolerated.

Among the potential criteria that could be used to group similar programs, one stands out: the percentage of Pell-eligible students enrolled in the institution. While imperfect, Pell eligibility is a commonly used proxy for many attributes that may affect program completion and labor market success, including income, race, academic preparedness, personal networks, and the need to work or care for children while attending school. We do not want to penalize institutions that choose to serve populations facing these and other obstacles. On the contrary, we seek to

ensure that institutions serve the students they have chosen to serve as well as possible. And we believe the best way to achieve that goal is to compare likes with likes.

It's beyond the scope of this paper to offer a precise taxonomy of institutions or programs for the purpose of comparison. But in principle, we advocate for a system that compares programs to similar programs and uses the same standard to hold each category accountable. Certainly, employment outcomes at open-access institutions should not be measured against employment outcomes at highly selective colleges, but rather against schools with similar student profiles.

## Robust repayment as an acceptable alternative

A debt-to-earnings ratio is not appropriate for every circumstance, and in some cases, a better metric may be student loan repayment rates—how successful borrowers are at making payments that reduce their loan balances.

This may, for example, be appropriate in disciplines, including the fine arts or theater, that do not produce a traditional near-term return on investment but are sufficiently valued by students that they nonetheless repay their loans in a timely manner.

An alternative measure of this kind was included in the Obama administration's original gainful employment rule, but it was struck down by a federal court that found it arbitrary. We believe it should be possible to craft a measure of loan repayment that can pass a court test, and we see this as an important component of any regulatory approach.

## Minimum completion standards

Another significant blind spot in the gainful employment rule: it measures outcomes only for students who have completed programs. But many students who do not complete their

studies still incur significant debt and, without a credential, are less likely to see an increase in earnings that would enable them to repay their debt.

We believe the best way to address this problem is with an additional metric for completion—a percentage threshold for each class of college. Completion rates significantly lower than the norm likely indicate a flaw in the program or in the standards it uses to recruit students. We believe completion is a valid metric for all types of institutions, and all programs at all schools should be required to clear appropriate completion thresholds.

In this case, too, we believe that programs should be compared to similar programs—ideally, those with comparable percentages of Pell-eligible students, not those serving a distinctly different student population. But programs that fall below an absolute minimum should be subject to sanction.

### Growth

Along with these proposals building on earlier regulations, we also recommend a new form of scrutiny: a measure of institutional growth.

Recent decades have seen a dramatic increase in the number of adult learners enrolling in higher education, often at for-profit institutions. These enrollments tend to wax and wane with the business cycle, expanding in tough economic times and declining when the labor market tightens. This ebb and flow can create perverse incentives for institutions as the federal financial aid that follows learners rises and falls precipitously, and the experience of the past few decades suggests that existing regulatory safeguards designed for more traditional institutions are inadequate.

Our group does not want to discourage growth in all circumstances; it's often a consequence of good practices and strong student outcomes. But we believe that unusually rapid

growth should trigger additional oversight. We see this as a way to ensure that institutional expansion is not the result of bad practices, that schools are not overextended, and that students are not exposed to greater risk as a result of the college's rapid expansion.

To protect students and taxpayers from undue or harmful growth, we recommend establishing a threshold for reasonable growth and mandating additional reporting requirements for growth rates that exceed it. Our intent is not to punish or hinder growth, but rather to add a layer of protection for students and taxpayers.

Just as rapid growth is potentially problematic, so, we believe, is unusually rapid decline—a likely sign of other problems at the institution. Accordingly, we also recommend additional scrutiny for institutions experiencing a rapid drop in enrollments.

In this case, too, we believe our proposed metric should apply to all types of institutions. Any Title IV-eligible institution that exceeds stipulated growth or decline rates—regardless of governance structure—should be subject to additional scrutiny and possible sanction.

### The 90/10 rule

Our group had mixed feelings about the regulation known as the 90/10 rule, which limits the amount of federal aid dollars that for-profit institutions can accept to less than 90 percent of total tuition revenue. The rule is intended to ensure that for-profit institutions do not depend entirely on taxpayer subsidies and that some market discipline is at work to ensure quality by requiring that students have a personal financial stake in their education beyond what they can finance through federal programs. But our group was divided as to the rule's effectiveness and elected to leave the question unaddressed.

# CONSENSUS ACCOUNTABILITY PRINCIPLES

Our proposal rests on six pillars.

## **#1 Disclosure requirements at the program level for all institutions**

A debt-to-earnings measure should be captured and publicly disclosed for all programs, appropriately defined, at all institutions, regardless of governance. Debt-to-earnings comparisons to similar programs at comparable institutions should also be publicly disclosed.

Similarly, all schools should be required to report completion and repayment rates by program.

## **#2 Minimum debt-to-earnings and completion standards at the program level for all institutions**

Lawmakers should establish minimum acceptable standards, applicable to all programs at all types of institutions, for debt-to-earnings and completion. Programs that do not meet these thresholds should be subject to sanction and, failing correction, loss of Title IV eligibility.

Precisely what these standards should be is a subject for further study, but we believe they should be absolute and unchanging, regardless of macroeconomic factors, geography, student profile, or institutional governance.

## **#3 Potential adjustments to measures of cohort default rates**

Policymakers should examine the feasibility of measuring the cohort default rate at the program level.

We also support minimum principal repayment rates and believe they too should be applied at the program level, taking into account the complex repayment arrangements currently encouraged by federal authorities, including income-based loan repayment, loan forgiveness, and forbearance.

We believe these measures also should apply to all programs at all types of institutions.

## **#4 For proprietary schools, a series of escalating sanctions for poor debt-to-earnings outcomes**

As under the previous gainful employment rule, proprietary institutions with underperforming programs should face escalating sanctions.

But in contrast to the previous rule, we propose that sanctionable debt-to-earnings ratios be determined by comparing programs to similar programs at schools with a comparable share of Pell-eligible students rather than on an absolute basis.

Programs should be able to offset substandard debt-to-earnings outcomes with improved loan repayment outcomes. In all cases, the focus and purpose of sanctions should be to promote improvement rather than penalize failure.

### **#5 For proprietary schools, a series of escalating sanctions for poor completion rates**

For-profit institutions where programs result in substandard completion rates should face escalating sanctions.

Programs should be judged relative to similar programs at schools with comparable levels of Pell-eligible students.

### **#6 For all schools, increased scrutiny and potential consequences for unusually rapid growth and decline**

Institutional growth and decline rates should be determined quarterly using Title IV volume reports from federal student aid regulators. Growth should be measured on each school's year-over-year increase in student aid and decline by its year-over-year decrease in aid.<sup>4</sup>

Institutions where growth rates fall in the top or bottom 10 percent nationally should be required to submit additional information.

These additional reporting requirements should kick in incrementally. Institutions in the bottom or top deciles should be required first to provide information about completion rates.<sup>5</sup> If these data reflect declining year-over-year completion, additional information regarding employment outcomes should be required.<sup>6</sup>

In cases of deteriorating employment outcomes relative to an established baseline, the Department of Education should have discretion to assess penalties.<sup>7</sup>

As a starting point, we recommend focusing on growth and decline in undergraduate student aid, but we can envision expanding the metric to include loan balances for graduate education.<sup>8</sup>

## Conclusion

Our proposal is a starting point; additional details will be required to make our recommendations actionable. We leave it to the Department of Education to develop practicable metrics for the dimensions that concern us—debt-to-earnings ratios, loan repayment rates, completion rates, and institutional growth and decline. Further analysis and public input will also be necessary to determine the size and severity of any sanctions.

We believe that taken together, these recommendations would produce a prudent, balanced approach, protecting students at all types of institutions, as well as taxpayers. We also believe that adoption of our proposals would limit waste and abuse of federal financial aid, whether intentional or inadvertent, protecting recipients even as it stretches a limited resource.

# STUDENT SUCCESS

Colleges facing the new accountability standards described in the previous chapter will need new tools to ensure that more students succeed. Student success comes in many forms. The goal of career-oriented education is straightforward: improved labor market outcomes. For liberal arts education, the definition of success may be more complex, and there may be challenges associated with measuring it. But whatever the desired result, it's often the product of a complex interaction between student and institution.

An institution with a strong enough brand can provide an inferior education and still deliver strong labor market outcomes. Alternatively, an institution may provide a fine educational experience, but if students fail to apply themselves,

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Colleges at risk of losing Title IV eligibility should be able to defer the regulatory consequences for a limited period of time by making good-faith efforts to invest more robustly in student success.

the labor market outcome will be disappointing. Managing this shared responsibility can be difficult in any circumstance, but it's especially challenging at open-access institutions that do not screen for aptitude or previous academic success and must accommodate learners juggling work and family obligations.

Some open-access institutions meet this test better than others. The goal of regulation should be to deter or sanction those operating in bad faith while encouraging others to improve student outcomes by providing more effective student supports.

Our group does not believe it's practical or appropriate for government to dictate specific educational practices. But we believe the Department of Education can provide incentives for improvement—a constructive approach to institutions that are underperforming their peers.

Specifically, colleges at risk of losing Title IV eligibility because of a failure to meet the standards proposed by our group—inadequate debt-to-earnings ratios, weak completion or repayment rates, alarmingly rapid growth or shrinkage—should be able to defer the regulatory consequences for a limited period of time by making good-faith efforts to invest more robustly in student success.

## How it would work

Exactly how such a deferral should be crafted is beyond the scope of this paper. But we can imagine a situation in which an institution that does not meet mandated standards for, say, student debt-to-earnings ratios would be given several warnings and eventually a deadline to show improvement or lose eligibility for Title IV loans and grants.

At that point, the institution would have an opportunity to propose an improvement plan. Each institution would be free to craft its own plan—a tailored package of stratagems likely to improve outcomes for its student body. The college’s accrediting agency could be charged with assessing the plan and its likelihood of success. We offer a list of potential ingredients below—student supports proven at other institutions or validated by research. And we can imagine an approval process that allocates points for these or other strategies. But institutions should have ample leeway to experiment as long as a relevant accreditor approves their plans.

Once the improvement plan is approved, the college would have some period of time—perhaps three years—to show results. If no results materialize, any and all deferred penalties would go into effect. An improvement plan would not be a “get out of jail free” card. It would be a way for institutions to show their good faith and buy time, but only temporarily while they make changes that will lead to better outcomes for students.

One caveat: not all institutions should be eligible for a deferral of this kind. Colleges and programs that produce outcomes below the absolute thresholds stipulated elsewhere in our proposal should not be entitled to avail themselves of this provision.

We have some concern that the regulatory scheme proposed elsewhere in this paper could create perverse incentives for institutions, discouraging them from enrolling students who they believe are less likely to succeed. We

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Not all institutions should be eligible for a deferral.

believe a regulatory scheme that provides for the possibility of improvement can help prevent this type of counterproductive response.

What follows is a more detailed outline of how we believe a deferral should be structured: what we mean by student supports, the limits to eligibility for deferral, and some proposed elements of an institutional improvement plan.

## A road to better student outcomes

### **A responsibility to invest in student success.**

We start from the premise that all institutions of higher education—for-profit, nonprofit, public, and private—bear responsibility for their students’ success. Student characteristics will differ from institution to institution. Student goals and achievement may be defined differently, depending on the school’s mission and identity, and no institution can guarantee success for all learners. But whatever their mission, we believe institutions have an obligation to take responsibility for providing the supports and services that will position students to succeed.

**Tailored supports.** To be effective, we believe, these supports must be mission-specific and tailored to students’ circumstances and the context in which the institution operates. For example, at for-profit colleges, where many students are midcareer adults whose primary motivation for enrolling in higher education is to improve their position in the labor market, programs and services should be designed for working adults, and success should be defined as more than academic attainment, important as that is. For most postsecondary students, especially at for-profit colleges, success means better employment outcomes.

Any improvement plan should begin with an analysis of the risk factors that limit better outcomes for students at the institution, and the college's proposed stratagems should be designed to address these challenges.

**An array of investments.** The kinds of investments we believe are needed include but are not limited to traditional student supports—counseling, tutoring, mentoring, developmental education, and the like. Essential as these services are, their impact will be limited unless attention is also paid to students' non-academic needs.

**The sum of the parts.** What's needed will differ from school to school; every institution's investments can be expected to look somewhat different. But we think it's unlikely that one or two stand-alone services will be enough in any instance. The goal is not just a list of inputs, however impressive. What's important is that the college make a commitment to successful outcomes and provide whatever is needed to empower students to achieve those ends.

## Eligibility for deferral

Colleges that enroll underserved populations should not be penalized for doing so. Indeed, our group seeks to encourage institutions to enroll as many promising low-income students as possible, and we are concerned that our proposed regulatory scheme could have the opposite effect—could create incentives for institutions to be more selective, reducing access for at-risk students.

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Preference should be given to institutions where the number of Pell-eligible students is increasing.

We propose to guard against this outcome by limiting eligibility for the deferral of sanctions. Deferral should not be available to schools where the share of low-income students is shrinking, and preference should be given to institutions where the number of Pell-eligible students is increasing.

We would also limit access to deferrals to institutions where spending on educational inputs, student retention, and career services accounts for a robust percentage of total expenditures, excluding research and budgets related to affiliated facilities such as health centers.

## Potential elements of an institutional improvement plan

Different types of institutions will require different kinds of investments to improve student outcomes. What's needed at academic institutions serving mostly traditional college-age students, for example, will be very different from the measures required at career-focused schools serving mostly midcareer adults.

The kinds of investments we believe will be most effective in improving student outcomes at career-focused schools fall into five broad categories.

- **Nonacademic barriers.** Students facing nonacademic barriers—lack of transportation to get to class, lack of adequate childcare, homelessness, food insecurity, emergency financial needs, and other challenging life circumstances—are not likely to be successful at school. Among the supports and services institutions should consider: nutrition assistance, low- or no-cost childcare, transportation services or subsidies, financial education, robust financial aid advisement, mental health services, comprehensive case management, and emergency loans.

- **Program delivery.** Learners juggling work, school, and family are unlikely to be successful unless instruction is offered when and where it's convenient for them. Classes held at midday on a secluded campus—delivery designed for traditional, college-age students still financially dependent on their parents—won't work for most working adults. Among the supports and services institutions should consider: locations convenient for working learners, weekend and evening classes, stipends to help with broadband access, donated or loaner devices to ensure online instruction is accessible, and student services delivered as flexibly as possible—tutoring, counseling, mentoring, career services, and the like also available in the evening or on weekends or delivered virtually.
- **Program design.** Working adults returning to school after a stint in the workplace, often in a hurry to acquire skills that will help them get a job or a better job, need a different kind of instruction, packaged differently, than traditional college-age students. Among the design and delivery options institutions should consider: curriculum packaged in shorter, more intensive time blocks; stackable credentials with immediate labor market value that can be earned more quickly than a degree; contextualized remediation; appropriate credit for prior learning; work-based learning and experiential learning designed for students already juggling school and work who cannot afford to give up a paying job for an unpaid internship.
- **Advising.** Midcareer students need much of the same kinds of academic and nonacademic advisement as traditional college-age students, but older learners need them tailored to their time constraints and situation in the labor market. Among the supports and services that institutions should consider: adult-focused academic counseling, adult-focused career counseling, combined academic and career counseling, success coaches, and peer-to-peer mentoring.
- **Job placement.** No service or support will be more important to most adult learners than those designed to help them understand the local labor market and plot a course to an in-demand job. Among the supports and services that institutions should consider: access to robust, up-to-date labor market information; extensive career counseling when students enroll and throughout their time at the institution; programs designed to feed directly into available job openings; partnerships with employers who commit to interviewing graduates; practitioner faculty hired out of industry; opportunities for apprenticeship and co-op jobs; job-search assistance and coaching; and well-resourced job placement services with strong connections to local employers.

This list does not exhaust the possibilities—far from it. But it's a start. College administrators will know best what can make a difference for their students. What's essential for institutions is that educators shoulder the obligation to provide learners with the tools they need to attain the goals that have led them to higher education.

# CONCLUSION

There is no silver bullet for the many challenges facing our society—inequality, racial injustice, climate change, unpredictable public health risks, political polarization, and a widespread lack of civility. But education can help, and an educated populace will stand a better chance of finding solutions for all of these challenges.

Building the educational institutions we need will take more than punitive sanctions. We must create a system that incentivizes institutions to excel in serving whatever student population they elect to enroll.

Tomorrow's solutions may look different from yesterday's, as different types of providers emerge to meet new challenges. But policymakers can set the stage by encouraging what's best

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Building the educational institutions we need will take more than punitive sanctions.

about the current system and creating the conditions for new solutions to emerge. At the same time, government must ensure that students and taxpayers are protected, and it should hold those who receive government funding—students and institutions—accountable for results.

We believe the framework proposed in this report will help set the nation on that path.



# WORKING GROUP MEMBERS

## Opportunity America working group on for-profit colleges

**Sandy Baum**, nonresident senior fellow, Center on Education Data and Policy, Urban Institute

**Alastair Fitzpayne**, fellow, Aspen Institute

**Tamar Jacoby**, president, Opportunity America

**Robert Kelchen**, professor, University of Tennessee, Knoxville

**Kevin Kinser**, professor, Pennsylvania State University

**Jorge Klor de Alva**, president, Nexus Research & Policy Center

**Julie Peller**, executive director, Higher Learning Advocates

**Andrew Rosen**, chairman and CEO, Kaplan

**Trace Urdan**, managing director, Tyton Partners



# ENDNOTES

1. For many for-profit institutions, the only material taxpayer cost comes from defaults on federally funded student debt. The taxpayer burden of for-profits is quite modest compared to the significant grants, tax-free status, and other benefits provided to public and private nonprofit institutions.
2. See, for example, St. Louis American, "Department of Education Establishes New Student Aid Rues [sic] to Protect Borrowers and Taxpayers," press release, October 29, 2010, [http://www.stlameric.com/news/local\\_news/departement-of-education-establishes-new-student-aid-rues-to-protect-borrowers-and-taxpayers/article\\_3f441efb-8ee6-5937-aa92-0e2f2f8769df.html](http://www.stlameric.com/news/local_news/departement-of-education-establishes-new-student-aid-rues-to-protect-borrowers-and-taxpayers/article_3f441efb-8ee6-5937-aa92-0e2f2f8769df.html).
3. See US Department of Education, *Federal Register* 79, no. 211 (October 31, 2014), <https://www.gpo.gov/fdsys/pkg/FR-2014-10-31/pdf/2014-25594.pdf>.
4. It can take a year or more for Title IV volume reports to be finalized. For this reason, regulators will determine at what point in the process they want to use data from these reports.
5. These data are already reported to the Integrated Postsecondary Education Data System: the percentage of part-time and full-time students who finish a program within 150 percent of the standard degree time.
6. Data would be used to assess institution-specific trends and not to make assessments across the universe of Title IV schools. The second reporting requirement would examine the most recently available employment outcomes data for students who have enrolled in the institution. This information would be submitted to the Department of Education, along with local unemployment rates, so officials could examine the percentage of graduated students who are finding employment while considering these data relative to the condition of the local labor market. The Education Department collects earnings data among Title IV institutions for the College Scorecard.
7. The Education Department may want to analyze employment outcomes by types of schools—for-profit, private nonprofit, public—and develop baselines based on these typologies. Additionally, we would encourage using program-level College Scorecard data on earnings outcomes, as there may be considerable variation among programs (e.g., social work vs. computer science). We recommend the delayed disbursement of a small portion of the institution's Title IV aid until the program or institution demonstrates improved performance. This would be similar to existing Department of Education practice with regard to heightened cash monitoring. If the department finds that financial aid is not being used appropriately, the institution is subject to an assessment and is required to cover the cost of the assessment. The intent is not to reduce institutions' funding, as we do not want to hurt students. Rather, the intent is to withhold funding from schools until they take steps to address the challenges driving their declining performance, thereby unlocking the funds that are being withheld. Another option would be requiring that institutions set aside funding in a reserve or make other arrangements to have cash available in the future if and when they have taken steps to address completion rates and employment outcomes. This would be similar to the Department of Education's existing letter of credit procedures. Options include creating an escrow-like reserve fund or securing an insurance policy or bank guarantee, to cover future costs.
8. An issue that the Department of Education may need to consider is the degree to which this reporting requirement reflects changing circumstances on the ground, as there is a lag between data reporting and changes in the latest quarter. For example, as of February 23, 2021, the most recent publicly available data reflect the third quarter of 2020—through October 1, 2020, only.







737 8th Street, SE

Suite 201

Washington, DC 20003

[opportunityamericaonline.org](http://opportunityamericaonline.org)