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I would like to thank Anh Nguyen, Kevin Corcoran, Jay Box, Deborah Bushway, Bob Collins, Tom Carpenter, Jerry Davis, Fred Hurst, Jillian Klein, Nick Lee, Julie Peller, Stacy Sweeney, Srikant Vasan, participants at two convenings hosted by the Lumina and Bill & Melinda Gates Foundations, and especially Mike Offerman and Dan Madzelan for their advice and comments. This nonpartisan research project was supported by the Bill & Melinda Gates Foundation; however, the findings, conclusions, and recommendations solely reflect the author’s views.
Executive Summary

Why is competency-based education important?

Competence-based education (CBE) is increasingly popular because of the flexibility it provides for students seeking a postsecondary credential. While CBE programs have terms of study like traditional higher education programs, students become proficient at competencies at their own pace. Because learning can occur outside the classroom, students can earn degrees at a distance, and fit school around their schedules. Flexibility in time and place and a focus on demonstrated learning make CBE an ideal way to promote access for students traditionally underserved by higher education – often first-generation working adults who seek a credential but cannot fit traditional approaches into their lives – and potentially reduce costs and time to degree.

Why is the current federal student aid system not conducive to CBE?

Federal student aid is designed to fund education occurring within structured, discrete time periods (e.g., courses within semesters, hours instead of learning, and timed academic terms). Because CBE depends on demonstrating learning, rather than time, this poses problems within a time-based model of aid disbursement. For example:

» Because CBE students enroll in and complete competencies rather than credit-hour based courses, should enrollment status for these students be determined by the number of competencies enrolled in or completed?

» Unlike courses, competencies lack designated start and end dates. How can federal student aid that depends on clearly defined academic terms be disbursed to CBE students?

» What does “satisfactory academic progress” – a requirement students must meet to retain access to federal student aid – mean in the absence of a GPA, given that competencies are either earned or not earned? How can adequate progress over time be determined when it is not clear how much time is necessary to complete a competency?

What are the solutions?

While Congress provided an alternative to the credit hour in the “direct assessment” provision of Higher Education Act (HEA) in 2005, the Department’s rule still requires CBE programs to translate competencies back to credit hours in order for their students to receive federal student aid. This is not a long-term solution for providing federal student aid to students enrolled in degree programs not tied to seat time. Given the nature of CBE, any new laws and regulations must be free of time as their basis to fully allow for the provision of federal student aid to students enrolled in CBE degree programs.

While federal student aid statutes and regulations for CBE based fully on learning may be ideal, not enough is known today to do so at scale without risking harm to students and taxpayers. Measuring and paying for time is imperfect, but straightforward. Doing the same for learning is more difficult since it presumes we know what learning is and how to pay for it. Thoughtful experimentation with federal student aid and CBE is needed to test this innovation’s promise. Whether through experimental sites or a focused demonstration program, allowing a wide variety of institutions to develop well-controlled, focused experiments with different approaches to providing aid for CBE students would provide helpful information about what works and what does not. This work will be particularly critical to informing Congress and the Administration as they look to HEA reauthorization.
Introduction

The past decade has seen increasing interest in competency-based education (CBE) in higher education, with several colleges and universities offering, or planning to offer, CBE programs. Unlike traditional degree programs in higher education, CBE focuses on direct assessment of learning. While approaches to CBE can vary, most programs focus on the attainment of competencies in a variety of different areas, rather than the accrual of credit hours. Students earn college degrees when they establish proficiency in the required set of competencies.

One of the main reasons CBE has attracted support is the flexibility it provides for students seeking a postsecondary credential. While CBE programs have terms of study like traditional higher education, students become proficient at competencies at their own pace, generally working with faculty mentors and tutors. Because learning takes place outside of the classroom, students can earn their degree at a distance, and fit school around their work schedules. Finally, because the emphasis is on demonstrating competence, rather than hours spent in class, many students begin college already (or almost) proficient at some competencies. Flexibility, the ability to learn at a distance, and a focus on competence makes CBE an ideal way to promote access to students traditionally underserved by higher education. These students are often first-generation working adults who desire a postsecondary credential, but cannot fit the traditional approach to higher education into their lives.

Institutions wishing to offer CBE degree programs, however, face a conundrum. The natural market for these programs is the traditionally underserved college population, which tends to rely heavily on federal student aid. Yet the current approach to federal student aid allocates aid based on time spent in class during a traditional academic year. Because CBE focuses on demonstrating competency, rather than earning credit hours, there is no set time element as with traditional higher education. CBE programs do not easily fit within the time-based approach to federal student aid, making access to Direct Loans and Pell grants difficult for these programs, unless they fit their competencies within a standard credit hour framework. As will be explained below, such an approach is limiting. With the pool of potential students limited by lack of aid, schools have little incentive to build CBE programs. Solving the puzzle of how to provide federal student aid to students enrolled in CBE degree programs is crucial for the future of these programs, and the students they wish to serve.

What is competency-based education?

Like many concepts in higher education, competency-based education is a somewhat fluid concept; what follows is an overview of the most common approaches.

First and foremost, CBE programs differ from traditional higher education programs by their outcomes. A CBE degree is defined by a series of competencies, rather than the accumulation of credit hours in a variety of academic disciplines. A competency can be thought of as some combination of

“... knowledge, skills, abilities, behaviors, and other characteristics that an individual needs to perform work roles or occupational functions successfully.”

Competencies can be field-specific, such as accounting, or more broad, such as reasoning and problem-solving.

Rather than simply accumulate credit hours by taking and passing courses, CBE students must instead demonstrate their achievement of each competency. Such achievement is often established through summative assessments, such as exams or portfolios. The amount of time spent learning in an area, or in contact with a faculty member, is irrelevant here; all that matters is that a student can demonstrate that they have mastered the competency. Learning can therefore take place outside the classroom, under the direction of tutors or a faculty mentor. Because learning can take place outside of the classroom, it can be self-paced, so that students can vary in the amount of time it takes to establish a particular competency.

Thus, one of the major differences with traditional postsecondary education is that student learning can be decoupled from time; there is often no set schedule for achieving competencies, or even classroom meetings. This decoupling from time poses the major challenge for federal student aid for CBE, because statutes and regulations that have arisen since World War II assume a traditional classroom-based approach, with classes and credits hours earned within an academic year.

Current regulations for disbursement of federal student aid

Current federal student aid regulations are, not surprisingly, very complex. The aim of this section of the paper is to provide an overview only in terms of the main issues that affect CBE because of its unique approach vis-à-vis traditional higher education. For example, both CBE and traditional institutions must determine that a student is qualified to study at the postsecondary level. This is not a regulation that poses a barrier for CBE, and thus is not discussed below. On the other hand, the concept of satisfactory academic progress does uniquely affect CBE, because the current definition of satisfactory academic progress is time-based, and this reliance on time poses challenges for CBE.

The underlying principle of federal student aid is that the federal government is interested in subsidizing individuals so that they can realize the benefits of higher education. Most obviously, the government and taxpayers would like federal student aid funding to be used only for this purpose. The problem is that the federal government disburses over $150 billion a year in grants, loans and work-study to help students pay for higher education, and such large amounts of money naturally attract individuals seeking to defraud the government. While federal regulations may appear somewhat Byzantine and opaque, they are specifically designed to prevent fraud at both the institutional and student level, while subsidizing individuals as they pursue their postsecondary education. We must not lose track of this crucial fact, because any revisions of federal statutes and regulations to support CBE must also be structured in such a way to minimize federal student aid fraud.

\[2\] http://studentaid.ed.gov/about.
The relevant regulations can be summarized in one sentence: to receive federal student aid, an individual must be enrolled as a student in an eligible program with a defined academic year, within an eligible institution, and maintain satisfactory academic progress in the program.

» An eligible institution is an institution that is legally authorized by a state as well as accredited by an accrediting agency recognized by the U.S. Department of Education. The accreditor determines whether, for example, student learning takes place during their program of study. Accreditors thus serve as a major gatekeeper for Title IV eligibility; that is, whether students at an institution will have access to federal student aid.

» An eligible program is a program of study that will yield a degree or a postsecondary credential that prepares a student for gainful employment. Requiring that a student who receives federal student aid be enrolled at an eligible institution and program ensures that the student is spending aid on obtaining a postsecondary education, and not simply accruing aid while not learning anything. This might happen, for example, if aid were awarded to a student “attending” a degree mill, which simply awards degrees in exchange for payment.

» Programs must define an academic year, based on minimum weeks of instructional time that must occur within the academic year. Defining an academic year with a start and end date allows the establishment of payment periods within the academic year; regulations require aid to be disbursed to students within these payment periods. Note that non-standard terms are allowed under the regulations; institutions are not confined to traditional semester terms.

» Enrollment is defined as the proportion of time enrolled in classes, because the amount of aid received depends on the proportion of time enrolled. A student must be enrolled at least half time to qualify for the Direct Loan program, and the Pell grant amount that a student receives is in part determined by enrollment status. The idea here is that students who are spending more of their time on learning a) may have higher tuition costs, because they are taking more classes, and b) have less time for work, and thus require more aid to continue their education.

» Satisfactory academic progress while enrolled consists of two requirements, one based on grades and other the based on pace. First, students must demonstrate they are learning while in school; this usually takes the form of a minimum GPA. There is a mandated review at the end of two years of school, in which the student must have a GPA of at least a C (2.0 on a 4-point scale), or academic standing consistent with the graduation requirements of the institution. Second, students must progress through their degree program at a reasonable pace, defined as on track to complete within 150% of the official length of the program.

How does this work in practice? A student first enrolls at an eligible institution. This institution has met certain guidelines, such as accreditation, so the Department of Education knows that federal student aid will not be going to a diploma mill. Federal student aid is only available if a student enrolls in an eligible program, e.g., a program leading to an associate’s or bachelor’s degree, and not if the student has simply signed up to take a single course. Once enrolled, aid is initially disbursed based on the amount of instruction the student has registered for; this is typically measured by credit hours.
After initial enrollment, the student must maintain satisfactory progress while in school. At a minimum, they are reviewed annually to determine if a) they have maintained academic standing consistent with graduation requirements (e.g., a “C” average), and b) their pace through their course of study is such that they will finish within 150% of the official length of the program. For example, if a student registers for 15 credit hours of courses in a semester, their institution may determine that the student will only graduate within 150% of the official length of the program if they complete at least 10 of those 15 hours.\(^3\) Without the requirement for satisfactory academic progress, a student could simply collect aid without getting anywhere near degree completion, though lifetime limits on aid amounts (both Pell and loans) would eventually stop the federal student aid from flowing.

Finally, aid is disbursed to the student via payment periods. Payment period definitions are complex, but generally comport with the institution’s academic terms within its academic year. There is no need to go into detail here; suffice it to say that for most institutions, the payment period is the term, or semester. The concept of a payment period is necessary for two reasons.

First, in order to prevent fraud, aid is parcelled out to the student during their time in college; students are not merely handed a check for the full cost of their education when they initially enroll in college. Some schedule is necessary for disbursement of aid, so the payment period is used to determine when students will receive the aid necessary to attend school only during that payment period. Second, aid is tied to satisfactory academic performance, so the disbursement of aid must also be tied to the unit of time over which satisfactory academic performance is calculated.

By ensuring that students only enroll in programs and institutions that will yield a valid postsecondary credential, tying the amount of aid to the amount of student effort (as proxied by credit hours), parceling aid out over time periods, rather than all at once, and requiring that students periodically demonstrate they are working towards their credential, the federal government has created a complex series of statutes and regulations during the past several decades to support students while also limiting fraud. The government created these rules for a system that has traditionally been rooted within a time-based system of education, one based on the credit hour. Unfortunately, these rules also make it difficult to provide federal student aid to students enrolling in CBE programs, precisely because of the role of time.

\(^3\) Here is one example of how a school could calculate satisfactory academic progress. Assume a school requires 120 credit hours for graduation, with an official program length of eight semesters (i.e., four years), or 15 credit hours per semester, on average. Twelve semesters would be 150% of the official length of the program. To earn 120 credit hours over twelve semesters, a student would need to complete a minimum of 10 credits hours per semester (12*10=120). So, to maintain minimum progress when registering for 15 credit hours, a student would have to complete at least 10 credit hours, or 67% (10/15) of attempted credits, to maintain a pace that would allow them to complete their degree within 150% of official program length.
Fundamentally, federal student aid is designed to fund education that occurs within structured, discrete time periods (i.e., courses within semesters). Conversely, CBE is unstructured, by its very nature, and does not depend on time periods to help determine if learning has taken place. This poses several problems when considering how federal student aid should be disbursed to students enrolled in a CBE program.

**How should full-time/part-time status be judged?**

Federal student aid programs use full-time enrollment as one criterion for determining if, and how much, aid should be disbursed to a student. Because CBE students enroll in competencies rather than credit-hour based courses, it is impossible to determine full-time status based on competencies alone.

For example, one student may struggle to complete two competencies during a semester and devote as much time to their studies as a student who finishes ten competencies during the same time period. Which student has been enrolled full-time? An objective observer would conclude that both have been enrolled at the same level of intensity, given that both have spent the same amount of time on their studies. Yet, by applying the credit hour perspective, we would be tempted to conclude that the ten-competency student is somehow more “full-time” than the two-competency student.

**What is an academic term when courses lack designated start and end dates?**

Federal student aid is usually disbursed per academic term, and satisfactory academic progress is calculated each term. It is unclear what an academic term means for CBE programs and their students. CBE students pursue their education outside of the classroom, usually with the assistance of mentors and coaches. They decide when to begin, and end, their studies. Because students separately pursue their studies, there is no need to coordinate beginning and end dates for courses, as with the traditional approach. A student could begin a competency in November and finish in February, which clearly does not fit within the traditional academic calendar year of fall, spring, and summer terms.

**How should satisfactory academic progress be measured?**

One of the many roles financial aid offices play is measuring the academic progress of students on financial aid, to determine if they are still eligible for aid based on their performance in their courses. This requirement is in place to ensure students are learning during college, rather than simply signing up for courses, and then not attending, in an attempt to gain access to aid funds. CBE courses pose two challenges here, related to the GPA-based and time-based requirements of satisfactory academic progress.

First, one of the basic principles of CBE is that students must demonstrate competency in a specific area. Generally, this is a binary outcome: either a student is competent in an area, or they are not. Rather than passing or failing a competency, students continually work with coaches and mentors until they can demonstrate competency. Such an approach does not lend itself to grade-point calculations.
Current approaches to federal funding of CBE students

Second, adequate progress over time could potentially be difficult to define, as it is not clear how much time is necessary to complete a competency. With the traditional approach, a three-credit course is supposed to take up a specific amount of a student’s time (both in class and outside of class). Such clear time definitions are not always possible with competencies.

Although CBE poses challenges to how we provide federal student aid to students, several CBE programs across the country are currently enrolling students and disbursing federal student aid to them. These schools have adopted two ways of structuring their financial aid systems. The first group, such as Western Governors University, has translated competencies to credit hours, and then disbursed aid under current federal regulations and statutes. The second group, Capella University and Southern New Hampshire University, takes advantage of revisions in the regulations that allow for federal student aid for direct assessment programs.

Translation to credit hours

Given the complexities of the federal student aid system, and the fact that software systems used by schools to disburse aid are designed to ensure compliance with federal regulations, it is not surprising that some schools have chosen the path of least resistance, and have translated their competencies to credit hours. One example is Western Governors University (WGU).

WGU has established a one-to-one equivalency between its competency units and credit hours, and a student is considered full-time if they are enrolled for at least 12 competency units. Students either pass or fail to pass a competency by the end of the term. There are two six-month terms per academic year.

To meet satisfactory academic progress requirements of a minimum 2.0 grade-point average and sufficient pace, WGU defines demonstrating a competency (or passing) as a grade equivalent to a “B” or better (3.0 on a four-point scale). Pace is determined by completing 67% of competency units attempted in a term. For example, if a student registers for 15 competencies and completes only 10, while not completing 5, then:

- Their grade-point average from a federal perspective is exactly 2.0. Multiplying the 10 passed competencies by 3.0 grade points yields 30 grade points achieved in the term; dividing by the 15 competencies attempted results in a grade-point average of 2.0.
- Mathematically, completing 67% of all competencies attempted means that the student is on track to finish the program within 150% of normal time (10/15=67%).

While WGU has a competency-based approach to educating students, it has to treat competencies as credit hours in order to gain access to federal student aid for its students. The description of its program in terms of definition of full-time status, payment periods, and satisfactory academic progress, is indistinguishable from many traditional postsecondary programs.
**Direct assessment rule**

In 2005, the Higher Education Act was amended to make direct assessment programs eligible for participation in federal student aid programs; in 2006 the Department of Education issued regulations implementing the statute. In particular, the new regulations allow for programs that measure student learning directly, instead of using credit or clock hours. Programs are required to apply directly to the Department of Education, and most importantly, the regulations state that institutions:

… must specify the equivalent number of credit or clock hours for a direct assessment program … As part of its application, the school must explain how it determined the equivalent number of credit or clock hours for the program.⁴

While making it somewhat easier for CBE programs to participate in federal student aid, the new regulations still require institutions to fit their programs within the credit hour framework, by requiring the establishment of equivalencies. Southern New Hampshire University (SNHU) recently received approval for an A.A. in General Studies under the direct assessment rule and provides an illustration of how this new approach can work.

Similar to Western Governors, SNHU has established an equivalency between competencies and credit hours, but at a 2:1 ratio, rather than a 1:1 ratio. The university requires 120 competencies for their A.A., similar to other associates degrees, which are usually 60 credit hours.

The A.A. program is defined as a five-term program. Students are defined as full-time if they achieve 24 competencies in a term, and half-time if they achieve 12. These are the equivalent of 12 and 6 credit hours per term in a traditional program. Similarly, Western Governors defines full-time as achieving 12 credit hours’ worth of competencies in a term.

SNHU also has two six-month terms in an academic year. The structure of the academic year, however, differs from the traditional semester system. A new six-month term will begin every month, so that students’ start dates can vary across students, depending on when they decide to enroll.

Satisfactory academic progress is the second area in which SNHU’s approach differs from standard practice. Recall that there are two components to satisfactory academic progress: a grade-point average performance component and a pace component. The university argues that because competencies are either “in progress,” or mastered, students cannot fail satisfactory academic progress based on grade-point average. Instead, satisfactory academic progress in this program will be measured solely by pace, and not by grade-point average.

SNHU defines their successful completion rate to maintain pace as 75% of competencies attained in a term. Similar to other programs, this rate is calculated such that student pace complies with the 150% of program length rule.⁵ Completing 18 competencies per semester (75% of 24 competencies per term) would result in a student obtaining their degree within the 150% time rule.

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⁴ Federal Student Aid Handbook, 2012-2013, volume 2, p. 2-19
⁵ The basis for this rate is not explained in their application. Given that theirs is a five-term program of 24 competencies per term (5*24=120), 150% of five terms is 7.5 terms. Because students cannot enroll for half a term, seven terms would comply with the required 150% completion time. Dividing 120 competencies over 7 terms yields 17.1 competencies per term, which because students cannot take fractions of competencies, must be rounded up to 18 credits per term to finish in 150% of regular program length. Dividing 18 by 24 yields a 75% completion rate.
One major change from other programs is how SNHU applies this rate. In many schools, the rate is simply applied to the number of credits attempted. For example, if a student attempted 30 competencies in a term at SNHU, but only achieved 20, their completion rate would be 67%. This is below the university’s 75% rate, and the student would be marked as not making satisfactory academic progress. Yet, the student will still be on track to graduate, because they had completed more than 18 competencies in that term. As the university points out in their application to the Department of Education, applying the rate in this manner has the unintended effect of discouraging students from attempting more competencies than required, because if the student is not successful, they may put their federal student aid at risk. Instead, the university argues that the 75% completion rate should be applied not to competencies attempted in a given semester, but to the number of competencies required to finish within standard program length (24). Thus, students must attain a minimum of 18 competencies per term to maintain satisfactory progress.

This aspect of SNHU’s application is one of the most important, because CBE is designed for students to master competencies at their own pace, with the idea that competencies will be worked on until mastered. Under the Western Governors’ approach, students must attain 67% of competencies attempted in a term. If a student, for example, attempted 20 competencies and only mastered 12, their completion rate for the term would be 60%, less than the required 67%, and the student would be flagged. Yet Western Governors’ full-time requirement is 12 competencies per term. The student in this example completed enough competencies to be considered full-time at the end of the term, yet they would also be considered as not making satisfactory academic progress.

Future approaches to federal student aid and competency-based education

Given that schools such as Western Governors have thriving CBE programs under standard federal student aid statute and regulations, and Southern New Hampshire has received approval for a CBE program under the direct assessment rule, one could argue that the current approach to federal student aid works fine for CBE programs. Careful consideration suggests this is not the case:

- The regulations clearly spell out what traditional postsecondary institutions must do to participate in the federal student aid programs. For direct assessment programs, however, each institution must devise a plan, and win Department of Education approval for their specific plan. Thus, the burden and uncertainty of success for any individual institution is high, and discourages institutions from applying for federal student aid program participation under the direct assessment rule.

- Just as current regulations provide great clarity as to how traditional institutions must structure their federal student aid programs, CBE institutions need a similar set of regulations for direct assessment programs. For example, a strong argument can be made that the grade-point average part of the satisfactory academic progress requirements should not apply to CBE programs under current regulations, and only pace through the program should be considered. As this is not an explicit part of current regulations, each CBE program will have to make this argument when they apply to the Department of Education.
The direct assessment rule takes a “translation” approach to CBE programs. The implicit assumption of the rule is that credit- and clock-hour based programs are the norm, and CBE programs must somehow be fitted into this norm by clearly establishing equivalencies between competencies and credit hours. To be fair, the Department of Education is required to implement statutes passed by Congress, and they do not have the ability to simply ignore the use of credit- and clock-hours as a basis for federal student aid eligibility and disbursement. The direct assessment rule was their attempt to work with CBE programs under current statute.

With this in mind, we can consider several changes to current approaches to federal student aid and CBE programs. Changes could occur in one of two ways: changes in regulations promulgated by the Department of Education, and therefore consistent with the current Higher Education Act, and changes by Congress in the federal statute governing federal student aid.

**Regulatory changes and clarifications**

Given the Department’s approval of the Southern New Hampshire application under the direct assessment rule, it is clear that the Department believes this approach is consistent with current federal statute. Clarifying that it is permissible for CBE programs to a) abandon the grade-point average portion of satisfactory academic progress requirements and only use pace, and b) define pace under satisfactory academic progress as the **number** of competencies earned per term rather than the **percentage** of attempted competencies that are completed, would be a useful first step.

One could imagine revised regulations taking a two-pronged approach to CBE. The first, more difficult approach, would allow programs to develop their own applications as they can currently under the direct assessment rule. This would allow innovative approaches to implementing CBE and federal student aid as the number of CBE programs continues to expand. The second, less burdensome approach, would propose a specific set of rules that CBE programs must meet, based on specific aspects of the approved Southern New Hampshire application.

**Statutory changes – remedial coursework**

Current statute makes funding of remedial education for CBE programs difficult. Currently, students can receive federal student aid when taking remedial coursework, as long as they are enrolled in an eligible program. Under the direct assessment rule, however, competency-based remedial education is specifically not eligible for funding. Instead, only remedial courses based on credit or clock hours, in conjunction with the CBE program, are allowed. Given the flexible nature of CBE, and the reasons why students would sign up for a CBE degree program, it is unclear why these students are forced to enroll in remedial coursework within the traditional credit-hour system. In addition, CBE degree programs target students who may not typically thrive in a traditional degree program. Requiring these students to complete their remedial coursework within a traditional framework seems to defeat the whole purpose of enrolling them in a CBE degree program.
Statutory changes – prior learning assessment

Another issue with aid for CBE programs is how competencies are determined. Some students may be able to demonstrate a competency at entry, without the need to study and work with coaches and mentors to achieve the competency. It makes little sense to require these students to enroll in and pay for these competencies; in fact, this merely increases barriers and costs of degree completion for these students.

Current statute does not allow for federal funding for the parts of a program that allow students to demonstrate mastery of competencies from prior experience; that is, for learning that takes place outside educational activities overseen by the institution. For CBE, what matters is only the output: demonstrated competency. The inputs can be quite minimal. Imagine someone who runs a small business and has, over the years, taught themselves accounting. It is a waste of both time and money for this person to take a course on accounting, when they can demonstrate mastery at entry. Under current regulations, this student would have to sign up for an accounting competency instead of demonstrating mastery at entry, because federal funds cannot be used for expenses related to the testing of content mastered outside the institution.

Revising the statute to allow funding for learning assessment at entry would be very beneficial to students enrolled in CBE programs, but the fraud possibilities are large. Granting students competencies after an assessment and payment of fees sounds dangerously similar to the practice of degree mills, which can grant their degrees in recognition of “life experience” and payment of fees. Regulations in this area would have to be carefully drafted to distinguish between legitimate assessment of competencies and fraudulent behavior.

States and accrediting agencies could play a large role in preventing fraud in prior learning assessments. Under current regulations, institutional eligibility is determined in part by whether they have been authorized by the state to provide an educational program within the state, as well as accredited by a nationally recognized accrediting agency. Accreditors, in particular, would have to pay close attention to how prior learning assessments are carried out. To prevent institutional fraud, each prior learning assessment should be approved by a recognized accreditor to make it Title IV eligible. One can imagine an institution that already has state approval and accreditation, deciding at a later time to implement a weak prior learning assessment regime in order to generate revenue to fund the institution. In addition, federal student aid in this area should be limited to the direct cost of the assessment. Given the short duration of these assessments, students do not require aid for indirect costs such as living expenses.

Statutory changes – disbursement of aid without considering time

Unfortunately, the solutions proposed above do not solve the larger issue that confronts CBE and federal student aid. Current regulations rely on time-spent by students as their foundation. Only a statutory change would allow financial eligibility for CBE programs that are completely free of time as their basis. Such a change could allow for innovative ways to fund students in CBE programs. Indeed, one could imagine a two-track system of federal student aid statutes. The first track would be the current regulations, as they apply to traditional, time-based institutions; the second would not use time as their basis. Institutions could choose which set to follow.
CBE programs are self-paced, unlike traditional postsecondary programs. Students pursue differing numbers of competencies, depending on their schedule, and there is large variation in the amount of time spent to achieve a specific competency. Thus, the notion of a “normal” program length makes little sense for CBE programs. (Note that current CBE programs, such as Western Governors and Southern New Hampshire, have created official program lengths in order to be eligible for federal funds; there is nothing inherent in the structure of their programs that requires this.) Without an official program length, it becomes impossible to define full-time status, payment periods, or 150% of official program length.

How could CBE programs be funded without considering time spent, while also limiting fraud? One approach would tie aid to competencies completed, rather than attempted. Under this approach:

- The amount of aid received would vary with the intensity of study, similar to current regulations, which tie aid to the level of credit hours for which a student is registered. The concepts of full-time and part-time status would be irrelevant here.

- The concept of satisfactory academic progress would be irrelevant, as aid would not be tied to how many competencies a student achieved in a term. This would allow students to structure their learning at their own pace, rather than at a pace dictated to them by institutional student aid rules.

Under this scenario, a student could simply sign up for as few or as many competencies as they wish, and take as long as they need to complete each competency without worrying about losing federal student aid. Such an approach would clearly benefit many traditionally underserved students, who juggle work and life issues, and can face substantial challenges when taking courses within a standard academic term.

The major issue here is determining the “worth” of a competency. One possibility would be to tie the total amount of aid to the degree sought, and fund each competency by its proportion of the degree program.

Example: An institution offers a Bachelor’s degree consisting of 120 competencies, with a charge of $400 per competency, yielding a total cost of tuition of $48,000. Students who qualify for the maximum annual Pell grant of $5,645 can receive up to six years of funding, for a total of $33,870. This total amount of aid could be disbursed per competency completed, which would result in $282 in Pell grant aid per competency.

Because aid would be tied to competencies actually completed, the possibilities for fraud are limited. Under the current system, for example, fraud rings instruct groups of “students” with false or stolen identifications to enroll in an online degree program, receive their initial allotments of aid, and then stop attending classes while keeping the aid. Tying aid to completion of competencies avoids this problem, because a student attempting to commit fraud cannot register for a large number of competencies in the hopes of receiving aid, and then drop out of school.

This number is similar to what Western Governor’s could charge on a per-competency basis. Currently, their tuition is $5,780 per six-month term for their 120 competency Business Bachelor’s program (http://www.wgu.edu/tuition_financial_aid/tuition). If students attended full-time and completed their degree within four years, their tuition payments would total $46,240 ($5,780*8), which works out to $385.33 per competency.
In addition, aid disbursed upon completion of individual competencies mitigates the need to demonstrate satisfactory academic progress. By meeting a competency, the student has demonstrated academic progress for that particular competency. With this approach, a student cannot register for a series of competencies over time, receive aid, and fail to make progress towards degree completion, because each competency attained advances them towards degree completion.

A more risky approach would provide aid per competency up front, requiring a refund from the student if the competency is not met.

**Statutory changes – living expenses**

This model of federal student aid makes determination of living expenses difficult. For example, should a student who takes an entire year to master one competency because they are working full-time, receive the same amount for living costs as a student who masters 30 competencies in the same time period, because the second student decided to stop working and devote significant time to their studies?

Living expenses could be handled in two ways. First, the amount for each competency could be such that it covers the cost of the competency, with a set amount left over for living expenses. The student completing many competencies in a year because they are spending most of their time on their studies would then receive a significant amount of funding for living expenses during the year, while the one-competency student in the example above would not.

Example: Suppose a student’s indirect costs for living expenses and incidental expenses totaled $500 per month, for a total of $24,000 over a four-year period. If aid were disbursed on a competency-completed basis, a student enrolled in a 120-competency degree program would receive an additional $200 in aid per competency.

Alternatively, federal student aid could be structured so that living expenses would not necessarily be funded. One could imagine schools taking different approaches to tuition and federal student aid. One group could adopt the Southern New Hampshire model, whereby students could pursue a degree full-time while receiving funds for living expenses. These students would have to comply with rules concerning full-time status and satisfactory academic progress. Another group of schools could structure their programs around direct aid for competencies and no living expenses, with the idea that their students will be working students who do not need money for living expenses, and instead require the greater flexibility that a non-term-based CBE could offer.

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7 This amount is taken from Southern New Hampshire’s application under the Direct Assessment rule.
The need for experiments

Changing federal student aid laws and regulations to fully support students enrolled in CBE programs would require a sea change in how aid is disbursed, because new regulations would be time-independent. New laws and regulations must be carefully designed, given the incentives for both institutions, and individuals, to engage in fraud.

The main issue we face is that the specifics of new approaches to federal student aid are not entirely clear. We run the risk of enacting regulations that are either too expansive, encouraging fraud in CBE programs, or too restrictive, preventing CBE programs from developing and expanding beyond the handful of current CBE institutions. Allowing a wide variety of institutions to develop well-controlled and focused experimental sites, each with different approaches to federal student aid provision for CBE, would provide a wealth of important information as to what changes will work, and what will not. Such information is crucial before we embark on full-scale implementation of new federal student aid statute and regulations.