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House of Representatives

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LAWRENCE J. BRADY
STAFF DIRECTOR

MEMORANDUM

July 27, 2012

To: Democratic Members of the Committee on Oversight and Government Reform

Fr: Democratic Staff

Re: Status Update on Executive Pay at For-Profit Colleges

I. SUMMARY

Last December, Ranking Member Cummings initiated an investigation of executive pay at for-profit educational institutions—which receive a majority of their funds from U.S. taxpayers in the form of financial aid to students. The purpose of this investigation is to determine how these for-profit companies are using taxpayer funds and, specifically, whether they are linking the compensation of their top executives to factors relating to student achievement, performance, and outcomes. Ranking Member Cummings sent letters to 13 publicly traded, for-profit educational institutions requesting documents that indicate to what extent they base executive salaries, bonuses, and other compensation on the performance of their students.

This memo provides an update on the status of this investigation and summarizes the documents produced to date. Although the companies' responses are incomplete, they provide enough information to make preliminary observations. Specifically, the documents obtained during this investigation indicate:

- The single most significant measure for determining overall executive compensation is corporate profitability, including factors such as income and earnings, operating margins, net cash flow, and revenue. Across the board, measures relating to corporate profitability dwarf those relating to student achievement.
- Certain companies failed to demonstrate any link whatsoever between the compensation they pay their executives and factors relating to the success of their students, such as the rates of student loan default, graduation, and post-graduate employment.

- Several companies provided documents with vague references to student performance measures, but they failed to indicate the specific extent to which these measures affect executive compensation, and they failed to demonstrate how they are used in practice.
- Some companies provided the specific percentages they use to weigh student achievement measures when determining executive compensation—which is commendable—but these factors were far outweighed by corporate profitability concerns. In addition, significant questions remain about the relatively low targets set for student performance, which continue to result in high executive bonus payments.

Because more information is needed to complete a comprehensive review of these issues, Ranking Member Cummings is seeking additional documents and information and will request staff briefings from these companies. In addition, next week, the Senate Committee on Health, Education, Labor and Pensions is scheduled to issue a report documenting the results of its two-year investigation into the high costs of for-profit programs, as well as their rates of student loan default, graduation, and post-graduate employment.

II. BACKGROUND

Although the for-profit education industry serves a laudable purpose in offering academic opportunities to millions of Americans, it has come under significant scrutiny recently for charging extremely high tuition, resulting in crippling debt for students with lower graduation rates and job placement records, while at the same time generating handsome profits for corporate shareholders and lavish compensation for company executives.¹ These are significant concerns not only for students who go through these programs, but also for U.S. taxpayers who subsidize these for-profit companies through student financial assistance.

For-profit education companies collect billions of taxpayer dollars each year in the form of Title IV loans and grants to their students, Title X tuition assistance, and funds distributed pursuant to the Veterans Education Assistance Act. For example, in the 2008-2009 academic year, for-profit colleges received \$24 billion in federal Title IV funds alone.² In some instances, these for-profit institutions receive more than 90% of their revenue from U.S. taxpayers. Several

¹ National Bureau of Economic Research, *The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?* (Dec. 2011) (online at big.assets.huffingtonpost.com/forprofitpaper.pdf); Huffington Post, *For-Profit College Executives Make Much More than Their Higher Education Counterparts* (Jan. 31, 2012) (online at www.huffingtonpost.com/2012/01/30/for-profit-college-compensation_n_1229284.html).

² Senate Committee on Health, Education, Labor and Pensions, *Emerging Risk?: An Overview of Growth, Spending, Student Debt and Unanswered Questions in For-Profit Higher Education* (June 24, 2010) (online at harkin.senate.gov/documents/pdf/4c23515814dca.pdf).

state attorneys general have been investigating deceptive and unfair recruiting practices at for-profit schools.³

Over the past several Congresses, the Oversight Committee has conducted numerous investigations into questions relating to executive pay, particularly with respect to companies that receive significant amounts of taxpayer funds.⁴ Most recently, on November 16, 2011, the Committee held a hearing with the Chief Executive Officers of Fannie Mae and Freddie Mac, who received millions of dollars in compensation from U.S. taxpayers. As Rep. Patrick McHenry stated during the hearing:

The concern here today is the extraordinary taxpayer support ... and that is where your compensation becomes a question for the taxpayer.⁵

On December 12, 2011, Ranking Member Cummings sent letters to 13 publicly traded, for-profit educational institutions requesting documents that would show whether these companies link the pay of their executives to improving student achievement at their schools. In cases in which the companies could demonstrate a link, Ranking Member Cummings requested documents that would indicate how much weight these companies place on student success, compared to the profitability of their businesses.

In response to these requests, Ranking Member Cummings received a wide range of documents, including filings with the Securities and Exchange Commission (SEC), executive compensation plans, annual proxy statements, and employment agreements. These documents included information provided to shareholders concerning the amount and type of compensation paid to executive officers, the criteria used in reaching executive compensation decisions, and the relationship between companies' compensation practices and corporate, or individual executive, performance.

All of the companies had executive compensation packages composed primarily of three elements: base salary, non-equity incentive compensation, and long-term equity compensation. Non-equity incentive compensation, commonly referred to as performance-based bonus pay, is

³ *Lawsuit Addresses Recruitment Practices at For-Profit Colleges*, PBS Frontline (Mar. 16, 2012) (online at www.pbs.org/wgbh/pages/frontline/education/college-inc/lawsuits-address-recruitment-practices-at-for-profit-colleges/).

⁴ See, e.g., House Committee on Oversight and Government Reform, *Executive Pay: The Role of Compensation Consultants*, 110th Cong. (Dec. 5, 2007); House Committee on Oversight and Government Reform, *Hearing on AIG Bonuses: Report of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)*, 111th Cong. (Oct. 14, 2009); House Committee on Oversight and Government Reform, *Hearing on Executive Compensation: How Much Is Too Much?*, 111th Cong. (Oct. 28, 2009).

⁵ House Committee on Oversight and Government Reform, *Hearing on Pay for Performance: Should Fannie and Freddie Executives Be Receiving Millions in Bonuses?* (Nov. 16, 2011).

intended to reward the short-term performance of the company and the individual performance of corporate executives.

The preliminary findings below are based on documents submitted by the companies and reflect information provided in response to Ranking Member Cummings' request. If companies provide documents at a later date that include additional information, these findings may be adjusted accordingly.

III. FINDINGS

A. Corporate Profitability Most Significant Factor

The documents obtained during the course of this investigation indicate that the single most significant measure for determining executive compensation at these schools is corporate profitability, including factors such as operating income, earnings, profits, operating margins, earnings per share, net cash flow, and revenue. Companies use various combinations of these factors to determine the majority of executive compensation.

As discussed below, some companies provided no documents demonstrating links to student achievement when determining executive compensation, other companies provided documents with vague references to student achievement, and other companies provided documents that included specific compensation percentages linked to student performance measures. In all cases, however, the majority of compensation paid to company executives is based on measures relating to corporate profitability rather than student achievement.

B. Companies With No Demonstrated Links to Student Achievement

Certain companies failed to produce documents demonstrating any link between the compensation of their executives and the achievement of their students. These companies based compensation primarily on the achievement of corporate financial goals. Some of these companies indicated that bonus pay could be based in part on executive performance, but they did not demonstrate that student achievement was among those goals.

Lincoln Educational Services

In its 2010 proxy statement, Lincoln Educational Services stated that its compensation policies are "intended to motivate, reward and retain highly qualified executives for long-term strategic management and enhancement of shareholder value, to support a performance-oriented environment that rewards achievement of specific internal Company goals."⁶ In addition, the Compensation Committee of the company's Board of Directors "believes that the compensation of our senior levels of management, the levels of management having the greatest ability to influence our performance, should be predominately performance based." In addition, 20% of executive bonuses were based on individual achievement of non-financial performance

⁶ Lincoln Educational Services, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (Mar. 28, 2011).

objectives, which included productivity, quality, people development, logistics, program expansion, and innovation. The company revised its Management Incentive Compensation Plan for 2011 by replacing “key non-financial performance objectives” with “company-wide quality focused outcomes that directly impact the Company’s overall health and viability.” It appears that 80% of executive bonus pay was based on corporate profitability measures, including net income and revenue goals. The company provided no evidence that any portion of executive pay was tied to student performance.

Kaplan Education, Inc.

In its letter responding to Ranking Member Cummings’ request for information, Kaplan Education stated, “executive compensation and incentive pay is tied directly to student success metrics,” and “incentive compensation is determined based on student outcome targets such as job placement and improved graduate income levels.”⁷ Based on the documents submitted during this investigation, it was not possible to verify these assertions. As a wholly owned subsidiary of the Washington Post Company, Kaplan is not required to disclose its executive pay to the SEC. Citing this rationale, Kaplan refused to comply with Ranking Member Cummings’ request for information. As a result, the only compensation information available was from a 2008 Washington Post 8-K filing announcing Jonathan Grayer’s resignation as Chairman and CEO of Kaplan.⁸ Under the terms of his agreement, Mr. Grayer received approximately \$76 million, which represents a combination of Kaplan shares, future consulting fees, and payment for non-competition and non-solicitation agreements.

C. Companies With Vague References to Student Achievement

Several companies provided corporate documents with vague references to student performance, but they failed to indicate the extent to which specific measures relating to student achievement affect executive compensation, and they failed to demonstrate how they used these factors in practice. Although student performance appears to be one of many factors considered in determining executive pay at these companies, the documents produced lack details on how pay was awarded as a result of achieving targets for those measures.

DeVry, Inc.

In its letter responding to Ranking Member Cummings’ request for information, DeVry, Inc. stated that its “first obligation is to our students, and our shareholders understand this. They know that only by focusing on serving our students, and on delivering value over the long term,

⁷ Letter from Janice L. Block, EVP, General Counsel, Chief Compliance Officer, Kaplan, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 20, 2011).

⁸ The Washington Post Company, *Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934* (issued Nov. 19, 2008).

will we ensure our economic viability.”⁹ Based on the documents submitted during this investigation, it appears that company executives received 70% of their bonuses based on corporate profitability measures, including earnings per share, revenue and operating income.¹⁰ The remaining 30% of their bonuses were based on individual executive performance goals, including “achieving high quality academic outcomes.” The documents included no further details about how “high quality academic outcomes” are defined or linked to individual executive performance measures.

Corinthian Colleges, Inc.

In its letter responding to Ranking Member Cummings’ request for information, Corinthian Colleges, Inc. stated that “successful student outcomes—graduation and placement” were “important criteria governing the amount of compensation we may receive and whether we may receive certain parts of our compensation.”¹¹ Based on its proxy statement, it appears that executive bonus pay was based on achievement of the company’s 2010 operating income target and whether the company met its regulatory compliance “gate” for the year, meaning that the company’s schools were able to achieve an internally-tracked regulatory compliance score, as determined by the company’s internal auditors.¹² A company filing with the SEC describes a new company Bonus Plan for the fiscal year ending on June 30, 2012.¹³ One of the key performance measures in this new plan is “student satisfaction, as measured by periodic surveys.” However, the documents produced do not detail whether the student satisfaction survey includes measures that involve student performance and achievement.

Strayer Education, Inc.

On its website, Strayer Education, Inc. states that its “value as a business is inherently linked to Strayer University’s ability to deliver a high quality academic experience to students. Our goal is to sustain and grow our business by offering rigorous and relevant academics that provide real returns to adult students, alumni and their employers.”¹⁴ Based on the documents

⁹ Letter from Sharon Thomas Parrott, Senior Vice President, Executive Relations, DeVry, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 21, 2011).

¹⁰ DeVry Inc. *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Oct. 7, 2011).

¹¹ Letter from Jack Massimino, Executive Chairman of the Board, Corinthian Colleges, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 22, 2011).

¹² Corinthian Colleges, Inc., *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (Oct. 15, 2010).

¹³ Corinthian Colleges, Inc., *Report on Form 8-K filed with the Securities and Exchange Commission* (July 5, 2011).

¹⁴ Strayer Education, Inc., *Strayer Education* (online at www.strayereducation.com/about.cfm).

produced during this investigation, it appears that Strayer executives could receive compensation based on corporate objectives in three categories: academic, operational, and financial.¹⁵ The academic objectives to be considered were faculty hiring and development, student learning outcomes, the development of new academic programs, student retention, and graduation rates. However, the documents included no specific targets or percentages on how corporate executives performed on these academic objectives.

Capella Education Company

In its letter responding to Ranking Member Cummings' request for information, Capella Education Company stated, "Since its founding, Capella has strongly believed that it is only successful when our students are successful."¹⁶ Based on the documents submitted during the investigation, it appears that company executives received 75% of their bonuses based on corporate profitability measures, including revenue and operating income targets, and 25% based on individual executive goals.¹⁷ Capella's proxy statement includes a proposal for an incentive bonus plan that lists 21 factors that its Compensation Committee could select as performance targets. Of these, 19 were related to financial goals and two were related to academic achievement.¹⁸ According to the documents produced, all of the executives were awarded 100% of their bonuses related to performance on individual executive goals, but the documents include no details about the specific percentages or weights assigned to the measures used to evaluate executive performance toward these goals. For 2010 bonus awards, it also appears that Capella selected only criteria that were not related to student performance.

Capella revised its Management Incentive Plan for 2011, stating that it plans to award 70% of future bonuses based on financial measures (35% for operating income and 35% for revenue generation).¹⁹ The company will also allocate 20% based on shared learner satisfaction objectives and 10% based on the achievement of key initiatives/objectives focused on non-

¹⁵ Strayer Education, Inc., *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (Mar. 29, 2011).

¹⁶ Letter from Kevin Gilligan, Chairman and CEO, Capella Education Company, to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 23, 2011).

¹⁷ Capella Education Company, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Mar. 25, 2011).

¹⁸ *Id.* The factors were net revenue; stock price; market share; sales; earnings per share; return on equity; costs; operating income; net income before interest, taxes, depreciation and/or amortization; net income before or after extraordinary items; return on operating assets or levels of cost savings; earnings before taxes; net earnings; asset turnover; total shareholder return; pre-tax, pre-interest expense return on invested capital; return on incremental invested capital; free cash flow; cash flow from operations; customer satisfaction (i.e., learner satisfaction); and learner success.

¹⁹ Capella Education Company, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Mar. 25, 2011).

financial goals, including, but not limited to, learner outcome management, academic excellence and course quality. It remains unclear what specific percentages will be applied to these individual student achievement factors.

Career Education Corporation

On its website, Career Education Corporation states that its key goal is to “become one of the world’s leading providers of quality education services” and that it is “committed to quality outcomes and career opportunities for a diverse student population.”²⁰ Based on the documents submitted during this investigation, 75% of bonus pay for the company’s top executives was based on the company meeting targeted consolidated operating income.²¹ The remaining 25% of executive bonuses were based on individual executive performance factors. In its Incentive Compensation Plan, the company lists 19 optional factors that may be considered for executive bonus awards.²² Factors listed within items 16 and 17 are the achievement of educational goals, student retention rates, student graduation rates, and/or student placement rates. The documents produced provide no details about whether these student performance goals were in fact considered or, if so, to what extent. In 2010, eligible executives reportedly reached 100% of their individual goals.

Universal Technical Institute

On its website, Universal Technical Institute states, “we feel our own success is defined by the life-long achievement of our graduates.”²³ The company’s 2003 Incentive Compensation Plan includes 37 factors that may be considered on an “absolute or relative basis” in determining executive incentive pay.²⁴ Factors listed within items 17, 21, 33, and 34 are retention/persistence of students, graduation rates, placement rates, and student show rates. In 2010, the company’s Compensation Committee established performance goals that incorporated the 2003 Incentive Compensation Plan. The company also indicated that long-term incentives (stock options, performance units and restricted stock) were designed to ensure the executives’ commitment to the interests of students and stockholders. However, the documents produced provide no details about whether these student performance goals were in fact considered or, if so, to what extent. Only two executives were granted incentive awards under the 2003 plan. For the remaining executives, 80% of bonus pay was based on consolidated earnings before interest and taxes

²⁰ Career Education Corp., *About CEC* (online at www.careered.com/About-CEC).

²¹ Career Education Corporation, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Apr. 1, 2011).

²² Career Education Corp., *2008 Incentive Compensation Plan* (effective May 13, 2008).

²³ Universal Technical Institute, *UTI Disclosure* (online at www.uti.edu/disclosure).

²⁴ Universal Technical Institute, *2003 Incentive Compensation Plan*.

(EBIT).²⁵ According to the documents, 20% of these executives' bonuses were based on individual performance criteria that did not incorporate student achievement as a factor.²⁶

Grand Canyon Education, Inc.

On its website, Grand Canyon Education, Inc. (GCU) states, "The curriculum at GCU is designed to prepare students with the skills and knowledge needed in the contemporary job market. Students are challenged to develop these tools and to push their intellectual limits in order to become successful in their careers."²⁷ Based on the documents produced during this investigation, it appears that company executives received 80% of their bonuses based on corporate profitability measures, including earnings and revenue targets, and 20% based on the achievement of individual executive performance goals.²⁸ Only two company executives were assigned individual performance goals related to student performance, which were improving student time-to-completion and staff-to-student ratios. For 2010, these executives achieved 85% to 100% of their individual performance goals, but the documents provide no details about specific performance targets relating to student achievement, how the executives performed in attaining these goals, or how compensation was in fact awarded.

Apollo Group, Inc.

In its annual report, the Apollo Group stated, "Our commitment is to provide a high-quality education to our students to help them attain the skills needed to succeed in today's competitive workforce. We believe that delivering superior experiences, achieved by doing the right thing for the student, is key to building value for our shareholders."²⁹ Based on the documents submitted during this investigation, it appears that company executives received 100% of their bonuses based on corporate profitability measures, including revenue and operating profit goals.³⁰ However, the Compensation Committee has authority to reduce bonuses by up to 30% if it finds that the company's overall performance is insufficient, and by an additional 20% if it determines that individual executive performance requires it. Among the

²⁵ Universal Technical Institute, Inc., *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Jan. 18, 2011).

²⁶ *Id.* Individual performance criteria include the sufficiency of internal controls over financial performance; implementation of succession plans; department budget management; student inquiry; completion of a Growth Strategy Project; timely opening of a new campus; and successful completion of key elements of new curriculum.

²⁷ Grand Canyon University, *Mission and Vision* (online at www.gcu.edu/About-Us/Mission-and-Vision.php).

²⁸ Grand Canyon Education, Inc. *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Mar. 28, 2011).

²⁹ Apollo Group, Inc., *Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934* (Fiscal Year Ended Aug. 31, 2010) (signed Oct. 20, 2010).

³⁰ Apollo Group, Inc., *Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934* (issued Dec. 21, 2010).

factors that could be considered in this “clawback” provision is the company’s progress towards improving “academic and educational excellence,” including “enhanced student protection measures” and “improvement of first course completion rates.” According to the documents produced, executive bonus amounts were reduced by 28% “in light of the progress yet to be made with respect to various strategic objectives undertaken by the Company to enhance the academic and academic excellence of its universities.” However, it is unclear what specific targets were utilized and how the company performed in relation to those specific targets.

D. Companies With Specific Percentages Assigned to Student Achievement

Some companies provided specific percentages of executive compensation linked to student achievement measures, which is commendable. Unlike the companies described above, these companies assigned specific weights to student academic achievement and outcomes when determining executive compensation and appear to have applied those factors to determine executive compensation. Nevertheless, academic factors were still far outweighed by corporate profitability measures. In addition, significant questions remain about the relatively high level of bonus payments in light of the relatively low executive targets for student performance.

Education Management Corporation

On its website, Education Management Corporation states that its “value system is founded in the belief that excellence in education is measured by practical outcomes that enhance the lives of our students, enabling them to make important contributions in their workplace and in their communities.”³¹ Based on the documents submitted by the company, executives received 80% of their bonuses based on corporate profitability measures, including earnings and revenue targets.³² In addition, 20% of executive bonuses were based on individual performance metrics. Although ten performance metrics were available for determining individual executive performance, the company selected three student achievement metrics—student persistence, average starting salary, and job placement—each weighted at 33.3% apiece. According to the documents produced, individual executive performance on these metrics ranged from 94.7% to 106.5% of the targets set.

Bridgepoint Education, Inc.

In its 2011 proxy statement, Bridgepoint Education, Inc. stated that “emphasizing quality, particularly the quality of the academic process, is an appropriate indicator by which to measure and compare the performance of our executive officers when determining the amounts and types of compensation to be paid.”³³ Based on its proxy statement, it appears that company executives received 75% of their bonuses based on corporate profitability measures, including earnings and

³¹ Education Management Corporation, *About EDMC*, (online at www.edmc.edu/About/).

³² Education Management Corporation, *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Oct. 6, 2010).

³³ Bridgepoint Education, Inc., *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Apr. 8, 2011).

revenue targets.³⁴ In addition, 25% of executive bonuses were based on quality performance targets, including bad debt expense, student retention rates, the cohort default rate at Ashford University (a Bridgepoint subsidiary), 90/10 ratio at Ashford University, and student recommendation rate at Ashford University. In 2010, the student retention rate decreased, the cohort default rate increased, and the student recommendation rate remained flat. Based on the documents submitted, it appears that executives were paid 175% of the target bonus amounts for which they were eligible. An analysis of the company's student retention rate issued by the Senate Committee on Health, Education, Labor and Pensions concluded that, as of September 2010, 84% of two-year students and 63% of four-year students who enrolled in 2008 had already dropped out of school.³⁵

ITT Educational Services, Inc.

In its letter responding to Ranking Member Cummings' request for information, ITT Educational Services, Inc. stated that the company agrees with Ranking Member Cummings that "Executive Compensation should be performance based and that student performance should be an important criterion for evaluating executive performance."³⁶ Based on the documents submitted during this investigation, company executives received 25% of their bonuses based on achieving targets for net cash flow, 25% based on achieving targets for earnings per share, and 25% based on achieving targets for student enrollment.³⁷ The remaining 25% of bonuses were based on targets for post-graduate employment. The company provided an analysis of the extent to which these goals were achieved, showing that the company performed below its minimum targets, and as a result lowered its bonus award payouts. Unfortunately, the company announced that it plans to discontinue using student performance as a factor for determining executive pay because of its interpretation of a recently enacted Department of Education Incentive Compensation regulation that governs incentive pay for recruiters.³⁸

³⁴ *Id.* Although Bridgepoint operates two institutions, Ashford University and the University of the Rockies, it appears that three of the quality performance targets were applied only to the performance of Ashford University.

³⁵ Senate Committee on Health, Education, Labor and Pensions, Statement of Chairman Tom Harkin, *Hearing on Bridgepoint Education, Inc.: A Case Study in For Profit Education and Oversight*. (Mar. 10, 2011) ("Data reviewed by this Committee paints a picture of a company—and perhaps an industry—that is premised on aggressively recruiting largely low-income, disadvantaged students ... collecting their federal grants and loans even as the vast majority of students drop out ... and lavishly rewarding executives and shareholders with mostly taxpayer dollars.").

³⁶ Letter from Michael D. Bopp, Partner, Gibson, Dunn & Crutcher, LLP, on behalf of ITT Educational Services, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 23, 2011).

³⁷ ITT Educational Services, Inc., *Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934* (issued Mar. 8, 2011).

³⁸ Letter from Michael D. Bopp, Partner, Gibson, Dunn & Crutcher, LLP, on behalf of ITT Educational Services, Inc., to Ranking Member Elijah E. Cummings, House Committee on Oversight and Government Reform (Dec. 23, 2011).

CONCLUSION

Based on the documents submitted in response to Ranking Member Cummings' requests, it appears that for-profit educational institutions are basing executive compensation predominantly on the profitability of their companies rather than the success of their students. Of particular concern is that some companies provided no documents indicating any link whatsoever between corporate pay and student achievement. This is especially troubling given the billions of taxpayer dollars flowing into these institutions and the serious financial risks to students who go through these programs.

In order to fully assess the relationship between executive compensation and student performance at these companies, Ranking Member Cummings is seeking additional documents and will request staff briefings from these companies about how executive compensation is tied to student performance and how specific factors are being used in practice to determine the pay of its corporate executives.

HOW FOR-PROFIT COLLEGES DETERMINE CEO PAY: Corporate Profitability Outweighs Student Achievement

Company	Corporate Profits Primary Factor in CEO Pay	No Demonstrated Links To Student Achievement	Vague References to Student Achievement	Specific References to Student Achievement
Apollo Group	●		●	
Bridgepoint Education Inc.	●			● *
Capella Education Co.	●		●	
Career Education Corp.	●		●	
Corinthian Colleges Inc.	●		●	
Devry, Inc.	●		●	
Education Management Corp.	●			●
Grand Canyon Education Inc.	●		●	
ITT Education Services	●			● **
Kaplan Education Inc.	●	●		
Lincoln Educational Services	●	●		
Strayer Education Inc.	●		●	
Universal Technical Institute	●		●	

* An analysis of Bridgepoint's student retention rate issued by the Senate HELP Committee concluded that, as of September 2010, 84% of two-year students and 63% of four-year students who enrolled in 2008 had already dropped out of school.

** ITT announced that it plans to discontinue using student performance as a factor for determining executive pay because of its interpretation of a recently enacted DOE Incentive Compensation regulation that governs incentive pay for recruiters.