For-Profit Colleges: What Next?

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FOR-PROFIT COLLEGES

Theory

Distinctions

Earnings Gains

Evaluation

Policy
Should Returns be Equal across Colleges?

Many market distortions:

• Government regulations and subsidies
• Imperfect information and lock-in

Expect varied income, fees and returns across sectors
For-Profit Colleges are Distinctive

Organizational structure
  - Low pay faculty; more IT capital; more supports

Financial constraints
  - Zero donations; heavy loan funding
Market Capitalization: +$10bn

<table>
<thead>
<tr>
<th>Education Provider</th>
<th>Market Capital</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Canyon Education</td>
<td>$2.65B</td>
<td>3,650</td>
</tr>
<tr>
<td>DeVry</td>
<td>$1.77B</td>
<td>10,062</td>
</tr>
<tr>
<td>Apollo</td>
<td>$1.05B</td>
<td>19,000</td>
</tr>
<tr>
<td>Strayer</td>
<td>$759M</td>
<td>1,401</td>
</tr>
<tr>
<td>Career Education</td>
<td>$640M</td>
<td>6,687</td>
</tr>
<tr>
<td>Bridgepoint Education</td>
<td>$434M</td>
<td>190</td>
</tr>
<tr>
<td>American Public Education</td>
<td>$377M</td>
<td>2,210</td>
</tr>
<tr>
<td>Lincoln Education</td>
<td>$51M</td>
<td>2,398</td>
</tr>
<tr>
<td>Education Management</td>
<td>$1M</td>
<td>10,800</td>
</tr>
<tr>
<td>ITT Technical</td>
<td>$0</td>
<td>4,100</td>
</tr>
<tr>
<td>Corinthian</td>
<td>$0</td>
<td>10,100</td>
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</tbody>
</table>
Cordon Bleu US school closes next month
November 9 2016
New President
For-profit Colleges Pay Full-time Instructional Faculty 35% less

NCES (2015, Table 316.2)
For-profit Colleges Spend on Instruction per FTE 47% less

Public: $9,913
Private NP: $17,080
For-profit: $5,277

NCES (2015, Tables 334.10, 334.30, 334.50)
Total Spending is Similar

Support is student services, academic support, and institutional support (NCES, 2015, Tables 334.10, 334.30, and 334.50)
Tuition/fees per FTE
Much Higher at for-profit Colleges

2-Year Colleges

Public: $2,960
For-profit: $14,450

4-Year Colleges

Public: $8,540
For-profit: $13,930

In-state tuition/fees, weighted by FTE; 2014 dollars. NCES (2015, Table 330.10).
Total Costs per FTE
Higher and Wider at For-Profits

2-year Colleges

4-year Colleges
Online Learning Reduces Cost per Student Modestly

Students taking all courses online:
  - Public 2-year/4-year colleges: 8%
  - Independent for-profits: 9%
  - Chain for-profits: 54%

Deming et al. (2016):
  - All-online: ↑ 10 percent (1 s.d.)
  - Prices: ↓ 1.5%
For-profit Colleges have Very Different Completion Rates

NSC (2014)

<table>
<thead>
<tr>
<th></th>
<th>For-profit</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-Year</td>
<td>33</td>
<td>61</td>
</tr>
<tr>
<td>2-Year</td>
<td>38</td>
<td>61</td>
</tr>
<tr>
<td>Relative to public college students, for-profit students earnings:</td>
<td>Study</td>
<td>Data Source</td>
</tr>
<tr>
<td>--------------------------------------------------------------</td>
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<td>-------------</td>
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<tr>
<td><strong>Lower</strong> by ~$2,000</td>
<td></td>
<td>Deming et al. (2012) BPS</td>
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<tr>
<td><strong>Lower</strong> for certificate holders by ~$2,500</td>
<td></td>
<td>Cellini &amp; Turner (2016) IRS records</td>
</tr>
<tr>
<td><strong>Lower</strong> for certificate-holders (ns) <strong>Lower</strong> for AA-holders (ns)</td>
<td></td>
<td>Lang &amp; Weinstein (2013) BPS</td>
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<tr>
<td><strong>Lower</strong> (ns)</td>
<td></td>
<td>Liu &amp; Belfield (2014a) ELS</td>
</tr>
<tr>
<td><strong>Lower</strong> (ns) <strong>Lower</strong> for non-completers</td>
<td></td>
<td>Cellini &amp; Chaudhary (2014) NLSY97</td>
</tr>
<tr>
<td><strong>Lower</strong> for CC students who transfer to for-profits versus to other colleges</td>
<td></td>
<td>Liu &amp; Belfield (2014b) CC system records</td>
</tr>
</tbody>
</table>
Annual Earnings Ten Years After First Enrollment: 2-Year Colleges
Annual Earnings Ten Years After First Enrollment: 4-Year Colleges
Relative to other colleges, for-profit students have **callbacks for job interviews:**

<table>
<thead>
<tr>
<th>Study (using experimental resume-audits)</th>
<th>Lower among BA holders by 22%</th>
<th>No different for AA/certificate holders</th>
<th>No different</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deming et al. (2012)</td>
<td>Darolia et al. (2014)</td>
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</table>

Other evidence:

- Earnings penalty for for-profit students returning to labor market (Cellini & Turner, 2016; Jepsen et al., 2016)
- Lower value-added from for-profit colleges (Hoxby, 2016)
Loan Balances per FTE
Much Higher at For-profit Colleges

Adjusted for college-level characteristics. Source: Belfield (2013, Table 6).
Default Rates: 2-year Colleges

Chakrabarti et al. (2016)
**Not Just “A Few Bad Apples”**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Students</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corinthian Colleges</td>
<td>~80,000</td>
<td>Closed 4/15</td>
</tr>
<tr>
<td>ITT Technical Institute</td>
<td>~40,000</td>
<td>Closed 9/16</td>
</tr>
</tbody>
</table>

Tuition/fees, default, earnings similar to rest of for-profit sector

- Corinthian: mid-fees, low earnings
- ITT Tech: very high-fees, high earnings
By 2-Year Program: Earnings Penalty For-profit vs. Public
Earnings Benefits and Costs: Two-Year Colleges

**Graph:***
- **Public Colleges**:
  - Annual Costs per FTE: -10,000
  - Annual Earnings Ten Years Post Enrollment: 30,000

- **For-Profit Colleges**:
  - Annual Costs per FTE: -20,000
  - Annual Earnings Ten Years Post Enrollment: 30,000
Earnings Benefits and Costs: Four-Year Colleges
Gainful Employment Standards Pass Rates Much Lower at For-profits

<table>
<thead>
<tr>
<th></th>
<th>Annual earnings</th>
<th>Discretionary earnings</th>
<th>Repayment rate</th>
</tr>
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<tbody>
<tr>
<td>Chain Forprofits</td>
<td>88</td>
<td>45</td>
<td>51</td>
</tr>
<tr>
<td>Public Colleges</td>
<td>99</td>
<td>89</td>
<td>84</td>
</tr>
</tbody>
</table>
State of For-profit Sector

More expensive…
  lower returns…
  higher debt/default

In this review:
- Depth of evidence
- Extent of difference; lack of overlap
- Social benefit-cost analysis
Future of For-profit Sector

“Justification”:
- Returns to society / taxpayer
- Supply-side response
- Heavy subsidies: soft landing or special treatment