Postpandemic Federal Higher Education Accountability

Exploring Conceptual Frameworks for Performance Measures

Kristin Blagg and Erica Blom

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The student loan pause and the pandemic-induced recession will have repercussions for metrics that inform federal higher education accountability. In this brief, we generate a set of frameworks for short- and long-term higher education accountability policy options to address the pandemic's effects on formal and informal higher education accountability measures. Some of these frameworks are inspired, in part, by comments from researchers, former and current government employees, and advocates at a small convening we held to discuss these issues.

The US Department of Education collects data on student loan repayment, postenrollment earnings, and other institution- and student-level measures. In some cases, these measures are used for formal accountability, such as tracking student loan defaults to determine eligibility for Title IV programs. In other cases, measures of student outcomes are used for informal accountability and consumer information (e.g., publishing postgraduate earnings in the College Scorecard). Both sets of metrics, intended to protect and inform prospective students, will likely be affected by the pandemic-induced recession and the pause on student loan repayments.

How Will Current Accountability Metrics Be Affected?

The federal higher education accountability system aims to ensure that federal aid dollars go to programs that deliver strong outcomes for their students and for taxpayers. Although there are other forms of accountability within higher education—namely, accreditation and state authorization—the federal role generally focuses on regulating the provision of financial aid. Institutions with poor outcomes risk losing eligibility to provide Title IV (federal grant and loan) aid to their students, although the standards are such that this happens infrequently. The Department of Education also provides informal accountability through the publication of the College Scorecard, which provides measures of postgraduate earnings by program as well as more detailed information about loan amounts and loan repayment.

Cohort Default Rates

The primary federal higher education accountability measure is the cohort default rate (CDR). Institutions with three-year default rates higher than 30 percent for three years in a row, or higher than 40 percent in a single year, may be deemed be ineligible to provide federal aid.

The CDR identified and pushed out a substantial share of poor-performing schools when it was first introduced in the late 1980s and early 1990s (Ahlman 2019). But the CDR measure currently identifies and excludes very few institutions from federal aid eligibility.[1] Many factors have contributed to the reduction in default rates, including the economy, the expulsion of especially poorly performing institutions, the introduction of new student loan repayment programs—such as more generous income-driven repayment plans—that help borrowers avoid default, and institutions' active management of borrower loan repayment during the three-year repayment window (Velez, Lacy, and Conzelmann 2019).

TABLE 1

Cohort Default Rate Interference for Measuring Default Rates

The effects of the pandemic pause will ripple through the next several years

Cohort year	Payment years covered	Pandemic pause
FY 2018	FY 2018, FY 2019, FY 2020	Last 6 months (March 2020–Sept. 2020)
FY 2019	FY 2019, FY 2020, FY 2021	Last 18 months (March 2020–Sept. 2021)
FY 2020	FY 2020, FY 2021, FY 2022	Middle 18 months (March 2020–Sept. 2021)
FY 2021	FY 2021, FY 2022, FY 2023	First 12 months (Oct. 2020–Sept. 2021)
FY 2022	FY 2022, FY 2023, FY 2024	N/A, but most of FY 2021 may be included here

Source: Urban Institute projected cohort default rate cohort patterns.

Notes: FY = fiscal year. Blue indicates the current projected pandemic pause period for federal student loans.

Fewer than a dozen institutions annually have been identified as at risk of losing Title IV aid by the CDR in recent years, but it is unlikely that *any* institutions will be flagged by the measure in upcoming cohorts. This is because of the pause on student loan repayment, which relieved most federal student borrowers of their obligation to repay their student loans during the pandemic. The fiscal year (FY) 2018 repayment cohort will be the first group affected by the pause, which went into place during the last six months of their CDR period (table 1). Cohorts will continue to be affected until at least the FY 2022 cohort.[2] Because administrative federal student loan defaults occur after 360 days of nonpayment, the pause will likely substantially lower the share of students who default. Should the pause be lifted without sufficient guidance and support for borrowers (especially those entering repayment for the first time), the restart could trigger a high rate of delinquencies and defaults.[3]

Financial Responsibility Composite Scores

The second federal accountability metric is the financial responsibility composite score.[4] Private institutions are required to demonstrate that they are sufficiently financially responsible to participate in Title IV programs. The financial responsibility score, calculated from audited financial statements, is based on a composite of a primary reserve ratio, an equity ratio, and a net income ratio. Unlike student loan repayment, the requirement to report finances was not paused during the pandemic. Some experts project that many institutions will see their responsibility scores drop.[5] Whether these drops reflect a deep underlying financial instability or a temporary dip in resources that will be remedied postpandemic likely depends on the institution.

During the previous recession, composite scores did drop precipitously, and many for-profit institutions exited the market in subsequent years. But composite scores are imperfect predictors of closure. Moreover, composite scores are arguably used to anticipate closures rather than force closures through regulation (Government Accountability Office 2017).

Gainful Employment

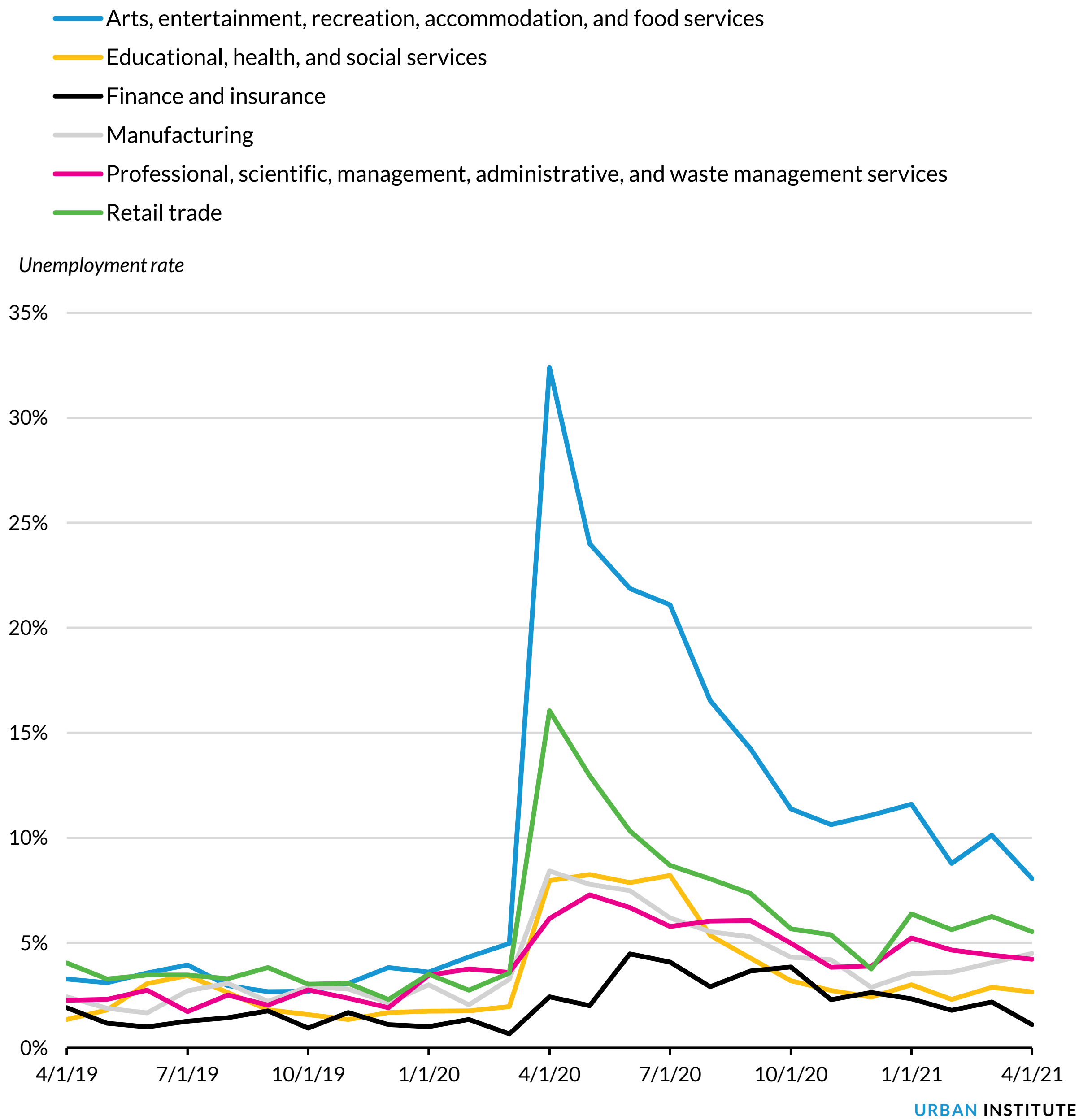
Gainful employment (GE) regulations, initiated under the Obama administration, were intended to hold for-profit and nondegree programs at public and private nonprofit institutions accountable by restricting Title IV aid to institutions whose graduates could reasonably afford to pay back their loans, as measured by the debt-to-earnings ratios.[6] Under the Trump administration, GE regulations were rescinded before they could take hold, although the publication of debt-to-earnings ratios contributed to some program closures (Kelchen and Liu 2019).

It is important to understand the pandemic's impact on GE measures, especially if the current administration reinstates the regulations. The numerator (i.e., the initial loan balance upon completing the program) will likely be unaffected unless students changed borrowing habits during the pandemic, but the denominator (i.e., annual earnings) is likely to change. For example, the nearly nationwide closing of barbershops and hair salons will affect the earnings metrics for graduates of cosmetology programs, already among the most poorly performing of GE programs. Programs in the arts, entertainment, recreation, accommodation, and food services industries are also likely to be affected (figure 1).

FIGURE 1

Unemployment Rates for Selected Industries

For employees ages 25–34 with at least some college



Source: Authors' calculations using Current Population Survey data accessed via IPUMS.

The College Scorecard and Other Public Measures

The College Scorecard, published by the Department of Education, collects and reports myriad outcomes for institutions and programs and aims to inform student higher education choices. The Scorecard reports program-level earnings two years after completion and employment rates for students who received federal financial aid. Similar to the GE measure, we expect these earnings metrics will decrease for the cohort affected by the pandemic, particularly for largely customer-facing programs, such as arts and entertainment, food service, education, and health and social services. The College Scorecard also reports loan outcomes, providing the CDR and the share of borrowers by repayment status (e.g., "making progress," "not making progress," "forbearance"). Although the College Scorecard measures are not used for accountability (aside from the CDR), they convey information to students about the quality of institutions and programs. But the pandemic will render this tool less useful for prospective students, as some programs may have artificially low earnings measures caused by the pandemic's effect on their industry and as repayment measures will incorporate the 18-month student loan pause.

Past and present labor market discrimination can unfairly penalize institutions that have little control over factors beyond their walls. Several participants in our convening noted the disparate impact the pandemic has had across racial and ethnic groups. Given the degree of racial segregation in higher education (Monarrez and Washington 2020), institutions serving students of color could see their outcome measures decline relative to predominantly white institutions. No current accountability or informational metrics provide breakdowns by race or ethnicity, but changes to the Free Application for Federal Student Aid (FAFSA) to include race and ethnicity information could provide these breakdowns.[7]

Frameworks for Amending Federal Accountability Measures

The pandemic-driven changes in higher education outcome measures will be evident soon. The CDR for borrowers entering repayment in FY 2018, the first cohort affected by the student loan pause, will be released in fall 2021. The most recent College Scorecard measures, published in January 2021, present loan and earnings outcomes spanning the 2017–19 period, just a year from the start of the pandemic.

To assess new frameworks for higher education accountability moving forward, we divide these ideas into short-term and long-term categories. Short term, we suggest actions that could be taken to temporarily support current measures such as the CDR and earnings measures or to provide other ways for potential students to make informed decisions. For the long term, we offer ideas for measures that may accommodate economic shocks similar to the pandemic or that reframe accountability in new ways.

Short Term

Policymakers have an obligation to help students identify programs and institutions that will deliver strong outcomes and to protect taxpayers from investing in poor-performing institutions. Even though higher education metrics will be skewed by the pandemic, policymakers should explore short-term actions to maintain these goals. Available short-run solutions are likely limited, as the Department of

Education has some regulatory options for monitoring troubled institutions[8] but is more restricted in what it can enact broadly without congressional action

AMEND CURRENT DEFAULT AND EARNINGS MEASURES

Without new legislation, it is difficult to imagine how the CDR measure might be amended to address the changes the loan payment pause produced. Even before the pandemic, some experts suggested strengthening the CDR by closing the so-called forbearance loophole, where student loan borrowers forestall repayment during the three-year CDR window using deferment and discretionary forbearances.[9] Such an action would require legislative action, but a blueprint for this proposal was set forward in the College Affordability Act, and others have suggested that the Department of Education could monitor use of forbearance to ensure that the status is for the benefit of the borrower, not the institution (Ahlman 2019).

An alternative approach is to consider institutions that were close to failing, or that failed, the CDR metric in the last nonpandemic cohort (FY 2017). The Department of Education could consider targeted scrutiny of institutions flagged as at or near risk in the untarnished data collection round, as well as any new entrants, and request follow-up to demonstrate good-faith efforts taken to improve outcomes or risk being “named and shamed” by the department.

The department may have more flexibility on short-term changes to aggregate earnings measures, such as those reported on the College Scorecard, or that could be generated for a new GE measure. One option would be to preserve prepandemic earnings in the Scorecard, either in lieu of updated measures or as context for interpreting aggregate earnings metrics that may have declined during the pandemic. Another option could be to change the College Scorecard measure, such as by generating an earnings measure that excludes the first six months of the pandemic or providing context for program-level information using aggregate comparisons (e.g., providing a national median earning for performing arts programs, noting that these graduates were particularly affected by the pandemic).

If the Department of Education revives the GE accountability metric, the initial year of data could include graduate earnings during the pandemic. Similar to the first GE rollout, the department could consider the first GE measures as available for informational purposes only. As some sectors and programs were affected more than others, the department could consider providing additional contextual documentation on shifts in earnings by program Classification of Instructional Programs code and level, so that institutions have a better sense of how well their graduates’ earnings might be aligned with earnings in a more typical year.

DEVELOP ADDITIONAL INPUT-BASED MEASURES

An alternative to amending student loan and earnings data is to temporarily supplement these outcome measures with additional information on institution inputs during the pandemic. For example, the Department of Education could document and publish institutional spending of funding granted through Coronavirus Aid, Relief, and Economic Security (CARES) Act and other related higher education allocations from pandemic relief bills. By highlighting institutions that appear to be making substantial investments in their students, even during the pandemic, the Department of Education could help students make better comparisons as earnings data become less reliable. A maintenance-of-effort approach could ensure that colleges are, at minimum, maintaining prepandemic practices (Hiler et al. 2020). Input-based measures are not a new idea and are viewed as being easily manipulatable, so they have not gained much traction in the past. Policymakers would need to consider this as part of a larger set of measures and be aware of these pitfalls if they pursue this route.

INCREASE COLLEGE SCORECARD DATA VISIBILITY

A third approach could be to increase the visibility of the College Scorecard for prospective students. Although earnings and loan-based measures may be biased by the pandemic, other measures—such as graduation rates and net price data—are more recession-proof. And older earnings or loan repayment measures could be presented alongside newer data to provide context.

Improvements to the College Scorecard could go beyond changes to the data that are presented. Evidence on the initial 2015 release of Scorecard data indicated that well-resourced students were more likely to change their higher education applications in response to earnings data (Hurwitz and Smith 2018). Efforts to increase access to College Scorecard data have included using the information in high school college- and career-preparation software, such as Naviance and the College Board's BigFuture. Providing personalized data for high school students through Naviance has changed college choices (Mulhern 2021). Finding similar avenues to inform students about their higher education choices—with data adapted to individual needs, if possible—could create informal accountability during this time. For example, students using the College Financing Plan to assess their potential higher education costs could also be notified of the other data available on the College Scorecard.[10] Another alternative would be to use a public information campaign, publicizing the availability of these data to help those considering higher education make informed choices. These approaches would not only strengthen the system immediately postpandemic but bolster the system more generally.

Long Term

Aside from short-term fixes, pandemic-induced changes in higher education outcomes data might provide an opportunity to reconsider the federal higher education accountability system as a whole. Making the system more responsive to sudden economic downturns, and more immune to changes in student loan policy, would help ensure that accountability metrics stay relevant to institutional accountability and adequately protect student and taxpayer interests.

RELATIVE EARNINGS MEASURES

Earnings measures are one of the chief focuses for efforts to reform the system. Some organizations advocate for earnings-based measures (Dancy et al. 2021).[11] One proposed approach is to compare earnings with a relative measure that can vary across time and geography.

By choosing a dynamic relative threshold, policymakers could account for recessionary swings in earnings and deep economic differences across the country. For example, earnings among college graduates could be compared with the earnings of the local median high school graduate. In areas where wages are low overall, this threshold would be lower than in areas where high school graduates tend to earn more. Rather than "risk-adjusting" outcome measures or holding outcomes to a single universal threshold, high school median earnings serve as a counterfactual—what the student would have earned absent their college experience. Relative measures could also be used to assess graduate programs (e.g., compare with the median earnings of those who hold a bachelor's degree in the same field) or student loan outcomes (e.g., comparing debt-to-repayment ratios at a given program or institution with ratios at similar programs).[12]

USING LONGER-TERM OUTCOME MEASURES

Formal and informal accountability measures generally use data on outcomes measured two or three years after the cohort exits the institution. There are some advantages to this approach. By using relatively recent data, these measures closely correlate with the institutional conditions current students experience and exemplify outcomes that prospective graduates can expect. But the downside to this approach is that these short-term measures are easily biased by economic or policy shocks and do not reflect career trajectories beyond the first few years.

One way to counter this would be to produce longer-term measures for accountability. Earnings measures could be averaged across multiple years (e.g., mean wages across the first five years of earnings after exiting an institution) or across multiple cohorts (average wages in a single year pooled for five successive cohorts). This approach would cushion earnings measures from economic shocks, particularly if these shocks are more likely to affect students who are within a year or two of leaving the institution or program. Such a principle could also be applied to student loan repayment (e.g., expanding the period under which repayment and default are assessed).

Because long-term measures are also further removed from the institution's current policies and practices, these measures would likely supplement, not replace, short-term measures. But developing these informational long-term measures could also provide a policy relief valve for accountability metrics if short-term metrics become unusable because of broad policy or economic changes.

REASSESSING FEDERAL AID PROVISION

An accountability system based only on loan defaults will likely be anemic at best. But the Department of Education essentially regulates higher education only through grants and loans to students for higher education and through information that helps students select colleges that provide a strong return on their investment. Currently, eligibility for Title IV aid is an all-or-nothing provision. Institutions or programs that fail CDR targets (or GE targets, should they be reinstated under previous rules) lose the ability to disburse both grants and loans under the Title IV program.

One way to reframe higher education accountability would be to divorce eligibility to provide Pell grants from eligibility to provide student loans. Such an approach would lower the risk to students and taxpayers by providing only grant funding that is not expected to be repaid. Under this framework, policymakers could develop an interim measure that revokes loan eligibility without taking away aid for low-income students. A concern about this approach is that institutions or programs that lack federal student loan access may encourage students to take out private loans, which do not have the same borrower safety net, to help pay for the remainder of their expenses. Furthermore, it is not clear that this protects students from poorly performing institutions. If institutions with poor loan repayment outcomes choose to (or are forced to) accept only Pell dollars, this does not ensure that the students receive an adequate education or are spending their time wisely, even if they do not borrow to attend the institution.

Conclusion

The COVID-19 pandemic substantially changed both student loan repayment and the economy, especially for those who were recently enrolled in higher education. These changes will affect higher education metrics on loans and earnings, making it more difficult to assess whether institutions and programs are effectively serving their students.

Measures such as the CDR are designed to protect students from investing in education that will not pay off. During the pandemic, enrollment in community colleges declined, while enrollment in for-profit institutions, which tend to push students toward more student debt, has increased.[13] Data that accurately project their student loan repayment and earnings outcomes will be critical for guiding students toward the best programs. These data are particularly important for those from groups that have been disproportionately affected by pandemic and its economic aftermath. Prospective students of color, older students with children, and students from low-income families could be more in need of information that guides their higher education decisions.

The pandemic provides an opportunity to reframe the conversation on higher education accountability. Policymakers can take steps in both the short and long term to inform and protect prospective students.

Notes

1 Michael Itzkowitz, "Why the Cohort Default Rate Is Insufficient," Third Way, November 7, 2017, https://www.thirdway.org/report/why-the-cohort-default-rate-is-insufficient.

2 At the time of publication, the payment pause is slated to end in September 2021. Some lawmakers have pushed for at least a six-month extension. See Katie Lobosco, "Democrats Urge Biden to Extend Student Loan Pause until April 2022," CNN, June 23, 2021, https://www.cnn.com/2021/06/23/politics/student-loan-payment-pause-extension/index.html.

3 Lindsay Ahlman and Debbie Cochrane, "COVID-19 Student Loan Repayment Relief Is Critical, but Two Consequences Need to Be Addressed to Protect Borrowers," Institute for College Access and Success blog, November 11, 2020, https://ticas.org/accountability/covid-19-student-loan-repayment-relief-is-critical-but-two-consequences-need-to-be-addressed-to-protect-borrowers/.

4 See "Financial Responsibility Composite Scores," US Department of Education, Office of Federal Student Aid, accessed July 23, 2021, https://studentaid.gov/data-center/school/composite-scores. The third metric is the 90/10 ratio, which requires that for-profit institutions receive no more than 90 percent of their revenues from Title IV sources. Although this is an important accountability metric, it was not directly affected by the pandemic as the other two metrics were. (CARES Act funding, for example, was not included in the 90/10 calculation.)

5 Robert Kelchen, "An Updated Look at Financial Responsibility Scores and College Closures," Robert Kelchen blog, May 18, 2021, https://robertkelchen.com/2021/05/18/an-updated-look-at-financial-responsibility-scores-

and-college-closures/; and Ben Miller, "The Coronavirus Pandemic Isn't the Time to Abandon Financial Accountability for Private Colleges," Center for American Progress, June 9, 2020, https://www.americanprogress.org/issues/education-postsecondary/news/2020/06/09/485955/coronavirus-pandemic-isnt-time-abandon-financial-accountability-private-colleges/.

[6] "Gainful Employment Information," US Department of Education, Office of Federal Student Aid, accessed July 23, 2021, https://studentaid.gov/data-center/school/ge.

[7] Mark Kantrowitz, "How FAFSA Simplification Will Change Financial Aid Eligibility," Saving for College, January 13, 2021, https://www.savingforcollege.com/article/how-fafsa-simplification-will-change-financial-aid-eligibility; and Owen Daugherty, "Value of College Can Be Hard to Measure, but Having the Right Data Can Help, Experts Say," National Association of Student Financial Aid Administrators, May 6, 2021, https://www.nasfaa.org/news-item/25512/Value_of_College_Can_Be_Hard_to_Measure_But_Having_the_Right_Data_Can_Help_Experts_Say.

[8] Yan Cao and Kevin Miller, "The Education Department Should Review These Risky Schools," The Century Foundation, March 15, 2021, https://tcf.org/content/commentary/the-education-department-should-review-these-risky-schools/?agreed=1&agreed=1.

[9] Ben Miller, "Closing a Major Loophole in Default Rate Accountability," Center for American Progress, October 28, 2019, https://www.americanprogress.org/issues/education-postsecondary/news/2019/10/28/476475/closing-major-loophole-default-rate-accountability/.

[10] "The College Financing Plan," US Department of Education, last updated December 15, 2020, https://www2.ed.gov/policy/highered/guid/aid-offer/index.html.

[11] See also Michael Itzkowitz, "Price-to-Earnings Premium: A New Way of Measuring Return on Investment in Higher Ed," Third Way, April 1, 2020, https://www.thirdway.org/report/price-to-earnings-premium-a-new-way-of-measuring-return-on-investment-in-higher-ed.

[12] This could be further finessed using data on FAFSA forms to create different weighted average high school earnings measures for each institution, based on the zip code origins of their students.

[13] Stephanie Riegg Cellini, "The Alarming Rise in For-Profit College Enrollment," Brown Center Chalkboard (blog), Brookings Institution, November 2, 2020, https://www.brookings.edu/blog/brown-center-chalkboard/2020/11/02/the-alarming-rise-in-for-profit-college-enrollment/.

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About the Authors

Kristin Blagg is a senior research associate in the Center on Education Data and Policy at the Urban Institute. Her research focuses on K–12 and postsecondary education. Blagg has conducted studies on student transportation and school choice, student loans, and the role of information in higher education.

Erica Blom is a senior research associate in the Center on Education Data and Policy, where she studies higher education policy and contributes to the Education Data Portal. Among other topics, she has conducted research on higher education accountability, student loan forgiveness, and gainful employment.

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500 L'Enfant Plaza SW
Washington, DC 20024

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