ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES

1233 20th STREET, NW, SUITE 301, WASHINGTON, DC 20036
866.895.ACCT (2228) 202.775.4667 FAX: 202.223.1297
www.acct.org

# Community College Fact Sheet on Final “Gainful Employment” Regulations

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## Overview

The U.S. Department of Education (ED) has released final regulations setting standards for career education programs—also sometimes known as vocational programs—that are required by the Higher Education Act to *“prepare students for gainful employment in a recognized occupation.”* These gainful employment (GE) regulations go into effect on July 1, 2015 and set minimum standards that career education programs need to meet to remain eligible for federal student aid grants and loans. GE regulations apply to non-degree programs at community colleges and nearly all programs and degree types at for-profit institutions. The majority of GE programs that exist today are located at community colleges.

GE regulations have been subject to an ongoing regulatory process since 2010, and the current iteration of the rule is being challenged in court by a for-profit trade association. The final regulations include one primary debt metric for judging program eligibility for Title IV funds—known as debt-to-earnings—as well as a number of reporting and disclosure requirements. Finally, institutions will be required to certify that each of their GE programs meet state and federal licensure, certification, and accreditation requirements, if applicable.

## Debt-to-Earnings

A program will be considered to lead to gainful employment and “pass” the metric if annual loan payments of a *typical graduate* do not exceed 20 percent of his or her yearly discretionary income or 8 percent of his or her total yearly earnings. Only program completers are evaluated. Discretionary earnings are defined as those above 150 percent of the federal poverty level.

$$\frac{\textit{Student Loan Payments}}{\textit{Annual or Discretionary Earnings}}$$

Programs will “fail” the metric if the typical graduate’s annual loan payments were above 30 percent of his or her discretionary earnings and 12 percent of his or her total annual earnings. Failing programs are generally high-debt programs also leading to low earnings. Programs that fail both annual and discretionary debt-to-earnings tests twice in any three-year period become ineligible for federal student aid. The gap between 8 and 12 percent annual debt-to-earnings, and between 20 and 30 percent discretionary debt-to-earnings, is reserved as a “zone” for to encourage programs to improve. However, programs in the “zone” for four consecutive years will also become ineligible for Title IV student aid.

Only those programs with 30 or more students who completed the program during a two-year cohort are evaluated. As a result, many smaller community college programs are exempt from the debt-to-earnings metric but must still report and disclose on GE participants. Both debt payments, and annual or discretionary earnings, will be provided to colleges using federal data. ED will use the higher of the mean or median earnings for the debt-to-earnings of completers, but will always use the median debt. Debt information is obtained from the National Student Loan Data System (NSLDS) and based on standard repayment plans and interest rates. Graduates’ earnings information will be obtained through Social Security Administration wage records.

## Estimated Impact

No community college programs fail the debt-to-earnings tests and therefore none are at risk of losing access to federal student aid. Just one community college program nationwide falls in the "zone." However, this projection is based on a one-year snapshot of 2011-12 data provided by ED and may change over time. Low community college tuition and fees generally support low rates of borrowing and debt, and graduates are experiencing positive earnings gains from GE programs; the result is low debt-to-earnings ratios for community college graduates. Nationwide, more than 900 GE programs are designated as "failing" the rule and more than 500 are in the "zone," nearly all of which are at for-profit institutions. Reporting and disclosure requirements will involve significant staff time.

## Reporting & Disclosure


All GE programs will continue to be required to report information on their participants—in order to calculate the debt-to-earnings rates—and disclose information to the public on performance and outcomes, such as costs, earnings, debt, and completion. Disclosures are made through a standard ED template. However, the final regulations add a few requirements for institutions. In total, the annual requirements are as follows:

***Reporting—on individual students for accountability purposes:***

- Information needed to identify the student and institution
- Name, CIP code, credential level, and length of the GE program
- Date student initially enrolled, attendance dates, and current enrollment status and intensity
- For completed or withdrawn students, the date of completion or withdrawal, total loan debt incurred, and cost of attendance including tuition, fees, books, supplies, and equipment

***Disclosures—on programs for consumer information purposes:***

- The primary occupations (by name and SOC code) that the program prepares students to enter
- Completion rates for full-time and less-than-full-time students, and withdrawal rates
- The length of the program in calendar time and the number of clock or credit hours required
- Total number of individuals enrolled in program during most recently completed award year
- Loan repayment rates for students who enrolled, completed, or withdrew from program
- The total cost of tuition and fees, and the total cost of books, supplies, and equipment that a student would incur for completing the program within the length of the program
- Job placement rate for the program, if the institution is already required to calculate one
- Percentage of enrolled students who incurred debt for enrollment in the program
- Median loan debt for completers, withdrawn students, and all students
- As provided by the Secretary, the median earnings for students who completed and withdrew
- As calculated by the Secretary, the most recent program-level cohort default rate
- As calculated by the Secretary, the most recent annual earnings rate for the program
- If applicable, whether the program holds the programmatic accreditation necessary for an individual to obtain employment in the occupation for which the program prepares the student

## Changes from Earlier Versions

A number of changes were made to improve the chances that the rule will be upheld by the court, and legal action is currently ongoing. The final regulations removed the program-level cohort default rate as an accountability metric—a change strongly sought by community colleges—creating a more streamlined rule focused on high-debt programs. A debt-to-earnings appeal option for low-borrowing programs was removed. The rule also lengthens the transition period for failing and zone programs, and applies GE requirements to non-degree distance education programs pending the release of any state authorization rules by ED.