Financial Aid and the 21st Century Learner:

Background, Concerns, and Guiding Principles

ONLINE LEARNING CONSORTIUM

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ISSUE   Although the nature of higher education and the students we serve have drastically changed since the passage of the 1965 Higher Education Act, little has changed regarding the award and disbursement of financial aid. In 1965, the typical college student was likely between 18 and 21 years old, living on campus, and a full-time student. In contrast, in 2016 almost 39 percent of all undergraduates were part-time students while in 2015 almost 29 percent of those undergraduates were 25 years old or older (Digest of Education Statistics, 2018). The traditional way of determining eligibility for and disbursement of financial aid is now significantly out-of-step with the undergraduates. The combination of older students, new types of credentials—especially short-term credentials taking less than a year to complete—innovative delivery methods such as competency-based education, the emergence of new providers, and the increasing need for students to gain new skills throughout their working lives is now out of step with the current federal financial aid system. Although some of these issues might be addressed through regulatory changes, Congressional action may be necessary. In order to prove access to the largest number of students, new regulations and types of financial aid should be considered in an effort to remove regulatory barriers to innovation including the continuation of year-round Pell, increasing aid to part-time students, and allowing students to access Title IV aid for post-baccalaureate programs.

BACKGROUND

Statutory and Regulatory Reference

Program as well as student eligibility for Title IV federal financial aid has evolved through a number of amendments to the Higher Education Act (HEA). The most notable of these evolutions have been the Higher Education Amendments of 1992 (Pub.L. 102-325), the Higher Education Amendments of 1998 (Pub.L. 105-244), the Higher Education Reconciliation Act of 2005 (Pub.L. 109-171), and the Higher Education Opportunity Act (Pub.L. 110-315).

There are numerous regulatory references that directly impact the type and availability of Title IV federal financial aid. The references are too numerous to directly quote but are summarized below.

- 34 C.F.R. §600.1-§600.11
  General provisions that include defining key terms such as clock hour, correspondence course, credit hour, direct assessment program, distance education program, and eligible institution. This section also includes regulations on institutional eligibility and ineligibility for participating in Title IV financial aid programs, proprietary institutions, postsecondary vocational institutions, and the role of accreditors in determining the eligibility of an institution.
- 34 C.F.R. §600.20-§600.21

Focuses more deeply on the application procedures for establishing, reestablishing, maintaining, or expanding institutional eligibility and certification for participating in Title IV financial aid programs as well as regulations on updating institutional applications.

- 34 C.F.R. §600.30-§600.32
  Focuses on regulations concerning the maintenance of eligibility for participating in Title IV financial aid programs including institutional change in ownership which results in a change in control for private non-profit, private for-profit, and public institutions as well as the eligibility of additional institutional locations.
- 34 C.F.R. §600.40-§600.41
  Details regulations related to the loss of eligibility for participating in Title IV financial aid programs.
- 34 C.F.R. §668.1-§668.10
  Contains general definitions including full-time student and half-time student as well as regulations that define an academic year in terms of weeks of instruction and credit hours. This section also includes regulations on payment periods, gainful employment, the relationship between clock hours and semester/trimester/quarter hours, and direct assessment programs.
- 34 C.F.R. §668.11-§668.28
  Details standards for institutional participation in Title IV financial aid programs including regulations pertaining to institutional participation agreements, institutional financial responsibilities, student financial aid history, limits on the eligibility of remedial coursework for Title IV aid, the treatment of Title IV funds upon student withdrawal, records retention, third party servicers, and ending institutional eligibility.
- 34 C.F.R. §668.31-§668.40
  Student eligibility requirements for Title IV financial aid programs including citizenship and residency requirements and satisfactory academic progress.
- 34 C.F.R. §668.401-§668.415
  Regulations related to the determination of gainful employment.
- 34 C.F.R.§690.1-§690.83
  Regulations related to the eligibility and administration of Pell Grants including the duration of student eligibility, institutional participation in the Pell Grant program, and the administration of Pell Grant payments.

History

The rapid development of online education and its popularity led to a surge in the development of federal education policy and regulation. In response to a wave of correspondence fraud cases in the 1980s, online education courses were classified as correspondence courses and, therefore, ineligible for student financial aid. In fact, 1992 amendments to the Higher Education Act proved especially difficult for online education. To protect federal dollars from being fraudulently used for student financial aid, the amendments created the 50% rule—a regulation that disallowed students from receiving Title IV financial aid if more than half of their institution's students were enrolled in correspondence and online courses. Additional amendments to the Act also defined an academic year as 30 weeks of instruction, defined a full-time student as one who completed at least 24

semester credit hours during the year, and required 12 hours of instruction per week (dubbed the 12-hour rule).

The 1998 amendments to the Higher Education Act lightened restrictions on the emerging field of online education. In recognition of the growing online education field, the amendments authorized the creation of the Distance Education Demonstration Projects. Schools participating in this program would become eligible for their students to receive Title IV student financial aid, even if they were subject to the 50% rule. The 1998 Higher Education Act also authorized funding for the Learning Anytime Anywhere Partnerships program which ran from 1999 to 2001 and funded "asynchronous, innovative, scalable, and nationally significant distance education projects" (Learning Anytime Anywhere Partnerships [LAAP] 2006).

The success of the demonstration project schools led to the elimination of the 12-hour rule in 2002. Instead of requiring 12 hours of instruction per week, the rule was amended to require one day of instruction. This rule change allowed for the possibility that online students might be interacting with faculty and educational materials for large chunks of time one or two days a week rather than throughout the week. In 2005, the Higher Education Reconciliation Act rescinded the 50% rule and effectively reclassified online courses as telecommunication courses and not correspondence.

The nature of higher education, especially credentialing programs, has significantly changed in the last two decades. Whereas displaced workers once remained in the same fields for the entirety of their working lives—often moving to follow jobs—the majority of working adults are now more likely to change careers in order to remain in the same geographical place (Council of Economic Advisors, 2018). Thus, as geographic mobility gives way to career mobility, employees find themselves in greater need of flexible educational programs that will allow them to easily reskill throughout their careers.

It is clear that the nature of academic credentialing is dramatically shifting. As a result, the number of short-term credential programs being offered at institutions of higher education and alternative educational providers have skyrocketed in the last decade. Case in point, Georgetown University's Center for Education and the Workforce reported that 24 percent of all postsecondary credentials were short term credentials, up from only eight percent in 1980 (Brown, 2018). These credentials, especially those that can be incorporated into larger degree programs (often referenced as "stackable" credentials) can, as the National Skills Coalition put it, serve as "educational on-ramps" for working adults (Brown, 2018). As the nature of credential programs has shifted, so, too, has the "typical" college student.

The "typical" fresh out of high school, living on campus, and attending full-time college student has long been the exception rather than the norm. In 2018, 40 percent of all undergraduates were enrolled in community colleges. And although the majority of college students were under the age of 25 (almost 62 percent), there were still over 7.6 million college student 25 years old or older. Additionally, an increasing number of those students are both working and attending college. One-third of colleges students in 2018 attended part-time and almost half of those students reported that they also held full-time jobs in addition to attending school. Even large numbers of full-time

students were employed with ten percent of full-time students reporting that they worked at least 35 hours per week (Korn and Tam, 2018).

Perhaps most telling, though, are the makeup of certificate holders. In 2015, the National Center for Educational Statistics reported that the percentage of 15-65-year-olds with certificates, licenses, and/or work experience programs was higher for college graduates than those without a college degree. For example, nine percent of associate degree graduates, eight percent of baccalaureate degree graduates, and ten percent of graduate/professional degree graduates held a certificate versus only three percent of high school graduates (NCES, 2016). Higher education, long described as lifelong learning, is truly becoming lifelong as learners swirl in and out of formal and informal educational programs.

Institutions and students interested in short-term credentialing programs face several obstacles, though, in delivering and accessing such programs. One of those chief obstacles is the lack of federal financial aid available for these sorts of short-term programs. Currently, Pell Grants can only be used for the following types of programs:

- At a public or private nonprofit institution of higher education:
    - "A program of at least one academic year in duration that leads to a certificate or other non-degree recognized credential and prepares students for gainful employment in a recognized occupation."
- At a proprietary or postsecondary vocational institution:
    - "The program provides at least 600 clock hours, 16 semester or trimester hours, or 24 quarter hours of undergraduate instruction offered during a minimum of 15 weeks of instruction."
    - "The program provides at least 300 clock hours, 8 semester hours, or 12 quarter hours of instruction offered during a minimum of 10 weeks of instruction. The program must be a graduate or professional program or must admit as regular students only persons who have completed the equivalent of an associate degree."
    - "The program is known as a short-term program, which qualifies for the Direct Loan program only. This type of program must provide at least 300 but less than 600 clock hours of instruction offered during a minimum of 10 weeks of instruction. The program must admit as regular students some persons who have not completed the equivalent of an associate degree. It must also have been in existence for at least one year, have verified completion and placement rates of at least 70%, and not be more than 50% longer than the minimum training period required by the state or federal agency, if any, for occupation for which the program of instruction is intended." (Federal Student Aid, 2017)

Departmental Guidance

A great deal of the Department's regulatory guidance over the last decade has focused on balancing expanded educational access with protecting student consumers and taxpayers against the fraudulent use of Title IV financial aid. As the General Accounting Office opined in a 2004 report to Congress on distance education, "The federal government has a substantial interest in the quality of postsecondary education, including distance education programs" (Ashby, 2004). As a result, much

of the Department's guidance has focused on trying to meet the demands of this changing educational landscape, particularly trying to balance expanding access to diverse educational opportunities with protecting student consumers and the American taxpayer. Perhaps the best example of this tension is the explosion of distance education and the Department's shift in allowing Pell funds to be used for distance education outlined earlier.

These tensions are often most apparent, however, in audit reports by the Office of the Inspector General (OIG) and have heightened in recent years with the surge of online education programs and the development of new modalities such as competency-based education that move away from an emphasis on seat time and instead focuses on student outcomes. For example, in 2011 the OIG issued an audit report on distance education fraud rings that specifically raised concerns about the use of "straw students" to fraudulently access Title IV financial aid (OIG, 2011). This audit prompted the Department to issue an "urgent call to action" on October 20, 2011 that outlined new regulations on student identity verification (Department of Education, 2011). Numerous OIG audits between 2012 and 2017 followed that focused on the perceived dangers of distance education and competency-based education programs to misuse federal financial aid.

- In 2012, the OIG issued an audit report on St. Mary's-of-the-Woods College's distance education programs.
- In 2014, the OIG issued an audit report finding insufficient evaluation of direct assessment programs by Departmental staff.
- In 2015, the OIG issued an audit report finding the Higher Learning Commission insufficiently reviewed competency-based education programs.
- In 2016, the OIG issued an audit report finding the Western Association of Schools and Colleges insufficiently reviewed competency-based education programs.
- And, most recently, in 2017, the OIG issued an audit report ruling that the competency-based education programs at Western Governors University were correspondence education and, therefore, ineligible for Title IV financial aid.

One way that the Department has responded to these educational shifts has been the use of experimental sites. In 2016, the Department of Education recognized that the changing nature of credentials and students may no longer be best served by the above restrictions and announced a series of financial aid experimental sites—the Educational Quality through Innovation Partnerships (EQUIP). In announcing the eight awardees, the Department outlined two goals—"test new ways of allowing Americans from all backgrounds to access innovative learning and training opportunities that lead to good jobs, but that fall outside the current financial aid system" and "strengthen approaches for outcomes-based quality assurance processes that focus on student learning and other outcomes" (Department of Education, 2016). Each awardee consisted of a partnership between an institution of higher education, a non-traditional provider, and a quality assurance entity.

However, of the eight partnerships announced in 2016, only one has since been formally approved for deployment, and three other partnerships have since pulled out of the program. Why the delay in implementation? Some of the challenges lie with a lack of clarity from the Department of Education regarding outcome measurements, Departmental regulations regarding financial aid and subscription tuition models, and limited incentives for accrediting agency partners. Additional

challenges also included limitations placed on the regulations that could be waived by the Department. Other challenges that resulted in institutions dropping out of the program included the closure of one of the universities and a lack of internal institutional approvals for the program.

Failure of the EQUIP grants has not stopped the conversations regarding financial aid regulations. During 2017, Pell eligibility was extended to year-round Pell. Additionally, both the House and the Senate higher education committees have discussed alternative forms of accreditation for non-traditional providers—a necessary first step in the quality assurance process associated with institutional financial aid eligibility. Such measures could open up aid for use at programs such as coding bootcamps and for credentials that are less than a year in length.

CONCERNS

In its efforts to better align financial aid with new 21st century learner pathways, the negotiated rulemaking's Accreditation and Innovation Committee and its Distance Learning and Educational Innovation Subcommittee will need to examine and resolve a number of issues, all of which are associated with the tension between balancing consumer and taxpayer protection with expanding student access to shorter-term credential programs throughout the lifetime of the student. Although some of these concerns can be addressed with regulatory changes, others may require Congressional action.

Regulatory Concerns

1. Quality assurance
   - The Department of Education plays a critical role in protecting America's multi-billion-dollar investment in higher education by assuring that higher education programs eligible for Title IV financial aid meet minimum quality standards. Although there is little disagreement over the role of Department in protecting this investment, there is considerable disagreement over what constitutes quality and when the Department becomes too granular in its requirements.
   - Since short-term certificate programs are more closely aligned with workforce needs, should quality assurance standards for certificate and alternative credential programs focus on different criteria than degree programs?
2. Alternative education providers
   - Several alternative educational providers are now playing a role in offering short-term certificate programs. Examples of these entities are coding bootcamps, online course providers such as StraighterLine, and corporate training providers such as LinkedIn Learning.
   - Should alternative providers be eligible to receive Title IV aid? If so, should that eligibility be limited to certain types of providers and what quality assurance measures might be used?
   - In an effort to ensure quality, the EQUIP grants required alternative providers to work with an institution of higher education and a quality assurance entity. Should alternative providers be required to work with an accredited institution of higher education in order to be eligible for federal financial aid, especially Title IV funds?

3. Alternative credential funding models
   - We are beginning to see a national conversation emerge over alternative credential pathways and financial aid models. This conversation includes discussions of expanding work study aid, expanding funding for apprenticeship programs, and the development of income share student loans such as the program found at Purdue University.
   - Should these sorts of pathways and student financial aid models be considered at the national level? If so, would they require a different set of regulations and protections?
4. Modality and financial aid eligibility
   - Much of the Department of Education's (especially the OIG's) recent focus has been on preventing financial aid fraud in non-face-to-face programs (i.e., distance education, competency-based education, direct assessment, prior learning, correspondence education).
   - Should the modality of a program, whether that be distance education, competency-based education, direct assessment, or prior learning, impact decisions about financial aid eligibility?

Statutory Concerns

1. Quality assurance
   - Traditionally, the Department recognized that accrediting agencies played the largest role in the quality assurance process with accreditation serving as a sort of stamp of approval that enabled institutions to apply for Title IV eligibility. However, accreditors primarily accredit institutions of higher education, and there is currently no approved accreditation pathway for nontraditional academic providers. Do new types of accreditation need to be explored?
2. Lifetime Pell eligibility
   - Except for a small number of programs like teacher certification programs, baccalaureate degree holders are not eligible for Pell aid. Is this restriction realistic in a world where reskilling and upskilling is increasingly necessary to remain relevant in the workforce?
3. Short-term Pell eligibility
   - Should short-term programs be Pell eligible? If so, should eligibility be directly aligned with regional or national workforce needs?
   - Should short-term credentials be laddered or embedded in larger degree programs in order to ensure that students who wish to eventually earn a degree are able to do so and leverage their existing learning?
4. Modality and financial aid eligibility
   - Regular and substantive interaction (RSI) appears to be currently used as a stand-in for quality assurance. Are there other ways to assure educational quality and consumer protection without using RSI or other input metrics?
   - What outcomes measures can be developed and applied to every learning modality, thus lessening the focus on inputs and increasing the importance of outputs?

GUIDING PRINCIPLES

1. **Fairness to all students** regardless of where they are in their educational journey.
   - Congress should continue to provide students with access to Pell Grants year-round.
   - Congress should provide access to Pell Grants and other Title IV programs throughout the lifecycle of a student, especially as students swirl in and out of educational programs for workforce reskilling. This means that otherwise eligible students should be able to access Title IV funds for certificate programs even if they have completed a baccalaureate degree.
2. **Incentivize, don't punish, institutions for being innovative** and creating programs that expand educational access to historically underserved groups.
   - Create clear regulations for non-face-to-face programs.
   - Expand the use of the Department's experimental site authority to identify emerging promising practices in nontraditional programs. Provide authority for accreditors to design experimental sites related to common quality frameworks.
   - Treat all modalities with the same expectations to achieve high quality learning. Do not hold non-face-to-face modalities to a different set of standards.
3. **Congress should expand financial aid eligibility** to a wider variety of educational programs, including shorter-term credential programs.
   - Prioritize Pell eligibility for shorter-term credential programs that lead industry-recognized credentials that align with local or regional workforce demand.
   - Incentivize the development of shorter-term credential programs that, wherever possible, lead to two- or four-year degree programs and provide students with an "on-ramp" to larger credentials.
4. **Develop new measures of quality assurance** and transparency that rely less on "input" measures and more on "outputs."
   - The Department of Education plays a critical role in student consumer protection as well as protecting the multi-billion-dollar investment of taxpayer money. The Department must continue this critical role while also finding ways to balance protection with expanding educational access for an increasingly post-traditional student population.
   - The Department currently relies on "input" measures like credit hours and regular and substantive interaction as proxies for quality assurance. However, input measures are not always dependable indicators of educational quality, something that is essentially an "output." The Department should work with higher education stakeholders to develop alternative measures of quality assurance that focus on demonstrations of quality.
   - Although the Department plays a critical role in quality assurance, it is only one part of the triad—there are equally important roles for accreditors and state government. All three parts of the triad should be equally engaged in quality assurance discussions and responsibilities.

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