

Parthenon Perspective on Missouri Gainful Employment Estimates



THE PARTHENON GROUP
Boston • London • Mumbai • San Francisco

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Proposed ‘Gainful Employment’ Regulation

Context and Analytical Approaches to Measuring Impact

Proposed Regulation

- The Department of Education’s proposed “gainful employment” (GE) regulations represent an effort to ensure that students attend quality programs and that both students and taxpayers receive good value for their joint investment in post-secondary education
- Specifically, all programs serving for-profit students and all certificate programs at not-for profit schools will be subject to the proposed regulation which is based on two tests:
 - The principal repayment rate for graduating cohorts
 - A debt burden test measured as either the graduating cohort’s debt-to-income or debt-to-disposable-income ratio

Initial Analytical Approach

- The Department of Education evaluated the impact on student access through an analysis of 769 programs covering roughly 50,000 students in Missouri
- Calculating debt to income tests and repayment tests on these programs allowed The Department of Education to extrapolate the national impact

Potential Biases in the Missouri Data that Should be Accounted For

- The Parthenon Group’s analysis of the Missouri data sets, made available by The Department of Education, indicate that several analytical adjustments should be considered to fully estimate the impact of the proposed regulation on student access:
 - Incorporating private student loan balances (which were excluded in The Department of Education’s analysis) as they are part of the proposed debt to income test
 - Incorporating income estimates of students with no income (who were excluded from the Missouri income averages) as they are likely to be under or unemployed
 - Making adjustments when extrapolating to a national impact estimate as Missouri is not representative of national demographics, tuition levels or income levels
 - Updating the Missouri data to account for changes in the broader economy since 2008



Revising the methodology to fully reflect private loans, unemployed students, and sample bias raises the impact substantially



Proposed 'Gainful Employment' Regulation

Potential Impact and Unintended Consequences

How Many Students are Likely to be in Ineligible Programs?

- The Parthenon Group's comment in no way challenges these admirable policy goals; however, our analysis indicates that the regulations, as proposed, may accidentally frustrate these policy goals
- When analytical adjustments are made, the proposed Gainful Employment regulation is likely to impact approximately 1,000,000 students who would have enrolled in programs likely to become ineligible for Title IV funding

What is the Potential Impact on Student Access?

- The Parthenon Group's assessment of the ability, or willingness, for students to choose other programs concludes that post-secondary access will be significantly impacted as:
 - Many of the affected programs are not common outside of for-profit education institutions (e.g., Medical Assisting, Cosmetology)
 - Students are unlikely to choose degree programs outside of their initial degree duration (e.g., 4-yr programs vs. 2-yr programs)
 - Programs non impacted by the proposed regulations are not physically proximate to impacted programs and student commute times are a real barriers
- While The Department of Education estimated that approximately 90% of students will choose another program, The Parthenon Group's analyses indicate that this may be closer to only 60% of impacted students
- As a result, the proposed Gainful Employment regulations could cause approximately 400,000 students to not attend post-secondary education each year once the regulation is fully in place

What is the Potential Economic Impact

- Assessing the full economic impact is difficult as it must account for (1) reduced earnings of students who do not attend post-secondary schooling, (2) direct and indirect job losses from reduced enrollment, (3) the increased taxpayer costs of students who choose public post-secondary institutions
- The Parthenon Group's analyses indicates that the economic impact of the proposed regulation could extend to:
 - Job losses of 90,000-100,000 throughout the nation
 - An on-going economic impact of approximately \$5B per year

Proposed 'Gainful Employment' Regulation

Proposed Title IV Eligibility Tests



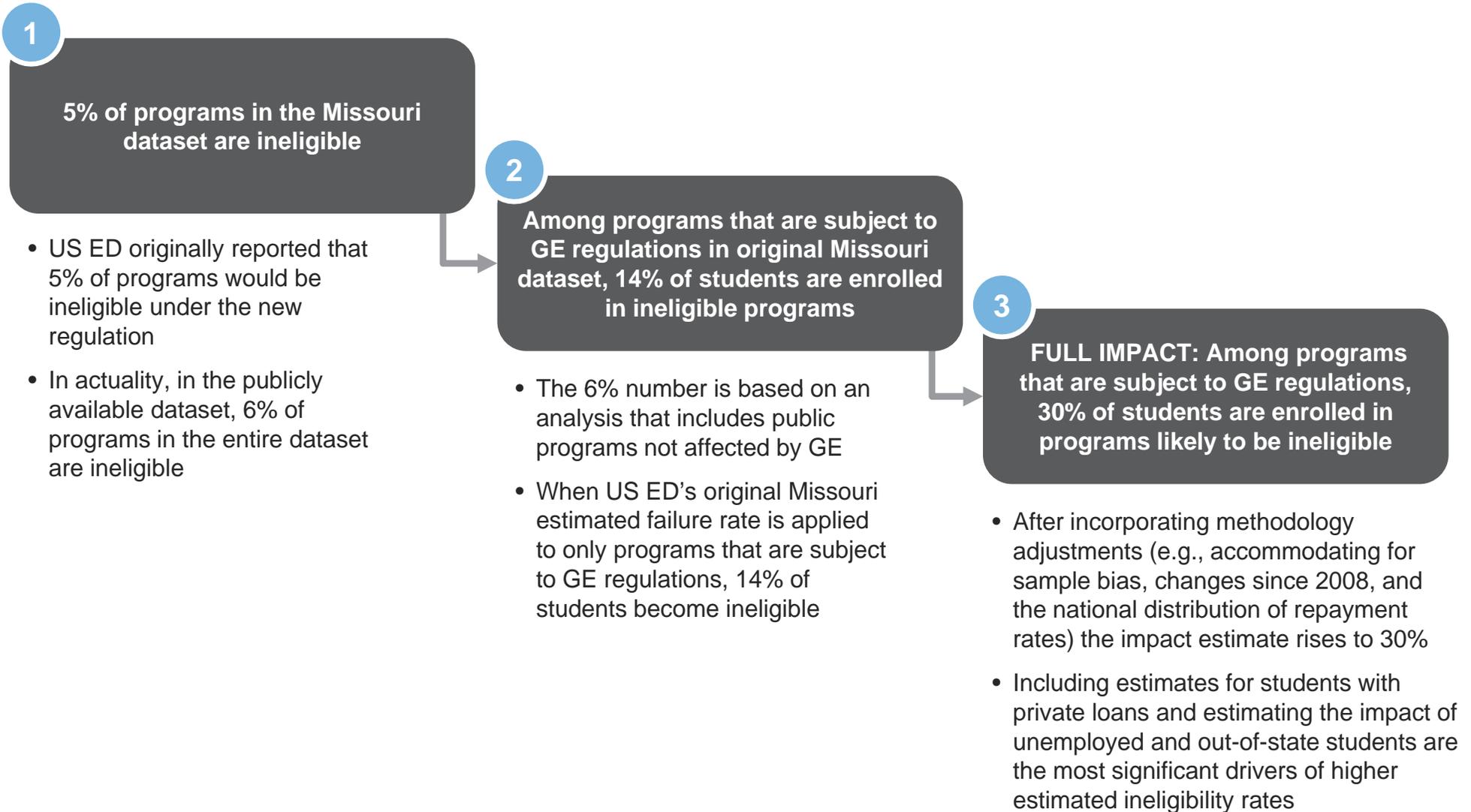
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		Debt of Burden		
		Above 12% of Earnings AND Above 30% of Discretionary Income	Between 8% and 12% of Earnings OR Between 20% and 30% of Discretionary Income	Below 8% of Earnings OR Below 20% of Discretionary Income
Repayment Rate	Above 45%	Eligible for Title IV Funds Must warn prospective and current students of high debt levels and disclose most recent debt measures for the program	Eligible for Title IV Funds Must warn prospective and current students of high debt levels and disclose most recent debt measures for the program	Eligible for Title IV Funds No disclosure requirements
	Between 35% and 45%	Restricted Title IV Funds Use: Institutions must: 1. Demonstrate employer support for the program 2. Warn prospective and current students of high debt levels and provide the most recent debt measures for the program 3. Limits enrollments in the program	Restricted Title IV Funds Use: Institutions must: 1. Demonstrate employer support for the program 2. Warn prospective and current students of high debt levels and provide the most recent debt measures for the program 3. Limits enrollments in the program	Eligible for Title IV Funds Must warn prospective and current students of high debt levels and disclose most recent debt measures for the program
	Below 35%	Ineligible for Title IV Funds: 1. No new students may receive Title IV aid 2. Current students may continue to receive aid for the rest of the year and one additional year 3. While phasing out the program, the institution must warn current and prospective students of high debt loads and reduced ability to repay their loans	Restricted Title IV Funds Use: Institutions must: 1. Demonstrate employer support for the program 2. Warn prospective and current students of high debt levels and provide the most recent debt measures for the program 3. Limits enrollments in the program	Eligible for Title IV Funds Must warn prospective and current students of high debt levels and disclose most recent debt measures for the program

Proposed 'Gainful Employment' Regulation Bridging From US ED's Impact Estimate to a Revised Estimate



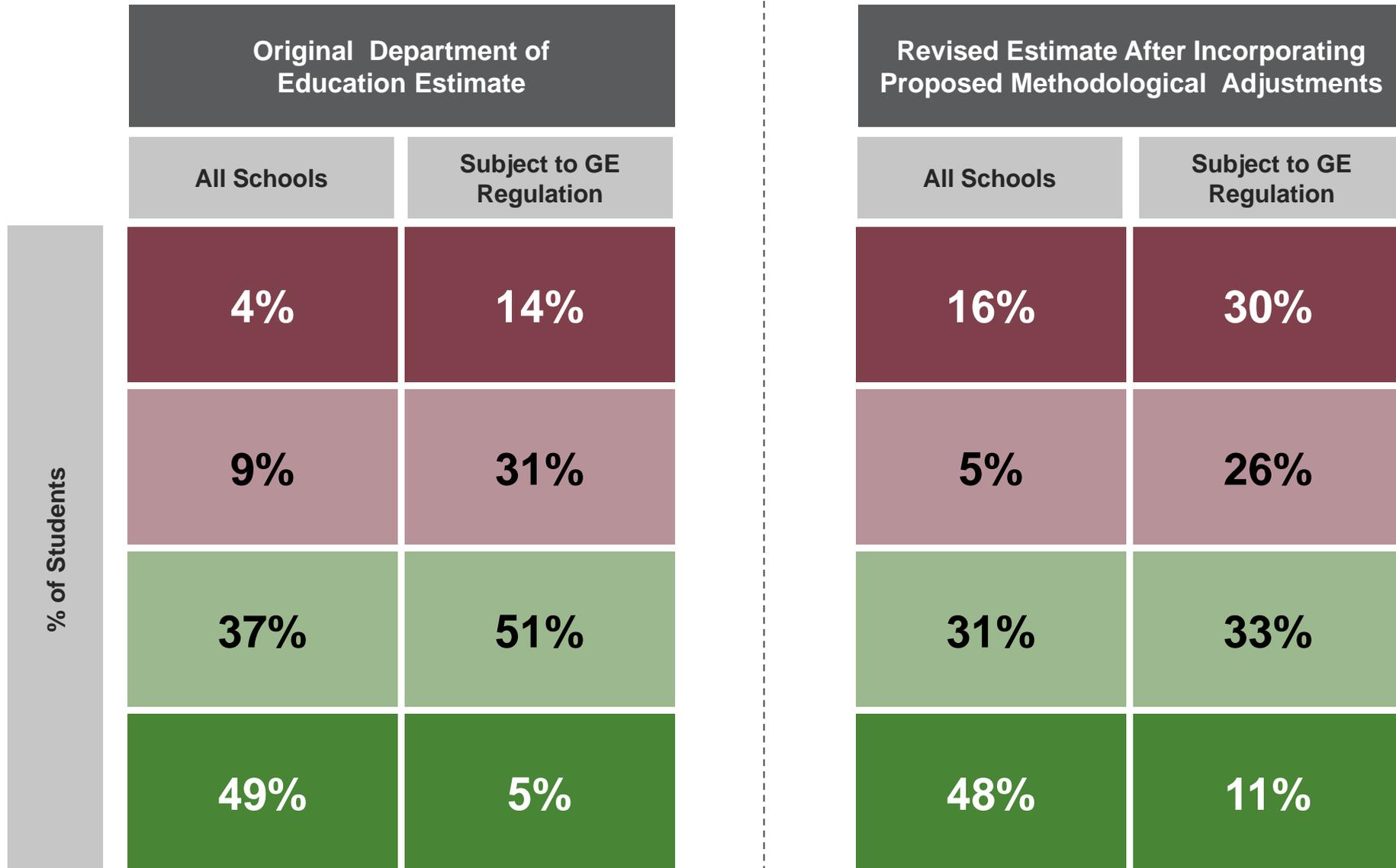
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Proposed 'Gainful Employment' Regulation Summary of Impact Estimates



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Ineligible
 Restricted
 Eligible w/ Disclosure
 Eligible

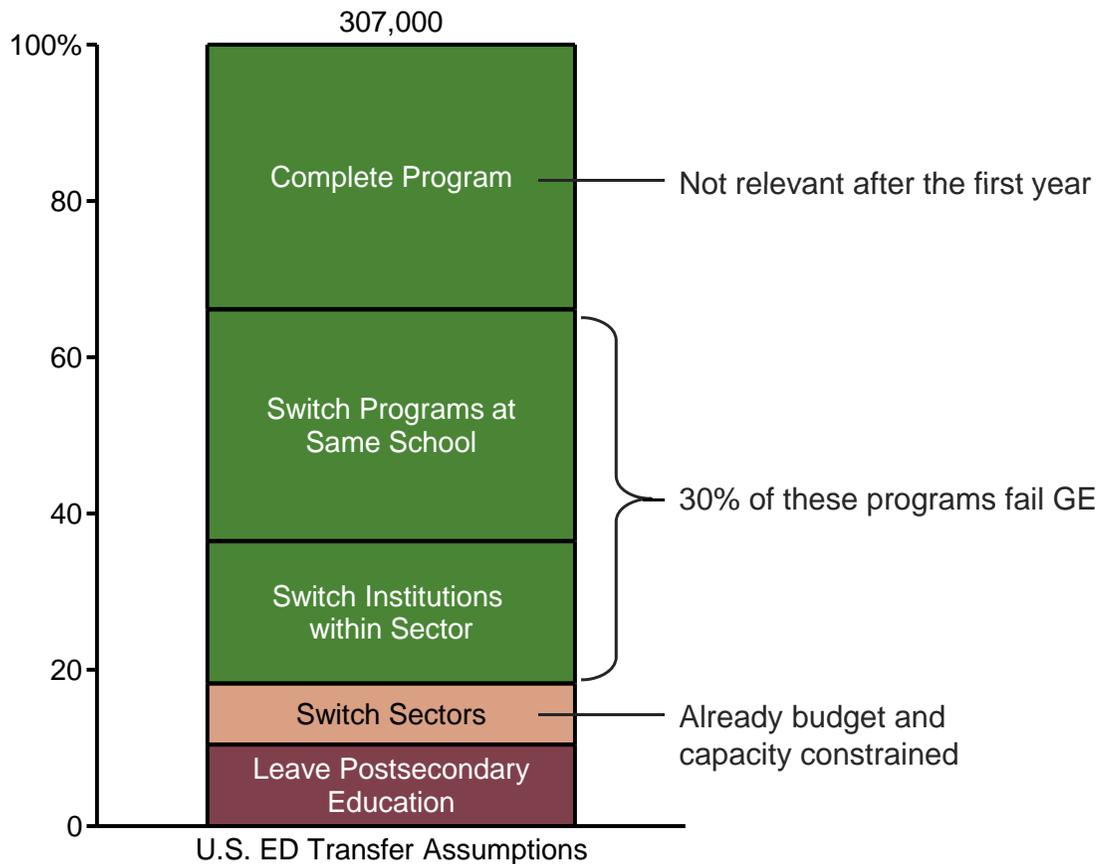
Proposed 'Gainful Employment' Regulation

Student Transfer Assumptions

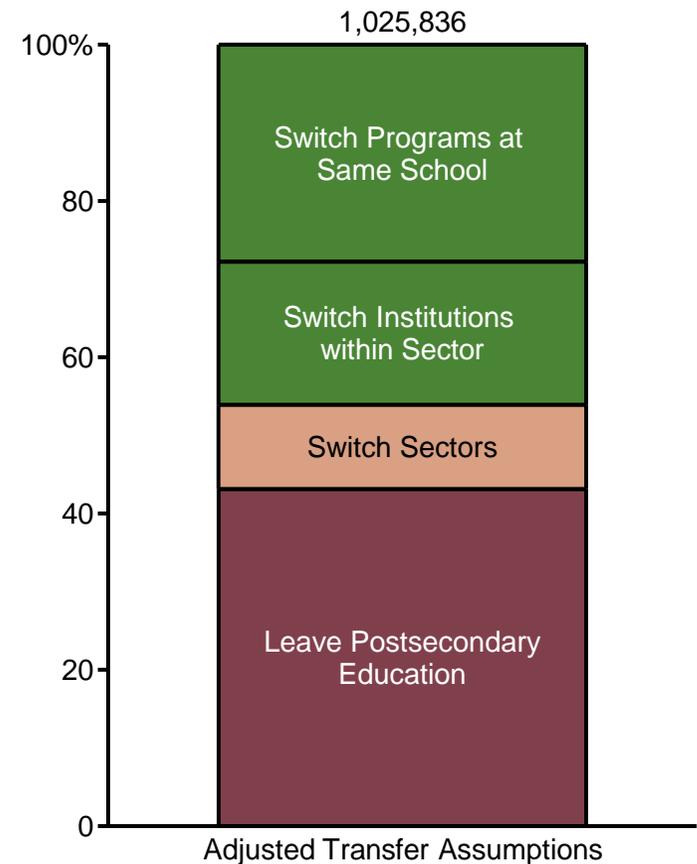


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US ED Transfer Assumptions



Adjusted Transfer Assumptions



Adjusted assumptions imply that 300,000 - 500,000 students will likely not complete post-secondary education

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Estimated Economic Impact



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30% of Students Enrolled in Ineligible Programs

Student Impact

- Students who leave post-secondary education earn lower incomes and, ultimately, pay less in taxes
- Analysis estimates that young men and women who do not attend post-secondary schools will earn, on average, 13% less over their lifetimes

~ \$400MM per year

Employee Impact

- Employees laid off pay less in taxes (multiplier effects through the economy as education jobs support other jobs)
- 400,000 fewer students will have an impact of approximately 100,000 job losses

~ \$2.9B per year

Transfer Impact

- Most displaced students will migrate toward community colleges where direct taxpayer costs are higher
- Direct taxpayer subsidies in community colleges is approximately four to five times that of for-profit institutions

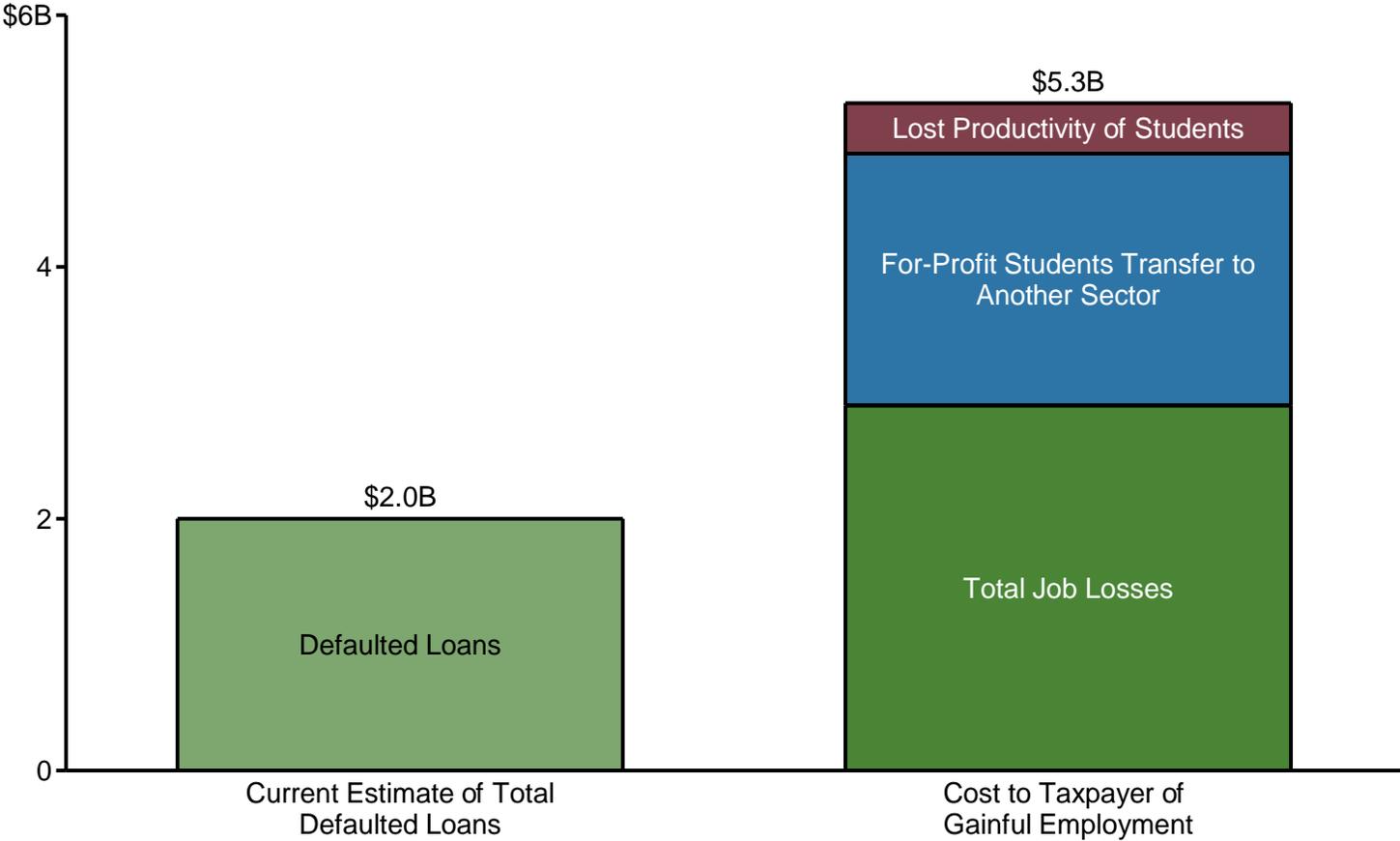
~ \$2B per year

The estimated economic impact falls into three categories resulting in an estimated increased taxpayer burden of approximately \$5.3 billion

GE Regulations Seek to Protect \$2B in Defaulted Federal Loans Annually; GE Implementation Will Cost Taxpayers \$5.3B Annually



Cost to Taxpayer of Proposed Gainful Employment Regulations vs. Current Estimate of Total Defaulted Loans



Note: Assumes 10-year repayment window and 6.8% fixed interest rate for unsubsidized loans and a 6.0% interest rate for subsidized loans. Cash flows are not discounted.
 *FSA 2009 Annual Report
 **Loans in default are left with collection agencies for ~4 years and recovered at the rate of ~20%/year, according to the Student Aid Administration FY10 Budget
 Source: College Board, US ED Federal Student Aid Budget Lifetime Default Rates; Student Aid Administration FY10 Budget; US ED Federal Student Aid Annual Report 2009; Department of Education NPRM; NCES IPEDS database; NCES BPS 1996-2001; Company financials and SEC filings; BLS; BEA; CBO; Parthenon Analysis