PAY IT FORWARD

Overview of the proposal

We believe that all Oregonians should have equal access to a college or university education. Oregon’s investment in higher education pays off for all Oregonians, both for individuals, who benefit from increased lifetime earnings, and for the state, in economic prosperity, increased tax revenue and reduced costs for social welfare programs and incarceration, and above all, in a well-educated citizenry.

However, due to continued disinvestment in Oregon’s public college and university systems, access to education in Oregon comes with a hefty price tag. An over-reliance on student loans to finance public education has resulted in Oregon students graduating with over $26,000 in student loan debt. This debt is hurting the state’s economy; graduates cannot afford to make investments such as buying a home, or a car, or starting a family or a business.

In order to reap the benefits of an educated workforce and community, Oregon needs to invest in public higher education, while supporting a financing model that does away with loans. Pay It Forward (PIF) is an innovative, sustainable financing strategy that enables students to attend an Oregon college or university tuition-free in exchange for a small, predetermined percentage of the student’s future income, for a fixed amount of time. PIF will allow the next generation of Oregon students to participate fully in our workforce and economy without being hampered by debt. It would create a higher education fund, which would eventually become self-sufficient as graduates “pay it forward” for future college students.

Design Principles

The PIF pilot design work group has established guiding principles for the program:

- Graduates’ contributions to PIF would not replace public funding for higher education.
- The program should be flexible, yet administratively viable.
- The program should avoid undue burdens on students.
- Participation in the program would be voluntary.
- The level of participation should be flexible and student-determined.
- The program should remove barriers to access.
- In the pilot design process we should learn from others who are embarking on PIF initiatives.
- The pilot should be scalable and universal.

Design Details

1. The program would be voluntary, scoped to a random selection of those who apply through a simple online or paper application collected by OSAC. Depending on pilot size, students graduating from one or two high schools attending an eligible institution would also be guaranteed participation. For those in the pilot, continuing eligibility is dependent on participants meeting satisfactory academic progress each year.

2. The percentage of “annual income” contributed would be based on the number of credits for which a
student is registered and attended through the first three weeks. Preliminary calculations aimed at having the fund be sustainable have resulted in rates of 0.75% per 45 credits at a community college and 1% per 45 credits at a four-year university. These rates result in a rate of 1.5% for a typical community college graduate with 90 credits and 4% for a typical university graduate with 180 credits. To be clear, the rates are per credit, and the student chooses if she wants that credit to be in her PIF contribution plan or funded in some other way.

3. The term “annual income” means an amount equal to the sum of—
   (A) Annual adjusted gross income, as defined by Oregon law, which is reflected as “income after subtractions,” line 20 of Oregon Individual Income Tax Return Form 40; and
   (B) Any amount described as “gross income” under section 103, subsections (b) and (c) of the Internal Revenue Code of 1986 (http://www.law.cornell.edu/uscode/text/26/103).

4. Contributions would begin after a six-month grace period upon the completion of the terminal degree (associate’s or bachelor’s degree) or cessation of studies for those who do not earn a degree. The total length of participation could not exceed 10 years (for intermittent students) regardless of degree attainment.

5. Contributions would last for 20 years in all cases once the contribution term begins; there are no "buyouts" or capped contribution limits over that period.

6. Participation, per credit, would cover tuition and mandatory fees; other financial aid (Pell and Oregon Opportunity Grants, work study, private aid, etc.) could be focused on living expenses.

7. OSAC would work with the Department of Revenue as partners in the receipt of contributions from participants. Details around these collections have been discussed extensively by the work group, and are discussed in Appendix A.

8. The costs to administer the PIF program have been estimated by OSAC and are modest, at less than 1% of overall program costs over the pilot evaluation period. Details are included in Appendix B.

Background

Ongoing public disinvestment from higher education has caused college costs to rise dramatically over the last 20 years. This trend has caused students and families to rely increasingly on loans to afford college, or be priced out of college altogether. Student loan debt has reached unsustainable levels and is already having negative impacts on our local economy through a decrease in individual investment and spending dollars. In order to achieve the state of Oregon’s 40-40-20 goal we will need increased college enrollment and degree and certificate completion for both two- and four-year institutions, particularly within the fastest growing demographic – that of traditionally underserved populations. These populations tend to be first-generation college students with limited financial resources and a lack of family experience with education financing systems. Additionally, middle-class families who do not qualify for need-based aid are now relying on loans. As a result, more of Oregon’s dollars are flowing out of state to private lenders, and graduates are delaying major investment decisions that are needed to rebuild Oregon’s economy. A new approach is needed to increase college completion in a way that enables Oregonians to benefit from a solid foundation for success
so they can invest in their families, their communities and in a brighter future for our state.

**Pilot Implementation Timeline**

If the pilot is approved by the HECC and recommended to the legislature for funding, and the legislature elects to fund a pilot in the 2015 legislative session, it would begin in the 2016-2017 school year. OSAC will need to create a new form for applicants, put in place a mechanism to run the lottery to determine whom among applicants will be pilot participants, and retool their collection operations to include the PIF program. Further, the HECC and OSAC will need to work with Legislative Counsel to update the laws related to the collection of income share from participants. Applications from degree- and certificate-seeking students at all undergraduate credit levels would be accepted starting in the financial aid window beginning January 2016.

**Who Would Benefit**

We need to rebuild the middle class in Oregon. It begins with helping people achieve a firm foundation for success. The PIF pilot will directly benefit the thousands of students who are selected randomly from a cross-section of Oregonians and hundreds of students who attend targeted high schools, including those with underserved populations, which include minority youth who face multiple barriers to accessing higher education because of their socioeconomic status, family status, ethnicity or other disadvantages. Underserved populations comprise the fastest growing demographic in Oregon and the country, and are essential for helping Oregon reach its 40-40-20 goals.

Oregon benefits when we invest in policies that increase opportunities for our neighbors, friends and co-workers to succeed. Communities with an educated workforce are safer, healthier, more stable, less dependent on social services, and more attractive to investors. Oregon has a history of ingenuity, innovation and independence. Just as we invest capital in infrastructure and other supports, Oregon should increase its investment in human capital and help students maximize their potential without being encumbered by debt. We can ensure that every person, every family, and every community in Oregon can prosper.

**How Would They Benefit**

Students benefit by avoiding or significantly mitigating debt encumbrance during their college attendance. Students can then graduate into a financially stable position. Graduates can begin contributing to the local economy and in the state without the encumbrance of debt. As a result we can expect an increase in economy-building investments such as buying a home or starting a business.

Oregonians will be better positioned to start a family, finance their children’s early childhood education and child care and save for retirement.

Our entire state will benefit from an educated workforce that meets the degree requirements of new industries and relies less on public assistance programs. Innovation will flourish when Oregonians are free to use their income towards improving themselves and their state. Creativity is snuffed out when bright
people can’t afford school or are so burdened by debt they cannot take risks. It is imperative that our state increase our college completion rates in a financially sustainable and prudent manner and move forward with an educated workforce ready to meet the challenges for our future prosperity.

**Funding**

This PIF pilot has been designed from the outset to be self-sustaining in the long term given initial seed funding. The pilot design calls for gradually increasing investment over the first four years, with that investment reaching a maximum level at year four and declining every year thereafter, breaking even at year 22. Public funding through direct institutional funding cannot be decreased as a result, or else tuition will not be able to track with inflation, which would extend the repayment length. The included chart shows these calculations, and includes estimated program administration costs.

**Pilot Scope**

To enable 4,000 FTE to participate in PIF, starting with an initial cohort of 1,000 FTE, the peak annual cost would be $20 million. Including administrative costs, Year 1 would cost $6.5 million, Year 2 would cost $12.7 million, year 3 would cost $16.6 million, and Year 4 about $20.2 million. After that, costs would decrease until Year 22, when the trust fund reaches self-sufficiency. This will accommodate 1,000 FTE in Year 1, 2,000 in Year 2, 3,000 in Year 3, and 4,000 in Year 4 and every year thereafter. The average cost per FTE would be about $6,500 per year of higher education.

This pilot would include about 2% of the total public higher education FTE in Oregon. It would require a

Should the Oregon Opportunity Initiative pass in the November elections, it will allow the Treasurer’s office to issue bonds for non-capital requests. The Treasurer has indicated a willingness to issue bonds to help students pay for college. The investment income from these bonds could be used, in part or in whole, as part of the source from which to fund the PIF pilot. The Student Opportunity Fund financing example from Appendix 2 of the Treasurer’s Office white paper on the Oregon Opportunity Initiative suggests a $5 million contribution from year one, increasing to $8 million by year 30.

Our calculations indicate that with modest leakage, on par with student loan default rates, the program would break even in 22 years for four-year institution students and 20 years for community college attendees.

Selection for PIF could be by both 1) stratified random sample of students who would put themselves in the PIF lottery, and 2) selected high schools that would guarantee tuition-free access to public higher education for every graduate who applied to and was accepted by a public higher education institution. This stratified random sample would reflect both income and geographic population data to ensure pilot participants would reflect Oregon’s residents.

With the random sample approach, we would want to open this up to any willing and interested student or would-be student, so that we can enable higher education and worker retraining for mid-career students and non-traditional students through PIF, as well as “typical” students. A stratified random sample would give us the best results in terms of our projections of when the fund would become self-sufficient, as the numbers we used in that calculation were based on average earnings (see attached report on method).

The $20 million pilot would allow us to offer PIF to all graduates of a few high schools, in addition to the randomized group as above, which would facilitate study of how the program would affect college participation rates. This sample could, however, produce a slower growth of return to the higher education fund if it were focused on a lower-income cohort. This could provide valuable information about whether such a program could change the culture in high schools to greatly improve college attendance, as it has in other cases where financial barriers to college have been eased.

**Other Funding Options**

The pilot could also be scoped at $12 million a year: Enable 600 students to start PIF out of high school. Year 1 would cost about $4 million, Year 2 about $7.7 million, year 3 about $10 million, and Year 4 about $12.2 million. This will accommodate about 600 FTE in Year 1, 1,200 in Year 2, 1,800 in Year 3, and 2,400 in Year 4 and every year thereafter. The average cost per FTE would be $6,500 per year of higher education.

That is about 1.1% of the total public higher education FTE in Oregon. It would take an $11.7 million

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The selection would be by stratified random sample of students who would apply to be included in the PIF lottery. This would not allow for targeted recruitment for underserved students. As a consequence, there would be a significant gap in analyzing the impact the program would have in transforming underserved students’ and their families’ perceptions of their self-efficacy in completing college.

**Pilot Evaluation**

OSAC, as the pilot administering agency, would produce an annual report with data about the pilot. It would include information such as the number of community college and four-year institution participants in the program, both new and ongoing, the stop-out rate, the contribution rate and amount, the level of credit participation among those in the program, how the high school cohorts compare to those from the randomized sample, levels of student debt at milestones through course of study and at graduation, student self-reported work hours while in school, grade point average each term or year, major or program of study for each student, as well as four- and six-year completion rates.

Further, it would report on all similar relevant information on students who are not selected for the pilot to use as a control group to see how PIF affects stop-out rates and college participation and completion among all populations. We should be in a position to see how it affects college completion after six years, and after ten years there should be enough data on both performance and contributions for a comprehensive evaluation.