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THE STATE OF AMERICAN HIGHER EDUCATION AND THE COST OF WASTED TAXPAYER DOLLARS

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EXECUTIVE SUMMARY

Obtaining an education beyond high school is no longer a luxury for the few, but rather a necessity for most to enter the middle-class. Jobs that only require a high school diploma are fading away, while those that require a credential or degree are rapidly expanding. For the United States to maintain its competitiveness globally, the ability to access and complete a high-quality postsecondary education—whether that be from a four-year, two-year, or certificate-granting institution—has never been more important.

Even with $120 billion flowing to institutions every year, the federal government has limited safeguards in place to ensure that most federally funded institutions help students graduate, earn a decent living, and pay down their loans over time. Yet, these institutions remain eligible to receive federal funds, with little regard as to whether they are actually leaving students better off after they attend.

The federal government spends billions of tax dollars every year on higher education institutions that leave most of their students degreeless, earning below the average high school graduate, and unable to repay their loans.

Last year, the government disbursed $22.6 billion to 2,076 institutions that left more than half their students earning less than their high school graduate peers. And, unfortunately, that's just the tip of the iceberg. Some institutions showed 9 out of 10 students earning below this amount.

Federal policy can no longer afford to be agnostic on student outcomes in higher education. We need to better ensure that students and taxpayers are getting a return on their investment.

THREE KEY COLLEGE OUTCOMES

COMPLETION

Leaving with a credential in hand is closely associated with the ability of students to earn a decent living and pay down their loans after attending.

EMPLOYMENT OUTCOMES

The number one reason why students enroll in an institution of higher education is to increase employment opportunities that lead to a financially stable future.

LOAN REPAYMENT

Right now, 70% of students take out loans to attend college. Providing students with sufficient employment opportunities to pay down those loans over time is a critical measure of institutional success.

SOURCE: THIRD WAY

STATE OF AMERICAN HIGHER EDUCATION OUTCOMES

Four-year institutions serve what has been historically deemed a more "traditional" college-going population than their two-year and certificate counterparts. Their students are generally more well-off, and nine out of 10 enroll on a full-time basis, a status that is associated with higher completion rates. Yet, while many four-year institutions show a majority of their students completing a credential, earning a decent living, and beginning the process of paying down their educational debt, there remain some areas of needed improvement.

Two-year institutions often serve a different demographic of student than four-year institutions. Students are more likely to come from lower-income backgrounds, and nearly 40% attend part-time (in comparison to 8% of part-time students at four-year institutions). This suggests that many are balancing their postsecondary endeavors with other responsibilities outside of school. And while many two-year institutions are shown to serve their students well, too many still struggle with college completion—a characteristic that is shown to lead to lower post-enrollment earnings and a lower likelihood to pay down educational debt over time.

Certificate-granting institutions serve a higher proportion of low- and moderate-income students than two- and four-year institutions, as the typical institution is composed of nearly 60% of Pell Grant recipients. And while certificate-granting institutions often show higher completion rates than two-year institutions—perhaps due to a shorter time commitment and more students attending on a full-time basis—many still leave their students with difficulty finding employment that allows for successful loan repayment over time.

4-YEAR INSTITUTIONS	2-YEAR INSTITUTIONS	CERTIFICATE-GRANTING INSTITUTIONS
MEDIAN COMPLETION RATE: 77%	MEDIAN COMPLETION RATE: 38%	MEDIAN COMPLETION RATE: 56%
MEDIAN PERCENTAGE EARNING ABOVE THE AVERAGE HIGH SCHOOL GRADUATE: 64%	MEDIAN PERCENTAGE EARNING ABOVE THE AVERAGE HIGH SCHOOL GRADUATE: 45%	MEDIAN PERCENTAGE EARNING ABOVE THE AVERAGE HIGH SCHOOL GRADUATE: 35%
MEDIAN LOAN REPAYMENT RATE: 68%	MEDIAN LOAN REPAYMENT RATE: 44%	MEDIAN LOAN REPAYMENT RATE: 42%

SOURCE: THIRD WAY, A RISKY BET, HTTPS://WWW.THIRDWAY.ORG/MEMO/A-RISKY-BET

WHY COMPLETION MATTERS

Higher education is one of the surest pathways to achieving a better life in the United States. However, starting a postsecondary program is not enough. In order to reap the full benefits of attending college, you need to graduate. Unfortunately, our country has a completion crisis where half of students who enroll don't finish, and students should have better odds than a coin toss in completing their degree. That is why completion matters and federal higher education policy must prioritize improving student outcomes.

Students who take out loans but don't graduate are:

3X

more likely to default on their loans compared to their peers who graduate.

Families headed by someone with a college degree save at a rate

14%

higher than those with some college, no degree.

Those who have some college but no degree are more than

2X

as likely to live in poverty as their bachelor degree-holding peers.

UNEMPLOYMENT RATE

NON-COMPLETER
(SOME COLLEGE, NO DEGREE)
4%

ASSOCIATE DEGREE
3.4%

BACHELOR DEGREE
2.5%

MEDIAN ANNUAL INCOME

NON-COMPLETER
(SOME COLLEGE, NO DEGREE)
$36,633

ASSOCIATE DEGREE
$40,322

BACHELOR DEGREE
$53,882

SOURCE: HTTPS://WWW.THIRDWAY.ORG/INFOGRAPHIC/WHY-COMPLETION-MATTERS

COMPLETION

Earning a college credential is still a critical steppingstone for most to enter today's middle-class.

Those who complete are:
- Likely to earn substantially more during their lifetime (84% more for a bachelor's degree holder) and
- Three times less likely to default on their student loans after they attend, even though they've often taken out higher balances.

Yet, last year, taxpayers sent $106 million to 18 institutions that graduated fewer than one out of every 10 students who entered their doors eight years prior. Only 2,070 out of 29,136 students who entered these institutions in 2009-10 (and never transferred) left with a certificate or degree in hand by August 2017.

While these schools represent the worst completion rates in the United States, many institutions also show extremely worrisome outcomes. In fact, there were 178 institutions that leave more than three-quarters of their entering students without any sort of credential. Even so, these institutions still received $3.6 billion in taxpayer subsidies though federal grants and loans in 2017 alone.

178 institutions

leave more than

75% of students without any sort of credential

but these institutions still received

$3.6B in taxpayer subsidies through federal grants and loans.

SOURCE: THIRD WAY, A RISKY BET, HTTPS://WWW.THIRDWAY.ORG/MEMO/A-RISKY-BET

EMPLOYMENT OUTCOMES

Incoming students consistently rank better job opportunities as the most important reason to attend an institution of higher education. To help determine whether an institution is delivering on that promise, the US Department of Education (Department) measures the percentage of student borrowers and grant recipients who earn more than a high school graduate within six years of entering an institution.

If most students earn less than a high school graduate — measured to be $28,000 per year — after spending time and money to attend an institution, it may not be financially worth it for students or for the taxpayers who help subsidize their educational endeavors at these low-performing institutions.

Even so, last year the Department disbursed $808 million in student grants and loans to 409 institutions that each leave more than three out of every four students earning below this low benchmark of economic success. Seventeen of these schools left more than nine in 10 students earning less than the average high school graduate, yet still received $13 million in federal student aid.

409
institutions

leave more than

75%
of students earning below the average high school graduate

but the Department of Education disbursed

$808M
in taxpayer subsidies through federal grants and loans.

SOURCE: THIRD WAY, A RISKY BET, HTTPS://WWW.THIRDWAY.ORG/MEMO/A-RISKY-BET

LOAN REPAYMENT OUTCOMES

Since the average bachelor's degree recipient now leaves school with $30,000 in student debt, it's critical that institutions prepare students to obtain financially secure employment that allows them to pay down their loans over time. If students are unable to earn enough to make sufficient payments toward their educational debt, the institution they attended may not be providing an adequate return on their educational investment. To help determine whether institutions are leaving students with manageable student debt after they attend, the Department uses a loan repayment rate to measure the percentage of students who are able to pay down at least $1 on their loan principal within five years of leaving. If most students are unable to make sufficient loan payments to, at least, cover their accumulating interest, it may suggest that the cost of the institution is too high, that the financial benefits of attending are too low, or both.

Last year, there were 223 institutions that showed more than three-quarters of their former students owing even more on their educational debt than the amount they initially borrowed, even five years after leaving the institution and entering repayment. Out of the 359,009 borrowers who left these institutions and entered repayment in 2011-12, only 75,365 have made large enough payments to make a dent in their loan principal by 2016-17. Yet, even with such a risky investment, the federal government still sent $1.9 billion in federal student aid to these institutions last year.

223
institutions

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75%
of their former students are unable to make sufficient loan payments

but the Federal Government still sent

$1.9B
in federal student aid to these institutions.

SOURCE: THIRD WAY, A RISKY BET, HTTPS://WWW.THIRDWAY.ORG/MEMO/A-RISKY-BET

SIX POLICY IDEAS TO SAVE TAXPAYER RESOURCES AND IMPROVE OUTCOMES

1 PRODUCE BETTER HIGHER EDUCATION OUTCOMES DATA

Lifting the federal ban on creating a student-unit record data system would give us the opportunity to disaggregate data, understand post-college outcomes, and better inform students and families about which colleges are likely to help them succeed.

2 CREATE A FEDERAL BOTTOM LINE ON COMPLETION

Creating a federal bottom line that cuts off institutions from accessing federal student aid dollars if they have a graduation rate below a certain threshold would hold the worst performing institutions accountable and ensure we don't encourage students to take out loans to attend drop-out factories.

3 CREATE A FEDERAL BOTTOM LINE ON LOAN OUTCOMES

Close loopholes in the existing rules for schools with overwhelming default rates and put in place more stringent bottom lines for schools with a high number of struggling borrowers.

SIX POLICY IDEAS TO SAVE TAXPAYER RESOURCES AND IMPROVE OUTCOMES

4 PAIR NEW FUNDING PROGRAMS WITH STRICT ACCOUNTABILITY

Because it is hard to turn off the spigot to federal dollars once it has been opened, we need to ensure students and taxpayers are protected from poor-performing programs.

5 CREATE TRANSPARENCY AROUND EQUITY GAPS

Create a competitive grant program for institutions serving above average percentages of low-income students or students of color to help them identify gaps in student outcomes by race and income and propose a plan using evidence-based practices to close them.

6 MAKE ACCREDITORS ACCOUNTABLE FOR OUTCOMES

Put accreditors at risk of losing federal recognition if more than half of institutions within their portfolio fail to have half of their students graduate, earn more than a high school graduate, or repay their loans.

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