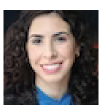
THIRD WAY

MEMO *Published January 13, 2023 • 8 minute read*

Adding an Earnings Threshold to Gainful Employment



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The phrase "gainful employment" conjures two core concepts: having a job and earning a sufficient income. To ensure that taxpayer-funded career education programs meet minimum standards for preparing their students for those end goals, the US Department of Education (Department) is currently rewriting the gainful employment (GE) rule. Prior iterations of the GE regulation have examined the size of program graduates' student loan debt payments compared to their annual earnings and discretionary income to determine compliance. The proposal due out from the Department in spring 2023 is expected to include an additional test: an earnings threshold designed to protect students and taxpayers against programs that leave graduates making extremely low wages, regardless of their level of student loan borrowing.

Applying an earnings threshold in this way is both intuitive and popular—but the big question for the Department is how to specify and apply a reasonable threshold to which programs must be held accountable. In an issue paper for negotiators developing the new rule, the Department offered three potential earnings benchmarks: the median earnings of a high school graduate in the state where the GE program is located, a multiple of the federal poverty guideline, or an estimate of full-time minimum wage work. This memo considers the justifications for these proposed thresholds and why each measure would be defensible in a final rule.

Threshold A: The Median Earnings of a High School Graduate in the State

To pass a high school earnings threshold, the median graduate of a gainful employment program would need to have earnings above those of the median high school graduate in the state in which the program is located. Put another way, this type of test directly answers the question: Is a student likely to earn more after completing this program than if they had never pursued a postsecondary credential in the first place?

The clarity and simplicity of a high school earnings threshold are among its biggest assets. The GE rule affects not only program eligibility but also required disclosures to students, and this measure is both acutely understandable to consumers and highly relevant to policymakers. Comparing the earnings of someone who completed a college program to the counterfactual of someone who did not go to college at all is intuitive and offers a clear demonstration of a program's financial value-add (or lack thereof) beyond a high school diploma.

A high school earnings threshold could be constructed to include all high school graduates, regardless of employment status, or only those adults in the labor market with positive earnings. Both options are logical, and during negotiations the Department proposed the latter approach, which will naturally result in a higher standard as it excludes those with zero income. Because most college students attend a school close to home, using earnings at the state level can help account for labor market and wage variation across the country to ensure that programs in states where the median income is lower than the national standard would not be held to an unreasonable bar. Department data show that across states, the typical high school graduate aged 25-34 earns between $14,000 and $26,000, while that range is between $18,000 and $31,000 when limited to those who are working.

The concept of a high school earnings threshold has also been gaining traction in recent years among policymakers and researchers. The *College Affordability Act*—House Democrats' 2019 *Higher Education Act* (HEA) reauthorization proposal—sought to apply a high school earnings benchmark for programs between 300 and 600 clock hours to receive federal student loans. Analyses by Dr. Stephanie Riegg Cellini and Kathryn J. Blanchard and Dr. Jordan Matsudaira and Dr. Lesley Turner have outlined rationales for using high school earnings to set minimum earnings standards for programs receiving federal aid and examined various decision points in determining an appropriate and defensible threshold. And since 2015, the Department's College Scorecard tool has used lower-bounds of $25,000 and $28,000 to represent the earnings of workers with only a high school diploma in showing post-college gains in student outcomes at the institution level, recognizing that such comparisons are valuable to the public and to prospective students considering where to enroll.

Threshold B: A Multiple of the Federal Poverty Guideline

A second option would tie a gainful employment earnings threshold to the federal poverty guideline, using an established national standard as the yardstick against which GE program graduates' earnings would be measured. This type of earnings test would assess whether a career training program equips its students to make enough money after graduation to put food on the table and not be classified as low-income, ensuring that taxpayers aren't funding higher education programs that leave students reliant on federal poverty programs post-graduation.

The federal poverty guideline is an income threshold specified by the federal government as the minimum amount needed by an individual or household to meet their basic needs. Each year, the US Department of Health and Human Services uses income data from the Census Bureau to set the poverty guideline, which is then used to determine eligibility for an array of federal programs, including the Supplemental Nutrition Assistance Program (SNAP), Head Start, and Medicaid, as well as means-tested programs administered by some state governments and private companies. For 2022, the poverty guideline was $13,590 for an individual.

The Department did not indicate a specific multiple of the federal poverty guideline to apply to GE programs in its issue paper, but 150% (a threshold of $20,385) would be a sensible selection given its other policy applications in higher education. For the purposes of federal aid, the HEA defines a "low-income individual" to be a student whose family's prior-year income was below 150% of the federal poverty guideline. The 150% multiple is also used as an income benchmark to qualify for an economic hardship deferment on federal student loan payments and as part of the payment calculation for borrowers enrolled in the statutory Income-Based Repayment (IBR) plan—those earning less than 150% of the poverty guideline for their household size have zero-dollar required monthly payments under that IBR plan. And a similar measure was included in the original 2014 GE rule, which used the mean or median earnings for a program (whichever was higher) minus 150% of the poverty guideline in the denominator of its Discretionary Income Rate. (The Department proposed this measure again during 2022 negotiations, limited to median earnings.)

Threshold C: An Estimate of Full-time Minimum Wage Work

The final earnings threshold offered for consideration in the Department's issue paper would compare career program completers' earnings to an estimate of full-time minimum wage work. Such a threshold would set the lowest bar of the three proposals, gauging whether a program's graduates go on to make a living that at least surpasses what they would earn in a minimum wage job that does not require a college degree.

The federal minimum wage is set in the *Fair Labor Standards Act* (FLSA) and has been $7.25 per hour since 2009. Many states also have their own minimum wage laws, including 30 that exceed the federal standard, with state minimum wages ranging from $5.15 in Georgia and Wyoming to $16.10 in the District of Columbia. Assuming a full-time 40-hour work week over 52 weeks of the year, a worker earning the federal minimum wage would make roughly $15,080.

Using a calculation tied to the established minimum wage as an earnings threshold for career program graduates would set a sensible—if less stringent—comparison benchmark in the GE rule. The Department of Labor enforces the federal minimum wage for employers covered by the FLSA, which includes institutions of higher education participating in the Federal-Work Study program, through which students with financial need can access part-time, on- or off-campus work opportunities to help offset their cost of attendance. Work-study students must earn at least the federal minimum wage while enrolled in school and most employers are required to pay their workers at least the minimum wage regardless of their education level. As such, a GE earnings threshold aligned with the minimum wage should be the bare minimum policymakers consider as a measurement of sufficient earnings outcomes for federally funded career programs.

Conclusion

Several question marks remain as we await the Department of Education's proposed gainful employment rule in spring 2023, chief among them the contours of a new earnings threshold for career education programs. Each of the three options posed by the Department during its rulemaking process offers a reasonable and defensible approach to instituting a minimum bottom line for the earnings premium offered by workforce-oriented training programs funded by taxpayer dollars intended for higher education. Above all, students pursue these programs seeking better job prospects and bigger paychecks. An earnings threshold will help ensure that career programs deliver that desired return on investment for both students and taxpayers and equip those who enroll to better their lives financially after graduation.

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