EXECUTIVE INSIGHTS

Federal Policy in Flux: Navigating the Trump Administration's 2025 Education Overhaul

The U.S. education sector in 2025 faces a rapidly changing federal policy landscape. With a flurry of executive orders and budget proposals in the early months of the year, the Trump administration has made sweeping moves that have reshaped the role of the federal government in education. These developments, while still unfolding, have significant implications for early childhood, K-12 and higher education institutions, as well as investors and the range of service providers selling into the education market.

Education stakeholders are already responding to shifts in funding flows, compliance requirements and strategic priorities — areas closely examined by L.E.K. Consulting. Our team provides insight into how organizations can navigate the resulting uncertainty and identify emerging areas of opportunity and risk.

(Note: The assessment that follows reflects policy changes and budget proposals as of the end of May 2025.)

Evolving federal roles and responsibilities

One of the most consequential developments was the March 2025 executive order issued by President Donald Trump directing Education Secretary Linda McMahon to dismantle the U.S. Department of Education (DOE) and "return authority" over education to states and local communities. While the official elimination of a federal agency requires an act of Congress, the executive order resulted in significant restructuring. Nearly 50% of the DOE's staff were laid off, disrupting critical administrative and support functions across the education ecosystem.

Despite the DOE's relatively narrow direct role in managing K-12 and higher education, its operational footprint has been substantial on two critical dimensions: facilitating access to higher education via student loans/grants and providing funding and protections to ensure the education of disadvantaged populations.

The Office of Federal Student Aid, which oversees $1.7 trillion in outstanding student loans and administers programs such as the Pell Grant, now faces uncertain reallocation. Trump has proposed transitioning the federal loan program to the Small Business Administration — a move that could delay loan disbursement and introduce confusion for millions of students.

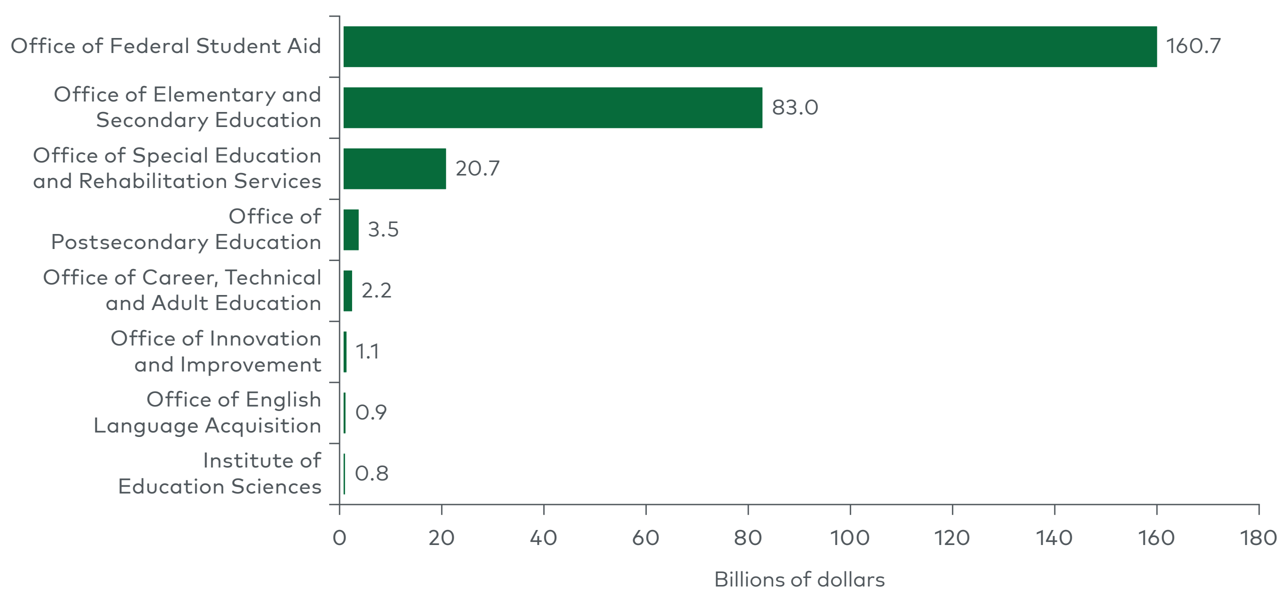
Beyond financial aid under Title IV, the DOE has historically:

- Enforced civil rights protections such as Title VI and Title IX
- Managed Title I funding streams for low-income students via the Office of Elementary and Secondary Education
- Managed Individuals with Disabilities Education Act funding for special needs students via the Office of Special Education and Rehabilitation Services
- Provided guidance on standards-setting tied to Title I compliance and higher education accreditation
- Supported research and innovation through data collection and competitive grants

These functions are now in flux, and any transfer of responsibilities to other agencies could create fragmentation, disrupt funding flows and reduce transparency (see Figure 1).

Figure 1

Department of Education FY2024 net spending, by division



Source: L.E.K. research and analysis

The push toward private education

In January 2025, the administration issued another executive order guiding the DOE and the Department of Health and Human Services to redirect public funding toward private and faith-based schools. This includes expanded promotion of voucher programs and education savings accounts, and prioritization of school choice in competitive grantmaking.

Currently, states may direct 3% of Title I funds toward direct student services. Under this new order, those funds may be reallocated to school choice efforts, potentially reducing the funding available to low-income public schools. Further, the House's budget reconciliation bill that is moving to the Senate includes a first-of-its-kind national school voucher program, with a relatively high income threshold for eligibility. Over time, this policy is expected to support enrollment growth in private and faith-based schools, while public schools — particularly those already underresourced — could face further declines in both enrollment and per-student funding. While this facilitates school choice, it could also lead to further discrepancies in outcomes as private schools don't have the same requirements as public schools to serve all students.

Intensifying scrutiny of DEI programs in K-12

The administration's stance on diversity, equity and inclusion (DEI) has led to multiple executive orders and federal agency statements warning schools against DEI programming. One January 2025 order threatens to withhold federal funds from schools implementing DEI initiatives. Another action restricts the use of "disparate impact theory," an enforcement tool used to demonstrate systemic discrimination, while additional guidance cautions against discipline policies based on DEI principles.

School districts are reassessing the language around and delivery of support services and curriculum. Many are relabeling DEI efforts under broader umbrellas such as student wellness, while legal teams prepare for potential civil rights challenges. The threat to federal funding has had a chilling effect, particularly in large urban districts with long-standing equity commitments.

A shift in education priorities from teachers to technology

In February 2025, the DOE announced the termination of more than $600 million in federal teacher training grants. Programs cut include the Teacher Quality Partnership and the Supporting Effective Educator Development grant — both of which had played a central role in recruiting and retaining teachers for high-need and underserved schools.

This change is expected to exacerbate teacher shortages, especially in subjects where gaps already exist such as science, technology, engineering, math, special education and foreign languages. The withdrawal of federal support for in-service training may create an opportunity for alternative certification programs that support talent development. In any case, school systems are now taking varied approaches to address the gap, from salary increases and professional development expansion to formal partnerships with local universities for pipeline development.

The executive order Advancing Artificial Intelligence Education for American Youth created a White House task force on AI education and launched the Presidential AI Challenge. The aim is to promote public-private partnerships, encourage AI-related apprenticeships and prioritize the integration of AI tools in the classroom through discretionary grant programs.

The executive order is a signal that the administration intends to promote AI implementation broadly across the education system. While many edtech providers have welcomed the opportunity, educators and advocacy groups have raised concerns about the lack of guardrails on data privacy and equitable access. The administration has prioritized acceleration over regulation, setting the stage for innovation but potentially uneven uptake across districts.

Promoting workforce development

Skilled trades got a boost in April when President Trump signed an executive order establishing a federal workforce development initiative to align education investment with the nation's reindustrialization priorities. The plan aims to support over 1 million new active apprenticeships through new strategies and infrastructure, calling for collaboration across education, labor and industry.

This opens up significant new opportunities for secondary schools, community colleges and nondegree training providers offering skilled trade, logistics and healthcare programs. Institutions positioned to deliver workforce-aligned training at scale may see expanded funding channels and stronger employer partnerships. At the same time, more-traditional higher education institutions may face increased competition as students consider alternative pathways to the workforce.

Redefined rules for higher education institutions

Higher education has also come under direct policy pressure. In April 2025, the administration issued an executive order reforming accreditation processes. The order encourages recognition of new accrediting agencies to foster competition and calls for streamlined processes that shift focus from diversity and outcome-based standards to "intellectual diversity."

While the policy specifics remain under development, higher education institutions face uncertainty about how Title IV eligibility and federal funding access will be affected. Institutions are now weighing engagement with emerging accreditors against potential reputational risk and compliance ambiguity.

The federal crackdown on research funding has compounded pressure. In 2025, the administration froze grants for selected higher education institutions in retaliation for noncompliance with new federal DEI mandates. The impact has been most visible at elite research universities: Harvard University lost access to $2.2 billion in grants, Columbia saw $400 million in cancellations, Northwestern faced a $790 million loss and Brown University stood to lose $510 million in total.

Hiring freezes, halted research and internal reallocations of resources are already being reported. Institutions are actively seeking private support to backfill funding gaps but face major disruption in programs ranging from biomedical research to public policy.

Institutions aren't the only ones feeling the pinch, as the Trump administration has placed limits on student loan relief. Collections resumed for the 5 million borrowers currently in default, and credit scores have begun to reflect nonpayment. Additionally, a March executive order narrowed the scope of the Public Service Loan Forgiveness (PSLF) program, redefining which organizations qualify. More than 2 million Americans currently eligible for PSLF may lose access under the new guidelines, which is expected to have long-term implications for enrollment in graduate programs in fields such as education, public health and social work.

Reinforcing the administration's policy agenda: The 2026 budget proposal

The Trump administration's 2026 budget proposal and the reconciliation bill that recently passed the House have meaningful tax and spending shifts that would impact education, many of which double down on the themes of the executive orders. Among the most significant proposed changes:

- A federal school choice tax incentive program that allows donors to make charitable contributions toward tuition or other expenses at private and religious K-12 schools and receive a dollar-for-dollar tax break for their contributions
- A proposed simplification of K-12 funding streams, consolidating 18 grant programs currently representing $6.5 billion in funding to a single $2 billion stream, which could meaningfully limit teacher training and student support funding
- Meaningful reductions in funding for or elimination of the TRIO, GEAR UP, Federal Work Study and Supplemental Educational Opportunity Grant programs (all of which support

college and career readiness and access for low-income students), as well as restrictions to the federal student loan program that could further limit access
- An increased endowment tax for higher education institutions
- Potential reductions in regulation of for-profit colleges, but broader "risk sharing" in student loans for higher education institutions to encourage academic and career outcomes that enable students to pay off their student loans
- Large-scale reductions in National Institutes of Health and National Science Foundation budgets, further impacting the higher education research ecosystem

Implications for stakeholders across education

These sweeping federal policy changes are reshaping operational planning across the education landscape. Public K-12 districts are not only dealing with the end of the Elementary and Secondary School Emergency Relief Fund and the continued teacher shortage, but they now also have longer-term enrollment questions from increasing school choice and regulatory uncertainty around DEI. Higher education institutions, particularly R1 research universities and elite universities with large endowments, are recalibrating their budgets as funding shifts. They are also assessing risk exposure to an administration that is looking to exert more control over admissions, curriculum and other operational policies.

At the same time, several sectors are positioned to benefit:

- Private and for-profit schools from early education through higher ed may see enrollment growth and expanded access to public dollars.
- Providers of standardized testing, remote proctoring and tutoring services may see demand increase under merit-based admissions frameworks.
- AI and technology-enabled solution providers stand to gain from federal AI initiatives and infrastructure investments.
- Career development and vocational training programs may benefit from reindustrialization-linked apprenticeship expansion and shifting higher education accreditation or regulation.
- While head-count reductions and shifts in key agencies have delayed some federal payments for child care and early childhood education, major funding streams appear to remain intact at this point, and increases to the Employer-Provided Child Care Credit could support modest enrollment gains or at least reduced financial burden for parents.

For both operators and investors, the opportunity lies in aligning with the new policy direction while managing risks associated with legal and reputational exposure.

Navigating the road ahead

As federal policies continue to shift, education stakeholders must stay agile. State-level pushback, legal challenges and uneven implementation will all shape the trajectory and impact of these initiatives. Institutions should take stock of their funding exposure, operational vulnerabilities and alignment with federal priorities — while building scenarios for navigating continued disruption.

Our team continues to monitor developments closely and support clients in adapting to this evolving environment through strategic planning, investment evaluation and execution support.

For more information, please contact us.

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