For-profit College Students Earning Less After Attendance

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With the exception of students who study cosmetology, students who attend for-profit colleges end up earning less money five to six years after attendance than they did before they enrolled, a new paper released Monday claims.

“Across nearly all degrees and certificates, our results reveal disappointing outcomes for for-profit students,” states the paper, titled “Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data.”

The paper—released through the National Bureau of Economic Research, or NBER—was done by Stephanie Riegg Cellini, an associate professor of public policy and economics at The George Washington University, and Nicholas Turner, an economist within the Office of Tax Analysis within the U.S. Department of Treasury.

“These negative average effects are largely generated by the high proportion of students (who) do not complete their program of study,” their paper states.

Graduates of for-profits fared better and achieved positive earnings effects, and master’s students also mostly saw “small positive earnings,” the paper states.

However, the paper found that for-profit students experience lower earnings than their public sector counterparts, regardless of student demographics and programs of study.

In examining the 10 most popular fields of study in the for-profit sector, the paper found that cosmetology was the only field where for-profit students got higher returns than public students and that none of the top 10 fields—from practical nursing to HVAC repair—generated positive total earnings for for-profit students.

“The negative effects we find are troubling given the student debt that students incur to attend for-profit institutions,” the paper states. The paper notes that “the vast majority of for-profit students experience both higher debt and lower earnings after attendance.”

Even among students seeking certificates, students who went to public institutions had higher earnings and lower debt than students who went to for-profits.

The authors concede certain limitations in their study.

For instance, they note that their study was limited to students who left college from 2006 to 2008 at the start of the Great Recession, so the findings are "likely to be partially explained by overall weakness in the labor market," the paper states.

The paper still purports to be the "most comprehensive examination of for-profit outcomes to date." It touts the fact that it relies on data from 1.4 million students—"virtually the universe of federally aided for-profit students who drop out or complete their program between 2006 and 2008." It also relies on tax data as opposed to self-reported data to determine income.

The findings come at a time of ongoing discussion and debate over whether for-profit colleges represent a viable path for students. The issue is of particular concern for students who are low-income, over age 25, minority, GED recipients, or single parents, because for-profit schools tend to enroll disproportionately higher numbers of students from those groups. Such students are also "more likely to borrow and borrow more than students in other sectors," the paper states.

For-profit institutions serve more than 2 million students, federal data show. Tuition at a two-year for-profit college is more than four times the average public community college–$14,193 versus $3,370, the paper notes.

The paper also comes as Gainful Employment rules established by the Obama administration are about to kick in.

Under the new regulations, the estimated annual loan payment of a typical graduate cannot exceed 20 percent of his or her discretionary income, or 8 percent of his or her total earnings, in order to be considered one that leads to gainful employment.

Based on available data, the Department of Education estimates that about 1,400 programs serving 840,000 students—about 99 percent of them at for-profit institutions—would not pass the accountability standards and thus become ineligible for financial aid.

The Association of Private Sector Colleges and Universities—the organization that represents the for-profit college sector—has sought to delay enforcement of Gainful Employment rules for one year, arguing that "using debt-to-earnings ratios in a graduate's third year of employment inaccurately reflects the long-term earnings gains of graduates."

The paper released Monday estimates that students who attend for-profit certificate programs see an average total earning effect of about negative $920 per year in the six or so years after attendance.

The finding comes despite the fact that for-profit students who are seeking certificates drop out at lower rates than in the public sector—40 versus 60 percent.

In seven out of 10 fields, including all health-related fields, for-profit students fare "significantly worse than their public sector counterparts," the paper states.

In two fields—culinary arts and vehicle maintenance—the returns were similar across both the for-profit and public sectors.

The paper concludes that, while there appear to be positive earnings gains for the 60 percent of for-profit students who complete certificate programs and the 30 percent who complete two- and four-year degrees, “for the average student our results suggest that for-profit education does not have meaningful private returns to the student in the first 5-6 years after attendance despite a sizable increase in student debt.”

The paper also maintains that the results are “not limited to a few poor performing institutions, rather the majority of the schools appear to have negligible earnings effects.”

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