



Protecting the Federal Investment in Higher Education

The Gainful Employment Rule

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The Department of Education is in the process of finalizing a gainful-employment rule that will hold career-education programs responsible through a simple proposition: A career education program should only receive federal financial assistance if upon graduation students can earn enough money to pay off the debt they accrue. In short, a program is worth the federal investment only if the price of the education is justified by its outcome (as measured by the salary of its graduates). The Center for American Progress strongly supports this rule, which is critical to ensuring that the federal government, taxpayers, and students get the most out of their investment in higher education through financial aid.

Why do we need this rule?

Each time a student enrolls in college his or her family takes on a significant risk, using savings or earnings as well as student loans to invest in the promise of a bright future. In career education programs in particular (both for-profit and not-for-profit schools), there is a direct relationship between the program a student chooses and the future occupation he or she expects to achieve.

The problem is that the easy, no-questions-asked accessibility of federal loans has allowed the institutions to use a business model where there is no relationship between the cost of running the educational programs, the price students pay, and the likely outcomes in the job market. Whether students succeed or fail, colleges get paid.

The high-priced educational options and reliance on federal student aid at many for-profit colleges present a stark example of the problem. For-profit colleges charge much higher tuition than state-subsidized community colleges but serve a higher percentage of low-income students. As a result, for-profit schools rely heavily on federal Pell Grants and student loans and students leave school with high debt. But since for-profit colleges often educate students for lower-paying jobs, the debt burden can be too much to pay, leaving students' credit destroyed and the federal government with the defaulted debt.

- The average tuition at a for-profit college is several times greater than at a community college, and the federal government helps students make up the difference through Pell Grants and student loans.
- For-profit college students account for between 10 percent and 12 percent of U.S. college students but they receive 23 percent of all federal student loans and grants.
- Graduation rates at for-profit colleges are at or below 50 percent, while their profit margins are as high as 30 percent.
- Twenty-five percent of for-profit school students default on their loans after three years.
- For-profit colleges can make up to 90 percent of their revenue from student financial aid—they received more than \$4 billion in Pell Grants and more than \$20 billion in student loans in 2009.

The gainful employment rule is a simple, effective way to ensure that the career education programs will not leave students without marketable job skills or with debt that is too high to pay down. Rather than punishing colleges, it provides an incentive to offer high-quality, reasonably priced programs in high-demand occupational fields.

Does this rule target for-profit colleges?

No. The gainful employment regulation is directed at career education programs, not for-profit colleges. Many community college programs will also be affected by the gainful employment rule.

Will this cause schools to close?

No. If a career education program does not meet the standards set out in the rule, only the program would be closed, not the entire school. Students will have the security of knowing that programs offered will be of higher quality. Plus, analysis shows that to save some programs, colleges would only have to cut tuition by a few thousand dollars a year.

- Research estimating the effects of the gainful employment rule found that out of more than 12,600 programs, about 4 percent, or just over 500 programs, would lose eligibility because of the new standard.
- This includes 8 percent of bachelor's degree programs, 6 percent of associate degree programs, and 1 percent of programs that are generally certificate programs of two years or less.
- Overall, the programs most likely to be affected are those tied to high-tech fields, such as e-commerce or graphic design, or those tied to jobs with low expected starting salaries, such as medical assistant or chef.

Do for-profits educate large numbers of health care workers?

Yes, but they primarily educate students in health care support positions. Not-for-profit schools offer a wider variety of health care education programs than for-profit schools, and far more students pursue health care credentials at not-for-profit schools than at for-profits. For-profits awarded less than half as many degrees and certificates as the not-for-profit colleges in health care programs from 2002 to 2009. And while the medical profession has a growing need for nurses, most of the health programs at for-profit colleges prepare students for less needed and lower paid support positions.

- For-profit colleges primarily educate students in health care support positions like medical assisting, massage therapy, dental assisting, and medical billing where the average salary hovers around \$30,000.
- Less than 11,000 new nurses were educated at for-profit colleges in 2009, compared to more than 150,000 at not-for-profit colleges.
- Not-for-profit colleges are the primary education providers for health care practitioners and technicians such as nurses, doctors, physical therapists, and radiology technicians, all of which are in much greater demand than support workers.
- Seventy-eight percent of all health care credentials awarded at for-profit institutions in the 2008-09 school year were certificates or degrees at the associate's level or below. At not-for-profit colleges, only 32 percent of credentials in health care programs were below the baccalaureate level.
- The second most common credential awarded at for-profit colleges are in massage therapy with 10 percent of the total. For-profit colleges trained nearly all the nation's massage therapists in 2009 – more than 25,000 credentials awarded.

Do high numbers of minority students attend for-profit colleges?

The short answer is yes—minority students enroll at for-profit colleges in large numbers. This is perhaps the best reason for ensuring that these institutions are providing services commensurate with their high costs. When a student attends a community college, the tuition is low so the price of failure is low – the student can re-enroll at any time. The tuition is so high at a for-profit college that a student who does not finish or obtains a credential with little value will accrue so much debt that he or she won't be able to try again. We're giving minority students a one-shot deal, so it better be a good one. That's why groups like National Association for the Advancement of Colored People (NAACP), the League of United Latin American Citizens (LULAC), the Mexican American Legal Defense and Educational Fund (MALDEF), and the National Council of La Raza, joined a broad coalition of organizations in support of the gainful employment rule.

- About 25 percent of the health care degrees and certificates awarded at for-profit colleges in 2009 went to African Americans, compared to only 11 percent at not-for-profit institutions.

- Twenty-four percent of for-profit health care credentials in 2009 went to Latino students compared to only 8 percent at not-for-profits.
- Many of these students will end up in support positions, since for-profit colleges concentrate on educating students primarily in lower-paying, lower-skilled health support fields.

What can we do to make sure that students at for-profit colleges get good value for the money they invest in their education?

- Implement a strong gainful employment rule that gives career education programs a stake in their students' success or failure.
- Provide students at all institutions with accessible, comparable information about their college options.
- Give students an outlet at the state and federal level to voice their questions and complaints about for-profit colleges.
- Improve enforcement and auditing of rules already on the books concerning fraud and misrepresentation.

CAP resources on this subject:

- Measuring Post-College Gainful Employment: New Government Rule Makes Sense
- The Real Cost of For-Profit Education: Regulating For-Profit Institutions
- Profiting from Health Care: The Role of For-Profit Schools in Training the Health Care Workforce
- Training the Health Workers We Need: Students of Color Merit the Best from For-Profit and Not-for-Profit Colleges Alike