

The “Gainful Employment” Rule: Student Handout #1

Introduction: For much of our nation’s history, a college education was accessible to only the chosen few wealthy enough pay for it. After World War II, the federal government provided college tuition grants in the form of the GI Bill. Gradually, states picked up a lot of the expense for a college education, keeping tuition costs down. The 1960s and 1970s saw the introduction of Pell Grants and federally sponsored college loans to help low-income and minority students. These actions by the government provide a subsidy that allows students to finance their education. The added funds lower the cost of education and enable more people to attend college, which in turn makes them more competitive in the job market. The cost to the taxpayer is offset by the value of having a more educated workforce to stimulate the economy.

The Rising Cost of Higher Education

Since the 1980s, the cost of college tuition has risen dramatically. However, state support for higher education has dropped significantly.

Decreasing State Support Subsidies for Higher Education (averages)		
1985	2005	
\$7,269	\$6,445	
Cost of Four-year College Tuition (averages)		
	1985	2009
One-year tuition, public college or university	\$2,784	\$7,020
One-year total expenses, public college or university	\$7,674	\$19,338
One-year tuition, private college or university	\$15,487	\$39,028
Total cost for four years, public college or university	\$32,000	\$80,000
Total cost for four years, private college or university	\$63,000	\$160,000

Source: National Center for Educational Statistics, U.S. Department of Education, Institute of Education Sciences

As federal and state tax revenues decline, legislators must decide which programs to continue funding and which should be cut. The cost-benefit analysis involved in these decisions raises important questions about the long-run economic implications of reducing support for higher education. What might happen if the cost of college tuition becomes too expensive for most Americans?

More People Attending For-profit Colleges

The draw to get a college education is as great as ever. Full-time workers aged 25 and over with college degrees make an average of \$20,000 a year more than those with only high school diplomas. With the ever-increasing implementation of advanced technology, the workplace is constantly and rapidly changing, and further education is often needed.

Median Annual Earnings by Education, Race and Gender			
2007 year-round, full-time workers			
Ages 25 and older			
	Not a high school graduate	High school graduate	Bachelor's degree
All workers	\$19,405	\$26,894	\$46,905
Sex			
Male	\$27,108	\$37,632	\$65,011
Female	\$20,341	\$27,477	\$47,333
Race			
White, non-Hispanic	\$30,381	\$35,647	\$59,644
Black	\$23,466	\$28,690	\$47,153
Hispanic	\$22,040	\$27,838	\$45,396
Asian	\$24,220	\$30,105	\$55,279

Source: Educational Attainment in the United States, 2007; U.S. Census Bureau

Traditional public and private institutions of higher education have found it difficult to find room for all the people who want advanced degrees or who need to boost their educational status. Enter the for-profit colleges and universities like University of Phoenix, Kaplan University and Argosy University. These institutions seek to fill this gap and provide a college degree to people who might not otherwise have the opportunity to get one.

The cost of these for-profit schools is usually higher than traditional public institutions and comparable to private college tuition. Despite these costs, students are attracted to for-profit schools because of their convenient locations, simple admission procedures and access to federal grants and loans to pay the costs.

Criticism of For-profit Colleges

Over the past several years, for-profit colleges and universities have come under increased scrutiny and criticism for high-pressure recruitment, deficient instructional programs and a poor record on employment placement that has made it difficult for students to pay off their college loans. The debt load for students at for-profit schools is, on average, more than twice that of traditional schools.

U.S. Department of Education Proposal

To address some of these concerns, the U.S. Department of Education is looking into strengthening some rules on the use of federal financial aid under the Higher Education Act. One of these rules says that vocational or career programs must “prepare students for gainful employment in a recognized occupation” to be eligible for federal grants and loans. “Gainful employment” means that the graduate will be able to earn enough of a salary to pay back any loans that were obtained to pay for college. The Department of Education would require for-profit institutions to show that graduates with a typical student debt are able to pay their loans in 10 years without taking more than 8 percent of their expected earnings.

For example, if a student has a debt upon graduation of \$9,000, his or her loan repayment would be \$1,250 per year. This would mean that the graduate would have to be making a salary of at least \$15,625 (\$1,250 is 8 percent of \$15,625) a year to satisfy the gainful employment standard. The rule is intended to do two things: 1) hold for-profit colleges and universities accountable to their promises; and 2) help graduates pay off their loans. Most students have post-graduate debt of \$23,000 or more, which would mean a graduate would need a salary of more than \$39,000.

Sources: “Is the Business Model of Higher Education Broken?,” a white paper by David W. Breneman, University Professor and Newton and Rita Meyers Professor in Economics of Education, University of Virginia, March 2010.

Stakeholder Positions

Your class will simulate a process used by policy-makers to analyze a proposed rule and provide feedback on whether it is an appropriate solution to a given problem.

In your class simulation, the U.S. Department of Education has gathered together a number of “stakeholders” to study the gainful employment rule and recommend whether or not it should be enacted. These recommendations will be seriously considered before any action is taken. You will be asked to represent the perspective of one of these stakeholders:

1. Representative from the Department of Education

The Department of Education believes for-profit colleges are playing an important role in fulfilling President Obama’s goal of making the United States the nation with the highest number of college graduates by 2020. As long as they provide students a great education, are honest about what they can offer, and there is value for the investment, for-profit institutions have a vital role to play in job training. The new gainful employment rule will allow for-profit institutions to continue to offer their services, make a profit, and expand their markets. It will also ensure students and taxpayers that for-profit institutions can back up their promises to effectively prepare students for gainful employment. Programs that help students get jobs within the 8 percent range would be allowed to continue. Programs that don’t will be put under closer scrutiny. The time to act is now. To do otherwise would place taxpayer funds at risk and discourage disadvantaged youths and adults from continuing their pursuit of education and training.

2. Former students who have benefited greatly from their education at a for-profit college

You represent a large group of college graduates who received basic and advanced degrees through a for-profit college or university. All of you found you were well served by the institutions you attended. You felt the recruitment and enrollment procedures were informative and the registration counselors were enthusiastic and helpful. They provided all the information you needed to make an informed decision. They also provided access to the financial aid you needed to pay the tuition and helped fill out and submit the forms to the proper agencies. The instructional programs delivered were what you expected, and the training helped you get a good-paying job.

3. Former students who didn't benefit from the educational experience

You represent a group of students who attended or graduated from a for-profit college or university and found the experience to be wanting at best. You were subjected to high-pressure tactics to enroll in classes quickly before you felt you had all the information you needed. You felt the instructional programs lacked adequate training and instruction to prepare you for the job market. Some of you found out after graduation that the institution you attended was NOT accredited (as was claimed by the college), and thus your degree doesn't provide the credibility you need to get the job you wanted. Many of you are now facing high student loan payments that you are not able to pay with the salary you are receiving.

4. Industry lobbyists concerned about overregulation and unfair treatment

You believe the Department of Education is hastily moving toward this rule without adequate research to back up the charges. There has been no study that shows for-profit schools provide fewer students with gainful employment than traditional education institutions. Another problem with the proposal is that it is estimated that the gainful employment rule as now written would basically force the for-profit institutions to eliminate 2,000 educational programs and leave 300,000 students without access to a college education. Many of these will be low-income and minority students. A counterproposal made by the for-profit education companies would require they provide full disclosure to prospective students on the debt they take would on and the employment prospects to help repay the debt. Students would be given information on the school's placement rates and projected salaries for jobs the student is qualified for. Such a proposal would provide the consumer protection that seems to be at the heart of the Department of Education's proposal.

5. Congressional representatives holding different concerns

You are members of Congress who have asked to be a part of this deliberation process. You are not a united front and basically are attending the meetings to listen and make sure the concerns of your constituents are heard. Here are the different positions held by all of you:

- **Congressional Group 1:** You are concerned that the for-profit institutions' marketing methods promise more than they can deliver. They too easily enroll students who are not fully prepared for college and will never be able to pay off their student loans. This is unfair to the American taxpayer. These companies need to be held accountable, and the Department of Education's proposal will make this happen. At the same time, access to federal money for higher education must be maintained and even increased. Forcing the cancellation of programs that don't meet the goals of the gainful employment rule may hurt low-income students who need financial aid to attend college so that they can compete in the job market.
- **Congressional Group 2:** Accountability is important. The taxpayers' money needs to be effectively managed and spent wisely. However, the Department of Education's gainful employment proposal is unrealistic and poses a danger of overregulating a thriving industry. No college financial aid office can predict the salary a student might receive on a job he or she hasn't even obtained. Traditional public and private higher-education institutions don't fall under this provision, only the for-profits. That doesn't seem fair.
- **Congressional Group 3:** It isn't a matter of whether the gainful employment rule is valid or not. The bigger question involves a potential violation of the separation of powers. Federal funds for tuition are provided under Title IV of the Higher Education Act. The gainful employment rule is intended to account for funds under that congressional act. Thus, it should be Congress and not the Department of Education establishing any rule or amendment relating to the act, not a Cabinet office within the executive branch. Congress should take up this matter when it moves to reissue the act in 2013.