House Bill 3472: Pay It Forward

A report to the Oregon Higher Education Coordinating Commission From the Pay It Forward Workgroup
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Background

Origin of the Legislation

Deep concern about state disinvestment in public higher education and skyrocketing student debt galvanized Portland State University (PSU) students enrolled in a senior Capstone Course on Student Debt to organize themselves as Students for Educational Debt Reform (SEDR) to inform and lobby their federal and state representatives for action on educational finance. As a culminating class project, they held a Legislative Panel at PSU on December 3, 2012, opened by President Wim Wiewel; chaired by then-State Representative (currently State Senator) and Chair of the House Higher Education Committee, Michael Dembrow; and attended by a packed house of students, faculty and staff. The students outlined their final report,¹ which concluded that the state of Oregon should create a Pay Forward, Pay Back fund. Several students went on to lobby the Legislature in support of House Bill 2838, which then was amended into House Bill 3472 (HB 3472) while speaking out in other venues including the Portland City Club.

Legislative Direction

HB 3472, which was passed in 2013, contains the following direction:

(1) “the Higher Education Coordinating Commission shall consider the creation of a proposed pilot program called Pay Forward, Pay Back. The pilot program would:

(a) Replace the current system of charging students tuition and fees for enrollment at public institutions of higher education; and

(b) Identify one or more public institutions of higher education to participate in the pilot program.

(2) If the commission determines that a pilot program is warranted, the commission shall submit a proposed pilot program to the 2015 regular session of the Legislative Assembly for approval.

(3) A proposed pilot program shall:

(a) Allow students who are residents of this state, as defined by the institution, and who qualify for admission to the institution to enroll in the institution without paying tuition or fees;

¹ The full report can be found online at http://www.pdx.edu/econ/mary-c-king).
(b) Provide that, in lieu of paying tuition or fees, students must sign binding contracts to pay to the State of Oregon or the institution a certain percentage of the student’s annual adjusted gross income upon graduation from the institution for a specified number of years;

(c) Specify the number of years and the percentage of annual adjusted gross income for contracts at each participating institution and base the specifications on research to date; and

(d) Establish an immediate funding source for the first 15 to 20 years of the pilot program and include the establishment of a revolving fund to deposit payments made under the pilot program.

(4) A proposed pilot program may vary by institution depending on:

(a) The total cost of education at the institution.

(b) The portion of the cost that is paid by the State of Oregon.

(c) The number of years specified in the contract.

(d) The percentage of annual adjusted gross income specified in the contract.”

**Charge to the Pay It Forward Workgroup**

In response to the passage of HB 3472, HECC Chair Tim Nesbitt directed the Workgroup to develop a detailed plan for a pilot program for Pay It Forward (PIF), as directed by HB 3472, for a specified cohort or subgroup of students at one or more post-secondary institutions in Oregon that can be implemented during the 2015-17 biennium. The Chair directed that the plan include a budget which identifies and quantifies the source of funding and the cost of administration for the life of the program.

The Workgroup was also charged with forwarding alternative models to the Student Success Subcommittee for their review and investigation, if in the course of its work, it identified alternative models for promoting access and affordability for post-secondary students.

In order to meet the charge to the Workgroup, the Workgroup met monthly beginning in January 2014 and welcomed presentations from various groups including Oregon high school students and Self Enhancement, Inc. The feedback received from public testimony as well as the Higher Education Coordinating Commission Student Success and Institutional Collaboration Subcommittee helped to shape the final proposal content.
**Founding Principles**

Ongoing public disinvestment from higher education has dramatically shifted the costs of college attendance from the state to students and their families over the last 20 years. If this trend continues with the same proportional increases in tuition and fees of the previous five years, within 17 years, tuition will assume the total cost of “public” higher education. This trend has led students and families to rely increasingly on loans to meet college expenses, or be priced out of higher education altogether, thus significantly reducing the accessibility of higher education. 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.

Middle-class families who do not qualify for need-based aid are increasingly relying on loans. As a result, more of Oregon’s dollars are flowing out of state to private lenders and the federal government, and graduates are delaying other 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.

During its first meeting, the Workgroup identified the need to develop founding principles. These principles were designed to be fully responsive to the Legislature’s mandate while at the same time balancing the needs of students and the state. After soliciting public testimony and receiving quality feedback from community and partner stakeholders, the Workgroup identified ten founding principles for the development of the pilot. These founding principles became the foundation of the development of the pilot project and remained at the forefront in each conversation as the Plan was formed. The founding principles are outlined on the next page.
PIF Founding Principles

<table>
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<th>State’s Role</th>
<th>Students</th>
<th>Pilot Design</th>
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| • PIF should not replace public contributions; the state must also expand financial support of public higher education in the future | • Avoid undue burdens  
• Voluntary participation  
• Student-Friendly | • Remove barriers to access  
• Cautious regarding participation duration  
• Learn from others who are embarking on PIF efforts  
• Eligibility definitions  
• Scalable & universal  
• Flexible yet not creating “administrative nightmare” |

The Proposal

Introduction

Rapidly and steeply increasing tuition and fees, especially in an era of stagnant incomes and wages, has steadily discouraged and hindered access to college and completion of higher education. Total enrollment in Oregon’s public higher education (FTE) actually dropped 2.5% between 2012 and 2013, undermining any progress toward the Legislature’s 40-40-20 goal for higher education. The increase in tuition has also resulted in the escalation and encumbrance of student debt. A third result of increasing cost is the discouragement of college aspirations, particularly among the historically underserved populations who must be engaged to reach Oregon’s 40-40-20 goal. Efforts are underway both nationally and in Oregon to address these issues.

The PIF program is one of the most promising higher education innovations for Oregonians because it is reliable, universal, comprehensive, investment-friendly, sustainable, and local. PIF is a program the participant knows she can count on for the entire length of her education. This is particularly important for first-generation students whose family and cultural backgrounds may be both debt- and risk-averse. PIF is a system that provides the reliability, transparency and predictability that can assure families and students that they can manage to finance their higher education in an affordable and sustainable manner.

PIF is universal in that there are no income restrictions for PIF participants. Once student are enrolled, participants will not be disenrolled due to changes in their income. This is particularly

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2 See State Higher Education Executive Directors Association:  
important for middle-class students and graduates who move into the middle class.

PIF is family-friendly because it lowers the immediate burden for parents and families trying to pay for college. It also markedly reduces the monthly payments for typical earning graduates looking to launch their careers, buy a home, start a business, and start families. This feature of PIF makes it especially advantageous for graduates in the years immediately following college. Instead of being burdened by unmanageable loan payments, graduates will have an affordable, transparent, pre-determined, and very small proportion of their income dedicated to Pay It Forward, enabling them to fully participate in the economy. PIF will make college more affordable for all students in the short term and result in graduate contributions significantly less than student loan payments.

PIF is comprehensive as it will cover all the tuition and fees for the participants as long as they move through their education program in the time and credit limits defined in the program, which were designed for the flexibility needed for education/work/family balance. Participants do not need to take out any student loans to cover tuition and fees.

The program is investment-friendly because PIF does not have an adverse impact on an individual or household’s balance sheet as it is not a loan debt. Over-indebtedness due to student loans is a major factor for college graduates failing to be deemed credit worthy by financial institutions. Participants with high debt loads and high debt-to-income ratios cannot access loans for asset-building investments such as homeownership, starting or expanding a small business or buying a car to get to work. Heavy student debt loads suppress new investments in our economy and squelches innovation, creativity and job growth. PIF participants, on the other hand, can borrow to start a small business, buy a home or finance a car. The avoidance of student debt enables participants to invest and engage in growing Oregon’s economy, resulting in job creation and prosperity.

PIF has the best options for financial sustainability for the state as the start-up investment in PIF builds the base for a self-supporting, revolving education fund that sustains itself over time. In the pilot program, the fund begins generating a positive cash flow within 23 years. The investment in PIF pays off. Other strategies to strengthen public higher education in Oregon require continual, additional contributions indefinitely. Further, grants for education have no corresponding stream of revenue back into the higher education system.

Keep it local. PIF keeps our higher education funds in Oregon, as a dedicated investment in new students attending our higher education institutions. As PIF receives contributions from graduates who have left the state, it actually has a positive impact in reversing the flow of funds out of the state. The graduate may have left, but their PIF contributions still come back into the Oregon system. With student loans, all the payments of principal and interest that Oregonians
make on their student loans flow out of our state’s economy. Nothing remains in Oregon to fund our higher education system.

**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 revenues 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; the ability of many graduates to make investments such as buying a home, or a car, or start a family or a business is undermined, foreclosed upon, or postponed.

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. 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. PIF creates an intergenerational community of responsibility for and access to higher education.

**Design Principles**

The PIF pilot design Workgroup 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 should 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 stratified random selection of those who apply through a simple online or paper application collected by OSAC. Students graduating from one or two selected high schools attending an eligible institution would also be guaranteed participation. The high school(s) will be chosen based upon a set of parameters that will be developed considering factors including but not limited to socio-economic status, location and size. 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 classes through the first three weeks of the academic term. Preliminary calculations ensuring the trust fund’s support rates of 0.0167% of annual income per credit at a community college and 0.0222% of annual income per credit at a four-year university. These rates result in a contribution rate of 1.5% annual income for a typical community college graduate who has enrolled in 90 credits of coursework and 4% for a typical university graduate who has earned 180 credits. To be clear, the contribution 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 pilot program will limit the number of lifetime credits for which a student may participate in PIF. The maximum lifetime participation will be 180 credits at community college (which would result in a contribution rate of 3% of annual income). For universities, maximum lifetime participation is 225 credits (which would create a contribution rate of 5% of annual income). Students may earn credits at both a community college and a four-year institution but in no case may a student enroll in a number of PIF credits that will cause her contribution rate to exceed 5% of annual income.

4. 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).

5. Contributions to the fund 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 before contributions would begin could not exceed 10 years regardless of degree attainment. This provision enables intermittent students to rely on PIF.

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

7. 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, or on academic credits not financed through PIF, at the choice of the participating student.

8. 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 Workgroup, and are discussed in Appendix E.

9. 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 E.

10. The cost of tuition and fees, as well as graduate earnings, are assumed to rise at the overall rate of inflation. Tuition and fees have been growing more rapidly than inflation in the past 20 years, but the cost of running our public universities has not. Tuition and fees have risen as costs were shifted to students. If the state maintains its financial support of Oregon’s public higher educational institutions at least at the historically very low rates of the present, tuition and fees should not continue to rise more rapidly than other costs.

**Pilot Implementation Timeline**

If the pilot is approved by the HECC for recommendation to the legislature for funding, and if the legislature elects to fund a pilot in the 2015 legislative session, it would begin in the 2016-2017 school year. OSAC will create a 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 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 which 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 youth who face multiple barriers to accessing higher education because of their socioeconomic status, family status, ethnicity or other disadvantages. Traditionally 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 from PIF 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 and state economies without heavy debt loads holding them back. 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 channel 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, achieving self-sustainability and net revenue at year 23. The chart below projects the transitional costs of PIF, including estimated program administration costs, as well as the cash flow to the trust fund from contributions of PIF graduates, assuming the pilot size remains the same. If the revenue surplus after year 22 were invested in growing the size of the program, the contribution pool would grow accordingly.

### Pilot Scope

To enable 4,000 FTE per year 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 (2016-17) would cost $6.5 million, Year 2 (2017-18) would cost $12.7 million, Year 3 (2018-19) would cost $16.6 million, and Year 4 (2019-20) about $20.2 million. After that, costs would

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3 If public funding for higher education is not maintained, and consequently tuition increases above inflation, the time period for PIF to realize net revenue will be extended unless PIF contribution rates are also increased to reflect the higher tuition.

4 Other funding options were considered by the Workgroup but were not chosen. One example is the pilot being scoped at $12 million a year, enabling 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 biennium earmark for 2015-2017, and a $22.2 million biennium earmark for 2017-2019, and a $23.7 million earmark for each biennium thereafter. 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 open-ended PIF participation in targeted high schools with large cohorts of underserved students. As a consequence, there would be a significant gap in analyzing the impact the program would have in transforming the perceptions of underserved students regarding their self-efficacy in completing college (as well as those of their families).
decrease each year until Year 22, when the trust fund reaches self-sufficiency. This strategy will accommodate 1,000 FTE in Year 1 (2016-17), 2,000 in Year 2 (2017-18), 3,000 in Year 3 (2018-19), and 4,000 in Year 4 (2019-20) and every year thereafter. The average start-up cost per FTE would be about $6,500 per year of higher education.\(^5\)

This pilot would include about 2% of the total public higher education FTE in Oregon. It would require a $6.7 million biennium earmark for 2015-2017 (which includes $209,000 in OSAC’s administrative costs for implementation and preparation in FY 2016\(^6\)), a $29.3 million biennium earmark for 2017-2019, and a $40.3 million earmark for 2020-2021, at which point it would decrease gradually in each subsequent biennium, reaching zero in the 2038-39 biennium.

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 one 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\(^7\) suggests a $5 million contribution from year one, increasing to $8 million by year 30.

Our calculations indicate that with modest attrition, on par with student loan default rates, the program would break even in 23 years.

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. The stratified random sample would reflect both income and geographic population data to ensure pilot participants would reflect Oregon’s residents. The high school PIF model would include at least one urban and one rural high school.

With the random sample approach, any willing and interested student or would-be student would be eligible, 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

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\(^5\) For example, in the first year of the program, we project 450 four-year students and 550 community college students, at an average tuition of $8,499 and $4,537, respectively. The total cost is projected to be $6,529,232 in the first year, or $6,529 per student.

\(^6\) Administrative costs are outline in Appendix E.

stratified random sample would give us the best results in terms of our projections of when the fund would become self-sustaining, as the numbers we used in that calculation were based on average earnings correlated to education level (see attached memo on method and assumptions in appendix B).

The $20 million pilot would allow us to offer PIF to all graduates of one or more high schools, in addition to the randomized group as above. Our intent is to use PIF, along with other higher education grant vehicles, to 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.8

Pilot Evaluation

OSAC, as the pilot administrating 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 entered the PIF lottery but were not selected for the pilot to use as a control group to see how PIF affects stop-out rates, 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.

Moving the Pilot Forward

The pilot is designed to be evaluated and scaled and should be evaluated as it is implemented. The HECC should review the pilot progress annually and report to the Legislature in December of each even-numbered year. The HECC and the PIF Workgroup should also report to the 2017-19 Oregon Legislative Assembly and provide a recommendation on the continuation or expansion of the pilot. At approximately five years after the pilot’s launch, an extensive evaluation should be conducted to evaluate the progress of the pilot and to provide an in-depth analysis of any potential programmatic changes.

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Contributions

There are several issues that must be addressed in the calculation of participant contributions. Since “annual income” is based in part on Oregon adjusted gross income (AGI), for participants who move out of state and would not normally file an Oregon return, only their federal return would be considered to calculate their AGI. The contract for participants will stipulate that they are required to file at least a federal return each year, regardless of their tax status.

Oregon AGI is preferred to federal AGI because Oregon AGI excludes some types of income related to disability and other assistance provided to disadvantaged populations that federal AGI does not. To reduce the complexity of administrative costs to the state, however, federal AGI will need to be used for those who move out of state and do not file an Oregon return, including those who live in the state of Washington, where there is no income tax or filings at all.

We are proposing that PIF contributions, once begun, would be made either monthly or quarterly, with the former being preferable if the administrative costs are similar. Underpayments and overpayments would be reconciled annually once participants’ actual income was known, based on their federal tax return and for those who have it, their Oregon tax return. For the initial payments from the expiration of the grace period through the first federal tax return, contributions would be based on participants’ own estimated income. After the first tax return, for the next year contributions would be based on annual income from the previous year. If participants have reason to believe their contributions should be adjusted up or down because of a change in status (married, new job, unemployed, etc.), they will be able to change their estimated contribution for the remainder of the period through their next reconciliation amount via a form submitted to OSAC.

The use of AGI in “annual income” is made more complex by changes in marital status. We have used federal Income Based Repayment (IBR) rules as a guide to determine how these should be calculated, specifically question 24. Those who are married and filing separately are effectively treated as single filers for their contribution calculations. The PIF participant would contribute based on her accumulated percentage obligation. Since AGI for those who marry and file jointly is the sum of their combined incomes, the percentage of annual income would be modified to reflect this, cutting in half the PIF contribution rate to reflect the joint filing.


10 A few examples:

1. A PIF participant with a 4% contribution rate gets married to a non-participant and they file jointly. The couple’s contribution to PIF is 2% of their combined incomes.
Pay It Forward Program Administration

OSAC, which reports to the HECC, is proposed as the agency that would both disburse payments to institutions from, and receive contributions to, the PIF program fund. While the fund would require an initial investment from the state, every year after the fourth year, the amount to cover the pilot program would decrease, and for the proposed level of participation (4,000 FTE) PIF would become self-sustaining within 23 years.\textsuperscript{11}

OSAC has completed a detailed estimate of the administrative costs, figuring them at $209,332 for the first year and $4,362,221 over 25 years. This estimate is based solely on estimated staffing requirements, and excludes any additional equipment that would have to be purchased – \textit{e.g.}, servers, other hardware, and software. Costs beyond staff could also include fees for the Attorney General to review applications and promissory notes for legality as the program is developed. Appendix D includes detailed information from OSAC on all requested staff.

While OSAC does have some ability to do collections related to a long discontinued loan program, it is possible they would need to strengthen their capacity in that area as well.

There are several specific tasks OSAC will need to undertake prior to the pilot rollout:

1. An application will need to be created, and it will need to be marketed to students.
2. A renewal form will need to be created, for students to submit their participation level each term. Summer term would be treated the same as other terms for PIF.
3. Data will need to be collected from institutions on the fourth week enrollment of PIF participants, to see if participation rates need to be adjusted based on dropped courses.
4. There will need to be a form to allow participants to notify OSAC that they have dropped PIF credits, for cases where participation does not include all the credits they are taking.
5. An estimated income form will need to be created for distribution when participation ends so those who have completed their studies can calculate their monthly or quarterly contribution at the cessation of their grace period.
6. An extension form will need to be created for participants who need to take a fixed amount of time off of school for circumstances that preclude them from continued college attendance, but who intend to return at a specified time.

\begin{itemize}
\item Two PIF participants, one with a 1.5\% contribution rate, the other with a 4\% contribution rate, get married and file. Their new combined rate is the sum of half of each of their single rates, or 2.75\%.
\item PIF participant with a 3.3\% contribution rate gets married and files separately. Her annual contribution would remain at 3.3\% and her spouse’s income would not be affected.
\end{itemize}

\textsuperscript{11} In fact, this design could enable a gradually increasing accretion of students above 4,000 into PIF, while remaining self-sustaining.
It is the Workgroup’s intent to minimize the administrative costs that would be borne by Oregon colleges and universities by having the data that would be reported to OSAC for PIF be identical to what is already required for the Oregon Opportunity Grant and other aid.

The creation of the processes and systems required to run a successful pilot will allow the program to be able to grow over time should the state see fit to expand participation in the future. As these systems are built at the state level, consideration will need to be given to legal matters such as the creation of Oregon Administrative Rules to govern the administration of the pilot and legal counsel from the Oregon Department of Justice to ensure that contracts are developed in accordance with Oregon law.

It is important to note that systems and processes will need to be built at the institutional level also. Information received from institutions indicate that there will likely be a need for increased staffing in the offices of the Registrar, Business Affairs and Financial Aid in order to support the efforts associated with PIF. While estimated cost information was received from only a handful of institutions statewide and varied widely, the Workgroup does not anticipate the institutional costs to be significantly large as PIF will be integrated into already existing Financial Aid counseling and servicing programs.
Conclusion

Oregon’s Governor and Legislature have set a high bar for higher education in the State with a goal of 40% of the State’s students achieving an Associate degree and another 40% achieving a Bachelor’s degree or higher by 2025. At the same time the Legislature has been unable to come up with sufficient funds to prevent tuition at the State’s public colleges and universities from more than doubling in the last two decades. In the last biennium, heroic efforts on the part of the legislative budget committees resulted in restraining higher education tuition increases to only 3.5%, double the rate of inflation.

The ever rising costs of higher education and the skyrocketing levels of student debt are leading to the anomalous situation where enrollment at public universities is actually beginning to decline just as the State is recognizing the vital need for a college education for an individual’s economic success and for growing the State’s economy.

Clearly the State needs to increase its funding for higher education if it hopes to achieve its laudatory 40-40-20 goals. At the same time we need to find a solution for those who are faced with the prospect of incurring untenable levels of student debt which will deflate their own prospects as well as their ability to participate in the larger economy. That is where the Pay It Forward (PIF) program comes in. Pay It Forward represents a social commitment, not a debt; it demonstrates shared responsibility, a commitment to future generations, and a seriousness about the value of higher education.

We are confident that this pilot program will demonstrate both the demand for and the efficacy of the Pay It Forward model. Oregon’s students deserve no less.
Appendix A: Acknowledgements

PSU Capstone Students and Instructors:

Dave Coburn, Tracy Gibbs, Ariel Gruver, Nathan Hunt, Sarah Johnston, Jason Junkkarinen, Tyler McKea, Mark Miller, Kevin Rackham, Bonnie Riley, Seri Soulatha, Ruvim Tsymbal and Jianing Yu, working with co-instructors Barbara Dudley and Mary King

December 3, 2012 Legislative Panel at PSU

Chaired by then-State Representative (current State Senator) and Chair of the House Higher Education Committee, Michael Dembrow; comprised of additional panel members State Rep. Joe Gallegos, State Rep. Alissa Keny-Guyer and State Senator. Chip Shields;

Pay it Forward Workgroup Members:

Voting Members

Rob Fullmer (Chair), HECC; Lamar Wise, HECC; Mary King, PSU; Kevin Rackham, Current Student; Mario Parker-Milligan, Oregon Student Association; Sami Alloy, Working Families Organization; Nancy Yuill, Innovative Changes; Michael Selvaggio, Treasurer’s Office; and Jim Langstraat, Portland Community College.

Resource Members

Donna Lewelling (Workgroup Administrator), HECC; Jason Gettel, Oregon Center for Public Policy; Bob Brew, Office of Student Access and Completion; David Longanecker, Western Interstate Commission for Higher Education; John Burbank, Economic Opportunity Institute; Kelli Smith, Economic Opportunity Institute; Nathan Hunt, former PSU Capstone Student; Tracy Gibbs, former PSU Capstone Student; Ariel Gruver, former PSU Capstone Student and Barbara Dudley, PSU Adjunct
Appendix B: Methods and Assumptions

Memorandum
To: Student Success & Institutional Collaboration Subcommittee, Oregon Higher Education Coordinating Commission
From: Kelli Smith, Economic Opportunity Institute
Date: July 31, 2014
Re: Oregon Pay It Forward Pilot Program Financial Forecasting: Methods and Assumptions

Introduction
The Oregon Pay It Forward Pilot Program will be a voluntary program offered to a stratified random sample of students that is broadly representative of the Oregon population, in addition to a subset of students from one or more high schools yet to be identified. Under Pay It Forward, students can elect to take credits without paying upfront tuition. Instead, they agree to contribute a set percentage of their annual income for 20 years, depending on the number of credits they elect to take through the Pay It Forward program. The following memo outlines the details of the program that the workgroup has discussed as well as the assumptions and results of our financial analysis.

Program Assumptions

Contributions
1. Pay It Forward contribution rates are set by credit hour. For Oregon University System (OUS) institutions, contributions are set at 0.0222% of annual income per credit, which equals 1% of annual income per 45 credits and 4% per 180 credits, the requirement for most Bachelor’s degrees. For community colleges, contributions are set at 0.0167% of income per credit, which equals 0.75% per 45 credits and 1.5% per 90 credits, which is the requirement for most Associate degrees.
2. The contribution period is 20 years, and begins 6 months after graduation or cessation of studies. Cessation is assumed after 6 months of non-enrollment. However, the Workgroup is in favor of an appeal process whereby students may notify the Pay It Forward administrator that they intend to re-enroll after a break from enrollment, for example, for religious or family purposes.
3. Contributions are designed to ensure that taken as a whole, the Pay It Forward funding pool can sustain and gradually increase future enrollment. In this context, the average participant will contribute roughly the same as what would have been paid in tuition, over the totality of her contribution period.
Tuition Levels

1. For program design and contribution rate-setting purposes, annual tuition for OUS institutions is assumed to be $9,703, equal to full-time tuition and fees at University of Oregon in 2013-14, the highest tuition and fees for a state four-year institution.
2. Tuition for community colleges is assumed to be $5,193, equal to full-time tuition and fees at Southwestern Oregon Community College in 2013-14, the highest tuition and fees for a state community college.
3. Tuition is assumed to increase at no more than the rate of inflation, if at all, pursuant to legislative intent as stated in House Bill 3472: “... the Legislative Assembly now finds that it must halt the decrease in this state’s support for public education and, over time, must increase its contribution to the funding of higher education ...”
4. Using 2012-13 FTE enrollments, the weighted average tuition (based on total FTE enrollment) in the OUS is $8,499. The average (unweighted) tuition at Oregon Community Colleges is $4,537. This means that the pilot program costs, which use the highest tuition in the OUS and community college systems to design contribution rates, have been calculated conservatively, providing a financial buffer.

Income Projections

1. Pay It Forward Pilot Program financial forecasting of contributions is based on projections of average future incomes of the Pay It Forward contributing cohort.
2. ‘Income’ is assumed to be ‘total money earnings,’ or ‘salary income,’ as defined by the U.S. Census Bureau: “the total income people receive for work performed as an employee during the income year. This category includes wages, salary, armed forces pay, commissions, tips, piece-rate payments, and cash bonuses earned, before deductions are made for items such as taxes, bonds, pensions, and union dues.”
3. The Pay It Forward Pilot will base actual contributions on “annual income,” a combination of adjusted gross income (AGI) and other income. Because this definition of “annual income” includes other types of income in addition to salary income, the income series used in these financial projections produce conservative estimates of likely contributions.
4. The income data used in projections are 2011 National Mean Total Money Earnings, taken from the U.S. Census Bureau, Current Population Survey, 2012 Annual Social and Economic Supplement, organized by five-year age ranges and most advanced degree

14 http://www.census.gov/cps/about/cpsdef.html
obtained. Therefore, projections of income for any given number of years after college are based on the age we assume a graduate will be at that point. For all projections, graduation/cessation age is assumed to be 22, and the age of first year of contribution is assumed to be 23. Note: While the actual average graduation age is difficult to ascertain, it is almost certainly higher than 22. Because incomes tend to increase with age, we believe setting the first year of contribution at 23 produces conservative income projections.

5. For each age range, the mean earnings raw data point is assigned to the midpoint age. For example, for the 25-29 age range, the mean of $41,729 for a B.A. holder is assigned to age 27, the midpoint of the range. The remaining incomes are distributed between the bounding data points.

6. Income projections are weighted averages, based on the distribution of the expected level of education attained by Pay It Forward participants, discussed in the following section on graduation rates.

Graduation and Completion Rates

1. Income projections for all Pay It Forward participants rely on income data organized by highest level of education obtained, in the following six categories: some college, no degree; Associate degree; Bachelor’s degree; Master’s degree; Professional degree; and Doctorate degree.

2. In an effort to account for likely graduation and completion rates, the following assumptions about average income are made:
   a. For community college Pay It Forward participants:
      i. 63% of a given cohort will obtain some college, but no degree;
      ii. 25% will obtain an Associate degree;
      iii. 12% will obtain a Bachelor’s degree; and
      iv. 0% will obtain a Master’s degree, Professional degree, or Doctorate degree.
   b. For OUS Pay It Forward participants:
      i. 13% of a given cohort will obtain some college, but no degree;
      ii. 16% will obtain an Associate degree;
      iii. 65% will obtain a Bachelor’s degree;
      iv. 4% will obtain a Master’s degree;
      v. 1% will obtain a Professional degree; and
      vi. 1% will obtain a Doctorate degree.

http://www.census.gov/hhes/www/cpstables/032012/perinc/pinc04_000.htm
3. These assumptions are based on the following data:
   a. In 2010-11, Oregon community colleges had
      i. 124,988 FTE enrolled;
      ii. 22.1% AA completion;
      iii. 14.7% OUS transfer rate;
      iv. 92.4% nursing completion (not accounted for in AA completions); and
      v. 7,439 career and technical education completions (not accounted for in AA completions).\(^\text{16}\)
   b. The six-year graduation rate for the 2006 cohort of OUS entering freshmen was 60.5%; that of those who persisted to second year was 72.8%; and that of those who persisted to third year was 81.8%.\(^\text{17}\)
   c. In 2006, the six-year graduation rate for the 2006 cohort of Oregon Community College transfers to OUS institutions who entered with an Associate Degree was 77.8%.\(^\text{18}\)

**Attrition and Mortality**

1. For each program year, the attrition rate reflects nationwide death rates for the given age.
2. In addition, we assume a 4% cohort non-contribution rate over the life of the cohort, based roughly on the student loan default rate for Oregon public four-year universities.\(^\text{19}\)
   Our forecasting assumes that some portion (about 2%) of the cohort will never make contributions, and some others (about another 2%) will make some contributions, then default over time.

**Variables.** Length and rate of contributions, length of the grace period, and tuition assumptions may be adjusted as needed. Variables such as changes in real income or tuition, or controlled growth of the cohort can be adjusted, but have not been included in these calculations.

**Tuition Changes.** Tuition is assumed to remain constant, relative to inflation. The program is designed to work best if tuition is decreased or remains the same. If tuition increases above the rate of inflation, the contribution rates and/or lengths of contribution for each cohort may need

\(^{16}\) [http://www.oregon.gov/ccwd/pdf/Profile/ORCCProfile11-12.pdf](http://www.oregon.gov/ccwd/pdf/Profile/ORCCProfile11-12.pdf)


\(^{19}\) [http://collegemeasures.org/4-year_colleges/institution/](http://collegemeasures.org/4-year_colleges/institution/)
to be adjusted upward. Likewise, the cost of the program to the state should be adjusted if tuition increases.

**Administrative Costs.** The estimated administrative costs provided by OSAC have been included in the forecasting, and are estimated to be less than 1% of overall total program costs.

**Enrollment.** We assume that 45% of Pay It Forward FTE will attend four-year institutions, and 55% FTE will attend community colleges.\(^{20}\)

### Cost and Cash Flow Projections

The transition costs needed from the state are equal to the amount of upfront tuition the state covers on behalf of the Pay It Forward participants, as well as administrative costs, which are factored into the financial forecasting. The Workgroup has developed models for small, medium, and large Pay It Forward programs. Each is described in the two sections below.

To provide a financial buffer, the Workgroup set contribution rates assuming that every Pay It Forward student’s tuition will be equal to that of the highest tuition in the state. For the purpose of cost projections, the financial forecasting assumes current enrollment rates at each institution, and therefore assumes tuition at weighted average levels for OUS and at the average level for community colleges. Based on this, contributions were set based on the Highest-Tuition Model, described below. For the purpose of trust fund and cost projections, the Weighted-Average-Tuition Model is used.

**Weighted-Average-Tuition Model**

*For comparison, this model assumes the weighted average of tuition at the four-year institutions, $8,499, and the average community college tuition of $4,537.*

1. Cash Flow
   a. The program costs will come to scale by Year 4. For each year thereafter, Pay It Forward contributions will cover increasingly more of the upfront costs for new participants. Therefore, the cost to the state decreases each year until Year 23, when the Pay It Forward trust fund reaches self-sufficiency.

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\(^{20}\) In fall 2011, undergrad FTE enrollment at OUS institutions was 68,693 and lower division collegiate and career technical FTE enrollment at Oregon community colleges was 95,413. Assuming a slight bump in university enrollment after removing the upfront cost barrier, this analysis assumes 45% enrollment in universities and 55% enrollment in community colleges. See [http://ous.edu/sites/default/files/dept/ir/reports/fb2010/2011_Facts_and_Figures_0.pdf](http://ous.edu/sites/default/files/dept/ir/reports/fb2010/2011_Facts_and_Figures_0.pdf) and [http://www.oregon.gov/ccwd/pdf/Profile/ORCCProfile11-12.pdf](http://www.oregon.gov/ccwd/pdf/Profile/ORCCProfile11-12.pdf)
b. If the state chose to maintain a constant level of funding for Pay It Forward, the contributions from participants would enable a growing cohort of new Pay It Forward participants. This projection varies with tuition, income, and contribution rates and lengths for Pay It Forward participants.

2. Transition Costs
   a. Option 1: Assuming 1,000 new FTE annually: 450 FTE at four-years, and 550 FTE at CCs.
      i. Year 1 cost: $6.5 million
      ii. Year 2 cost: $12.7 million
      iii. Year 3 cost: $16.6 million
      iv. Year 4 cost: $20.2 million
   b. Option 2: Assuming 600 new FTE annually: 270 FTE at four-years, and 330 FTE at CCs.
      i. Year 1 cost: $4 million
      ii. Year 2 cost: $7.7 million
      iii. Year 3 cost: $10 million
      iv. Year 4 cost: $12.2 million
   c. Option 3: Assuming 400 new FTE annually: 180 FTE at four-years, and 220 FTE at CCs.
      i. Year 1 cost: $2.7 million
      ii. Year 2 cost: $5.1 million
      iii. Year 3 cost: $6.7 million
      iv. Year 4 cost: $8.2 million

Highest-Tuition Model
This model assumes the highest tuition in the state for both programs, $9,703 for four-year institutions, and $5,193 for community colleges.

1. Cash Flow
   a. The program costs will come to scale by Year 4. For each year thereafter, Pay It Forward contributions will cover increasingly more of the upfront costs for new participants. Therefore, the cost to the state decreases each year until Year 25, when the Pay It Forward trust fund reaches self-sufficiency.
   b. If the state chose to maintain a constant level of funding for Pay It Forward, the contributions from participants would enable a growing cohort of new Pay It Forward participants. This projection varies with tuition, income, and contribution rates and lengths for Pay It Forward participants.
2. Transition Costs
   a. Option 1: Assuming 1,000 new FTE annually: 450 FTE at four-years, and 550 FTE at CCs.
      i. Year 1: $7.4 million
      ii. Year 2: $14.5 million
      iii. Year 3: $18.9 million
      iv. Year 4: $23.1 million
   b. Option 2: Assuming 600 new FTE annually: 270 FTE at four-years, and 330 FTE at CCs.
      i. Year 1: $4.5 million
      ii. Year 2: $8.8 million
      iii. Year 3: $11.4 million
      iv. Year 4: $13.9 million
   c. Option 3: Assuming 400 new FTE annually: 180 FTE at four-years, and 220 FTE at CCs.
      i. Year 1 cost: $3.1 million
      ii. Year 2 cost: $5.9 million
      iii. Year 3 cost: $7.6 million
      iv. Year 4 cost: $9.3 million
      v. Note: Under this size of the highest-tuition model only, assuming OSAC’s administrative costs will remain the same no matter the size of the pilot, the trust fund would not reach self-sufficiency in the 25th year. Instead, it would carry a deficit of about $4,000 in year 24, decreasing each year thereafter. In Year 49, the deficit would be about $1,400. Our forecasting does not extend beyond the 50th year.

Summary of Cost Projections

<table>
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<tr>
<th>Dollars in millions</th>
<th>1,000 Annual FTE</th>
<th>600 Annual FTE</th>
<th>400 Annual FTE</th>
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<td></td>
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<tr>
<td>Year 3</td>
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</tr>
<tr>
<td>Year 4</td>
<td>$23.1</td>
<td>$20.2</td>
<td>$13.8</td>
</tr>
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</table>
Appendix C: PIF and Income Based Repayment Plan for Federal Student Loans

The PIF program is preferred to the income based repayment plan (IBR) for Federal Stafford Student Loans (FSL) for a number of reasons.

Reliable:

PIF: At the individual level, PIF is a program the participant knows they can rely upon for their entire participation in the program. Many first-generation students and their families are debt-adverse. This often becomes a barrier to enrollment. PIF is a system that provides the reliability, transparency and predictability that can assure families and students that they can manage to finance their higher education in an affordable and sustainable manner. With the PIF program, each participant is protected by her enforceable contract with the state, which cannot be breached by either party.

IBR: IBR is vulnerable to changes legislated by Congress or the executive branch. There is no guarantee the current PAYE version of IBR will remain in effect during the time the participant is in school, or when carrying the debt obligation. As we have seen in the past, different Congresses have had significant impact on the student loan system, such as the changes, beginning in 1976 that have precluded student debt from being discharged in bankruptcy.

Universal:

PIF: There are no income restrictions for PIF participants. Once they are enrolled, participants will not be disenrolled due to changes in their income.

IBR: IBR is limited to certain loans, to people with certain incomes, and therefore does not provide relief for all borrowers or students. In addition, the principal and interest payments of many in this group, whether made over 10 or 20 years, have a higher net present value (cost) than the amount they would contribute under the PIF model detailed in this report.

Comprehensive solution:

PIF: At the individual level, PIF will cover all the tuition and fees for the participants as long as they move through their education program in the time and credit hours defined in the program. There is no need to take out student loans to pay for tuition and fees.

IBR: Stafford Loans for dependent students are limited to $5,500 in the first year, $6,500 in the second year, and $7,500 in the third, fourth and beyond years, a total of $27,000 for years 1 through 4, with an aggregate lifetime cap of $31,000\(^{21}\), an amount insufficient to cover the average tuition of OUS institutions, around $34,000. The rest of their education costs are often

\(^{21}\) https://studentaid.ed.gov/types/loans/subsidized-unsubsidized#how-much
funded by risky and more expensive Parent PLUS loans and private loans held by financial institutions, both of which are ineligible for protective repayment plans like IBR.

**Investment-friendly:**

**PIF:** PIF does not have an adverse impact on an individual or household’s balance sheet as it is not a debt obligation. Graduates can take out credit to start a small business, buy a home or finance a car. The avoidance of student debt enables participants to invest and engage in growing Oregon’s economy, resulting in job creation and prosperity.

**IBR:** Over-indebtedness due to student loans is a major factor of college graduates being deemed not credit worthy by financial institutions. Participants with high debt loads and high debt-to-income ratios cannot access loans for asset building investments such as homeownership, starting or expanding a small business or buying a car to get to work. This suppresses new investments in our economy and squelches innovation, creativity and job growth. It’s not just our economy that suffers from debt: graduates also report delays in starting their families because of their student debt load.

**Financial sustainability:**

**PIF:** The start-up investment in PIF builds the base for a revolving education fund that sustains itself over time. In the pilot program, the fund begins generating a positive cash flow within 23 years.

**IBR:** Payments on student loans, whether IBR or not, do nothing to sustain an education fund in Oregon.

**Investing in Oregon:**

**PIF:** PIF keeps our higher education funds in Oregon, for dedicated investment in new students attending our higher education institutions. As PIF receives payments from graduates who have left the state, it actually has a positive impact in reversing the flow of funds out of the state. The graduate may have left, but their PIF contributions still come back into the Oregon system.

**IBR:** With IBR, and most other student loans, all the payments of principal and interest that Oregonians make on their student loans flow out of our state’s economy. On average, those loan payment outflows last for 20 years for each borrower.
Appendix D: Sample PIF Contributions and PAYE Payments

Introduction

When implemented, PIF will join a number of other college financing mechanisms, including grant aid and loans, such as private loans, Parent PLUS loans, and federal Stafford loans, some of which are eligible for income-driven repayment plans. The most recent model for income-driven loan repayment is Pay As You Earn (PAYE), which is available only at certain income levels for certain federal loans. While the benefits of PIF go well beyond a simple dollars-to-dollars comparison, as detailed in Appendix B, the Workgroup has been asked to develop such a comparison, based on present value to individual students and graduates. The simple question these calculations attempt to answer is: for which students will PIF be less expensive than PAYE? The answer, of course, is not simple.

A Note of Caution

Pay It Forward is relatively straightforward – graduates contribute a fixed percentage of income for 20 years – but the terms of income-driven loan repayment plans vary greatly based on a number of factors, including income, marital status, tax filing status, family size, loan type, amount of debt, type of debt, and federal poverty level, among others. In addition, federal loan repayment plans involve the added complication of being susceptible to cancellation or amendment. As a result, an apples-to-apples comparison is difficult to achieve. The following sample scenarios take into account some, but not all, of the variables that affect PAYE terms, and therefore provide only a broad-brush comparison.

Additionally, for dependent students, Stafford loans are capped at $27,000 for the first four years of college, with an aggregate lifetime cap of $31,000. As a result, students are often forced into the private loan market, with terms and conditions much less protective and ultimately more expensive than Stafford loans. This makes any comparison of PIF to PAYE impossible for any amount in excess of $31,000, including, importantly, full tuition at many OUS institutions.

Methodology

Loan amount. For four-year students, we assume $26,600 in loan debt, which is an estimate of the average debt of OUS students. For community college students, we assume $7,100 in loan debt, an approximation based on a comparison to the debt-to-tuition ratio of four-year institutions, and which is in line with estimates of the national average.\(^{22,23}\) As noted above, a comparison between PAYE and PIF for the full tuition at OUS institutions is impossible, since Stafford loans, and effectively PAYE, are capped at $27,000 for the first four years of attendance.

Interest rate. For PAYE, we assume the lowest federal loan interest rate of 4.66%.


\(^{23}\) For reference, full tuition at the most expensive OUS institutions is $38,812, or $9,703 per year; weighted average OUS tuition is $33,996, or $8,499 per year. Full tuition at the most expensive CC is $10,386, or $5,193; average tuition is $9,074, or $4,537 per year.
Inflation. We assume a 2.5% inflation rate.

PIF contribution rate. The PIF contribution rate is calibrated to the loan amount. For instance, if the Pay It Forward rate for $34,000 (or 4 years) in tuition is 4%, then the PIF rate for $17,000 (or 2 years) in tuition would be 2%. In the scenarios below, the PIF contribution rate for a $26,600 loan amount for four-year institutions is 3.1%, and the PIF contribution rate for a $7,100 loan amount for community colleges is 1.17%. The contribution rates for this pilot are set based on the highest tuition in the OUS and CC systems, plus administrative costs.²⁴

Payment/contribution period. PIF contributions continue for 20 years in all cases. PAYE payments end when the principal and interest are repaid, or are forgiven after 20 years, whichever comes first. For PAYE loan forgiveness, the amount forgiven is taxed as income. An estimate of tax paid on the forgiven amount is included in the present value of lifetime PAYE loan payments.

Income. The model compares payments and contributions based on a participant’s income as a percent of median income of the cohort. Median income is based on the income we projected for PIF participants, and therefore assumes the same graduation rates, income change over time, etc. These comparisons do not show individual fluctuations in income over time; rather, the model provides results based on average income relative to median over the course of the 20-year repayment/contribution period.

Net Present value. The payments and contributions are reflected as net present value, based on an inflation rate of 2.5% and a discount rate (from the student’s perspective) of 6%.

Household size. For each income level and loan amount, we compared households of 1, 2, 3 and 4, without regard to marital status. This comparison does not capture the likely increase in income with increase in household size: it assumes one earner in every family, no matter the household size.

Sample Scenarios

Scenario 1. Oregon University System Graduate with Average Debt

Scenario 1 represents sample PAYE payments and PIF contributions for OUS graduates with the average debt of $26,600, an amount just short of the Stafford loan limits for four years. Generally, PIF contributions have a lower net present value (cost) than PAYE payments for people with median incomes. As Table 1 and Chart 1 show, for a single person with an average income over the 20-year contribution/repayment period of 40% to 120% of median, the net present value (cost) of PIF contributions is less than the net present value (cost) of PAYE payments.

²⁴ This is designed to compare the present value of an Oregon student’s PIF contribution rate to an equivalent loan amount in this particular program. However, for a true apples-to-apples comparison of the value of the dollars that cover tuition under PAYE and PIF, the calculation would disregard administrative costs and the financial “buffer”. The Workgroup decided to use the inflated rate to provide a comparison for Oregon students participating in this program, under the terms the Workgroup has designed. For an explanation of the financial “buffer,” see appendix B.
As household size increases, *assuming income stays the same*, PAYE payments generally have an increasingly lower net present value than PIF contributions. This is because PAYE deducts federal poverty level from the income from which it calculates payments, meaning: the larger the household, the higher the federal poverty level, the less income on which to base PAYE payments. For graduates with the highest incomes, 120% of the median and above, PIF has generally greater net present value (cost) than PAYE.

<table>
<thead>
<tr>
<th>Percent of Median Income</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>120%</th>
<th>140%</th>
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<tr>
<td>20-Year Mean Annual Income</td>
<td>$25,724</td>
<td>$38,586</td>
<td>$51,449</td>
<td>$64,311</td>
<td>$77,173</td>
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</tbody>
</table>

| Pay It Forward | $8,135 | $12,202 | $16,270 | $20,337 | $24,404 | $28,472 |

| Pay It Forward | $8,256 | $16,747 | $23,094 | $23,888 | $24,315 | $24,561 |
|Pay It Forward | $5,658 | $11,550 | $19,605 | $23,269 | $23,935 | $24,306 |

| Pay It Forward | $5,448 | $7,739 | $14,984 | $21,526 | $23,408 | $23,961 |

| Pay It Forward | $5,448 | $5,687 | $10,588 | $17,731 | $22,781 | $23,512 |

**Chart 1. Lifetime Payment/Contribution, OUS Average Debt: $26,600**
Scenario 2. Community College Graduate with Average Debt

Scenario 2 represents sample PAYE payments and PIF contributions for CC graduates with the estimated average debt of $7,100. As with Scenario 1, PIF contributions generally have a lower net present value (cost) than PAYE payments for people with median incomes. For a single person with an average income over the 20-year contribution/repayment period of **50% to 110%** of median, the net present value of PIF is less than the net present value of PAYE payments.

**TABLE 2. PRESENT VALUE OF LIFETIME PAYMENTS OR CONTRIBUTIONS, CC AVG. DEBT**

<table>
<thead>
<tr>
<th>Percent of Median Income</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
<th>120%</th>
<th>140%</th>
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<tbody>
<tr>
<td>20-Year Mean Annual Income</td>
<td>$19,207</td>
<td>$28,810</td>
<td>$38,413</td>
<td>$48,017</td>
<td>$57,620</td>
<td>$67,223</td>
</tr>
</tbody>
</table>

| Pay It Forward | $2,285 | $3,427 | $4,570 | $5,712 | $6,855 | $7,997 |
| PAYE: Household of 1 | $1,563 | $5,365 | $6,318 | $6,445 | $6,531 | $6,600 |
| PAYE: Household of 2 | $1,454 | $2,451 | $5,740 | $6,294 | $6,403 | $6,493 |
| PAYE: Household of 3 | $1,454 | $1,454 | $3,478 | $5,998 | $6,287 | $6,386 |
| PAYE: Household of 4 | $1,454 | $1,454 | $1,521 | $4,047 | $6,081 | $6,280 |

**Chart 2. Lifetime Payment/Contribution, CC Average Debt: $7,100**
**Appendix E: OSAC Estimated Administrative Costs Spreadsheet**

**ISS 5 - Program Developer @ .5FTE Yr 1, then .1 FTE Yr 2 to Yr 25**

Salary & OPE + Services and Supplies - prorated by FTE percentage. Assumes annual step increases @ 8% through Yr8, then 3% thereafter

Developer creates and sets up new database and system edits for program; provides ongoing IT support

<table>
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<tr>
<th></th>
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25-Yr TTLs

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### AS 2 - Administrative Specialist 2 @ 1.0 FTE all 25 years

Salary & OPE + Services and Supplies - prorated by FTE percentage. Assumes annual step increases @ 8% through Yr8, then 3% thereafter

AS 2 position creates initial processes; provides ongoing administrative support and program maintenance throughout the life of the program

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### Accounting Technician 3 @ .25 FTE Yr 1, then 0.1 FTE Yr 2 to Yr 25

Salary & OPE + Services and Supplies - prorated by FTE percentage. Assumes annual step increases @ 8% through Yr8, then 3% thereafter

Acct Tech position establishes accounts & processes, provides ongoing accounting support e.g., releasing state funds to school accounts

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<th>YR 1</th>
<th>YR 2</th>
<th>YR 3</th>
<th>YR 4</th>
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<td>$7,763</td>
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25-Yr TTLs

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**Program Analyst 1 @ 0.25 FTE Yr 1, then .1 FTE Yr 2 to Yr 25**

Salary & OPE + Services and Supplies - prorated by FTE percentage. Assumes annual step increases @ 8% through Yr8, then 3% thereafter

PA1 position develops administrative rules and program policies and procedures prior to implementation; provides ongoing policy support
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**25-Yr TTLs**

- S&OPE: $30,685
- S&S: $28,372
- TTL: $359,057

**COMBINED COSTS - ALL POSITIONS**

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**25-Yr TTLs**

- S&OPE: $3,934,133
- S&S: $373,265
- TTL: $4,307,399

**FTE=1.0 Sal&OPE S&S**

- ISS5: $96,231, $13,413
- AS2: $55,585, $8,989
- AT3: $57,060, $8,989
- PA1: $65,416, $8,989
Appendix F: Public Comments

Several pieces of public comment were received during the spring and summer of 2014 regarding Pay It Forward and the work of the Workgroup. The following is a list of many of those comments:

- Joint Letter from NACAC & PNACAC
- NACAC Questions to Consider
- EOI Responses to NACAC Questions
- WICHE “Caution on Pay It Forward”
- EOI Responses to WICHE Document
- AFT Position on Pay It Forward
- EOI Response to AFT Document
- Pay It Forward Coalition Statement
- West Linn High School Presentation
- Detweiler Email in Support of PIF
- Stewart Letter in Support of PIF
- Helstein Letter in Support of PIF
- OSU Letter
- Petition Comments
- AASCU PIF Policy Brief
- Oregon Business Alliance Comments

A copy of these comments can be found here: [INSERT LINK]