

# CONSUMER INFORMATION IN HIGHER EDUCATION



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# ACKNOWLEDGEMENTS

The Institute for College Access & Success (TICAS) is an independent, nonprofit, nonpartisan organization working to make higher education more available and affordable for people of all backgrounds. To learn more about TICAS, visit [ticas.org](https://ticas.org) and follow us on Twitter at [@TICAS\\_org](https://twitter.com/TICAS_org).

This report was written by Brett Robertson and Beth Stein. Lindsay Ahlman, Debbie Cochrane, Neha Dalal, and Veronica Gonzalez also made substantial contributions.

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## Executive Summary

College choices are among the most consequential decisions individuals make in their lifetimes. Students are entitled to information that will help them make the most informed decision possible. While students have access to significantly more information than they did only a few years ago, critical gaps remain. As a result, students lack clear, reliable information about how much college will cost and what results they can expect.

Policymakers generally assume that more information helps consumers make better choices. However, research across a range of industries -- including education, mortgages, financial services, and healthcare -- shows that mere disclosure of information often yields mixed or no results. In particular, consumer information is no substitute for appropriate protections against predatory or abusive practices.

Nonetheless, when information delivery is well-designed and faithfully implemented, it can lead to more informed consumers whose preferences or choices may reflect the new information. Careful review of the research provides a roadmap for how to increase the utility of consumer information. There are five key factors: Its content must be simple, include only salient information, and facilitate easy comparisons, and its delivery must be at the right time by a trusted source.

This paper uses the lessons from research to make recommendations for three different types of consumer information tools in higher education: financial aid offer communications, the gainful employment disclosure template, and the College Scorecard consumer information website.

### THE LIMITS OF CONSUMER INFORMATION

Under optimal conditions, information disclosure can improve consumer understanding and alter consumer behavior. However, there is little evidence that disclosures alone meaningfully impact decision-making across the board. There are many barriers to disclosures realizing their intended impact, including consumers' persistent cognitive biases and financial constraints.

In particular, disclosures alone are an insufficient policy strategy for preventing abusive or exploitative practices. As law professor Paula Dalley notes, in the financial services sector, because it is "easier to require disclosure than to regulate substantively," regulators often rely on information disclosures to regulate in inappropriate contexts. However, the solution to abusive practices or inadequate products is appropriate regulation, not information.

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## THE ROLE OF CONSUMER INFORMATION

In order to impact consumer knowledge, consumer information must be thoughtfully designed to achieve a clear goal.<sup>3</sup> The delivery of consumer information can take many forms: it can be voluntary or mandated, and it may be made passively available or actively delivered to consumers in different ways.

For example, direct disclosures may be provided via verbal communication, product labeling, paper mailings, direction to a specific website, or text messages. Disclosures may be disseminated broadly or upon request, and may or may not require affirmation of receipt. Indirect disclosures make information broadly publicly available, for example through a website (with a range of efforts to raise awareness of the resource) or public signage (with a range of degrees of visibility).

Providing consumer information is generally relatively inexpensive, and there is widespread belief that more transparency and information leads to better decision-making.<sup>4</sup> Economic theory holds that functional markets rely on a buyer and seller who both have the information that they need to make an educated decision. When one actor lacks necessary information, the market breaks down and the potential for exploitation rises.<sup>5</sup> All of these factors contribute to the ability of diverse stakeholders to often find consensus in mandating some type of information disclosure or otherwise prioritizing information transparency efforts.

## BEST PRACTICES IN CONSUMER INFORMATION: CONTENT AND DELIVERY

Overall, years of research into the effects of information on consumer behavior across a range of industries including education, mortgages, financial services, and healthcare has yielded mixed results. However, this research provides guidance into the factors that impact whether information is consumer friendly, and evidence suggests that well designed information tools that are consistently delivered can lead to more informed consumers whose preferences or choices may reflect the new information.

Research seeking to identify the effects of different types of consumer information on behavior and decision-making among different groups of students reveals some promising guidelines for design and implementation to best ensure a positive impact on students and parent consumers. The means by which a consumer is exposed to or receives information has critical implications for its ability to achieve any intended impact. Similarly, both the content and format of the information affects a consumer's ability to process that information, which – along with actually receiving the information – is a necessary condition for influencing decision-making.<sup>6</sup> Unsurprisingly, how information is presented affects both whether students read it and how much they understand it.<sup>7</sup> In short, well-designed disclosures, that are actually read and understood by consumers at a time when they are confronted with a choice for which more information could help them decide, are most likely to be able to achieve their intended aim.

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Once designed, consumer testing helps to ensure that consumer information delivery achieves its intended goals and avoids unintended consequences.<sup>8</sup> Road testing with actual users, and using consumer feedback to improve information content and design is the gold standard for ensuring that consumer information tools effectively convey the elements needed by the intended audience.

## CONTENT: SIMPLE, SALIENT, COMPARABLE

Research suggests that the content of consumer information is most effective when it is simple, salient, and comparable.

### SIMPLIFIED INFORMATION

Accurate consumer information should be designed to specifically account for consumers' known cognitive biases and limited attention spans. More information is not always better: a greater volume of information may make it less likely that the consumer will see and understand the information that is most important.<sup>9</sup> In practice, this means simplifying information to reduce information overload while also avoiding overemphasis on a single metric or leaving out needed context.<sup>10</sup> One benefit of online consumer information is the ability to present simplified information while also providing greater detail for the consumer who decides to click on a link.

### SALIENT INFORMATION

The consumer information that is provided should be relevant and actionable.<sup>11</sup> In other words, the information should be something the recipient finds useful in making a decision, and it should lead to an increased ability to make an informed choice. Likewise, the more that the information can be based off of recent data, the better. A student receiving information about a program's graduates will benefit more if the data comes from more recent graduates, as it is more likely to reflect the current quality of the program. One difficulty in designing consumer information is striking the proper balance between providing the most *salient* information while still maintaining *simplicity*. Ongoing consumer testing can be invaluable in finding the right balance.<sup>12</sup>

### COMPARABLE INFORMATION

Information in a vacuum generally fails to provide the necessary context for decision-making. Disclosures are most effective when they enable consumers to easily make comparisons across alternatives (including by using a consistent format and standardized terms).<sup>13</sup> There are a number of practical ways to ensure that information is easily comparable. The use of categorical labels, rankings, and ratings systems are effective ways to communicate complex information and enable comparisons.<sup>14</sup> When a consumer is making a decision about what institution or program to enroll in, or how to finance their higher education, being able to make an apples-to-apples comparison of the available options is critical.

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## DELIVERY: TIMELY & TRUSTED

### TIMELY DELIVERY

When consumer information is received is an important factor in its effectiveness.<sup>15</sup> Information is only actionable if it is delivered before the relevant decision is made. For example, information about a program's employment outcomes is significantly more useful before students decide to enroll. After enrollment, a change of programs is likely to be difficult for a number of reasons, including financial and geographic constraints, and the degree to which credits are transferrable. Because the correct time of delivery is not obvious for all forms of consumer information, consumer testing can be invaluable in determining the most effective timing.<sup>16</sup>

### FROM A TRUSTED SOURCE

It is difficult enough for a well-designed, well-delivered consumer information to effectively communicate its message. Without a trusted source to deliver the message, it is even less likely information will accomplish its goal. The source matters, and the more trusted the better. Hoxby and Turner note that having a trusted source deliver information to students is "perhaps [the] most important" factor in impacting student behavior.<sup>17</sup>

## ENSURING BASIC COMPLIANCE

Additional conditions for effectiveness include compliance with requirements to provide information and assurance that consumers receive it. As an example, a 2011 survey of 152 four-year colleges found widespread noncompliance with required disclosures of six-year graduation rates for Pell Grant recipients. Only one in four of the institutions surveyed made the disclosure despite a federal requirement to do so.<sup>18</sup> Consumers have little means by which they can know that information is missing, and generally do not seek out new information on their own, even if they are aware of its existence.<sup>19</sup> Even the best designed disclosure cannot impact behavior if colleges do not make it available to consumers.

## EXAMPLES OF HIGHER EDUCATION CONSUMER INFORMATION AND AREAS FOR IMPROVEMENT

Three existing higher education consumer information tools can be substantially improved based on research findings: annual financial aid offer communications, the gainful employment disclosure template, and the College Scorecard. Each of these communications represent distinct types of consumer information. Financial aid offer communications are non-standardized forms of direct information delivery within colleges' established financial aid and enrollment processes. The gainful employment disclosure template is a mandated, standardized, direct information disclosure that is a piece of a broader accountability structure. The College Scorecard is a website

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that provides passive delivery of consumer information, making information available to anyone seeking it out for any reason. Each comes with important strengths and weaknesses, and each can be improved to better inform and impact the choices of students and families.

## Policy Recommendations

### THE SALIENCE AND COMPARABILITY OF FINANCIAL AID OFFER COMMUNICATIONS

A financial aid offer, sometimes called an award letter, is the first point at which a student learns of the types and amount of aid they can expect to help them cover the cost of college. With persistent concerns about college affordability, financial aid offer communications are crucial information tools for helping prospective students understand the cost of college, as well as to assist continuing students making financial plans. To help students make informed decisions, financial aid communications need to consistently and clearly include key pieces of information on a form or template that enables easy comparisons.

Too often, financial aid offers leave out key pieces of information, and they can fall far short of being easy to understand and compare across institutions. TICAS' 2017 analysis of nearly 200 aid offer notices from unique institutions found numerous ways in which those communications are inconsistent, confusing, and in many cases misleading.

The TICAS analysis found that just 7 percent of the college-designed aid offers met three basic criteria for being consumer friendly. Only half provided the full cost of attendance broken down by type of cost, and some provided no cost at all. Just less than a quarter made distinctions between aid that needed to be repaid (loans), aid that did not need to be repaid (grants), and aid that needed to be earned (work-study). Only 13 percent provided a bottom-line net price that clearly showed the prospective student and family the cost that they would be responsible for covering. Even worse: nearly a quarter of aid offers could have misled students by either understating total college costs (by excluding indirect costs like food and housing estimates) or overstating the amount of aid offered (e.g. adding loans, grants, and work study together). A New America and uAspire report also identified an alarming lack of consistency and transparency and numerous examples of potentially misleading information in financial aid offers.<sup>20</sup>

We recommend that Congress improve the clarity and comparability of college aid offers. These offers should include a standardized estimate of cost of attendance, broken out by categories of costs; amount of financial aid that distinguishes grants, loans, and work; and a standardized bottom-line net cost (cost of attendance after scholarships) so students understand the amount they and their families need to finance from savings, work, and borrowing.

The bipartisan Understanding the True Cost of College Act, introduced by Senators Grassley, Smith, and Ernst in March 2019, would define standard terminology for use across all financial aid communications. It would also require colleges receiving federal aid to use a standard template

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that includes key pieces of information on college cost and financial aid.<sup>21</sup> The development of both standard terminology and a standard communication format would be informed by diverse stakeholder involvement and robust consumer testing.

**We recommend that Congress:**

- Pass the bipartisan Understanding the True Cost of College Act to ensure that financial aid communication is delivered in a simple, salient, and comparable manner.

## **THE SALIENCE OF GAINFUL EMPLOYMENT DISCLOSURES**

The gainful employment rule, established in regulation in 2014, defines what it means for a career education program to lead to gainful employment in a recognized occupation.<sup>22</sup> Arising from concern over many students left with unaffordable debts, it marries sanctions and disclosures to create an accountability and transparency framework for career education programs. Requiring schools to disclose the performance of past students informs the decisions of prospective students.

Mandated direct disclosures have a greater chance of impacting student behavior than passive disclosures. The rule requires that, for career programs, colleges distribute the gainful employment disclosure template “to prospective students as a separate document before the student signs an enrollment agreement, completes registration, or makes any financial commitment to the institution.”<sup>23</sup>

The Department of Education also conducted consumer testing to identify the most salient information. This testing found that job placement rate, annual earnings rate, and completion rates were the three most important disclosures to consumers.<sup>24</sup>

In annual revisions made in 2018 and 2019, however, the Department eliminated all three of these data elements, among others.<sup>25</sup> These changes *simplify* the information provided to consumers, but at the cost of decreasing the *salience* of that information. Although the regulation requires changes to the template go through consumer testing, the Department conducted no new consumer testing before either of the last two rounds of changes.<sup>26</sup>

## COMPARISON OF THE 2017, 2018, AND 2019 DISCLOSURE TEMPLATE

	2017 TEMPLATE	2018 TEMPLATE	2019 TEMPLATE
PROGRAM LENGTH	YES	YES	YES
PERCENT OF STUDENTS GRADUATING ON TIME	YES	YES	NO
PROGRAM COSTS: TUITION, FEES, AND SUPPLIES	YES	YES	YES
PROGRAM COSTS: ROOM AND BOARD	YES	NO	NO
PERCENT OF STUDENTS WHO BORROW MONEY	YES	NO	NO
AVERAGE GRADUATE DEBT	YES	YES	YES
AVERAGE MONTHLY LOAN PAYMENT	YES	YES	NO
AVERAGE EARNINGS OF GRADUATES	YES	NO	NO
JOB PLACEMENT RATES	YES	YES	NO
DOES THE PROGRAM MEET LICENSURE REQUIREMENTS	YES	YES	YES
FIELDS STUDENTS GOT JOBS IN	NO	YES	NO

### We recommend that the Department:

- Restore job placement rate, annual earnings rate, and completion rates, the three most important disclosures based on consumer testing, to the gainful employment template.
- Add graphic comparison points to put the information in the context of other similar programs.
- Maintain conspicuous labeling for failing programs, such as the bright red warning text currently given to failing programs. The Department's consumer testing found this graphic design to be highly effective in getting student's attention and communicating the relevant concerns.<sup>27</sup>
- Enforce requirements on how colleges place and label these templates. To help ensure students see them, the 2014 regulation specifies where and how the disclosure templates should be posted on program web sites. Unfortunately, many schools are not in compliance with the regulation.<sup>28</sup>

## THE COMPARABILITY OF THE COLLEGE SCORECARD

In 2013, Secretary of Education Arne Duncan noted, “[t]oo often, students and their families don’t have the right tools to help them sort through the information they need to decide which college or university is right for them.”<sup>29</sup> When it was launched in 2015, the College Scorecard website was intended to address that problem by providing information about colleges’ costs, graduation rate, default rate, student debt, and employment outcomes in a centralized, clear, and comparable format.

The Scorecard includes new data on employment outcomes that were not previously available.<sup>30</sup> Research has found that it has impacted college choices, at least for some students.<sup>31</sup> The Department continues to gather data to improve the Scorecard, including debt and earnings by program, as well as by college. The Trump administration has continued to maintain and update the College Scorecard website, ensuring continued access to information for students.

However, in other ways, the College Scorecard has been weakened since it was launched. For example, it no longer visually displays national medians for cost, graduation rate, and salary after attending, giving much needed context to these numbers. While the Department argued that colleges would be better compared to similar colleges, rather than national averages, it has not provided this contextual information either. As a result, the Scorecard now lacks key contextual information that students need to interpret the data it does provide.

## COLLEGE SCORECARD COMPARABILITY CHANGES

FIGURE A: WITH NATIONAL AVERAGE, BUT WITHOUT THRESHOLD EARNINGS

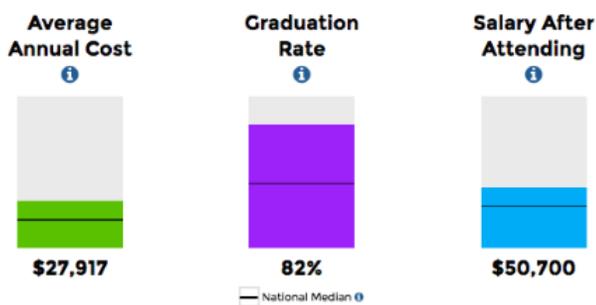
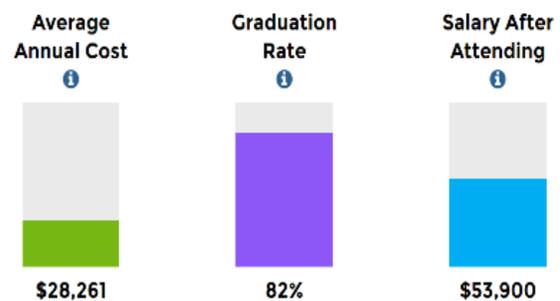


FIGURE B: WITH BOTH NATIONAL AVERAGE AND THRESHOLD EARNINGS REMOVED



PRIOR TO CHANGES

We recommend that the Department or, if necessary, Congress:

- Restore the national medians to College Scorecard data display.
- Improve the interactivity and functionality of the sorting tools. Users should be able to compare colleges by degree level, selectivity, and location to identify colleges in ways that align with common college selection criteria, such as the type of degree and the selectivity of the college.

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- Provide graduation rates for all students and for Pell Grant recipients. There is a wide gap at some schools between the graduation rates of Pell recipients and non-Pell recipients. Schools are currently required to disclose the graduation rate for Pell recipients, but not all schools comply and those data can be difficult to find.
  - Flag schools under investigation. Investors in publicly traded for-profit colleges must be notified of public federal or state investigations, lawsuits, or settlements. Because students should not be the last to know, 48 consumer and student groups urged the Department to flag these colleges on the Scorecard.<sup>32</sup>
  - Indicate a school's loan default risk. The Scorecard currently excludes any information on student loan default, which can inflict long-term damage to students' future academic and economic prospects.<sup>33</sup> The Cohort Default Rate (CDR) is a measure of the risk of a school's borrowers who default within three years. Students should also know what share of a school's *students* default on their loans, which is represented by the Student Default Risk Indicator.<sup>34</sup>

## CONCLUSION

Given the high stakes of college choices, students are entitled to make decisions with the best possible information. However, designing consumer information tools that actually deliver information that is considered by consumers can be challenging.

Consumer information efforts must be designed carefully, with attention to delivering information that is simple, salient, comparable, timely, and trusted. The recommendations in this report would strengthen key consumer information tools, helping students make the best possible college decisions.

## Endnotes

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- <sup>2</sup> Paula J. Dalley, "The Use and Misuse of Disclosure As a Regulatory System," Florida State University Law Review 34, issue 4 (2007): 113-19, <https://ir.law.fsu.edu/cgi/viewcontent.cgi?article=1160&context=lr>.
- <sup>3</sup> For example, disclosures can aim to make information accessible, broadly raise awareness, improve consumer comprehension, improve consumers' decision-making processes, and/or alter behavior/choices of either the consumer or seller. Disclosures can also aim to change industry and/or government behavior. See Paula J. Dalley, "The Use and Misuse of Disclosure As a Regulatory System," Florida State University Law Review 34, issue 4 (2007): 113-19, <https://ir.law.fsu.edu/cgi/viewcontent.cgi?article=1160&context=lr>, and David Dranove and Ginger Zhe Jin, "Quality Disclosure and Certification: Theory and Practice," Journal of Economic Literature 48, no. 4 (2010), <https://www.aeaweb.org/articles?id=10.1257/jel.48.4.935>.
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- <sup>27</sup> From Education Department consumer testing. "Both current and prospective students felt that the display (Exhibit 20) grabbed their attention and made them want to read the text. One current student immediately stated "I would go right to it because it has a warning." Another student commented that "it tells me there's something important I need to read" and "it's like a danger sign." Once they started reading the accompanying text, students felt this attention grabbing display was useful, as the subsequent information about ineligibility for federal loans and not meeting the standards was important information." P. 4-1. Holly Bozeman, Meaghan Mingo, Molly Hershey-Arista, Summary Report for the 2017 Gainful Employment Focus Groups, March 2017. <https://www2.ed.gov/about/offices/list/ope/summaryrpt2017gefocust317.pdf>.
- <sup>28</sup> For example, Herzing University program pages include a link to a general disclosure page, found at the bottom of their program pages in tiny, light grey font. Disclosures on the linked disclosure page are listed alphabetically, with "gainful employment" disclosures listed nineteenth. See for example <http://choose.herzing.edu/healthonline/medicalbilling-122CR-177361W.html>. The Harris School of Business disclosures are even harder to find. See for example <http://www.harrisschool.edu/medical-billing-training/>. Websites accessed November 10, 2016.
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**college**  
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[info@ticas.org](mailto:info@ticas.org)  
[www.ticas.org](http://www.ticas.org)

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1212 Broadway, Suite 1100  
Oakland, CA 94612  
510.318.7900

110 Maryland Ave, NE Suite 201  
Washington, D.C. 20002  
202.223.6060