

Lower Risks, Higher Rewards: A Proposal to Improve Outcomes for Graduate Students and Taxpayers



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Overview of proposal:

Comprehensive rethinking of graduate education financing is long overdue. In the two decades since the introduction of the Graduate PLUS loan program, graduate and professional degrees have had practically unfettered access to taxpayer-funded student loans—allowing institutions to drive up tuition costs without needing to prove they deliver baseline levels of educational quality or lead to positive economic outcomes for students. Today, graduate student debt comprises nearly half of the outstanding federal student loan portfolio, and the abysmal lack of publicly available data means students and policymakers alike are largely in the dark about the costs, debt loads, and employment and earnings outcomes that result from enrolling in federally-aided graduate programs. This proposal represents a shift from runaway costs and indiscriminate access to taxpayer dollars to a targeted, responsive graduate education financing system that:

- Sets reasonable caps on federal borrowing while bolstering consumer protections in the private lending market and increasing targeted grant aid;
- Establishes common-sense baselines for outcomes that graduate programs must meet as a condition of eligibility for access to taxpayer-funded student loans; and
- Strengthens data collection and transparency about graduate programs for students and stakeholders.

Pillar One: Set Reasonable Loan Limits

Under current law, graduate students can use federal Direct Unsubsidized Loans and Graduate PLUS Loans (Grad PLUS) to finance their graduate education beyond fellowships and scholarships. Since the creation of the Grad PLUS loan program in 2006, borrowing amounts for graduate education have gone essentially uncapped, leaving some graduate students with unaffordable debt loads they are unable to repay. Setting reasonable loan limits on Grad PLUS while maintaining current access to unsubsidized loans will ensure that graduate students still have access to federal loan financing options and are able to graduate with debt amounts they can repay while incentivizing institutions to lower program costs (or at the very least, not inflate them).

Cap Grad PLUS loans at \$125,000. Unlike Direct Unsubsidized Loans, which have annual and lifetime borrowing limits, Grad PLUS borrowing is essentially uncapped and comes with higher interest rates and origination fees. The amount that graduate students can borrow through the Grad PLUS program is set by an institution's estimated "cost of attendance," and therefore can vary greatly. The Government Accountability Office estimated in 2018 that capping lifetime Grad PLUS loan borrowing at \$125,000 would cover the expenses of 95% of borrowers—resulting in limited upheaval for current students.¹ Even with a cap on Grad PLUS, graduate students will still have access to federal Direct Unsubsidized Loans, which are available up to \$20,500 annually and \$138,000 in aggregate (inclusive of federal loans borrowed for undergraduate studies). A firm upper bound for federal graduate loan borrowing through a \$125,000 cap on Grad PLUS would ensure that the vast majority of graduate students have access to

finance their education with taxpayer-funded loans, while also preventing borrowing totals from skyrocketing and reducing institutional incentives to inflate student charges.

Establish protocols for Grad PLUS loan cap adjustments. The costs of providing the education required for a graduate degree change over time, and it is appropriate to provide reasonable corresponding adjustments to borrowing caps. To handle this volatility without encouraging price gouging, the federal government should establish an objective mechanism for annual auto triggers (based on the Consumer Price Index) that signal when the loan cap should be adjusted for inflation.² Additionally, Grad PLUS borrowing averages should be reviewed across institutions and program types every five years to ensure that taxpayer dollars are responsibly appropriated.

Pillar Two: Award Grant Aid to Students and Institutions to Address Equity and Social Good Considerations

Placing a cap on the amount of federal loans that graduate students are able to borrow will have secondary impacts on access to graduate programs. To ensure that all students—especially those with high financial need and low access to capital—are able to equitably pursue high-quality graduate programs that will help them meet their career goals, additional investment in grant funding for graduate students will be essential. These subsidies should be tightly targeted to meet dual goals of sustained access to graduate programs for low-income and historically underrepresented students and alignment with labor market needs.

Allow unused Pell Grant funds to be used for graduate studies. At the undergraduate level, Pell Grants provide a critical source of need-based federal student aid for students from low- and moderate-income backgrounds. Yet we know that financial need does not simply disappear upon receipt of an undergraduate credential, and compelling low-income graduate students to take

out more loans for their studies only compounds existing inequities. The Council for Graduate Schools approximates that 46% of entering graduate and professional students received a Pell Grant as undergraduates, and 35% of them did not use the full 12 semesters of Pell funding allowed by law.³ Permitting Pell Grant recipients to apply their remaining Pell eligibility toward a graduate degree will allow them to receive the full grant benefit to which they were entitled while offsetting their overall cost of attendance.

Support colleges that serve underrepresented graduate students well. Professional and doctoral degrees represent the highest level of study in a field, and they typically take longer to earn and charge the highest tuition rates among graduate programs. Institutions that demonstrate a clear and sustained commitment to graduate degree access by enrolling high proportions of students from historically underrepresented groups in graduate programs and supporting them through the attainment of professional and doctoral degrees should be eligible for additional federal grant funding to bolster their efforts. A new competitive grant program through the Department of Education could equip institutional awardees with additional resources to expand tuition assistance programs for low-income students, subsidize research opportunities and scholarly activities, implement work-based learning experiences, or establish completion grants for students nearing the end of their programs. Priority should be granted to institutions that are Title III- or Title V-eligible (including Minority-Serving Institutions and Historically Black Colleges and Universities), have a track record of implementing evidence-based practices to improve outcomes for students, and show commitment to creating an infrastructure to sustain the impacts of the grant funding long term.

Empower states to expand financial aid for high social value graduate degrees. An unintended consequence of instituting a borrowing cap on federal graduate student loans could be reduced access to graduate programs that lead to careers with high social value but lower typical wages. Fields like social work and early childhood education are

societally important and often require graduate-level training, but their lower earning potential renders them less likely to be well-served by the private loan market. To combat these effects, another form of federal subsidy would be needed to ensure sufficient production of trained graduates. Given that significant differences exist in the optimal production level of graduate credentials needed to meet local and regional labor market demands, directing such a subsidy to state governments in the form of a block or pass-through grant program would allow states to determine the appropriate allocation of federal support to offset costs of attendance for students entering in-demand, high social value graduate programs and professions. States should be required to match a meaningful percentage of federal funds, use the funds to supplement rather than supplant current student aid programs, and report on enrollment, graduation, and placement outcomes in programs receiving federal aid. Consideration should also be given to prioritizing grant support for institutions and programs that serve rural areas and/or have developed effective partnerships with employers to align training with local workforce needs.

Pillar Three: Ensure Sufficient Value and Return on Investment for Students and Taxpayers

Graduate students define value based on how well their programs prepare them to improve their employment opportunities and experience earnings gains.⁴ Despite this fact, federally-supported graduate programs are not held accountable for delivering in any way on their students' expectations. Reasonable standards of quality must be set and implemented to ensure taxpayer-funded graduate student loans are being used at programs that provide a return on investment for students and taxpayers—not to lure students to a program that will leave them worse off than if they never enrolled.

Require programs to pass a debt-to-earnings ratio. Debt-to-earnings tests (like those in the gainful employment rule) provide a baseline measure of accountability for student outcomes and should be a

condition of federal lending to graduate programs. If most of a graduate program's former students have annual student loan payments that are more than 8% of their annual earnings and 20% of their discretionary earnings—percentages broadly agreed to indicate an unaffordable debt-to-income ratio—they should be at risk of forfeiting access to federal student loans. The Department of Education currently publishes data on graduate-level earnings up to five years post-graduation, which is a reasonable window for evaluation of a debt-to-earnings ratio considering that graduate students typically go on to make more on average than their undergraduate counterparts.

Require institutions to pass a repayment rate threshold. A repayment rate is another useful baseline to ensure that graduate education is delivering value to students and that tax dollars are being used responsibly. Repayment rates on federal loans are reported to the National Student Loan Data System (NSLDS), but graduate programs and schools are not held accountable if their students are not repaying their debt. Moreover, repayment rates can be misleading without disaggregation. Under income-driven repayment (IDR) plans, a borrower's payment can be zero dollars, which if counted as "positive" repayment could artificially inflate outcomes and make a school appear to be providing sufficient ROI when they are really leaving graduate students with unaffordable debt and having to avail themselves of an IDR safety net. Institutions should be required to report a breakdown of former graduate students who make zero-dollar payments on their student loans and those who make non-zero-dollar payments and to demonstrate that on average their former graduate students are paying at least one dollar down on their loan principal within a short period after finishing the program. If repayment rates across graduate programs at an institution cannot meet that bar, the institution should be flagged by the Department of Education and given a timeframe to improve graduate program repayment rates or lose loan eligibility.

Pillar Four: Enhance the Regulatory Structure and Consumer Protections for Private Lending

A private student lending regime for graduate and collectively, the reforms in this proposal are designed to reduce reliance on debt financing for graduate school over time. However, the private loan market will undoubtedly continue to play a role in addressing unmet student need, necessitating enhanced regulation of private lending practices to ensure consumer protections for graduate students who use private loan products to pay for their education. Placing a limit on the volume of federal Grad PLUS loans students can borrow will likely drive more students in high-cost, high-return professional programs (like law and medicine) into the private marketplace, and increased reliance on private loans could also lead to a rise in discriminatory lending or predatory steering by lenders or institutions. A regulatory structure for private graduate student loans must protect against these practices, prohibit misleading marketing of terms and conditions of loan products, and ensure clear disclosures for borrowers.

Prevent discriminatory lending and product steering. Fair lending laws exist to safeguard equal access to credit, and the protections they offer are vital to preventing discrimination against student loan applicants based on race, religion, gender, or any protected class. The Department of Justice, Department of Education, and Consumer Financial Protection Bureau should ensure clear channels of interagency cooperation to coordinate monitoring and enforcement of fair lending policies. Enforcement efforts should also ensure sufficient oversight mechanisms are in place, including secret shopper programs where appropriate, to prevent lenders from steering graduate student borrowers toward products with worse terms or higher interest rates, and to prevent institutions from engaging in harmful preferred lender arrangements that promote riskier loan options for students.

Prohibit misleading marketing and ensure clear disclosures. Private lenders must also be held to

specific standards for how they promote and market financial products. When loan products are marketed to make it appear that they are “alternatives” to loans or not a form of debt at all (as has been the case in the past with instruments like Income-Share Agreements), borrowers can be misled into agreements that cause financial harm or unexpected repayment penalties down the line. Graduate borrowers served by the private market must be provided clear, consumer-friendly disclosures that overview the obligations and risks of loan products in easy-to-understand language, including being made aware of any existing preferred lender arrangements between their institution and a loan provider.

Pillar Five: Improve Data Disclosure and Transparency

Graduate education data collection and transparency need significant improvements to ensure prospective graduate students have the information they need to make decisions about which programs will meet their needs and provide them with the outcomes they seek. While the Department of Education has expanded data collection in recent years, these updates are not sufficient to close information gaps for prospective graduate students or drive improvement in student outcomes. More robust, disaggregated data are needed to understand graduate student demographics, effectively identify trends, and ensure students are informed about the typical results they can expect from attending different graduate programs.

Improve data collection on graduate students and program outcomes. The Department of Education should bolster available information on graduate students and degree programs by:

- **Collect disaggregated graduate enrollment data at the institution and program levels.**

Students’ race/ethnicity, gender, and income level are crucial data elements to understanding what types of students are enrolling in which graduate programs, how these students are faring in those programs,

and what their outcomes are post-graduation. The shortage of these data makes it impossible to compare graduate student outcomes in a meaningful way.

- **Collect clear net price and sticker price program-level data.** Neither net price nor listed or “sticker” price data are comprehensively available, making it impossible for students to know the actual costs of attending a graduate program. Collecting both the net price and the sticker price would provide a clearer view of which graduate programs are keeping costs reasonable for students. These data can also help identify appropriate thresholds for accountability metrics for institutions that have high costs and low ROI for their graduate students and help prospective students select a program that is reasonably likely to help them meet their goals.
- **Collect program-level graduate student completion and repayment rate data.** There is no publicly accessible metric documenting which students complete their graduate programs and repay their loans. Collecting these data would allow the federal government and students to identify which programs have strong completion rates and send students into careers where they can afford their student loan payments—and which consistently fail to produce graduates who can get good jobs and pay back their loans.
- **Collect program- and institutional-level disaggregated borrowing data.** Data on graduate student borrowing are currently not collected or disaggregated. Knowing the proportion of graduate students who finance their education by using federal Direct Unsubsidized or Grad PLUS loans, institutional aid, and/or personal income will be helpful for both students and

policymakers. These data will provide a more detailed picture of graduate student borrowing by showing the mix of aid each institution or program provides to students and, in combination with demographic data, will shed light on the borrowing habits of different demographics to help inform targeted solutions to ensuring graduate program access and student and taxpayer ROI.

- **Collect program-level institutional spending data for graduate programs.** Knowing where graduate students’ tuition dollars are being spent can be crucial for incoming students and policymakers. Bolstering data components housed within the IPEDS Finance Survey, such as instructional spending, revenue, expenses by function, assets and liabilities, and scholarships and fellowships, will open a window into how programs use tuition payments to ensure value for students—or where they may be using those dollars to cross-subsidize other programs or costs.

Pass the College Transparency Act and implement the Financial Value Transparency framework. The *College Transparency Act* (CTA) is a bipartisan bill calling for the creation of a secure, privacy-protected student-level data network that includes information on enrollment, persistence, transfer, and completion measures for all degree levels. The *Financial Value Transparency* (FVT) framework, which was finalized in the 2023 Department of Education regulations, will vastly expand the volume and quality of information available to students and taxpayers about program costs, sources of financial aid, and outcomes information across graduate institutions. Effective implementation of data transparency initiatives like CTA and FVT will unlock access to much-needed information about graduate education to improve student decision-making and allow for meaningful reforms.

Notes

¹Melissa Emrey-Arras, "Higher Education: Characteristics of Graduate PLUS Borrowers," U.S. Government Accountability Office, April 17, 2018, <https://www.gao.gov/assets/gao-18-392r.pdf>.

² Drew DeSliver, "As Inflation Soars, a Look at What's Inside the Consumer Price Index," Pew Research Center, January 24, 2022. <https://www.pewresearch.org/short-reads/2022/01/24/as-inflation-soars-a-look-at-whats-inside-the-consumer-price-index/>.

³"Maximizing Pell Grants to Support Graduate Students," Council of Graduate Schools, July, 2021, <https://cgsnet.org/wp-content/uploads/2021/12/Maximizing-Pell-Grants-to-Support-Graduate-Students.pdf>.

⁴Chazz Robinson, "Employment and Earnings Outcomes Shape Graduate Students' Perceptions of Program Value," Third Way, January 11, 2024, <https://www.thirdway.org/memo/employment-and-earnings-outcomes-shape-graduate-students-perceptions-of-program-value>