Accountability for Value: Smarter Risk and Better Results in Higher Education

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Key Points

- Policymakers in both chambers of Congress and across the ideological spectrum have coalesced around the need for stronger accountability in higher education.
- Effective long-term reform would minimize malinvestment and promote institutional improvement.
- In building on the landmark shifts in the One Big Beautiful Bill Act, federal policymakers should complement intuitive tests of market value with targeted support for student success to reduce risk and improve results.

The One Big Beautiful Bill Act (OBBB) will significantly reshape accountability for institutions of higher education. During the budget reconciliation process that resulted in OBBB, the House and Senate each prioritized stronger accountability but took distinct approaches. The House proposed institutional risk-sharing payments for unpaid federal student loans, while the Senate version—which ultimately passed both chambers—ties a program's eligibility for student loans to a median earnings threshold benchmarked to a lower credential. Advanced degree programs must show that at least half of graduates earn more than someone with only a bachelor's degree. Undergraduate degree programs must show that at least half of graduates earn more than someone with only a high school diploma.

This marks a sea change for higher education, reflecting the long-simmering bipartisan understanding that more must be done to ensure colleges accepting taxpayer dollars have skin in the game for student outcomes. The legislation takes a critical step forward by proactively minimizing the risk of malinvestment for the federal government and students receiving federal financial aid. Setting a clear bottom line for program value based on graduates' earnings is practical, feasible, and aligned with students' expectations. The earnings threshold will protect students from using their loans for programs that do not pay off, reducing their risk of delinquency and default and empowering them to pursue better options.

Once these reforms are finalized and implemented, opportunities will emerge to refine the accountability structure and reconsider what risk sharing could look like in this new policy context. Building on a baseline of stronger quality control, an expanded framework could layer in targeted investments to improve outcomes at schools committed to student success but constrained by limited resources—pairing accountability with capacity building to drive sustainable improvement.

Target Sanctions and Support Based on Institutional Priorities

Establishing clear minimum standards is crucial for effective accountability. OBBB does this by using a graduate earnings test to delineate programs that deliver meaningful financial value from those that leave students worse off and unlikely to repay their loans. Additional metrics—like a price-to-earnings or debt-to-earnings ratio, a completion rate threshold, or a repayment rate measure—could complement the earnings threshold to provide a comprehensive view of program value. And distinguishing between institutions that are performing poorly because they lack the resources to improve and those with adequate resources that nonetheless choose not to invest in student success could make earnings-based accountability even more robust. This distinction is important, and it allows for consideration of an institution's priorities and potential to improve if provided additional support.

To do this, programs that fail the earnings threshold could subsequently be assessed on how their institutions allocate resources before a final sanction is imposed. One logical approach would be to apply an instructional spending screen to identify the percentage of tuition revenue an institution chooses to spend on teaching and learning.[1] Institutions make many choices about how to spend their revenue that have substantial influence on student success. Research consistently indicates that when colleges devote more spending to instruction and academic support, students fare better: They are more likely to graduate and get higher-paying jobs and less likely to default on their student loans.[2]

By shining a light on the choices colleges make about how to spend their resources—particularly how much of each tuition check is invested back into educating students—an instructional spending screen can inform appropriate consequences for poor program performance and targeted investments in institutions that are operating in good faith but lack the financial capacity to improve their outcomes.[3] To allow for a clear and fair measure of instructional spending, Congress would have to make legislative updates to the data-collection requirements through the Integrated Postsecondary Education Data System Finance Survey. These updates should ensure that nonacademic and preenrollment expenses unrelated to student success are not lumped in with spending on teaching, learning, and student support. Notably, schools can pass an instructional spending screen regardless of their overall available resources because such screens consider how colleges choose to allocate their tuition revenue, not simply how much they take in.

After applying an instructional spending screen, low–financial value programs at institutions that spend below a specified threshold on instruction could face graduated sanctions. For programs failing the earnings test for the first time, sanctions might include disclosure requirements to inform students of poor outcomes or limitations on enrollment growth in failing programs. However, programs failing a value test in two of three consecutive years should lose their Title IV aid eligibility for Pell Grants and federal student loans.

Where There's a Will, Enable Strategic Improvement

Institutions that demonstrate a motivation to serve students well by clearing the instructional spending screen may nonetheless offer low-performing programs. In this case, such institutions could receive support to improve those programs. Institutions could be required to engage in a self-assessment to analyze the underlying reasons behind their poor outcomes and develop an improvement plan. Then, they could be given a reasonable time horizon to improve those outcomes, after which point aid eligibility would be revoked if the programs remained unable to meet the value benchmarks. Alternatively, institutions could be offered modest grants to offset the costs associated with closing low-performing programs or supporting students in transferring credits to a passing program at the same institution or another institution with an articulation agreement.

In some cases, closing a low-performing program may be the logical decision. In others, cutting off access to a program with improvement potential may lead to trained workforce shortages or harm the surrounding community. While failing to meet an earnings threshold signals the need for change to justify continued taxpayer investment, giving student-centered institutions a reasonable opportunity and time-bound financial support to implement improvement strategies can serve the broader public interest.

Improvement plans should be grounded in a self-assessment provided to the institution's accreditor and the Department of Education. This assessment should identify areas in which the institution is performing below established bottom lines and changes to structures, services, or institutional investment strategies that could improve outcomes. Institutions should be encouraged to consider using supplemental federal investment to implement evidence-based student success models like those that meet the highest standards for effectiveness in the What Works Clearinghouse.[4]

Consideration should also be given to how to harness and scale the best practices of peer institutions that have comparable resource profiles but whose programs consistently meet or surpass earnings benchmarks. If additional federal investment is time limited, it follows that improvement plans should be grounded in realistic and affordable changes that can be implemented within the set time frame. Looking at similarly situated schools that have maximized their resources for student success can provide insights into solutions to promote sustained improvement. Accreditors may be ideally positioned to connect institutions in their portfolios to share strategic insights. Philanthropic and state funding may offer pathways to more substantial or longer-term investment, and institutions should be asked to outline how they intend to braid internal and external resources to sustain interventions once supplemental federal support concludes.

More broadly, federal policymakers should invest in expanding proven models to improve retention and completion rates. Authorizing and increasing funding for the Postsecondary Student Success Grant (PSSG) program offers one mechanism to do so. National college completion rates hover around 60 percent, and colleges with low graduation rates are far more likely to fail value metrics tied to earnings and repayment. PSSG—a competitive grant program established in 2022 that received appropriations in the first three bipartisan fiscal year budget agreements following its creation—is designed to stem the college completion crisis and generate strong returns on federal investment.[5] Institutions, public systems, and states or nonprofit organizations in partnership with institutions can use these grants to implement, scale, and evaluate evidence-based practices to increase persistence and completion rates. A tiered evidence structure ensures that funded projects demonstrate a rationale or meet standards for moderate or strong evidence of effectiveness in improving desired outcomes.

To date, the PSSG program has funded 22 projects across more than 40 participating institutions, achieving notable early results.[6] For example, Passaic County Community College in New Jersey used its grant to enroll 400 students who had left the college prior to graduating or were at risk of doing so. The school's ReConnect initiative provides personalized success coaching, stipends for course supplies or prior learning assessments, and merit-based awards to support reenrollment and completion. In under two years, the program produced nearly 100 new associate degree graduates. Remarkably, 20 percent of returning students had been out of college for a decade or longer, establishing a promising new workforce development pathway.[7]

Legislation to authorize the PSSG program has been introduced in both chambers of Congress, with bipartisan support in the House. Authorizing language was also included in the College Cost Reduction Act, which passed out of the House Committee on Education and Workforce in the 118th Congress. The program is ripe for impactful expansion.[8]

Strengthen Accountability Without Sacrificing Student Protections

OBBB and potential enhancements discussed here would, by design, keep many risky programs out of the federal student aid system. Yet a critical oversight in the legislation is the exclusion of certificate programs from earnings-based accountability. Certificate program outcomes vary widely, and students pursuing these credentials deserve the same reasonable financial value standards as those enrolled in other postsecondary options. Additionally, stronger accountability should supplement, not supplant, existing mechanisms that ensure necessary backstop protections for both student and taxpayer investment in higher education.

The cohort default rate (CDR) is the sole student outcomes–based accountability measure set in statute. The Higher Education Act mandates that if 40 percent of a college's borrowers default on their student loans in a single year or if 30 percent of a college's borrowers default on their student loans for three years in a row, the institution forfeits its Title IV access. Yet even before the pandemic pause on student loan repayments, the CDR was widely regarded as a weak enforcement tool. Loopholes that exclude deferments and forbearances from the calculation make the CDR measure highly manipulable and less indicative of former students' true ability to repay.[9]

Still, default is the worst-case scenario for student loan borrowers, and a federal metric to hold institutions accountable for high default rates will remain important under any new framework. Policymakers should update and strengthen the existing CDR measure by closing these loopholes, reassessing appropriate thresholds for failure, and considering whether risk-sharing payments tied to CDR failures could offer a complementary safeguard to upfront earnings-based measures.

Borrowers must also retain the ability to receive loan discharges through a clear and consistent borrower defense to repayment process if they were defrauded or unlawfully misled by the college they attended. OBBB's reinstatement of an earlier, weaker version of the borrower defense rule is alarming, as it sets a higher burden of proof than any other consumer protection standard and was rebuked in a bipartisan, bicameral Congressional Review Act vote in 2020. To promote fiscal responsibility and ensure predatory institutions share in the risk of loan discharges, the Department of Education should ensure borrower defense claims are adjudicated fairly and promptly and should make full use of its recoupment authority to recover losses from institutions.[10]

Conclusion

Today's higher education system carries significant risk, but this is neither inevitable nor irreversible. OBBB takes a smart approach to strengthening accountability by focusing on risk reduction, using an earnings test to exclude low–return on investment programs from the federal student loan system from the outset. To drive improvement, policymakers could build on this new accountability baseline by providing targeted federal support for colleges that are underperforming but demonstrate commitment to student success.

Pairing stronger guardrails with strategic investment would ensure students can pursue postsecondary education with greater confidence, knowing their programs meet basic standards. At the same time, it would incentivize colleges to improve value—ensuring federal dollars are better spent and maximizing the return on investment for both students and taxpayers.

About the Author

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Notes

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