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Tuition-to-Earnings Limits: An Alternative to the Gainful Employment Rule for Higher Education Accountability

An Essay for the Learning Curve by Jason Delisle and Jason Cohn

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The Biden administration is developing regulations to protect students and taxpayers from career-oriented college programs that do not pay off.[1] A discussion draft of this gainful employment (GE) rule, released earlier this year, would require that graduates of certificate programs at public and nonprofit colleges, and nearly all programs at for-profit colleges, meet a debt-to-earnings test for the program to be eligible for federal aid.[2] The rationale is that programs should not be eligible for federal aid if their graduates cannot earn enough to afford their student loans. But using debt to measure a program's value has major limitations that could be addressed by instead using a tuition-to-earnings test.

The Higher Education Act requires that all nondegree programs offered by public and private nonprofit institutions, and all nondegree and degree programs offered at private for-profit institutions, prepare students for "gainful employment in a recognized occupation" to participate in federal student loan and grant programs.[3] This requirement existed in law for some time without an official definition until the Obama administration defined it through regulation, effectively enacting a new quality assurance policy that required that programs' graduates meet a debt-to-earnings threshold.[4] The Trump administration repealed that rule before it went into effect. The Biden administration is working to reinstate its own version similar to the Obama-era rule, with a proposed rule set to be released by April 2023.[5]

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[1] Office of Postsecondary Education, "Issue Paper 3: Gainful Employment" (Washington, DC: US Department of Education, Office of Postsecondary Education, 2022).

[2] Graduates in each program would also need to earn more, on average, than individuals with only a high school diploma. Thus, the rule includes two separate tests, and programs cannot fail either, or they lose eligibility for aid. See Office of Postsecondary Education, "Issue Paper 3: Gainful Employment."

[3] Definition of Institution of Higher Education for Purposes of Student Assistance Programs, 20 U.S.C. §1002(b)(1)(A).

[4] Program Integrity: Gainful Employment, 79 Fed. Reg. 64890 (Oct. 31, 2014).

[5] "Gainful Employment," Executive Office of the President, Office of Management and Budget, Office of Information and Regulatory Affairs, accessed November 16, 2022, https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202204&RIN=1840-AD57; and Meghan Brink, "Biden Pushes Gainful Employment to Spring," Inside Higher Ed, June 23, 2022, https://www.insidehighered.com/news/2022/06/23/gainful-employment-other-regulatory-matters-pushed-spring. Under the Biden administration's proposal, graduates in each program would also need to earn more, on average, than individuals with only a high school diploma. We focus on the debt-to-earning test for simplicity, however, and because a tuition-to-earnings test is most similar to the debt-to-earnings test and a potential substitute for that test.

Under the Biden administration's proposed debt-to-earnings test, programs lose eligibility for federal aid programs if graduates' median loan payments exceed 8 percent of earnings and 20 percent of earnings above 150 percent of the federal poverty level.[6] One key limitation of a debt-to-earnings test is that when nonborrowers are included in the calculation—as is the case in the Biden administration proposal and the Obama-era rule—debt burdens appear artificially low. Nearly one in five programs included in the GE data automatically pass the debt-to-earnings test because less than half of their graduates borrow (so their median debt is $0).[7] Evidence suggests that graduates of these programs who do borrow have just as much debt as those from programs where more students borrow.[8]

Programs with poor value propositions can also pass a debt-to-income test so long as many students finance their tuition with federal grant aid or out-of-pocket funds instead of loans. Arguably, a quality assurance policy like GE should protect students and taxpayers from programs that do not pay off, even if debt burdens are low or few students borrow. Otherwise, students risk wasting time, out-of-pocket funds, and their limited grant aid on programs where earnings do not justify the price.[9] Taxpayers should also be protected from having to subsidize grant aid for programs that overcharge based on what they deliver in earnings gains.

In theory, measuring tuition relative to graduates' earnings instead of debt can help address the shortcomings we have identified with a debt-to-earnings test. The policy more directly measures what a program costs, is not affected by the share of students borrowing, and measures prices charged to all students regardless of the type or amount of federal aid they received.

A Proposed Tuition-to-Earnings Test

Designing a tuition-to-earnings test means policymakers must set the threshold at which tuition is deemed too high relative to what the typical graduate goes on to earn or, conversely, the point at which graduates' earnings are too low to justify what an institution charges. Rather than attempt to define such a point, we examine three potential tuition-to-earnings thresholds and compare them with the debt-to-earnings test the Biden administration is considering.

[6] The test measures the median annual student loan payment for a cohort of graduates against their median earnings. If payments exceed earnings by the threshold for any two out of three consecutive years, the program loses eligibility.

[7] The second part of the rule, the high school earnings test, provides additional protections for students and taxpayers but excludes any measure of price and entails other shortcomings. See Kristin Blagg, "Disparities by Gender Complicate Proposed Accountability Metrics," *Urban Wire* (blog), Urban Institute, April 25, 2022, https://www.urban.org/urban-wire/disparities-gender-complicate-proposed-accountability-metrics.

[8] Jason Delisle and Jason Cohn, "A Student Debt Blind Spot in the Gainful Employment Rule for College Programs," *Urban Wire* (blog), Urban Institute, March 29, 2022, https://www.urban.org/urban-wire/student-debt-blind-spot-gainful-employment-rule-college-programs.

[9] About 45 percent of students who completed certificate programs in 2015–16 received federal Pell grants. Among those who attended public institutions, 24 percent received Pell grants. At private for-profit institutions, the share was 62 percent. Authors' calculations based on 2015–16 National Postsecondary Student Aid Study data from National Center for Education Statistics PowerStats table kbzoqr.

The highest (easiest-to-pass) threshold we examine is a 100 percent tuition-to-earnings threshold, where graduates must earn at least as much as the total tuition and fees they were charged (we use total tuition and fees charged for the program, which is not necessarily an annual amount). We also examine the effects of an 85 percent threshold and a 70 percent threshold, meaning tuition must be less than 85 percent and 70 percent of what graduates earn annually for programs to pass.

Consider two certificate programs that both charge students $8,500 in tuition and fees for a full course of study. Graduates of one program earn $11,000 annually, at the median, in their third year after completing the program. This program's tuition is 77 percent of median earnings, so it would pass the 85 percent tuition-to-earnings test. But the second program's graduates have lower median earnings than the first, earning just $9,000 annually three years after graduation. Tuition is 95 percent of graduates' earnings, which exceeds the 85 percent threshold, causing the program to fail the test. Put another way, if a program charges $8,500 in tuition, its graduates would need to typically earn at least $10,000 for the program to be eligible for federal aid under an 85 percent tuition-to-earnings threshold.

We use tuition instead of a more comprehensive measure of price that includes living expenses because institutions have less control over nontuition expenses and they are not paid to institutions. Moreover, the Biden administration's proposed debt-to-earnings test excludes debt students incurred to finance living expenses, as did the Obama administration's GE rule.[10]

We calculate a tuition-to-earnings ratio for certificate programs covered by the GE rule by merging earnings information that the US Department of Education released for GE programs with tuition prices for vocational programs reported in the Integrated Postsecondary Education Data System (IPEDS).[11] These data report tuition prices before any grant aid is factored in. An ideal measure of tuition for the test would not subtract government grant aid from the price paid, because we aim to measure what a program charges even if a student uses grants to cover it. But students may receive substantial aid from an institution itself that we cannot observe in the data. A tuition-to-earnings test ideally *would* subtract this aid from the tuition price because it represents tuition for which the institution did not actually receive any funds from any source.

[10] Under the proposed GE rule, colleges can have borrowers' actual debt levels replaced in the debt-to-income calculation with what students were charged for tuition, fees, and course materials, if that number is lower. This approach acknowledges that colleges have less control over students' living expenses and that colleges cannot prevent students from using federal loans for these costs.

[11] IPEDS provides program-level tuition data for vocational programs, which aligns with our focus on certificate programs in this essay, but IPEDS does not provide such data for individual degree programs. Because the program-level tuition data do not specify credential level, we cannot be 100 percent confident we have matched the program reporting in the GE data with the correct program reported in IPEDS. We therefore exclude programs with an institution–Classification of Instructional Programs combination that occurs at more than one credential level to avoid making an incorrect match. After these exclusions, we have 1,945 certificate programs in the GE data that have earnings information. We can match tuition data for two-thirds of these programs in the GE data, resulting in 1,308 programs.

Comparing Tuition-to-Earnings and Debt-to-Earnings Thresholds

Although the GE rule covers all types of programs at for-profit institutions from certificates to bachelor's and master's degrees, we limit our analysis to undergraduate certificate programs. This allows for a more apples-to-apples comparison across institutions because the GE rule uniformly applies to undergraduate certificates at all types of institutions. Moreover, data on tuition prices for certificate programs is more readily available than for degree programs.

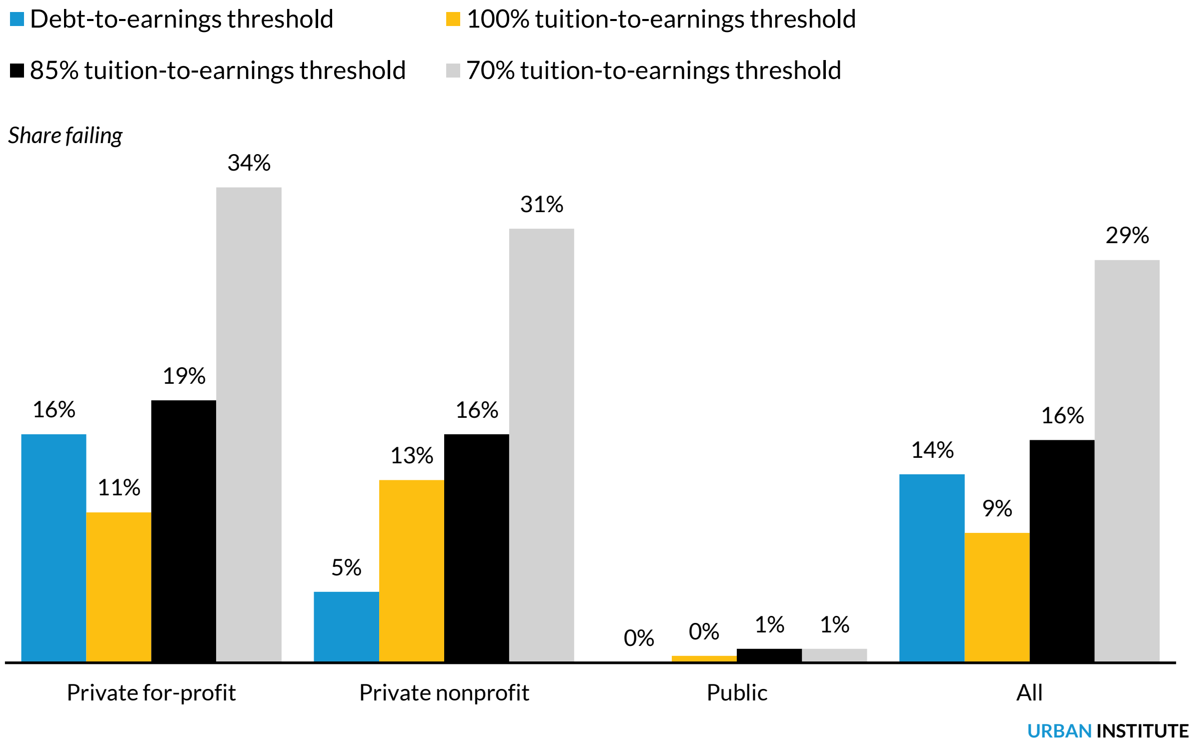
The 100 percent tuition-to-earnings threshold results in fewer failing programs than the debt-to-earnings test (figure 1). Just 9 percent of programs in the GE data fail the tuition-to-earnings test compared with 14 percent failing the administration's proposed debt-to-earnings test. The 85 percent tuition-to-earnings threshold is comparable with the debt-to-earnings test in terms of the share failing (16 percent), though as we discuss below, the threshold affects a different set of programs. Under a 70 percent threshold, a substantially larger share of programs would fail (around 30 percent).[12]

Even though the tuition-to-earnings tests we examined range in stringency, they all affect a broader group of programs than the debt-to-earnings test. For example, more programs at private nonprofit institutions fail each of the tuition-to-earnings tests than the debt-to-earnings test (though programs offered by private nonprofit institutions represent only a small share of certificate programs covered by the GE rule). About 5 percent of programs at private nonprofit institutions fail the debt-to-earnings test, but even under our most lenient tuition-to-earnings threshold, 13 percent of programs at those institutions fail. A very small number of programs at public institutions would also fail each of the tuition-to-earnings tests (0.5 to 1 percent, depending on the threshold), while none of these programs fail the Biden administration's debt-to-earnings test.

[12] All the tuition-to-earnings tests produce lower fail rates than the nearly 50 percent of programs that fail the separate high school earnings test under the Biden administration's proposal.

FIGURE 1

Share of Undergraduate Certificate Programs Failing Gainful Employment Policies, by Sector



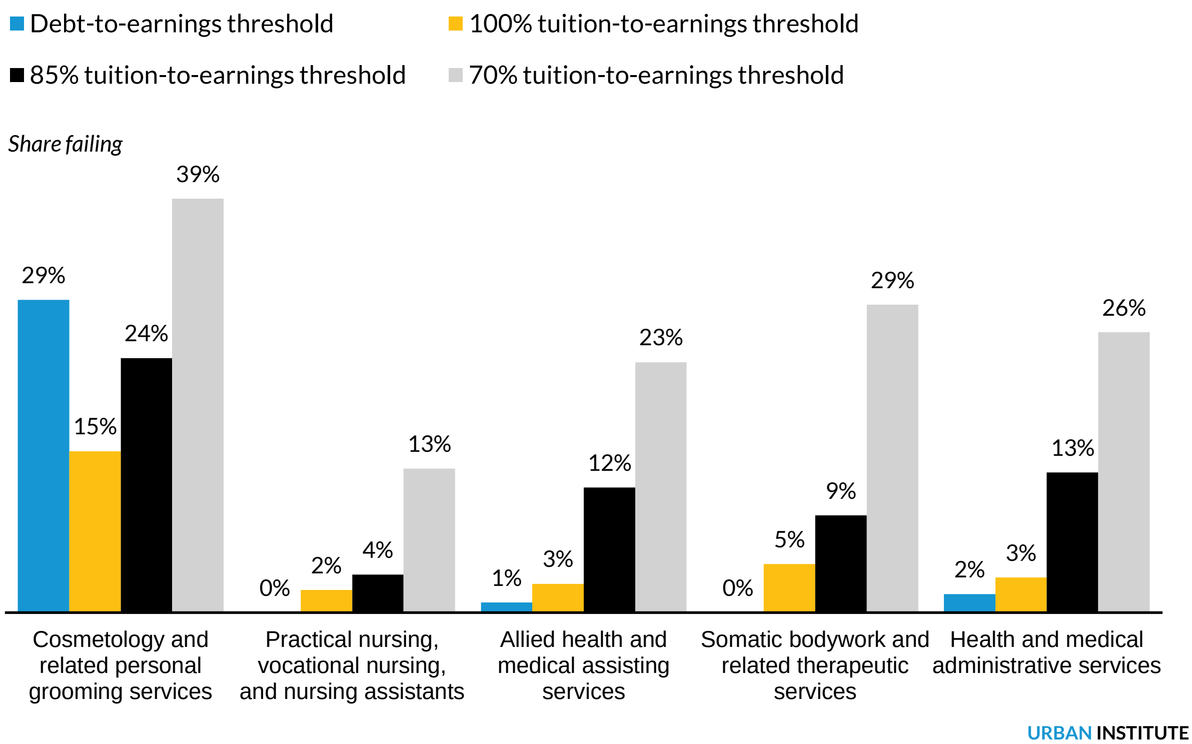
Source: Urban Institute analysis of US Department of Education and Integrated Postsecondary Education Data System data.
Notes: The debt-to-earnings threshold reflects the policy proposed in the Biden administration's March 2022 discussion draft of the gainful employment rule. Tuition-to-earnings thresholds represent the maximum allowable for a program (e.g., an institution where tuition is 90 percent of postcompletion earnings would fail the 70 percent and 85 percent thresholds but pass the 100 percent threshold).

The tuition-to-earnings test affects more programs at private nonprofit institutions because they charge high tuition, especially when compared with graduates' earnings, and the tuition is much higher than typical debts (we cannot observe in the data the other sources of funds they use to finance tuition). On average, programs at private nonprofit institutions that fail the 85 percent threshold produce $20,300 in earnings and $7,400 in debt. This results in a sufficiently low debt-to-earnings ratio such that the programs pass the debt-to-earnings test. But when those low earnings are compared with the higher-than-average tuition prices that graduates were charged ($24,400, on average), the program appears to offer less value and thus fails the tuition-to-earnings tests. The small number of programs at public institutions that fail the tuition-to-earnings tests fail because their graduates have very low earnings.

The types of programs failing the tuition-to-earnings tests are also more diverse in field of study than those failing the Biden administration's proposed debt-to-earnings test (figure 2). Few programs other than those in cosmetology fail the debt-to-earnings test when looking at the five most prevalent undergraduate certificates covered by the GE rule. But under the tuition-to-earnings tests, programs in nursing, medical assisting, and health care administrative services are more likely to fail. An 85 percent tuition-to-earnings threshold, which is comparable with the debt-to-earnings test in overall fail rates, would cause between 4 and 13 percent of programs in these fields to lose eligibility for aid.[13] All these failing programs are offered at for-profit institutions.

FIGURE 2

Share of Programs Failing Gainful Employment Policies among the Largest Certificate Programs



Source: Urban Institute analysis of US Department of Education and Integrated Postsecondary Education Data System data.
Notes: The debt-to-earnings threshold reflects the policy proposed in the Biden administration's March 2022 discussion draft of the gainful employment rule. Tuition-to-earnings thresholds represent the maximum allowable for a program (e.g., an institution where tuition is 90 percent of postcompletion earnings would fail the 70 percent and 85 percent thresholds but pass the 100 percent threshold).

The diverging fail rates between the two tests are explained largely by the fact that the failing programs in nursing and health care result in earnings that are low but that still clear the debt-to-earnings test (typical earnings are about $17,700, but debts are only $7,900). Tuition for the failing programs in nursing and health care (typically about $17,200) is well above average for certificate programs in the GE data ($12,400), which causes these programs to fail the tuition-to-earnings test. The GE data do not allow us to observe how students pay for the relatively high tuition in programs that fail the tuition-to-earnings test or why their debts are so much lower than tuition. If students in these

[13] This analysis focuses on a single pooled cohort. To lose eligibility for aid, a program would have to fail the test in any two out of three consecutive years.

programs receive grants or discounts from the institutions they attend, these high-tuition programs may actually pass the tuition-to-earnings test under the approach we propose.

The data suggest a tuition-to-earnings test can better identify low-value programs. A debt-to-earnings test would give a pass to low-earning programs with high tuition so long as graduates had low debt, whereas a tuition-to-earnings test identifies the programs whose tuition is not worth it. Overall, we find that about 9 percent of undergraduate certificate programs covered by the GE rule pass the debt-to-earnings test but do not pass an 85 percent tuition-to-earnings test, suggesting that high-tuition, low-earnings programs are a significant share of those covered by the GE rule.[14]

We can also assess whether the tuition-to-earnings test addresses another shortcoming in the debt-to-earnings test. Recall that nearly one in five certificate programs covered by GE automatically pass the debt-to-earnings test because less than half of students borrow. In theory, some of these programs may still result in a low payoff for the students who do borrow or who use Pell grants or their own funds to cover tuition. We find that the tuition-to-earnings test does flag programs that fit this profile. Specifically, we find that between 13 and 19 percent of the programs that report $0 median debt cannot pass the tuition-to-earnings tests.[15] These programs tend to have some of the lowest earnings among programs covered by the GE rule—just $5,800, on average. This suggests that the tuition-to-earnings test may be more effective than a debt-to-earnings ratio at screening out programs that produce very low earnings.

Racial, Ethnic, and Gender Composition of Programs Failing Each Test

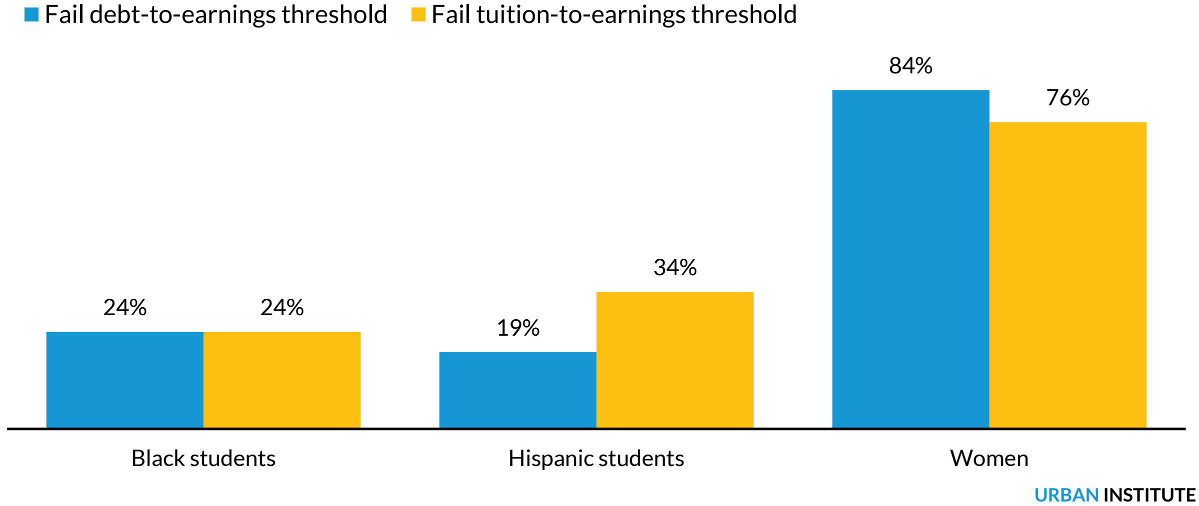
We also find that the programs that fail a tuition-to-earnings test have different racial, ethnic, and gender compositions than those that fail the debt-to-earnings test, which could reflect different borrowing rates among students of different demographic groups enrolled in these programs (figure 3). An accountability policy focused on debt should be expected to affect programs that enroll more students who are likely to borrow. That may be a feature of the policy, but it could be a weakness in that it leaves students who tend to avoid debt more vulnerable to programs that do not pay off if the program enrolls large shares of debt-averse students.

[14] About 6 percent of programs fall into the opposite camp: they pass the 85 percent tuition-to-earnings test but fail the debt-to-earnings test. These programs tend to produce debt levels that are just on the margin of the maximum allowable debt-to-earnings rate of 8 percent. They also tend to have low earnings ($17,000, on average), so their debt levels easily exceed the second part of the debt-to-earnings test (20 percent of discretionary earnings), causing them to fail both parts of the test. Nearly all these programs are cosmetology programs. On average, these programs have tuition costs below those of all the programs we analyzed ($10,500 compared with $12,400) but have debt levels above that of the overall sample ($13,300 compared with $8,000).

[15] For the 100 percent tuition-to-earnings test, 13 percent of the programs with $0 median debt fail. Under the 85 percent tuition-to-earnings test, 15 percent of such programs fail. Under the 70 percent tuition-to-earnings test, 19 percent fail.

FIGURE 3

Average Shares of Students in Failing Programs, by Race, Ethnicity, and Gender



Source: Urban Institute analysis of US Department of Education and Integrated Postsecondary Education Data System data.
Notes: The debt-to-earnings threshold reflects the policy proposed in the Biden administration's March 2022 discussion draft of the gainful employment rule. The tuition-to-earnings threshold is 85 percent. Shares of students are based on awards, not total enrollment, and include students who did not receive federal student aid.

Programs that fail a tuition-to-earnings test (using an 85 percent threshold) tend to enroll a larger share of Hispanic students than those that fail the debt-to-earnings test. On average, Hispanic students make up 34 percent of program awards at programs failing the tuition-to-earnings test but make up only 19 percent at programs that fail the debt-to-earnings test. Hispanic students are less likely to borrow for their education than other racial or ethnic groups.[16] The programs they enroll in tend to report lower debt burdens and are therefore more likely to pass the debt-to-earnings test. A tuition-to-earnings test, however, reveals that these same programs often charge relatively high tuition given what graduates earn.

This logic may also explain why programs that fail a tuition-to-earnings test tend to enroll a notably smaller share of women than those that fail the debt-to-earnings test (76 percent and 84 percent, respectively). Women are more likely to borrow than men, and programs that enroll higher shares of women should be at an increased risk of failing a debt-to-income test compared with a test that measures tuition instead.[17]

[16] Authors' calculations based on 2015–16 National Postsecondary Student Aid Study data from National Center for Education Statistics PowerStats table qijvji.

[17] Authors' calculations based on 2015–16 National Postsecondary Student Aid Study data from National Center for Education Statistics PowerStats table qijvji.

There does not appear to be any difference in the share of Black students enrolled at programs failing either test, even though Black students borrow at some of the highest rates.[18] On average, Black students account for 24 percent of enrollment at programs that fail each test.

Implications for Policymakers

Many proposals for accountability in higher education use student debt burdens to gauge whether a program of study is likely to pay off for graduates. But measuring the prices that institutions charge can provide a more effective and comprehensive quality assurance policy because it captures programs that charge high prices and result in relatively low earnings regardless of borrowing patterns. It may also provide greater consumer and taxpayer protections at programs where students mainly use federal Pell grants, rather than loans, to pay for their education.

The debt-to-earnings test in the Biden administration's proposed GE rule offers a case study on this point. Replacing that test with a simple tuition-to-earnings test tends to identify a broader set of programs at a wider range of institutions, mainly because the debt-to-earnings test gives a pass to low-earning programs that charge high prices so long as graduates have low debt or few of their students borrowed. The tuition-to-earnings test guards against such programs, regardless of how much students borrow. High-priced programs pose a risk to students and taxpayers, regardless of how much students borrow, and a tuition-to-earnings test appears to provide greater protections against such risks.

That said, data limitations in our analysis allow us to observe only "sticker" prices for tuition. We cannot observe the tuition prices students are paying with government grant aid or out of pocket, which would be the more accurate measure of tuition to include in the test. And that caveat raises an important issue for policymakers. Data on tuition prices that students pay at the program level are not widely collected by the government or reported by higher education institutions. New processes would need to be put in place to that end before policymakers would be able to assess the policy's effects or to put the policy in place.

We also note that our analysis covers only certificate programs. Tuition-to-earnings tests may produce different results for associate's, bachelor's, or master's degree programs not covered by the GE rule. And policymakers may need to consider different thresholds for the test accordingly.

Lastly, some observers might reject the arguments for a tuition-to-earnings test on the grounds that accountability policies should not sanction programs where students pay for their education largely with grant aid. Grants do not need to be repaid like debt and do not pose the same affordability risks like debt, they would argue. The point of federal grant aid is to lower out-of-pocket costs and increase the odds that pursuing an education pays off. From that perspective, a tuition-to-earnings test risks sanctioning programs that are affordable and are likely to result in a worthwhile return on what a student has to pay with their own funds to attend. The advantages or disadvantages of a tuition-to-

[18] Authors' calculations based on 2015–16 National Postsecondary Student Aid Study data from National Center for Education Statistics PowerStats table qijvji.

earnings test thus turn on how policymakers believe grant aid should be treated in accountability policies.

Appendix

TABLE A.1

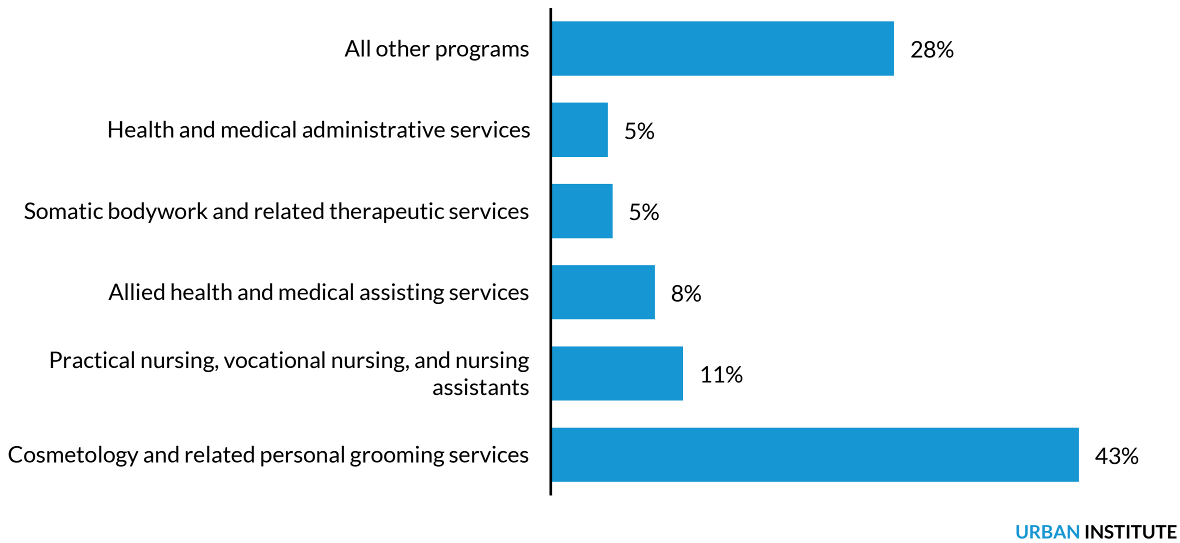
Undergraduate Certificate Programs Covered by the Proposed Gainful Employment Regulation

Share of programs, by institution type	
Private for-profit	80%
Public	15%
Private nonprofit	5%
Program completer statistics	
Debt	$7,951
Earnings	$23,974
Tuition and fees paid	$12,391

Source: Urban Institute analysis of US Department of Education and Integrated Postsecondary Education Data System data.
Notes: Debt and earnings are calculated as averages of program-level medians. Tuition is calculated as an average and is not reduced for any financial aid received. Debt data are for the pooled 2015–16 and 2016–17 cohort and are in 2016 dollars. Earnings data are reported three years after completion for the pooled 2014–15 and 2015–16 cohort and in 2019 dollars. The table includes 1,308 certificate programs that have earnings data.

FIGURE A.1

Largest Undergraduate Certificate Programs Covered by the Proposed Gainful Employment Regulation



Source: Urban Institute analysis of US Department of Education data.
Note: The figure is limited to programs with earnings data.

TABLE A.2

Debt, Earnings, and Tuition for Programs That Fail Different Gainful Employment Tests

	Debt-to-earnings threshold	100% tuition-to-earnings threshold	85% tuition-to-earnings threshold	70% tuition-to-earnings threshold
Median debt	$12,765	$8,012	$8,966	$9,508
Median earnings	$15,461	$11,712	$14,269	$17,149
Tuition and fees	$13,043	$15,148	$15,649	$15,709

Source: Urban Institute analysis of US Department of Education and Integrated Postsecondary Education Data System data.
Notes: Debt and earnings are calculated as averages of program-level medians. Tuition is calculated as an average and is not reduced for any financial aid received. The debt-to-earnings threshold reflects the policy proposed in the Biden administration's March 2022 discussion draft of the gainful employment rule. Tuition-to-earnings thresholds represent the maximum allowable tuition-to-earnings ratio for a program (e.g., an institution where tuition is equal to 90 percent of postcompletion earnings would fail the 70 percent and 85 percent thresholds but pass the 100 percent threshold).

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