AV POLICY FOCUS: HIGHER EDUCATION

Arnold Ventures

Solving the Root Problems with America's Higher Education System

For years, policymakers, opinion leaders, stakeholders, students, and families have loudly raised alarms about America's higher education system — increasing costs and increasing student loan debt have raised real questions about higher education's value to students. With outstanding student loan debt at $1.7 trillion and growing, and when fewer than two-thirds of all students graduate at four-year schools, hundreds of thousands of students who invested in a higher education have found themselves worse off.

The increasing debt burden on students is a symptom of fundamental problems in higher education resulting in rising prices, low completion rates, and low-quality, unaccountable institutions. But the solutions being discussed — notably debt cancellation — will do nothing to get at the root cause of the problems. Policymakers have the opportunity to chart a different path and solve the issues with our higher education system at the source. Otherwise, no matter what the administration decides in the debt cancellation debate, students will continue to accrue debt at an unsustainable rate.

WHAT ARE THE CORE ISSUES?

Accountability

Every year, the Department of Education spends roughly $150 billion on federal financial aid for higher education students, primarily in the form of Pell Grants and student loans. However, there is almost no quality control to ensure those dollars are actually helping students. In fact, in 2017:

- 178 institutions failed to graduate more than three-quarters of their students, yet these schools still received **$3.6 billion** in federal grants and loans
- 409 schools received $**808 million** while leaving more than 75%of their students earning less than the average high school graduate[1]

Transparency

What's more, students and families making one of the biggest investments of their lives do not have full and transparent information about the schools and programs they are considering. In fact, federal law actually prohibits connecting data the federal government already has so that it can be usable for consumers.

Every year, students use up their Pell Grant eligibility and go further into debt for schools and programs where they are unlikely to succeed. This is bad for students, taxpayers, and the economy.

We need to turn this dynamic on its head.

1. https://www.thirdway.org/memo/a-risky-bet

WHAT POLICY CHANGES SHOULD BE MADE TO SOLVE ACCOUNTABILITY AND TRANSPARENCY PROBLEMS?

The federal government invests in higher education because it is a key to economic mobility and stability in our country. We need these investments to continue, but there are clear policy changes that Congress can make to ensure those dollars are well spent and students aren't going into debt they will be unable to repay. Arnold Ventures supports a roadmap of five key policy changes to support a more efficient, effective, and accountable higher education system:

1. ***Establish a quality assurance system based on student outcomes for all schools and all programs, including short-term, undergraduate, and graduate programs.***

   This accountability system should be based on whether students are typically better off after attending an institution or program. There are a number of potential models for how this system could be designed, including using Third Way's Price-to-Earnings Premium, the Bipartisan Policy Center's ROI model, the framework proposed by Drs. Lesley Turner and Jordan Matsudaira, or Sen. Chris Murphy's (D-CT) proposal. The system should include multiple metrics to limit institutions' ability to game the system. Importantly, because graduate debt is ballooning, it must include graduate programs.

2. ***Increase transparency in our higher education system so prospective students and their families can make informed choices.***

   Congress should immediately pass the College Transparency Act and support a privacy-protected student level data network. The House of Representatives already approved this bill once (as an amendment on the America COMPETES Act). As one of the most bipartisan bills this Congress, it deserves a vote.

3. ***Invest in boosting completion rates.***

   Students who complete a college degree experience better employment outcomes, higher earnings, and greater ability to repay — while those borrowers who are most likely to default on their student loans are those with low balances and low incomes, often because they didn't graduate. Investing in college completion with the House Democrats' proposed $200 million in the FY2023 appropriations bill for an evidence-based, dedicated retention and completion grant program will help more students make it across the finish line to a valuable degree and be able to repay their loans.

4. ***Simplify the student loan repayment system.***

   Right now, there are students who might have gotten a solid education from their institution but are falling behind on paying off their debt because of our overly complex and burdensome repayment system. Congress needs to act to streamline the system, including:

   - Lowering the number of available loan repayment plans to three: a fixed plan, an income-driven plan (IDR), and a longer plan for graduate borrowers with more debt
   - Making IDR plans easier to access and stay in
   - Ensuring IDR plans are living up to their promise by providing servicers with clear guidance on how to track qualifying payments and providing students with an easy way to access information about their progress toward forgiveness
   - Preventing balances from ballooning over time by eliminating statutory interest capitalization, preventing interest accrual during default, and addressing negative amortization

5. ***Reform the PLUS Loans program in a way that preserves access but that doesn't trap parents or graduate students in overwhelming, unmanageable debt.***

   Currently, the PLUS loan program (Parent PLUS and Grad PLUS) enables parents of students and graduate students, respectively, to borrow up to the cost of attendance at an institution with no real consideration of quality. This system has increased access, especially for students of color and low-income students, but it has also trapped both parents and the graduate students themselves in unmanageable debt. While a strong accountability system will go a long way to ensuring parents and students are not taking out debt for worthless degrees, Congress should reconsider the structure of both the Grad PLUS and Parent PLUS loan programs. These changes will need to be done carefully, so as not to limit access for low-income students and students of color.