Understanding The College Scorecard

By Edwin W. Koc

"...My administration will release a new 'College Scorecard' that parents and students can use to compare schools based on a simple criteria—where you can get the most bang for your educational buck."
- President Obama, 2013 State of the Union


THE UNITED STATES OF AMERICA
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ONE HUNDRED DOLLARS
THIS NOTE IS LEGAL TENDER
FOR ALL DEBTS, PUBLIC AND PRIVATE
SERIES 1996
Robert E. Rubin
Secretary of the Treasury.
Treasurer of the United States.
FRANKLIN
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When President Obama mentioned the College Scorecard at his State of the Union address in February, it drew a good deal of attention to a concept that has been in the works for a couple of years. The intent of the scorecard is to provide potential students and their parents with a clear way to judge the potential costs and likely benefits of attending one school as opposed to another, and make schools more focused on the end result, particularly the employment outcomes, of their programs.

Components of the College Scorecard

The scorecard, which can be accessed on the White House website, www.whitehouse.gov/issues/education/higher-education/college-score-card, has five components, four of which are currently active.

The first component is the average net price for an undergraduate to attend an institution. The net price represents what the "average" student would pay after grants and scholarships are subtracted from the institution's cost of attendance. Student loans are not subtracted from the cost of attendance because these need to be paid back after graduation. In addition to providing the average price to attend, the scorecard also provides information about how the price at the school has changed in recent years, although this information is currently seriously out of date. The current scorecard shows the price trend for the period 2007 to 2009.

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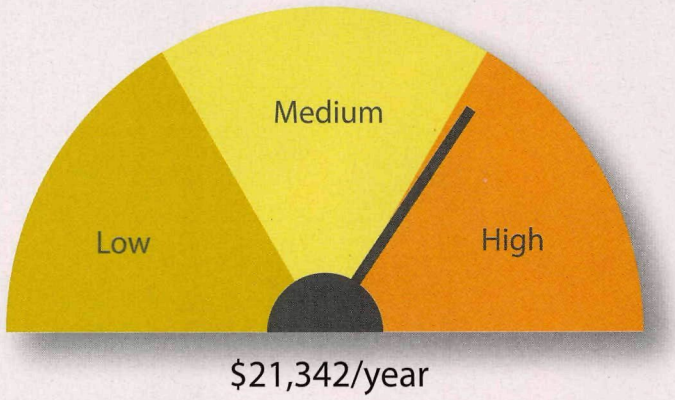
Figure 1: Average cost to attend Penn State University



Source: www.whitehouse.gov/issues/education/higher-education/college-score-card

To better see how the scorecard operates, take a look at Pennsylvania State University (the main campus at University Park, Pennsylvania). When viewing the net price, the scorecard application displays an average cost of $21,342 for an in-state student to attend Penn State. The scorecard provides an adjoining graphic that places the cost of attending Penn State just to the high end of the national scale. (See Figure 1.)

The scorecard shows the average price of attending Penn State increased by 14.7 percent from 2007 to 2009. While the basic scorecard does not indicate precisely how that compares with other institutions, there is a link that the user can click on that will provide trends in the net price by types of institutions.

The second scorecard component is the school's graduation rate. The graduation rate is the percentage of full-time students who enrolled at the school as freshmen and completed their requirements for the bachelor's degree within a period of six years. The graduation rate component excludes students who have transferred from other schools.

In this example, 86.7 percent of students enrolling directly at Penn State's University Park campus graduated within the six-year time frame. The adjoining graphic in the scorecard shows Penn State's graduation rate to be on the very high end of the national scale. (See Figure 2.)

The third component is a school's loan default rate. The loan default rate does not cover all student loans. It only deals with federal student loans and identifies the percentage of students (borrowers) who have failed to maintain their repayments within three years of starting their repayment plan. The scorecard lists the individual school's federal loan default rate and compares it to the overall national federal loan default rate.

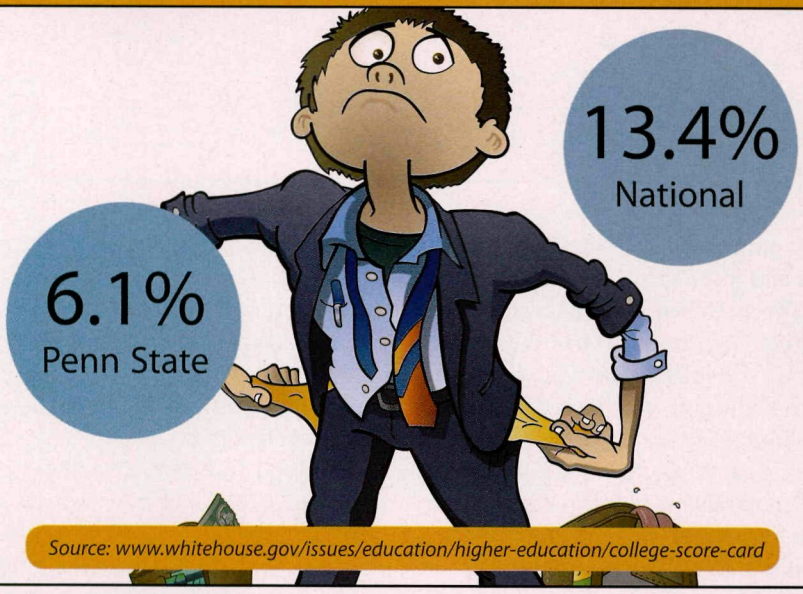
In Penn State's case, the loan default rate is listed as 6.1 percent. This compares to a national average of 13.4 percent, suggesting that students enrolling at Penn State's University Park campus are generally better able to repay their student loans than are undergraduates nationally. (See Figure 3.)

The fourth component is the median borrowing amount. This figure is based on the median amount borrowed by a student and/or his or her family in federal loans to pay for an undergraduate education at a particular institution. This overall number is then recalculated to determine the average monthly payment based on a 10-year

Figure 2: Graduation rate—Penn State University

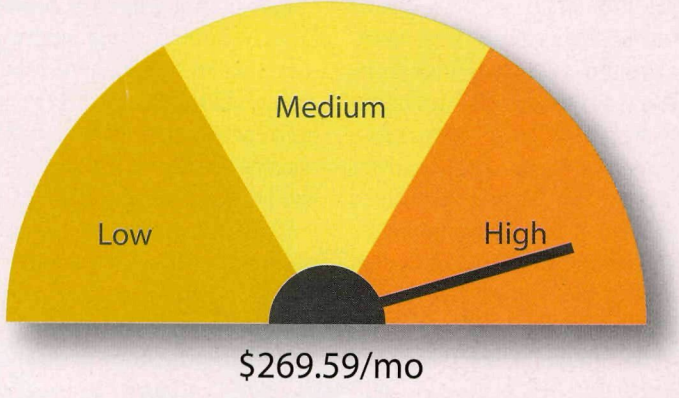
Source: www.whitehouse.gov/issues/education/higher-education/college-score-card

Figure 3: Loan default rate—Penn State University



Source: www.whitehouse.gov/issues/education/higher-education/college-score-card

Figure 4: Median borrowing amount—Penn State University



Source: www.whitehouse.gov/issues/education/higher-education/college-score-card

repayment schedule. Finally, that number is graphically represented on the same type of scale as is net price to show where the institution stands relative to all other schools as to median borrowing.

In the case of Penn State, the median amount borrowed in the form of federal student loans to pay for a complete undergraduate education is identified as $23,426. Based on a 10-year repayment schedule, the monthly cost is put at $269.59. The accompanying figure suggests that borrowing costs associated with an undergraduate degree at Penn State are at the high end of the national scale. (See Figure 4.)

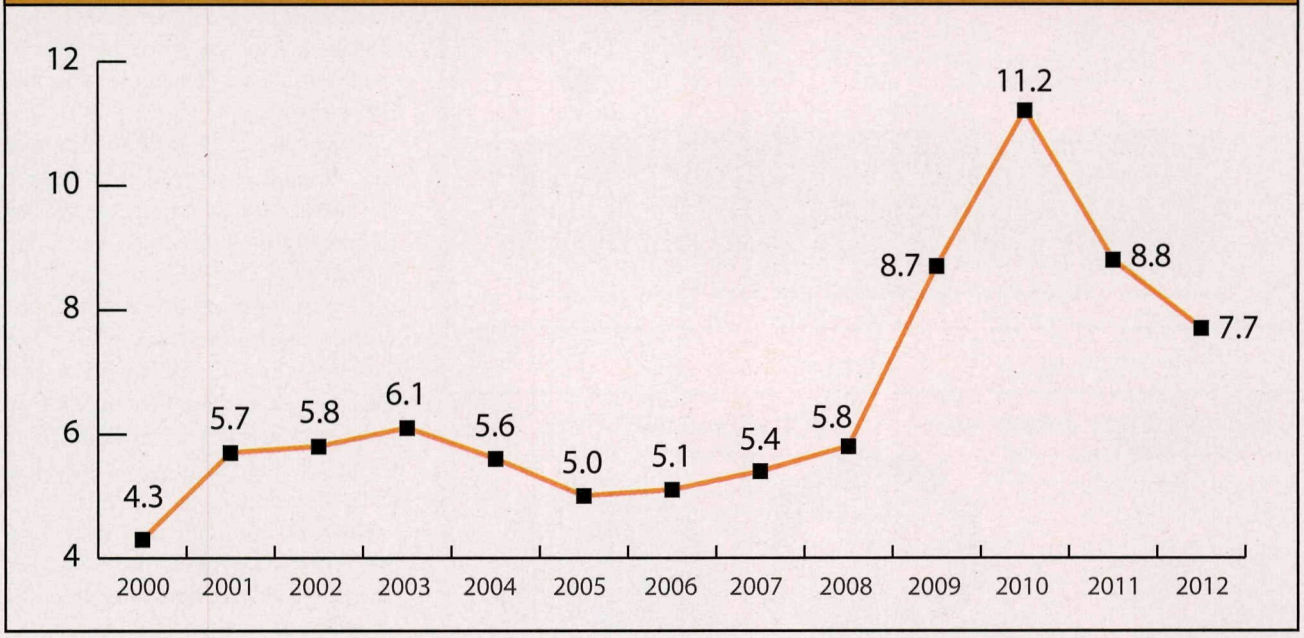
The final component of the scorecard is not yet operational and could be the most controversial. This part of the scorecard is reserved for identifying student outcomes after receiving the bachelor's degree. The idea is to identify the percentage of students who graduate and obtain employment, and then to add in the earnings received from that employment. Just exactly how those figures will be arrived at has yet to be determined, although several ideas have been proposed.

One idea in the works is to base the employment calculations on just those graduates who received federal student loans. This would allow the U.S. Department of Education to collect employment information through the loan repayment program—information that should be easily accessible to the department.

Since such employment information would hardly be a comprehensive picture of employment outcomes related to a school's graduates, there are legislative ideas that have been floated to develop a more complete picture. The clearest example is the bill proposed by Senators Ron Wyden (D, OR) and Marco Rubio (R, FL) as an amendment to the Higher Education Act, which is up for reauthorization this year.

The Wyden-Rubio bill would require colleges and universities to report

Figure 5: Unemployment rate for bachelor's degree and above, 2000-2012



individual student records to state postsecondary education data systems. This would allow student records to be combined with individual-level employment and compensation information that is collected as part of individual state unemployment compensation systems. The intent is to be able to report employment and compensation information for graduates from individual institutions by degree level and academic program.

These data collection programs for reporting the fifth component of the scorecard have not been implemented as yet.

The Perceived Need for College Accountability

What is driving the current political momentum to make colleges and universities "accountable?" This political momentum that seems to bring together Democrats and Republicans—two parties that can hardly agree on anything else. Three data points can be cited that go a long way to explain the current perception that colleges and universities are not providing an adequate return on student investment.

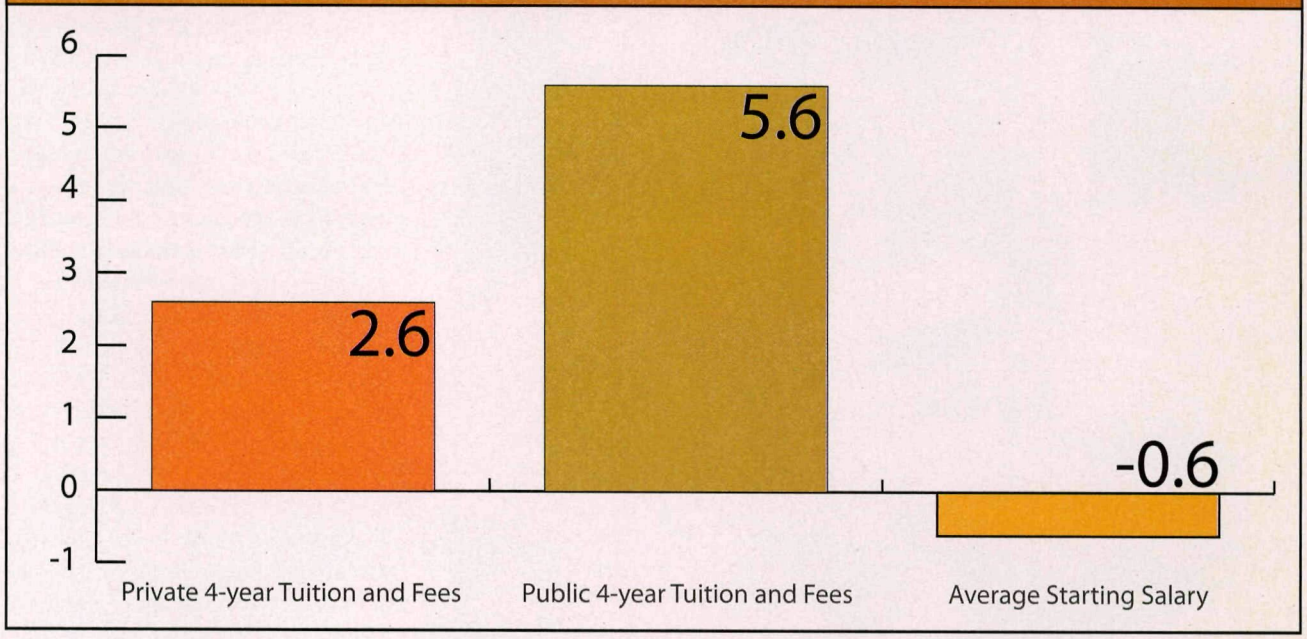
The first is a consequence of the severe financial recession the United States and most of the world plunged into at the end of 2008 and remained in throughout most of 2009. The recession resulted in unprecedented levels of unemployment for young college graduates. The unemployment rate for young college degree-holders (those 20 to 24 years of age) rose to more than 6 percent in 2009 and has stayed above that level ever since—the average unemployment rate for this part of the labor force was 7.7 percent in 2012. (See Figure 5.)

These rates are actually favorable when compared with individuals in the same age group who did not have a college degree—high school graduates had unemployment rates higher than 18 percent throughout the same period. However, the unemployment picture for recent college graduates was far worse than at any time in the past, even during recessionary periods.

The second factor is the extent of "underemployment" currently being broadcast for college graduates. In the spring of 2012, newspapers and television stations across the country were distilling the results of a report produced by the Center for Labor Market Studies at Northeastern University as more than half of all college graduates being unemployed or underemployed.[1]

The reporting of the Northeastern study was certainly over-sensationalized, and there are grounds to challenge the findings of the study. For example, the definition of underemployment used in the study counts anyone working in an occupation that the U.S. Bureau of Labor Statistics defines as not requiring at least a bachelor's degree as underemployed. This would include many occupations, such as financial loan officer, where more than 50 percent of the current incumbents hold a bachelor's degree or higher. Nevertheless, the report does make the point that many occupations that are associated traditionally with a college degree are not producing sufficient openings either through growth or replacement to employ the number of individuals that U.S. colleges and universities are now graduating. The result is a ratcheting down of the occupational level

Figure 6: Average annual change: college cost vs. starting salary, 2001-2011



associated with the bachelor's degree and more than a bit of dissatisfaction coming from recent graduates whose most sought-after job attribute is the nature of work they will be asked to perform.[2]

The third, and perhaps most critical point in spurring the movement to legislate accountability is the trend connected with the return on investment from pursuing a bachelor's degree—at least as how that trend would be seen from the standpoint immediately after college. Figure 6 shows the juxtaposition of the annual change in the cost of getting a bachelor's degree against the annual change in the average starting salary for a newly minted college graduate. The College Board reports that the annual growth in the cost of tuition and fees, controlling for inflation, was 2.6 percent at private, four-year institutions and 5.6 percent at public, four-year schools. By contrast, data from the NACE *Salary Survey* shows that the average starting salary for college graduates actually decreased by a nominal percentage on an annual basis when taken in constant dollars. (See Figure 6.)

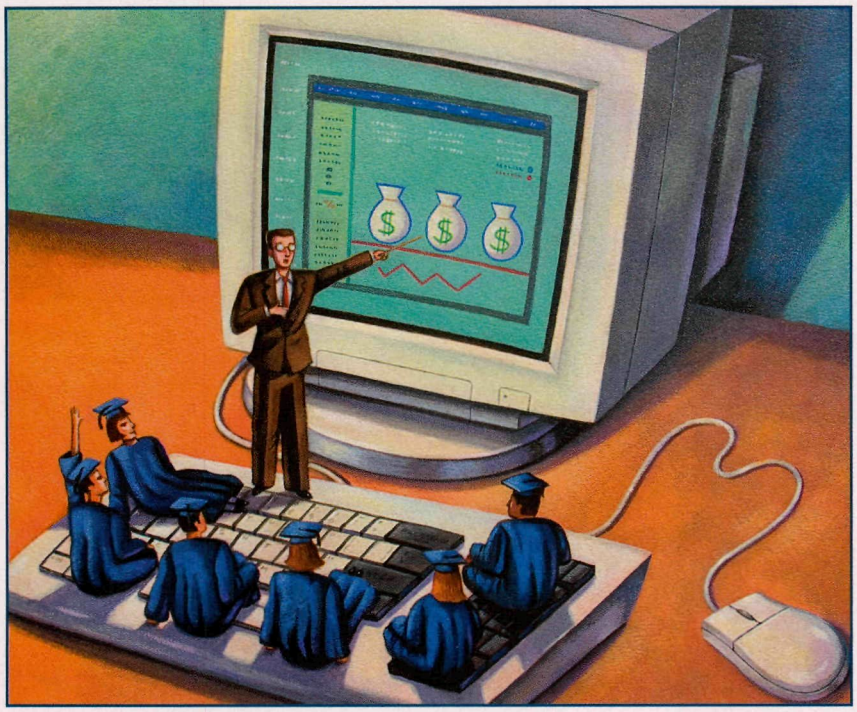
By any standards, Figure 6 indicates that the economic return from a college degree is not keeping pace with the costs connected with obtaining that degree. The decreasing return on investment provides the impetus for policy-makers to create a system whereby consumers can better evaluate their potential expenditures by comparing the costs and potential returns of different schools—but does the College Scorecard actually provide the consumer with an adequate comparison?

Evaluating the College Scorecard

Comparing the relative utility of enrolling in one school as opposed to another on gross economic numbers is a difficult and perhaps unwise exercise. Even the comparative cost data that have been developed to date are fraught with potentially misleading information for a student and his or her parents. Perhaps the least controversial data would be the net price calculator which has been in the works for a number of years. It is a relatively straightforward calculation (tuition and fees minus scholarships and grants). The problem lies in the comparisons. The cost structure associated with higher education is not distributed equally across all types of schools. A state-supported institution may have lower base costs but may limit financial aid to loans rather than distributing grants to a large proportion of its students. This may effectively raise the total net price and make the school appear to be more expensive than it really is, especially if the comparative measure is the overall national average.

In addition, the net cost of attendance may be drastically different depending on the student and his or her family's financial position. The scorecard inherently recognizes this by providing links to calculate costs based on an individual financial profile. However, what then is the value of the comparison, and is that comparison inherently invalid?

A similar problem exists with the other measures in the scorecard. For example, the median borrowing amount is highly dependent upon the composition of the students attending



the university and their family financial status. Limiting the borrowing information to federal student loans does not provide a complete comparative picture, because the students who will receive these loans will likely not be distributed equally across all types of schools. In effect, the higher the proportion of students a school enrolls from lower income families will all but ensure that the school has higher median borrowing costs and will thus fare comparatively poorly on the college scorecard.

Finally, there is the problem of producing adequate outcomes data. Anyone who has had to produce a destination survey knows that tracking students after graduation is a daunting task. Many schools have attempted to track graduate outcomes, but to date there has been very little consistency in the process. Different schools collect data at different times, define outcomes in different ways, and get a range of respondent levels. The result is that true comparative data for outcomes by school are virtually nonexistent.

Recognizing the problem in having more than 3,000 schools collect data uniformly, administrators and legislators are proposing to solve the problem by connecting school reports for individual students to government employment databases (the Wyden-Rubio bill). However, there is a serious methodological problem in relying on these data for comparisons. The proposed government databases do not cover all students who will obtain employment. Ordinarily, that in and of itself is not a problem. Any survey will miss some potential respondents (data) and will produce some level of error. However, the hope is that in constructing the information from a survey, the errors will essentially cancel themselves out and produce no inherent bias in the results. The problem with using the government databases, for example state unemployment compensation systems, produces data that are systematically skewed for some schools. For instance, if a large number of a school's graduates work out-of-state that information will not be captured. The school's overall comparative employment rate will suffer and there is a good chance that the average compensation connected with the school or an individual program will also be inaccurate.

In addition, employment and compensation do not represent a comprehensive picture of graduate outcomes. The importance of employment and compensation should not be dismissed—providing for one's economic well-being is a critical factor in why most students attend college, but many students have other goals for after graduation besides landing a job. Continuing their education in the pursuit of an advanced degree is clearly one of these other goals. If individual school outcomes are to be compared, the consumer (potential student and family) should be provided with a comprehensive picture, not just one panel of a triptych.

There are clearly limitations of the current College Scorecard that need to be addressed. However, the pressures on policy-makers to assist consumers in an era where the bachelor's degree cannot guarantee a job, let alone a professional career, are not likely to go away. Rather than simply fight the notion that a college education is open to an economic evaluation, it is up to the schools themselves to construct the quantitative and qualitative narrative that justifies escalating costs and allows the potential student to make a more informed choice of program, degree, and school.

Endnotes

[1] Headline examples are: "Half of New Graduates are jobless or underemployed, *USA Today,* and "53% of Recent College Grads Are Jobless or Underemployed—How? A college diploma isn't worth what it used to be," *The Atlantic.*

[2] See NACE, *2012 NACE Student Survey*, Bethlehem, PA: National Association of Colleges and Employers, September 2012.