

Policy Focus

The Gainful Employment Rule

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

By Carrie Lukas, Managing Director, Independent Women's Forum

October 2014

Volume 4, Number 10

IN THIS ISSUE

What You Need to Know 1

Why You Should Care 2

More Information

The Gainful Employment Rule's Arbitrary Standards 2

Hurting the Economically-Disadvantaged, Minorities, and Women 2

Alternatives for Reforming Higher Education 4

For-Profit Education Caters to Women's Needs 5

What You Can Do 6



WHAT YOU NEED TO KNOW

America needs a higher education system that provides a wide variety of learning opportunities for women and men of all ages and from all backgrounds, and that efficiently delivers real value to students, preparing them to participate in the modern economy.

Many are concerned that our higher education system is failing on that last measure: Higher education costs have been rapidly increasing for decades, and today many students accrue large loan debts without gaining the skills necessary to secure jobs that pay enough to make ends meet.

The Administration has proposed a “gainful employment rule,” which they claim would address this problem, by rendering educational programs that fail to meet specific criteria for post-employment outcomes and student debt loads ineligible for student loans. However, this rule unfairly targets only a subset of schools that serve non-traditional, lower-income student populations. It would result in fewer educational opportunities for this group, and do little to encourage greater efficiency in the higher education arena across the board.

There are better ways to improve the higher education system, such as requiring greater transparency, encouraging the development of a wider variety of lower-cost education and degree-granting options, and reforming the student loan system.

In the meantime, the gainful employment rule should be rejected once again as an unfair mechanism that would destroy educational opportunities for those who need it most.

WHY YOU SHOULD CARE

We all want a dynamic, innovative education sector that serves the needs of all students and prepares them to participate and succeed in the modern economy. The gainful employment rule undermines that goal by:

- **Reducing Options for Non-Traditional Students:**

Analysts estimate that the gainful employment rule could impact as many as 3.4 million students during this decade, more than half of whom come from low-income households and are the least likely to find suitable opportunities at traditional colleges and universities.

- **Unfairly Targeting One Type of Educational Institution:** The gainful employment rule would apply only to for-profit higher education institutions, not to taxpayer-supported public colleges and universities, nor to nonprofit private schools. If this rule was applied across the board, many programs at prestigious colleges and universities would also lose their eligibility.

- **Discouraging a Needed Conversation about Real Higher Education Reforms:** We need a robust debate about how to reform our higher education system to reduce costs, expand access, and make sure that schools are serving the needs of students. Yet the gainful employment rule fails on this measure, and would discourage the serious reforms that are needed to improve the system across the board.

MORE INFORMATION

The Gainful Employment Rule's Arbitrary Standards

The Administration has proposed a new rule for assessing whether students entering a higher education program should be eligible to receive a student loan. Under the [gainful employment rule](#), if the default rate of recent graduates from a for-profit educational program exceeds 30 percent, or the recent graduates' loan-to-earnings ratio exceeds 8 percent of their income (20 percent of their discretionary income), then those wishing to enroll in that program are cutoff from federal student loans.

In 2010, a similar gainful employment rule was proposed but it was struck down in 2012 by a federal judge, who recognized the loan-to-debt ratio criteria as an arbitrary standard that was not adequately related to the value of the educational program. The Administration's new rule is slightly altered, but ought to be similarly recognized as using arbitrary criteria that unfairly disadvantage programs serving less-privileged student groups.

Hurting the Economically-Disadvantaged, Minorities, and Women

Importantly, the gainful employment rule is not applied to all higher education institutions. Rather, the Administration singles out for-profit programs



for this additional scrutiny, while exempting private nonprofit and public (taxpayer-supported) universities and colleges almost entirely.

For-profit colleges fill important educational gaps by providing career-oriented training programs in disciplines such as automotive repair, electrical and aeronautical engineering, computer networking and graphics, web and software design, accounting, and a vast area of health care professions such as anesthesiology, veterinary medicine, and nursing to name but a few. While high pay may not come immediately, many of these fields are growing employment areas with the potential for lasting, solid earnings. Moreover, programs that aim to provide students with real skills that would improve their employment prospects comprise a valuable market within the higher education sector, particularly given that millions of recent college graduates are underemployed, or working in jobs that do not require a college degree.

If the proposed gainful employment rule goes into effect, the students at many for-profit colleges and programs will lose access to student loans. Students at for-profit and vocational schools are more likely to be older, members of minority groups, and from lower-income backgrounds than their peers at public and nonprofit, private colleges. According to the National Center for Education Statistics, women account for more than two-thirds (69 percent) of students at for-profit colleges; whites account for less than half (47 percent) of students, while African-Americans

(25 percent), Hispanics (21 percent) and other minority members (8) make up the majority of the student body. More than half of students at for-profit colleges come from the lowest quintile of student income.

It's not surprising that these students also tend to have to borrow more money and earn less immediately after obtaining their degrees than students at traditional colleges and universities. [Industry analysts](#) estimate that the gainful employment rule could impact as many as 3.4 million students through 2020, more than half of whom come from low-income households, and are the least likely to find suitable opportunities at traditional college and universities.

The gainful employment rule will also encourage school programs to selectively target potential student populations to increase the likelihood that they will pass the new criteria. Students from higher-income households, for example, are less likely to have to take out large loans to pay for their education and thus will become more attractive. Schools will avoid encouraging even very promising students from low-income backgrounds, since they are more likely to have to finance their education through loans and therefore could put the program's eligibility at risk.

Indeed, in writing about the gainful employment rule in an editorial, *The Washington Post* concluded, "The likeliest effect of the rule would be to make it more difficult for poor Americans to earn a secondary degree."

The Washington Post also noted in an editorial that many prestigious programs from traditional colleges and universities, such as dozens of programs at the public University of Texas, and elite nonprofit institutions, such as George Washington University's law program, would fail the gainful rule test if it were imposed on them.

In fact, according to a [report by the National Center for Education Statistics](#), the *average* student borrower at a private, *nonprofit* institution has a 16 percent debt-to-earnings ratio—*twice* the proposed standard. Even at public institutions, which receive heavy taxpayer subsidies (which lead to comparatively lower tuitions and therefore smaller total loans), the average student borrower from a public university has a 12 percent debt-to-earnings ratio, which also surpasses the standard set by the gainful employment rule.

It is simply unfair for the Department of Education to create one set of rules for one kind of school, while ignoring other programs, and to rob at-risk students from educational opportunities they sorely need.

Alternatives for Reforming Higher Education

The Administration justifies these new rules as necessary to discourage student loan default and prevent students from racking up unpayable debts while pursuing degrees that won't lead to higher earnings. And certainly, there is reason for concern that many students overpay for higher education programs that provide little value, and

that taxpayers are on the hook for the loans when students default. Our country should be having a robust debate about how to reform higher education policies and the college and university infrastructure to encourage greater efficiency, reduce costs, improve quality, and expand access.

Yet that's not what the Administration is doing by advancing this gainful employment rule. Rather, it singles out for-profit higher education programs for assessment under arbitrary standards that don't necessarily reflect schools' value. In fact, a certain snobbishness seems to underlie the government's crack-down on for-profit colleges that provide more technical and job-oriented training, while ignoring jaw-dropping examples of waste at traditional, nonprofit colleges. Who is to say that there is more value in a degree in anthropology, modern dance, or women's studies obtained from a taxpayer-supported, public college or university than a medical technician certification from an associate program at a for-profit school?

All students should be encouraged to look closely at the results produced by higher education institutions before they borrow money and pay tuition. And the government can help by:

- **Encouraging Greater Transparency:** All higher education institutions with students who receive government-subsidized student loans or support should be required to report the true costs of obtaining degrees and recent graduates' results so that students can make informed decisions about their investment in their educations.

- **Reforming the Student Loan System:**

Ironically, the government, not schools, determines how much students can borrow and prevents schools from playing a role in setting conditions on borrowing. This system should be reformed so that students have more options for financing their educations.

- **Facilitating More Low-Cost Education**

Options: While the costs of higher education within the traditional college and university system continue to climb—increasing the burden both on students and taxpayers who subsidize grants, loans, and public institutions—access to learning continues to expand through the proliferation of low-cost options, including Massive Open Online Courses (MOOCs) and other digital learning programs. Policymakers should require government-subsidized institutions to follow the lead of innovative schools that are putting their course content online so that students of all backgrounds can gain vital knowledge and skills.

- **Creating New Degree-Granting or Credentialing Options to Allow Students to Demonstrate Mastery:** Taxpayer-supported universities should be encouraged to create degree programs or credentialing options to allow students to earn credits or demonstrate mastery of course material. A merit-based system that allows students to earn credit and attain credentials for what they learn will also encourage more efficient use of educational resources.

Government should be focused on reforming the policies and programs that affect our higher education sector to ensure that students are getting a valuable education that prepares them to succeed in our economy. The gainful employment rule, however, isn't advancing that goal, and could backfire by creating less competition, less innovation, and fewer educational opportunities for many Americans.

For-Profit Education Caters to Women's Needs

According to the [National Center for Education Statistics](#), women account for seven-in-ten enrollees in for-profit colleges. There are many reasons that women are more likely than men to be attracted to these non-traditional schooling options.

Women are disproportionately primary caretakers for children and other family members. Therefore, the more flexible and alternative hours offered by many for-profit colleges can have particular appeal to women who are seeking to gain skills and an education, while also juggling responsibilities at home and work. Women take more time out of the workforce to care for children; for-profit skill-building courses can facilitate a re-entry into the workforce.

For-profit colleges often make use of online educational opportunities, which also have unique advantages for women, including providing access course materials on their own schedules and from home, reducing security concerns that may come with on-campus attendance. Online programs also allow women to pursue their degrees without concerns about their professors' perceptions of them as women (free from sexual harassment, gender-based stereotypes, age bias, etc.).

These are just a few of the reasons why for-profit colleges fill an important niche in our educational system, and can particularly benefit women.

WHAT YOU CAN DO

- **Get Informed:** Learn more about the problems with the gainful employment rule and need for comprehensive higher education reform. Visit:
 - The Independent Women's Forum
 - Heritage Foundation
 - The Center for College Affordability and Productivity
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

- **Become a Leader in the Community:** Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.
- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

OUR PARTNERS

Contact us if you would like to become a partner!

**CONNECT WITH IWF!
FOLLOW US ON:**