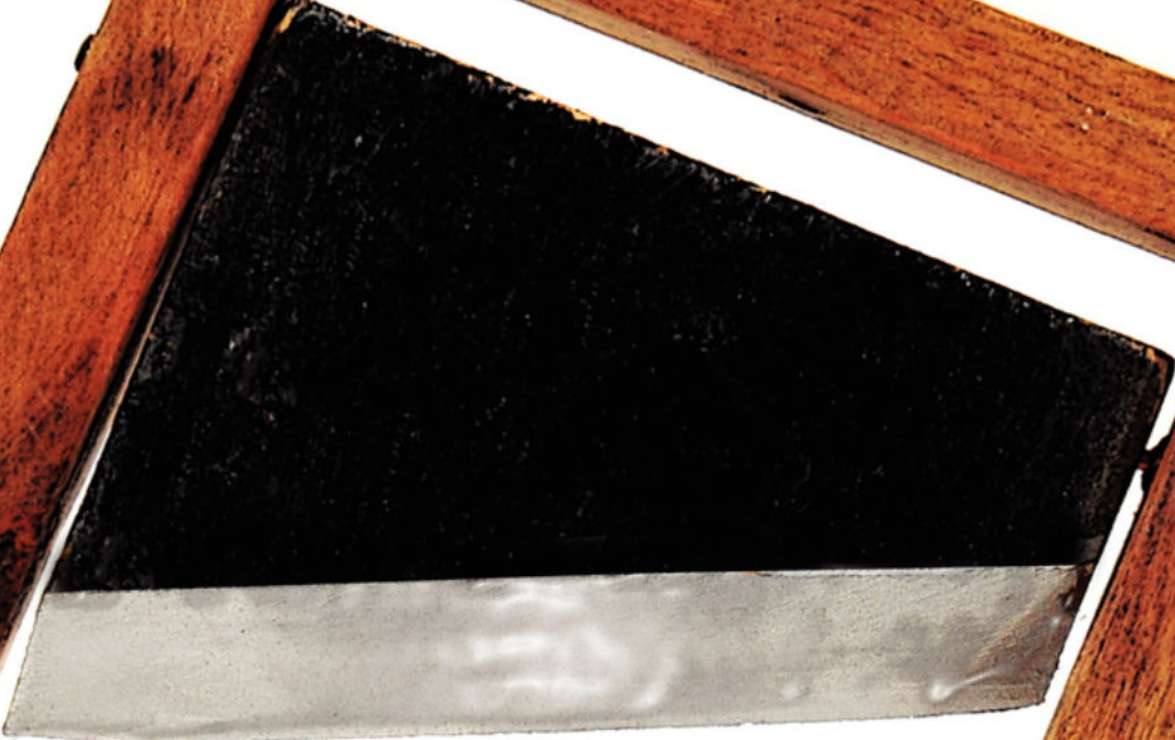


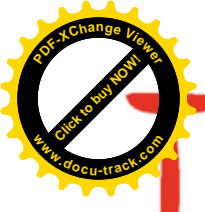
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# DEATH BY GAINFUL UNEMPLOYMENT

The Department of Education raises the blade on the guillotine of ambiguity

► Daniel L. Bennett | The Center for College Affordability and Productivity



The Higher Education Act requires that for-profit colleges provide "an eligible program of training to prepare students for gainful employment in a recognized occupation" in order to qualify for Title IV student aid funding. Yet the HEA's definition of gainful employment is very ambiguous, only defining it in terms of a job placement rate. The Department of Education (ED), eager to flex its

budding regulatory muscles, has taken up defining gainful employment as the regulatory issue du jour for the career college sector.

One of the Department of Education's earlier proposals was to define gainful employment with a formula to

link expected earnings in a given field to the price of a program, but this was refuted harshly by the education community as an attempt to exert control over tuition pricing. Its latest proposal, which seeks to restrict the median student debt payment to 8 percent of the expected entry-level earnings for graduates of a given program, is a different means to achieve the same ends. In other words, it is a backhanded maneuver to achieve price controls and could, as Congressman John Kline recently stated, "have a devastating effect on the whole industry," with the potential for individual colleges and entire programs to "be wiped out."

The Department of Education proposes to develop its debt-to-expected-earnings ratio using the median debt payment

(based on a standard 10-year repayment plan) of a program over the last three years of graduates in the numerator, and the Bureau of Labor Statistics' (BLS) occupational earnings (specifically the 25th percentile of annual earnings of people in occupations for which the program prepared students) in the denominator. Programs with a ratio exceeding 8 percent would lose eligibility for Title IV funds unless they were able to meet one of the following two alternatives:

- Graduates' actual annual earnings are higher than the BLS's, with the debt-to-actual-income ratio remaining below eight percent
- A program's graduating students have at least a 90 percent student loan repayment rate

To give you some idea of the effect of the Department of Education's proposed rule, I obtained BLS 25th percentile wage data for 10 fast-growing occupations that career colleges offer training in and calculated the maximum total student debt that a student could have borrowed in both 2003 and 2008 if the metric were in place prior to 2003. The results are included in the chart below. The figures are in constant 2008 (adjusted for inflation) dollars, with the last two columns reflecting the change in the inflation-adjusted maximum debt that students could borrow to pursue training in the respective occupations between 2003 and 2008. What I find is that for seven of the 10 growing occupations, students would have been able to borrow less in 2008 than they would have in 2003 (inflation-adjusted) to pursue training in them.

BUREAU OF LABOR STATISTICS 25<sup>TH</sup> PERCENTILE WAGE DATA FOR 10 FAST-GROWING OCCUPATIONS

OCCUPATION	25th Percentile Earnings		Total Max Debt		Change in Real Max Debt	
	2003	2008	2003	2008	Amount	Percent
Registered nurses	\$49,449	\$51,640	\$28,907	\$30,188	\$1,280.54	4.4
Licensed practical and licensed vocational nurses	\$32,682	\$33,360	\$19,105	\$19,502	\$396.59	2.1
Bookkeeping, accounting and auditing clerks	\$26,187	\$26,350	\$15,309	\$15,404	\$95.05	0.6
Medical assistants	\$23,835	\$23,700	\$13,934	\$13,855	\$(79.18)	-0.6
Executive secretaries and administrative assistants	\$32,553	\$32,410	\$19,030	\$18,946	\$(83.52)	-0.4
Nursing aides, orderlies and attendants	\$20,571	\$20,210	\$12,025	\$11,814	\$(210.92)	-1.8
Home health aides	\$18,254	\$17,710	\$10,671	\$10,353	\$(317.98)	-3.0
Maintenance and repair workers, general	\$26,433	\$25,880	\$15,452	\$15,129	\$(323.35)	-2.1
Truck drivers, heavy and tractor-trailer	\$30,540	\$29,560	\$17,853	\$17,280	\$(573.05)	-3.2
Carpenters	\$31,184	\$29,990	\$18,230	\$17,532	\$(697.89)	-3.8



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rule would have on the ability of colleges to set prices. Why should career colleges be expected to comply with such an arbitrarily chosen metric when professional law schools or any other non-vocational college program doesn't?

Aside from the implicit price control effect, the Department of Education's latest scheme to limit the amount that students attending career colleges can borrow to finance their education is flawed on several other fronts.

First, Financial aid expert Mark Kantrowitz suggested that the 8 percent ratio "would be so strict that it would preclude for-profit colleges from offering Bachelor's degree programs," and that "even non-profit colleges would find it difficult to satisfy the standard if they were subjected to it." He estimated that a more realistic ratio would be somewhere between 10 and 15 percent. The rule would severely limit the ability of for-profit colleges to offer Bachelor's degree programs, as well as programs in the liberal arts and other non-career-specific fields of study. The former is attributable to the "averaging down effect," achieved by lumping wage data together for workers in occupations that have various educational entry points. This would lower the maximum amount that students pursuing a Bachelor's degree could borrow despite the longer time required to complete the degree and the potential for greater average earnings associated with a higher level of education. The latter is attributable to the fact that liberal arts degrees and non career-specific fields cannot be linked to a certain occupation.

Next, the use of wage data from BLS is very problematic. In addition to it ignoring the non-wage compensation such as healthcare insurance, retirement contributions and other fringe benefits, which make up the total compensation package paid by employers, the 25th percentile BLS data ignores 75 percent of the workers in a given occupation and instead represents the lowest 25 percent of earners in a given field – workers likely in the early stages of their career and those residing in regions with a lower-than-average cost of living. Mark Kantrowitz referred to this as an averaging down effect

that is "biased toward lower income data" and discriminating against colleges located in regions with lower than average income and/or higher unemployment. The data also ignores the likely possibility that many entry-level graduates will move up the pay ranks as they gain professional experience in a given field. Basing student debt limit on averaged down wages assumes that graduates will not receive a promotion or pay increase within the loan payback period. A more realistic debt-

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to-earnings ratio would take into account regional variations in compensation and the net present value of expected earnings over the life of the loan.

Finally, the Department of Education's proposal would result in the diminished ability of career colleges to offer programs that may be beneficial to students or in demand by the labor market, and limit their ability to set tuition at a level that permits sufficient revenue to stay in business. Since most students borrow money to pay for their education, limiting the amount that they can borrow also limits the professions that they are able to enter, especially for the lowest income students who have little personal funds to contribute to the cost of their education. It may even shut off routes for people to enter a given profession, as many colleges would be unable to offer training programs at a price that allows them to remain compliant with not only gainful employment, but also the 90/10 and cohort default rate rules, and might ultimately stop offering such programs. While this will likely appease some critics of the industry, the end result could be a reduction of educational options and access for those most in need, and a shortage of qualified employees to fill the demands of the labor force.

Instead of imposing yet another rule designed to hobble career colleges, the Department of Education should consider working with the career colleges to reach an agreement to collect and publicize student outcome data such as job placement and average earnings, as well as median debt and program completion and loan default rates. This would ensure that students have enough information to make an intelligent decision before enrolling – a much better result than strong-arming an entire industry with onerous and potentially crippling regulations. ■



*Daniel L. Bennett is the Administrative Director and a Research Analyst for the Center for College Affordability and Productivity, an independent higher education think tank based in Washington, D.C.  
dbennett@centerforcollegeaffordability.org  
www.CenterForCollegeAffordability.org  
www.CollegeAffordability.BlogSpot.com*