Institute for Youth in Policy

Policy Media Department | Brief

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Earnings-Based Accountability for Federal Student Loans

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***Abstract* — Increasing college tuition and student loan debt have sparked concern that the financial benefits of college education are not worth the expense. To counter this, the federal government has embraced an earnings-based accountability model that ties student-loan eligibility to the graduates' earnings. This paper explores the possibility of changing eligibility for federal student loans according to graduates' income. It discusses the economic impact on students, colleges, and taxpayers, analyzes the impact of policies that have been implemented, and reviews options for new policies. Requirements to earn money may keep students out of unnecessary debt, but they could also restrict access to lower-paying, yet advantageous, careers.**

***Keywords* — Student Loans, EARNS, Student Debt, Higher Education, College Affordability, Graduate Earnings, Educational Access**

I. Executive Summary

Increasing college tuition and student loan debt have sparked concern that the financial benefits of college education are not worth the expense. To counter this, the federal government has embraced an earnings-based accountability model that ties student-loan eligibility to the graduates' earnings. This paper explores the possibility of changing eligibility for federal student loans according to graduates' income. It discusses the economic impact on students, colleges, and taxpayers, analyzes the impact of policies that have been implemented, and reviews options for new policies. Requirements to earn money may keep students out of unnecessary debt, but they could also restrict access to lower-paying, yet advantageous, careers.

II. Overview

Federal student loans help students with tuition, fees, educational expenses, and access to higher education. With rising college costs and student debt, there have been concerns over whether graduates earn enough to repay their loans. Although attending higher education and receiving a college degree increases opportunities and earnings potential, these financial returns vary by educational institution, programs, and field of study. Higher tuition and borrowing costs can increase students' financial burdens, especially when post-graduation earnings are low. Graduates with higher post-graduate incomes are better positioned to repay student loans.

Therefore, earnings-based accountability for federal student loans helps evaluate educational programs by comparing graduates' earnings with those of typical high school graduates to see if they are in a good position to repay federal student loans. Programs that fail to meet the earnings benchmark for two or three consecutive years can lose federal loan eligibility (U.S. Department of Education, 2026).

III. History

A. Tried Policy

Tying federal aid to student outcomes is not a new idea, but it has rarely been enforced long enough to comprehensively ascertain its economic effects. In the 1990s, the federal government sanctioned colleges whose students defaulted on loans at high rates. A later study found that sanctioned for-profit colleges lost about 68 percent of their annual enrollment, yet community colleges absorbed 60 to 70 percent of those losses, leaving total enrollment in the local market down by only about 2 percent (Cellini et al 2020, 1). That finding is directly related to the fear that accountability rules shut students out of college.

The next major attempt was the gainful employment (GE) rule, which tied a program's aid eligibility to its graduates' debt-to-earnings ratios. The 2014 version was in effect for only one year because of repeated delays, which was not long enough for any program to face sanctions, and it was repealed in 2019 (Barondess 2023). Even so, a study from the journal Education Finance and Policy found that for-profit programs that passed GE were less likely to close than programs that did not, which suggests the rule changed behavior before it cut off funding (Kelchen and Liu 2022, 20). Brookings economists made a similar case, noting that for-profit borrowers took on more debt and fared worse in repayment than borrowers elsewhere (Cellini et al 2017).

Finally, the Biden administration revived GE in 2023 with both a debt-to-earnings rate and an earnings premium measure (U.S. Department of Education 2026a, 3). Congress then broadened the approach in July 2025 through the Working Families Tax Cuts Act, also known as the One Big Beautiful Bill Act (OBBBA, or Public Law 119-21). Under the Department's final rule, undergraduate programs must show that graduates' median earnings exceed those of high school graduates, and programs that fail in two of three consecutive years lose Direct Loan eligibility. The rule also drops the debt-to-earnings metric (U.S. Department of Education, 2026b, 2). Because most provisions take effect on July 1, 2027, no program has yet lost eligibility under this system, so its effects remain effectively untested.

B. Stakeholders

Major stakeholders include the U.S. Department of Education and Federal Student Aid, which calculates and implements earnings-based metrics and measures reporting through the NSLDS

Earnings Accountability User Guide (U.S. Department of Education, 2026). Stronger oversight of federal student loan funding could also reduce financial exposure to poor-performing education programs. However, this also requires additional administrative and enforcement costs. Other major stakeholders include colleges and universities that track and report data for education programs, and may face institutional consequences if programs fail earnings thresholds (Duane Morris, 2026). Graduate and undergraduate program graduates are evaluated against state median earnings for high school graduates, and graduate program graduates are evaluated against national median earnings for bachelor's degree holders (Matsudiara et al., 2026).

IV. Policy Options

The policy options here start with what is already being implemented. Congress has settled, for now, on whether earnings should affect loan eligibility, so the more useful question is how well the current design works and what should change before the first consequences likely arrive in 2028. The options below fall into two groups, those being changes that would make the standard stricter, and changes that would make it fairer and more precise.

A. Reset the Earnings Threshold

The current test compares a program's median graduate earnings with those of high school graduates, and critics on both sides want it adjusted, though in opposite directions. Advocates for a stronger standard call it a low bar. The Institute for College Access and Success (TICAS) notes that it requires only a modest positive return and says the final rule delays consequences for 20 fields, mostly in cosmetology and related services, that hold 39 percent of aided students in failing programs. TICAS also points to the Department's own estimate that letting colleges drop Direct Loans while keeping Pell Grants could cost about $10 billion in additional Pell funding (Madaio 2026). Ending the delay and closing that exit would be the most direct way to strengthen the standard.

Others worry the threshold is too blunt. A study from the Urban Institute argues that a single earnings line can steer students away from careers with low pay but real social value, such as early childhood education, and that students who would have earned very little without college may be judged unfairly (Baum & Blagg 2026). They suggest pairing earnings with measures of value added. The Department has rejected a comparison with students' pre-enrollment earnings, citing data gaps and the way earnings dip just before enrollment, and says it lacks authority to set separate benchmarks by field (U.S. Department of Education 2026a, 12-13).

The scale of the problem is also debated. NPR reported that roughly 1 percent of bachelor's programs would fail, though 14 percent of bachelor's music programs would (Turner & Camhi 2026), although other studies have broadly found that most programs would clear the bar. A

reasonable path is to keep the basic threshold while ending the delays, and to test value-added adjustments before changing the test itself.

B. Add a Debt-to-Earnings Measure

The final rule dropped the debt-to-earnings test that the 2023 GE rule paired with its earnings premium. Under that test, a program passed if graduates' estimated loan payments stayed below 8 percent of annual earnings or below 20 percent of discretionary earnings. Supporters of restoring it argue that an earnings test alone lets a college charge nearly any price as long as graduates edge past a high school earnings level. The evidence suggests such a test would be narrow. Arnold Ventures, a philanthropy that supports a debt-to-discretionary-earnings test, modeled it for teaching and social work programs and found that it would affect about 10 percent of bachelor's teaching students and 13 percent of master's social work students, yet six large online programs accounted for 78 percent of the affected students in those two fields (Arnold Ventures 2025, 2). That suggests the effectiveness of a tool that targets expensive programs rather than whole professions.

The Department has said the test added reporting burden and that new loan limits for graduate and professional programs reduce the need for it (U.S. Department of Education 2026b, 2). Loan limits only cap federal borrowing, however, while a debt-to-earnings measure can also capture private and institutional loans. A middle path would restore the debt reporting that the final rule removed, so that debt-to-earnings rates could at least be published without carrying a penalty (Bell 2026).

C. Strengthen Transparency and Improve Measurement

Accountability only works if students know about it when they choose a program. The final rule requires institutions to warn current and prospective students when a program has failed and could lose Direct Loan eligibility, and students must acknowledge those warnings before receiving federal aid (Bell 2026). A coalition of data advocates asked for active acknowledgment, collected by both the Department and institutions, but the rule did not adopt that, so regular review of institutions' records is a low-cost safeguard. The same source urges the Department to fold program-level data from the new Student Tuition and Transparency System (STATS) into the College Scorecard, so students can compare costs, debt, earnings, and time to completion in one place.

Transparency can also go further than enforcement. One option could be pairing earnings with indicators such as graduation rates and licensure pass rates, along with clear information on tuition and alternative paths (Baum and Blagg 2026). The Department agrees that debt, repayment, completion, and licensure data are meaningful, and says it will keep publishing them through STATS even though the statute only lets it enforce earnings (U.S. Department of Education 2026a, 34-35).

Moreover, the test is only as reliable as the data behind it. A program needs at least 30 federally aided graduates with earnings data to be evaluated, and smaller programs are combined across years and then across similar programs to reach that number. Analysis from the Urban Institute found that even after five years of aggregation, more than half of all programs, serving over 10 percent of graduates, would still fall short, and rural programs fared the worst (Blagg 2026). Grouping programs by related career field raises coverage to about 60 percent of programs and 93 percent of graduates, but it still cannot reach everyone, and wider pooling means comparing programs that may have little in common. Regulators will have to decide where to draw that line.

Finally, timing matters as well. The test measures earnings four years after completion, which arts education advocates told NPR can miss the way creative careers stabilize over time (Turner & Camhi 2026). The Department points out that the two-of-three-year rule already limits the weight of any single year (U.S. Department of Education 2026a, 27). However, a longer measurement window for fields with volatile early pay may be worth studying. The goal is not to excuse low earnings, but rather to make sure the number being judged reflects the program rather than a bad data year.

D. Protect Access for Students

Any version of this policy has to answer what happens to students whose programs lose eligibility. The best available evidence is encouraging but incomplete. In the 1990s episode, most displaced enrollment moved to community colleges, and Brookings economists argued that overall college-going did not fall (Cellini et al. 2017). That evidence comes from for-profit colleges, though, and it is not yet clear whether the same shift would occur in fields such as cosmetology or early childhood education, which NPR reports are among the likeliest to fail (Turner & Camhi 2026).

Additionally, the root problem in many of these fields is low pay, which loan rules cannot fix, and one cited option is back-end support and direct efforts to raise wages (Baum & Blagg 2026). Arnold Ventures (2025) makes a similar argument, urging advocates to push for higher pay rather than loan subsidies that colleges capture. The Department itself says wage-setting is beyond its authority and points to employers and policymakers at the state and local level (U.S. Department of Education 2026a, 12-13). Pairing accountability with a plan for displaced students and low-wage fields would close a gap that the current rule leaves open.

V. Impact on Young People

With earnings-based accountability for federal student loans, this narrows overall student access. PEER Center Research analyses show it would affect about 2.5% to 2.9% of federal-aided higher education students, with young people pursuing

short-term or vocational routes, such as cosmetology, allied health, and medical administration, experiencing the highest concentration of failing programs (Matsudiara et al., 2026). This may also heavily impact student career choice to steer heavily towards those that produce a desirable income. However, even if programs lose Direct Loan eligibility due to graduates' low earnings, students can still use Pell Grants unless the institution as a whole exceeds the threshold limits of having more than 50% of its students or revenue go to programs with low earnings (Garza, 2026).

VI. Conclusions

A key question raised by the debate on earnings-based accountability is whether Congress can change the eligibility of federal loan borrowers for federal student loans based on their earnings. As this paper shows, linking eligibility to graduate earnings may help to reduce student loan debt, hold institutions accountable, and divert taxpayer money from poorly performing programs. Gainful Employment regulations are not the first policy to attempt to put educational institutions on notice about financial consequences of graduating.

But the wages of graduates don't always pay for a college education. Those pursuing professions such as teaching, social work, public service and other constructive vocations may find that they are paid less for doing a lot of good in their communities. Limiting a student's eligibility for certain education programs based on earnings requirements also could impact students from lower income families. All of this must be taken into account by the policymakers when drafting eligibility.

Ultimately, any change to the criteria for student-loan eligibility for graduates will strike a balance between financial responsibility and equal access to higher education. Some suggestions for change are to set reasonable earnings thresholds, to use debt/earnings ratios, to make earnings more transparent, and to take into account the differences among career fields. Federal policy should safeguard students and taxpayers, and avoid financial results as the sole standard. This should be done so that higher education is affordable and financially sustainable, while enabling students to pursue careers in which they can make a contribution to society.

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