

Promoting Innovation in Higher Education

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ADVANCES IN TECHNOLOGY, concerns about costs, and a changing population of students have combined to drive innovation in higher education. Online learning has enabled students across the country to enroll in and complete a college degree; competency-based programs allow students to earn credit based on what they can show they have learned, allowing some to progress to a degree much faster than is possible under a traditional academic calendar; and new models of delivery are providing targeted, short-term training that is directly tied to the labor market. Meanwhile, age-old models like apprenticeships are garnering renewed attention but remain on the periphery.

Some of this is occurring outside of traditional higher education, but existing institutions have also taken it upon themselves to create new delivery models and credentials. Despite these innovations, and despite the new demands on colleges and universities to provide an affordable, valuable education, most of post-secondary education looks much the way it did when federal financial-aid policies were created a half-century ago. The majority of students choose a traditional degree program at a traditional institution, working over the course of two or four or six years to earn the 60 or 120 credit hours necessary to receive an associate's or a bachelor's degree. Those courses are organized around a traditional academic calendar and a time-based model of learning. This model works quite well for many traditional students — and the payoff to a bachelor's degree has grown. But the growing group of nontraditional students, many of which must juggle school, work, and family, often need more flexibility.

Federal policy also favors traditional degree programs and often

excludes the kind of targeted occupational training and workplace-learning opportunities that can serve as an on-ramp to the labor force. Too often, advocates dismiss such offerings as “dead ends” because graduates might not go on to earn as much as degree-holders over the long term. Our policies and political culture reflect these biases. Students who engage in workplace learning like apprenticeships, or who pursue industry-recognized credentials, are often ineligible for federal aid.

In other words, well-intentioned federal policies designed to limit fraud often serve as key obstacles that discourage innovation in post-secondary education. Outdated federal definitions lock us into time-based notions of what qualifies as post-secondary education, which biases the system against models that award credit on the basis of student learning or workplace learning. Aggressive new federal regulations have raised transaction costs for providers trying new things and have constrained those that might have considered innovation. Reliance on accreditors as gatekeepers of federal aid makes it difficult for new institutions to compete on a level playing field. The result is a system that must serve an increasingly diverse group of students but has been slow to change, in part because of existing federal policies.

What’s needed is an agenda to promote innovation in post-secondary education by freeing leaders at existing institutions to develop new models of teaching and learning; expanding access and raising the profile of nontraditional options like apprenticeships; and creating space for students to choose innovative options that promote student learning. Such an agenda should include three main goals: Reform rules that enshrine a time- and place-based model of post-secondary education; use federal levers to encourage experimentation and flexibility while protecting taxpayers and students; and create an outcomes-based path to aid eligibility that creates space for innovative models to compete.

THE STATUS QUO

Significant changes on two fronts have affected the post-secondary market over the past decade. First, the number of non-traditional students — independents with dependent children and those over the age of 25, many of whom work while enrolled — has increased. According to data from the National Center for Education Statistics, students over the age of 25 make up more than 30% of all undergraduates today. Roughly 25% of full-time college students are also working full-time,

and over 35% of students enroll part-time.²³⁶ These students often have needs that are quite different from those of a traditional undergraduate who lives on campus at a four-year university. Many prefer—or require—a more flexible program that allows them to learn whenever they have a free moment and perhaps move through the material at their own pace.

Second, advances in technology, coupled with regulatory reforms, have led to significant growth in opportunities to learn online or in blended programs. As of 2013, 7.1 million students—or one-third of enrollments—were taking at least one online course, an increase of more than 5 million students over the previous decade. Ninety percent of college leaders surveyed thought it likely or very likely that by 2018 a majority of students would take at least one online course.²³⁷

Key decisions by policymakers accelerated these trends. In the 1998 amendments to the Higher Education Act, Congress created the “Distance Education Demonstration Project” (DEDP), which authorized the secretary to waive statutory and regulatory requirements related to online learning for a select number of institutions.²³⁸ Specifically, the demonstration program waived the so-called “50% rule,” which required that schools receiving Title IV aid could not enroll more than 50% of their students in distance education or offer more than 50% of their courses through distance education.

Based on the findings from the DEDP, the Department of Education recommended expanding the project, eliminating the 50% rule, and allowing students enrolled in two- and four-year degree programs to receive two Pell Grants if they attended year-round.²³⁹ The Higher Education Reconciliation Act of 2005 repealed the 50% rule for so-called “telecommunications courses” (those offered online), opening up new opportunities for place-bound students to use federal aid for online programs (year-round Pell was created in 2009, but repealed shortly after).²⁴⁰

While online learning has expanded access for new students, it does not seem to have affected tuition prices. In fact, one survey found that more than 90% of colleges that offer both online and in-person courses charge the same tuition price or higher for the online versions.²⁴¹ And while online opportunities provide more flexibility for non-traditional students, programs are still largely required to adhere to standard academic calendars and the time-based rules that govern federal student aid (and, often, state licensure).

In other words, most online programs look an awful lot like traditional programs. This is true, in part, because federal policy insists on it. A growing number of providers have sought ways to break out of these constraints by offering “competency-based” programs that award credit for what students can prove they’ve learned (via a validated assessment) rather than the amount of time they have spent in class. Western Governors University, a nonprofit founded in the 1990s by 19 governors of western states, is a pioneer in this area. Students pay a flat fee (\$6,000) for six months of access to learning materials, assessments, mentors (who play a faculty role), and other supports. Students can earn as many competencies as they can in a six-month period.²⁴² Many institutions—public and private—have worked to develop their own competency-based programs, despite an uncertain regulatory environment.

Others are broadening the definition of what constitutes education after high school. Online course providers like edX, Udacity, and StraighterLine provide low-cost courses and exams, some of which are transferable to traditional colleges while others serve as a signal to the labor market.²⁴³ A number of in-person “boot camps” have set out to prepare individuals with the technical skills necessary for employment in the tech industry, providing intense, short-term training programs in areas like web development, data science, and user-experience design. These programs advertise high apparent rates of success, but have run into regulatory issues at the state level.²⁴⁴ Like the online providers, these schools exist entirely outside of federal Title IV, so students must pay out of pocket (or borrow privately) to access them.

Other programs have developed as a bridge between high school and college or the workforce. Year Up provides high-school graduates with a blend of training in basic job-related skills and an internship with a corporate sponsor. At the end of that year, students can choose to either go onto college or to join the workforce.²⁴⁵ Bridge.edu has a similar model.²⁴⁶

Finally, older alternative models like apprenticeship and short-term occupational training and certification are getting another look. A rigorous evaluation of the Department of Labor’s Registered Apprenticeship program found that it delivers \$58,888 more in benefits than it costs to operate for each additional apprentice enrolled in the program over the medium-term.²⁴⁷ Data from state higher-education systems suggest that the short-term returns to technical certificates in applied manufacturing and some allied health jobs are larger than short-term returns to degrees.²⁴⁸

Many of these options could help students earn a good job or further education. But federal policies governing financial aid are premised on a traditional notion of education, one offered on a brick-and-mortar campus organized around credit hours, degree programs, and academic calendars. Accreditors — the primary gatekeepers of federal aid — are risk-averse and mainly evaluate schools on the basis of inputs and processes. These policies can preclude low-income students from accessing worthwhile opportunities and constrain higher-education leaders who wish to innovate. The result is a system that continues to grow more expensive but is not sufficiently responsive to the needs of today’s students.

ROOM FOR IMPROVEMENT

Federal financial aid policy is governed by a set of rules that are designed to prevent waste, fraud, and abuse. In order to be eligible to receive federal financial aid, institutions must offer programs that conform to traditional notions of higher education — they must be delivered in “credit hours,” they must match existing time-based definitions of degrees and certificates, and they must involve “regular and substantive” interaction between students and faculty members.²⁴⁹ Over the past eight years, federal regulators have passed a number of new regulations — mostly targeted at for-profit colleges — designed to ensure that federal dollars are well spent.²⁵⁰

These rules are supposed to protect against diploma mills — an important goal. But the means by which they do so actually constrain institutions that have alternative methods of awarding credit and innovative approaches to teaching and learning. For instance, in 2009 the Department of Education’s new “program integrity” regulations provided, for the first time, a federal definition of the credit hour:

[A] credit hour is an amount of work represented in intended learning outcomes and verified by evidence of student achievement that is an institutionally established equivalency that reasonably approximates not less than —

(1) One hour of classroom or direct faculty instruction and a minimum of two hours of out of class student work each week for approximately fifteen weeks for one semester or trimester hour of credit, or ten to twelve weeks for one quarter hour of credit, or the equivalent amount of work over a different amount of time; or

(2) At least an equivalent amount of work as required in paragraph (1) of this definition for other academic activities as established by the institution including laboratory work, internships, practica, studio work, and other academic work leading to the award of credit hours.²⁵¹

The requirement that programs must award credit based on time—or on other criteria that must be mapped to quantities of time—creates obstacles for competency-based programs that award credit on the basis of what students can prove they’ve learned on an assessment. These models allow students who wish to accelerate their progress toward a degree to earn credits more quickly than they would be able to in a traditional program based on standard measures of the credit hour. Though regulators attempted to maintain sufficient space for awarding credit based on student assessment (“amount of work represented in intended learning outcomes” that “reasonably approximates” a traditional credit hour), higher-education leaders argue that it has had a “chilling effect” on colleges’ ability to innovate.²⁵²

Likewise, while the 2005 Higher Education Reconciliation Act explicitly allowed programs that use “direct assessment” of student learning as an alternative to the credit hour to receive Title IV aid, the rules governing financial-aid disbursement use time-based definitions of academic year, term length, and “satisfactory academic progress.”²⁵³ Student aid awards are determined according to the number of credit hours a student enrolls in (12 hours or more is full-time, nine is three-quarter time, and so on). But students in direct-assessment programs can move through the assessments as quickly as they are able, which simply does not lend itself to these time-based regulatory measures. Likewise, in order to remain eligible for federal financial aid, students must have made satisfactory academic progress, which must include a measure of the pace of student progress by comparing the number of credit hours completed to the number of credit hours attempted.²⁵⁴ It is not clear how you would measure such progress in a purely competency-based program in which students do not attempt a set number of credit hours in a year.

In each of these cases, institutions that award credit based on learning have to map student progress back to credit hours, an uncertain process that leaves them open to scrutiny from the Department of

Education. As two experts wrote in 2014, “several institutions of higher education have had their efforts to develop competency-based educational programs delayed, or derailed, due to uncertainty as to how they can comply with the federal financial aid eligibility rules.”²⁵⁵

Similarly, rules governing program eligibility are based on length. Short-term programs offered by post-secondary vocational institutions must provide a certain number of clock or semester hours over 10 or 15 weeks of instruction, and that instruction must prepare students for “gainful employment in a recognized occupation.”²⁵⁶ Programs that provide short-term instruction that is not geared towards a recognized occupation, or those that are shorter than 10 weeks, are not eligible for financial aid at all, regardless of whether they provide a valuable education.

In addition to the time-based eligibility requirements, courses and programs must be “for-credit”—meaning they count toward an eligible degree or certificate program—to be eligible for federal aid. Many colleges, particularly at the two-year level, offer non-credit courses that are focused on occupational training. Some of these non-credit offerings are designed to prepare students for an industry-recognized credential.

Why do institutions offer non-credit courses if they’re not eligible for federal aid? According to the National Skills Coalition,

Institutions generally choose to offer programs on the noncredit side because of the flexibility they permit. Unlike for-credit programs, these programs are generally not subject to the lengthy and arduous state licensing, accreditation, and federal certification process, and thus, can be adjusted on a moment’s notice to respond to changing industry or labor market conditions.²⁵⁷

In other words, students who cannot pay out of pocket for non-credit courses may be missing out on worthwhile pathways to employment and mobility.

In fact, some evidence suggests that excluding such programs from federal financial aid may lead individuals who are only in search of particular skills to sign up for longer, aid-eligible program. In a large study of California community-college students, Peter Bahr identified a subset of students (“skills builders”) who take a limited number of courses in job-related fields, pass those courses, and then drop out prior to earning a degree or certificate.²⁵⁸ These skills builders represented

about one in seven incoming community-college students, and generally experienced an increase in earnings after enrollment. Such students would be better served if federal-aid programs enabled them to sign up for the skill building courses they need rather than an entire degree program that they do not want.²⁵⁹

In order to receive federal financial aid, an institution must be accredited by an organization that the secretary of education recognizes. In order to get accredited, an institution usually must have been in existence for five years and must have graduated at least one class of students.²⁶⁰ However, most students are reliant on federal financial aid. As Sylvia Manning, former head of the Higher Learning Commission (one of the six regional accreditors), has written,

if you want to launch a new college or university, you may face an insurmountable problem: having students is a prerequisite for accreditation, but it is difficult to attract them without access to financial aid. We therefore face a classic chicken-or-egg dilemma.²⁶¹

This barrier to entry limits the kind of new firm creation that has driven innovation in other sectors.

Moreover, accreditation agencies focus primarily on inputs (faculty qualifications, facilities) and processes (for example, does the institution have a process for assessing student learning?). As Manning explains, accreditation agencies “unapologetically consider inputs and student outcomes” and “approach with caution any radical elimination of the basic conditions that have underpinned sustainable institutions.”²⁶² These basic conditions do appear to promote student learning in many contexts, but accreditors tend to assume that the traditional model is the only way to provide a quality education, and that innovative models should therefore be viewed with caution. The recent closures of large, fully accredited institutions indicate the limits of this assumption. In the aftermath of those closures, one veteran of President Obama’s Department of Education warned that these failures result from some accreditors’ “mindless checklist” approach to quality assurance.²⁶³

Federal policy also marginalizes work-based learning like apprenticeships. Employers who provide apprenticeship training—which yields significant financial returns to taxpayers—bear all or most of the cost of apprenticeship training, including paying wages to the

apprentice and in many cases covering the cost of related instruction.²⁶⁴ Apprentices who enroll in otherwise-eligible programs at accredited institutions can receive federal aid, but because they often enroll part-time or in non-credit courses, those resources do little to defray the cost to students or employers.

OPPORTUNITY FOR REFORM

There are a number of reforms to federal policy that would grant more flexibility to existing institutions and create more options for students, all while ensuring that taxpayer dollars flow to valuable programs. The options range from modest improvements to more dramatic change.

A modest approach to reform might begin with appointing a task force to examine federal policy to weed out obstacles to institutional innovation. The Senate recently commissioned a Task Force on Federal Regulation of Higher Education to examine the regulatory burden accompanying participation in federal programs. This worthwhile effort focused mainly on reporting and compliance requirements that govern existing institutions. While one section of the report examined state authorization of distance education programs, other rules and regulations that limit innovation were not examined in detail.²⁶⁵

A parallel task force should scour statute and regulation and interview stakeholders to identify areas where federal policy has stunted institutions' ability to innovate. Such a task force should feature representatives from existing colleges and universities, institutions that serve non-traditional students via innovative models, and educational organizations that operate largely outside of the federal Title IV system. Congress could then decide which task force recommendations to adopt in the next reauthorization of the Higher Education Act.

With regard to units of academic credit, the Obama administration's effort to define the credit hour has been roundly criticized by higher-education institutions and professional associations as stifling innovation. In 2011, 70 higher-education organizations petitioned congressional leaders to repeal the credit-hour definition, citing an "almost total lack of evidence of a problem in either the credit hour or the state authorization context."²⁶⁶ The House of Representatives has voted to repeal the credit-hour regulation and the state authorization requirements (which have now been vacated by the courts) via the Protecting Academic Freedom

in Higher Education Act.²⁶⁷ But the legislation has not received a vote in the Senate, and the regulation remains on the books.

The Department of Education has also recently finalized a revised rule on state authorization. The rule requires “institutions offering distance education or correspondence courses to be authorized by each state in which the institution enrolls students.”²⁶⁸ In 2010, a federal court struck down an earlier version on procedural grounds.²⁶⁹ Shortly thereafter, in anticipation of future rulemaking, a voluntary consortium of states came together to establish state reciprocity agreements governing distance education. The National Council for State Authorization Reciprocity Agreements (NC-SARA) allows institutions authorized in a SARA state to serve students via distance education in other SARA states.²⁷⁰ That way, institutions do not have to go through full authorization processes in all of the states where its students reside. This voluntary process reduces the regulatory burden on institutions in member states. To date, NC-SARA covers 42 states and the District of Columbia, with roughly 1,150 participating institutions.²⁷¹

The department’s new rule acknowledges SARA, noting that states can meet federal requirements for authorization through “participation in a state authorization reciprocity agreement.” But there’s a catch: It also stipulates reciprocity agreements must not “prevent a state from enforcing its own laws.”²⁷² That means states can regulate out-of-state institutions in excess of SARA requirements, setting back efforts to provide a common authorization framework for SARA member states and regulatory relief for providers.²⁷³ At present, the rule stands on uncertain ground with an incoming administration given the date on which it was enacted.²⁷⁴ Federal policymakers should rework the rule to respect this state-driven initiative to streamline interstate regulation of distance education.

Reformers should also take advantage of the experimental-sites authority to fund and study new ideas. The 1992 reauthorization of the Higher Education Act created “Experimental Sites Authority,” or “ex sites.”²⁷⁵ The authority empowers the secretary of education to “periodically select a limited number of additional institutions for voluntary participation as experimental sites to provide recommendations to the Secretary on the impact and effectiveness of proposed regulations or new management initiatives.”²⁷⁶

Specifically, the provision allows the secretary to waive, for existing

accredited institutions that sign up for an ex-sites project, any requirements related to the disbursement of financial aid, such as “innovative delivery systems for modular or compressed courses” or “entrance and exit interviews” for loan counseling.²⁷⁷ The secretary is then required to review and evaluate the experiments and, on a biennial basis, to report on those experiments to Congress and make recommendations based on the findings.

Past administrations have used experimental-sites authority to varying degrees. Projects have included competency-based education and direct-assessment programs, allowing institutions to limit borrowing for particular categories of borrowers, short-term job training, changes to exit counseling, and others. The most recent ex-sites initiative will enable students to use some of their financial aid at providers that are not accredited so long as they are partnered with an existing, Title IV-eligible institution and are certified by an independent “quality assurance entity.”²⁷⁸

In short, ex-sites authority provides the department with authority to foster experimentation at existing institutions. One strength of this approach is that the authority already exists and does not require an act of Congress. It also allows the government to test out potential reforms on a smaller scale first and to learn from the results before deciding which, if any, should be brought to scale. One drawback is that the experimentation is limited to existing accredited colleges and requires the waiver of existing financial-aid rules, which largely excludes innovation that occurs outside of traditional colleges.

That said, an incoming administration should ensure that pre-existing experiments continue until they can be rigorously evaluated and the results made public. They should also use the authority to experiment with other ideas. For instance, an experimental-sites project could relax the requirement that students in apprenticeships can receive Pell Grants and work-study funds only if they are in an aid-eligible degree or certificate program. Apprentices could then use federal aid to enroll in non-credit courses or to earn recognized industry certifications.²⁷⁹ Another experimental site could allow a set of institutions to develop aid-eligible, low-cost, accelerated routes to required general-education courses. These pathways might not lead to a degree or to gainful employment, but they could be transferred to a degree program.

Whatever the experiment, policymakers should ensure that

experimental-sites projects are evaluated according to the What Works Clearinghouse standards and that the results are made public.²⁸⁰

PUSHING FURTHER

Reformers not satisfied with these relatively modest steps may prefer a bolder set of reforms to better enable innovation in education delivery. To start, they could broaden eligibility for the Workforce Investment Act (administered by the Department of Labor) to cover all Registered Apprenticeships. In some states, certain apprenticeship programs do not qualify for Workforce Investment and Opportunity Act (WIOA) funding because those occupations are not designated by the state as “high-skilled occupations.”²⁸¹ This restriction leaves out high-demand, high-wage jobs based on outdated assumptions about the level of technical expertise and knowledge required to perform the job. In order for states to receive WIOA funding, they should be required to recognize all registered apprenticeship programs as high-skilled occupations and include them as eligible WIOA participants.²⁸²

Reformers should also encourage the expansion of apprenticeship programs via federal tax credits. Although the secretary of education has confirmed that apprentices who enroll in eligible academic programs can receive grants and loans, because they are paid wages, generally attend college less than full-time, and often enroll in non-credit courses, it is unlikely that an apprentice will qualify for a full Pell grant. Therefore, instead of handing out partial Pell Grants to apprentices, the federal government should provide companies that sponsor Registered Apprenticeship programs an annual tax credit for each apprentice they hire. Tax credits are preferable to grant programs because the complexity of federal grant programs may be too difficult and burdensome for small and mid-size companies to navigate. Because all companies deal with significant and complex tax burdens, adding a tax credit would not impose additional burdens. The cost of this tax credit will be offset by the taxes paid by apprentices for wages earned during the program as well as savings in the Pell Grant program.

How large should the credit be? One proposal along these lines is the Leveraging and Energizing America’s Apprenticeship Program (LEAP) Act, introduced by Senators Tim Scott and Cory Booker. The bill would amend Chapter 1 of the Internal Revenue Code of 1986 (Normal Taxes and Surtaxes) to provide a tax credit to businesses that hire new

apprentices that are registered with the Department of Labor or a state apprenticeship agency. The bill defines “apprentice” as an employee who is employed in an officially-recognized apprentice-able occupation pursuant to an apprentice agreement registered with the Office of Apprenticeship in the Employment and Training Administration in the Department of Labor or a recognized state apprenticeship agency. Firms would receive a credit of \$1,500 for apprentices under the age of 25, and \$1,000 for those over 25.

Federal policymakers can also create space for innovation through demonstration projects, which allow the secretary to waive particular statutory and regulatory obligations in order to study a given reform idea. The idea is to create a federally sanctioned, controlled experiment that exempts a subset of providers from existing rules so that they can try new things in exchange for transparency and documentation of the outcomes. Unlike *ex sites*, where regulatory relief is limited to accredited institutions, Congress could use a demonstration project to expand the range of providers. A demonstration project requires an act of Congress but can be designed to be budget neutral.

Policymakers could adopt this approach to study the feasibility of letting students use some portion of federal aid on options that federal rules currently discourage or exclude, including competency-based education, exam-based credits, short-term training, “microcredentials,” and “unbundled” models (where students earn credits from multiple providers and, with the help of a credentialing organization, stack them into a credential). They could also use a demonstration project to experiment with new quality-assurance entities, empowering the secretary to recognize organizations that certify schools based on the student learning they produce, not what they look like.

A good starting point is competency-based education, as it has already gained traction in Congress. Representatives Matt Salmon and Jared Polis have proposed such demonstration projects in the past, and one passed the House of Representatives with a huge bipartisan majority.²⁸³ But these proposals have yet to become law. An incoming administration could build on these prior proposals to introduce its own version of a competency-based demonstration project for inclusion in the reauthorization of the Higher Education Act.

To experiment with alternative authorizers, policymakers could waive the existing recognition requirements for accreditation agencies

and allow the Department of Education to recognize a third-party organization (or set of organizations) that would be tasked with approving innovative offerings based primarily on their demonstrated outcomes. The recognition could automatically sunset after five years, providing policymakers with a chance to evaluate the model but limiting the risk to taxpayers and students. Existing accreditors could apply to be recognized under such a plan, but so could other private entities like professional associations, consortia of employers, or community-based organizations.²⁸⁴ (A similar idea is expanded in the next section).

Congress could also waive the requirement that organizations be accredited in order to receive Pell Grants and set up an alternative certification process based on audited evidence of a provider's student outcomes (including student learning) and financial sustainability. Organizations—including traditional institutions—with a proven track record of success could apply for aid eligibility via this expedited path. Such a project could also waive credit-hour and program-length requirements to maximize flexibility. Any authorization could be time-limited to two to three years. (One potential drawback of this approach is that it would put the department in a powerful position to make these approvals even though it may lack the capacity and objectivity to do it well).

Policymakers should consider a demonstration that allows some students to use Pell Grants for non-credit occupational programs that have substantial support from local employers and are willing to be held accountable for student outcomes in the labor market.²⁸⁵ As a condition of eligibility, providers that want to participate could be obligated to secure a financial commitment from local employers that benefit from the training—a surety bond, perhaps—proportional to the Pell Grant funding that will flow to the program. That bond could cover losses in the event a program fails to reach established labor-market outcomes.

Critically, any demonstration projects should include clear research and evaluation requirements, preferably a call for independent, third party evaluation that adheres to the What Works Clearinghouse's evidence standards. Such evaluations may require additional funding to cover administrative costs, but the resulting research will be better able to guide future decisions about changes to Title IV eligibility.

A new administration could also allow institutions that meet performance standards to apply for waivers. Instead of targeting specific innovations designed at the federal level (as they are with ex sites and

demonstration projects), the feds could also consider a model similar to Medicaid waivers. Under Section 1115 of the Social Security Act, states can apply to the Centers for Medicare and Medicaid for the freedom to implement reforms designed to improve service and efficiency as long as they are budget neutral.²⁸⁶ The goal of the waiver authority is to “demonstrate and evaluate policy approaches” by “[giving] states additional flexibility to design and improve programs.” State proposals must satisfy some “general criteria”: projects must expand coverage, increase efficiency, improve health outcomes, or strengthen provider networks.²⁸⁷ Waivers are typically good for a five-year period, at which point states can apply for a three-year extension.

Importing this logic to higher education, the department could consider granting flexibility to institutions that propose an innovative program or disbursement model that would run afoul of current federal rules but is designed to promote some basic, agreed-upon goals. To determine eligibility, Congress could set clearly defined standards on objective measures of student outcomes and financial responsibility. Unlike a traditional ex site or demonstration project, where Congress or the executive branch develops the project from Washington, a waiver model would allow new ideas to bubble up from the institutions themselves.

AGGRESSIVE REFORMS

A future administration may conclude that the time is right for more aggressive reforms that would lower barriers to innovation by remaking the current higher-education accreditation system.

Some have argued that it is time to end accreditation’s role as gatekeeper to federal student aid entirely. Anne Neal and Arthur Rothkopf of the National Advisory Committee on Institutional Quality and Integrity (NACIQI) have proposed “breaking the link” between accreditation and federal financial aid and replacing it with stricter federal financial-responsibility standards and enforcement and much greater transparency about basic outcome information. In addition, Neal and Rothkopf’s proposal would require institutions to post a statement from an independent auditor that the institution has “sufficient resources to ensure that all enrolled students can be supported to the completion of their degrees.”²⁸⁸ Students could then use their federal financial aid at the provider of their choice using the information available, and those choices would inject market discipline.

The clear drawback of this approach is the potential for fraud and abuse in a market with low barriers to entry and low-information consumers. As such, decoupling accreditation and federal financial aid should only be considered in concert with the reforms proposed in the sections on Accountability and Transparency.

The states already play a sizable role in federal higher-education policy; institutions must be authorized in states where they are active in order to receive financial aid. One option for accreditation reform, therefore, is to devolve responsibility for recognizing accreditation agencies (currently reserved for the secretary of education) to state governments that apply for and are granted such authority by the secretary of education. State policymakers would then use this authority to recognize an accreditation agency (or agencies) that was empowered to approve organizations to receive federal Title IV aid.

One such proposal is the Higher Education Reform and Opportunity (HERO) Act, introduced by Senator Mike Lee. States would be required to enter into an agreement with the secretary of education to determine the accreditation agency within the given state, the criteria used to evaluate institutions and programs, and the specific reporting requirements to maintain accreditation. The bill would explicitly allow these state-sanctioned entities to authorize apprenticeship programs, curricula, and individual courses (in addition to institutions of higher education). The state and the secretary of education would also agree on an appeals process for an institution or program that is denied accreditation.

Under the HERO Act, states choosing to create their own accreditation agencies would be required to articulate their own definitions of a post-secondary certification, credential, and a degree. This would also require states to determine the goals of these institutions and the programs and methods through which to evaluate entities' progress towards meeting those goals. Just as financial assistance is provided to institutions of higher education for accreditation-reporting requirements under the current system, so too would assistance be provided for states choosing to initiate an alternative accreditation system.²⁸⁹

One strength of this approach is that state agencies are already engaged in higher-education quality assurance (thanks to their state authorization responsibilities), meaning that this new role could be grafted onto an existing institution. Other proposals (see below) would rely on the emergence or creation of new authorizing entities.

An additional strength is that states are closer to the ground than either the federal government or the current accreditation agencies. In theory, that puts them in a better position to know what the state needs when it comes to post-secondary offerings. However, research on state authorization suggests that state capacity to evaluate educational organizations varies dramatically, and that few states actually judge providers on the basis of their student outcomes.²⁹⁰

A third alternative approach is to create a parallel path to federal aid eligibility built on a “Pay-for-Success” model.²⁹¹ The key idea here is that federal policy could grant educational organizations limited eligibility to receive federal aid money (Pell Grants) under a reimbursement model. After a basic review of financial sustainability, providers who agree to particular terms could sign on to serve Pell-eligible students under a performance contract, but would not receive that grant money upfront. Instead, they would be reimbursed based on whether they reach agreed-upon outcome targets. Pay-for-success models have garnered bipartisan attention because they provide an opportunity to try new models of service provision while protecting taxpayers.

When it comes to a pay-for-success model in the context of federal financial aid, policymakers could structure such a program in a couple different ways. One version would import the social-impact-bond model, where the government contracts with an intermediary who funds a direct-service organization to provide a public service. If the project meets agreed-upon goals (spelled out in the contract), the intermediary is reimbursed for the funding. In a classic social-impact bond, if the project exceeds expectations, the intermediary reaps a return that goes to investors.

In higher education, such an approach would give the secretary the power to recognize intermediary organizations (existing accreditors, state governments, nonprofit or for-profit organizations) as gatekeepers of access to federal need-based aid. Those organizations would then have the power to certify particular educational programs as eligible to receive federal Pell Grant money. Rather than disburse those student-aid dollars upfront when a student enrolls, however, the intermediary would provide the necessary funding and be reimbursed by the Department of Education on the basis of the outcomes achieved by the educational organization.

Specifically, reimbursement would be based on the provider’s success rate in reaching externally validated outcomes that are explicitly

spelled out in the contract between the Department of Education and the intermediary—examples include passage rates on licensure exams and prior learning assessments, accumulation of transferable credit, and job placement and increase in earnings. In order to be reimbursed, program outcomes would have to be independently evaluated and validated by a third-party auditor or research organization.

Educational organizations that wished to open their program to Pell-eligible students with financial need would have to partner with an intermediary that was responsible for providing sufficient funding to cover the Pell Grant money withheld by the federal government. Said funding could come from the intermediary themselves or from investors that the intermediary coordinated. In return for taking on the upfront financial risk, the providers would have complete flexibility when it came to program content and structure.

Intermediaries might include nonprofit foundations, state governments that wish to underwrite innovative offerings at their public institutions, or existing accreditation agencies. Intermediaries could require the organizations themselves to assume some of the risk of failure as well, thereby aligning the incentives of all parties involved. Intermediaries that consistently performed well under the reimbursement model could incrementally move toward receiving more of the federal aid upfront but would always retain a sizable percentage of the risk.

To prevent against cost inflation, policymakers could set a fixed reimbursement rate for different types of services (degree programs versus short-term training versus unbundled online coursework), thereby capping the amount of money that a provider could receive for a successful outcome.²⁹² The agreement should also fix the tuition rate a provider could charge aid-eligible students. Students who opted for a provider certified under this parallel path would be subject to the same spending caps, and the aid spent on a given offering would be subtracted from their lifetime eligibility (or from their need-based account).

A simpler approach would not use intermediaries but would allow providers to sign onto pay-for-success contracts with the Department of Education directly. In this model, the providers would have to front some portion of the money and be reimbursed based on their performance on agreed-upon outcomes. Providers who were successful could work their way into receiving more of the money upfront. One drawback of this particular model is that it might exclude nonprofit

or public organizations that have promising ideas but likely lack the resources to put the money up themselves and may have a difficult time raising capital from the private market.

A pay-for-success approach would encourage innovation while protecting taxpayer dollars in a number of ways. First, because intermediaries or providers themselves would be reimbursed for success rather than paid for enrollments, they would bear the upfront risk instead of taxpayers. This reimbursement model also limits the risk of allowing public dollars to flow to innovative offerings that are promising but uncertain.

Second, by forcing organizations to rely on a source of capital other than federal aid in the short term, the model would inject greater discipline into the system. Intermediaries with skin in the game would have incentive to seek out partners who are capable of achieving the agreed-upon outcomes, and would not partner with those that are not up to the task. Third, to the extent that the reimbursement rate does not cover the full cost of tuition, aid-eligible students would have to spend their own money or find a private financing option, adding another layer of market discipline that is often lacking.

Senators Michael Bennet and Marco Rubio introduced an innovative proposal built on a pay-for-success model in 2015 (the Higher Education Innovation Act). The bill would empower the secretary to recognize new “innovation authorizers” who would certify educational programs as eligible to receive Pell Grants based on their performance on specified metrics: student learning, completion, and affordability and value. Educational offerings with five or more years of evidence for their success would receive the full value of the Pell Grant upfront; those with between three and five years would receive 50% of the Pell Grant funding and be required to put up matching funds or a bond for the other 50% and be reimbursed based on how many students completed the program; those with less experience would receive less of the money upfront, and so on.²⁹³

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Systems to Support Policy Analysis.

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definition of the credit hour. Section 103 (20 U.S.C. § 1003) defines “distance education” as education that uses a specified technology “(i) to deliver instruction to students who are separated from the instructor; and (ii) to support regular and substantive interaction between the students and the instructor, synchronously or asynchronously.”

250. These new regulations include: setting a federal definition of the credit hour (traditionally left up to accreditors and institutions); regulating the ability of colleges to use incentive-based compensation with employers or contractors; and requiring that institutions offering distance learning programs obtain authorization in every state where they enroll students (as opposed to where they are located). The so-called State Authorization rule was vacated by a federal court, but the Obama administration has signaled a desire to revisit it in the waning months of the second term.
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