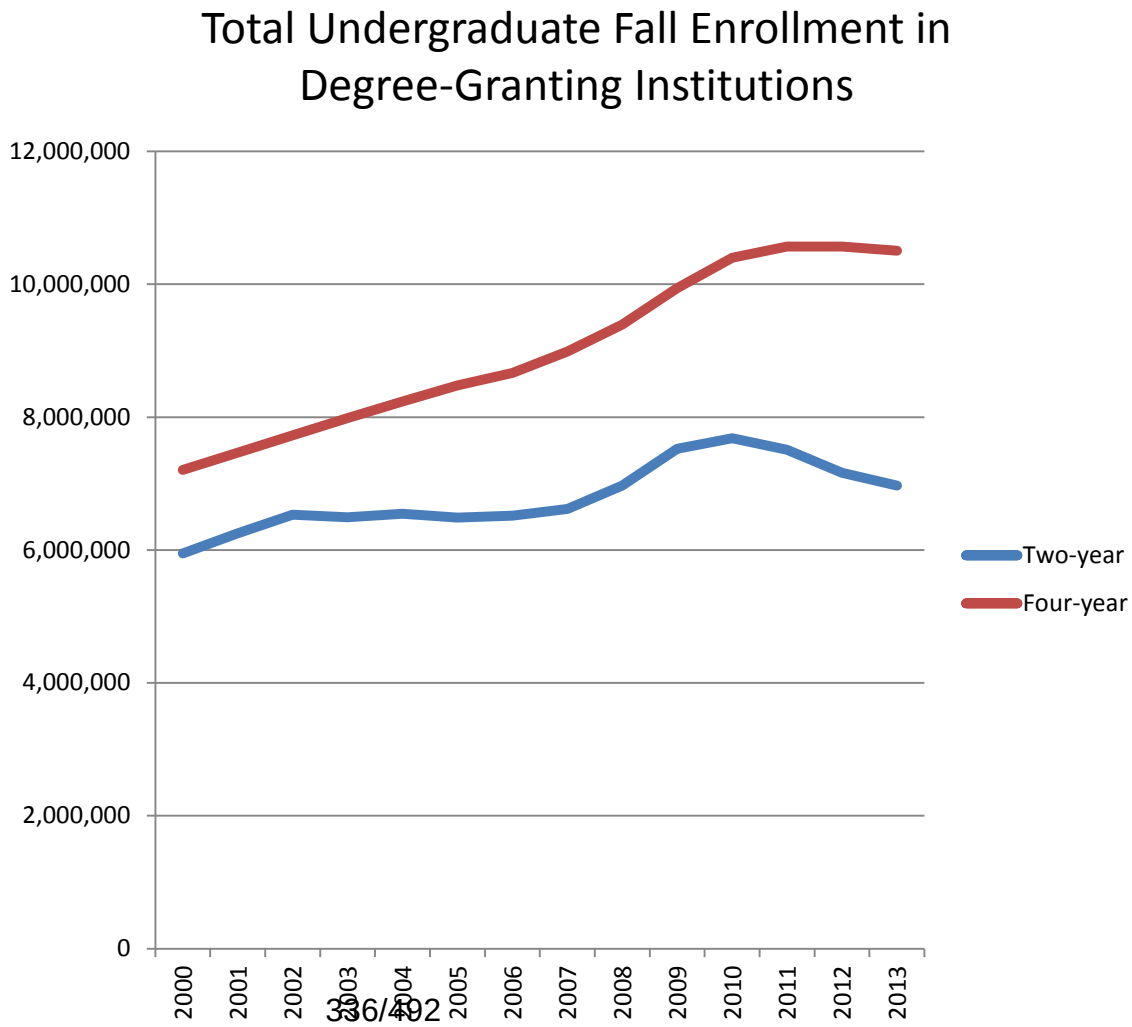
The State of Play in College Access, Affordability, and Completion

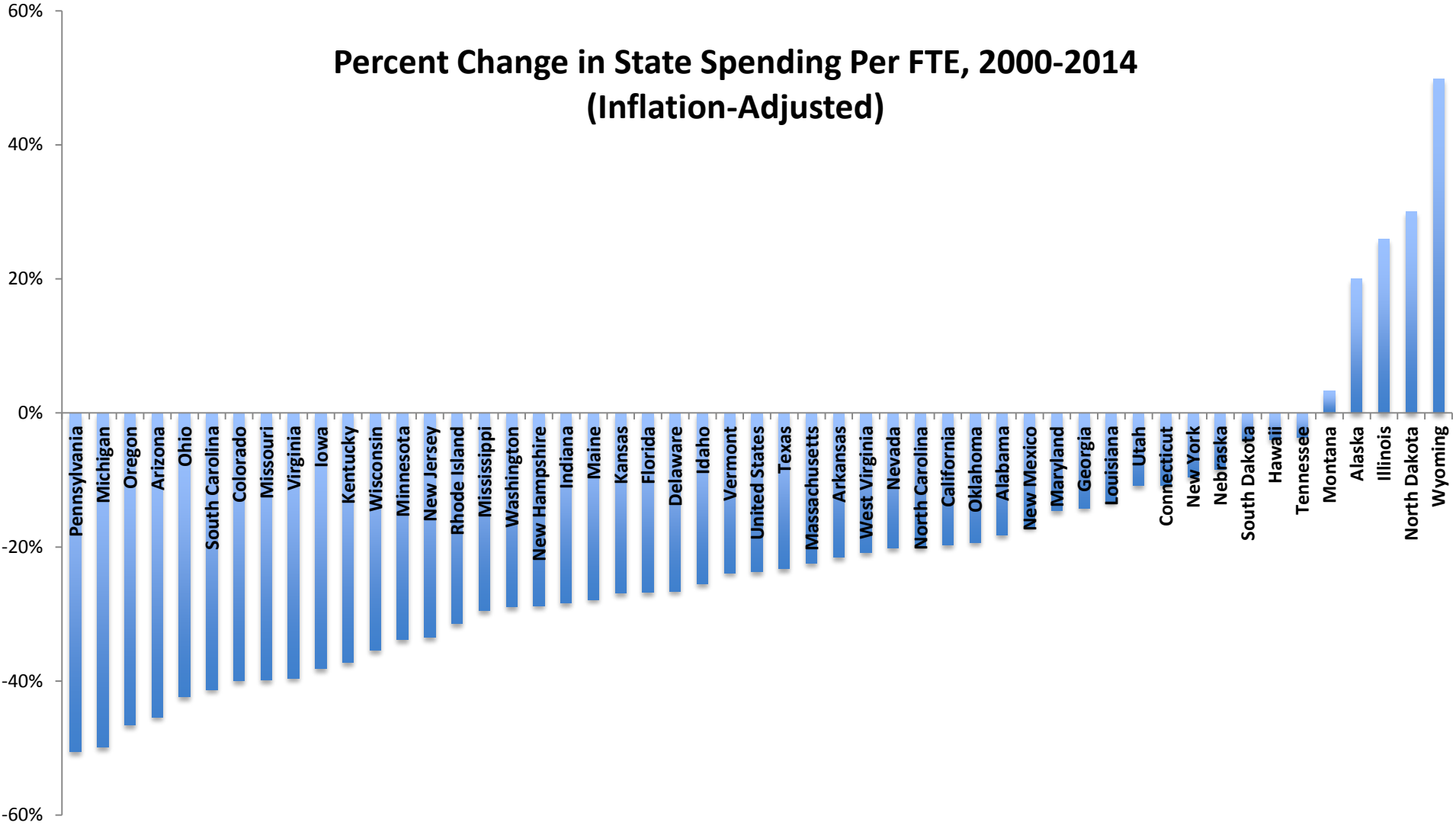
Andrew P. Kelly
Director, Center on Higher Education Reform
American Enterprise Institute
May 26, 2016

The Context



Source: NCES Condition of Education, 2015.

The Context



Source: Urban Institute.

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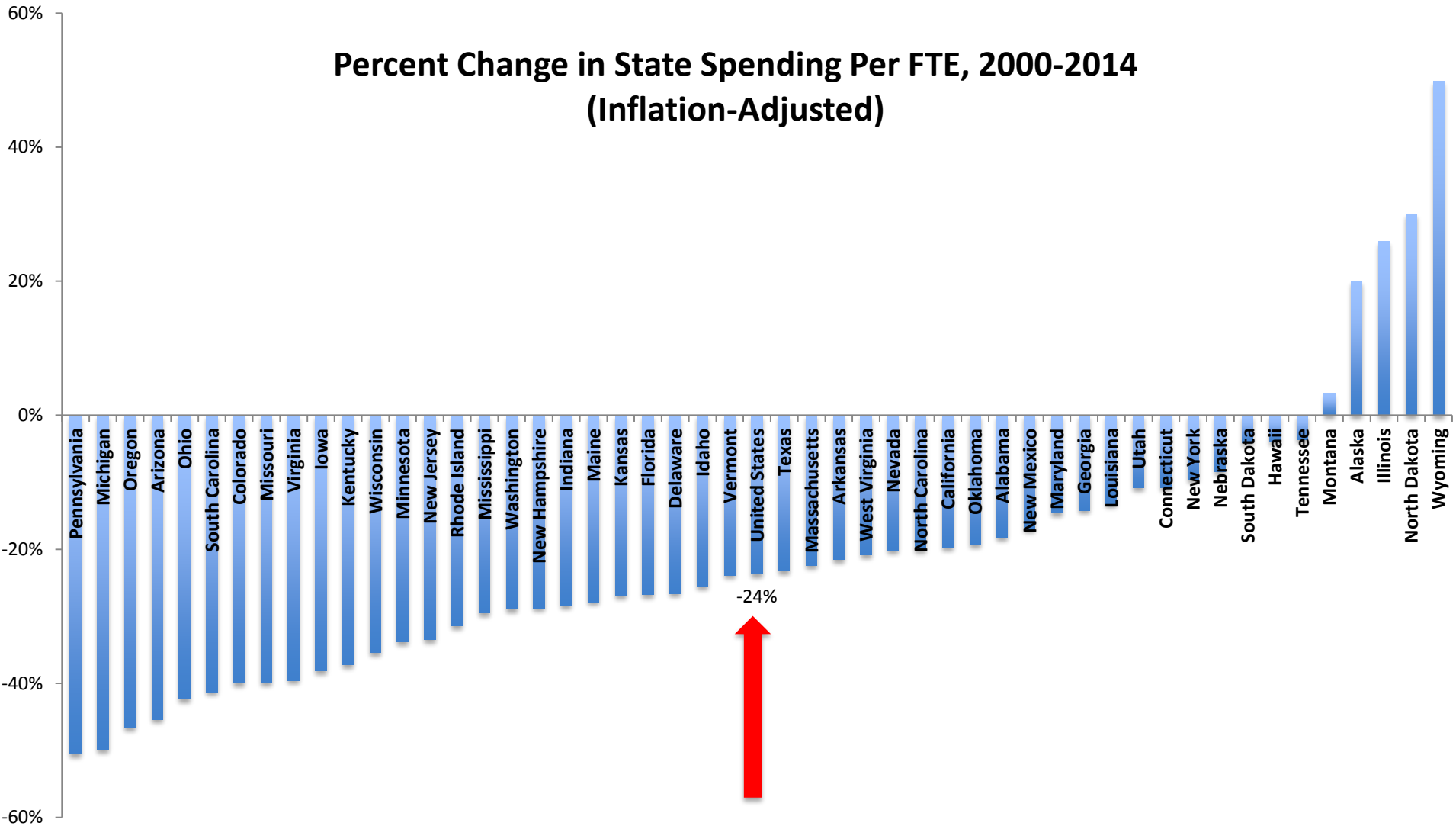

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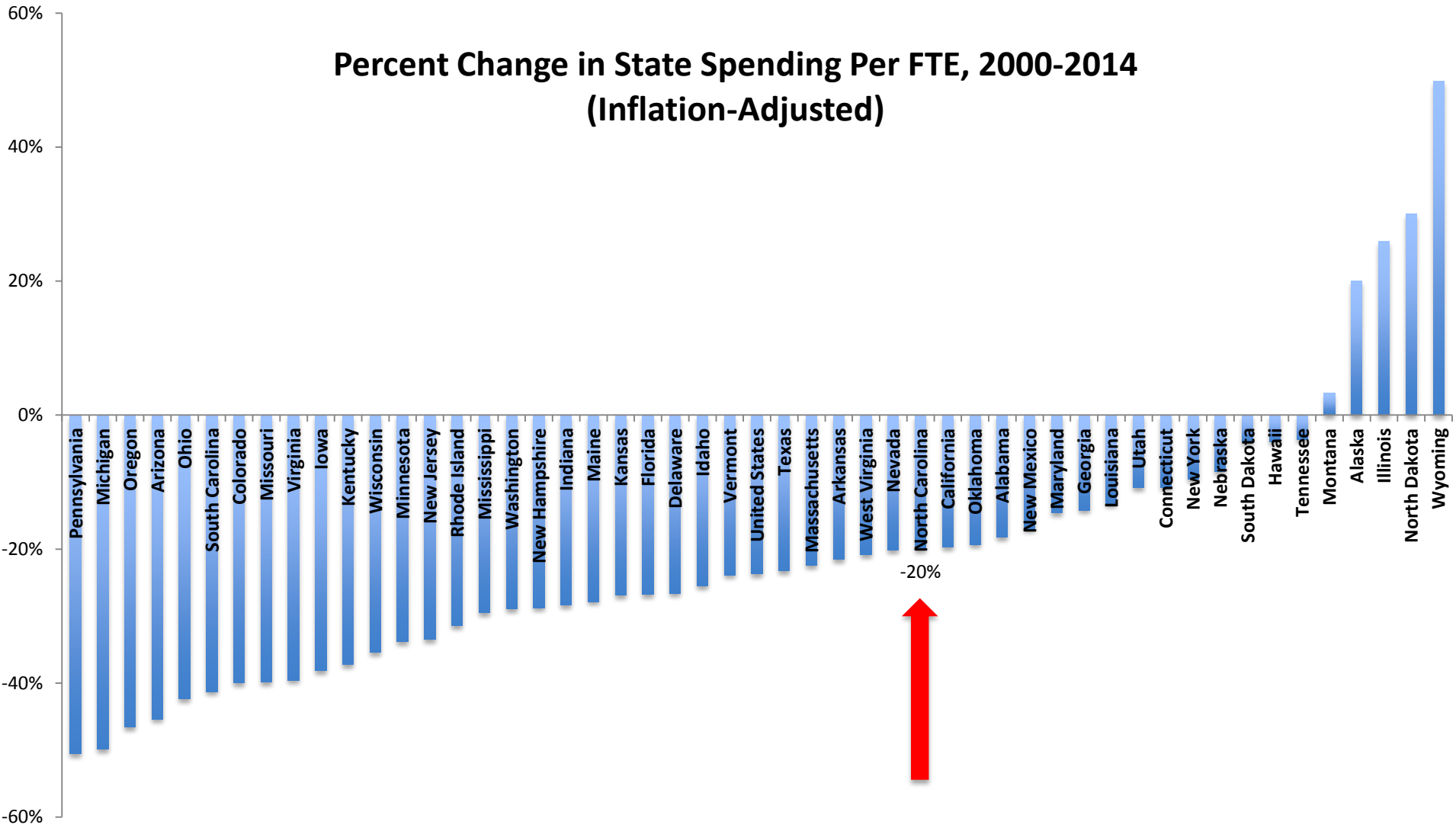
Source: Urban Institute.

The Context



Urban Institute, "Financing Public Higher Education," 2015.

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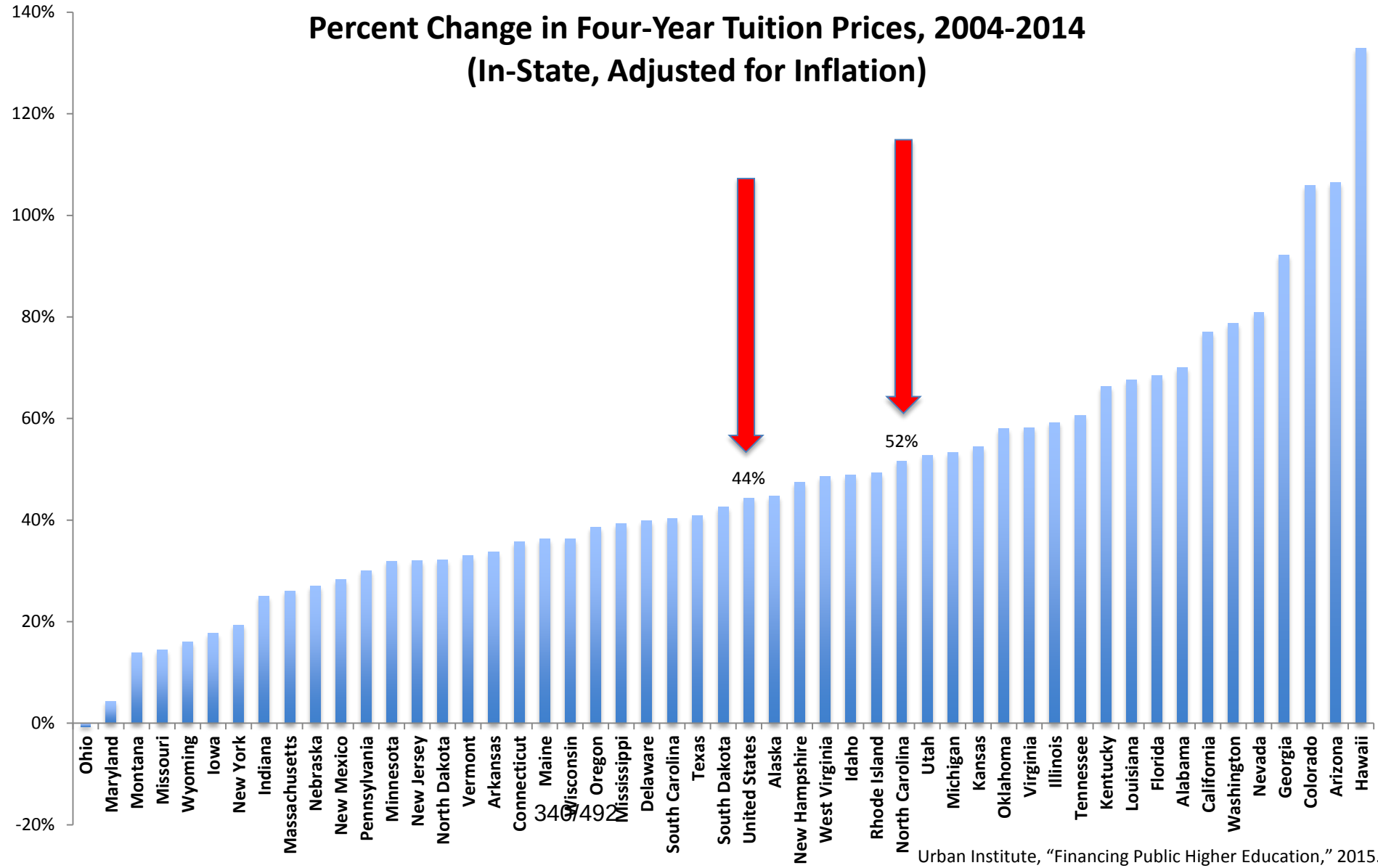

Urban Institute, "Financing Public Higher Education," 2015.

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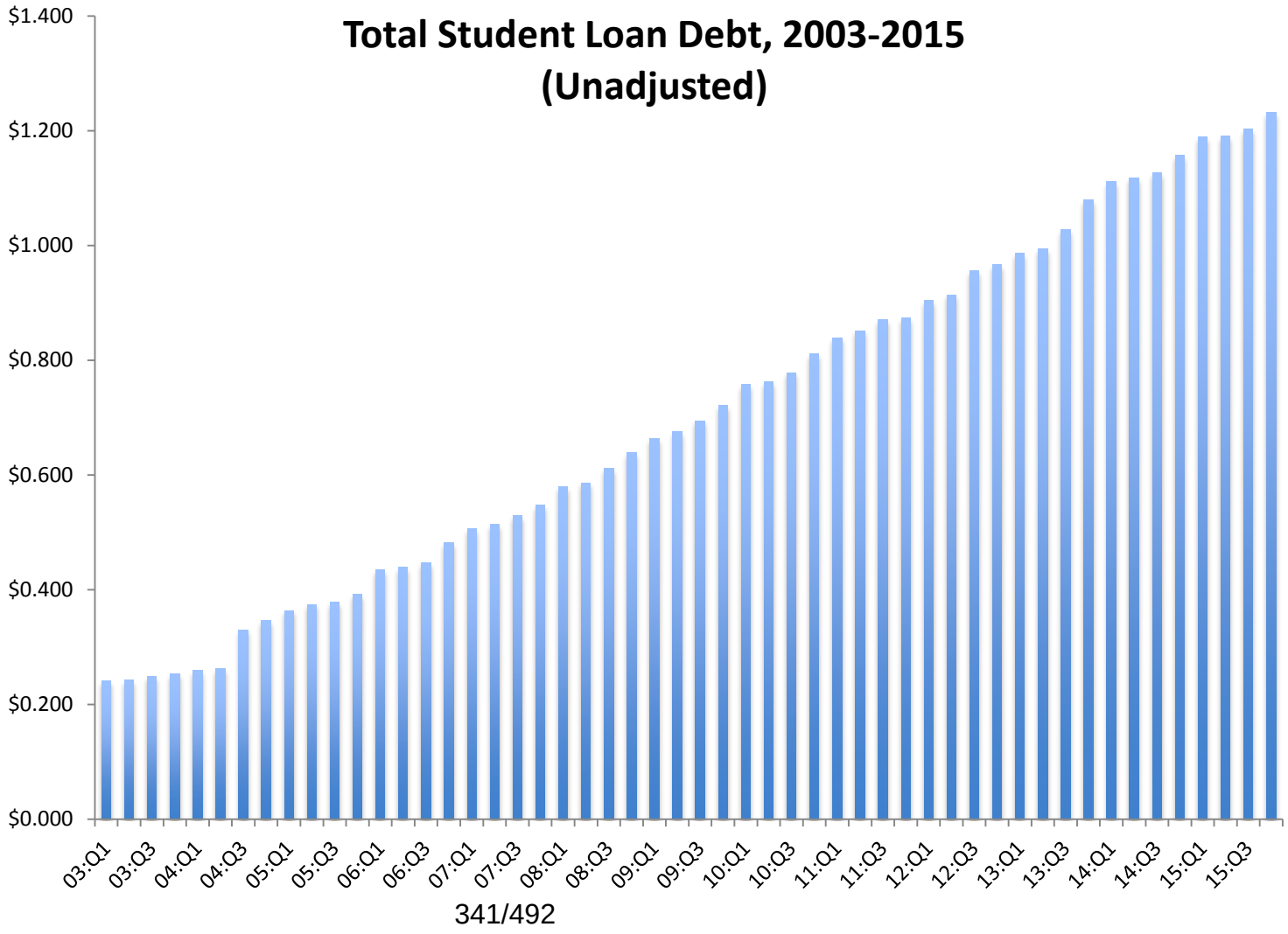
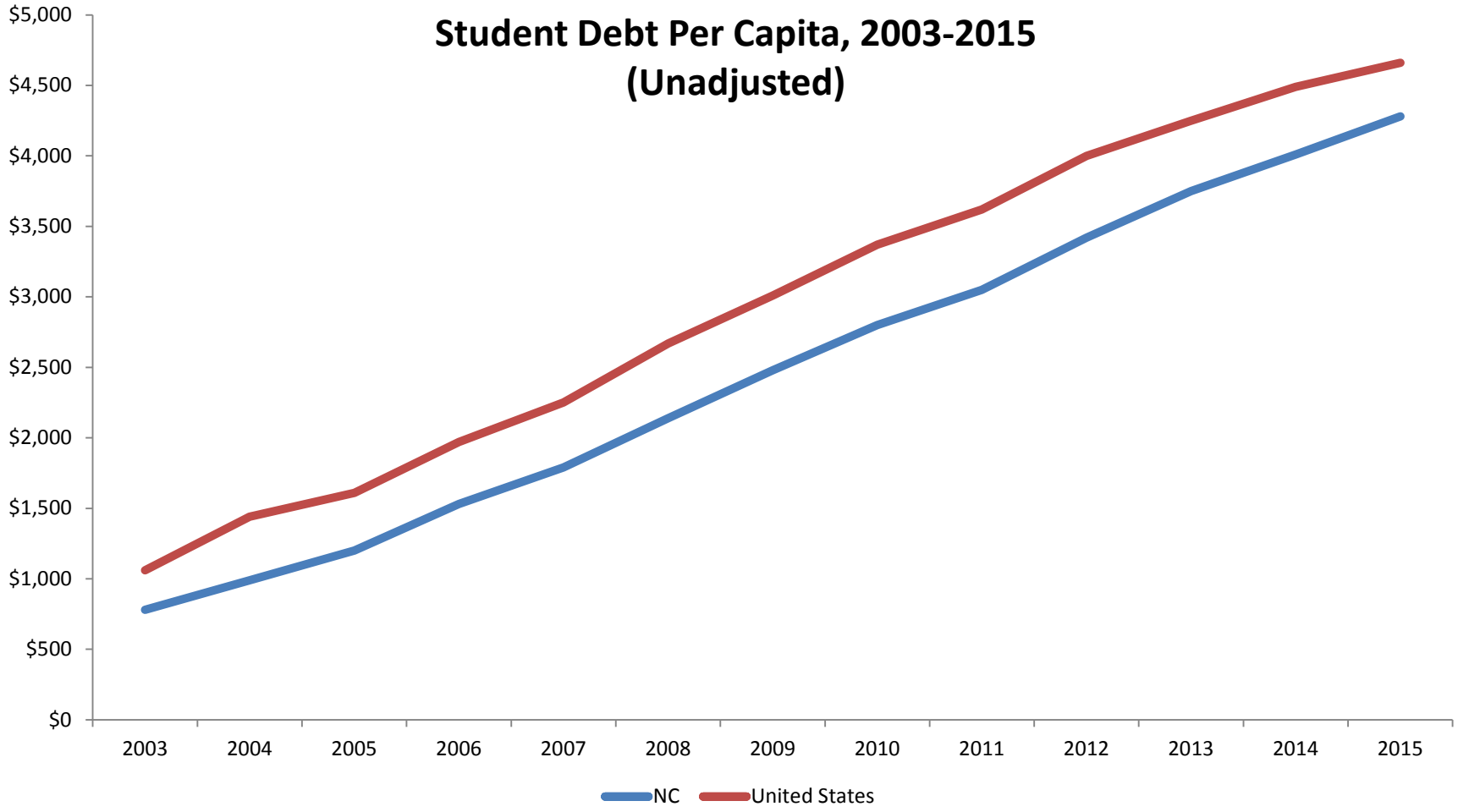


New York Fed, "Quarterly Report on Household Debt and Credit," Feb. 2016.

The Context



New York Fed, "State Level Household Debt Statistics 2003-2016," Feb. 2016.

The Context

Completion rates decline slightly.

	2007 Cohort	2008 Cohort	2009 Cohort
Completed (6 years)	56.1%	55.0%	52.9%
Stopped-Out	28.6%	30.3%	33.0%

(More degrees, but lower productivity.)

National Student Clearinghouse, 2016.

The Context

Repayment Problems

Five-year Cohort Default Rates By Institution Type

	1999	2009
2-year Public	24%	38%
For-profit	29%	47%
Non-Selective 4-year	19%	27%
Selective 4-year	8%	10%

Two-year Negative Amortization Rates By Institution Type

	2002	2012
2-year Public	37%	64%
For-profit	44%	74%
Non-Selective	37%	59%
Selective	25%	36%

Source: Looney and Yannelis, “A Crisis in Student Loans?, 2015.

A Defining Middle Class Issue

Allstate | NationalJournal

Heartland Monitor Poll XVI

46. Specifically, which of the following do you believe would do most to improve the economic situation of Middle Class Americans today?

Policy That Will Do Most to Improve Middle Class	Total	Middle Class
Making higher education more affordable and accessible	38%	37%
Making health care more affordable and accessible	26%	25%
Making retirement benefits more secure and reliable	16%	16%
Making home loans and refinancing more affordable and accessible	12%	12%
Don't know / refused	9%	8%

Problem Definition

Two Student Debt Stories

1. Conventional wisdom: growth in aggregate debt and individual debt loads are the problems to be solved.
   - Solution: Free college.
   - Solution: Loan refinancing.
   - Solution: Loan forgiveness.

Focused on *cost-shifting,* not cost reduction.

Two Student Debt Stories

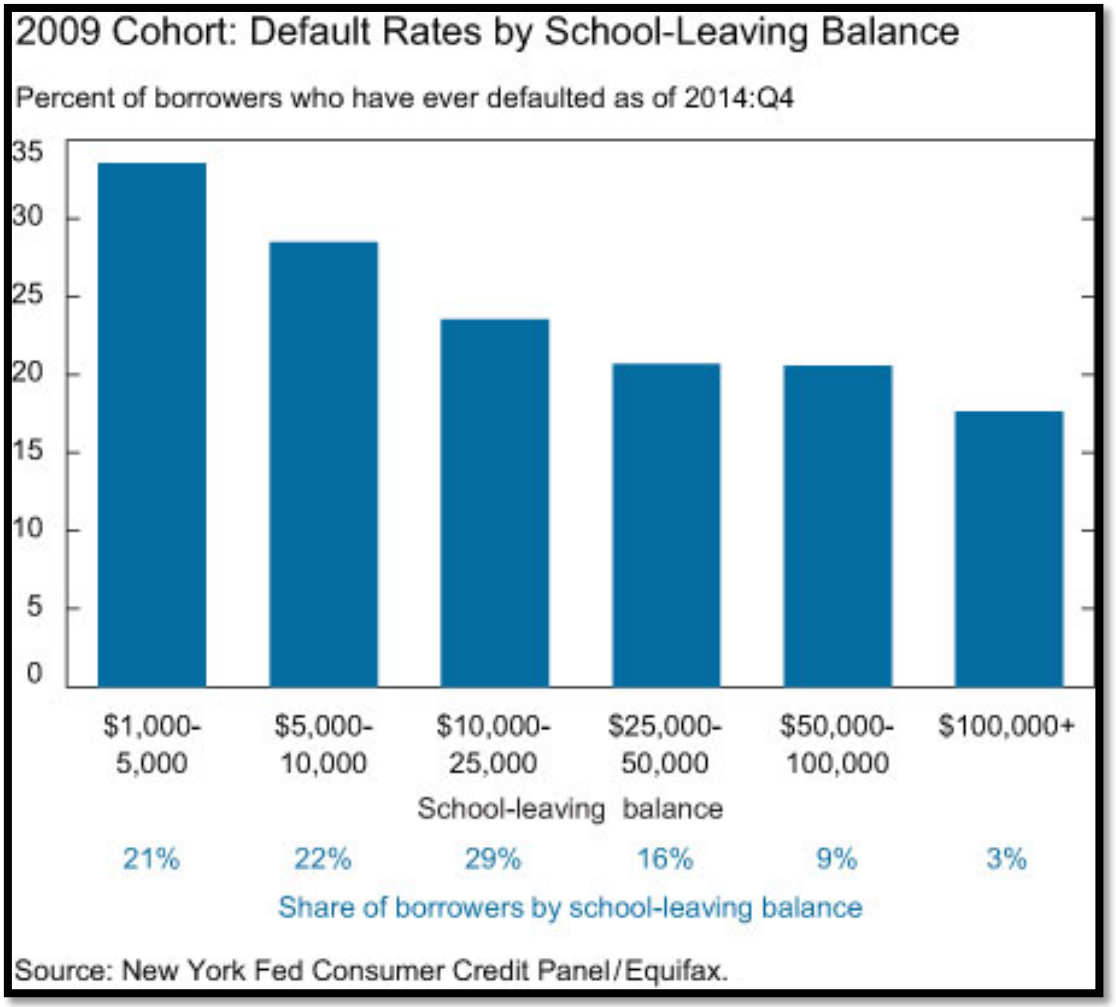
2. Alternative view: student debt struggles reflect low rates of student success *and* high costs.
   - Solution: Improve academic preparation.
   - Solution: Inform consumers about their options.
   - Solution: Incentives for institutional improvement and cost containment.

Evidence for the Alternative

College completion is the primary predictor of student loan default.

The highest default rates are on the lowest balances.

3-4% of borrowers have balance of $100k or higher.



Meta Brown et al., "Looking at Student Loan Defaults through a Larger Window," 2015.

Small Balances Cause Big Problems

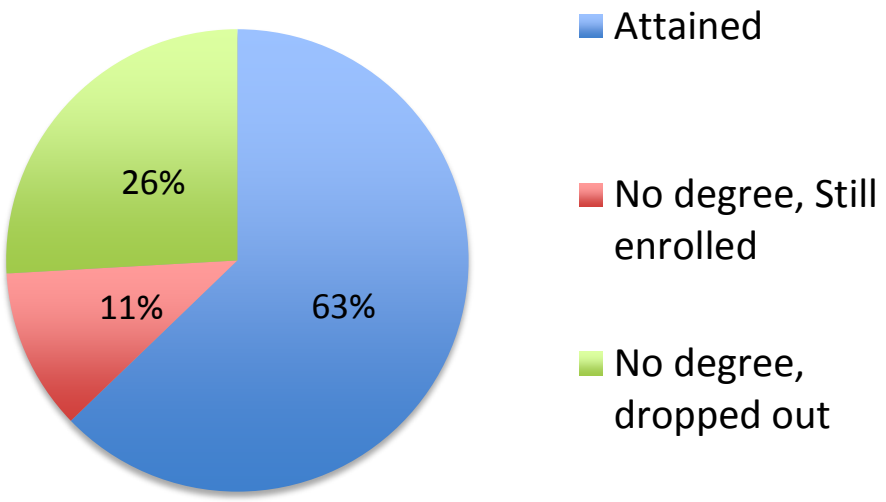
Average Outstanding Balance, In Thousands

	In-school	Grace	Repayment	Deferment	Forbearance	Defaul
Direct	16.9	21.3	22.0	23.6	26.8	14.5
FFEL	13.6	13.2	19.9	20.2	26.8	13.4

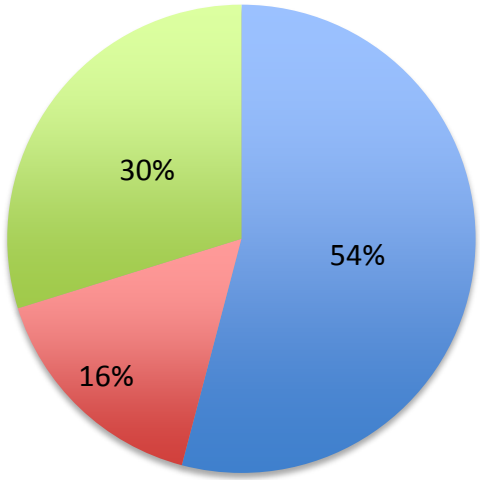
Rohit Chopra, "A Closer Look at the Trillion," 2013.

Debt, No Degree is Growing

Borrowers in BPS 1995-2001



Borrowers in BPS 2003-2009



<u>46 percent of borrowers had not completed six years later.</u>

Author's calculations, Beginning Postsecondary Students, NCES.

Stocks Versus Flows

VS

a Employee's social security number 123-45-6789 | OMB No. 1545-0008 | Safe, accurate, FAST! Use | IRS e-file | Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN) 11-2233445	1 Wages, tips, other compensation 48,500.00
c Employer's name, address, and ZIP code The Big Company 123 Main Street Anywhere, PA 12345	2 Federal income tax withheld 6,835.00 3 Social security wages 50,000.00 4 Social security tax withheld 3,100.00 5 Medicare wages and tips 50,000.00 6 Medicare tax withheld 725.00 7 Social security tips 8 Allocated tips
d Control number A1B2	9 10 Dependent care benefits
e Employee's first name and initial Last name Suff. Jane A DOE 123 Elm Street Anywhere Else, PA 23456	11 Nonqualified plans 12a See instructions for box 12 D 1,500.00 13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐ 12b DD 1,000.00 14 Other 12c P 4,800.00 12d
f Employee's address and ZIP code	

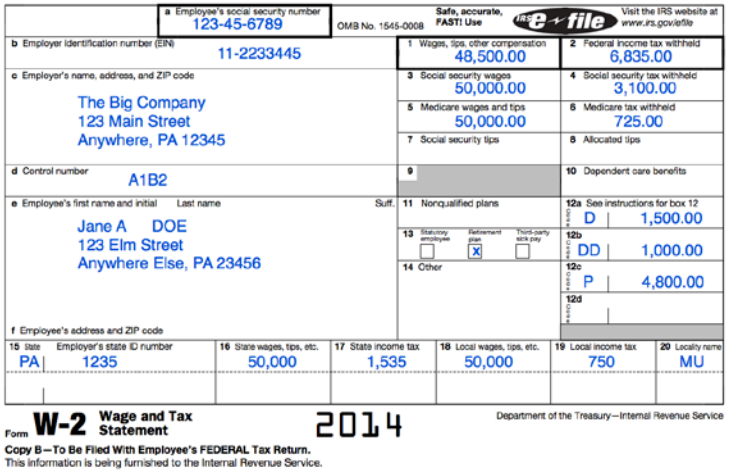
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA	1235	50,000	1,535	50,000	750	MU

Form **W-2** Wage and Tax Statement 2014 — Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Stocks Versus Flows

VS



a Employee's social security number 123-45-6789 | OMB No. 1545-0008 | Safe, accurate, FAST! Use | e-file | Visit the IRS website at www.irs.gov/efile

b Employer identification number (EIN): 11-2233445

c Employer's name, address, and ZIP code:
The Big Company
123 Main Street
Anywhere, PA 12345

d Control number: A1B2

e Employee's first name and initial / Last name / Suff.:
Jane A DOE
123 Elm Street
Anywhere Else, PA 23456

f Employee's address and ZIP code

1 Wages, tips, other compensation	48,500.00
2 Federal income tax withheld	6,835.00
3 Social security wages	50,000.00
4 Social security tax withheld	3,100.00
5 Medicare wages and tips	50,000.00
6 Medicare tax withheld	725.00
7 Social security tips	
8 Allocated tips	
9	
10 Dependent care benefits	
11 Nonqualified plans	
12a See instructions for box 12 — D	1,500.00
13 Statutory employee / Retirement plan (X) / Third-party sick pay	
12b — DD	1,000.00
14 Other	
12c — P	4,800.00
12d	

15 State / Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
PA 1235	50,000	1,535	50,000	750	MU

Form W-2 Wage and Tax Statement 2014 — Department of the Treasury—Internal Revenue Service

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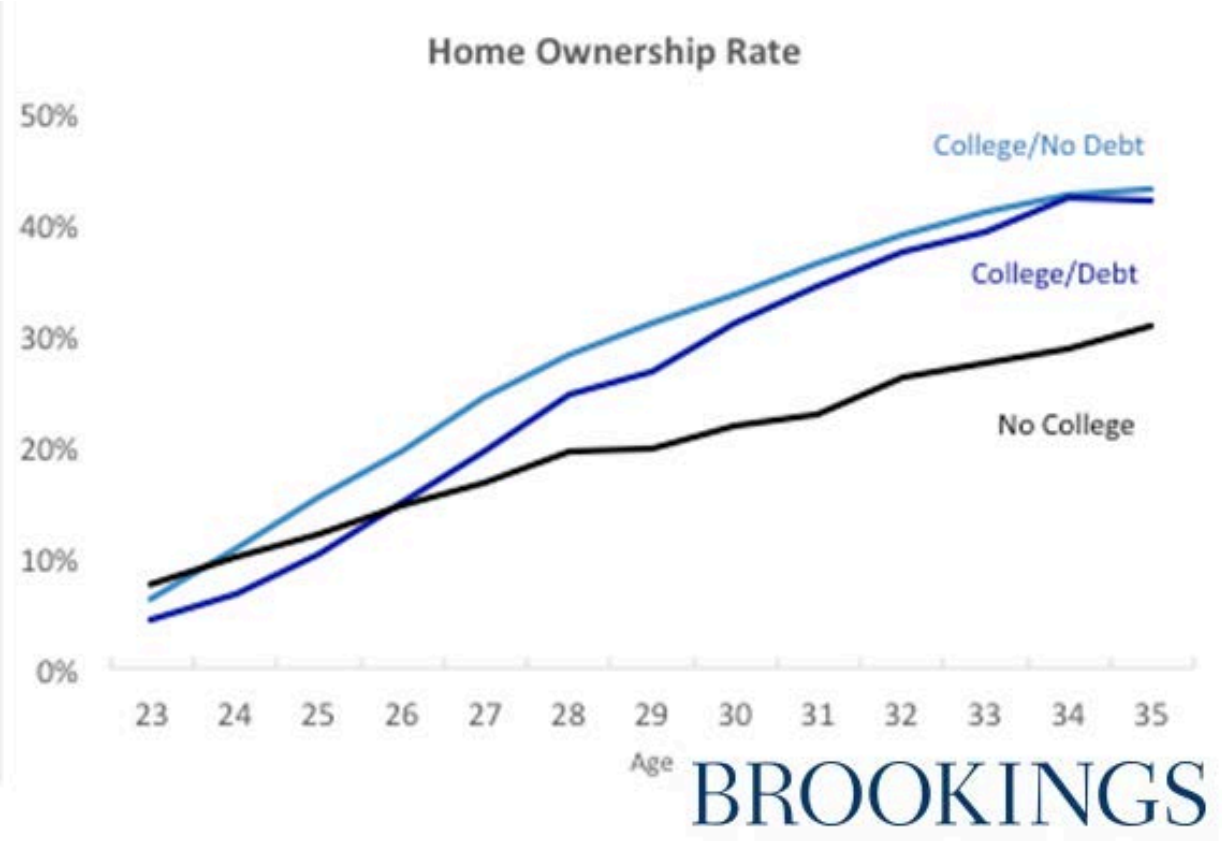
This information is being furnished to the Internal Revenue Service.

Cleveland Fed Study:

- Outstanding balances have grown 280% since 2005, but average payment up 50% during same period.
  - 50% of borrowers have monthly payments of $203 or lower; 25% have payments between $203 and $400.
- **Bottom Line: "… the increase in earnings from going to college more than offsets the cost of student loan payments for most borrowers."**

Student Debt & Home Ownership



"What divides the haves and have-nots is not student debt. It's having a college education."

Dynarski, 2016.

Two Student Debt Stories

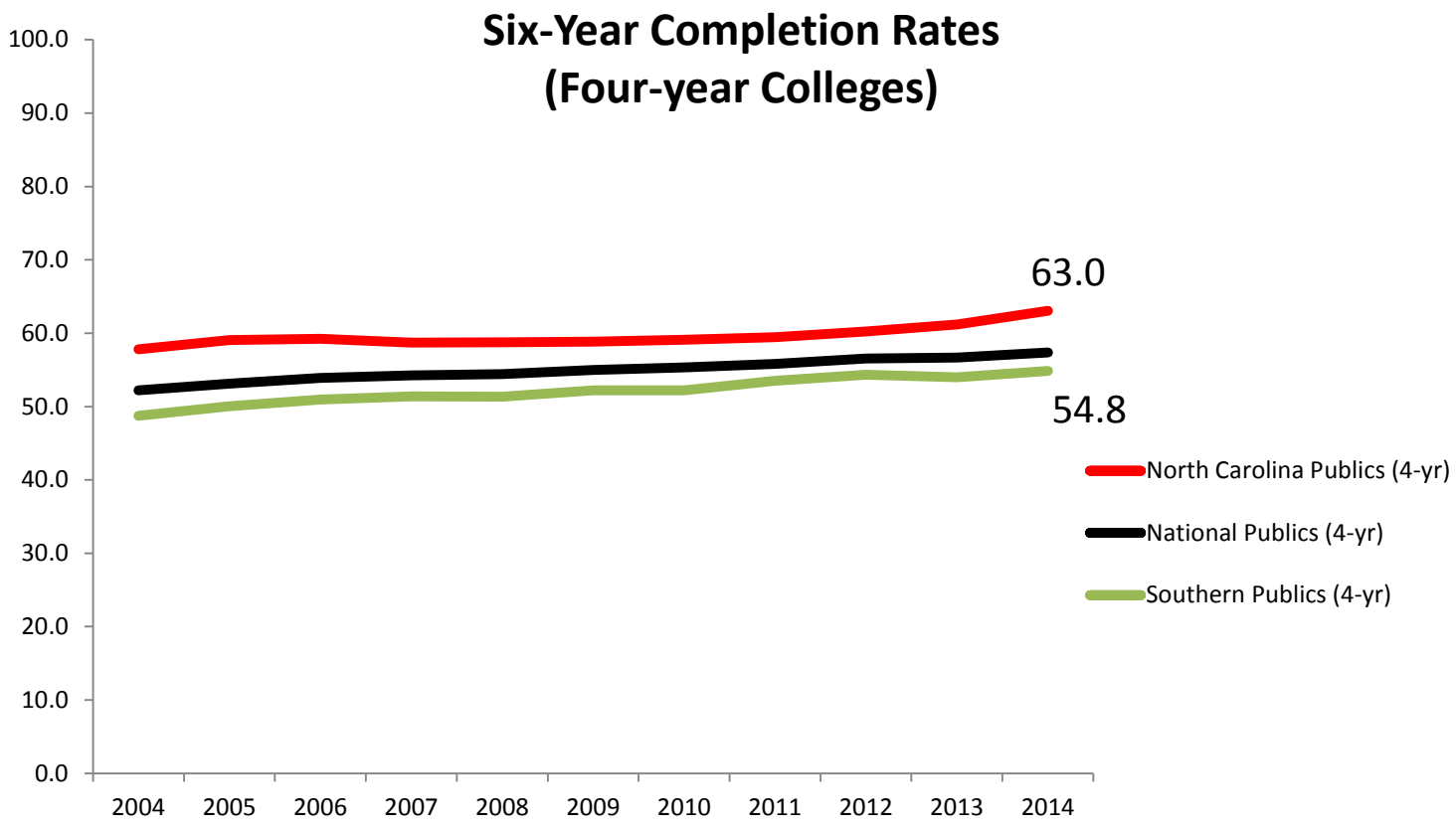
- **The Red Herring**: debt balances and tuition prices are the problem to be solved.
  - Solution: mechanically lower tuition and debt loads.
  - Cost-shifting: leaves incentives and cost structures untouched.
- **The Real Problem**: low rates of student success and inflated costs = low value programs.
  - Solution: incentives for institutional improvement, cost containment, and student success.

Two Student Debt Stories

- **The Red Herring**: debt balances and prices are the problem to be solved.
  - Solution: mechanically lower tuition and debt loads.
  - Cost-shifting; leaves incentives and cost structures untouched.
- **The Real Problem**: low rates of student success and inflated costs = low value programs.
  - Solution: create incentives for institutional improvement, cost containment, and informed choices.

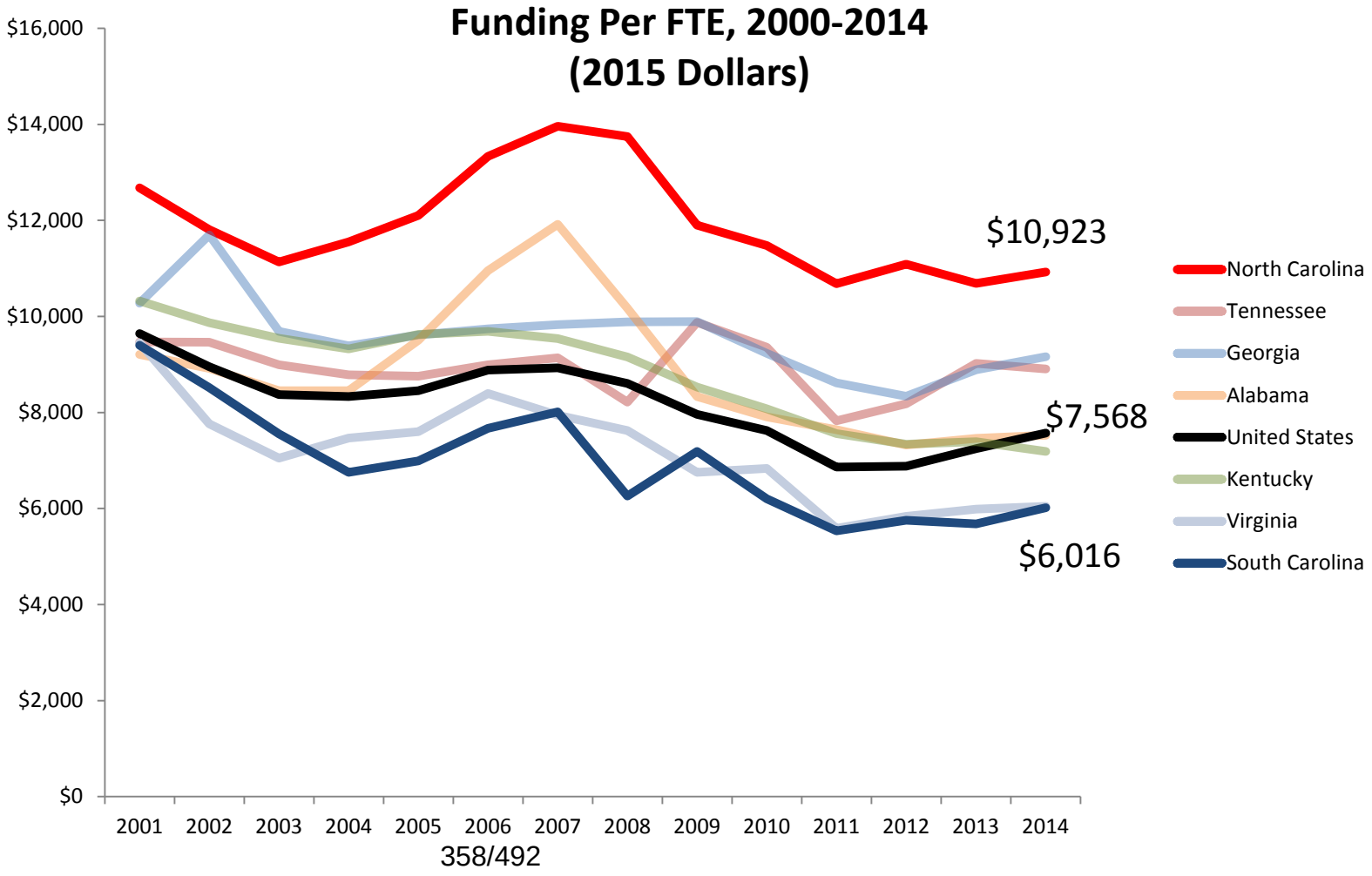
Real Problem focuses us on **improving value, not just lowering price.**

UNC a Leader on Completion Rates



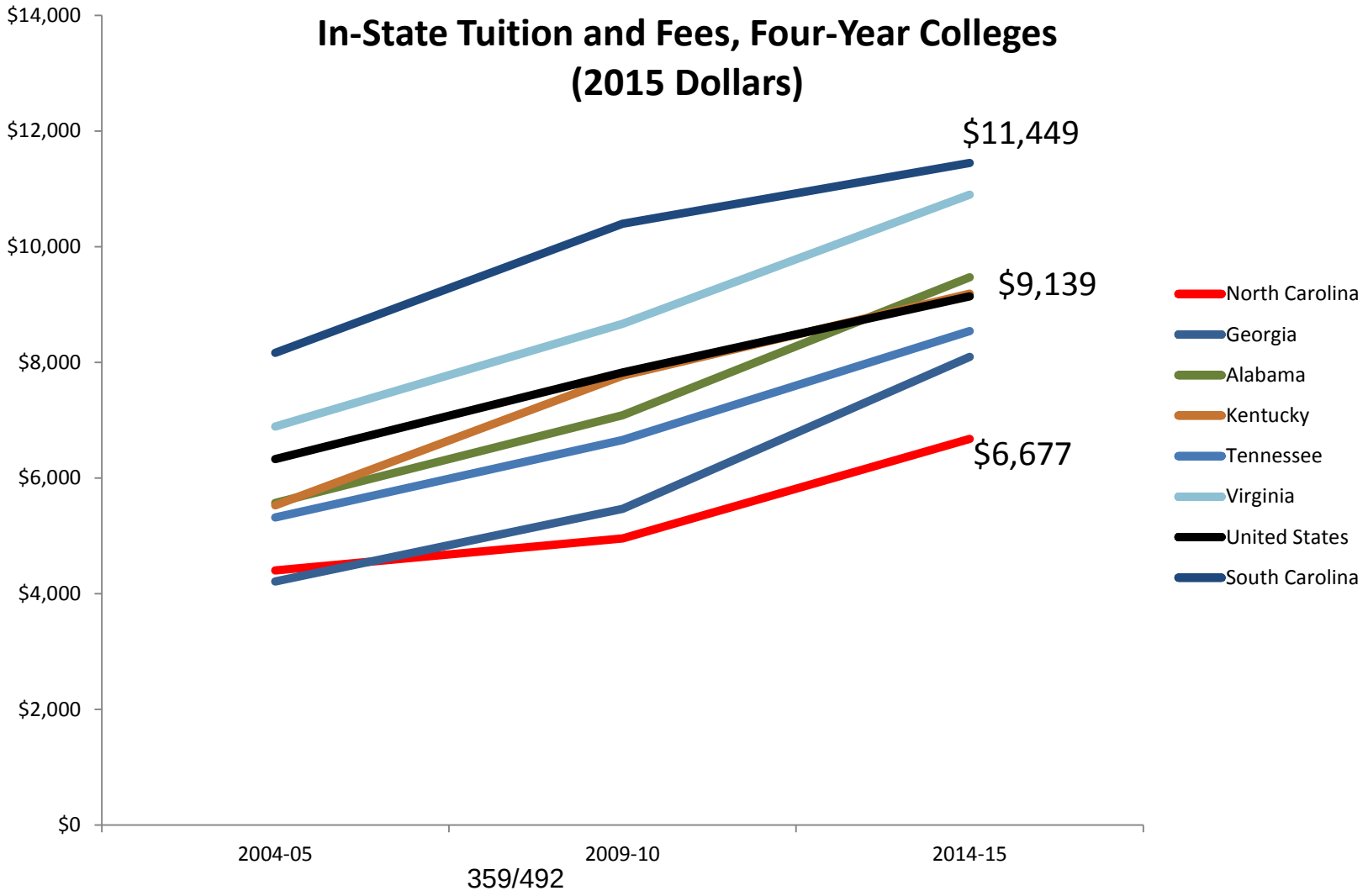
Author's calculations, Integrated Postsecondary Education Data System (IPEDS).

A Leader in State Funding Per Student



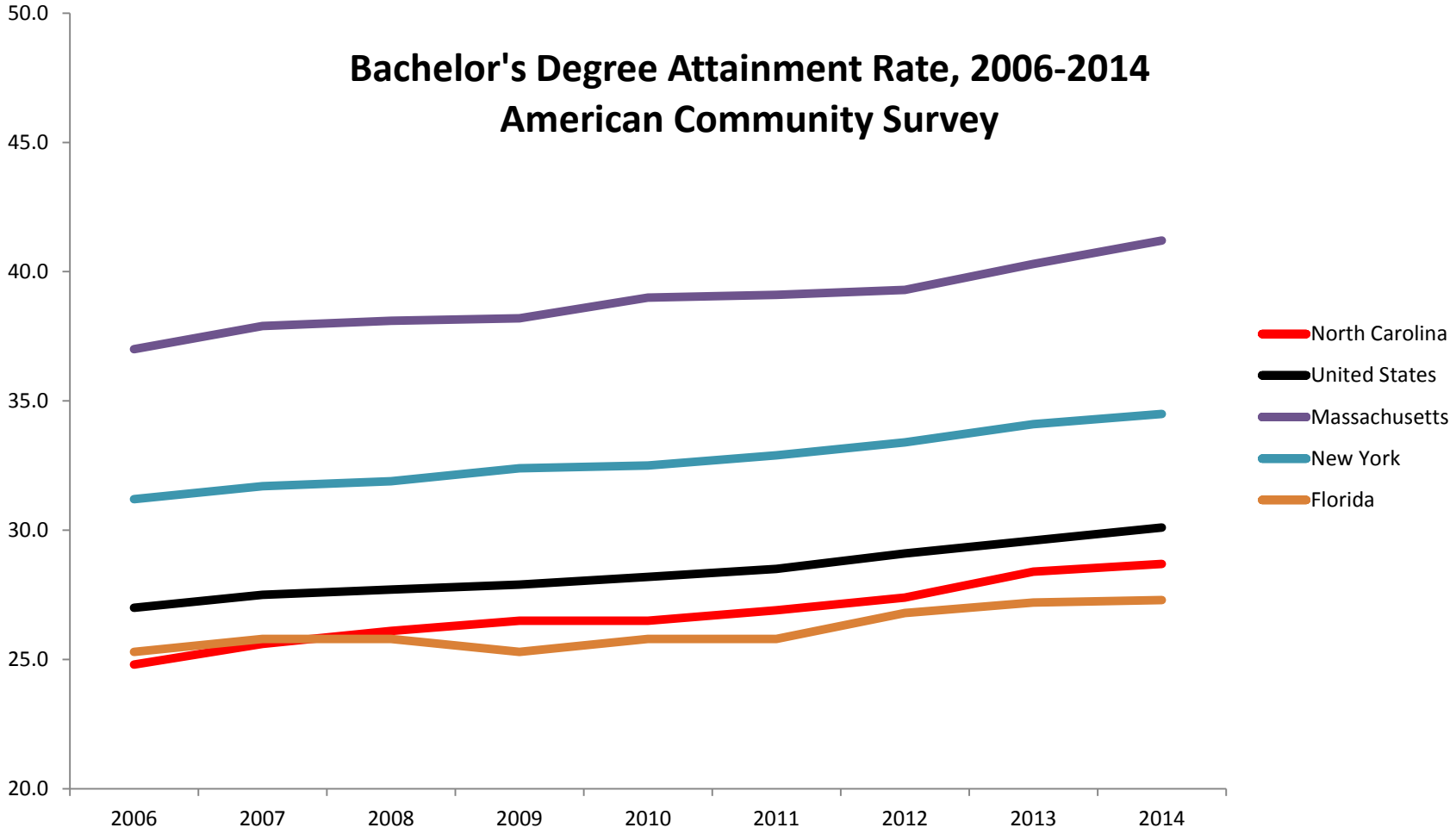
Urban Institute, "Financing Public Higher Education," 2015.

Comparatively Low Tuition



Urban Institute, “Financing Public Higher Education,” 2015.

Attainment is Average



US Census Bureau: American Community Survey, 2015.

Cost Per Degree is Above Average

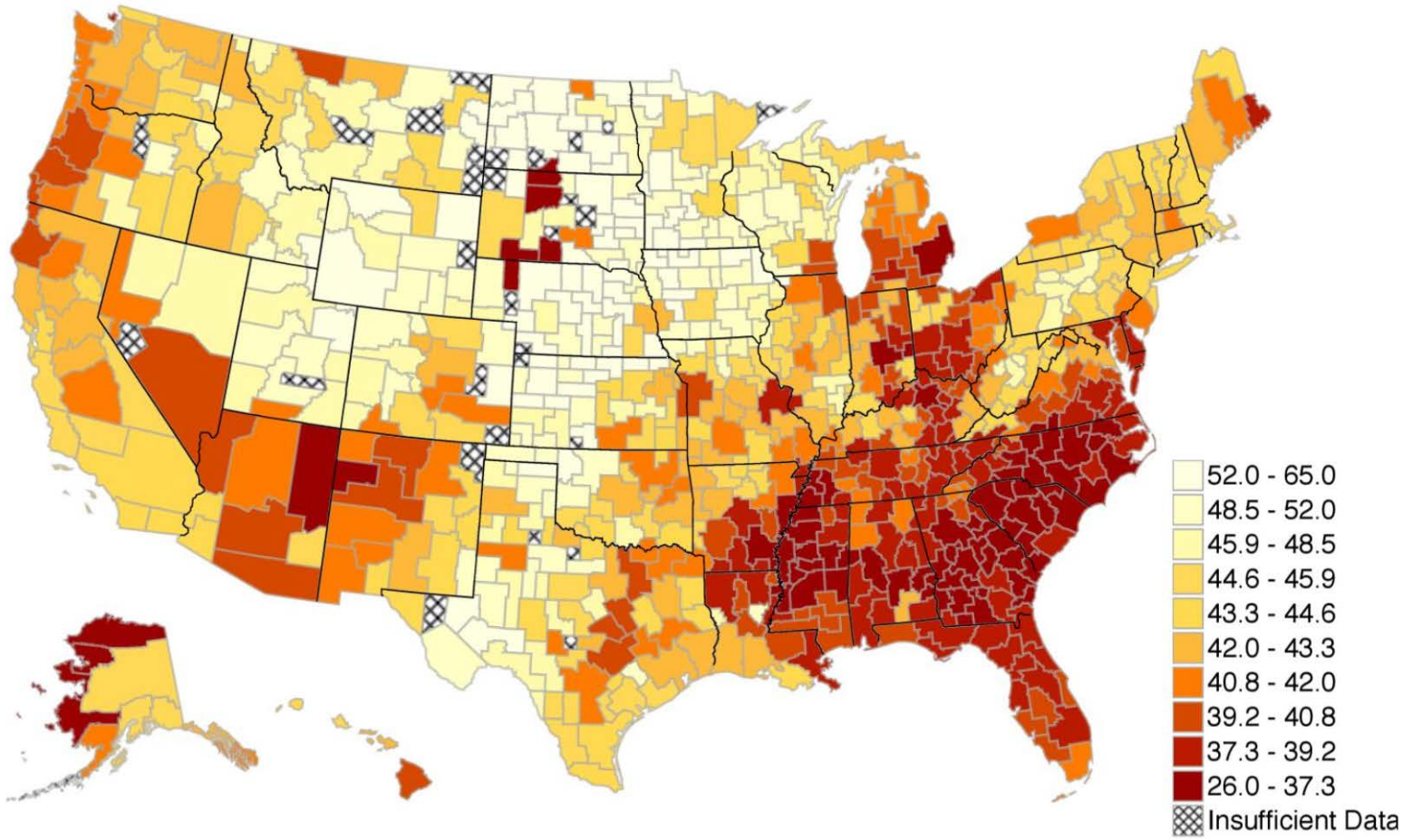
Delta Cost Project: Education and Related Expenses Per Degree (2013 Dollars)

State	2000	2005	2010	2011	2012	2013
NC	$75,450	$78,880	$75,740	$73,760	$67,740	$69,400
Rank	42nd	43rd	41st	39th	31st	35th
US Avg.	$68,450	$65,360	$68,640	$66,790	$64,510	$64,740

Delta Cost Project Database, 2000-2013.

The Geography of Upward Mobility in the United States

Mean Child Percentile Rank for Parents at 25th Percentile (Y_{25})



Note: Lighter Color = More Absolute Upward Mobility

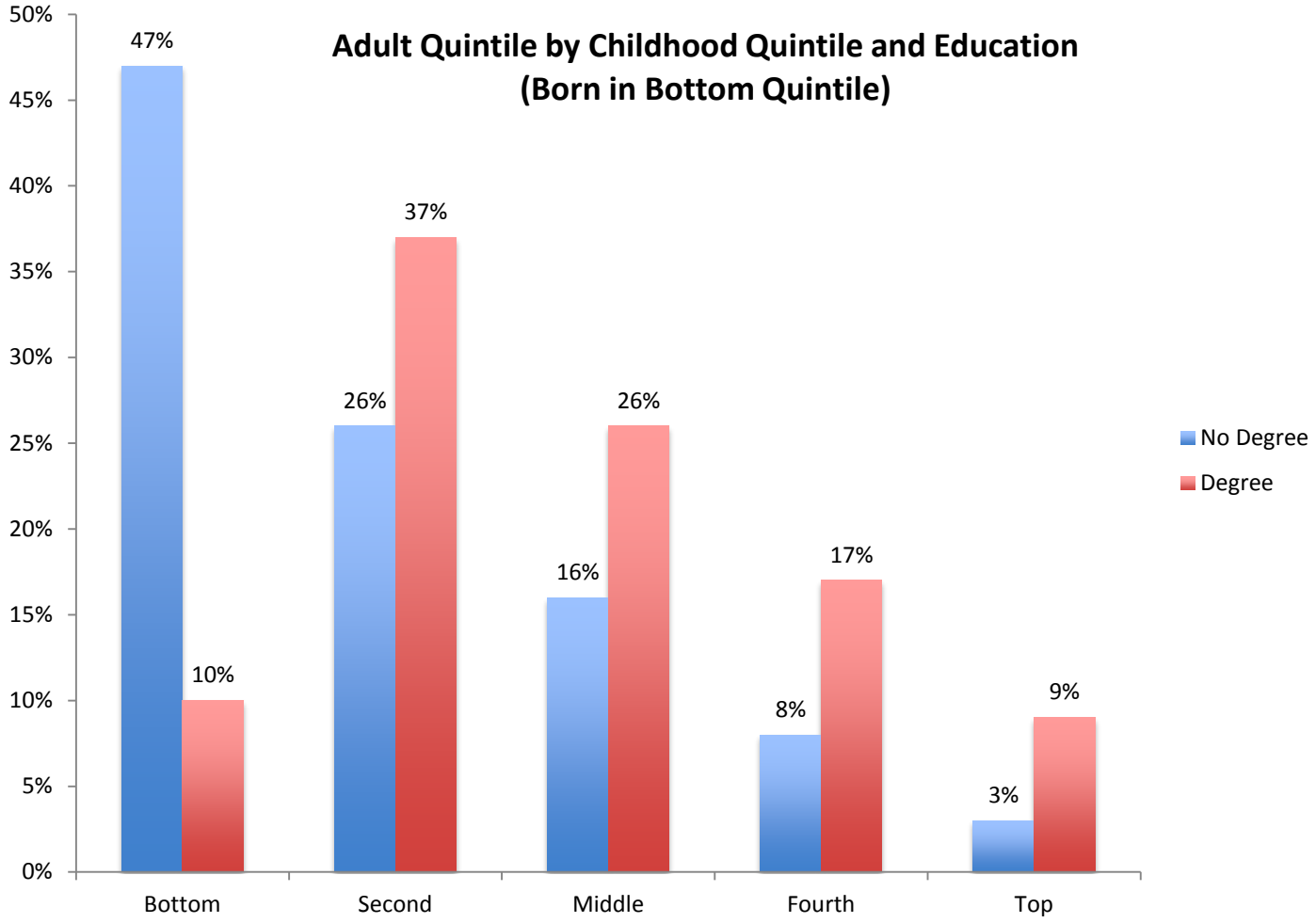
Chetty et. al, "The Geography of Upward Mobility," 2014.

Upward Mobility

48	Raleigh, NC
	Atlanta, GA
	Charlotte, NC

Chetty et. al, "The Geography of Upward Mobility," 2014.

Higher Ed is a Mobility Enhancer



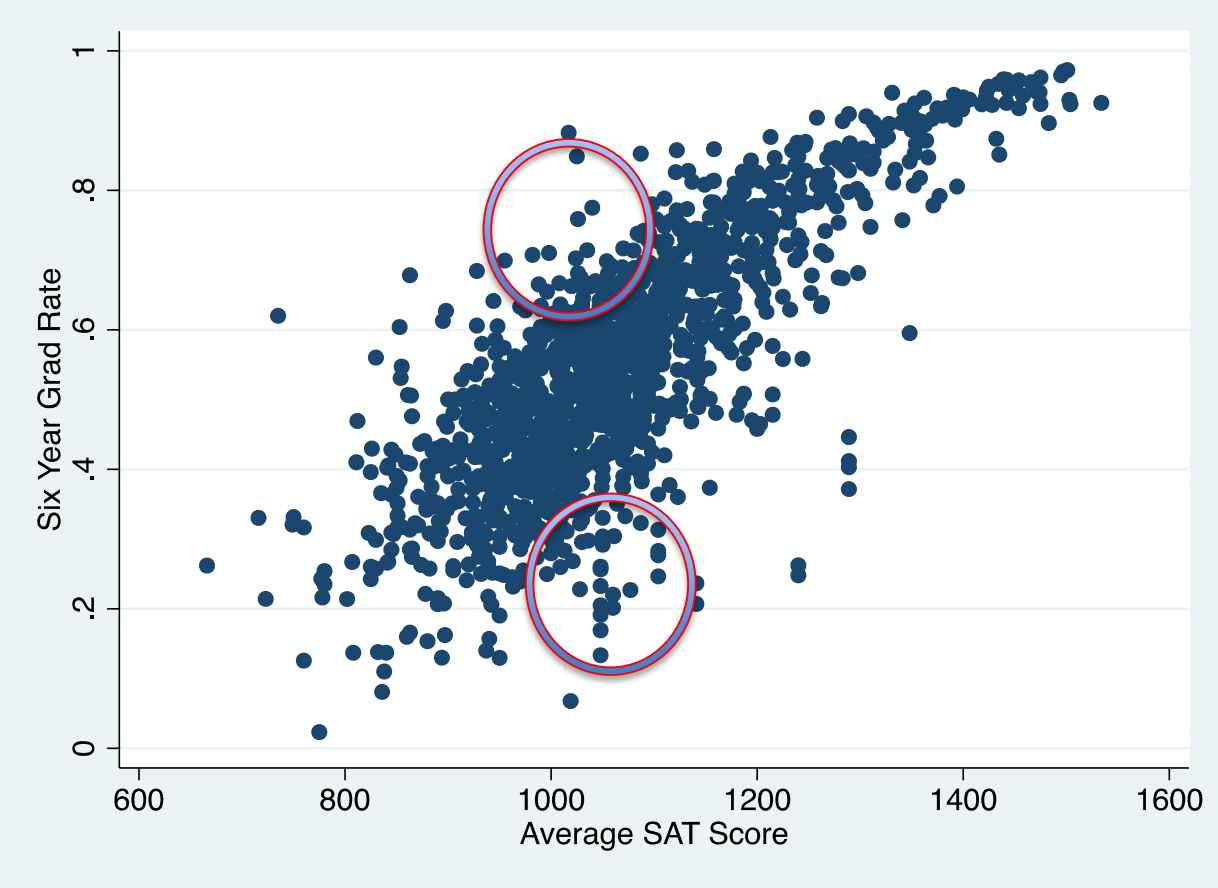
The Pew Charitable Trusts, "Pursuing the American Dream," 2012.

Lessons

- Institutions matter.
- Information matters.
- Institutions can improve and expand… but it requires organizational change.
- Incentives matter.

The question: How can states drive reform?

Lesson: Institutions Matter



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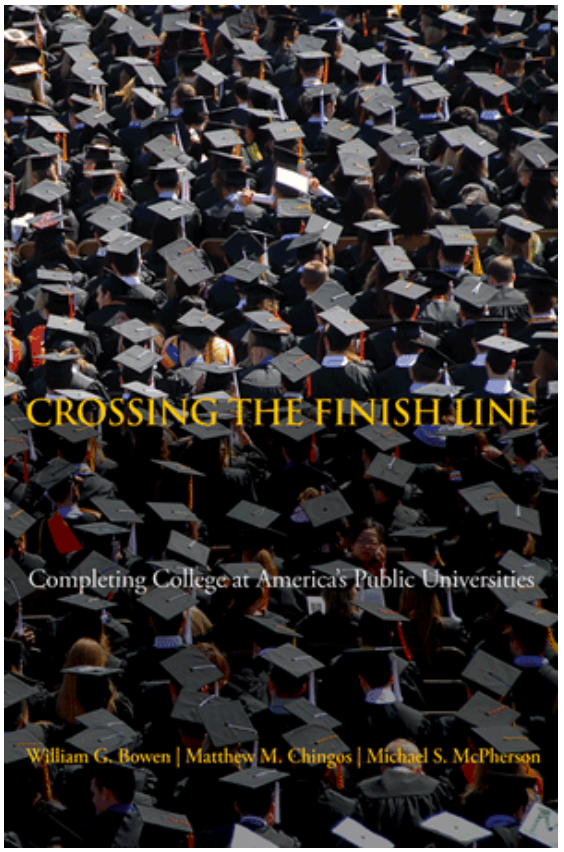
Author's calculations, U.S. Department of Education, "College Scorecard."

Lesson: Institutions Matter

Recent research shows that institutional choice has significant effect on likelihood of completion.

What goes on in the “black box?”



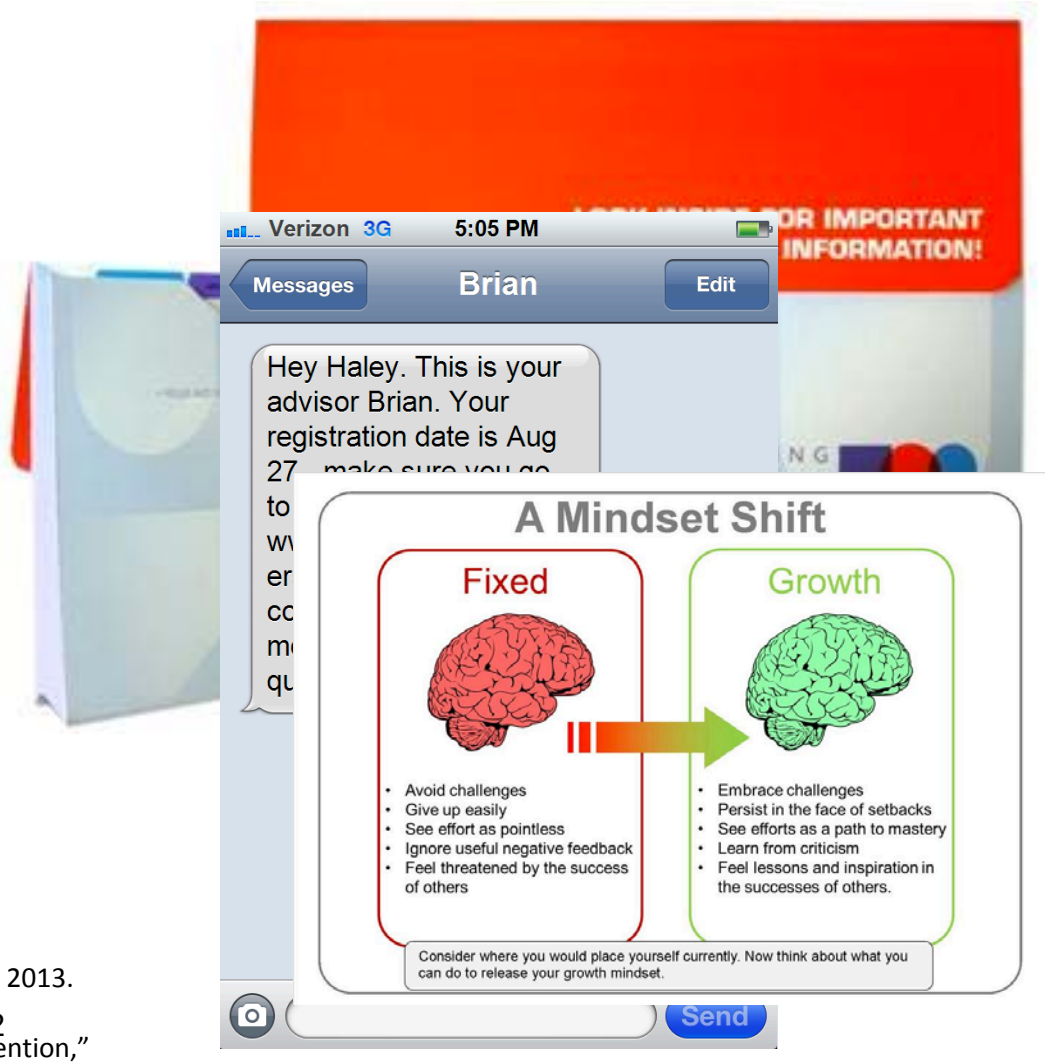
William G. Bowen, Matthew M. Chingos, Michael S. McPherson, *Crossing the Finish Line,* 2011.
Joshua Goodman and Sarah Cohodes, “First Degree Earns: The Impact of College Quality on College Completion Rates,” 2012.
Joshua Goodman, Michael Hurwitz, Jonathan Smith, “College Access, Initial College Choice and Degree Completion,” 2015.

Lesson: Information Matters

Students respond to inexpensive informational interventions.

How much can information move the needle?

How do we increase the number of quality seats?



Caroline Hoxby and Sarah Turner, "Expanding College Opportunities," 2013.
Benjamin L. Castleman and Lindsay C. Page, *Summer Melt*, 2014.
Gregory Walton and Geoffrey Cohen, "A Brief Social Belonging Intervention," *Science,* 2011.

Lesson: Institutions Can Improve *and* Expand

Some colleges have made marked improvements in student success rates and/or capacity.

Common themes: data and predictive analytics, proactive advising and services, remediation reform.

What interventions are highest-leverage?

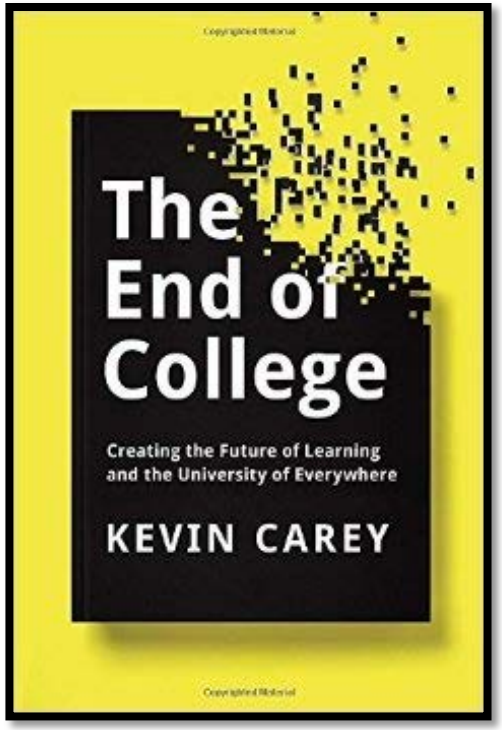
Organizational Change is Key

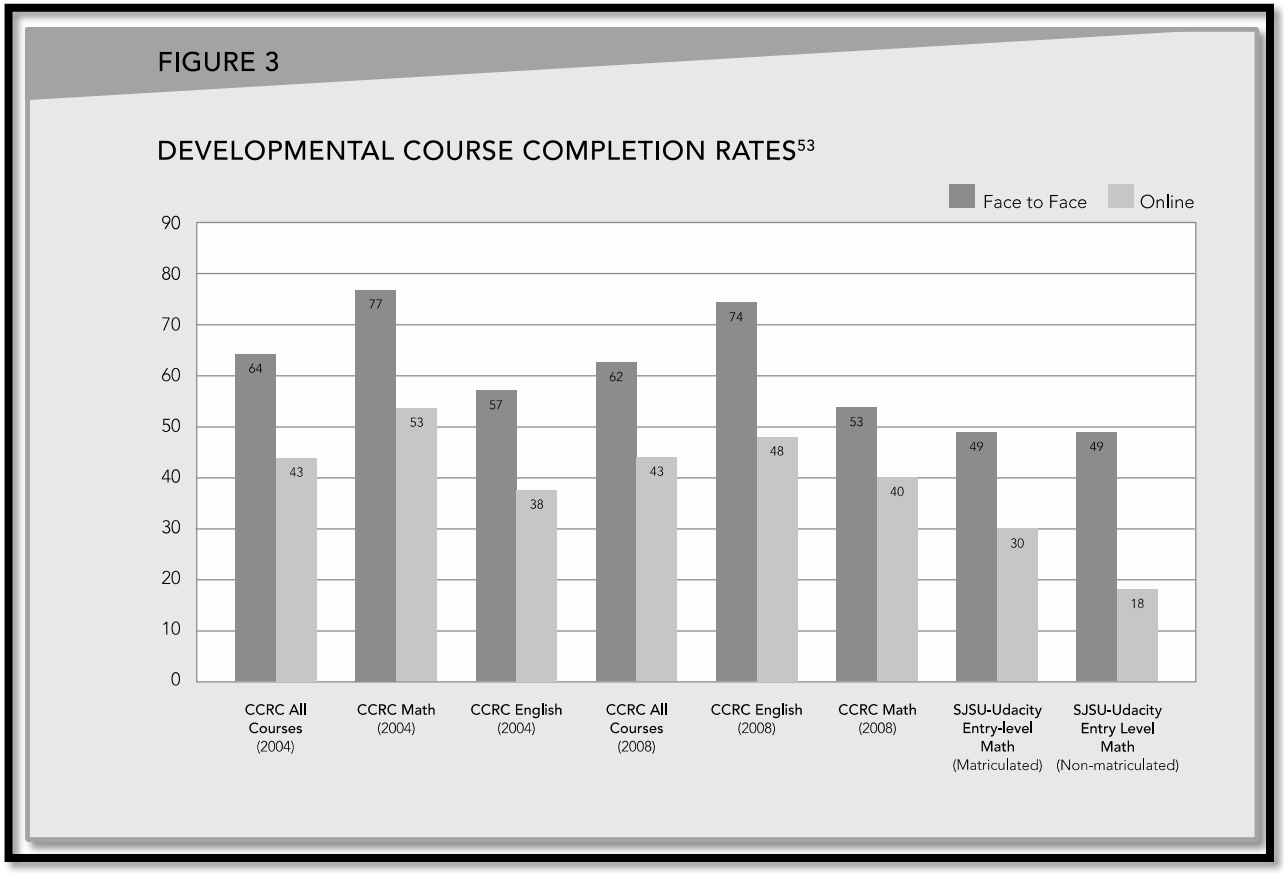
"Research on organizational effectiveness and improvement strongly indicates that to achieve large improvements in student outcomes, piecemeal changes will not suffice. **Rather than trying to bring to scale discrete "best practices," colleges and universities need to redesign their policies, programs, and services at scale.**"

Davis Jenkins,
Community College Research Center

CIVITAS LEARNING

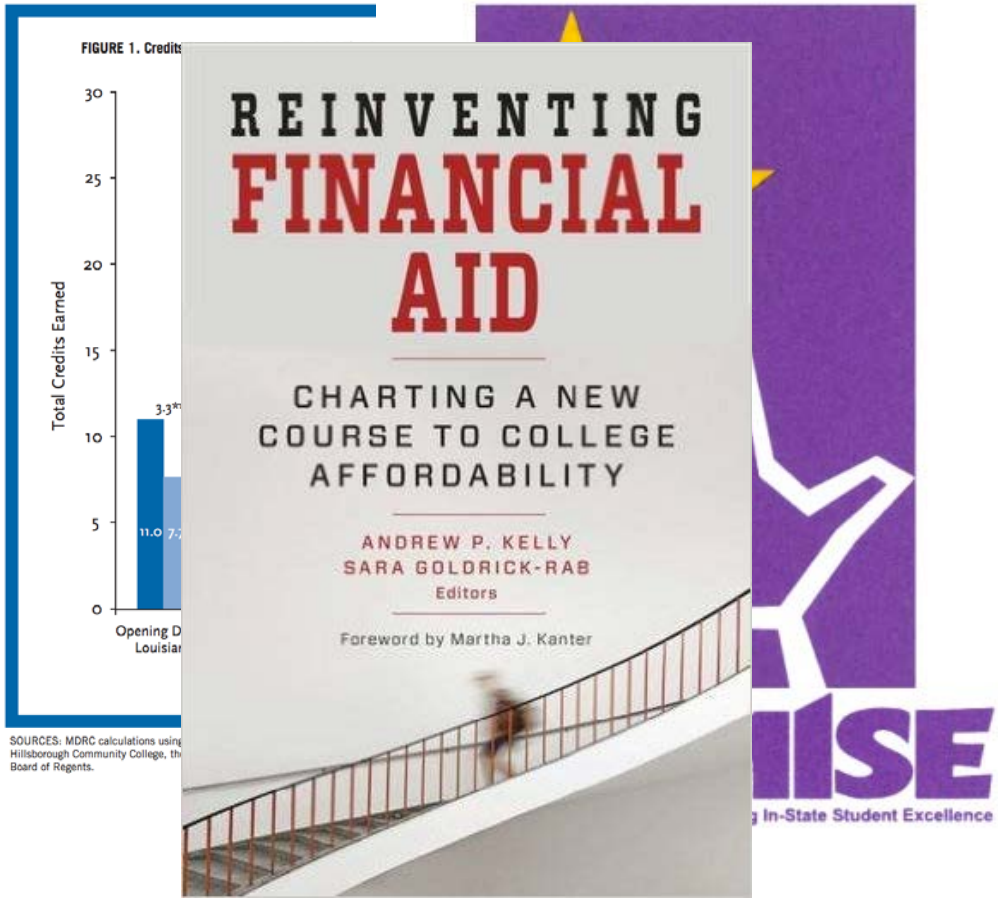
What Role for Technology?





Andrew P. Kelly, "Disruptor, Distracter, or What? A Policymaker's Guide to MOOCs," Bellwether Education Partners, 2014.

Lesson: Incentives Matter



Grants tied to academic incentives increase credit accumulation, grade point averages, and possibly completion rates.

"Finish in Four" programs

What does this mean for federal and state grant programs?

MDRC, "Performance-based Scholarships: What Have We Learned?", 2013.
Judy Scott-Clayton, "On Money and Motivation," *Journal of Human Resources*, 2011.

How Are States Driving Reform?

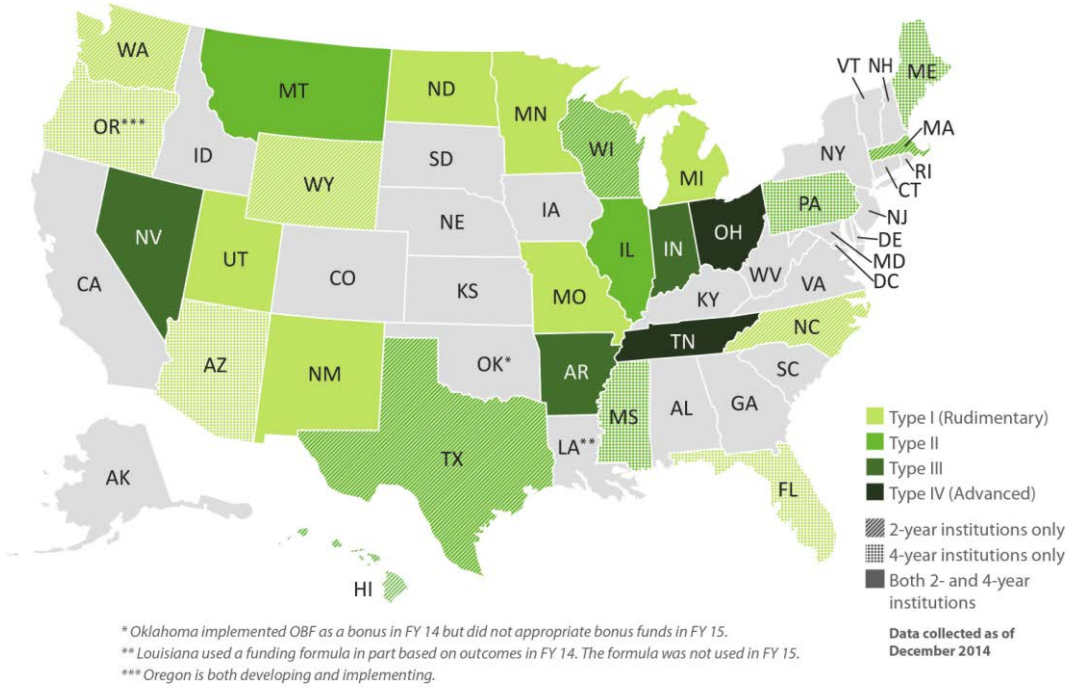
- Attainment goals and strategic plans.
- Outcomes-based funding.
- Guided pathways.
- Data and transparency.
- New educational models.

Attainment Goals & Strategic Plans

- Tennessee: “Drive to 55”
- Texas: *Closing the Gaps 2015* (2000);
  Now: 60x30TX
- *Colorado Competes*

States: Outcomes-Based Funding

HCM Strategists: more than 2/3 of states are developing or implementing OBF.



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Source: Martha Snyder, 2014.

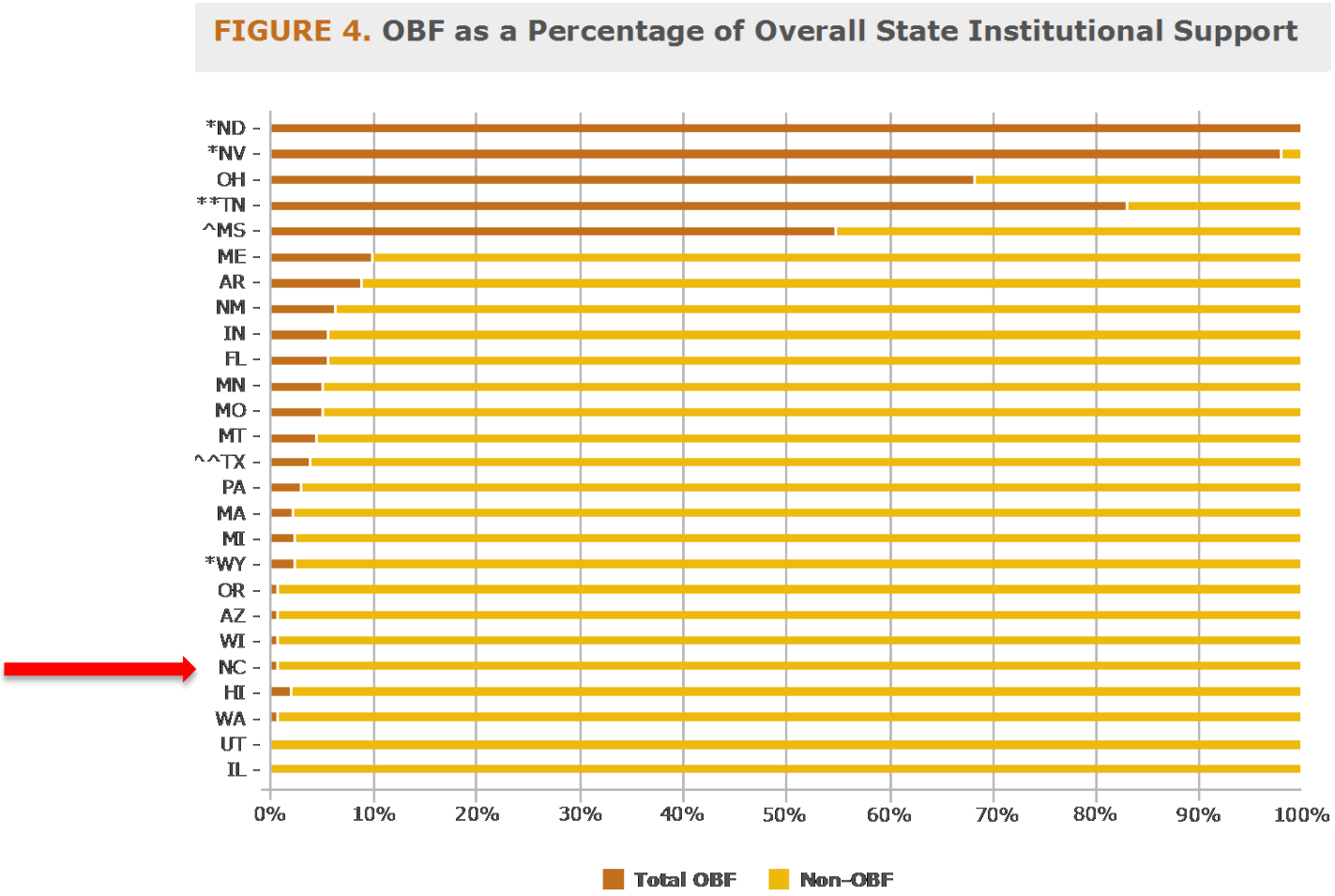
Outcomes-Based Funding Examples

- **Tennessee:**
  - Complete College TN Act ("Drive to 55").
  - 85% of state funding tied to outcomes.
  - Formulas differ by institution type, and low-income students weighted more heavily.
- **Texas State Technical College System:**
  - "Returned Value" Formula: Institutions funded based on labor market outcome of graduates.
  - Formula based on the gap between earnings of graduates and minimum wage.

Does Outcomes-Based Funding "Work?"

- Hillman and Tandberg (2013): very little effect on degree completions.
- Kelchen and Stedrak (2016): colleges subject to PBF receive less per-student Pell revenue, suggesting increased selectivity in response to policy.
- BUT: design of OBF is not consistent across states or time periods (early models weaker).

Design of OBF Varies Dramatically



Very different policies likely to have different impacts.

Source: Martha Snyder, 2014.

States: Transparency and Data

- 27 States link postsecondary data and wage information (up from 14 in 2011).
- But few report labor market outcomes at program level: CO, TX, TN, VA, AR, MO, MN, FL, CA.
- Less common: Costs, productivity, & remediation
- Student learning is rare.

The University of Texas System

Source: Data Quality Campaign.

New Models and Credentials

- Competency-based education:
  - Western Governors University, College for America, UW Flex, Northern Arizona.
- Microcredentials/stackables:
  - Stackable certificates.
  - “University Learning Store.”
- MOOC for credit:
  - Georgia Tech-Udacity.
  - ASU Global Freshman Academy.

What's Happening Outside of Traditional Higher Education?

- MOOCs: what now?

- Boot camps.

GENERAL ASSEMBLY

THE // FLATIRON SCHOOL

galvanize

- Bridge programs.

yearup

BRIDGEEDU

KORU

New Financing Models

- Income-share Agreements.

- Employer partnerships.

+

- New lenders.

How Should We Measure Success?

- Paper credentials?

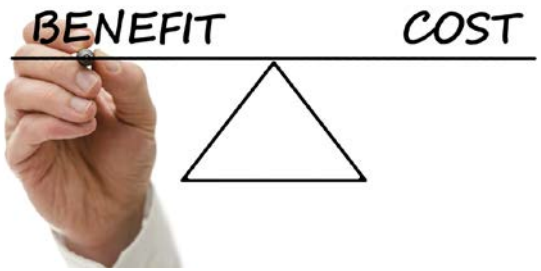
- Student learning?

[cla]
[collegiatelearningassessment]

- Labor market outcomes?

TSTC
Texas State Technical College

- Cost-effectiveness?



How Do We Avoid Unintended Consequences?

Beware Campbell's Law.

Both strategies are easier than organizational change;
but they work against increasing educational attainment.

How Do We Change Cost Structures?

Layering adds fixed costs;
reallocating and replacing frees up resources.

What to Do About College Readiness?

Unresolved Questions: Where Will Federal Policy Go?

- Free public option?
- Lower barriers to entry and expand choice?
- All of the above?