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
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
How could these Megatrends impact higher education?
#2: Potential Megatrends impact on Higher Education

**The Megatrends Did you know?**

- **2030**
  - 35% more in global food demand by 2030
  - The world's biggest and emerging markets will emerge
  - 1.5 million more people are added to the global urban population every week
  - The world's 85 richest people own as much wealth today as the poorest

- **2015**
  - In 2015, the size of the middle class in Asia Pacific is expected to overtake Europe and North America combined
  - 50% of global GDP is generated by the 300 largest metropolitan areas
  - Around half of US jobs are at risk of being computerized over the next two decades

- **Years taken for telephone to reach half of US households; the smartphone in under ten**
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  - 10
Question

What are trends seen in the higher education industry today that will impact the next 10 years?
#3: The Higher Education Industry is faced with unprecedented external and internal forces consuming its leadership and board’s agenda

- 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
- M&A activity is increasing as smaller schools are vulnerable to closing
- Assumption that an institution will exist in perpetuity
#3: Higher Education landscape today

**Access and Enrollment**
- PwC Megatrends predict US population growth will increase demand for quality, differentiated Higher Education
- Tuition, though a concern, anticipated to stay at the same rate
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- Aid to stay the same

**Student Success**
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- Looking to invest in this

**Technology**
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**Finance**
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- Spending: Health benefits and technology are the major focus on spending in 2016
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**Facilities**
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#4: Mergers and closures are predicted to continue as small and midsize colleges and universities are vulnerable to closing

Market Share Changes, by Institution Size (students), Indexed to Fall 2010
Based on all 4-year public and private not-for-profit colleges. 2014-2016 values are Moody’s estimates

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“The Bottom 25% of the every tier of colleges will disappear or merge in the next 10 to 15 years”

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Are closures and mergers an issue for small private colleges only?
#5: For Profits – Impact on public and non for profit sectors

More Than 35,000 Students Left Without Degrees After ITT Tech Announces Immediate Campus Closures

U.S. Department of Education Announces Path for Debt Relief for Students at 91 Additional Corinthian Campuses
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Will the enforcement actions seen be isolated to the for profit sector?
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Growth in Fall Enrollment at Degree-Granting Post-Secondary Institutions, 1980-2024P

#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
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- Performance-based state funding
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**Fading — traditional revenue sources declining**
- State funding
- Net-tuition revenue guarantees
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- Federal and state support for research
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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
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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)

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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

- 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

Source: GAO
#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);

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How are your institutions managing compliance related to federal and state regulations?
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
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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,
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#10: Return on Investment & Increasing Debt levels

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

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- **50%**
  - Of the world’s population growth between now and 2050 is expected to come from Africa.

- **1.5 million**
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  - In 2015 the size of the middle class in Asia Pacific is expected to overtake Europe and North America combined.

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**Higher Education Challenges**
- National and state pressure to improve performance/quality metrics
- Increasing regulatory oversight—rigor with which standards are applied have tightened
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**Regulatory Issues**
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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
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<td>2000</td>
<td>$8,000</td>
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