Kaplan Higher Education Corporation

Summary: 2012 U.S. Senate Committee Findings + 2015 Update

Overview

- Kaplan Higher Education Corporation, a Chicago-based, a privately-owned company, is one of the largest for-profits in the country and offers programs at all degree levels[1]
- It has 70 campuses in 21 states and over 60% of students are enrolled in online programs
- Kaplan operates under the following brand names: Bauder College, Concord Law School, Hesser College, Kaplan Career Institute, Kaplan College, Kaplan University, TESST College of Technology, and Texas School of Business
- Enrollment grew from 23,512 in 2000 to about 112,000 in 2010
- Although it faced serious regulatory problems in 2010 due to high default rates and overdependence on federal student aid, it has since implemented the most serious reforms of any company examined
- Kaplan has settled lawsuits with Florida (2014) and the U.S. Justice Department (2015)

Tuition

- Across the board, its degrees are more expensive than nearby public school alternatives; for example, a Bachelor's in Business is $66,417 compared to $43,816 at the University of Iowa and an Associate degree is more than 4 times more expensive compared to a nearby community college
- It increases tuition about 5% each year and internal documents indicate that tuition decisions were driven by revenue and profit considerations—if increasing tuition results in losing students, profit is unaffected
- Tuition increases motivated by effort to ensure that it remained in compliance with the statutory requirement that revenue from federal student aid not exceed 90%
- It operates an institutional loan program where it lends money when students have maxed out on federal aid but need to borrow more to cover the high cost of tuition; in 2010, it retroactively reduced the interest rates from 15% to 6.8%
- It aggressively recruited veterans because their educational benefits did not count on the 90% of the equation, even though they were federal dollars; it also requires cash payments from students
- Kaplan Commitment Program introduced in fall 2010 allows students to take classes for 5 weeks without incurring any financial obligation; this significant reform led to a 35,000 drop in enrollment by 2012

Federal Revenue

- 87.9% ($1.5 billion) of its revenue was derived from federal student aid plus military and veterans educational benefits in 2010

Expenditure Priorities

- Allocated 13.5% ($212.1 million) of its revenue to profit and 23.7% ($372.7 million) to marketing and recruiting in 2009
- Spent more per student on recruiting ($2,144) than on instruction ($1,550) in 2009 and $1,220 per student on profit; spending on instruction was less than half the maximum expenditure ($3,969) of the publicly-traded companies examined
- Kaplan does not disclose executive compensation for its executives but its former CEO received a severance package of $76 million when he left the company in 2008

Recruiting Tactics

- Recruiters trained to deflect questions about cost by giving a partial answer and then moving on—cost per credit hour, rather than the full cost of a degree
- Documents show that during sales calls or interviews recruiters were told to find prospective students' "pain and fears" and to use those areas to convince them that a degree was the best way to alleviate them
- Government Accountability Office undercover investigators were not allowed to speak with financial aid staff to discuss paying for tuition until after these prospective students signed an enrollment agreement

[1]The sale of the Washington Post to Jeff Bezos in 2012 did not include Kaplan, which was owned by the newspaper.

- Kaplan like many other for-profit education companies includes a binding arbitration clause in its standard enrollment agreement that severely limits students' ability to take their complaints to court
- Employed 1 recruiter for every 37 students in 2010, compared to 1 career counselor responsible for 365 students, and 1 student services staffer responsible for 115 students; students complained about the lack of help when looking for jobs

Academic Quality and Student Outcomes

- Kaplan spent $1,550 annually on instruction in 2009 compared to $3,866 at a nearby community college and $14,882 at the University of Iowa
- 55.3% overall withdrawal rate by 2010 for student who enrolled in 2008-09
- Associate and Bachelor's degree withdrawal rates of 69.1% and 68.2%, respectively, were significantly higher than those of the 30 schools examined; much of the high withdrawal rate was attributable to online students
- Defaults for students entering repayment in 2005 was 19.3%, increasing to 27.8% for those entering repayment in 2008—the 3rd highest default among the 30 schools examined
- Default rate for its private loans was about 70% for students entering repayment in 2006
- Using its own staff, it accomplished default management by putting students who have not made payments on their student loans into temporary deferments or forbearances
- 82% of its faculty was part time in 2010, close to the 80% average for the 30 schools surveyed
- Students raised concerns with academic quality—no teacher for the first 2 weeks of class, no teacher for the last block of material, failure to provide promised CPR training, and failure to provided promised classroom supplies

2015 Update

- Florida announced it had entered a voluntary compliance agreement with Kaplan in 2014 requiring the school to clearly and conspicuously disclose true and accurate information relating to the school's accreditation, program costs, financial aid and the scope and nature of employment services they provide. During the course of the investigation, Kaplan voluntarily waived tuition and fees for more than 2,400 Florida students at a cost of more than $6,000,000. Kaplan has also agreed to offer retraining to eligible students and establish an expedited arbitration process for students who have asserted claims against the school. The school also agreed to reimburse the Attorney General's Office for attorney's fees and costs.
- In January 2015, the Justice Department announced a $1.3 million settlement with Kaplan over allegations that it employed unqualified instructors at its Texas campuses; about $1.1 million of the settlement will be tuition refunds to 289 students
- A July 2014 report by the Senate Health, Education, Labor, and Pensions Committee found that from 2009 through 2013 Kaplan received $119 million in revenue from veterans using their Post-9/11 GI Bill benefits
- On June 30, 2015, the Massachusetts AG announced a $1.375 million settlement with Kaplan to be distributed to eligible graduates of the schools medical vocational programs to pay off all or a portion of their student loan debt. According to the AG's office, Kaplan induced enrollment in the school through harassing sales tactics and misleading representations in its recruitment materials concerning its educational program and employment. Kaplan no longer operates in Massachusetts but agreed to give notice to the AGs office before attempting to open or reopen any campuses in the state.

Summary of findings from a report by the Senate Health, Education, Labor and Pensions (HELP) Committee: *For-Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* (July 30, 2012). Find the full chapter on Kaplan at: http://www.help.senate.gov/imo/media/for_profit_report/PartII/Kaplan.pdf