



# Postsecondary Equity & Economics Research Project

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## What's Next for the Post 9/11 GI Bill after the closure of the 90/10 Loophole?

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In 2008, Congress passed the Post 9/11 GI Bill and it has become one of the largest expansions of financial aid in our country's history. This iteration of the GI Bill replaced the Montgomery GI Bill and expanded veteran benefits by including housing and cost of living benefits, introducing the option to transfer benefits to a spouse or dependent, and removing the requirement to contribute financially to the GI Bill while serving. In 2022, 564,501 veterans received around \$8 billion of assistance through the Post 9/11 GI Bill, making it a critical source of college funding for servicemembers and a key recruiting tool for America's military.<sup>1</sup> However, until recently, a loophole in a U.S. Department of Education rule known as "90/10," caused concern by generating incentives for for-profit colleges to enroll veterans to attract GI Bill dollars. While the loophole has recently been closed, questions remain about value and accountability in GI Bill-funded programs.

The U.S. Department of Education's 90/10 rule limits a for-profit college's revenues to a maximum of ninety percent from federal student aid programs under Title IV of the Higher Education Act, such as Pell Grants and Direct Loans. The goal of the 90/10 rule was to serve as a market-based test of for-profit college's value, by ensuring that 10 percent of funding came from individuals paying out-of-pocket. However, a critical loophole allowed for-profit colleges to count GI Bill and Department of Defense sponsored tuition assistance towards the 10 percent, rather than the 90. The loophole allowed a for-profit institution to accept nine dollars of additional federal funding if they recruit one dollar of veteran benefit. This loophole created a strong incentive for for-profit colleges to recruit veterans and use their benefits on credentials of questionable value.<sup>2</sup>

In 2021, as part of the American Rescue Plan, Congress authorized the Biden administration to draft rules to close the 90/10 loophole. In late 2022, the Department of Education finalized regulations that require for-profit colleges to count veterans benefits as federal funds in the 90 percent—in the same way as Title IV financial aid programs. While these new regulations should dissuade institutions from disproportionately recruiting veterans, challenges remain for veterans seeking to use their GI Bill funds at U.S. colleges: some lose their benefits when colleges close, others enroll in high cost programs that yield little return, and the closing of the loophole may generate new incentives for for-profit institutions to create low-value programs geared toward veterans. This brief proposes three ideas for improving accountability for programs and institutions that receive GI Bill benefits. First, the Department of Education should streamline the process for veterans to apply to have the Departments of Education and Veterans Affairs reimburse them for lost funds. Second, the Department of Veterans Affairs should consider instituting a meaningful earnings threshold to measure the gainful employment of veterans, given their age and military experience. Third, the Department of Education should consider imposing a 90/10 style rule for non-Title IV programs.

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## RESTORING VETERANS GI BILL BENEFITS IN CASE OF FRAUD AND CLOSURE

During the last two decades, for-profit colleges had an increased incentive to recruit veterans because of the 90/10 loophole. In 2012, at the height of this behavior, nearly forty percent of all veterans attended a for-profit college and empirical analysis shows that these veterans were eight percent less likely to graduate than servicemembers in other sectors after controlling for observable characteristics. Researchers have also found that the high concentration of veterans attending colleges may have turned the return on investment of the Post 9/11 GI Bill negative.<sup>3</sup> Evidence of decreased graduation probability, employment opportunities,<sup>4</sup> and reduced wages is increasingly alarming when coupled with evidence that for-profit colleges manipulated sticker price tuition rates to capture increased generosity in the GI Bill.<sup>5</sup>

In addition to reduced earnings and increased costs, when the federal government closes for-profit colleges because of fraud, veterans may lose their GI Bill benefits and do not receive a credential or hold one that has little value in the labor market.<sup>6</sup> Under current rules, students in closed schools must fill out an application and may only receive reinstatement if they have transferred fewer than 12 credits to another institution.<sup>7</sup> Recent research shows that students do switch to local community colleges after a for-profit sanction or closure,<sup>8</sup> but little is known about how veteran students change their enrollment behavior. One potential policy solution would be to allow automatic reinstatement of GI Bill benefits in cases where Veteran Affairs, the Department of Education, or another federal agency has issued a finding of fraud against an institution. Other problematic institutional behavior, such as those described in the most recent Borrower Defense to Repayment rules for student loans, could also generate automatic reinstatement GI Bill funds. As in Borrower Defense, the VA may be able to recoup the value of reinstated funds from the institution. Legislation proposing restoration of VA benefits and repayment by the school has recently been introduced in the U.S. House of Representatives.<sup>9</sup>

## PROGRAMMATIC ELIGIBILITY METRICS FOR THE GI BILL

While the Department of Education just proposed new Gainful Employment (GE) regulations to ensure that graduates of career and for-profit college programs earn enough to repay their loans and generate earnings higher than the average high school graduate in their state, there is currently no such front-end benchmark that college programs must pass to be eligible for the GI Bill.

Veterans gain skills in the course of their service that are helpful in the labor market and thus earn more in and after military service than comparable high school graduates who did not serve. Thus, it is not clear that the same earnings thresholds should be used for veterans and non-veterans in accountability policy. Recent research compares veterans from 1990 to 2011 who barely qualified for the military to those who were barely rejected. On average, military service increased post-service earnings by \$4,000 annually while black veterans realized income gains between \$5,500 to \$15,000 post-service.<sup>10</sup> Veterans also face high opportunity costs of leaving military service (i.e., paid higher than their peers, health benefits, 401k contributions, and possibility of a pension after twenty years of service), so are more likely to stay in service and earn more regardless of their college experience. Policymakers considering earnings thresholds for accountability should consider taking veteran's enhanced labor market potential into consideration when setting the bar for a college's value added. The Department of Veterans Affairs may consider imposing an earnings threshold (such as earning the same as a corporal or specialist (E-4) or around \$30,000, the average rank for someone leaving the military after one term of service) for programmatic or institutional eligibility for GI Bill funding eligibility for added accountability.<sup>11</sup>

## ROLE OF NON-TITLE IV PROGRAMS

The closure of the 90/10 loophole generates incentives for institutions to find new sources of revenue outside of Title IV programs, and one potential avenue is the expansion of non-Title IV programs. These programs may not meet Department of Education criteria for participation in federal student aid programs for several reasons, but most typically due to their short length (e.g., most are short-term career programs or coding boot camps), yet they are popular among veterans. Many

non-Title IV programs claim that they are flexible in course offerings,<sup>12</sup> not bound to the traditional academic calendar, and are often online.<sup>13</sup> These attributes could prove advantageous for veterans who are generally older than typical college students, have dependents, or already developed marketable skills but lack a credential to certify competence to skeptical employers, yet these programs have even less accountability for student outcomes than Title IV programs and may not generate gains for students.

Given that GI Bill funds originate in the Department of Veterans Affairs, programmatic eligibility for veterans' benefits is determined outside of the Department of Education and Title IV. Under the new rule, G.I. Bill funds used for non-Title IV programs will now count toward the 90% federal funding limit,<sup>14</sup> yet G.I. Bill dollars could continue to be a key source of revenue for any new non-Title IV programs created, as well as to non-Title IV institutions that are not subject to 90/10.

The Department of Veterans Affairs should develop mechanisms to ensure program quality for veterans outside of Title IV. One resource is the VA's GI Bill Comparison Tool to identify programs that have a history of low success or job placement for veterans.<sup>15</sup> This resource, like the College Scorecard provided by the Department of Education, includes graduation outcomes, labor market outcomes, and the number and type of complaints from veterans about each institution receiving GI Bill funding. Limiting GI Bill funds to programs where veterans are making significant progress towards civilian labor market entry and have less complaints than a determined threshold may better align incentives for successful job placement and prevent predatory pricing given a lack of regulation in this space.

## CONCLUSION

Closing the 90/10 loophole is beneficial for veterans, taxpayers, and those concerned about the costs and labor market returns of the for-profit college sector. The loophole created an incentive for colleges with high costs and low post-college earnings to recruit veterans. Recent research showed that generous tuition reimbursement rates induced for-profit colleges to manipulate their sticker price tuition rates to extract more funding from veteran students.<sup>16</sup> However, there are still many questions about how to ensure veterans who attended fraudulent colleges have access to education opportunities, how to measure gainful veteran employment, and how GI Bill funds are distributed with regard to non-Title-IV eligible programs. Given the forward momentum on veteran education issues, policymakers should continue to ensure that veterans receive the education they deserve and continue towards successful civilian labor market opportunities.

## ENDNOTES

- 1 Veterans Benefits Administration. "Annual Benefits Report: Fiscal Year 2022". <https://www.benefits.va.gov/REPORTS/abr/docs/2022-abr.pdf>
- 2 Kofoed, Michael S. 2020. "Where Have All the GI Bill Dollars Gone?: Veteran Usage and Expenditure of the Post 9/11 GI Bill" *Brookings Research Paper in Accountability in Higher Education*.
- 3 Barr, Andrew, Laura Kawano, Bruce Sacerdote, William Skimmyhorn, and Michael Stevens. 2021. "You Can't Handle the Truth: The Effects of the Post 9/11 GI Bill on Higher Education and Earnings" *NBER Working Paper*, no. 29024.
- 4 See David J. Deming, Noam Yuchtman, Amira Abulafi, Claudia Goldin, and Lawrence F. Katz. 2016. "The Value of Postsecondary Credentials in the Labor Market: An Experimental Study" *American Economic Review* 106(3): 778-806 and Darolia, Rajeev, Cory Koedel, Paco Martorell, Katie Wilson, and Francisco Perez-Arce. 2015. "Do Employers Prefer Workers Who attend For-Profit Colleges? Evidence from a Field Experiment" *Journal of Policy Analysis and Management*, 34(4): 881-903.
- 5 Baird, Matthew, Michael S. Kofoed, Trey Miller, and Jennie Wenger. 2022. "Veteran Educators or For-Profiters? Tuition Responses to Changes in the Post 9/11 GI Bill" *Journal of Policy Analysis and Management*, 41(4): 1012-1039.
- 6 For example, see testimony by Tasha Berkhalter to the Department of Education on October 6, 2021. <https://www2.ed.gov/policy/highered/reg/hearulemaking/2021/106pm.pdf>
- 7 <https://www.benefits.va.gov/GIBILL/Restoration.asp>.
- 8 Cellini, Stephanie R., Rajeev Darolia, and Lesley J. Turner. 2020. "Where Do Students Go When For-Profit Colleges Lose Federal Aid?" *American Economic Journal: Economic Policy*, 12(2): 46-83.
- 9 <https://ramirez.house.gov/media/press-releases/news-veterans-affairs-hearing-congresswoman-delia-ramirez-bill-restore-gi>
- 10 Greenberg, Kyle, Matthew Gudgeon, Adam Isen, Corbin Miller, and Richard Patterson. 2022. "Army Service in the All-Volunteer Service" *Quarterly Journal of Economics*, 137(4): 2363-2418.
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- 12 Gilpin, Gregory A., Joseph Saunders, and Christiana Stoddard. 2015. "Why Has For-Profit Colleges Share of Higher Education Expanded so Rapidly? Estimating the Responsiveness to Labor Market Changes" *Economics of Education Review*, 45: 53-63.
- 13 Deming, David J., Claudia Goldin, and Lawrence F. Katz. 2012. "The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?" *Journal of Economic Perspectives*, 26(1): 139-164.
- 14 <https://www2.ed.gov/policy/highered/reg/hearulemaking/2009/90-10-q-and-a.html>.
- 15 <https://www.va.gov/education/gi-bill-comparison-tool/>
- 16 Baird, Matthew, Michael S. Kofoed, Trey Miller, and Jennie Wenger. 2022. "Veteran Educators or For-Profiters? Tuition Responses to Changes in the Post 9/11 GI Bill" *Journal of Policy Analysis and Management*, 41(4): 1012-1039.