

Drivers of change in US education policy in the wake of covid-19

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Summary

The US education system has been irrevocably altered in the wake of the covid-19 pandemic as students of all ages have been forced into remote learning environments. The nation is grappling with how to educate in this new reality and if/how to bring students back to classrooms in the autumn. In the midst of these policy discussions there are four issues that could be real forces for change in education post-coronavirus. The pandemic has highlighted that many learners, especially in rural areas, do not have basic access to the internet. As a result, students of all ages have unequitable access to educational opportunities - a problem that has been front of mind for lawmakers since the onset of the outbreak. Competency-based education where students learn in skill-oriented environments could also see a rise as there is a need for flexible and adaptable learning timeframes. The need to upskill large parts of the US workforce is likely to drive higher enrollments in career and technical education programs given the country current faces record unemployment numbers. Finally, as students consider higher education and specific training/credentialing opportunities they are expected to demand more return on their investment, opening the door for the proliferation of income sharing agreements.

Covid-19 will undoubtedly be a foundational life event to the millions of US students whose education has been altered by the pandemic. As schools closed rapidly this spring to attempt to limit the spread of the virus, teachers, administrators, students and parents had to adapt quickly to online learning, a process that led to rapid innovations and caused all participants to look back on the system they had left behind, at least temporarily. As educators, parents and students look ahead to the coming school year and beyond, policymakers at both the state and federal level will be forced to re-evaluate the ways in which Americans access education. This upheaval will catalyse systemic transformations in US education.

In light of these changes, four key areas of policy-driven opportunity exist for US education post-pandemic: 1) addressing the digital divide; 2) relying more heavily on competency-based learning models; 3) increasing enrollment in career and technical education programmes; and 4) expanding the use of income sharing agreements (ISAs) for higher education.

Digital divide

In the United States, more than 21m people lack digital access, and only two-thirds of rural Americans have home broadband connections. The covid-19 pandemic has highlighted this growing digital divide as many communities are struggling to provide virtual learning opportunities for students in the wake of mass school closures to encourage social distancing. The problem is so prevalent in some rural communities that business and philanthropic organisations have had to step in. One such project, Connected Futures, aims to ensure all US students have a computer and internet access.

Given the complex realities of the coronavirus, it is doubtful that the US education system will revert to “normal” in the fall. Schools will likely need to follow some version of “blended learning” formats with a mix of in-person and online instruction. In recognition of this problem, Congress provided \$13 bn for K-12 schools to improve remote-learning accessibility as part of its post-covid stimulus funding. The Federal Communications Commission (FCC) also recently approved a \$20 bn Rural Digital

Opportunity fund to narrow the digital gap. Some further federal aid in this area is expected as it is a possible landing zone for Republicans and Democrats in negotiations for the fifth covid-19 stimulus package, which is expected to be debated in earnest later this summer.

Telecommunications companies that are able to meet the need for mobile and broadband deployment will surely benefit from increased federal investment. However, learning management systems (LMS) like Instructure and 2U, as well as virtual collaborative platforms like Socrative and Padlet, will also be essential for students and educators when navigating the remote learning environment. Considering that both federal and state budgets are under significant stress in the wake of covid-19, bridging the digital divide will require joint efforts from both the public and private sector.

Competency-based education (CBE)

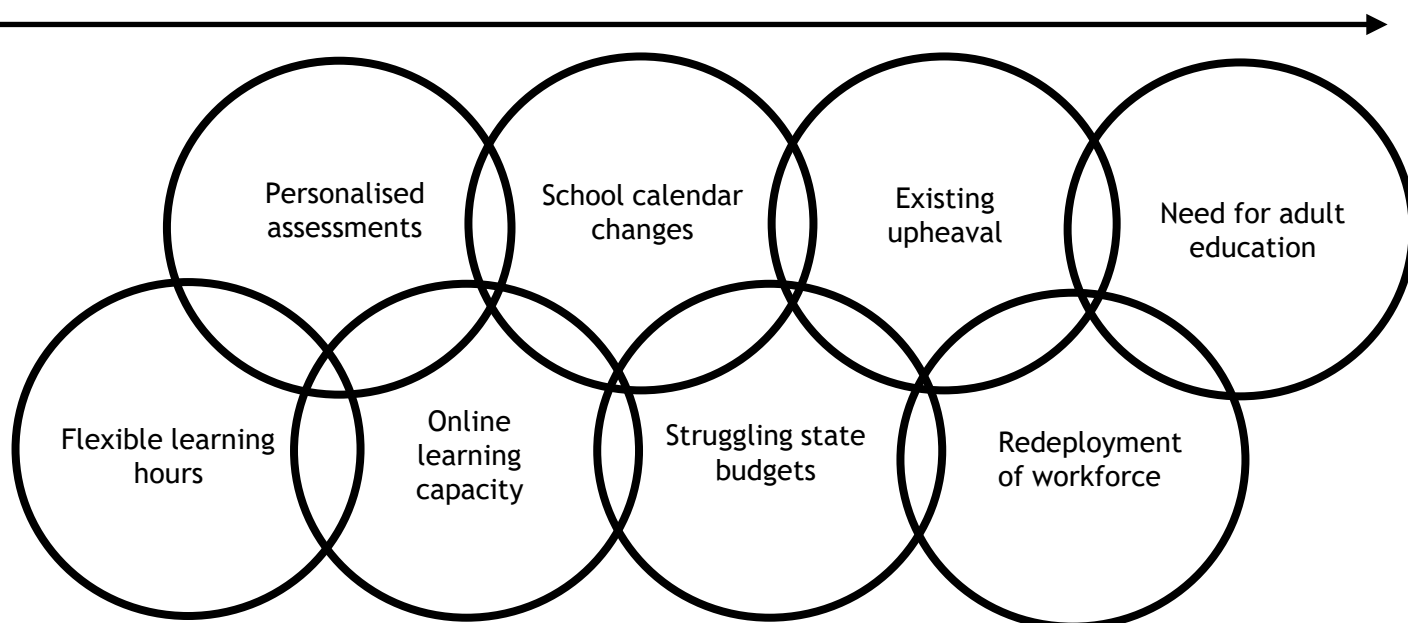
The covid-19 pandemic has untethered the US education system from traditional time and structuring constraints, sparking a national conversation on how to equitably distribute learning. As a result, education will need to become more flexible, especially in terms of students' learning hours. Both child and adult learners are contending with upended schedules - parents are struggling to both work from home and guide their children's remote education, while adult learners are also facing new demands on their time. Education systems where skills goals are fixed, but the time in which learners gain competencies vary are far better suited for these post-covid realities. Competency-based education (CBE) meets these

needs by allowing students to learn on their own timetable and gives students credit for mastery of the material.

CBE also reflects long-standing calls to transition away from standardised tests (ACT, SAT, etc.) and letter-grade report cards to digital interactive assessments. Instead of receiving a letter grade, CBE-based education models require report cards that give greater insight into a student's key competencies. Interactive digital portfolios allow students to receive personalised assessment, something that will take on heightened importance as educators recognise that the covid-19 pandemic has impacted students in drastically different ways. Revamping grades and standardised testing will necessitate investment in platforms and software that better reflect how well a skill is mastered with data points to demonstrate the student's capabilities.

While CBE is useful for both K-12 and higher education, it is especially applicable for adult learning as the US workforce will need to be retrained. All industries have been affected by the covid-19 pandemic, but many workers in industries like retail, tourism, leisure, and event planning may not have jobs to go back to as the virus has altered how these businesses operate. The pandemic has also increased demand for frontline healthcare workers which has prompted entry-level healthcare training providers to look to CBE models to provide online instruction. These shifts in the US workforce will drive the need for upskilling and redeploying many US workers. The CBE model is best positioned to meet these needs as skills-based standards will be a crucial metric for people looking to make themselves for marketable in a post-coronavirus

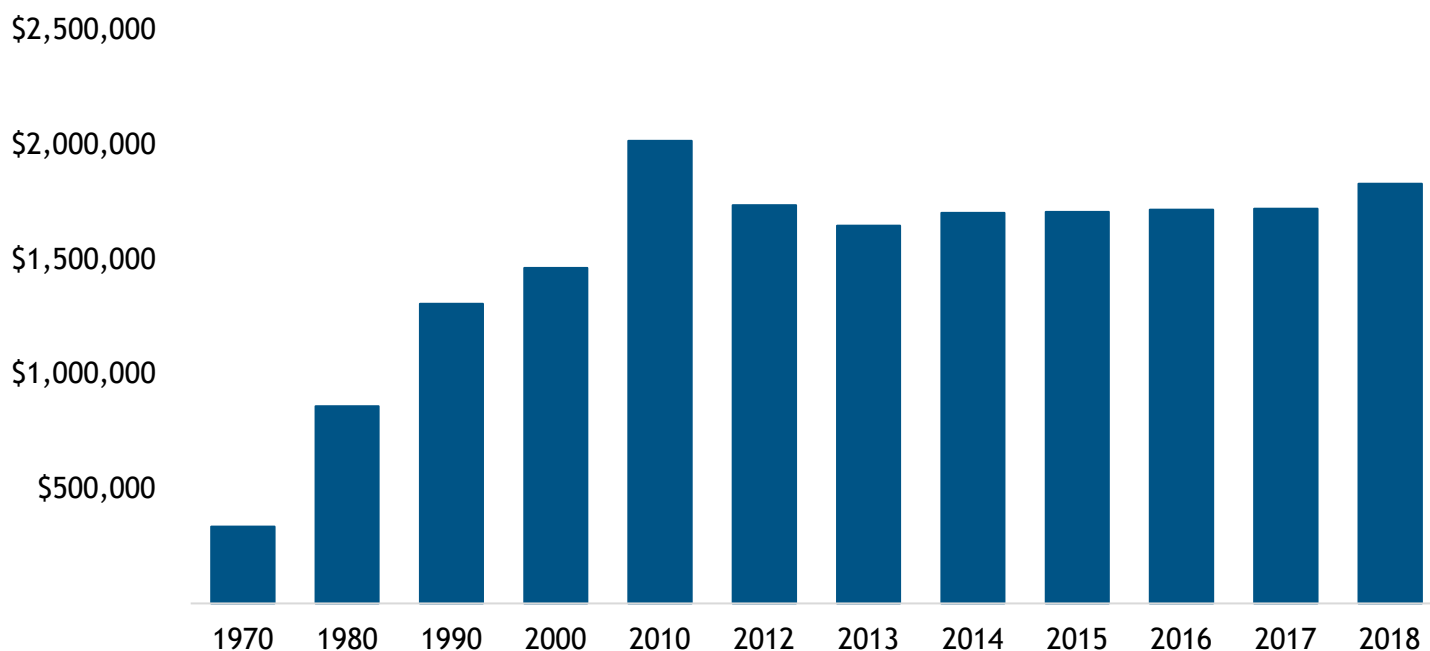
Covid-19 drivers of change



Source: Global Counsel

Federal on-budget funds for vocational and adult education

(thousands of current dollars)



Source: National Center for Education Statistics

economy. Credentialing services like Credly and Accredible can meet this renewed focus on competency-based education.

Two pieces of legislation have been introduced in the last year that specifically address CBE. Senator Maggie Hassan (D-NH) introduced the Advancing Competency-Based Education Act of 2019, which allows higher education institutions to request additional flexibility from current statutory and regulatory requirements that can be barriers to implementing CBE programs. The bill would also increase transparency in CBE programs by requiring annual evaluations, tracks student outcomes, and establishes a CBE Council that would report on how best to support and responsibly scale the development of CBE programs. The second bill, introduced by Rep. Glenn Grothman (R-WI), would prevent the Secretary of Education from defining a credit hour, thus giving CBE programs greater flexibility. Covid-19's effect on the US educational system may be the catalyst for greater support for competency-based education, and the bipartisan support for these programs will be crucial.

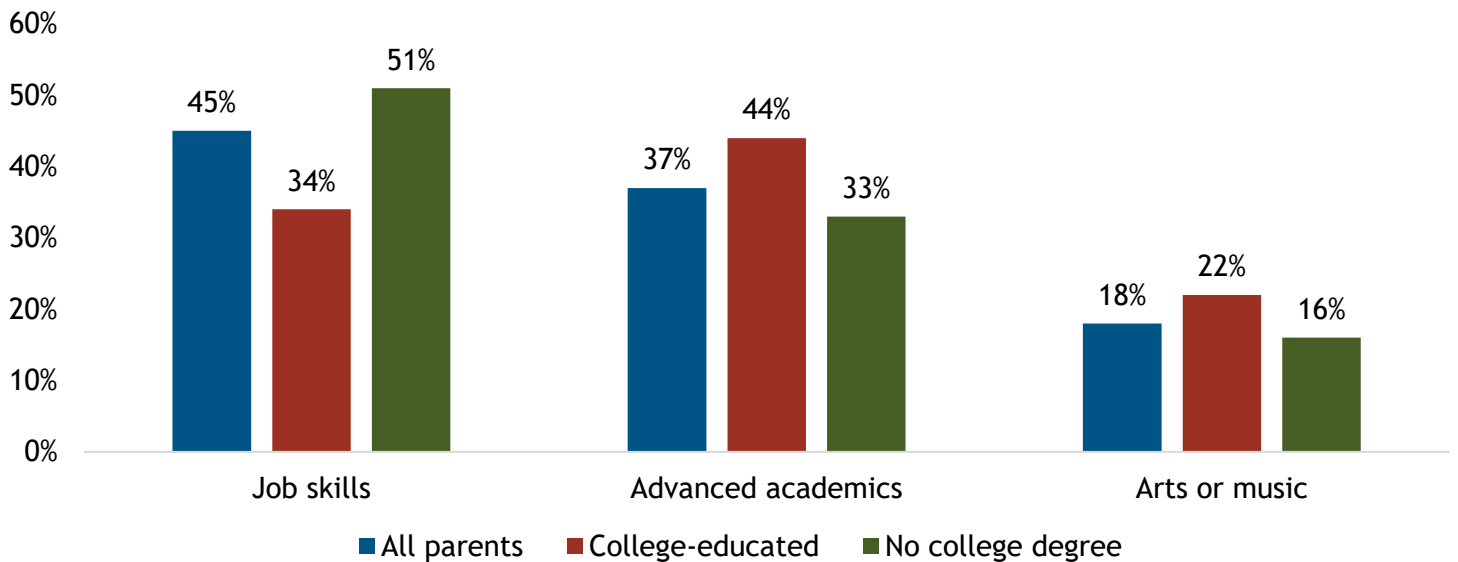
It will be important to watch how leaders in the CBE space, such as Western Governors University (WGU) or Southern New Hampshire University (SNHU), capitalise on the changing education environment. Given the realities of covid-19, SNHU decided to expedite their plans to transition into a hybrid education model when learning occurs both in-person and online. Many traditional institutions are currently grappling with how to bring students back in the autumn and could model their structure after CBE-based organisations.

Career and technical education (CTE)

The covid-19 pandemic has wreaked havoc on the US jobs market and higher education institutions across the country. Many colleges and universities hanging on financially prior to the outbreak may be forced to close their doors for good. Furthermore, unemployment has skyrocketed to levels not seen since the Great Depression, which has renewed the call for more focus on career and technical education (CTE) training to better prepare students for the job market after graduation. CTE is one of the few areas of public education that enjoys both strong bipartisan support among federal lawmakers and the public. Federal on-budget funds for vocational and adult education have slowly increased over the past few years. This area could see further financial support as the US looks to stimulate job growth to pull the country out of the recession brought on by the pandemic.

CTE has seen strong support in recent years; for-profit schools that are able to provide comprehensive CTE programs are in a good position to benefit from refocused public attention on the issue. Many for-profit schools already offer robust online education tools and platforms, which give them an edge over traditional institutions that have been forced to transition to online learning because of the covid-19 pandemic. Covid-19 has also created a massive need for job re-training. For-profit schools have traditionally been options for individuals looking to go back to school in the middle of a career change. The pandemic has increased the

“Which elective subject would you prefer your child to take in high school?”



Source: 2019 PDK Poll of the Public's Attitudes Towards the Public Schools

number of people who will be looking to do so. Strategic Education (ticker: STRA on Nasdaq), the company that operates Strayer University, recently announced that it expected new enrollment to increase by 17% and total enrollment to increase by 4%.

Addressing the unemployment rate and putting Americans back to work are paramount to reviving the US economy. Four-year colleges and traditional higher education institutions have been criticised for their inability to provide students with skills and training for immediate job placement. These criticisms will likely continue as the country is focused on job growth, especially in sectors where specific skillsets are needed. CTE programs provide a solution to this issue, as many have realised that the traditional college path simply is not viable for everyone. This is why many K-12 parents show strong support for CTE and why for-profit schools with such programs stand to benefit from an increased emphasis in this type of higher education.

Income share agreements (ISAs)

While addressing student loan debt had already been a priority in Washington before the covid-19 outbreak, the uncertainty around the pandemic's effect on educational institutions and student loan debt has prompted Congress to not only find an immediate solution, but to re-focus efforts on overhauling the system entirely. The traditional higher-education financing model is proving to be increasingly inadequate, as millions of students emerge from college with high debt levels that they carry for many years after graduation. Americans currently owe \$1.6 trn in student debt, which equates to 8% of US gross domestic product (GDP). If students cannot get good jobs after graduation, they

are still on the hook for their student loans. Prior to the covid-19 pandemic, one million borrowers defaulted each year. Despite provisions in the CARES Act which included waiving interest on federal loans through September 2020, automatically suspended payments until September and suspending wage garnishment on defaulted federal student loans through September, this number will almost certainly rise.

As college costs continue to skyrocket and families are less able to finance college out of their income and savings, some colleges and universities have introduced other alternatives to traditional student loans, such as income share agreements (ISAs).

An ISA is a contract agreement between a student and their school. The student agrees to receive borrowed money from the school to fund their education. In exchange, they agree to pay the university a percentage of their salary after graduation. Unlike a loan, where the total to be repaid is known up front, individuals who use ISAs to “borrow” money will pay back an amount that depends on their actual earnings. The number of interested colleges and universities continues to grow. Vemo Education, a company which helps higher-education institutions design customised ISA programs, works with about 45 institutions, including about 30 colleges and universities.

In traditional loan programs, institutions that do a poor job preparing students for the job market after graduation bear virtually zero financial risk. However, ISA payments go up when income is high and down when income is low, which means that students are not obligated to pay a set amount regardless if they cannot find a job or can only find a low paying job. Because payments commensurate

with salary, ISAs shift greater risk to institutions, thereby incentivising these institutions to better prepare students and teach workforce-relevant skills. Additionally, ISAs have a greater ability to diversify risk than individual student loans, so agreements can be structured so that they are advantageous to both the student and the institution.

Few schools currently offer ISAs. Purdue University in Indiana is the only well-known institution that does. While schools around the country have been consistently raising their tuition fees, Purdue has been praised for freezing its tuition for nine consecutive years and has emerged as a model for keeping colleges both affordable and competitive. According to the school, nearly 800 students have received \$9.5m in funding through its ISA program.

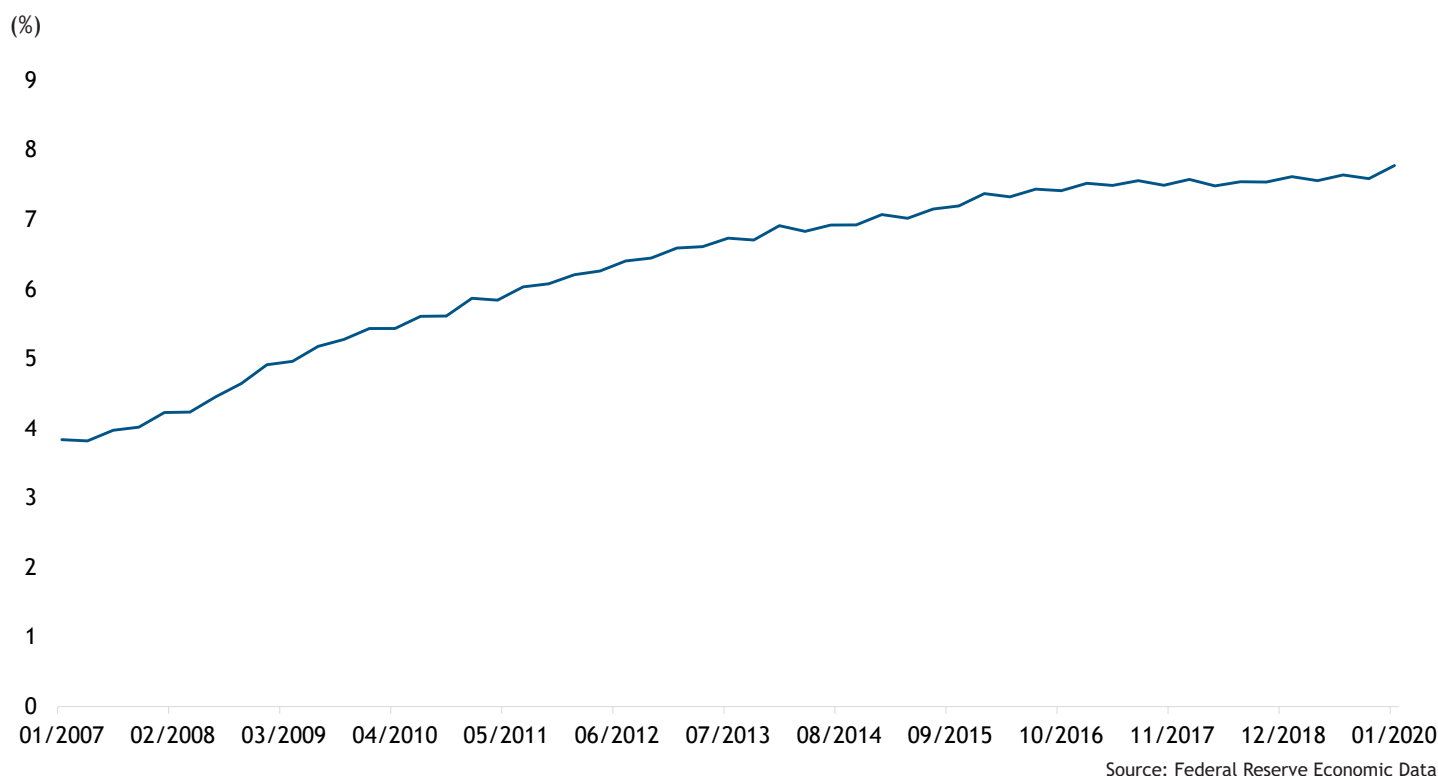
Purdue’s “Back a Boiler” ISA program is a funding option for students who need additional financial support other than through private or federal student loans. Although this program does not replace traditional government-subsidised student loans, it offers another option to pay for their education. The ISA recipient is simply required to pay the agreed upon percentage of post-graduation income for the prescribed term of the contract. Based on the student’s degree level, year in school and major, the income share rate for every \$1,000 of funding is between 0.173% and 0.497% of total earned income over a payment term of 80 to 116 months. The income share rate is the percentage of future earned income the student owes in return for funding received. It is not an interest rate or an annual percentage rate. Purdue’s program

establishes a minimum annual income threshold of \$20,000, and the maximum an individual pays is 2.5 times the funding amount over the payment term, regardless of earned income. Students are eligible for funding ranging from \$5,000 to \$33,000.

There are drawbacks to the ISA. Because ISA payments correspond with student salaries, periods of economic recession when the job market is weak and unemployment is high make these packages less appealing to higher education institutions; if students cannot find well-paying jobs because of economic recession regardless of the quality of education they received, institutions bear the brunt of this financial burden, not the students. ISAs have also not been used on a large scale, which makes it difficult to tell how effective they are. Additionally, the ISA market is largely unregulated, which allows for potential abuse; without regulation, funders can craft contracts that work to their advantage.

ISAs have gained some traction and support in Congress. In 2019, Sens. Todd Young (R-IN) and Marco Rubio (R-FL) were joined by Mark Warner (D-VA) and Chris Coons (D-DE) in introducing the ISA Student Protection Act of 2019 to provide the legal framework and income tax treatment to stimulate growth of ISAs. The ISA Student Protection Act of 2019 would set a minimum income threshold to limit downside risk for students in case of unemployment or underemployment. This bill’s proposal puts the threshold at the Federal Poverty Line. The bill would also establish a payment cap to keep students from overpaying amounts back to their institutions by limiting both the percentage of income and a value known as the “commitment factor” which

Student loan debt as share of GDP



would balance between protecting students but also allowing ISA providers room to experiment with different types of caps. It would also ensure greater transparency to help students make informed decisions when considering ISAs by offering a legal definition of ISAs and providing clarity around their treatment under tax and consumer protection laws.

Covid-19's damage to the US economy has been substantial and will only exacerbate the burdens that millions of Americans must carry with their student loan debt. ISAs are certainly an option that has bipartisan support that could prove to be an effective alternative. Although schools may take on greater risk with ISAs, they also stand to reap greater benefits, as students can end up paying back the school more than the tuition cost if they end up with high incomes. Furthermore, schools currently do not rely solely on ISAs, which means the amount of money that universities are risking on each agreement is actually fairly low.

Appendix: Companies referenced

Accredible is based in San Francisco and was founded by Alan Heppenstall and Danny King. Accredible is funded by three investors - SGH Capital, Tom Williams, and FJ Labs. It has approximately \$3.5m in funding. They are the certification provider behind companies like Rosetta Stone, Google, Udacity, Kaplan University, Hootsuite, Telefonica, and The International Association of Privacy Professionals.

Credly is a digital credential network based out of New York and was founded by Jonathan Finkelstein. It is funded by nine investors including Zoma Capital, University Ventures, New Markets Venture Partners, Stratda Education Network, Pearson, Lion brothers Company, LuminaFoundation, and Credly's founder. It acquired Acclaim Badging in 2018.

Instructure is an educational technology firm headquartered in Salt Lake City and was recently acquired by Thoma Bravo. It is the developer and publisher of Canvas, a web-based learning management system.

Padlet is based out of San Francisco and was founded by Nitesh Goel and Pranav Piyush. It has nine investors including Nick Candito, John Danner, Dave Lerner, Sumon Sadhu, Ryan Petersen, Payl Sethi, Jeff Epstein, FundersClub, and Y Combinator. Padlet serves as an online virtual "bulletin" board for teachers and students.

Socrative is a student performance-tracking system, based out of Alberta, Canada and was acquired by Showbie in 2018.

Vemo Education is an educational technology company headquartered in Arlington, Virginia and

was founded by Bill Brosseau, Jeff Weinstein, Renée Mang, and Tonio DeSorrento.

2U was acquired by Sagem Head in late 2019. It is based out of Hyattsville, Maryland. It is a cloud-based SaaS platform that provides schools with comprehensive operating infrastructure.

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