

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, not only for individuals, who benefit from increased lifetime earnings, but also for the state, in 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 is an innovative, sustainable financing strategy that enables students to attend an Oregon college or university debt-free in exchange for a small percentage of the student's future income, for a fixed amount of time. Pay It Forward 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 Pay It Forward 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-focused.
- The program should remove barriers to access.
- Learn from others who are embarking on PIF effort
- 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 on line or paper application collected by OSAC.
2. The percentage of future adjusted gross income (AGI) contributed would be based on the number of credit hours a student participated. Preliminary calculations aimed at having the fund be sustainable have resulted in rates of .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 hour, and the student chooses if they want that credit hour to be in their PIF payment plan or funded in some other way.

3. Contributions would begin after a six-month grace period upon the completion of the terminal degree (or bachelors if graduate study is pursued) 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.

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

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

6. We are awaiting an estimate from OSAC of the costs of administering both disbursing and collecting the Pay It Forward funds. As noted previously, OSAC would work with the Department of Revenue as partners in the receipt of payment for participants. Any initial estimate will not include refinements that might result from work group feedback on that initial costing.

7. A decision is expected soon from the Department of Education on how federal aid will be affected by participation in state administered Pay It Forward style programs.

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 - those 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 aid at an adequate level are now relying on loans. As a result more of Oregon's dollars are flowing out of state to 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 leaves Oregonians on 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 focus on the Pay It Forward 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-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 Pay It Forward 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. In addition these populations may meet the criteria to attend a college or university but may not have the necessary financing to pay for their education. Underserved populations are also 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

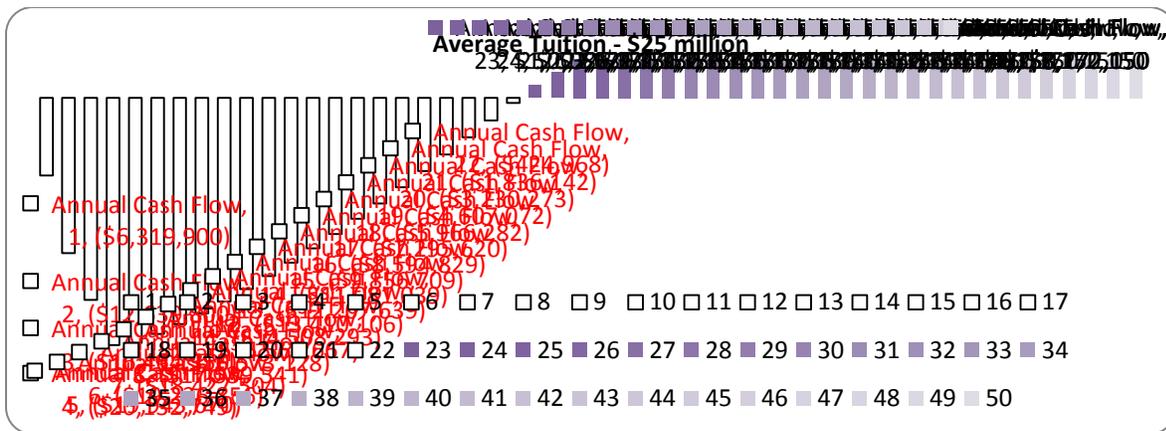
Students benefit by avoiding or significantly mitigating debt encumbrance during their college attendance. Students can then graduate into a financially stable position. Graduates can begin contributing to the local economy and in the state without the encumbrance of debt. As a result we can expect an 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 education 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 the 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 Pay It Forward 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 tuition will not be able to track with inflation, which would extend the repayment length.



Pilot Scope

\$25 million a year: Enable 1000 students to start PIF. Year 1 would cost about \$6.25 million, Year 2 about \$12.5 million, year 3 about \$18.75 million, and Year 4 about \$25 million. This will accommodate about 1000 FTE in Year 1, 2000 in Year 2, 3000 in Year 3, and 4000 in Year 4 and every year thereafter. The average cost per FTE would be \$6,250.

That is about 2.5% of the total public higher education FTE in Oregon. It would take a \$18.75 million biennium earmark for 2015-2017, and a \$43.75 million biennium earmark for 2017-2019, and a \$50 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. They have 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 Pay It Forward pilot. The Student Opportunity Fund financing example from Appendix 2 of the Treasurer's Office white paper on the Oregon Opportunity Initiative¹ suggests a \$5M contribution from year one, increasing to \$8M by year 30. Our calculations indicate

¹ <http://www.oregon.gov/treasury/AboutTreasury/Documents/130925%20WHITE%20PAPER%20Opportunity%20Initiative.pdf>

that with modest leakage, on par with student loan default rates, the program would break even in 21 years for four-year institution students and 19 years for community college attendees.

The selection 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.

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 open up higher education and worker retraining for older workers and non-traditional students through PIF. 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 \$25M pilot would allow for 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 would, however, produce a slower growth of return to the higher education fund as it would be focused on a lower-income cohort.

Other Funding Options

The pilot could also be scoped at \$15 million a year: Enable 600 students to start PIF out of high school. Year 1 would cost about \$3.75 million, Year 2 about \$7.5 million, year 3 about \$11.25 million, and Year 4 about \$15 million. This will accommodate about 600 FTE in Year 1, 1200 in Year 2, 1800 in Year 3, and 2400 in Year 4 and every year thereafter. The average cost per FTE would be \$6,250.

That is about 1.5% of the total public higher education FTE in Oregon. It would take a \$11.25 million biennium earmark for 2015-2017, and a \$26.25 million biennium earmark for 2017-2019, and a \$30 million earmark for each biennium thereafter.

The selection would be by stratified random sample of students who would put themselves in the PIF lottery. This would not allow for targeted recruitment for underserved students, and therefore there would be a significant gap in analyzing the impact the program would have in transforming underserved students and their families perception of their self-efficacy in completing college.

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 collection rate and amount, the level of credit participation among those in the program, and how the high school cohorts compare to those from the randomized sample. Further, it would report on all the similar relevant information on students who are **not** selected for the pilot to use as a control group to see how Pay It Forward 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 repayment to evaluate whether it is appropriate to expand or cease the pilot.