February 2018

TO: Chairman Lamar Alexander & Ranking Member Patty Murray
FROM: Lanae Erickson Hatalsky, Tamara Hiler, & Michael Itzkowitz at Third Way
RE: Comments on the Reauthorization of the *Higher Education Act*

Dear Chairman Alexander and Ranking Member Murray:

Thank you for providing us with the opportunity to submit comments on the reauthorization of the *Higher Education Act* (HEA). Since HEA was last reauthorized in 2008, there have been significant changes to the economy, technology, and the demographics of today's college-going population—making an update to the law more vital than ever. Access to a quality degree beyond high school has become a prerequisite for economic success in our modern economy. Accordingly, the federal government invests a mammoth amount of taxpayer-funded financial aid into our higher education system. Yet the structures that were intended to ensure this investment is going towards schools and programs that are providing a true "value add" to their students, along with a path to economic success, are simply not working.

That is why the next HEA reauthorization cannot focus on affordability issues alone. Instead, it must address the lack of quality that exists in our higher education system—including the shocking reality that only half of students who start college today earn a degree, and at the average institution, one-third of students fail to earn more than a high-school graduate after enrollment and one in five students cannot repay their loans.[1] In order to truly move the needle and hold institutions accountable for their outcomes, any reauthorization bill must seriously address the inadequacies of higher education data and the accreditation system, as well as establishing minimum thresholds of quality and a mechanism that forces institutions or programs to have "skin in the game" and share the risk if the bulk of their students are getting poor outcomes. In addition to those systemic changes that need to be made, no HEA reauthorization should create loopholes that would allow more poor quality providers to access Title IV dollars or roll back key accountability measures like the Gainful Employment rule without finding a suitable replacement to protect students from attending schools that will make them worse off than when they enrolled.

The following comments outline Third Way's guiding principles for making sure the next reauthorization provides a net gain to students and taxpayers, and does not move us backwards, when it comes to improving the overall quality and value of postsecondary education in our country.

What an HEA Reauthorization Must Do

Offer Complete Data to Students and Policymakers

As part of the effort to expand effective measures to hold institutions and programs accountable for student outcomes, we also need better data to help assess and improve those outcomes across the United States. Though we can and should use the data we have available to us right now, because of statutory limitations, those looking to assess the likelihood of college success must currently use incomplete data.

Through the Student Right-to-Know and Campus Security Act of 1990, federal graduation rates were limited statutorily to first-time students who attend an institution on a full-time basis.[2] College demographics have changed significantly since 1990, and only 47% of students are now classified as "first-time, full-time."[3] Therefore, only accounting for graduation outcomes on these students limits the understanding of both students and taxpayers when it comes to how well an institution may help those who enroll complete a degree where they entered. This knowledge is also important for decreasing poor loan repayment outcomes, as we know that those most likely to default are those who do not complete.[4]

Additionally, because of a 2008 amendment that bans individual-level data from being collected and "matched" between different federal agencies, the Department of Education is statutorily limited and can only obtain institution- and program-level earnings data for students where federal information is already available—those who have received federal aid in the form of a grant or loan. As a result, nearly a third of students remain invisible in college earnings data today—a significant hole for students looking to enroll in an institution that is well poised to help them increase their economic mobility.[5]

A promising fix to address these shortcomings is the bipartisan, bicameral *College Transparency Act* (S.1121), which would lift the federal ban on student-level data.[6] Without a fix to our federal data infrastructure, students will continue to be tasked with making one of the biggest financial investments in their lifetime—a college education—without the full picture of the outcomes a school or program has with its students. Furthermore, the robust accountability system we so deeply need to improve quality and value in our higher education system cannot have optimal impact without strong transparency and accurate data readily available. We recommend that any HEA reauthorization includes a measure to create a student-level data network, so that our higher education market can function more effectively, students can "vote with their feet" when making this critical life decision, and taxpayers can get a clear understanding of where their money is being spent unwisely.

Establish Federal Guardrails that Protect Students and Taxpayers from the Worst Actors

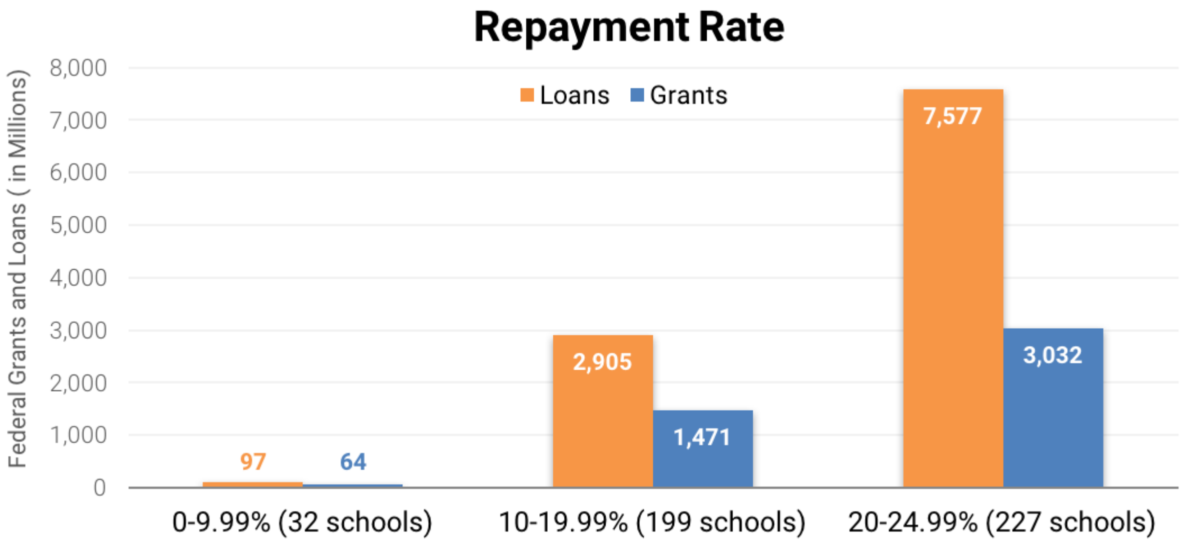
A key role of the federal government in higher education is to protect consumers from investing in programs and institutions that leave students worse off than if they had never attended at all. Yet the federal requirements we have in place today do almost nothing to prevent federal dollars from flowing to schools and programs with abysmal outcomes that provide no return on investment for the students they serve. For example, we still have more than 100 accredited institutions where less than 10% of their first-time, full-time students complete a degree at the institution where they started.[7] More than 1,700 higher education programs leave their graduates living below the federal poverty line.[8] And at nearly 500 institutions, three-quarters of student borrowers are unable to begin paying down their loans after three years.[9]

If we want the next HEA reauthorization to serve as a net gain for students and taxpayers, we must establish clear federal guardrails that will protect students from the worst performing institutions and programs. This includes setting bare minimums on graduation rates, earnings, and repayment rates in order for institutions to have access to Title IV funds. This also includes measuring the number of students that earn below the federal poverty line, as well as equity gaps, and establishing that schools cannot access federal funds if they have higher default rates than graduation rates. And it includes maintaining or strengthening key consumer protections like the 90-10 rule, which provide a market check on how taxpayer dollars are spent.

Create a Bar for Loan Repayment Rates

One of the few federal bottom lines that does currently exist in higher education is the Cohort Default Rate (CDR). But as many have noted, CDR is an insufficient metric to assess institutional effectiveness, especially given that only 11 institutions have lost federal eligibility to participate in federal financial aid programs because of CDR since 1999.[10] To create a more comprehensive measure of how well institutions are preparing students to repay their loans, we should institute a "loan repayment rate" that identifies if students are actually able to begin paying down their federal loans within three years of beginning repayment.

Using a loan repayment rate could better assess market-based outcomes for students after they attend by measuring the percentage of students able to pay down $1 on their loan principal within three years of leaving. Redefining institutions' ability to gain access to federal student aid programs in this manner will not only provide safeguards for students by not allowing them to borrow federal dollars for programs where they have little chance to repay, but also target federal loans toward programs that will provide significant savings for taxpayers.



For example, just last year, there was over $4.3 billion in taxpayer dollars funneled to institutions where less than one in five students were able to pay down $1 on their loan principal within three years of leaving.[11] If, for example, we limited institutions' ability to access federal aid if their loan repayment rates were below 20%, we could better target federal financial aid toward programs that ensure that former students are actually earning enough to pay down their federal debt.

Refocus Accreditation to be about Student Outcomes

Accreditation is the gateway to hundreds of billions in Title IV federal financial aid, so it should be squarely within Congress's jurisdiction to make sure that accreditors focus more on student outcomes as part of their oversight and assessment of the more than 6,000 institutions they are responsible for monitoring. Without reform, this area of policy continues to leave a huge hole for taxpayer dollars to flow to institutions that are wasting it by making students no better (or even worse) off than when they enrolled.

Strengthening accreditation is necessary given that the "continuous improvement" charge with which accreditors are tasked is not currently translating into strong long-term outcomes. For example, 680 accredited institutions had fewer than half of their students graduate, earn more than the average high school graduate, and pay down $1 of their loan principal within three years of entering repayment.[12] It's clear that the accreditation stamp of approval is an insufficient marker of quality as currently constructed.

In the next *Higher Education Act*, we recommend that you require accreditors to incorporate federal graduation rates, labor-market outcomes, and loan repayment rates as part of their institutional assessments. While these metrics can be considered in addition to others that accreditors deem important, requiring the use of consistent and comparable data on key student outcomes is critical if we wish to have assessments at the institution level that align with longer-term success for those who attend.

Ensure Institutions Share the Risk for Poor Student Outcomes

In addition to establishing clear federal bottom lines, a new HEA must also find ways to incentivize institutions for continuous improvement while also limiting federal dollars to those institutions who do not serve students well. One of the most promising ways to address these concerns is through a risk-sharing policy that requires institutions to bear some responsibility for their students' outcomes. While the details of what metrics to include in a risk-sharing proposal are up for debate, there are three main principles that we believe any risk-sharing proposal must include:

First, any risk-sharing proposal should have gradual sanctions for institutions that fail to meet certain thresholds. This means that an institution that demonstrates the worst outcomes should end up paying a higher portion of federal funds—including grants and loans—back to the government if a higher percentage of their students fail to succeed. By creating a graduated policy instead of an on or off switch, we could incentivize those schools and programs who perform poorly to do better over time, rather than cutting off all federal funds immediately (like CDR and other federal bottom line proposals would do). And we could ensure that we are not simply keeping out the worst actors but also driving improvement by those that have poor and middling outcomes.

Second, any risk-sharing policy must incentivize institutions to enroll a higher percentage of lower-income students and provide additional rewards to those institutions demonstrating good outcomes with those students. As lower-income students are often deemed "riskier," any policy that requires institutions to bear a financial responsibility for poor student outcomes should not come at the expense of an institution enrolling and doing well by this student demographic, which graduates only one-fourth as often as their higher-income peers.[13] Building into a risk-sharing formula the percentage of Pell Grant students attending an institution is one way to control for this problem and balance the dual goals of access and accountability.

Lastly, any risk-sharing proposal should take into account the totality of the federal aid given to institutions—which includes Pell Grants and federal loans—when considering the "risk" incurred. Every year, the federal government doles out nearly $30 billion in Pell Grants to institutions. While loans may be a riskier bet for students, wasting that investment is a huge risk to taxpayers. We should make certain that any risk-sharing plan requires institutions to take responsibility for both loan and grant investments if they show consistently poor student outcomes.

What an HEA Reauthorization Must Not Do

DON'T Simplify Programs at the Expense of Low- and Moderate-Income Students

There is no doubt that higher education is ripe for simplification—especially our financial aid system, which requires students to navigate a complex maze of grants, loans, financial aid forms, and repayment programs. However, any efforts to streamline the financial aid application process or the number of grant and loan options available to students and their families must not disproportionately affect access or funding to the low- and moderate-income students who rely on financial assistance the most. This means that any proposed changes to FSEOG, Federal Work Study, or other loan and grant programs must result in a net gain for students and better targeting of those funds to *high-needs* students. Simplification cannot be allowed to act as a smokescreen for cuts to financial assistance that would in any way impede access to higher education for low-income students.

DON'T Create Loopholes for Poor Quality Programs to Access Title IV Dollars

With the shifting demographic of today's higher education students and a workforce that increasingly requires workers to possess postsecondary credentials, the next HEA reauthorization must make our higher education system more responsive to the needs of today's economy. That may include finding ways to implement and scale innovative models that redefine what it means to be a postsecondary student or an institution of higher education. But as Western Governors University President Scott Pulsipher often states, "innovation without results is not innovation."[14]

With attention growing toward innovative models like competency-based education and short-term programs designed to close the skills gap, the federal government must play a role in ensuring that flexibility and innovation does not create loopholes that will allow poor-quality programs or bad actors to gain access to the billions in federal financial aid given out by taxpayers each year. This is imperative when it comes to opening the door for programs to access the $30 billion in Pell Grants designed to help low- and moderate-income students access higher education. We must only open up Title IV dollars to innovative programs that have proven track records of success, and we should ensure that those dollars are targeted to high-needs students and high-needs fields. Accomplishing this task will require Congress to put in place strong quality assurance measures so that we are not creating an incentive for more low-quality programs to take advantage of students looking to further their education—only to leave them worse off than when they began.

DON'T Roll Back Gainful Employment without a Real Replacement

While Gainful Employment (GE) does not apply to all postsecondary programs, it currently serves as the only multi-measure accountability safeguard the federal government has to restrict the use of federal dollars at programs that make students worse off than when they started. Removing statutory language around the Gainful Employment regulation from the next version of the *Higher Education Act* would leave a gaping hole in the federal guardrails that should prevent students from investing their time and money in these low-performing programs—particularly given that as some of the foremost researchers on federal higher education policy put it, current "market forces do not provide adequate consumer protection in an industry characterized by complexity, incomplete information, inexperienced consumers, and third-party payments that cover a significant share of costs for many students and many providers."[15] If the Administration proceeds in its efforts to dismantle the current protections in place, we must use HEA reauthorization to ensure there is an adequate replacement for the Gainful Employment regulation that sets a multi-measure, federal floor for student outcomes, which could include but not be limited to how much students earn after attending compared to how much debt they take out to attend.

Conclusion

Thank you for providing us with the ability to provide comments on an upcoming reauthorization of HEA. We know this Committee is committed to helping more students receive a quality postsecondary education—a goal that we deeply share. However, we believe the only way we can get there is by creating a real accountability system that puts in place both minimum thresholds of quality and true mechanisms for quality assurance and improvement, while continuing to ensure access and equity for the millions of students looking to get a college education each year. We hope these comments provide a useful starting place for your consideration in the drafting process. We would love to come in and further discuss the specific policy ideas Third Way has developed to address many of these concerns.

Best Regards,

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ENDNOTES

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[10] Support for a move to a loan repayment rate has been recognized by think tanks, scholars, and both sides of the political aisle.

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