Parthenon Perspectives

THE PARTHENON GROUP
Boston • London • Mumbai • San Francisco

March 2010

Private Sector Post-Secondary Schools — Do They Deliver Value to Students and Society?

by Robert Lytle, Partner and Co-Head, Education Center of Excellence

Recently, U.S. private sector post-secondary education providers have come under intense legislative, regulatory, political, and press scrutiny across a myriad of issues. Likewise, discussions in Washington, D.C. have focused on assuring quality outcomes for students by enhancing existing regulations and proposing new ones. Underlying this scrutiny is an apparent belief that private sector educational providers are likely to suppress investments in educational quality and student outcomes in favor of profits. As a result, there has been much subjective discussion around the private sector's role in post-secondary education with a limited level of objective facts.

In an effort to shed more objective light on the role of private sector education providers, The Parthenon Group examined the following question: Do private sector post-secondary schools deliver value to students and society? Over the past several months, through an analysis of U.S. Department of Education longitudinal studies, industry data, and primary research, Parthenon conducted a rigorous examination of the private sector's ability to provide meaningful post-secondary outcomes.

EDUCATION CENTER OF EXCELLENCE

The Debate Surrounding the Private Sector's Role in Post-Secondary Education

Recently, U.S. private sector post-secondary education providers have come under intense legislative, regulatory, political, and press scrutiny across a myriad of issues. Likewise, discussions in Washington, D.C. have focused on assuring quality outcomes for students by enhancing existing regulations and proposing new ones. Underlying this scrutiny is a belief that private sector educational providers are likely to suppress investments in educational quality and student outcomes in favor of profits. As a result, there has been much subjective discussion around the private sector's role in post-secondary education with a limited level of objective facts.

Several broad questions are salient to the debate around the private sector's role in post-secondary education:

- What role does the private sector play in post-secondary seat expansion and is it poised to help answer President Obama's 2020 College Attainment Goals, which call for 5,000,000 more Associate- and certificate-level graduates?
- Does the private sector provide educational access to under-represented students?
- What student outcomes does the private sector achieve and how do they compare to alternatives?
- How efficient is the private sector in generating positive outcomes, from both a student and societal perspective?
- What is the real cost, from a societal perspective, to graduate a student?
- What is the value of awarded degrees and diplomas, and do they lead to differentiated income gains and positive student return on educational investment?
- Do private sector providers leave students with debt loads that are burdensome and cannot be serviced by their income?

In an effort to shed a more objective light on the role of private sector post-secondary education providers, The Parthenon Group examined the following question: Do private sector post-secondary schools deliver value to students and society? Over the past several months, through an analysis of U.S. Department of Education longitudinal studies, industry data, and primary research, Parthenon conducted a rigorous examination of the private sector's ability to provide meaningful post-secondary outcomes.

Parthenon's analysis focused primarily on students enrolled in institutions that offer two-year degrees (or shorter), as the data from the U.S. Department of Education's longitudinal study (Beginning Post-Secondary Survey and follow-up five years later) are most robust for these students.

Key Findings

Private sector operators have recently been subject to growing press coverage, much of which implies a business sector that preys on unsophisticated students, burdens them with debt, and fails to provide quality levels of education, leaving students subject to poor job prospects and significant challenges in repaying student loans. In fact, Parthenon's perspective is that the private sector providers, by and large, have been maligned by such claims. Based on years of deep work with individual school operators, together with broader sector research and partnerships with industry investors, Parthenon has found that most private sector providers do a *better* job graduating students, deliver superior income gains, and do so at a societal cost comparable to public institutions. This is an especially important perspective, as many of these graduates represent a high-risk student profile. This *data-driven perspective* that private sector educators deliver excellent value to their students and to society is lacking in the current debate.

Post-Secondary Seat Expansion

An assessment of publicly available information indicates that private sector post-secondary providers currently invest close to $1B annually in capital expenditures.[1] This level of investment, which continues to grow, should come as no surprise as private sector educators have been growing enrollments at over six times the rate of public sector counterparts (6.2% annual FTE growth from 2005 to 2008 vs. 1.2%).[2] However, such investment raises a critical question: just who benefits from such capacity expansion?

Providing Access to Under-represented Students

The U.S. Department of Education defines students of a specific risk profile as those who demonstrate three or more risk factors, including delayed enrollment, no high school diploma, part-time enrollment, financially independent, having dependents, single parent status, or working full-time while enrolled. These students, also identified as those of "Persistence Risk," are more likely to not persist — or achieve completion — in post-secondary options.

An important finding in Parthenon's analysis shows that private sector post-secondary providers actually enroll a higher proportion of these higher-risk students. In 2004, roughly 1/2 of private sector students were identified as being "high risk" vs. only 1/3 of students in public and independent schools.[3] This relationship holds true across nearly every measure of underrepresentation, as private sector schools have higher proportions of inner-city

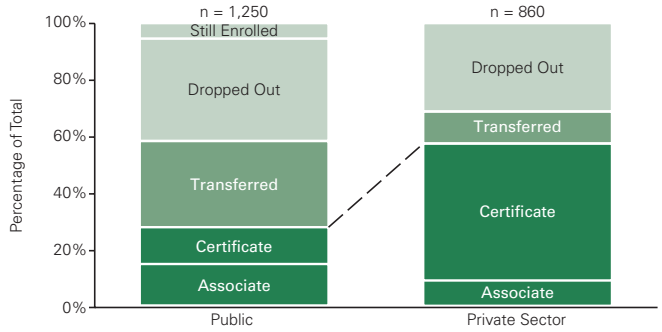
1 Capital IQ; NCES IPEDS database
2 NCES IPEDs database (refers to Title IV eligible institutions only)
3 NCES Beginning Post Secondary Study (BPS) 2004-2006; demographics exclude 4-year schools

residents, low-income households, minority status, and first generation post-secondary students.

Student Outcomes

In order to evaluate a true return on investment for private sector providers, student outcomes must be measured by examining the 'positive outcomes' (graduates and transfers) against all students who enrolled in an institution. When this is examined five years post-enrollment, private sector schools have an advantage over public institutions with a graduation rate nearly 20% higher and a 7% higher graduation and transfer rate. More significantly, they achieve this level of success with student body that is most in need of positive educational outcomes.

Exhibit 1: Student Outcomes 5 Years Post-Enrollment (2-Year and Shorter Institutions)



	Public	Private Sector
Graduation Rate	44%	65%
Minority Graduation Rate	36%	64%
Positive Outcomes	62%	69%

The positive outcomes, graduations and transfers, are particularly compelling across a number of indicators where positive outcomes were higher for Pell Grant recipients, first generation post-secondary students, and minority status students. [4]

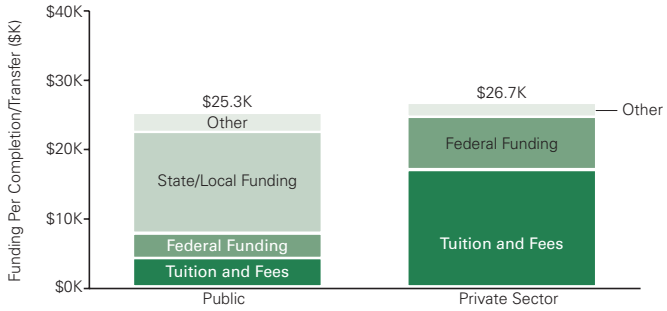
Parthenon's perspective is that this outcomes advantage stems from very specific programmatic structures and student supports that private sector schools have implemented over the years to address retention issues and is not a byproduct of reduced quality.

Societal Cost per Positive Outcome

Another important measure of educational outcomes is the actual expense to society associated with generating a graduate. Private sector schools receive nearly all of their revenues through tuition, a tuition that is frequently both higher than public schools and supported by federal grants and guaranteed student loans. This leads to the common misconception that private sector operators are more expensive to operate than their public sector counterparts. The available data, however, indicates otherwise, as public schools receive the majority of their income directly through state and local funding.

4 ibid; student outcomes are for students who enrolled at 2-year (or shorter) institutions in 2001

Exhibit 2: Funding Per Positive Outcome (Completion or Transfer) at 2-Year (or Shorter) Institutions



Averages Per School	Public	Private Sector
Funding	$35.00MM	$5.4MM
Completions and Transfers	1,382	200

When schools' total revenues are considered (agnostic as to source of funding) and compared against the positive outcomes that are generated, private sector and public sector 2-year (or shorter)institutions look a lot alike: they take in roughly $25,000 of revenues to produce a positive outcome of graduation or transfer.[5] This neck-in-neck cost to society clearly needs to be evaluated against the value of those degrees.

Student Return on Educational Investment

The NCES Beginning Post-Secondary Survey (BPS 2004-2006) provides a unique look at the eventual outcomes for students, as it is a longitudinal study of that followed 19,000 students from both

About the Sources Used:

Parthenon's analysis relied on three important government data sources:

(1) NCES Beginning Post-Secondary Surveys (BPS): The NCES Beginning Post-Secondary Surveys provide a unique look at the eventual outcomes for students as they are longitudinal studies of 9,000 plus students from both public and private schools who were followed for 5 years. They record hundreds of variables including, importantly, student outcomes in terms of employment status and income.

(2) Integrated Post-Secondary Education Data System (IPEDS): IPEDS is a survey of ~7,000 colleges, universities, technical, and vocational post-secondary institutions. Participating schools report on certain statistics (e.g., enrollment, completions, revenue, expenditures) on an annual basis.

(3) National Post-Secondary Student Aid Study (NPSAS): The National Post-Secondary Student Aid Study is a collection of student financial aid data from 114,000 students at 1,600 post-secondary institutions plus data from institutional records and government databases for the 2007-08 school years. The databases allow an examination of the characteristics of students in post-secondary education with a specific focus on how they finance their education.

5 NCES Beginning Post Secondary Survey (BPS) 1996-2001; NCES IPEDS database; Parthenon analysis (data is normalized for degree mix)

public and private schools over the course of five years. The study records hundreds of variables, including — importantly — student outcomes in terms of employment status and income. Students who enrolled in 2-year (or shorter) institutions saw roughly comparable income gains of ~$7,500.

Annual Income Gains for Students at 2-Year (or Shorter) Institutions (2002–2005)

	Public Schools (n=890)	Private Sector Schools (n=600)
Pre-enrollment Income	~$20,300	~$14,700
Post Enrollment Income	~$27,600	~$22,500
Income Gain	~$7,300	~$7,900

Although the earnings of private sector schools were lower than their public school peers, they had a slight advantage in total income gains ($7,900 vs. $7,300) as they originated from a lower level of pre-enrollment income. The most impressive point, however, is the raw magnitude of those gains — a clear indication of a positive student return on educational investment.[6]

Student Debt Burden

Finally, the issue of student debt must be examined, as there is a widespread misconception about actual average student debt levels. It is unsurprising that the level of student debt at private institutions (be they for-profit or non-profit) is higher than at public institutions. At private schools, students must pay the vast portion of tuition directly while public institutions are subsidized at federal, state and local levels. However, while exceptional debt levels clearly occur, average student debt levels are not as onerous as often cited. In fact, the average student debt burden of a private sector student at a two-year institution was ~$15,000. If typical loan terms are imputed (10-year repayment at 6% fixed interest), then the monthly payment is ~$160. Contrast that to average monthly gross earnings of ~$2,100 and the debt burden begins to look quite manageable.

Market Implications

Private sector schools have an important role to play in President Obama's call to help an additional five million Americans earn degrees and certificates in the next decade, as they are poised to invest several billion dollars of CAPEX over the next several years. This builds upon solid industry growth that saw the private sector grow at roughly 5x the rate of public schools. Private sector schools now grant roughly 30% of all certificates and Associate's Degrees.

6 NCES Beginning Post Secondary Survey (BPS) 1996-2001; NCES IPEDS database; Parthenon analysis (data is normalized for degree mix)

This expansion has benefited students who have historically been underrepresented in higher education, as private sector schools serve a higher percentage of students whom the U.S. Department of Education identifies as having 'persistence risk' (e.g., minority, single parents, financially independent) and who are most in need of education in order to improve their life circumstances. Even while serving students with greater risks of non-completion, the private sector generates equal or *superior* educational outcomes at a comparable cost to society. The available data on financial improvements for students in 2-year (or shorter) institutions indicates that the private sector delivers an $8K income gain against a very modest loan-to-income ratio of only 5%.

For further information, please contact:

Robert Lytle
Partner and Co-Head, Education Center of Excellence
robertl@parthenon.com
617-478-7096

Roger Brinner, PhD
Partner and Chief Economist
rogerb@parthenon.com
617-478-4690

Chris Ross
Partner
chrisr@parthenon.com
617-478-4679

About The Parthenon Group

The Parthenon Group is a leading advisory firm focused on strategy consulting with offices in Boston, London, Mumbai, and San Francisco. Since its inception in 1991, the firm has embraced a unique approach to strategic advisory services; long-term client relationships, a willingness to share risk with our clients, an entrepreneurial spirit, and customized insights are the hallmarks for which The Parthenon Group has become recognized in the industry. This unique approach has established the firm as the strategic advisor of choice for CEOs and business leaders of Global 1000 corporations, high-potential growth companies, private equity firms, educational institutions, and healthcare organizations.

Education Center of Excellence

Parthenon has served as an advisor to the education sector since our inception in 1991. Our Education Center of Excellence (ECE) — the first of its kind across management consulting firms — has an explicit mission and vision to be the leading strategy advisor to the global education industry. To achieve this, we invest significantly in dedicated management and team resources to ensure that our global expertise extends across public sector and non-profit education providers, foundations, for-profit companies and service providers, and investors.