Class Conflict

Gainful Employment Proposal Penalizes At-Risk Student Populations and Hurts the Economy

By Kara M. Cheseby

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Executive Summary

Career colleges—also known as for-profit, proprietary or private sector colleges—provide an important avenue to post-secondary education and upward mobility for at-risk nontraditional student populations. The career college sector is also the country's best hope, through its efficiency and innovation, to substantially expanding Americans' access to the higher education that enables individuals to pursue the fastest growing and emerging occupations.

The career colleges sector is now under harsh scrutiny by Washington. The U.S. Department of Education has decided that rapid growth in enrollment, rising student debt levels, and a relatively high level of default rates has created a need for new rules around "gainful employment" for graduates from career colleges. The Department's proposed rules are not only unnecessary, they are certain to cause harm.

For decades, the Higher Education Act has required that career colleges and training programs prepare students for gainful employment in recognized occupations in order for students to qualify for federal financial aid (Title IV programs). This condition has not applied to the other channels of post-secondary education—nonprofit and public institutions. The Department is authorized by Congress to set rules on federal financial aid for education. Historically, it has never attempted to define gainful employment, but now proposes doing so in order to evaluate and sanction private sector colleges using a three-part test based on student debt-to-income levels and loan repayment rates.

The proposed gainful employment regulations were published in July 2010, but final regulations were pushed out to March or April 2011 by a flood of public comment and lobbying. The delayed rules have led to a heated debate, which has been characterized by a surfeit of confusing, frequently contradictory "report cards" on career colleges. Critics of for-profits schools have used inflammatory rhetoric, going so far as to compare career colleges with the much-maligned subprime loan industry.

The Department justifies its proposal on the grounds that, while career colleges now account for 10 percent of the nation's post-secondary enrollment, they account for a disproportionate 23 percent of federal loan dollars and 44 percent of federal student loan defaults. However, as this paper makes clear, the Department's case for the rule is fundamentally flawed. Commonly drawn comparisons between career colleges and traditional schools are less meaningful than many suggest, because of the significant demographic differences in the student populations, programmatic variances, and major disparities in taxpayer subsidies between the distinct institutional sectors.

The gainful employment proposal represents a philosophical shift in the country's approach to higher education, from one of creating opportunity and choice for as many students as possible to micromanaging students' career paths by dictating that only tuition price reductions and specific near-term salary results make a post-secondary education at a career college worthwhile. The proposed gainful employment rules will limit choice and access to post-secondary education for an underserved population under the guise of consumer protection, as well as damage an important education channel that is providing post-secondary education at a lower true taxpayer cost than public institutions and private not-for-profit schools.

Introduction

Career colleges—also known as for-profit, proprietary or private sector colleges—provide an important avenue to post-secondary education and upward mobility for at-risk nontraditional student populations. The career college sector is also the country's best hope, through its efficiency and innovation, to substantially expanding Americans' access to the higher education that enables individuals to pursue the fastest growing and emerging occupations.

The career colleges sector is now under harsh scrutiny by Washington. The U.S. Department of Education has decided that rapid growth in enrollment, rising student debt levels, and a relatively high level of default rates has created a need for new rules around "gainful employment" for graduates from career colleges. The Department's proposed rules are not only unnecessary, they are certain to cause harm. They will limit choice and access to post-secondary education for underserved populations under the guise of consumer protection, as well as damage an important education channel that is providing post-secondary education at a lower true taxpayer cost than public institutions and private not-for-profit schools.

The government justifies its proposal on the grounds that, while career colleges now account for 10 percent of the nation's post-secondary enrollment, they account for a disproportionate 23 percent of federal loan dollars and 44 percent of federal student loan defaults.[1] However, as this paper makes clear, the Department's case for the rule is fundamentally flawed.

Commonly drawn comparisons between career colleges and traditional schools are less meaningful than many suggest, because of the significant demographic differences in the student populations, programmatic variances and major disparities in taxpayer subsidies between the distinct institutional sectors. Moreover, the gainful employment proposal represents a philosophical shift in the country's approach to higher education, from one of creating opportunity and choice for as many students as possible to micromanaging students' career paths by dictating that only tuition price reductions and specific near-term salary results make a post-secondary education at a career college worthwhile.

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Background: The Heated Debate

For decades, the Higher Education Act has required that career colleges and training programs prepare students for gainful employment in recognized occupations in order for these institutions to enroll students who qualify for federal financial aid (Title IV programs). This condition has not applied to the other channels of post-secondary education, private nonprofit and public institutions.

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The Department is authorized by Congress to set rules on federal financial aid for education. Historically, it has never attempted to define gainful employment, but now proposes doing so in order to evaluate and sanction private sector colleges using a three-part test based on student debt-to-income levels and loan repayment rates. The proposed gainful employment regulations were published in July 2010, but the final regulations have been postponed until March or April 2011 by a flood of public response, including 90,000 largely opposed formal public comments to the Department, and lobbying.[2]

The delayed rules have led to a heated debate, which has been characterized by a surfeit of confusing, frequently contradictory "report cards" on career colleges. Critics of for-profit schools have used inflammatory rhetoric, going so far as to compare career colleges with the much-maligned subprime loan industry. This argument was first raised by hedge fund manager Steve Eisman of FrontPoint Partners LLC, who is shorting many of the publicly traded career college shares.[3] It has found a prominent champion in Senator Tom Harkin (D-IA) who chairs the Senate Health, Education, Labor and Pensions (HELP) Committee.[4]

Senator Harkin has held numerous hearings to examine for-profit education and set the Government Accountability Office (GAO), Congress's investigative arm, to probe the career colleges in an undercover examination of admission practices.[5] The GAO issued a report in August 2010 that claimed all 15 career colleges it surveyed made deceptive marketing statements to applicants and that four of the schools falsified financial aid forms.[6] This report has been in some measure discredited. The GAO subsequently released a revised version of its original report, prompting Reps. Darrell Issa (R-Calif.) and John Kline (R-Minn.) and other members of Congress to send a bipartisan letter to the GAO requesting the agency explain the circumstances surrounding the revisions, which included retractions, mostly in favor of career colleges.[7,8,9] While there were instances of lapses at some schools, subsequent scrutiny has found that the initial GAO report possibly targeted specific schools—due to complaints from public university rivals and short sellers on Wall Street—and misrepresented, embellished, and even fabricated conversations.[10] Rep. Issa, Chairman of the House Committee on Oversight and Government Reform and Rep. Kline, Chairman of the House Committee on Education and the Workforce, subsequently launched an investigation into the GAO's handling of the report.[11]

The gainful employment issue has provoked bipartisan displeasure in the U.S. House of Representatives. On February 18, 2011, by a vote of 289 to 136 for an amendment to the Final Fiscal Year 2011 Continuing Resolution legislation, the House voted to prevent the Department of Education from implementing the gainful employment regulation through September 30, 2011. The amendment is unlikely to fare as well in the Democratic controlled Senate, but stands better chances in the eventual House/Senate conference.[12]

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While the gainful employment rules may end up being softened and more "nuanced" than originally proposed in the July 2010 Notice of Proposed Rulemaking, according to one assistant secretary, it is still the Department's plan to press forward with a definition and metrics.[13] This is not an abstract fight over statistics—particularly for at-risk student populations who would be most adversely impacted.

Who Are Career Colleges Students?

Michelle Stewart, 44, will earn her Bachelor of Science degree in Health Care Management from Brown Mackie College (which is owned by Education Management Corporation) in Fort Wayne, Indiana, this fall after a decade of effort. Along the way she has raised two children, worked full-time, attended three schools, and earned an Associate of Science degree in Health Care Administration, also at Brown Mackie College. Her day starts at 5:30 AM, when she prepares herself to leave home to work a full eight-hour day at a local hospital. She is there until 4:30 PM, when she leaves for school, which will go until almost 10 PM. She will still have to squeeze in two hours of homework a day, either later that night or early the next morning. Despite all these obligations, Michelle was recently awarded the Guardian Angel Award, recognizing outstanding patient care, at the Fort Wayne hospital where she works. Michelle is the first employee in the Health Administration Services Department to receive this award, which is normally reserved for medical assistants and nurses. She also volunteers her time to help out students at school. Michelle's success in entry-level programs at Brown Mackie College has spurred her to set her sights higher; she hopes to pursue study to become a physician's assistant in the future. An adult-oriented, flexible career college schedule that was not available at local public institutions, along with federal student aid, has allowed Michelle to pursue higher education and a better life.[14]

Nontraditional students like Michelle Stewart who must overcome significant "risk" factors are now a significant proportion of the population seeking post-secondary education. For the most part, these students are:

- Working adults looking to change or improve their careers;
- Single-parents needing innovative solutions so they can work, take care of children, and get a higher education;
- Returning students who seek specific skills for their careers;
- Displaced workers; and
- Recent high school graduates looking for occupationally focused education rather than a traditional residential college experience of gradual self-improvement and social activities.

The growth in career colleges to 12 percent of enrollments from just 1 percent two decades ago has come primarily from providing access for large numbers of at-risk students with an unmet need for higher education.

Nontraditional students are likely to be older because of delayed or part-time enrollment, poor, independent, working full-time, less academically prepared by family educational background, single parents, come from larger households, and members of minority groups. The Department of Education has recognized these characteristics as "risk factors" that impact student persistence and degree attainment. According to the Department, the more such risk characteristics a student has, the greater chance he or she will not complete college.[15]

The growth in career colleges to 12 percent of full-time equivalent enrollments from just 1 percent two decades ago has come primarily from providing access for large numbers of at-risk students with an unmet need for higher education.[16] Historically underrepresented and underserved students recognize today's occupations require an ability to utilize information technology, Internet technologies, and adapt to rapid change—skills acquired through higher education.

Career colleges provide access to higher education to the poor, the academically disadvantaged, and minorities. Mark Kantrowitz, one of the country's best recognized nonpartisan experts on student financial aid and publisher of highly regarded FinAid.org, estimates that 63 percent of students enrolled at career colleges received a Pell Grant, compared with 23 percent at public colleges and 26 percent at non-profit colleges.[17] Pell Grants, the largest federal grant program, have historically been given to families with low incomes.

The majority of career college students are also the first generation in their family to attend post-secondary education and have no family educational legacy, long considered a risk factor to graduation. Sixty-three percent of students in career colleges come from families with no higher education while the percentage stands at just 34 percent of public schools students and 28 percent of private, not-for-profit school students.[18] Minorities are also using career colleges to access post-secondary education. More than 40 percent of students at career colleges are minorities, compared to 26 percent at public institutions and 19 percent at private, non-profit institutions.[19]

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Why Do Career Colleges Attract So Many Students?

Institutions like Brown Mackie, which Michelle Stewart attends, are privately owned schools more familiar to many by their brand names, such as DeVry University, the University of Phoenix, and Kaplan. Some of the proprietary institutions are small, privately owned entities, while others are parts of publicly traded corporations, but they all operate on a for-profit basis. The proprietary sector has evolved from predominately vocational trade schools offering certificates to include degree-granting institutions. There is now a tremendous variety of career college institutions from two- and four-year schools where students receive Associate's, Bachelor's and Master's degrees to auto mechanic, truck driving, and beauty certificate schools, as well as hybrid and exclusively online programs. Fifty-five percent of awards earned at career colleges in the 2008-2009 school year were less than two-year certificates, 22 percent were Associate's degrees, 13 percent were Bachelor's degrees, and 10 percent were Master's degrees or higher.[20]

Career colleges respond directly to the demand of students, employers, and the economy. They apply a customer service model based on convenient locations, flexible schedules, online programs, shortened program times, academic counseling, financial aid advising, hands-on job training, and job placement. The institutions do virtually no academic research. Faculty members are professionals in the subjects they teach, and are focused on the needs of non-traditional adult learners. Students are typically asked for extensive feedback on each course and each instructor. The curriculum is constantly reevaluated through the use of employer advisory councils so that programs adjust quickly to changes in the marketplace and in job availability.

Career colleges play an important role in technology and business degrees, but are especially dominant in health care credentials.

Today, 1.9 million students are enrolled in career colleges, accounting for 12 percent of all college enrollments.[21] They are a significant set of potential workers in the fastest growing occupational sectors. Career colleges play an important role in technology and business degrees, but are especially dominant in health care credentials, awarding 32 percent of the graduate and undergraduate degrees as well as certificates in the federal government's health professions and clinical services categories. This includes:

- 88 percent of medical and clinical assistant awards;
- 80 percent of medical insurance coding awards;
- 79 percent of all allied health and medical assisting services awards;
- 76 percent of pharmacy technician/assistant awards;
- 75 percent of hospital facilities administration/ management awards;
- 63 percent of health and medical administrative awards; and
- 52 percent of dental support services and allied professions awards.

In fact, one of the few health professions and clinical services areas in which career colleges do not have a commanding majority of all awards is in nursing, at just 11 percent, largely because of ceilings created by state nurse licensing boards that prevent career colleges, as well as other institutions, from adding needed capacity in nurse training.[22]

There Is Not Even Agreement on Graduation Rates

Is the career college graduation rate 65 percent, 46 percent, 22 percent, or 14 percent? All these graduation rate conclusions have appeared in reputable studies with most data originating with the Department of Education's three main education data sources. What is the realistic graduation rate, especially given differences in programmatic concentrations and student demographics between post-secondary sectors?

The standard graduation rates reported by the Department of Education only capture full-time students completing degrees or certificates from the colleges where they first enrolled within a six-year period. That results in a highly incomplete understanding of graduation rates, because it excludes part-time, returning, and transfer students—all important constituencies, not only for career colleges, but also for community colleges and other institutions whose students do not fall into the traditional category. The calculations are also deficient because they compare graduation rates on an institutional rather than on a programmatic basis. This means that graduation rates for students pursuing Associate's degrees at career colleges are not necessarily compared to students pursuing Associate's degrees at traditional schools. For example, only 51 percent of completions at four-year career colleges are for Bachelor's degrees compared with 95 percent of completions at four-year public colleges and 96 percent of completions at four-year private, non-profit schools. Consequently, the 43 percent of completions for Associate's degrees and 6 percent of completions for non-degree certificates are not included in the graduation statistics for four-year career colleges.[23] Lastly and importantly, the standard career college graduation metrics do not correct for the host of at-risk socioeconomic factors impacting completions so that similar groups of students are not compared to one another.

While career colleges in aggregate do as well or better at graduating post-secondary students than do other types of institutions, their best performance is at the two-year institution level.

Overall, career colleges have an average 46 percent graduation rate compared to 45 percent for all colleges, based on the standard definition of first-time, full-time students. While career colleges in aggregate do as well or better at graduating post-secondary students than do other types of institutions, their best performance is at the two-year institution level. Two-year career colleges have a 57 percent graduation rate compared to 20 percent at two-year public schools and 52 percent at two-year non-profit private institutions. For less than two-year programs, career colleges have a 67 percent graduation rate compared to 78 percent at public schools and 74 percent at non-profit, private schools. Four-year career colleges have a 30 percent graduation rate compared to 52 percent at four-year public institutions and 62 percent at four-year non-profit private institutions.[24]

The Department of Education does not break down graduation rates based on socioeconomic status. The closest we can get to keeping comparisons within similar student populations is to look at the Department's data on Pell Grant students and race. The Imagine America Foundation has sponsored third-party analysis of graduation rates for low-income and minority students using the Department's data.

Career colleges excel at graduating low-income populations at the two-year and four-year level compared to public institutions. For four-year schools serving mainly low-income populations, 55 percent of students at career colleges graduate compared to 31 percent of those attending public institutions and 39 percent at private not-for-profits. The positive gap in favor of career colleges is even larger—twice as large—for two year schools serving low-income populations. For two-year schools, students at career colleges graduate at a rate of 56 percent compared to 24 percent and 45 percent at equivalent public and private schools.[25] Other industry analysis has supported similar positive conclusions about the efficacy of career colleges at graduating low-income students.[26]

Career colleges are better at graduating minority students than public institutions at both the two-year and four-year levels.

Career colleges are better at graduating minority students than public institutions at both the two-year and four-year levels. Four-year career colleges that predominantly serve minority students exhibit a higher graduation rate than public and private institutions that serve minority students—47 percent versus 33 percent and 40 percent, respectively. For two-year colleges that predominantly serve minority students, 56 percent of students graduate, compared to 16 percent at public schools and 44 percent at private institutions.[27] Other industry analysis has supported similar positive conclusions about the success of career colleges at graduating minority students.[28]

Interestingly, career colleges are also the schools of choice for minorities on the staffing side. They employ more minority faculty than do all other post-secondary institutions. A quarter of career colleges' faculties are minorities compared to representation in the low-to-mid-teens percentage in the other school categories.[29]

Cohort Loan Default Rates Are an Imperfect Metric

Career colleges have been attacked because their cohort default rates are substantially higher than the rates at traditional institutions. The cohort default measure calculates the percentage of all borrowers from a college who enter repayment one fiscal year and who default by the end of the subsequent fiscal year. A college can lose eligibility to participate in federal student aid programs if its cohort default rate is too high—25 percent or greater for three years in a row or 40 percent or greater in any one year. The Department's calculation of official two-year 2008 cohort default rates most recently showed that career colleges had an 11.6 percent default rate compared to 6 percent for public institutions and 4 percent for private, not-for-profit institutions.[30,31]

The higher cohort default rate at career colleges reflects characteristics that make students more likely to default on their loans. The Department of Education does not make default data available based on socioeconomic status. However, institutions that educate students with similar socioeconomic backgrounds—career colleges, community colleges and to a certain extent historically black colleges—also have similar cohort default rates.[32]

Mark Kantrowitz has attempted to look at cohort default rates independent of demographic differences. He has found that the risk factors affecting persistence and attainment account for 60 percent of the difference in default rates between proprietary and non-profit colleges and 39 percent of the difference in default rates between proprietary and public colleges. The most significant of these risk factors are Pell Grant recipient status, whether the parents received at least a Bachelor's degree, dependency status, and household size.[33]

- Pell Grant recipient status accounts for 33 percent of the difference in default rates between for-profit and not-for-profit colleges and 31 percent of the difference in default rates between for-profit and public colleges.
- Whether parents received at least a bachelor's degree accounts for 18 percent of the difference in default rates between for-profit and not-for-profit colleges and 8 percent of the difference in default rates between for-profit and public colleges.
- Dependency status accounts for 17 percent of the difference in default rates between for-profit and not-for-profit colleges and 14 percent of the difference in default rates between for-profit and public colleges.
- Household size accounts for 21 percent of the difference in default rates between for-profits and not-for-profits and 17 percent of the difference between for-profits and public colleges.[34]

Proposed New Gainful Employment Metric Arises from Discomfort with a Nontraditional Education Model

The Gainful Employment Notice of Proposed Rulemaking (NPRM) offers interesting insight into the issues aggravating the Department of Education into defining gainful employment for the first time. First, enrollment in for-profit post-secondary institutions has tripled to 1.9 million between 2000 and 2008. Second, the Department cites as problematic the fact that publicly traded for-profit institutions reported average operating margins of 21 percent in 2009 compared to the Standard & Poor's 500 long-term average operating margin of 6 percent. Third, the Department believes many programs offered by the private sector lead to high levels of debt that cannot be paid off because graduates command low incomes.[35]

Calculations will rely on a snapshot of a student's employment in the three years after graduation, rarely the final destination in terms of income and career achievement.

Gainful employment will apply three tests of Title IV eligibility to career colleges: a loan repayment rate, a debt-service-to-income ratio, and a debt-service-to-discretionary-income ratio. Based on a program's performance under these tests, the program may be eligible, receive restricted eligibility, or become ineligible for Title IV funds. For programs to remain eligible for funds—although with possible restrictions—all borrowers entering repayment must meet one of three thresholds: a student debt-to-income ratio below 12 percent, a student debt-to-discretionary income ratio below 30 percent, or a federal loan repayment rate above 35 percent.

There are also tighter thresholds for full eligibility to Title IV funds without restrictions:

- A debt-service-to-income ratio of at most 8 percent;
- A debt-service-to-discretionary income ratio of at most 20 percent; or
- A loan repayment rate of at least 45 percent.

Programs that do not satisfy at least one of these tighter thresholds are subject to restrictions including limits on enrollment and required certifications from employers as to their satisfaction with the programs.[36]

Debt-to-Income Ratios. The debt-to-income ratio requirements in the gainful employment proposal will impose a misguided benchmark primarily on career colleges, in order to determine whether graduates are earning enough income to repay the debt incurred for their education.[37]

Compliance with debt-to-income tests is difficult to evaluate, given that calculations will be based on income data from the Social Security Administration, not a matter of public record.[38] Debt-to-income calculations will also rely on a snapshot of a student's employment in the three years after graduation, rarely the final destination in terms of income and career achievement. Even alternative proposed calculations to measure earnings of graduates for four to six years after graduation are not a good long-term evaluation of the full measure of a graduate's career prospects. Many people experience a significant increase in earnings after their first couple of career posts.

The Department is taking a simplistic approach in measuring employment success through the debt-to-income ratios. Students in pursuit of higher education do so with the hope that it will make their world better tomorrow and better still every day after that. Many students are seeking occupational programs leading to entry level jobs that are a step up from minimum wage jobs or even no employment. These students have typically had little academic success in high school or traditional higher education institutions, have to start somewhere, and if given access to an entry-level occupation through a career college, may then be motivated to press forward again in their education and career ambitions, much like the example of student Michelle Stewart cited earlier.

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Loan Repayment Rates. The loan repayment rate will measure if the borrower is actually repaying his or her education debt, defining both repayments and borrowers in a manner to lower career college compliance.[39] The new loan repayment calculation will reduce career colleges' eligibility for Title IV funds by considering student loans that are in deferment, forbearance, consolidation or other approved interest-only payment programs as being in default although these agreements are perfectly legal, long-established consumer protections. Inclusion of non-completers in the pool of borrowers will also hurt repayment rates because failure to complete one's academic program is considered one of the strongest predictors of default among all student types at all types of schools.[40]

The repayment rates, like cohort default rates, do not correct for differences in student demographics and thus are a less meaningful benchmark than suggested. The loan repayment requirement will discriminate against career colleges, which enroll high percentages of minority students and Pell Grant recipients.

Career colleges have the lowest loan repayment rates in the post-secondary area according to Department calculations. The loan repayment rate for all colleges in aggregate stands at 51 percent, but it is 36 percent for career colleges, 54 percent for public institutions, and 56 percent for non-profit private institutions.

- For four-year schools, the loan repayment rate is 37 percent at career colleges, 56 percent at public schools, and 56 percent at non-profit, private schools.
- For two-year schools, the loan repayment rate is 34 percent at career colleges, 40 percent at public schools, and 52 percent at private, non-profit schools.
- For less than two-year schools, the loan repayment rate is 35 percent at for-profits, 51 percent for public schools, and 40 percent for private, non-profit schools.

The gainful employment rule would force career colleges to eliminate programs, shift at-risk students to traditional schools, and reduce career college tuition pricing.

Accordingly, 40 percent of career colleges have loan repayment rates below the problematic 35 percent cut-off compared to 19 percent of public schools and 12 percent of private, non-profits.[41]

Colleges that enroll primarily students who qualify for Pell Grants are extremely unlikely to have eligible loan repayment rates. Colleges with a higher proportion of Pell Grant recipients tend to have lower loan repayment rates, and career colleges have the highest proportion of Pell Grant recipients. The average loan repayment rate is 66 percent at colleges where less than 10 percent of students receive a Pell Grant, compared to a repayment rate of 26 percent at colleges where more than two-thirds of the undergraduate students are Pell Grant recipients.[42]

Similarly, colleges that enroll primarily minority students are extremely unlikely to have eligible loan repayment rates. Colleges with a higher proportion of minority students tend to have lower loan repayment rates and career colleges have the highest proportion of minority students. The correlation between the percentage of minority students enrolled at a college and the school's repayment rates is even stronger than the correlation with Pell Grant recipients, R-squared of 98.7 percent.[43] The average loan repayment rate is 62 percent at colleges with less than 10 percent minority enrollment, compared with a repayment rate of 30 percent at colleges with more than two-thirds minority enrollment.[44] Research has shown that default rates are much higher for African American and Hispanic students.[45]

Harmful Consequences of the Gainful Employment Rule

The gainful employment rule would force career colleges to eliminate programs, shift at-risk students to traditional schools, and reduce career college tuition pricing. Its impact on career colleges programs will be severe, while the impact on traditional schools will be negligible. The career college industry has calculated that the gainful employment rule will eliminate programs serving 32 percent of students at career colleges.

Mark Kantrowitz has also calculated that the impact on career colleges will be severe, with 26 percent of programs becoming ineligible and an additional 30 percent of programs becoming restricted and having to issue debt warnings. This means that only 44 percent of career college programs will remain fully eligible. Peeling back the onion a bit further, approximately 38 percent of career college Associate's programs and 22 percent of career college Bachelor's programs will become ineligible. Roughly 35 percent of career college Associate's programs and 48 percent of career college Bachelor's programs will have restricted eligibility.[46]

Impacted career schools will address the fallout from the gainful employment rule by becoming more selective on the admissions front. As a result, many at-risk students will be lost to higher education. Career colleges will have to select against at-risk students to improve their low loan repayment rates, making them less likely to enroll students from disadvantaged low-income, minority, and first-generation backgrounds.

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Traditional schools will not respond with increased access for the displaced at-risk populations given budget pressures limiting enrollment and frequently more selective admissions policies. Also, students without a strong educational legacy and with nontraditional needs will have trouble navigating the change to traditional institutions and programs and may be lost to higher education. While some students may accomplish the move to traditional schools, shifting minority and Pell Grant students from career colleges with low loan repayment rates to traditional colleges with high loan repayment rates is fruitless, since the enrollment of at-risk students is a primary cause of low loan repayment rates.[47]

The gainful employment proposals will have a significant negative impact on the enrollment of low-income Pell Grant recipients at for-profit colleges. More than half of Pell Grant recipients are enrolled at schools with ineligible loan repayment rates under 35 percent. Another one-third of Pell Grant recipients at for-profit colleges are enrolled at schools with restricted loan repayment rates between 35 percent and 45 percent.[48]

The gainful employment proposals will penalize minority students given that eligible colleges will have few minority students while ineligible colleges will have proportionately large minority enrollments. All colleges with a higher proportion of minority students have lower loan repayment rates and career colleges have the highest proportion of minority students. More than half of minority students (57 percent) are enrolled at career colleges with ineligible loan repayment rates and a third of minority students are enrolled at colleges with restricted loan repayment rates.[49]

The gainful employment proposals will reduce the ability of career colleges to respond to emerging job opportunities with appropriate new programs because new rules will apply severe restrictions on offering the contemplated programs. New career college programs will need to:

- Be approved by accrediting agencies;
- Project student enrollment for five years at each location which may offer the new program; and

- Have prospective employers document that there will be demand for graduates of these programs.

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These restrictions will impact one of the most important fundamental strengths of career colleges relative to traditional schools: to shift programs quickly in order to meet changing student demand, employer demand, and new technologies. For example, 10 years ago, the highest percentage of DeVry University's undergraduate students were enrolled in its information technology programs while today the largest proportion of DeVry's undergraduate students are enrolled in its business programs.

Public universities will be slow to respond to the need for new programs given their primary source of funding is from budget-challenged state governments. The direct government funding for traditional schools adversely impacts the introduction of new programs in two ways. First, state legislatures control the purse strings to fund new programs, which results in a protracted time for new programs to come to market. Second, traditional schools are not likely to get up to speed without the competitive pressure from career colleges pushing them to do so. A stark illustration of the failure of traditional schools to respond to new program demand can be seen in the rapid growth over the past decade of career colleges' share of the online learning market, which is now 32 percent, far higher than the proprietary sector's 12-percent market share of total enrollment.[50]

The Department expects that impacted career colleges will address the fallout from gainful employment with tuition price reductions. While this may happen in some instances, program closings, reduced enrollment, and commensurate reductions in staff are the more likely scenario. The mere prospect of the gainful employment rules has already destroyed 700 jobs at bellwether Apollo Group as well as a number of the smaller career college companies.[51] The Department anticipates that at least half of the career college industry will adjust pricing downward by an average 10 percent to comply with the proposed loan repayment regulations given a large proportion of the for-profit institutions have low repayment rates on their loans, but tuition price reductions may prove to be a more limited tool to manage gainful employment consequences than anticipated.[52]

The Positive Economic Case for Career Colleges

A thriving career college sector has a number of economic benefits.

- Career colleges are the most cost effective post-secondary channel from a taxpayer standpoint.
- The total revenues or resources needed to educate an individual student at a career college are less than the cost of educating a student at a public institution or a private not-for-profit school.
- Students benefit from achieving higher education credentials in the form of significantly enhanced earnings over their lifetimes, representing an attractive return on their higher education spending.
- The country's public policy goal of raising the proportion of the population with higher education credentials can be achieved most productively and innovatively by the career college sector.

Critics of private sector colleges often fault the fact that tuition—and consequently federal financial aid to career college students—is substantially higher than at public institutions and private not-for-profit schools. This is a flawed analysis, since the aid is not placed in the context of the low income of career college students and the tuition is not placed in the context of an almost complete absence of direct government support as well as endowment earnings or private gifts at career colleges compared to the other post-secondary sectors.

Career colleges and their students receive substantially less support from all levels of government on a per-student basis, directly and indirectly, than public and private not-for-profit institutions. The most comprehensive study (of many) of the true direct and indirect government support of enrolling post-secondary students was done in September 2010 by Robert J. Shapiro of Sonecon, an economic advisory firm that analyzes the impact of government policies.[53] Shapiro's analysis examines all forms of federal, state, and local government support as well as the total resources or revenues required to educate students across the three sectors of higher education: public, private not-for-profit, and career colleges for the two- and four-year categories.

Career colleges and their students receive substantially less support from all levels of government on a per-student basis, directly and indirectly, than public and private not-for-profit institutions.

The analysis in Table I below illustrates that, across the board, combined annual government support per enrolled student is greatest for public institutions and smallest for career colleges. Four-year career colleges receive an average of $2,394 per student in direct and indirect federal, state, and local government support, net of taxes paid, compared to

Across the board, combined annual government support per enrolled student is greatest for public institutions and smallest for career colleges.

$7,065 at four-year private not-for-profit schools and $15,540 at four-year public institutions. Two-year career colleges receive $3,628 per student in total direct and indirect support from federal, state, and local government, net of taxes paid, compared to $5,244 at two-year private not-for-profits and $6,919 at two-year public institutions.[54]

The analysis in Table I does not recognize federal loan value as the relevant cost for the government support comparison since the actual cost of student loans to government and taxpayers is based on the extent of interest rate subsidies provided and the default rates. Shapiro notes, "The interest subsidies are the same for student-borrowers at all three classes of institutions, but the default rates are higher among students from career colleges than…in the other education channels."[55] The analysis also recognizes that career colleges generate tax revenues to federal, state, and local governments while non-profits and public schools are tax-exempt.

The largest proportion of government support for four-year public institutions (59 percent) is provided by direct state and local grants, appropriations, and contracts. The chief government support for four-year private not-for-profits (58 percent) is provided by direct federal grants and contracts. Four-year career colleges receive nearly all of their government support (92 percent) from indirect federal student financial aid programs. While there is a modest amount of direct federal and state support for career colleges, this is more than offset by tax payments by the schools.

The largest proportion of government support (60 percent) at two-year public institutions is also from direct state grants. For two-year private not-for-profit institutions, the main government support

Table I: Federal, State and Local Government Support, Post-Tax, Per-Enrolled Student, for Two-Year and Four-Year Institutions of Higher Education, by Class of Institution

	Two-Year Institutions of Higher Education			*Four-Year Institutions of Higher Education*		
	Public	**Private Not-for-Profit**	**Private for Profit**	**Public**	**Private Not-for-Profit**	**Private for Profit**
Total Government Support	**$6,919**	**$5,244**	**$3,628**	**$15,540**	**$7,065**	**$2,394**
Federal	2,289	3,610	3,690	5,192	5,398	2,755
State & Local	4,631	1,634	424	10,348	1,668	236
Tax Liability	0	0	-485	0	0	-597
Direct Support Provided to Institutions						
Total	$5,233	$2,359	$599	$13,240	$4,765	-$22
Federal	1,052	1,681	971	4,004	4,114	549
State & Local	4,181	678	113	9,235	651	26
Tax Liability	0	0	-485	0	0	-597
Indirect Support Provided to Students						
Total	$1,687	$2,885	$3,030	$2,300	$2,301	$2,416
Federal	1,237	1,929	2,719	1,188	1,284	2,206
Grants	1,186	1,650	2,012	1,035	1,059	1,565
Interest Subsidies	42	181	323	124	181	347
Cost of Defaults	10	98	383	29	43	294
State & Local	$450	$956	$311	$1,112	$1,017	$210

Source: Robert J. Shapiro and Nam D. Pham, Taxpayers' Costs to Support Higher Education: A Comparison of Public, Private Not-for-Profit, And Private For-Profit Institutions, September 2010.

(37 percent) is from indirect federal student financial aid. For the two-year career colleges, most of the support (75 percent) is from indirect federal financial aid.

Four-year career colleges receive 15 percent of the government support per-student provided to public institutions, and less than 34 percent of the government support per-student received by private not-for-profit institutions. Two-year career colleges receive 52 percent of the government support of public institutions and 69 percent of the government support of private not-for-profits.

Career colleges need fewer resources or annual revenues per student than public or private not-for-profit institutions, especially among four-year schools.

Career colleges need fewer resources or annual revenues per student than public or private, not-for-profit institutions, especially among four-year schools as indicated in Table II. In 2008, four-year private not-for-profit institutions had revenues equal to $38,261 per-enrollment compared to $29,386 per enrollment for four-year public institutions and just $10,375 per-enrollment for four-year career colleges. However, across two-year institutions, revenues per-enrollment were effectively equal at $13,200 and $13,700, respectively, for career colleges and private not-for-profit institutions compared to $7,530 at public institutions.[56]

Tuition is the largest source of revenue for four-year career colleges and two-year career colleges—88 percent and 84 percent, respectively. Career colleges must rely on tuition for the bulk of their resources or revenues because they have less access to direct government appropriations. Consequently, tuition is higher at career colleges than at public schools which receive substantial direct funding from the government. Given the low incomes of career college students, the students in turn rely heavily on government education loans to pay their tuition. This is why there is significantly greater student reliance on

Table II: Sources of Revenues of Two-Year and Four-Year Institutions of Higher Education, by Source and Class of Institution, Fiscal Year 2008

	Public	Private Not-for-Profit	Private for Profit
	Two-Year Institutions of Higher Education		
Tuition	$1,204	$7,832	$11,037
Government	5,233	2,359	1,083
Federal	1,052	1,681	971
State & Local	4,181	678	113
Private	1,093	3,467	1,056
Total	$7,530	$13,658	$13,176
Enrolled Students	6,693,185	46,335	361,091
	Four-Year Institutions of Higher Education		
Tuition	$5,161	$13,907	$9,162
Government	13,240	4,765	575
Federal	4,004	4,114	549
State & Local	9,235	651	26
Private	10,986	19,589	638
Total	$29,386	$38,261	$10,375
Enrolled Students	7,331,849	3,626,547	1,173,459

Source: Robert J. Shapiro and Nam D. Pham, Taxypayers' Costs to Support Higher Education: A Comparison of Public, Private Not-for-Profit, And Private For-Profit Institutions, September 2010.

government educational loans at career colleges than at public and private not-for-profit institutions. While a healthy private lender community providing student assistance would be ideal, the current level of federal involvement and difficult credit market environment makes such a scenario unlikely. Therefore, as long as they remain in their current form, existing federal aid programs and gainful employment regulations should not discriminate among different educational sectors.

The investment in education credentials is worthwhile for students. Bachelor's graduates are able to earn back the full cost of their tuition with the enhanced earnings for a Bachelor's degree versus a high school degree, assuming six years in school, in slightly less than three years.

Public institutions are able to rely on state government resources for their largest source of revenues, with four-year institutions capturing 31 percent and two-year institutions generating 56 percent of their revenues from state and local governments. Four-year private not-for-profit schools derive the largest proportion of revenues, 51 percent, from private sources while two-year private not-for-profits capture their largest source of revenues, 57 percent, from tuition.

Higher education credentials allow individuals to earn higher incomes, with earnings rising along with education. In 2007, those who held an Associate's degree earned $8,460 or 27 percent more on average than those with only a high school education. Those with Bachelor's degrees earned $17,435 or 44 percent more than those with an Associate's degree and $25,895 or 83 percent more on average than those with only a high school degree. The differences were greatest for minorities and those from low income families.[57]

The investment in education credentials is worthwhile for students. Bachelor's graduates are able to earn back the full cost of their tuition with the enhanced earnings for a Bachelor's degree versus a high school degree, assuming six years in school, in slightly less than three years. Associate's graduates are able to earn back the full cost of their tuition with the enhanced earnings for an Associate's degree versus a high school degree, assuming three years in school, in a little over four years.[58]

Given changes in the economy in recent decades and that jobs requiring at least an Associate's degree are projected to grow twice as fast as those requiring no college experience, President Obama has made it a priority of his administration to increase access to higher education. The president's American Graduation Initiative has a goal to create 5 million new associate/certificate degrees by 2020.[59] The administration aspires to increase degree attainment primarily through the expansion of the nation's community college system. Community colleges are already a huge post-secondary channel, educating 44 percent or 7.3 million undergraduate students (not including more than 6 million noncredit students).[60]

To create 5 million new Associate's degrees through the public two-year institutions would cost $250 billion in combined federal, state, and local government support, using Shapiro's estimated cost of $49,864 in total government support per graduate.[61] This strategy for capacity expansion is clearly unrealistic in the current budget environment. Community colleges nationwide are trying to find ways to limit enrollment given budget pressures in state legislatures. For example, budget cuts in California could force its community college system, the largest collegiate system in the U.S., to turn away about 350,000 students next year.[62]

In contrast, career colleges are well positioned to grow capacity to meet the nation's need for more college graduates without such significant taxpayer subsidies. To create 5 million new Associate's degrees through the career colleges channel would cost $75 billion in combined federal, state and local government support, according to Shapiro's estimate of $14,932 in total government support per graduate.[63] The career college sector is also able to invest substantial amounts of its own capital in capacity expansion. The sector was already on track to invest more than $10 billion in its post-secondary infrastructure over the next 10 years if it simply maintained the pace of annual capital spending in place prior to the introduction of the Gainful Employment Notice of Proposed Rulemaking in July 2010.[64] Career colleges are criticized for their profit margins, yet these profits are almost always retained to allow the schools to expand into new programs, facilities, faculty and students. Only four of the 14 publicly traded career college firms pay a dividend, which is generally a modest percentage of earnings per share. Consequently, the schools can expand capacity quickly with far less need for federal and state funds.

Career colleges are well positioned to grow capacity to meet the nation's need for more college graduates without significant taxpayer subsidies.

Conclusion

Career colleges provide a successful channel to post-secondary education and upward mobility for at-risk nontraditional student populations, at a lower true taxpayer cost than public institutions and private not-for-profit schools. The Department of Education's proposed gainful employment rules will limit higher education choices by severely impacting career college programs, causing the majority of programs to become ineligible or face significant restrictions for access to student federal financial aid. For the federal government to undermine career colleges in this way would cause significant damage to the nation's most vulnerable students, who may have few other options for pursuing post-secondary education and the enhanced earnings power that higher education produces.

The gainful employment rules will also reduce the ability of career colleges to respond quickly to emerging job opportunities with appropriate new programs because the new regulations will apply severe restrictions on offering the contemplated programs. The country's public policy goal of raising the proportion of the population with higher education credentials will also be stymied, since career colleges provide an innovative, cost-effective option to substantially expand the number of Americans with higher education.

Notes

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38 Schools will provide the Department of Education with lists of the students completing programs. The lists will be given to the Social Security Administration, who will report average earnings figures for each program. The Department of Education and the schools will not have access to an individual's income data.
39 The Department's new calculation of repayment rates differs from long-gathered cohort default rates that are perceived to have flaws. The loan repayment rate will count only the loans of borrowers who are making payments to principal of federal student loans as being in repayment. Traditional default management techniques will not be treated favorably in the calculation. In contrast, the cohort default rate calculates a percentage of borrowers who have defaulted on their loans leaving the calculation open to traditional default management techniques. Programs whose former students have a loan repayment rate of at least 45 percent will continue to be eligible for Title IV funds. Programs whose former students have loan repayment rates below 45 percent but at least 35 percent may be placed on restricted status. Programs whose former students have loan repayment rates below 35 percent may become ineligible.
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