THIRD WAY

REPORT *Published June 6, 2018 • 8 minute read*

Limiting Federal Funding to Higher Ed Programs that Leave Students in Poverty

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Higher education is supposed to be the engine of social mobility, the great equalizer between the haves and the have-nots. It is because of this promise of a better life that students choose to go to college—to get a better job that will allow them to live a financially secure and stable life. [1] This financial return is also why more than half of students are willing to take out student loans in order to pursue a postsecondary degree or credential, and why taxpayers are willing to invest nearly $130 billion in our higher education system each year. [2]

Yet this payout does not always pan out. Each year, the federal government continues to send taxpayer dollars to postsecondary programs that leave their graduates earning below the federal poverty line Not only is this a questionable use of taxpayer funds, but it accrues to the detriment of millions of students who are investing in higher education to improve their lives. To prevent students from enrolling in postsecondary programs that provide little to no economic benefit to them, we propose a simple idea: no higher education program should be funded through federal grants and loans if most of its graduates end up in poverty.

The Problem

Postsecondary education is billed as a gateway to a more stable financial future. And in most cases, this return on investment comes to fruition, as college graduates earn nearly twice as much over the course of their lifetime in comparison to those who never obtained a degree. [3] But not all higher education programs are created equal, and recent data suggests that some postsecondary programs add little to no value whatsoever to the students they serve, at least as indicated by federal earnings data.

Low Earnings for Some College Graduates.

In 2016, the Department of Education (Department) released its first set of post-enrollment earnings data for students who had graduated from postsecondary career education programs and programs at proprietary schools. The results were staggering: one out of every 10 programs left their *graduates* earning below the federal poverty line (1,847 out of the 14,427 programs and not counting students who started but didn't graduate). That's a salary of less than $12,140 per year. [4] This means that students who played by the rules by enrolling in and graduating from a postsecondary program found themselves no better off than if they had chosen not to go to college at all—and perhaps worse off, especially if they borrowed in order to attend.

And the problem is likely even bigger than that. Due to federal data limitations, these figures are only available for career education programs—including all for-profit programs and "certificate and non-degree" programs at public and private institutions. If the Department of Education made this information available for the thousands of programs not currently included, many others would also likely show poor outcomes for their graduates who have been left unprepared to enter the workforce and ultimately unable to cover even their basic necessities.

The status quo costs taxpayers more money in the long run.

Every federal dollar we spend on sending students to these low quality programs also costs taxpayer money downstream. Those who end up living in poverty after graduating will most likely require the assistance of public programs just to make ends meet, whether it be through Medicaid and the Children's Health Insurance Program (CHIP), Temporary Aid to Needy Families (TANF), Earned-Income Tax Credits, or the Supplemental Nutrition Assistance Program (SNAP). According to a 2015 study out of the UC Berkeley Center for Labor Research and Education, these public assistance programs receive a taxpayer investment of nearly $153 billion each year through state ($25 billion) and federal ($127.8 billion) investments. [5] Coincidentally, the annual federal investment in these programs for low-income individuals is nearly identical to the amount invested in federal grants and loans to help students pursue a postsecondary education. So while taxpayers continue to fund higher education programs that end up leaving a majority of their graduates living in poverty, they also bear the cost of the after-effects by having to provide additional financial support to those who were failed by the higher education program they attended.

Solution

If Congress wants to ensure that it is more wisely investing federal tax dollars in programs that will actually benefit their students, it should prohibit the use of federal grants or loans at postsecondary programs whose graduates have median earnings below the federal poverty rate (currently $12,140 a year). [6] This policy should apply to all 50,000 programs in the United States—whether they are public, private, or for-profit. [7] This will not only protect students from taking out loans to attend programs that may provide them little economic benefit, it will also ensure that taxpayer dollars go to fund postsecondary programs that are fulfilling the economic promise of bettering their students' lives.

After the Department matches existing datasets to obtain salaries for all graduates that have received federal student aid, it would be able to identify which programs leave the bulk of their former students earning below the federal poverty line. Instead of a program immediately losing access to federal student aid, we would suggest a gradual two-year process for this loss of eligibility. If a program's data shows that its median graduate earns below the poverty line within the first year that data becomes available, the Department should require that program to halt additional student enrollment in that program until a second year's worth of data becomes available. This helps minimize taxpayer and student risk. However, if a program shows that graduate wages fall below the poverty line for two consecutive years, the program should lose federal aid eligibility completely.

Critiques and Responses

Earnings differ by major and by region, so it is unfair to evaluate all postsecondary programs by the same bar.

Because this policy uses such a low bar for access to financial aid—the federal poverty line—it is a fair measure to use for all postsecondary education programs. Whether a program is focused on preparing welders, teachers, or engineers, most program graduates should reasonably expect to earn above the federal poverty line after earning an award or degree. With a bar this low, you shouldn't need adjustments by region or state.

Programs are already subject to similar scrutiny under the Gainful Employment rule.

Unfortunately, the Gainful Employment rule has limitations and does not provide safeguards to all programs that leave their graduates living in poverty. First, the Gainful Employment rule only covers a select group of programs across the United States—all for-profit programs and "certificate and non-degree" programs at public and private institutions. Therefore, it doesn't ensure that degree programs at public and private institutions are equipping their graduates with the ability to earn a sufficient income to begin paying down their educational debt. And even though the current rule helps ensure that students are earning enough to pay down their educational debt, its ratio measurement that looks at debt to income still allows many low-performing programs to slip through the cracks. For example, while 1,800 programs left their graduates earning below the poverty line, only 800 programs failed the Gainful Employment rule. [8]

It's also important to note that the current Gainful Employment rule has been delayed by the Department multiple times, and it is currently in the process of being re-regulated. [9] It is likely that the result of a revised regulation will be a weakened accountability metric, as the current process for re-writing the rule has included suggestions on scrapping accountability measures altogether and replacing these safeguards with universal disclosures—a toothless policy that will do little to ensure that federal dollars are not being used at programs that leave their students worse off.

Getting earnings data for all programs would be a burden on institutions.

There is limited information needed from institutions to determine whether their federally-aided graduates are earning above the federal poverty line. The Department already collects this data for all institutions through its 150% Direct Subsidized Loan Limit regulation. [10] In order to obtain earnings for the graduates of each program, the Department would have to perform a match of all program graduates with the information from the Social Security Administration or the Department of Treasury, a process they've undertaken multiple times to obtain aggregate earnings information currently used on the College Scorecard website and for the Gainful Employment regulations. The only additional information required from institutions would be if they chose to appeal the Department's findings, in which case they would need to provide additional information when requesting a correction. That's a small price to pay for the massive infusion of taxpayer dollars those institutions receive in the form of federal grants and loans.

Conclusion

Too many higher education programs currently leave their graduates living in poverty after they attend. Yet the federal government continues to invest in these programs year after year, wasting billions in taxpayer dollars that result in thousands of students struggling to earn enough to meet even their basic needs. Our continued funding of higher education programs that leave students worse off is something none of us can afford. It not only presents an extremely risky investment on the front end but also leaves taxpayers on the hook years later, as those who end up living in poverty will likely require additional public assistance. Congress can prevent this from happening with a simple policy fix: no higher education program should be funded through federal grants and loans if most of its graduates end up in poverty.

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ENDNOTES

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