Reauthorizing the Higher Education Act:
Exploring Institutional Risk-Sharing

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United States Senate
Committee on Health, Education, Labor and Pensions (HELP)
Wednesday, May 20, 2015

Thank you, Chairman Alexander, Ranking Member Murray, and the committee for the opportunity to appear before you today. My name is Jennifer Wang, and I am the policy director of Young Invincibles, a non-profit, non-partisan organization that works to expand economic opportunity for young adults. As this committee seeks to reauthorize the Higher Education Act, it is essential that the voices of young adults heard throughout the process. With $1.2 trillion in student debt and over 40 million student loan borrowers nationwide, Congress must use Higher Education Act reauthorization as an opportunity to protect the investments of students and taxpayers.

Young Invincibles supports the goal of aligning and improving federal incentives to elevate institutions' interests in reducing the burden of student debt and improving student access and success, particularly among low-income and underrepresented students. In our work directly with young people, we frequently hear from students across the country about how lofty promises from the worst acting institutions turn into mountains of debt with few job prospects in sight. Right now, the system is set up so that students bear all of the risk of a poorly performing institution, with little information available to them about career outcomes. Our generation knows we need higher education to be successful, and we stand ready to take on responsibility for our education. However, institutions must also take responsibility for student success. To improve postsecondary outcomes and control the growing volume of student debt, Congress must align institutional behavior with student interests.

We recommend the following main goals for creating a risk-sharing framework to protect students and taxpayers:

1. **Institute a repayment rate metric to ensure that institutions leave their students better off than high school graduates or risk Title IV eligibility**
2. **Craft a policy that encourages institutions to lower cost of attendance and tighten revenue standards**
3. **Require institutions to provide borrower relief**

To be clear, we believe that risk-sharing must not be a substitute for existing protections, like the 90/10 rule or the Gainful Employment rule. These rules exist to prevent the most unscrupulous actors from taking advantage of students. We also believe that institutions must not threaten to pass the so-called "cost" of risk-sharing onto students. It is the role of this Committee to ensure that institutions do the right thing by strengthening and existing regulations while preventing institutions from evading rules meant to protect students.

1. Institute a repayment rate metric to ensure that institutions leave their students better off than high school graduates or risk Title IV eligibility

Under the Higher Education Act, institutions already have a skin in the game requirement for a narrow subset of programs. However, this Committee should broaden institutional accountability to all program types at all institutions, so that all schools are on the hook for producing strong student outcomes. Our recommendation is based on the following concept: in order to receive federal financial aid, institutions should create education programs that make their graduates, on average, better off than high school students. Students attend post-secondary programs in order to improve their economic chances. Taxpayers also invest in post-secondary career programs, in part, to achieve the economic gains everyone benefits from when more members of society have a postsecondary credential. To achieve this, we recommend using a repayment rate metric of at least 45 percent, with the goal of phasing in a 50 percent standard.

We suggest using a repayment rate metric because we believe that they are a better indicator of student success upon leaving a program than cohort default rates. They are less subject to manipulation because borrowers who leave school must actually repay student debt, rather than simply avoid default using forbearance or deferment. Repayment rates also more closely measure success than default rates, which only measure the frequency of the worst possible repayment outcomes.

We crafted our 45 percent repayment rate metric using census data to estimate the economic success of an institution's graduates compared to high school graduates nationally in the context of repayment rates. People with only a high school diploma earn significantly less than individuals with a post-secondary credential. This does not imply that no one with only a high school diploma ever achieves financial success, but it does indicate that the chance of doing so with only a high school diploma is sufficiently small that obtaining a postsecondary credential is highly advisable.

We based our calculation on the discretionary income thresholds present in the current debt-to-earnings metrics and those set by Congress for income based repayment plans. Essentially, Congress has already based policy around the idea that individuals earning less than 1.5 times the federal poverty level cannot afford even minimal payments on federal student loans. Conversely, we assume for the purposes of our calculation, that individuals earning more than this amount could at least make some student loan payment. From this baseline, we further eliminated people qualifying for social safety net benefits or who are active in the armed forces.

We also constrained our analysis to young adults aged 25-34 years old because older workers typically earn much higher salaries due to their previous work experience. Although we know that some institutions typically enroll many students who do not come straight from high school, we know that many of these students are still in their young adult years. We also feel it is appropriate to compare college graduates to a population of high school graduates near to when those graduates actually left high school.

Our analysis of 2013 Current Population Survey (CPS) data estimates that 46.2 percent of young adults with a high school diploma could possibly afford some level of student debt payments. We would recommend initially reducing the threshold to 45 percent, to account for additional populations of borrowers we cannot account for due to limitations in CPS data (e.g. borrowers engaged in national service may defer their payments). However, we urge the Committee to explore phasing the rate up to 50 percent in later years, as Sen. Alexander's white paper suggests.

We note that this is a low bar but one with economic support. We are also certain that many of the high school graduates earning more than 150 percent of the federal poverty would struggle with debt payments, particularly if they had high levels of student debt. For comparison, doing the same analysis for bachelor's level graduates would produce a repayment rate of greater than 70 percent. However, we do not seek to set an unreasonable standard for institutions, particularly institutions with high populations of non-traditional students, or institutions where the vast majority of students do not borrow.

In addition to encouraging institutional accountability using a repayment rate, we suggest that the Committee use the following rule when assessing whether an institution passes: that 45 (and eventually 50 percent) of their graduates are able to pay at least $1 on their loans toward principal. Simply assessing whether 45 or 50 percent of graduates are in repayment may not be sufficient because at institutions where students take on substantial debt, some may have very low payments or payments of zero under income-based or income-contingent repayment. We believe that IBR should be a protection for the borrower, not the institution.

For example, if a school performs poorly, many of its borrowers could end up making very low payments or no payments and receiving high levels of student loan forgiveness under IBR or PAYE. This would mean that the federal government would be covering for an institution's poor performance in these instances. Giving an institution credit for any type of payment, low or zero, masks that they are leaving borrowers with a lot of debt that they can never repay. As such, requiring that borrowers pay at least some principal in a given year ensures that borrowers are actually learning and earning enough to make progress on their debt.

We also encourage this Committee to exclude failing institutions from Title IV aid using a repayment rate metric. The structure of our repayment metric sets a minimum standard for school performance for receiving federal financial aid. We believe a post-secondary institution that receives Title IV aid must perform better, on average, than the average secondary school. There is no reason that taxpayers and the government should continue to support institutions that fails to produce graduates that are no better than those with a high school diploma. We also encourage this Committee to explore risk-sharing ideas that encourage institutions to improve.

Along with a repayment rate metric, we also recommend lifting the ban on a student unit record to allow for a policy to account for a diverse set of job outcomes. Under current law, the Census and its response data would not be able to answer labor outcomes by institution, or even sector. For a fully functional risk-sharing system that is useful to students and taxpayers, Congress must lift the ban on a unit record system to examine these outcomes. This way, the Committee could build in questions about school type, and program type into the data. This is vital information that we know students say they need in order to make informed choices about where to go to school and how to pay for it.

2. Craft a policy that encourages institutions to lower cost of attendance and tighten revenue standards

The costs of a college degree are rising, but that trend overlooks opportunity costs when assessing how much a degree actually costs. The opportunity costs of going to college are great, and go beyond what a student pays in tuition, fees, and living expenses. The average full-time college student forgoes over $9000 in earnings for each year she spends in school. That number increases to nearly $16,000 for students in college who do not or cannot work while enrolled. Most students today also do not graduate from college in four years and can forego over $93,000 in income. Combine this figure with how much debt the average college graduate now has due to rising college costs, and the need for risk-sharing becomes even more necessary for today's student, who is sacrificing both time and money to pursue an education.

Tuition alone is also no longer an accurate measure of the rising cost of college. Living expenses are essential expenses for students, and the economic reality for most students is that they must take on additional student loan debt to pay for living expenses in order to attend and complete college. This is particularly true at certain institutions that serve larger proportions of low-income, independent students, who cannot rely on savings or family support. A risk-sharing framework must take this necessary borrowing into account in addition to opportunity cost, and factor in the full cost of attendance into account when crafting a risk-sharing framework.

In our work with students, we have also heard that some institutions require that students purchase expensive products from the institution in order to enroll in a course. This behavior can significantly increase the amount of debt that students who attend these programs incur. To ensure institutions are held accountable for the additional debt, we strongly recommend that Congress keep institutions fully accountable to the realities of being a student today: by including books, supplies, and equipment in any risk-sharing calculation for cost of attendance. We hope that this will prevent institutions from passing on the "costs" of risk-sharing onto students in ways other than raising tuition.

Ideally, any risk-sharing proposal would take into account the full cost of attendance and keep institutions accountable to students for this amount. We urge the Committee to craft a proposal that incorporates this idea into its framework. This Committee should also keep in mind that the sacrifices that students make to attend college are not limited to tuition, cost of attendance, and debt. Therefore, we encourage this Committee to craft a policy that encourages completion in a reasonable amount of time, with a degree that helps students succeed in the workforce, that does not saddle students with overly burdensome debt.

We also urge the Committee to explore market-based policies that help curb unscrupulous practices that raise costs for students or encourage aggressive marketing. One idea is to restore the 90/10 rule to 85/15, such that institutions subject to this rule must derive at least 15 percent of institutional revenue from non-federal student aid programs. This rule is appropriate in risk-sharing because taxpayers should not foot the bill for well-known aggressive recruitment tactics at institutions looking to derive more revenue from certain students, like student veterans. Institutions that offer a quality education at a reasonable price are well respected by students, employers, and aid providers, and should not have trouble meeting this standard.

Of course, Congress should explore other risk-sharing proposals that can lower the total cost of attendance at all types of institutions and programs. We believe that every type of institution, regardless of its tax status, must play a proactive role in addressing cost of attendance, and urge Congress to financially encourage such behavior. In addition to narrowing generous cost of attendance policies, Congress could also encourage institutions to refocus funds toward instruction and keep institutions on the hook for extraneous student debt not related to instruction. These are commonsense, market-oriented reforms designed to encourage institutions to adapt to reflect the realities of being a student today.

3. Require institutions to provide borrower relief

Risk-sharing cannot exist without some form of borrower relief because it is currently the student loan borrower who is ultimately held accountable for an institution or program's failure. As it stands, we do not have a market-oriented system for mitigating risk, and without borrower relief, institutions have little to no financial stake in student success. Accountability in the form of loss of Title IV eligibility is a check on revenue for institutions, but it does nothing to borrowers who attended failing programs, already burdened with debt they cannot possibly afford to repay. Institutions cannot continue to receive all of the benefit in federal financial aid revenue should a program succeed, while borrowers and taxpayers bear the burden should the program fail.

Congress owes these students who attend failing institutions and programs some form of insurance. Requiring schools to fund borrower relief ensures that schools must take into account the risk to students when creating programs. Our preferred solution in the worst scenarios is to discharge the debt of students who attend failing schools, reinstate any lost Pell grant eligibility, and recover as much lost funding as possible from the institution, not the student.

This is the fairest resolution for four reasons. First, because it is the student who took on loans for an education in what we know is a low-information environment, Congress must also ensure that students are not harmed by the financial distress resulting from when programs are less than ideal. Second, a full loan discharge would allow students the option to pursue an education that actually makes a difference in their lives rather than struggle to repay debt for a program that does not adequately prepare them to start a career and repay their debt. Third, the institution is ultimately responsible for the failed program, and should compensate taxpayers for as much of the lost investment as possible. Fourth, Congress must reinstate Pell eligibility for students who institutions that are deemed as failing. This is critical to maintaining college access. It is fundamentally unfair to disqualify hardworking low- and moderate-income students who do the right thing by attending college only to receive little education and few job prospects. In the worst cases, students could be lured into bad programs, use up their Pell dollars attending poorly performing programs, and have no second chance at success. Reinstating Pell eligibility would give students a fair opportunity to work hard, complete a degree, and find start a career.

We also urge the Committee to explore risk-sharing policies that will incentivize institutions to improve, rather than simply avoid enforcement. Ideas for promoting institutional improvement include rewarding institutions that do the best job of educating students, particularly Pell students and students from underrepresented communities, and connecting them with real career opportunities. Along these lines, institutions with high repayment rates deserve credit for doing a good job, and we encourage the Committee to explore well-targeted methods of encouraging institutions to do better, starting with the students who need it most.

As with any other postsecondary education reform, we urge the committee to prioritize student access and success over all else. Reforms must not impede access or place the needs of institutions over students and families. Thank you for the opportunity to speak here today, and I look forward to the discussion.

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We also urge the Committee to keep the following flags in mind:

- Risk-sharing must not be a substitute for existing protections, like the 90/10 rule or the Gainful Employment rule. These rules exist to prevent the most unscrupulous actors from taking advantage of students.

- Institutions must not threaten to pass the so-called "cost" of risk-sharing onto students. It is the role of this Committee to ensure that institutions do the right thing by strengthening existing regulations while preventing institutions from evading rules meant to protect students.

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Jennifer Wang is the Policy Director at Young Invincibles, where she oversees the organization's national policy and advocacy strategies. She formerly served as YI's Policy and Advocacy Manager, where she built and maintained relationships with policymakers, partner groups, and other stakeholders, analyzed bills and policy proposals, and created and refined the organization's legislative affairs systems. In her time with YI, Jennifer has appeared in the Washington Post, PBS NewsHour, US News and World Report, and Politico, among other media outlets, discussing issues like federal financial aid, student debt, college access, and young adult unemployment.

Before joining Young Invincibles, Jennifer worked on women's health policy at NARAL Pro-Choice America, where she focused on issues relating to the Affordable Care Act and managed the annual publication of the preeminent report on choice-related federal and state laws and legislative activity in the United States. Previously, she has worked on policies relating to violence against women and gender discrimination.

Jennifer grew up in Los Angeles, California. She graduated from UCLA in 2008 and received a J.D. from the University of Iowa College of Law in 2011.