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Can College Risk Sharing Improve Student Outcomes and Avoid Unintended Consequences?

New Issue Brief Addresses Challenges and Proposes Solution Combining Risk Sharing and Rewards

The Institute for College Access & Success (TICAS) today released *A New Approach to College Risk Sharing: Enhancing Accountability to Improve Student Outcomes.* This new issue brief provides an overview of the issue of risk sharing, identifies potential unintended consequences for policymakers to avoid, and outlines a proposal that combines both risk sharing and rewards to give colleges a clearer stake in their students' success and ability to repay their debt.

"We currently hold students accountable for studying and making progress toward their degree, but there are few consequences for schools that fail to graduate large shares of students or consistently leave students with debts they cannot repay," said **Jessica Thompson,** TICAS' policy and research director. "Done right, risk sharing can help better align incentives for colleges with the interests of students and taxpayers and improve outcomes for everyone."

Broad and bipartisan interest in college risk sharing has grown along with the awareness that student outcomes vary widely across colleges, even among similar schools and student populations. While approaches vary, risk sharing generally recognizes that all-or-nothing standards for college accountability provide few incentives for colleges to improve. Yet if not carefully designed, risk sharing proposals hold the potential for damaging unintended consequences. The brief addresses these concerns and recommends that, to maximize the potential benefits of college risk sharing and minimize unintended consequences for students and colleges, risk sharing proposals be designed to:

- *Promote college access for low-income students* to address concerns that risk sharing might push colleges to improve student outcomes by altering admissions criteria and enrolling fewer low-income students.
- *Support Historically Black Colleges and Universities (HBCUs)* to avoid exacerbating pre-existing, historic inequities and avoid harming these under-resourced colleges.
- *Protect access to federal student loans*, which are the safest way to borrow for school.
- *Complement more targeted accountability measures already in place*, including the "gainful employment" requirement for career education programs at all types of schools, and the 90-10 rule for for-profit colleges.

TICAS' proposed accountability system applies to all colleges, and gives colleges at all performance levels an incentive to improve. Outcomes range from financial and nonfinancial rewards to risk-reduction plans and graduated risk-sharing payments, based on how much risk the school poses to students and taxpayers. Schools that pose unacceptably high risks will lose access to federal student aid. This system replaces the current use of all-or-nothing cohort default rate (CDR) thresholds, which provide few incentives for colleges to improve if their CDRs are below 30 percent, while leaving other complementary accountability measures in place. The proposal also includes new, time-limited funding for HBCUs.

Unlike many recent risk-sharing proposals, TICAS' approach does not require payments from higher-performing colleges, and instead provides them with more flexibility to innovate. Schools that serve students particularly well would also get financial rewards based on how many low-income students they enroll.

Rather than using a complex formula to determine risks and sanctions, TICAS suggests using a single, straightforward, student-debt-based outcome metric – offering two options that use existing data. Based on current data and using proposed thresholds for either of the two metrics TICAS developed, a majority of schools would receive either financial or non-financial rewards. Less than 20% of schools would be subject to risk-sharing payments if they did not improve during the implementation period. A majority of each type of college -- public, nonprofit, and for-profit – would either get some reward or experience no impact.

"Our proposal is not designed to impose a new tax on all colleges or to ensure that a fixed percentage of schools always fails," said **Lindsay Ahlman**, TICAS' senior policy analyst. "Our proposal uses both carrots and sticks to improve student outcomes. It rewards colleges that have good outcomes and encourages them to enroll more low-income students, while applying graduated sanctions proportional to the risk posed by lower-performing colleges."

Risk-sharing payments and aid cutoffs would not be imposed in the first several years to give all schools time to improve, while rewards for high-performing schools and risk-reduction plan requirements for lower-performing schools would start right away. Schools that opt out of providing federal student loans would not have access to rewards.

A New Approach to College Risk Sharing: Enhancing Accountability to Improve Student Outcomes is available online at http://bit.ly/2ocyiVv. For more technical details and additional modeling of our proposal, see our December 2016 working paper.

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An independent, nonprofit organization, The Institute for College Access & Success (TICAS) works to make higher education more available and affordable for people of all backgrounds. Our Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see www.ticas.org or follow us on Twitter and Facebook.