



Bipartisan Policy Center

Which Colleges Are Worth the Cost? Institution-Level Return on Investment for Students and Taxpayers

EXECUTIVE SUMMARY

College education is widely acknowledged to be a good investment, but some postsecondary programs and institutions in the United States fail to pay off. This is a problem not just for the students who attend those programs but also for taxpayers and policymakers. The federal government disburses around \$150 billion annually in postsecondary student aid, and though there are some limits on the institutions that can receive these funds, many institutions that produce poor student outcomes continue to benefit from federal support. Researchers have worked for years to better assess student outcomes, while policymakers have struggled to establish standards that meaningfully and fairly limit access to federal student aid for poor-performing institutions.

The various approaches currently available to assess postsecondary student outcomes all have significant shortcomings. Completion rates, which measure the proportion of students that complete their program in a timely fashion, are an obvious starting point, but they also do not tell prospective students or policymakers anything about the value of the credential. Lenders of student loans—such as the U.S. Department of Education—can easily assess success or failure of student borrowers to repay their loans, providing another outcome metric. Though loan repayment is correlated with earnings after leaving a program, it is also correlated with a student's household income, and so higher rates of loan repayment at institutions that serve higher-income students may not give policymakers meaningful information about quality.

Recently, the Department of Education's College Scorecard began providing aggregate estimates of the typical earnings of institutions' former students using IRS data. When combined with cost of enrollment at an institution,

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these estimates provide a useful metric for estimating the value—or return on investment (ROI)—of college.

Robust postsecondary ROI estimates by institution require data both on the costs of enrollment—tuition and fees but also other costs of attendance like room and board—as well as earnings outcomes for students. Though college enrollment and completion are also associated with a wide variety of other positive outcomes—such as increased civic participation, better health, reduced reliance on public supports, increased philanthropy, and greater educational attainment of one’s own children—these impacts can be difficult to quantify. Typically, ROI estimates compare the earnings of students who attended an institution—either their gross earnings or the increase in their earnings relative to high school graduates—to their costs of enrollment, producing estimates that can be expressed in terms of the time required to recoup the investment or in terms of the estimated lifetime dollar benefits of enrollment.

The Department of Education’s limits on institutional eligibility to disburse federal student aid, however, have yet to be based on any measure as complex as an estimate of ROI. Alongside a requirement that institutions be accredited—an easily cleared hurdle with little connection to programmatic quality or student outcomes—the Department has attempted several other restrictions on institutional student aid eligibility over the years. These rules have applied unevenly at times to public, private nonprofit, and for-profit institutions, and have been based on a variety of metrics. The only current restriction on student aid eligibility that applies to all U.S. postsecondary institutions is the cohort default rate—a measure of how many student loan borrowers from an institution fail to repay their loans—but it is rare for institutions to be sanctioned due to high cohort default rates. Default rates are also strongly tied to borrower demographics, with higher rates of default for borrowers from low-income families as well as Black and Hispanic borrowers, leading to concerns about the treatment of institutions that disproportionately enroll these students. A better approach is needed.

METHODS AND FINDINGS

This report expands on previous research on postsecondary ROI to offer prospective students and policymakers a novel way to assess the broader value of higher ed institutions. Using data from the College Scorecard and from the Census Bureau, the Baseline Model produces for each institution an estimate of its college earnings premium—the lifetime additional earnings gained by those who attend an institution relative to the typical earnings of a high school graduate. The cost of attendance for the institution—the average annual net price multiplied by the estimated length of attendance for the predominant degree awarded at the institution—is subtracted from the college earnings premium. For most institutions, this yields a positive number, meaning a positive estimated median ROI from enrollment. At some institutions, the cost of attendance is greater than the lifetime earnings premium, and thus the estimate produced by the Baseline Model is negative.

To assess the costs and benefits of college enrollment more accurately, the Intermediate Model makes three adjustments to the Baseline Model:

- A selection adjustment, which assumes that only two-thirds of the college earnings premium is actually caused by enrollment at an institution;
- A discounted rate of return for the college earnings premium to account for the fact that the costs of college are paid upfront but the returns occur over a lifetime; and
- An adjustment that uses the typical earnings of high school graduates in the specific state where the institution is located rather than the national average.

Lastly, the Full Model includes all the adjustments in the Intermediate Model and adds additional elements to better assess the overall value of an institution to students as well as the public:

- An upward adjustment in the college earnings premium to account for estimated labor market discrimination against women and underrepresented minorities; and
- Estimated per-student public subsidy costs to account for government grants to students; local, state, and federal appropriations to public institutions; and tax breaks for nonprofit institutions.

The Intermediate Model usually produces estimates of ROI that are lower than those produced by the Baseline Model, while the Full Model's adjustment for labor market discrimination moves estimates upward for many institutions. All three models produce estimates that most students are attending institutions with a positive median ROI or value, though most for-profit institutions have negative median ROI in all three models (**Table 1**). In total, more than 600 institutions across the public, private nonprofit, and for-profit sectors have a negative estimated median ROI in the Full Model. Historically Black Colleges and Universities (HBCUs) fare poorly on the Intermediate Model but the adjustment for labor market discrimination in the Full Model makes the median ROI positive for most HBCUs.

Table 1. Proportion of Institutions and Students Attending Institutions with Positive Median ROI by Model and by Institution Sector

	Share of Institutions in Sector with Positive Median ROI			Share of Students in Sector Attending Institutions with Positive Median ROI		
	Baseline Model	Intermediate Model	Full Model	Baseline Model	Intermediate Model	Full Model
All Institutions	86%	71%	81%	98%	91%	96%
Public	99%	93%	96%	100%	99%	100%
Private Nonprofit	95%	77%	90%	99%	83%	93%
For-Profit	48%	21%	41%	81%	38%	69%
HBCUs	94%	48%	89%	98%	67%	95%

POLICY IMPLICATIONS

The Department of Education has made great strides in providing data that increases transparency around student outcomes, but it has yet to implement comprehensive standards that hold institutions accountable for the value they provide to their students and to taxpayers. Using estimates of ROI as accountability metrics, however, will require more and better data than are currently available. The Department of Education data used to generate the models in this report are limited to students who received federal student aid, and moreover, cannot be disaggregated by race, ethnicity, and gender. The adjustment for labor market discrimination in this report is at best an approximation of the kind of analysis that the Department of Education could produce if it were legally allowed to maintain a comprehensive, privacy-protected student-level database.

Better data along with nuanced analysis could allow the Department of Education to use estimates of ROI to either exclude poor-performing institutions from disbursing student aid or to charge institutions a premium to participate in the federal student loan system. The Bipartisan Policy Center has previously proposed that loan nonrepayment be used as the primary metric for determining the size of such a premium, but as a broader measure of the value provided by institutions, ROI estimates such as those in this report could be used in addition to or instead of loan nonrepayment.

U.S. higher education consists of institutions with a diverse array of missions and approaches and with widely varying student populations. These institutions rely heavily on federal student aid that is disbursed with minimal oversight, and as a result, taxpayers are subsidizing institutions with poor student outcomes. Greater accountability is needed, and the pillars of an effective system are clear: Measures of institutional performance must be based on thorough, reliable data, and standards must be enforced in a way that promotes equity and recognizes the institutions that best serve students.



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