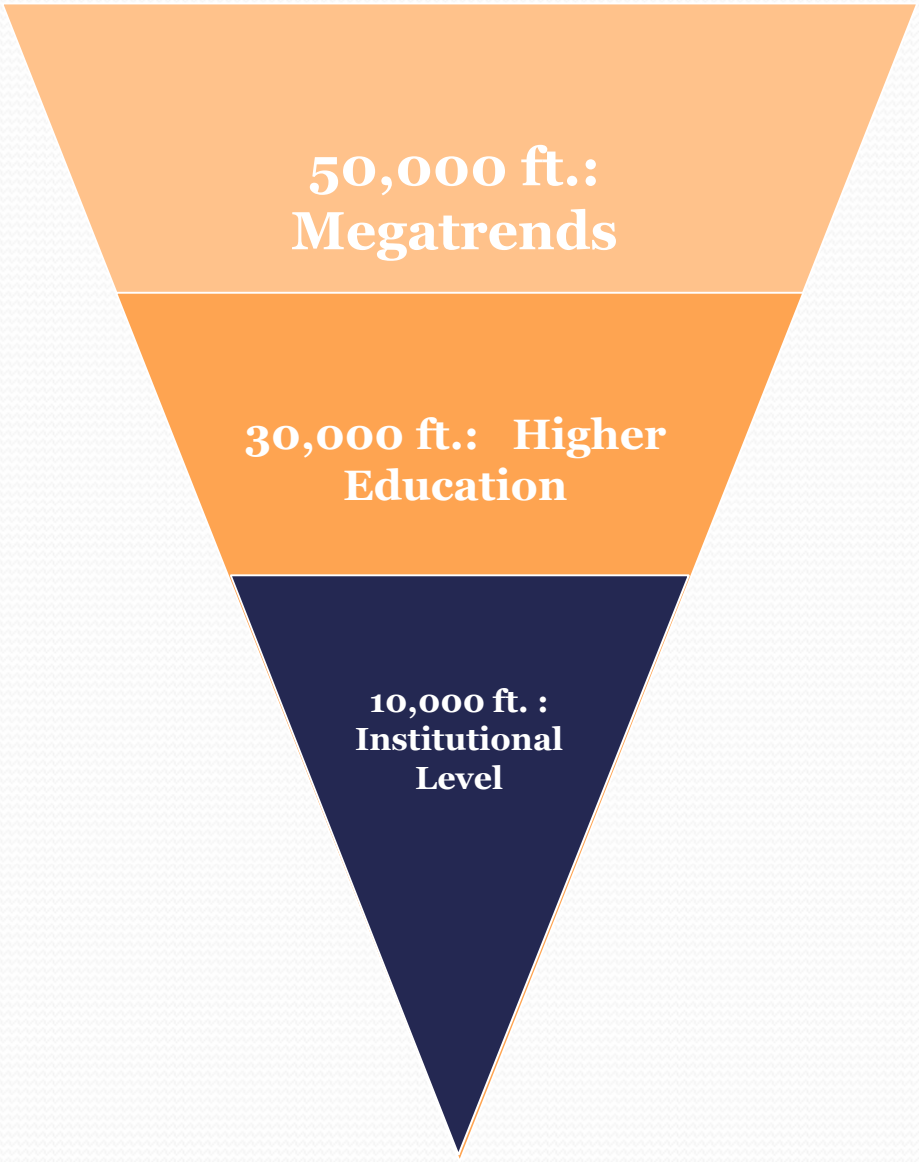
Higher Education Economics: What is the Crystal Ball telling us?

Mindy Hager, Vice President, National Sales
Citizens Bank Student Lending

Overview

1. Megatrends
2. Potential Impact of megatrends on Higher Education
3. High level trends in Higher Education
4. Mergers, Acquisitions and Closures
5. Failures in the For Profit sector
6. Enrollment Trends
7. Economic Model
8. Regulatory Implications
9. Institutional Intelligence
10. Return on Investment



#1: Megatrends

http://www.pwc.co.uk/issues/megatrends/megatrends-overview.html

#1 Megatrends as identified by Big 4 firm, PwC

There are five forces shaping our lives and our world. All provide Opportunities and Challenges to Higher Education

1) Accelerating Urbanization
2) Climate Change and Resource Scarcity
3) Demographic Shifts
4) Shifts in global economic power
5) Technological Breakthroughs

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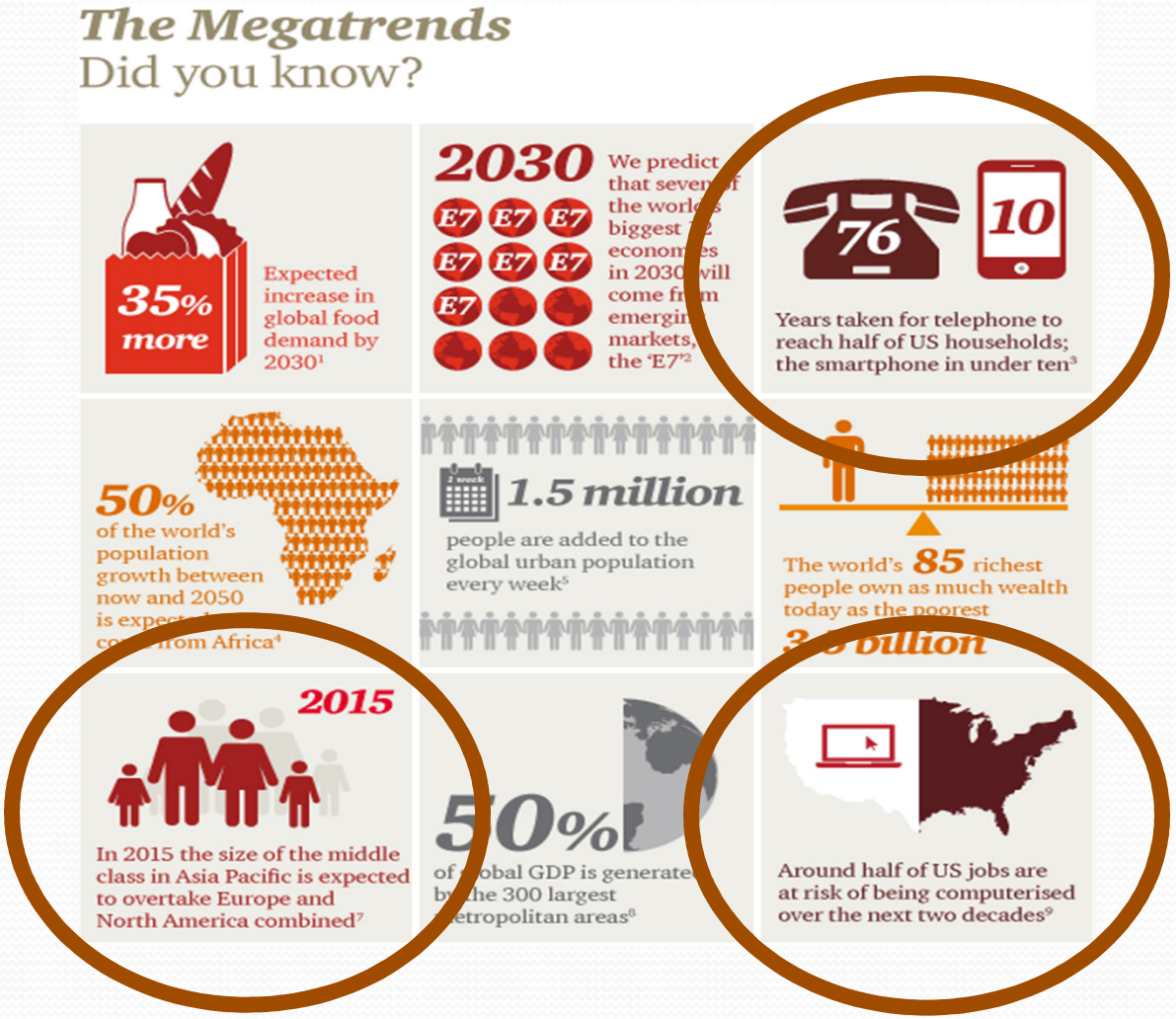
How could these Megatrends impact higher education?

#2: *Potential Megatrends impact on Higher Education*



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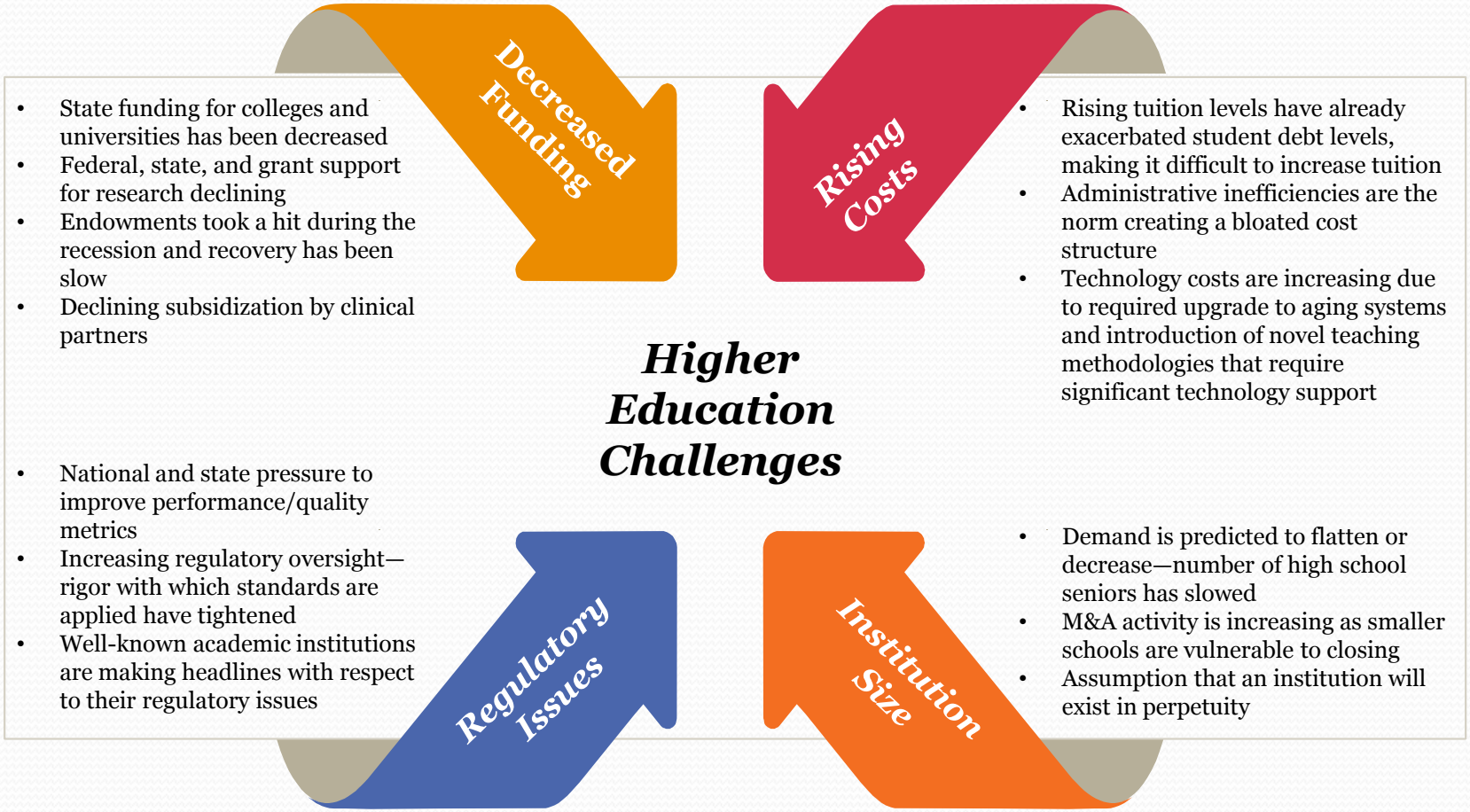

- State funding for colleges and universities has been decreased
- Federal, state, and grant support for research declining
- Endowments took a hit during the recession and recovery has been slow
- Declining subsidization by clinical partners

- Rising tuition levels have already exacerbated student debt levels, making it difficult to increase tuition
- Administrative inefficiencies are the norm creating a bloated cost structure
- Technology costs are increasing due to required upgrade to aging systems and introduction of novel teaching methodologies that require significant technology support

- National and state pressure to improve performance/quality metrics
- Increasing regulatory oversight—rigor with which standards are applied have tightened
- Well-known academic institutions are making headlines with respect to their regulatory issues

- Demand is predicted to flatten or decrease—number of high school seniors has slowed
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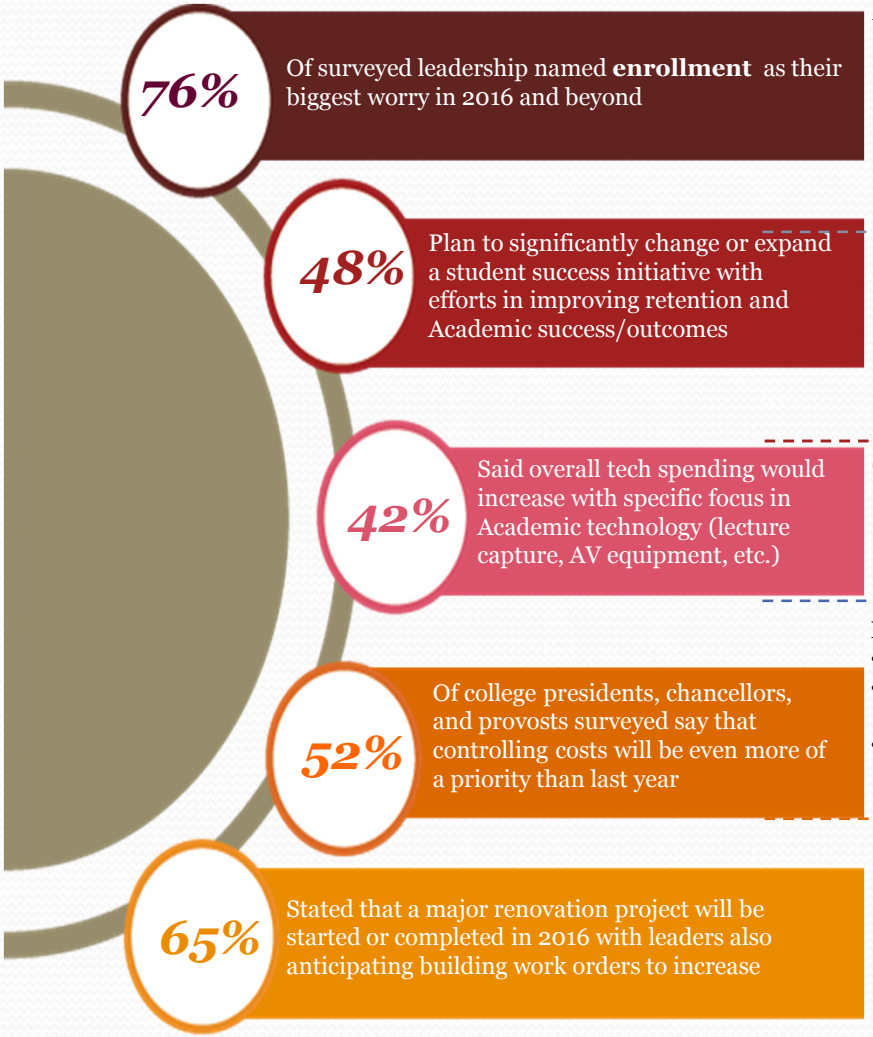
- Assumption that an institution will exist in perpetuity

#3: *Higher Education landscape today*



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- PwC Megatrends predict US population growth will increase demand for quality, differentiated Higher Education
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- Retention and grad rates to increase moderately
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- Increasing leadership priority from last year
- Campuses are stepping up awareness of existing initiatives before building new ones
- Looking to invest in this

Technology

- Online learning to increase and become more robust
- Cyber security continues to be concern

Finance

- Admin inefficiencies and technology are top priorities
- Spending: Health benefits and technology are the major focus on spending in 2016
- Funding sources: Tuition and advancement income anticipated to increase

Facilities

- Space, particularly for parking, is a rising concern
- Leaders continue to think that their facilities and upkeep are less than excellent
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Source: University Business

#4: Mergers and closures are predicted to continue as small and midsize colleges and universities are vulnerable to closing

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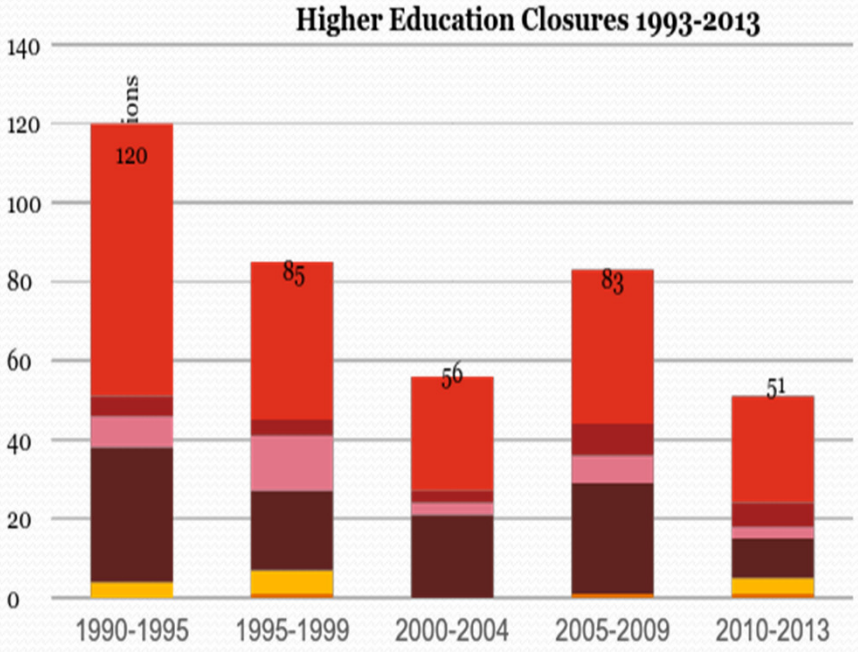

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Education Department Strips Authority of Largest For-Profit Accreditor

The potential death blow follows intense federal scrutiny of the Accrediting Council for Independent Colleges and Schools.

by Lauren Camera | Education Reporter Sept. 22, 2016, at 6:31 p.m.

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U.S. Department of Education Announces Path for Debt Relief for Students at 91 Additional Corinthian Campuses

MARCH 25, 2016

Contact: Press Office, (202) 401-1576, press@ed.gov

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These campuses represent the largest group of borrowers eligible for loan relief so far from the ongoing investigation into Corinthian. In total, the Department has made findings of fraud against more than 100 of Corinthian's former campuses.

Students who attended Corinthian schools operated under its Everest and WyoTech brands in more than 20 states Massachusetts, California, Illinois, Texas, Georgia, Colorado, Pennsylvania, Florida, Washington, Virginia, Ohio, West Virginia, Michigan, Minnesota, Nevada, Missouri, Indiana, Wisconsin, Oregon, New York, Utah, Maryland, New Jersey, and Wyoming – **can apply for debt relief through a form posted** here. The Department is reaching out to those students through postal mail, e-mail, partner organizations and other means.

U.S. Education Secretary John B. King Jr. made the announcement in Boston with Massachusetts Attorney General Maura Healey

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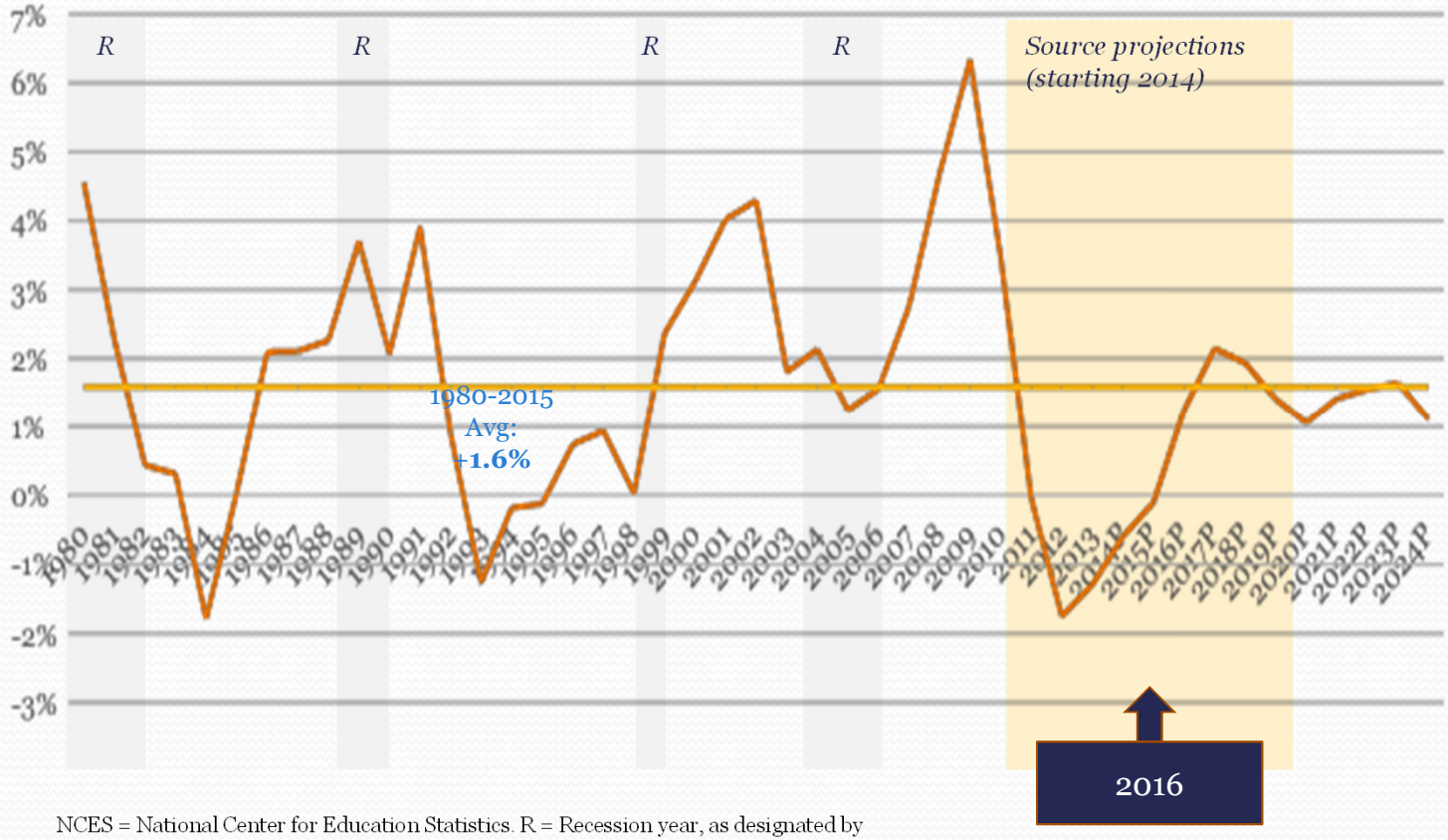
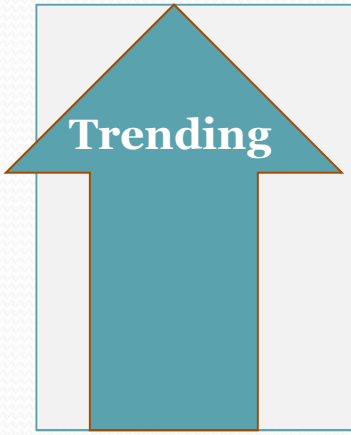


NCES = National Center for Education Statistics. R = Recession year, as designated by NBER business cycles
Source: NCES.ed.gov (March 2015), NBER, PwC analysis

#7: *Universities face new costs as traditional revenue sources decline*



Trending — new costs in higher education

- Spending on technology and cybersecurity
- Increased funds for recruiting, retention and student services
- Risk management and compliance
- Auxiliary services and revenue
- Shared services
- Public/private partnerships
- Potential for mergers and acquisitions
- Performance-based state funding
- Proposed regulatory overhaul to overtime pay for workers earning <$50K

Fading — traditional revenue sources declining

- State funding
- Net-tuition revenue guarantees
- Endowment income
- Grant income
- Federal and state support for research
- Assumption that an institution will exist in perpetuity
- National pressure for performance
- Increasing demand to apply regulatory standards
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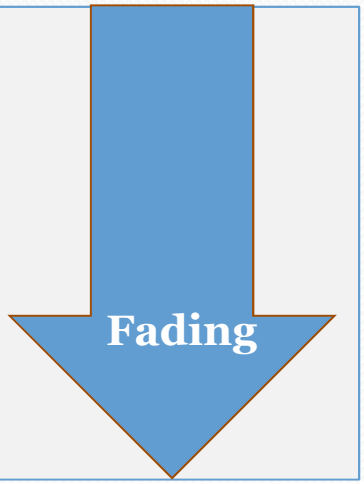
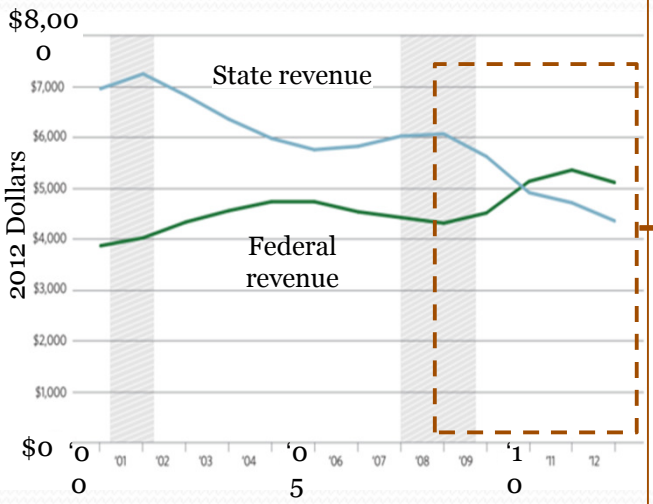


Source: (Finance Officers "Top of Mind" -- administrative inefficiencies, keeping up with technology, holding down tuition) https://www.universitybusiness.com/article/outlook-finance-spending-saving-and-securing-funds

#7: Higher education institutions have faced reduced state funding since the recession

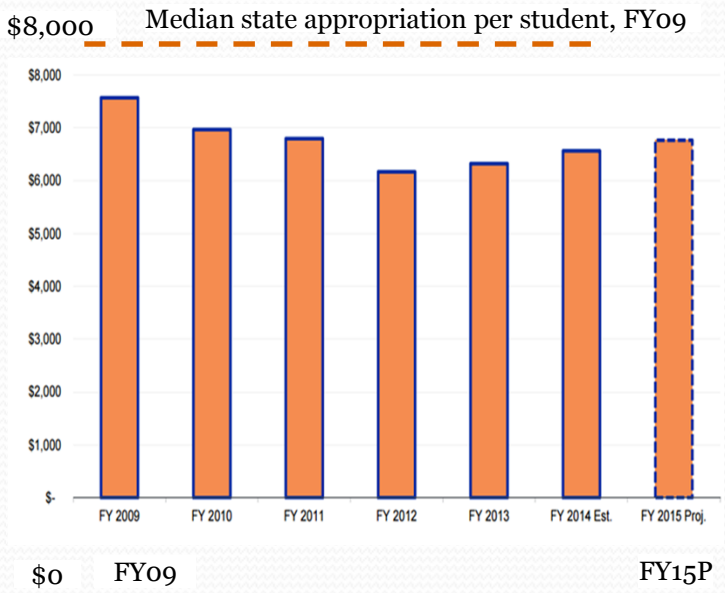
Federal and state revenue per FTE student flowing to higher education institutions, fiscal years 2000-12, adjusted for inflation



Includes funding flowing to public, nonprofit, and for-profit higher education institutions and their students, excluding loans and tax expenditures

Source: Pew's Analysis of data from Delta Cost Project Database (May 2015)

Median state appropriation per student, FY09-FY15P



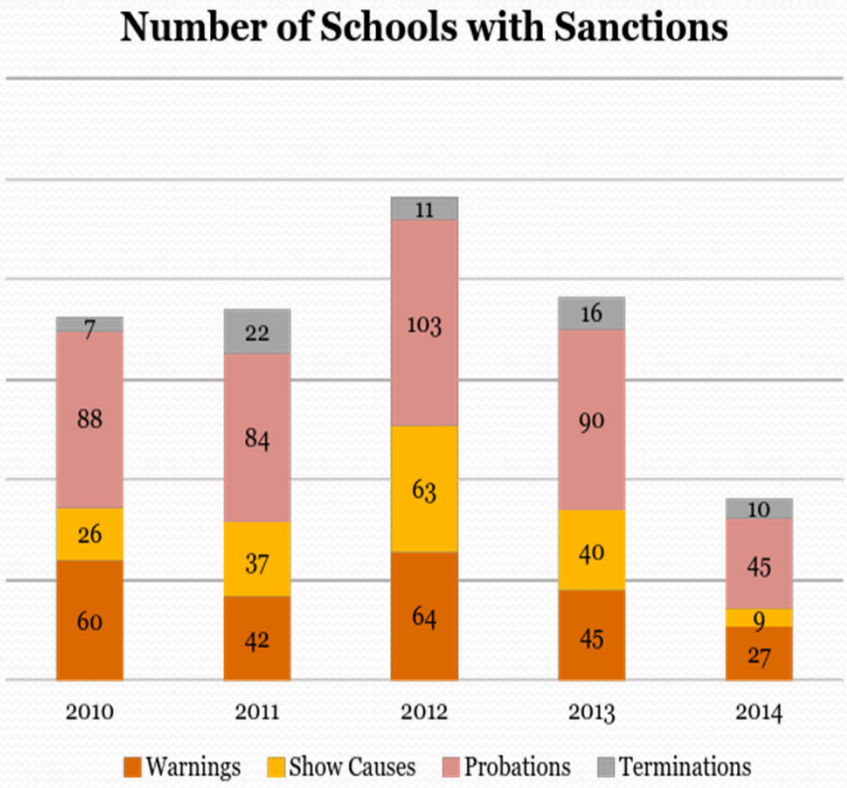
Source: Moody's

Source: Pew, Moody's, PwC analysis

#8: Compliance is become more rigorous. Each year, 100+ schools receive sanctions

Number of schools with sanctions, by type of sanction, and Fiscal Year, Oct 2009 – Mar 2014

Data for FY14 covers first half of year, Oct 2013-Mar 2014



Source: GAO

- Of sanctions issued in 2012, the GAO found that accreditors most commonly cited **financial rather than academic problems**
- Over a 4-1/2-year period, accreditors—independent agencies recognized by the Department of Education —**sanctioned about 8% of schools** for not meeting accreditor standards
- They **terminated accreditation for about 1% of accredited schools……**thereby ending the schools' access to federal student aid funds

#8: Examples of Compliance tied to Program Participation Agreement

Title VI of the Civil Rights Act of 1964, as amended, and the implementing regulations, 34 CFR Parts 100 and 101 (barring discrimination on the basis of race, color or national origin);

b. Title IX of the Education Amendments of 1972 and the implementing regulations, 34 CFR Part 106 (barring discrimination on the basis of sex);

c. The Family Educational Rights and Privacy Act of 1974 and the implementing regulations, 34 CFR Part 99;

d. Section 504 of the Rehabilitation Act of 1973 and the implementing regulations, 34 CFR Part 104 (barring discrimination on the basis of physical handicap); and

e. The Age Discrimination Act of 1975 and the implementing regulations, 34 CFR Part 110.

f. The Standards for Safeguarding Customer Information, 16 C.F.R. Part 314, issued by the Federal Trade Commission (FTC), as required by the Gramm-Leach-Bliley (GLB) Act, P.L. 106-102. These Standards are intended to ensure the security and confidentiality of customer records and information. The Secretary considers any breach to the security of student records and information as a demonstration of a potential lack of administrative capability as stated in 34 C.F.R. 668.16(c). Institutions are strongly encouraged to inform its students and the Department of any such breaches.

Question

How are your institutions managing compliance related to federal and state regulations?

#9: Institutional Intelligence

In 2012, the **average age** of a college president was **61.**

58% of college presidents are over 60. In 1986, only **13%** were over 60.

http://www.acenet.edu/the-presidency/columns-and-features/Pages/The-American-College-President-Study.aspx

Question

How many members of senior administration will be retiring in the next 10 years? How about in the financial aid office?

#10: Continued focus on Return on Investment

"Many see education – in the form of skills and knowledge – as a form of capital, with a return on the investment in the form of higher wages.

But most people think about return on investment (ROI) as an individual issue. The individual student makes the investment, takes a risk, and reaps the benefits through a higher salary."

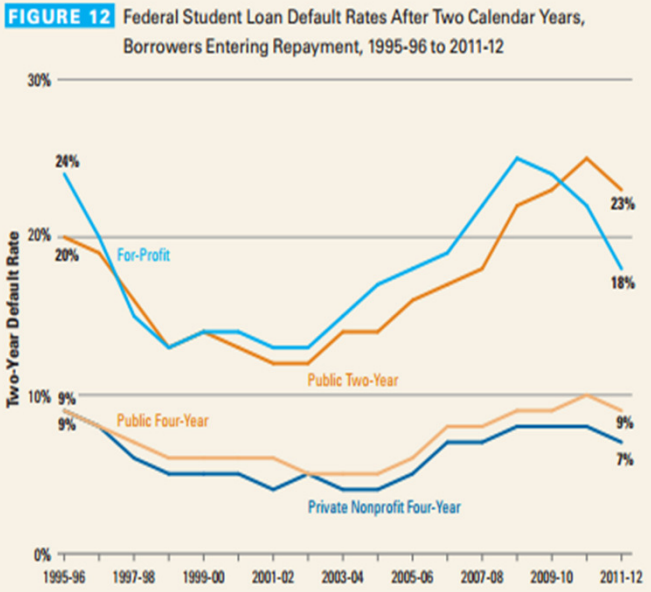
-Daniela Kraiem, American University,
-National Association of Student Financial Aid Administrators Annual Conference 2016

#10: Return on Investment & Increasing Debt levels

Total outstanding education debt, number of borrowers, and average debt, 2004-2014

	Total Debt (2014 Dollars)	Number of Borrowers	Average Debt (2014 Dollars)
2004	$435B	23M	$19K
2009	$798B	34M	$23K
2014	$1,157B	43M	$27K

In the third quarter of 2014-15, 14% of borrowers with outstanding federal student loans were in default. These borrowers held 9% of total outstanding debt.



NOTES: Default rates are based on defaults occurring within two calendar years of the date of entering repayment and do not correspond exactly to official two-year cohort default rates, which are based on defaults before the end of the fiscal year following the year in which the borrower enters repayment. Based on sector in which students were enrolled at the time the first federal student loan was issued. Does not include Perkins or Parent PLUS Loan balances.

SOURCE: U.S. Department of Treasury calculations based on sample data from the National Student Loan Data System.

Notes: Federal Reserve Bank of New York estimates educat
with credit reports.
Source: The College Board: *Trends in Student Aid 2015* (p28) – based on analysis from Federal Reserve Bank of New York Consumer Credit Panel/Equifax, PwC analysis

#10: Return on Investment - Questions from students

- Why do I need to pay for all these courses?
- What is the value of liberal arts education?
- Why do I need to be on campus? Why can't I just take a MOOC class?
- Why should I apply for admission?
- Why should I go to college at all?

Question

How are institutions addressing the issue of "cost of opportunity/ return on investment?"

Summary

Higher Education continues to evolve and change. As higher education professionals, financial aid officers must continue to evaluate the landscape and adjust their process, procedures and counseling techniques to better accommodate these large scale changes.

Thank you!


Lifting Dreams
PASFAA
October 23-25, 2017
Seven Springs Mountain Resort

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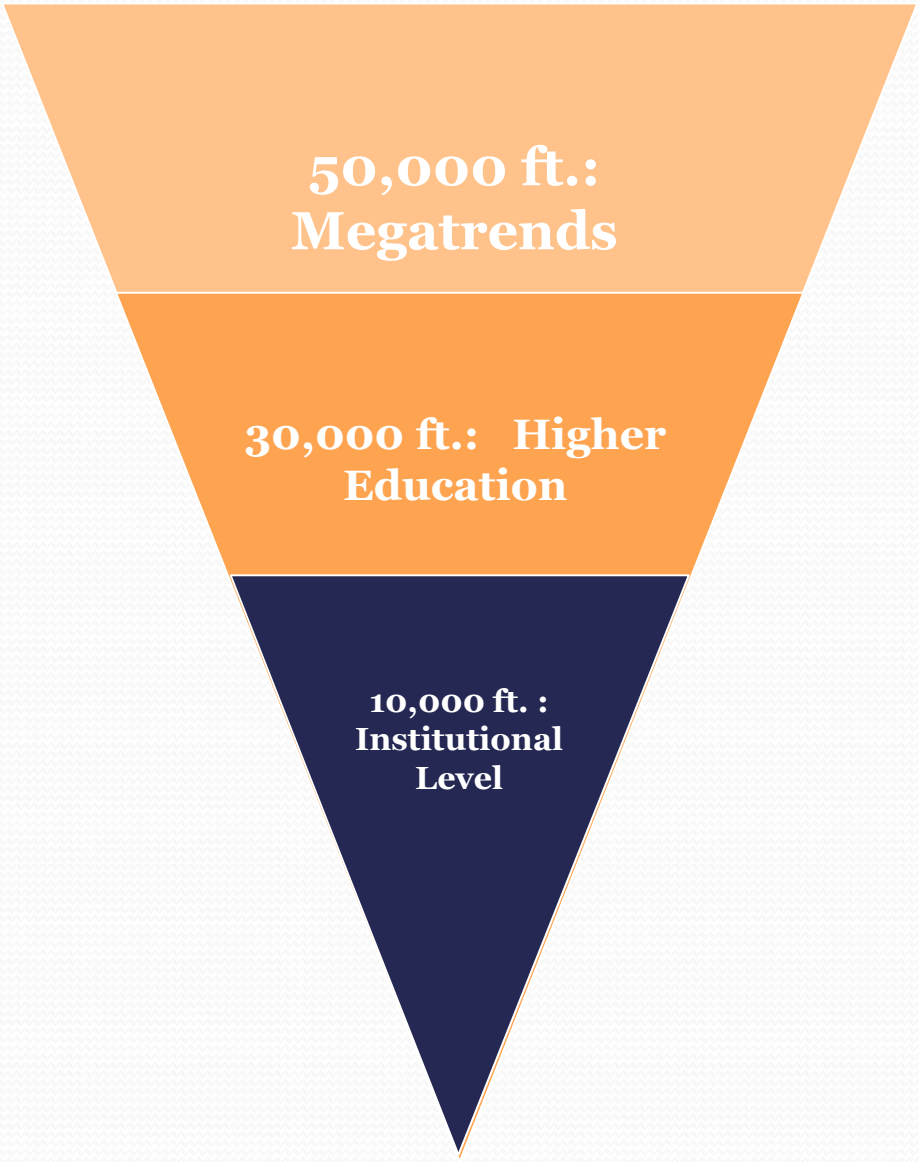

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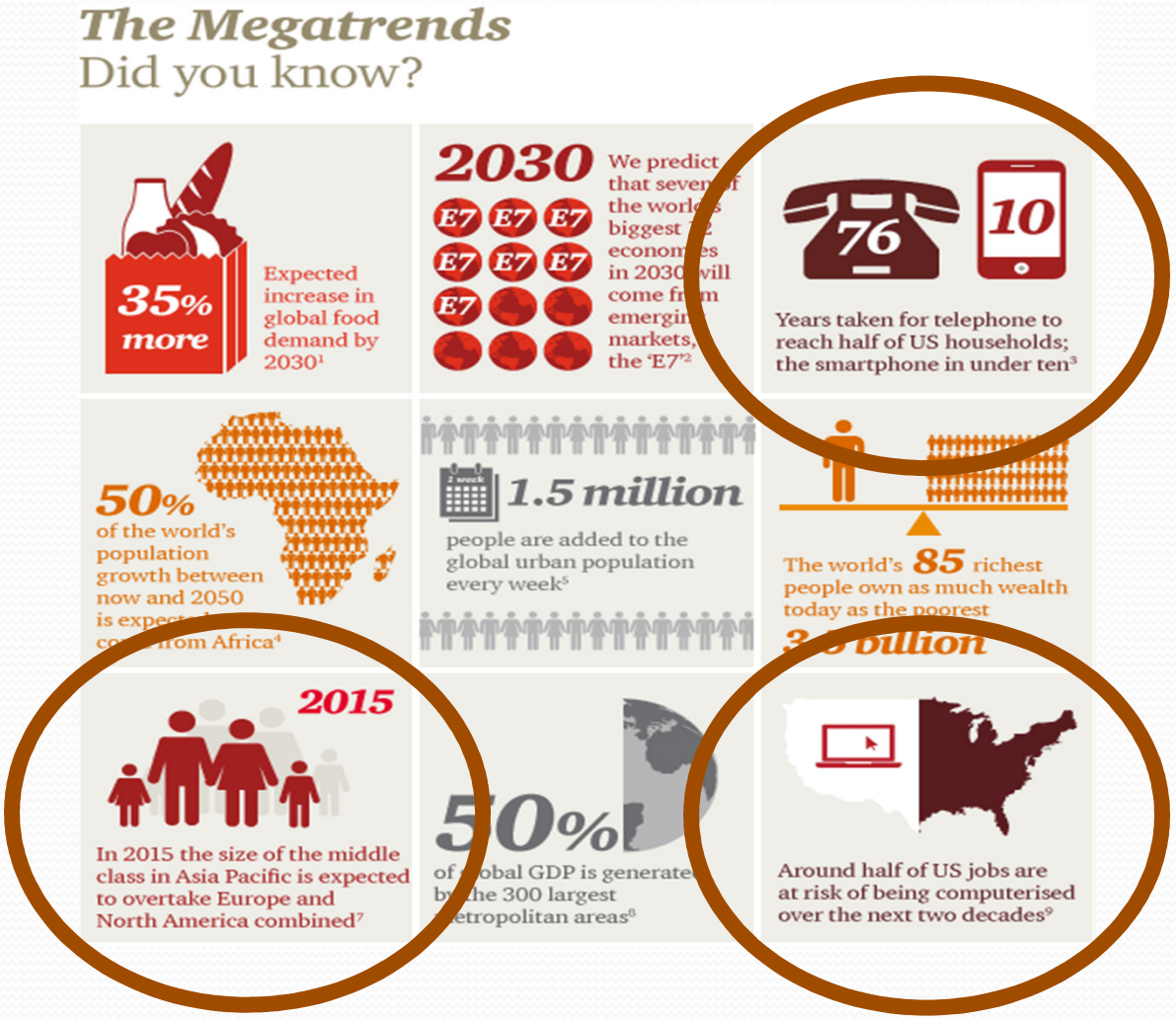

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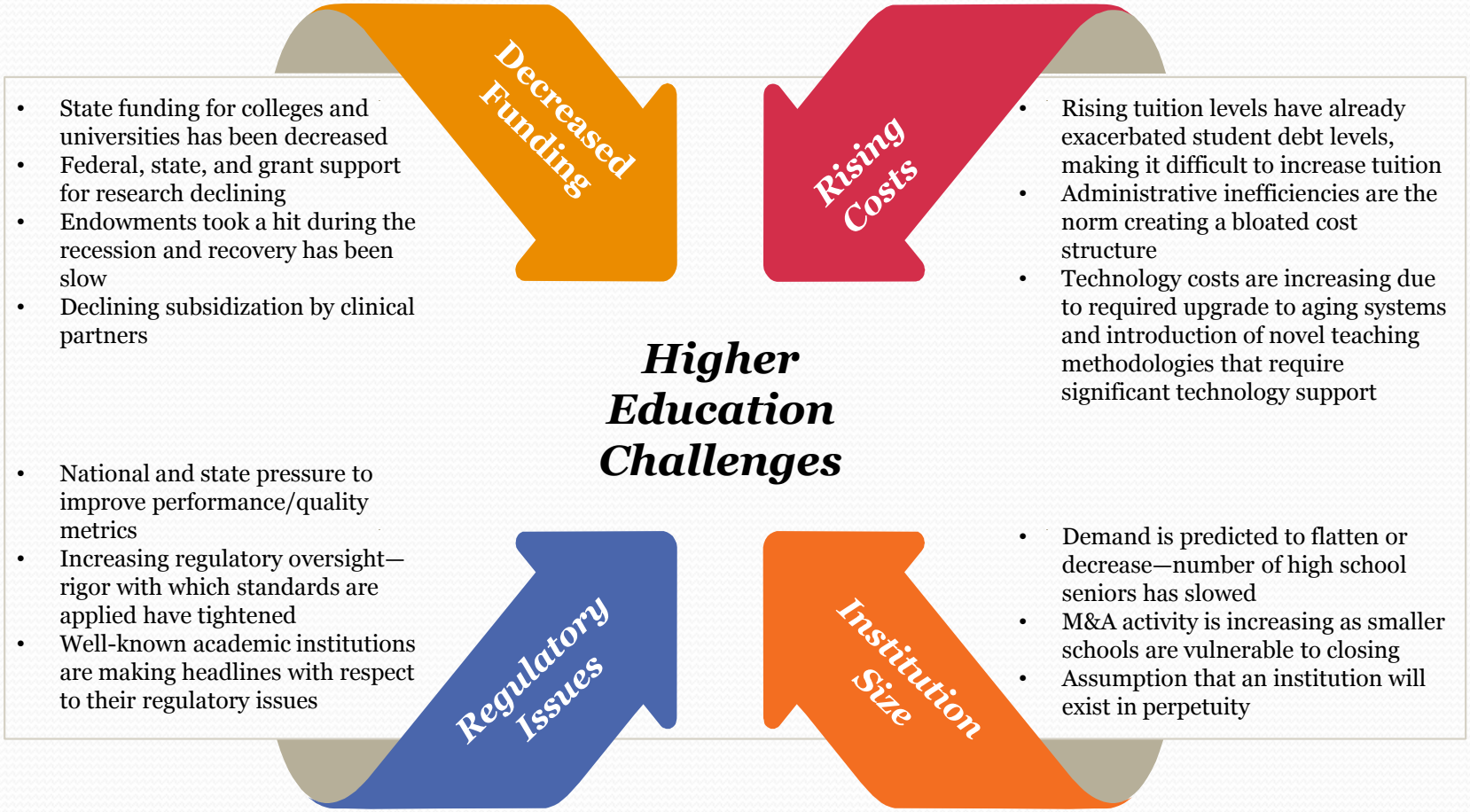

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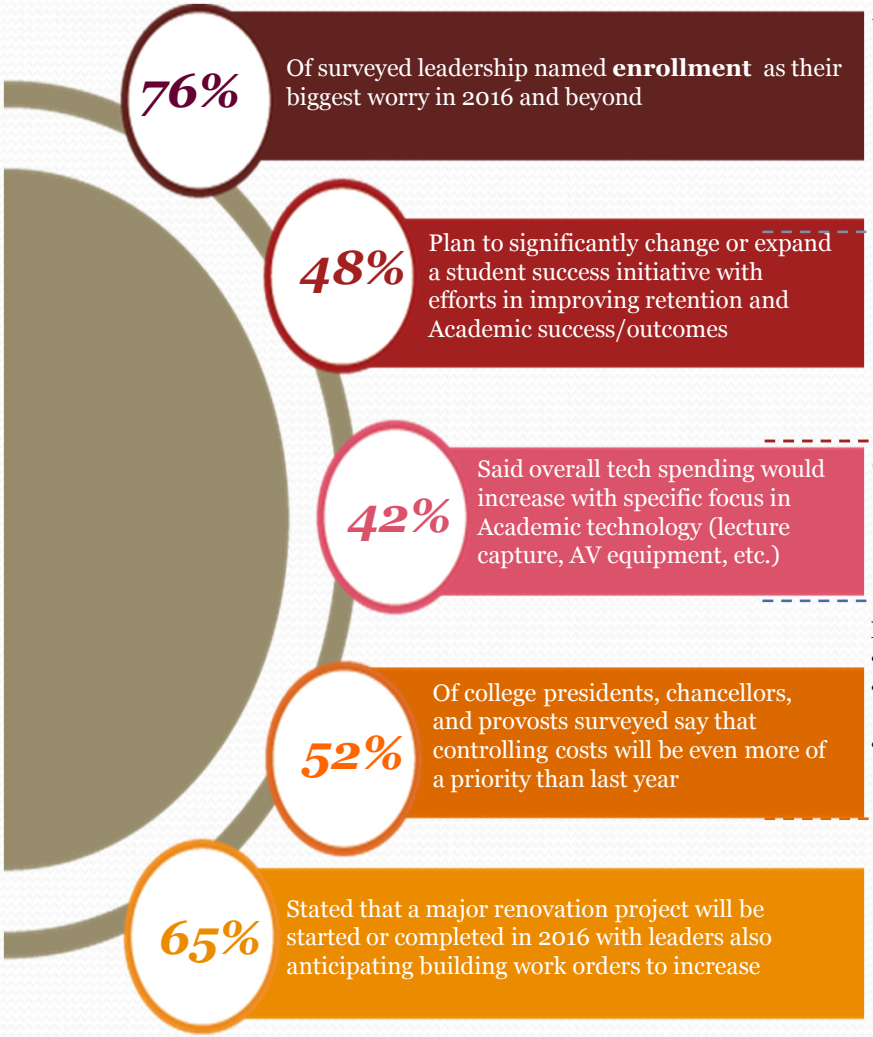

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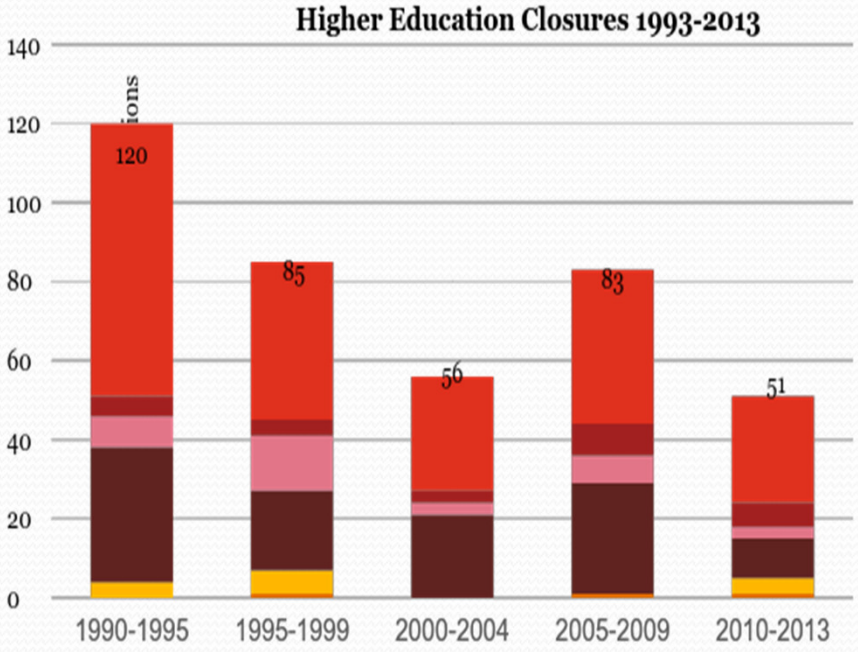

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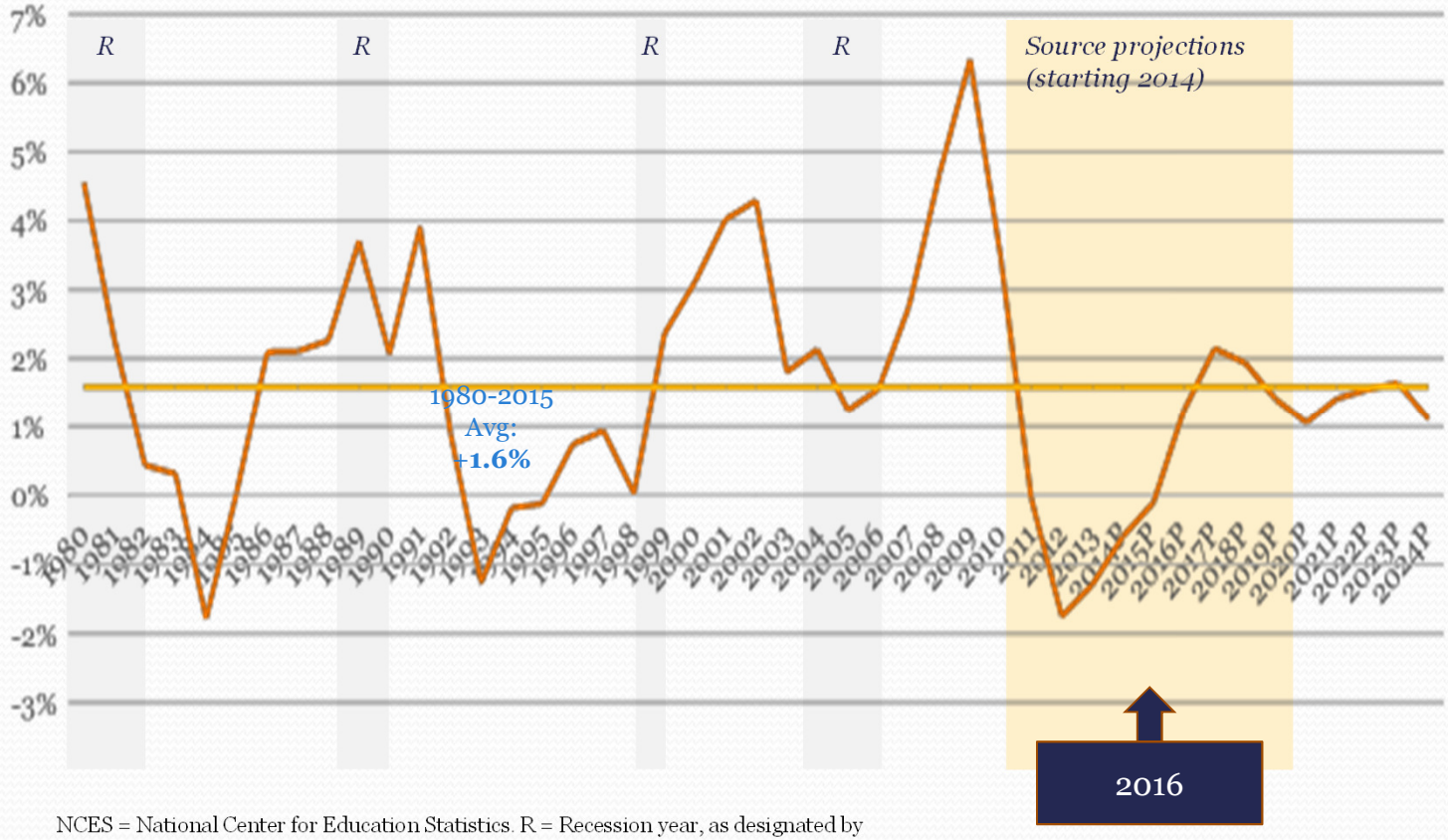

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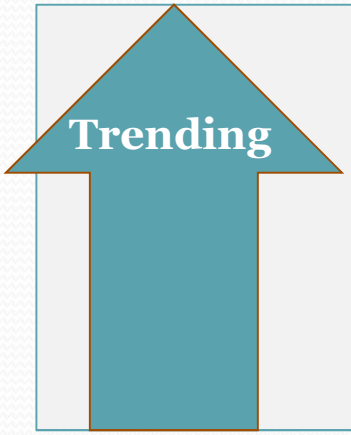

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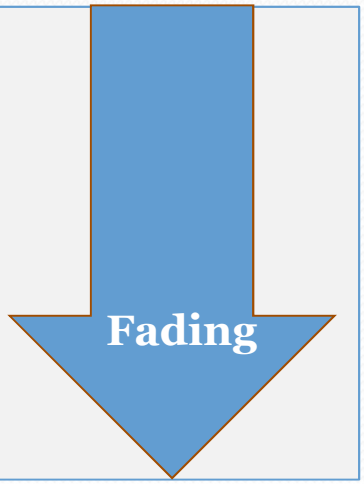
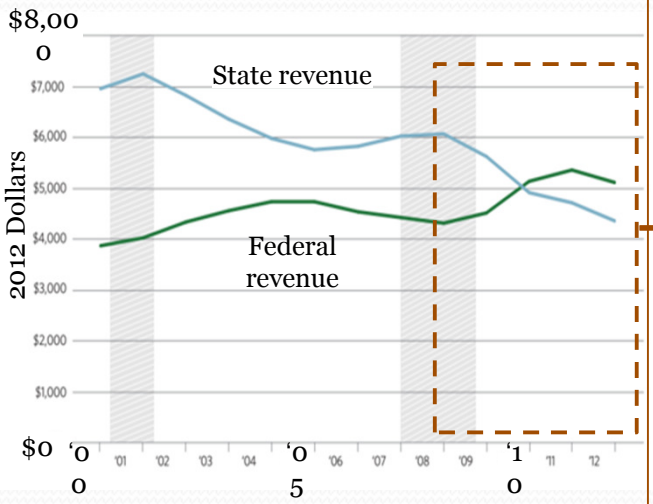
- Assumption that an institution will exist in perpetuity
- National pressure for performance
- Increasing demand to apply regulatory standards
- Declining subsidies from clinical enterprises



Source: (Finance Officers "Top of Mind" -- administrative inefficiencies, keeping up with technology, holding down tuition) https://www.universitybusiness.com/article/outlook-finance-spending-saving-and-securing-funds

#7: Higher education institutions have faced reduced state funding since the recession

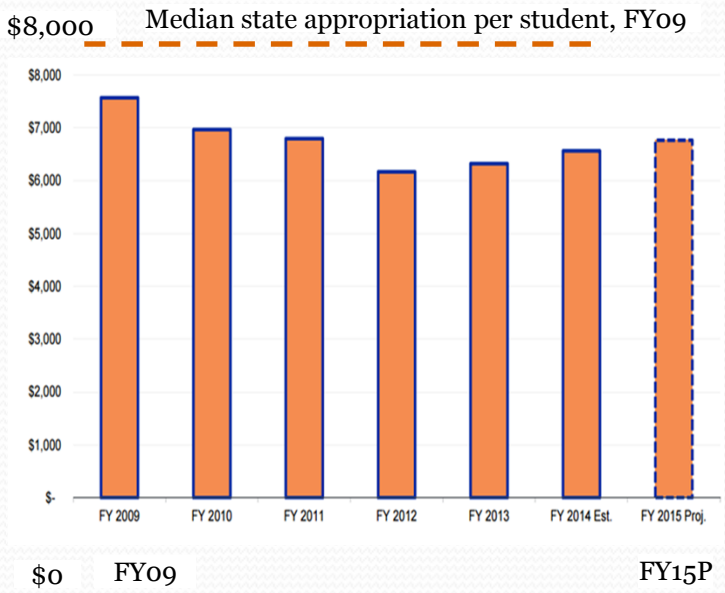
Federal and state revenue per FTE student flowing to higher education institutions, fiscal years 2000-12, adjusted for inflation



Includes funding flowing to public, nonprofit, and for-profit higher education institutions and their students, excluding loans and tax expenditures

Source: Pew's Analysis of data from Delta Cost Project Database (May 2015)

Median state appropriation per student, FY09-FY15P



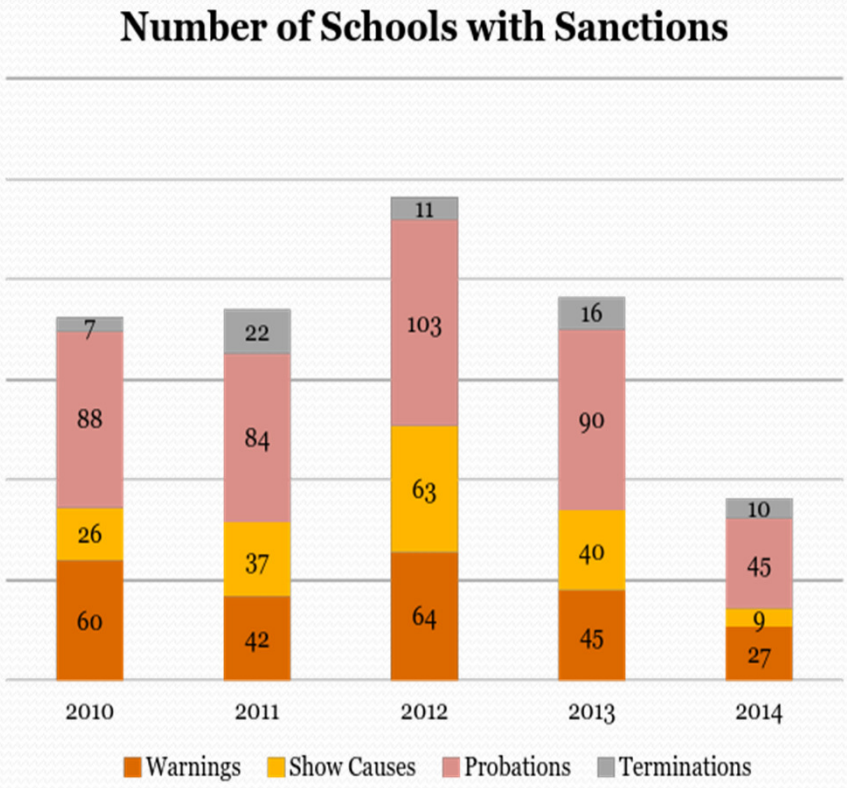
Source: Moody's

Source: Pew, Moody's, PwC analysis

#8: Compliance is become more rigorous. Each year, 100+ schools receive sanctions

Number of schools with sanctions, by type of sanction, and Fiscal Year, Oct 2009 – Mar 2014

Data for FY14 covers first half of year, Oct 2013-Mar 2014



Source: GAO

- Of sanctions issued in 2012, the GAO found that accreditors most commonly cited **financial rather than academic problems**
- Over a 4-1/2-year period, accreditors—independent agencies recognized by the Department of Education —**sanctioned about 8% of schools** for not meeting accreditor standards
- They **terminated accreditation for about 1% of accredited schools……**thereby ending the schools' access to federal student aid funds

#8: Examples of Compliance tied to Program Participation Agreement

Title VI of the Civil Rights Act of 1964, as amended, and the implementing regulations, 34 CFR Parts 100 and 101 (barring discrimination on the basis of race, color or national origin);

b. Title IX of the Education Amendments of 1972 and the implementing regulations, 34 CFR Part 106 (barring discrimination on the basis of sex);

c. The Family Educational Rights and Privacy Act of 1974 and the implementing regulations, 34 CFR Part 99;

d. Section 504 of the Rehabilitation Act of 1973 and the implementing regulations, 34 CFR Part 104 (barring discrimination on the basis of physical handicap); and

e. The Age Discrimination Act of 1975 and the implementing regulations, 34 CFR Part 110.

f. The Standards for Safeguarding Customer Information, 16 C.F.R. Part 314, issued by the Federal Trade Commission (FTC), as required by the Gramm-Leach-Bliley (GLB) Act, P.L. 106-102. These Standards are intended to ensure the security and confidentiality of customer records and information. The Secretary considers any breach to the security of student records and information as a demonstration of a potential lack of administrative capability as stated in 34 C.F.R. 668.16(c). Institutions are strongly encouraged to inform its students and the Department of any such breaches.

Question

How are your institutions managing compliance related to federal and state regulations?

#9: Institutional Intelligence

In 2012, the **average age** of a college president was **61.**

58% of college presidents are over 60. In 1986, only **13%** were over 60.

http://www.acenet.edu/the-presidency/columns-and-features/Pages/The-American-College-President-Study.aspx

Question

How many members of senior administration will be retiring in the next 10 years? How about in the financial aid office?

#10: Continued focus on Return on Investment

"Many see education – in the form of skills and knowledge – as a form of capital, with a return on the investment in the form of higher wages.

But most people think about return on investment (ROI) as an individual issue. The individual student makes the investment, takes a risk, and reaps the benefits through a higher salary."

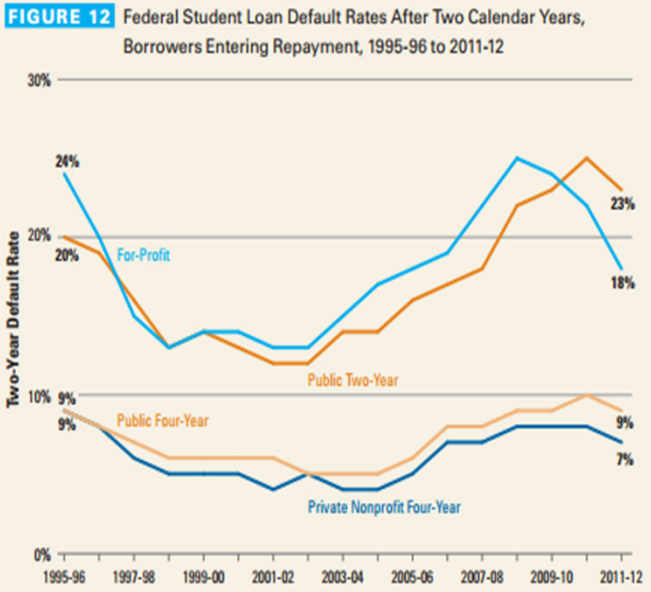
-Daniela Kraiem, American University,
-National Association of Student Financial Aid Administrators Annual Conference 2016

#10: Return on Investment & Increasing Debt levels

Total outstanding education debt, number of borrowers, and average debt, 2004-2014

	Total Debt (2014 Dollars)	Number of Borrowers	Average Debt (2014 Dollars)
2004	$435B	23M	$19K
2009	$798B	34M	$23K
2014	$1,157B	43M	$27K

In the third quarter of 2014-15, 14% of borrowers with outstanding federal student loans were in default. These borrowers held 9% of total outstanding debt.



NOTES: Default rates are based on defaults occurring within two calendar years of the date of entering repayment and do not correspond exactly to official two-year cohort default rates, which are based on defaults before the end of the fiscal year following the year in which the borrower enters repayment. Based on sector in which students were enrolled at the time the first federal student loan was issued. Does not include Perkins or Parent PLUS Loan balances.

SOURCE: U.S. Department of Treasury calculations based on sample data from the National Student Loan Data System.

Notes: Federal Reserve Bank of New York estimates educat
with credit reports.
Source: The College Board: *Trends in Student Aid 2015* (p28) – based on analysis from Federal Reserve Bank of New York Consumer Credit Panel/Equifax, PwC analysis

#10: Return on Investment - Questions from students

- Why do I need to pay for all these courses?
- What is the value of liberal arts education?
- Why do I need to be on campus? Why can't I just take a MOOC class?
- Why should I apply for admission?
- Why should I go to college at all?

Question

How are institutions addressing the issue of "cost of opportunity/ return on investment?"

Summary

Higher Education continues to evolve and change. As higher education professionals, financial aid officers must continue to evaluate the landscape and adjust their process, procedures and counseling techniques to better accommodate these large scale changes.

Thank you!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