The Future of Higher Education and How America Will Pay For It

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THE FUTURE OF HIGHER EDUCATION AND HOW AMERICA WILL PAY FOR IT

A ROUNDTABLE DISCUSSION

JUNE 2013

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Acknowledgments
We are grateful to those who participated in our roundtable discussion for their contributions, ideas, and recommendations summarized in this report. We thank Julianne Brands and Joshua Nimmo of the Milken Institute for their research assistance and contributions to this report. Additionally, we are grateful to Bich Le, Kevin Chan, and Kimberly Lam of Georgetown University for their assistance in convening the roundtable and supporting this initiative. Finally, we would like to thank William Novelli and Patricia McWade of Georgetown University for their leadership support and guidance throughout the course of this roundtable project.

Special thanks to AARP and Lumina Foundation for supporting our roundtable discussion.

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Executive Summary

A roundtable discussion convened in March 2013 by Georgetown University’s Global Social Enterprise Initiative (GSEI) and the Milken Institute resulted in recommendations that address the need for change in the structure, costs, and financing of higher education. Although participants largely agreed that traditional colleges and universities provide students with a valuable and meaningful education, most also believed that alternative higher education models should be promoted as viable and potentially more affordable options for providing students with skills they need to be competitive in the modern global economy.

Three challenges drive the need for change within the current landscape of higher education:

- **Increasing Tuition, Costs, and Student Debt:** From 1982 to 2007, tuition and fees at U.S. colleges and universities have outpaced inflation and increased 439 percent, spawning a debate about whether higher education is worth the cost. Students and their families are paying a greater share of higher education expenses and are doing so by increasingly acquiring student loan debt, which now totals over $1 trillion; the average student borrower graduates with over $24,000 in debt, according to the Federal Reserve Bank of New York. Factors exacerbating the overall cost equation include: reductions in state funding to public institutions; complexity of student financial aid programs; declines in household income across all incomes levels; and higher living expenses, which can constitute more than half of total college expenses.

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1. Throughout this paper, the authors refer to various models of postsecondary education collectively as “higher education.” Some participants argued that there is a distinction between postsecondary programs and traditional higher education, but the authors would like to encourage a shift in attitudes toward nontraditional post-high school education models that may be better accepted if also considered indeed to be higher education. This is not intended to understate the value of four-year colleges and universities but rather to underscore that different models may prove to be a better option for many students.


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- **Changing Student Demographics:** The “historical” student, an 18-year-old high school graduate heading off to four years of college, is no longer the norm. Today’s student is increasingly older, may work part time, could be the first in his or her family to go to college, may be supporting dependents, or may take longer to complete a degree program as he or she works and attends school at the same time. The U.S. higher education system, including its financial aid practices, is mostly geared toward “traditional” students who earn a degree in four years. It will therefore be critical to adjust higher education models to account for these demographic trends.⁴

- **Growing Workforce Skills Mismatch:** Perhaps most troubling given the significant level of expenditures on higher education and increasing debt loads, the nation itself is facing a workforce skills mismatch. Currently, the system is not producing enough skilled workers to meet employer needs, which could result in a drag on global economic competitiveness.

The purpose of the roundtable, held in Washington, D.C., was to provide a setting for a diverse group of stakeholders to exchange ideas, pose and debate differing views, and identify promising ideas to address these challenges.⁵ Ultimately, no silver-bullet solution exists that will reshape higher education and curb costs in a way that satisfies student, employer, and national interests. But positive change can result from the aggregation of a number of innovative ideas and initiatives. To this end, the roundtable yielded the following observations and proposed next steps regarding higher education in America:

**Observations**

- **A Cultural Bias Exists Toward the Four-Year Degree:** The United States has a cultural bias toward the traditional four-year college model, and employers often expect job applicants to hold a bachelor’s degree, even if it is not necessary to perform the job. Alternative education paths appear to be less valued. If, instead, employers recognize that vocational training, apprenticeships, and “stackable” degree programs are capable of producing a well-trained labor force, then students will have a wider range of education options that may in some cases be more cost-effective. These programs could leverage the nation’s community college system—a hidden gem that for many provides lower-cost job and skills training in fields, such as IT, cybertech, high-skilled manufacturing, health care, and energy.

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⁵ See Appendix A for a complete list of roundtable participants. The framing, editorializing, and conclusions contained in this report are those of the authors and do not necessarily represent the individual views of the participants.
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- **Student Loan Debt Persists Across Generations**: A number of participants noted the significant impact that student loan debt has on the over-50 population (most reports address the impact on young adults). Whether these borrowers are paying off original debt from their own college years, cosigning loans for their children and grandchildren, or going back to school to refresh their job skills, this debt will likely have an impact on retirement security and economic activity for many households.

- **Technology Is Promising, but Not Yet Proven**: We don’t know where MOOCs (massive open online courses that are generally free of charge) are headed, said one participant, but we (universities) know that we need to be there. Education delivery models, learning technology, and for-profit online course offerings are evolving rapidly and seeking to increase access to quality content at a lower cost. Online coursework will likely never fully replace the face-to-face professor–student interaction and lifelong personal networking, but it will enable universities to change their cost structures and reach students worldwide. Hybrid models that integrate online learning with traditional brick-and-mortar models hold promise.

- **Resources are Ample—Allocation is an Issue**: U.S. spending on higher education is among the highest in the world, but allocations of resources could be more targeted and efficient. A number of participants argued that federal loan programs should subsidize students who major in particular fields of study, such as STEM (science, technology, engineering, and math) programs. This is where the greatest skills gaps exist, and a strong pipeline of graduates is in the national interest. Some participants also expressed concern that existing federal loan programs do not incentivize colleges and universities to control costs and that far too few public resources are directed toward alternative degree or certification programs. Innovative financing approaches, including those based on crowdfunding and peer-to-peer lending models, may also yield key market feedback that can help to inform and steer more efficient capital allocation.

**Promising Approaches**

- **“Stackable” Degrees or Credits Should Be Supported**: Credits that are not earned in straight-line succession or even within a classroom setting (e.g., work credits or certificates of competency) should in some cases be able to be combined toward a degree or certification program. Less than 40 percent of students who enroll in college earn a bachelor’s degree in four years, and
approximately 58 percent graduate in six years. Students either drop out altogether or leave school periodically in order to work and save for continuing their education.

The new reality for many of today’s students, and a way to increase graduation rates while reducing overall costs, may well be a focus on supporting students who move in and out of the educational system, creating standardized and nationally recognized certification programs that allow for portability of credits, and awarding credit for approved training programs and competencies.

- **Help Wanted: Employer Partners:** Following the success of the German apprenticeship model, some participants suggested that the U.S. private sector could build stronger connections with campuses, online college platforms, and community colleges that offer job training. Countries with successful apprenticeship models enjoy low youth unemployment rates and an appropriately skilled workforce as well as private sectors that make significant investments in workers. Employers contribute financially to training systems, reaping the benefits of a strong labor pipeline, lower recruitment costs, and higher employee retention. In the U.S., community colleges are already well positioned to serve as the backbone for a national apprenticeship model.

- **Information Delivery and the User Experience:** Students and their families struggle to navigate the many education and financing options they confront, understand the true costs, and determine the likely return on their investment. Several initiatives already focus on improving financial lending disclosures and institutional performance transparency (e.g., the U.S. Department of Education’s College Scorecard), but more can be done, especially in the area of improving the user experience and interactions with online disclosures. Some participants expressed optimism that innovative data analytics will improve the quality and availability of valuable information.

- **Leadership Needs to Emerge:** With the many challenges facing traditional colleges and universities, bold leadership is required to bring about substantial changes to the system. Only bold leadership can overhaul the tenure system; find ways to cut operational costs and promote efficiency; improve decision-making processes; increase partnerships across education sectors;

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promote the acceptance of alternative degree programs, including apprenticeships; and increase education credit transferability and portability.

**Next Steps**

The roundtable participants covered much ground over the six-hour event, and several expressed their desire to work through specific recommendations in smaller groups. Potential next steps include:

- **Redefining Higher Education “Success”**: Offer students and their families tools to determine the best options for furthering their education, both with respect to delivery and financing models. Confront the stigma associated with alternative degree/certification programs by creating a blueprint of “new pathways of higher education.” Define and introduce mechanisms to fund these new pathways, including private sector support/collaboration and reallocation of public support. Craft a public awareness campaign to promote a more inclusive image of higher education in America.

- **Promoting Innovative Financing Models**: Financing models that decrease debt burdens and allow students more freedom to make education and career choices or launch a new business without a looming large debt repayment schedule remain key to improving the higher education landscape. Innovative financing approaches, including those described in this paper, require further exploration, especially with respect to their scalability. Moreover, the long-term role of the federal government as the primary lender in the marketplace, and the related impact on private capital, remain key policy issues going forward.

- **Linking Education and Job Training**: Much can be learned from the success of the German apprenticeship model, which yields a skilled labor pipeline and low youth unemployment rates. Translate this success by developing a pilot program in the United States for a scalable national apprenticeship model. Identify an independent facilitator to coordinate with the private sector, assist in licensing programs and instructors, and promote certification portability. Explore the feasibility of providing more federal support for apprenticeship, certificate and/or two-year community college programs.

- **Issuing a Clarion Call for Leadership**: Develop a strategy to identify and fund 10 to 12 university presidents willing to tackle the structural and cost challenges facing traditional four-year colleges and universities.
Discussion

The roundtable began with an assessment of the current U.S. higher education landscape. The group then considered innovative approaches to higher education delivery, with an eye toward containing costs while teaching students the skills necessary to compete in the global economy. Participants concluded by discussing various financing approaches and methods for providing students and their families with clear information that can enable them to make sound decisions.

I. The Current Landscape

The existing landscape of higher education is showing signs of stress: outstanding federal and private student loan debt has never been greater; the costs of higher education have increased rapidly; state funding support for public universities has decreased; loan delinquencies or defaults have risen; and youth unemployment rates lead many to question the likelihood of loan repayment. Meanwhile, some sectors struggle to fill job vacancies with properly trained or skilled labor, putting the nation’s future economic competitiveness at risk.

A. Factors Driving the Rising Costs of Higher Education

Rising tuition costs at traditional colleges and universities are driven by a number of factors, including: decreased state appropriations, shrinking endowments caused by investment losses during the financial crisis that began in 2007, less philanthropic giving, uncertainty surrounding federal funding, and increases in administrative, faculty, and plant operational costs.7 There is a difference between the overall cost of higher education per student and the amount of tuition paid by a student, noted one participant: while the former has risen, the share of the overall cost that students and families pay has increased at a greater rate, mostly due to cuts in state and federal contributions.8 Over the past decade, tuition and fees significantly outpaced inflation, and students and families responded to this trend by increasingly relying on student loans.9

Since 2007, however, declining household wealth, unsteady enrollment and matriculation rates at many lower-tier private colleges or universities, uncertain job prospects, and further anticipated state and federal budget cuts have exacerbated cost pressures. Pricing power (the ability to dictate prices) at many private universities has decreased because of this trend, except at the most elite among them, where student applications continue to far outnumber available seats. Public universities, meanwhile, are increasingly accepting out-of-state students, who pay higher tuition.

Some attendees expressed concern over feeble cost-containment efforts at colleges and universities. In an attempt to remain competitive and increase enrollment, many colleges and universities have invested in state-of-the-art facilities, increased faculty tenure, and seen a corresponding rise in administrative and operational costs. One participant noted that colleges and universities still offer a “highly sophisticated service,” but could reduce costs by improving productivity, refining the business model, reducing tenure rates, increasing partnerships with other institutions, and developing stronger online educational platforms.

B. A Macroeconomic View of Public and Private Lending

Public and private lending continues to play a large role in the way students and their families finance higher education. Total outstanding student debt recently ballooned to over $1 trillion and has surpassed credit cards and auto loans to become the second largest form of consumer debt, following only mortgage debt.

Even more troubling, 11.7 percent of borrowers were at least 90 days past due on student loan debt payments in the fourth quarter of 2012. One participant noted, however, that this statistic underestimates the magnitude of the problem; if forbearance, deferred payments, and grace periods

are included, the delinquency rate nearly doubles. Federal student loans are calculated differently from other debt classes since they do not become repayable until graduation, and the problem will worsen as these repayments come due.

While some participants warned that student debt poses a risk to the economy, others disagreed with the prediction that student debt will be the next mortgage crisis. One participant stated that 93 percent of student loans are owned by the federal government and are not highly leveraged assets, as mortgages were before the financial crisis. Also, student loans are not in the same class as mortgages; at the height of the financial crisis, outstanding mortgages topped $10.6 trillion, significantly larger than student debt totals. It was noted, however, that student debt could become an added burden on taxpayers, who are effectively guaranteeing a majority of student loans. Moreover, as graduates repay their loans, they may be less likely to engage in other economic activity, such as purchasing a home or buying a car.

Default and delinquency rates on student loans have also increased in recent years. The estimated recovery rate for the 2013 cohort of loans for federal Subsidized Stafford, Unsubsidized Stafford, and PLUS Loans in the Direct Loan Program—all federal, publicly backed loans—averages only 78.6 percent. Additionally, subprime borrowers make up 33 percent of student debt, up from 31 percent in 2007, and a third of all subprime student loans in repayment were 90 days or more past due, up from 24 percent in 2007.

C. Changes in Federal Loan Policy and the Impact on Private Lending

Some participants maintained that a shift in federal student loan policy that improved access to student loans is in part to blame for rising student debt and increased tuition costs. In 2010, the federal government began issuing loans directly to students through the Department of Education’s Federal Direct Student Loan Program (FDSLP) and stopped providing guarantees to new private loans. The savings from no longer guaranteeing private loans made by private lenders have allowed the

17. Id. See footnote 2 in the Federal Reserve report.
government to direct more funding toward Pell Grant programs in alignment with the Obama administration’s mission of increasing access to higher education for low-income students.

The federal government is also focused on increasing transparency in the loan process, improving completion rates and outcomes, and implementing safeguards against improper lending practices. But some roundtable attendees argued that the expansive, and in some cases subsidized, direct federal lending programs enable colleges and universities to raise tuition, without market checks on costs. In fact, federal loans have made it too easy to borrow and too easy not to repay, claimed one participant who took issue with the automated loan application process, the lack of sufficient disclosures required from applicants, and the use of deferrals and forbearance.

Another participant noted that improving transparency so that students understand the “true costs” of college is a challenge. Many conceded, however, that improving transparency means little if students and families are not motivated to fully engage in the loan process by understanding their responsibilities and the full costs associated with pursuing a degree.

Private lenders, one participant added, have significantly revamped lending practices in the past few years. Some have altered their loan structure to act as a “gap financing” mechanism, mirroring federal student loan terms but frequently supplementing, instead of replacing them.

D. The Value of Higher Education and Workforce Trends

Given the rising costs of a college education, participants discussed the perception and brewing debate of whether the value of higher education warrants its cost. A 2011 Pew Research Center telephone survey of 2,142 adults over age 18 found that 57 percent said higher education was failing to provide students with good value for their money, and 75 percent said college was too expensive. Yet, 86

percent of college graduates acknowledged that higher education had been “a good investment for them personally.”

In July 2011, the unemployment rate for recent four-year college graduates between ages 21 and 25 peaked at 11.1 percent. However, college graduates fared far better during the financial downturn than did those without degrees, and recent evidence indicates that people with postsecondary degrees weathered the recession better than those without. For high school graduates between 17 and 20, the unemployment rate reached 30 percent in January 2011. In 2012, the rate for recent college graduates dropped to 6.8 percent, while unemployment rates still hovered around 24 percent for recent high school graduates.

Pay levels also differ: the median weekly earnings of a person holding a bachelor’s degree are almost double those of a high school graduate. One recent report concludes that adding even one year of schooling to employed workers with at least a high school diploma in a metropolitan area adds on average 17.4 percent to real GDP per capita and 17.8 percent to real wages per worker in that region.

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27. Nearly four out of every five jobs lost in the recession were held by workers with a high school diploma or less, according to the Georgetown Center for Education and the Workforce. See Carnevale, et al. p. 3.
29. See Carnevale, et al. p. 1. Recent data from the Bureau of Labor Statistics suggest that this trend continues for the rest of the labor force; in February 2013, the unemployment rate for all persons over 25 with a high school degree was 7.9 percent. People holding an associate’s degree saw an unemployment rate of 6.7 percent, and those with a bachelor’s degree or higher had an unemployment rate of 3.8 percent.
30. The median weekly earnings in 2012 for persons over 25 earning a full time wage or salary with a Bachelor’s degree was $1,066, Associate’s degree was $785, Some college, no degree was $727, and a High school diploma was $652. See “Education Pays ....” Bureau of Labor Statistics. Jan. 28, 2013. http://www.bls.gov/emp/ep_chart_001.htm.
Although employment data have been improving since 2007, the unemployment rate hovers in the 7 percent range. At the same time, an estimated 600,000 skilled, middle-class manufacturing jobs remain unfilled,\(^{32}\) and STEM workers are in short supply. For this reason, many participants agreed that investing in alternative higher education programs or models could help to close the gap.

### E. View on Debt from Universities, Students, and Borrowers

As previously discussed, both public and private colleges and universities generally saw revenues climb in the two decades prior to 2007, but have since seen declines. Understanding that families are in similar financial straits, institutions are looking more closely at ways to assist with tuition costs, including grant aid, tax credits, need-blind aid policies (which do not consider an applicant’s financial situation when deciding admission), and merit-based financial aid. Only the most elite universities, those with large endowments, are able to implement true need-blind aid; other schools struggle as they work to determine fair and equitable financial aid policies. Financial aid has increased by 140 percent beyond the general rate of inflation, noted one roundtable participant.

Some participants added that many of the students who shoulder the largest debt burden are lower-income students who for a number of reasons have not followed a “straight line” in terms of degree completion. Many of these students are typically older (over 25), attend part-time, and find even income-based repayment plans to be difficult to manage. Moreover, these students may struggle to complete degree programs since they frequently must work to repay existing loans. One participant proposed making the back end of loan repayment more flexible so that students could finish school sooner rather than be pressured to return to work.

Several participants were surprised to learn of the large sums of student debt being carried by older adults. Individuals 60 and over collectively owe $36 billion (or $18,000 on average) in student debt for any number of reasons, whether from when they attended college earlier in life, or went back mid-career, or helped a child or grandchild attend college. It’s not uncommon for retirees to have their Social Security checks garnered due to unpaid student loan debt.\(^{33}\) Student loan debt borne by borrowers ages 50 to 59 tripled between 2005 and 2012, from $34 billion to $106 billion.

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33. “Market Watch” explains that “from January through August 6, [2012,] the government reduced the size of roughly 115,000 retirees’ Social Security checks [for falling behind on federal student loan payments].” See Andriotis, AnnaMaria. “How Student Loans Could Hit Your Social Security.” Market
Finally, one participant shared his experience with student debt. A recent graduate of an MBA program, he entered the program with approximately $50,000 in savings and borrowed $140,000 in student loans to pay for graduate school. After trying to launch a startup company after graduation, he is now struggling to find full-time employment and is $150,000 in debt. Though anecdotal, the story is emblematic of the broader long-term debt problem that students face.

II. Exploration of Innovative Approaches and Solutions

The ultimate endeavor of higher education, it is generally agreed, is to prepare students with necessary skills and learning that will enrich their lives and open the door to productive career opportunities. If the United States, whose system of higher education remains the envy of the world, can do this effectively and allow for economic returns that enable borrowers to repay their education investments, the country will be able to leverage a competitive and skilled workforce and help ensure its own economic health.

A. Higher Education Delivery Models

Examining innovative structures and approaches will inform financing solutions. Thus, the group looked at foreign models, new uses of technology, blended online and traditional four-year models, and coupling vocational and online education with the community college system. Finally, the group considered new approaches to cost reductions, and innovative gap-year opportunities that could result in better educational outcomes.

i. The German Apprenticeship Model

Over the next decade, record numbers from the baby boomer generation will retire, creating a “retirement tsunami” that will result in the need to fill job vacancies with skilled workers. On the surface, this seems good for future employment figures, but even now, in the midst of a U.S. manufacturing renaissance, manufacturers are issuing warnings about a significant lack of skilled workers to operate plants and equipment. The current high youth unemployment rate is evidence, according to one participant, that young people—even with college degrees—are not acquiring the skills necessary to remain competitive in the current labor market.

Given this backdrop, there was substantial interest in examining aspects of the German apprenticeship model, known as the Dual Vocational Training System (TVET). In Germany, over 50 percent of the youth

population pursues higher education through a formal apprenticeship program facilitated on a national level by the German Chamber of Commerce, a quasi-governmental entity that is empowered to formally license corporate apprenticeship programs and teachers.

A student in Germany who finishes secondary school, usually around age 18, may apply to apprenticeship programs sponsored by German companies and choose from between 300 and 350 different certification programs. These certifications include, for example, training in industrial mechanics, administrative support, or mechatronics. The company will interview the applicant and may choose to accept, or “hire,” the student into the program. Once “hired,” the student/employee usually spends three or four days a week in formal training at the company and the rest of the week in a vocational school, with tuition paid for with public funding. Upon successful completion of the program, the student receives a formal certification recognized by the German government and in many instances may be offered continuing employment with the employer. The student does not shoulder the cost of education and receives relevant skills training, which may explain in part why Germany enjoys the lowest youth unemployment rate in Europe.

A number of multinational manufacturers, predominantly from Germany, Austria, and Switzerland, have developed apprenticeship consortiums in North and South Carolina, in partnership with local community colleges to provide student/workers with formal apprenticeship opportunities. Siemens, for example, relocated a gas and steam turbine plant from Canada to Charlotte, N.C., and, in partnership with Central Piedmont Community College, has had approximately 500 former textile workers enroll in a work/study program through what the company has coined “Apprenticeship 2000.” South Carolina has incentivized programs by providing sponsoring companies with $1,000 tax credits per student/worker who completes the program. An alternative way to structure this tax credit could be to tie it to the year-over-year increase in the number of successful graduates from the apprenticeship program.

36. See Lerman. p. 4.
37. Ibid.
Participants noted, however, that there are significant barriers to scaling such programs nationally. Overcoming the cultural stigma associated with vocational education is a first major hurdle, and a few participants stated that these kinds of programs would best be presented to students as an option, not a mandatory track based on academic performance. Another hurdle is convincing companies that the cost of implementing and running an apprenticeship program is justified by the long-term benefits of securing a steady pipeline of skilled labor.

It was stressed that a clear pathway to formal apprenticeship programs should be articulated to students relatively early in their high school careers. This pathway would be facilitated by promoting the acceptance of course credits from apprenticeship programs at traditional colleges and universities, again continuing the theme of “stackable credits.” This kind of system-wide flexibility could decrease the overall costs of pursuing a higher education and provide students with more choice.

In order for the apprenticeship model to succeed in the U.S., a national facilitator of apprenticeship programs is needed to help approve programs and oversee teacher qualifications and certificate accreditation. This facilitator would work closely with the federal Department of Labor’s Office of Apprenticeship, which is responsible for certifying Registered Apprenticeship programs. These programs combine on-the-job training with structured learning in many areas of expertise, and award nationally recognized and portable industry credentials.38

Many participants were intrigued by the idea of a national apprenticeship program that could provide a blueprint for partnering local industry with students and community colleges or even online delivery platforms. One participant highlighted the meaningful social and economic benefits brought about by the mentoring and training provided through apprenticeship programs, including an average net present value increase in a worker’s lifetime earnings of approximately $269,000.39 Moreover, companies would play a larger role in helping to fund the costs of training while providing students with earnings that would help to defray related education expenses.

**ii. The Use of Technology and Online Education**

The entire higher education sector is moving quickly to incorporate online educational delivery. Many leading brick-and-mortar colleges and universities already provide online course offerings and are joining MOOC networks, which provide free online courses taught by leading faculty from around the

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39. See Lerman. p. 3.
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world. The proliferation of online course offerings from traditional institutions is following models first offered by for-profit online colleges and universities, which are now exploring new avenues for providing content to students.

One of the participants described the desire to break through an “iron triangle” consisting of “access, cost, and quality.” This is the long-term goal for MOOCs and online courses offered by traditional institutions; the question, the participant asked, was whether quality education could be delivered at scale. So far, given substantial upfront costs and delivery model experimentation, MOOC online offerings have not yet contributed significant cost efficiencies to the overall system. That said, the long-term promise of MOOCs and online offerings was largely summarized into these five related categories:

1. Efficiencies in the cost of delivery that allow traditional colleges and universities to replace low-impact large classes with online lectures from star faculty from across the world coupled with breakout sections led by teaching assistants;

2. Online course offerings that would complement in-person coursework and shorten the time to earning a degree;

3. Student retention rates that would increase, given greater scheduling flexibility;

4. Online coursework that could be offered through diverse delivery models, including apprenticeships and vocational and community college platforms;

5. Online coursework that would further the “unbundling” of higher education by allowing students to earn and transfer “stackable” credits or certificates.

Similar to the German apprenticeship model but with a twist, a United Kingdom model allows some service industries, including legal services, to enable their junior staff members to take online courses or engage in local learning while working for the firm or company.\textsuperscript{40} In this way, the services industry is helping to facilitate a “mini-apprenticeship” model that allows workers to further their education while still earning a paycheck.

Moreover, as noted above, some online colleges are exploring ways to partner with traditional brick-and-mortar universities in the hope of creating an optimal hybrid in-person/online higher education

model. The rationale here is that as schools continue to explore online offerings, it might be helpful to leverage the expertise and online infrastructure that for-profit online colleges already have developed. One participant noted that significant research has gone into learning best-practices of delivering education content through an online platform, and those best practices might benefit brick-and-mortar schools looking to expand their reach. This hybrid approach may also result in higher graduation rates than pure online colleges have experienced.

iii. Leveraging the Community College System

The U.S. community college system is globally a unique education delivery model, and one that can be applied in creative ways to increase student choice and reduce overall higher education costs. One participant highlighted the system’s diverse range of education opportunities based largely on local considerations. In addition, community colleges are focusing increasingly on cooperation with other institutions to integrate into the higher education landscape; there is a renewed focus on working with colleges to ease the transfer of credits to four-year programs. For many students, spending a year or two at a community college and transferring credits to a bachelor’s degree program is a great way to reduce the overall cost of that degree.

Traditional college is not the ideal option for all students, suggested another participant, especially for students who are unable to complete a degree or repay student loans. For these students, community college could have served as a better path toward workforce development and/or completion of an associate degree. By working closely with local employers, community colleges can structure and shape course programs in a way that provides students with requisite job skills. The participant added that it is important for all institutions of higher education to consider creating nationally recognized certification programs that will allow for portability of academic achievement.

The group also discussed the need for better data and transparency regarding employment outcomes from different education programs, including those offered by community colleges. Although choosing how to invest in higher education is one of the most important decisions an individual can make, a number of participants noted that education outcomes and economic opportunity remain a black box for students.

Finally, one participant suggested that an incremental approach could provide students with the benefits of an additional year of educational attainment. More specifically, the participant argued in favor of a national “13th year” campaign that would provide public funding for students to receive one additional year of education after high school, including by way of community college.

Although the roundtable participants discussed job-training aspects of current community college programs, the authors of this report suggest that further exploration is needed for utilizing the community college system as the backbone of a national apprenticeship model. Community colleges naturally reflect the local characteristics of a community, including employer needs and the makeup of the student body. By creating a national blueprint for local industry and community college partnerships, it may become possible to scale apprenticeship programs efficiently.

**iv. Cost Reductions**

Participants largely agreed that cost containment and reduction at traditional four-year colleges and universities must be part of the solution in rendering higher education more affordable. While all schools face increasing cost pressures, public universities in particular are struggling due to significant cuts in state funding.

One participant explained that some schools, notably, UC Berkeley, the University of Minnesota, and UNC-Chapel Hill, have hired outside auditors to review overall operations and suggest potential cost savings. That said, the participant noted that any savings thus far have been small relative to overall budgets, and that much more needs to be done on a structural level to make a significant dent in overall costs.

Some participants argued that colleges and universities will not be forced to address structural cost issues unless federal student lending programs are restricted or school finances are more closely scrutinized. One participant stated that colleges and universities have been “permitted” to develop significant operational inefficiencies, which are hard to undo. For example, they have invested substantial sums into new facilities and single-purpose buildings that carry significant ongoing maintenance and upkeep costs. Moreover, school departments may develop parallel and duplicative

internal processes, such as general administration, that result in operational inefficiencies. Finally, a number of participants noted the need for tenure reform.

Restructuring traditional higher education institutions is going to require strong leadership from university presidents. It was suggested that a group of university presidents could be tapped to lead a broad national effort to pursue substantial cost reduction efforts and tackle structural reform.

v. Bridge-Year Opportunities

The final structural model discussed was the bridge- or gap-year program for high school graduates. A bridge program enables a student to spend a year between high school graduation and college in a program for leadership training, service learning, and/or customized apprenticeship training.

One participant noted that some reports on the success of bridge programs are promising, with evidence of improved academic performance and retention rates for participating students. More research into the benefits of such programs, however, is necessary and would help to bring greater attention to this alternative model.

Participants discussed different approaches to incorporating a student’s bridge year into his or her pursuit of a degree. Some universities now give first-year college credits to program graduates. As one participant explained, granting college credit for alternative programs and skills training is a core part of the “stackable credit” theme that featured prominently throughout the roundtable discussion. The term “amalgamation education” encapsulates a modern vision of how students pursue higher education—a student’s true “education” is an amalgamation of various learning processes, programs and competencies, and the overall higher education system should be designed to recognize these components.

Section Themes and Takeaways

The first session of the roundtable discussion focused on alternative structures or approaches to higher education. The group discussed a number of education delivery models and the following themes:

- Cultural norms and biases must be overcome if the country is to develop scalable and robust alternative education options.
- Close private-sector engagement is necessary for the creation of a national apprenticeship model.
The Future of Higher Education, and How America Will Pay for It

- Technology and online course offerings will play an important role in education delivery and cost containment, though the system is still at the beginning of an important evolution taking place in this space.
- In order to tackle rising costs at traditional colleges and universities, stronger leadership will be required to make tough decisions about major structural changes.
- Greater flexibility and transferability is required with respect to academic credits and certificates as students increasingly pursue “stackable” degrees.

B. Innovative Financing Approaches and Information Disclosure

Having explored innovative approaches to the delivery of higher education, the group turned to a discussion of how to help finance the costs of education, especially with respect to the traditional four-year college model. They also discussed issues related to information and transparency to ensure that students and their families are in a position to make informed decisions.

i. Federal Lending Policies, Incentives, and Programs

In 2010, the U.S. government stopped its practice of guaranteeing student loans made by private lenders and moved into the business of providing direct loans to students. These loans typically are made through the Stafford loan program (which offers both subsidized and unsubsidized loans), and through PLUS loans for graduate students or parents of undergraduates.\(^43\) Moreover, the Obama administration announced a new income-based repayment option for graduates struggling to repay their loan balances. This option caps the amount a borrower must pay in a year as a percentage of his or her total income, and provides for some potential loan forgiveness after the borrower has complied with the repayment terms over a 25-year period.

As previously noted, some participants questioned whether providing students with direct federal loans, and in many instances at subsidized rates, is at least in part fueling rising tuition rates and incentivizing students to pursue certain higher education options that will ultimately not yield economic returns that allow borrowers to repay their original loans. Underscoring this point, one participant stated that the problem in higher education is not a lack of federal investment, but rather the allocation of resources and the incentives those allocations create. Some participants also noted that more public discussion is

needed on the long-term role of the federal government in the student loan market, and how existing involvement impacts the role of private capital.

The group spent time discussing approaches to reallocating resources to promote alternative programs. For example, one participant stated that creating tax credits for companies that invest in apprenticeship programs would help to channel some students toward a higher education option, such as a community college, that may be a better personal and economic fit.

A number of individuals suggested reducing student loan costs for certain targeted fields of study, including STEM degrees or other fields of study in the national interest. That said, some noted that this must be balanced with not discouraging students from pursuing traditional liberal arts curricula, which may similarly be valued by many employers. Participants also suggested that more data on educational outcomes may help policymakers to allocate funding appropriately.

**ii. Crowdfunding, Peer-to-Peer Lending, and Revenue-Share Models**

The traditional debt model of paying for higher education in many instances is a poor option for students, argued one participant. Many graduates are forced to take suboptimal jobs or forego personal or entrepreneurial aspirations in order to begin repaying loans. Moreover, fixed interest rates on federal loans provide no market feedback on the value of particular degrees and higher education avenues.

Thus, some argued that making an equity (or more accurately a revenue-sharing) investment in students or graduates is a much better option. Under this model, investors would provide an individual with funds in return for an agreed percentage payment of the individual’s future income stream over a designated period of time. The terms of this human capital transaction would effectively shift risk from the student, who is no longer weighed down by a debt agreement that calls for a fixed repayment schedule, to the investor, whose return is now contingent on the professional and career outcomes of the student or graduate. In this way, the investor’s and student’s interests are aligned, and the investor may be willing to serve as a mentor for the student.

It was further noted that facilitating human capital investments into students or graduates would also enable a web-based platform to collect and analyze key data on outcomes that could give a market-based insight into the economic value of different degrees, career choices, and education models. This information could be valuable for helping policymakers allocate resources more efficiently, and in helping students make more informed education decisions.
The human capital investment approach could also be applied to not-for-profit models, explained another participant; income-based repayments would in part return funds to donors or be paid forward to fund the higher education of a new set of students. One application of this model could target investment toward low-income students hoping to attend community college. A not-for-profit model could also be leveraged to create a mentorship network for participating students.

Another crowd-based financing model pools investor capital that is then loaned to students. Typically, this approach relies on wealthy alumni from elite schools who are willing to make pooled loans to high-caliber students at rates that undercut federal loans. Many borrowers appreciate that they do not have to deal with a bank or a government lender, and instead gain access to what is in effect an alumni network of accredited investors. One participant noted, however, that if this debt-based crowdfunding approach becomes scalable on a national level, it could impact federal lending programs as student-borrowers from leading universities who pose less credit risk secure lower interest-rate loans by turning to private markets.

### iii. Standardization and Transparency

It was noted that significant effort has gone into improving student loan transparency and information disclosures, but that more needs to be done. One participant argued for short and simple disclosure statements that include key information, including estimated monthly repayment terms. Loan terms and conditions should be spelled out clearly, and some agreed that much could be learned from the approach recently adopted by the federal Consumer Finance Protection Bureau (CFPB) with respect to mortgage loan disclosures that have been shortened and simplified.44

An interesting thread was the benefit of providing borrowers with more information regarding the likelihood of being able to afford loan repayment. One participant noted that capturing, analyzing, and disseminating data regarding particular majors and/or educational programs and schools would enhance a borrower’s ability to assess his or her ability to repay loans. This in turn could result in better and more efficient educational choice decision-making.

A few participants also mentioned the lack of borrower engagement with information disclosures and the less than satisfying user experience with online tools. Disclosures only work if they are utilized by

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borrowers. Simplifying disclosures and providing certain information at relevant times may increase the extent to which borrowers read that information, suggested one participant.

**iv. Student Loan Securitizations**

Student loan securitization was originally developed as a way to provide additional capital to the student lending space. In order to invite private-sector participation and securitization, lawmakers made it difficult to discharge student loans in bankruptcy. This helped to solve a problem for securitization since student loans inherently lack collateral.

Since 2007, decreased risk appetite and the shift to direct federal lending has significantly curtailed the student loan securitization market.\(^\text{45}\) That said, one participant noted a recent uptick in this market as large institutional investors chase yield in a low-rate environment. There was disagreement among participants as to whether this market will move into the subprime space or whether stricter private-sector lending standards (and increased co-signer requirements) will mitigate credit risk.\(^\text{46}\)

A number of participants agreed that the size of the student loan asset-backed securities (ABS) market is not large enough to pose a systemic risk to the broader economy. That said, it is worth watching how the private student loan ABS market develops given the new federal lending regime. More specifically, it remains an open question how and to what extent private loans and a related securitization market will evolve to provide students with financing to supplement their federal loans.

**Section themes and takeaways**

Participants came away from the second session having focused on the following themes:

- New direct federal lending programs have dramatically altered the higher education financing landscape. Strategic allocation of public resources may be needed to incentivize key fields of study or promote alternative education models. Moreover, the long-term role of the federal government in the student loan market requires further exploration and discussion.

\(^{45}\) See “Private Student Loans: Report to the Senate Committee on Banking, Housing, and Urban Affairs, the Senate Committee on Health, Education, Labor, and Pensions, the House of Representatives Committee on Financial Services, and the House of Representatives Committee on Education and the Workforce.” Consumer Financial Protection Bureau. Aug. 29, 2012: p. 18.


\(^{46}\) See Simon and Ensign. This article notes that the number of subprime student loans is increasing.
Innovative equity, revenue-sharing, and debt crowdfunding models are aiming to decrease the cost to students of financing higher education and providing them with greater flexibility in making career and further education choices.

Although progress has been made with respect to student loan transparency and information disclosures, more work is needed to improve the user experience and relevance of such disclosures.

**Conclusion**

When considering the key themes and takeaways, and factoring in the political and economic will needed to achieve change, four areas emerged as opportunities for further exploration. These include: (1) redefining higher education “success”; (2) promoting innovative financing models; (3) linking education and job training; and (4) issuing a clarion call for bold leadership.

The momentum from the discussion continued May 1, 2013 at the Milken Institute Global Conference in Los Angeles, California, with a featured panel discussion and smaller roundtable event on these same issues. Video from the public session can be viewed at: http://www.milkeninstitute.org/events/gcprogram.taf?function=detail&eventid=gc13&EvID=4042. We look forward to exploring more deeply the ideas shared in this report, and pursuing next steps.
### Appendix A: Discussion Participants

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<tr>
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<th>Title and Affiliation</th>
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