# RESPONSE TO HOUSE CONCURRENT RESOLUTION 21 OF THE 2014 REGULAR SESSION OF THE LOUISIANA LEGISLATURE

## LOUISIANA BOARD OF REGENTS

## December 2014

## Introduction

Sharp increases in student loan debt, resulting from declining state funding of higher education and corresponding increases in tuition, have captured the attention of lawmakers nationally. To support college affordability for students, lawmakers in several states have proposed the "Pay It Forward (PIF)" program, which allows students to delay their tuition payments at public colleges and universities until graduation or workforce entry. House Concurrent Resolution 21 (HCR 21) of the 2014 Regular Session authored by Representative Dixon urged and requested the Louisiana Board of Regents (Regents), in collaboration with the management boards, to "study the feasibility of implementing a college tuition program that would allow students to pay tuition after leaving college and to submit a written report of findings and conclusions, including recommendations for legislation relative to the issue, to the House Committee on Education and the Senate Committee on Education not later than sixty days prior to the beginning of the 2015 Regular Session of the Legislature of Louisiana" (Appendix A).

The subsequent sections of this response to HCR 21 (1) provide a conceptual framework for the PIF program; (2) explore existing PIF programs; (3) provide a summary of the common elements of a PIF program; (4) examine the potential unintended consequences of implementing a PIF program, specifically as it relates to Louisiana; and (5) offer policy recommendations.

## Conceptual Framework

College costs present an increasing challenge for Louisiana students, particularly those from middle- and lower-income families. Due to recent declines in state funding of public postsecondary education and the resulting increases in college tuition and fees, postsecondary education in Louisiana has become less accessible and affordable for many students. According to the Center on Budget and Policy Priorities (2014),[1] Louisiana has cut spending by more than 40 percent since the start of the recession. Reductions in state funding have necessitated and been offset by increases in tuition at Louisiana colleges and universities.

[1] Center on Budget and Policy Priorities. 2014. "States Are Still Funding Higher Education Below Pre-Recession Levels."

These conditions, coupled with the stagnant incomes of many households,[2] place undue burdens on Louisiana's individuals and families. Consequently, students increasingly rely on loans to meet college expenses, which could compromise their future investments in family, education and work. As student loan debt impacts access to financial resources (e.g., home loans, small business loans, car loans), high debt-to-income ratios can suppress new investments in local economies (e.g., housing and automobile dealerships). Student loan debt thus has indirect effects on Louisiana's economic and social environments. Reducing tuition and fee costs and student loan debt enables individuals and families to more fully participate in local economies, in turn, resulting in job creation and innovation.

The urgency to present policy solutions which mitigate the cost of higher education and student loan debt on middle- and lower-class families is a priority for lawmakers nationally. According to the American Association of State Colleges and Universities (2014),[3] more than 20 states launched feasibility studies or initiated pilot projects to better understand the economic, social and educational consequences, both short- and long-term, of a PIF initiative. The basic tenets of the PIF initiative allow students to delay paying tuition (and possibly fees) until they enter the workforce, thus easing the financial and debt strain on students and their families.

## Overview of Existing Pay It Forward Programs

The PIF program is not a new financing concept to higher education. In 1962, Milton Friedman proposed a "graduate tax" in which the government financially supports students during college and subsequently collects a portion of the students' future earnings after graduation.[4] Friedman's income-shared agreement is considered a "socialized-gains, socialized-losses program," i.e., the community shares both gains and losses. Under this program, if a student obtains a well-paying position, the gains are shared by the community. Likewise, if a student is unable to obtain

---

[2] DeNavas-Walt, Carmen and Bernadette D. Proctor, U.S. Census Bureau, Current Population Reports, P60-249, *Income and Poverty in the United States: 2013*, U.S. Government Printing Office, Washington, DC, 2014.

[3] Harnisch, Thomas L., *The "Pay It Forward" College Financing Concept: A Pathway to the Privatization of Public Higher Education*, American Association of State Colleges and Universities, July 2014. Accessed November 10, 2014, http://www.aascu.org/policy/publications/policy-matters/PayItForward.pdf

[4] Garcia-Penalosa, Cecilia and Klaus Walde, E*fficiency and Equity Effects of Subsidies to Higher.* 2002. Education Oxford Economic Papers Vol. 52: 702-722.

employment or gains employment in a low-paying career, the losses (i.e., debt) are also shared by the community.

In the 1970s, Yale University implemented a Tuition Postponement Option (TPO), a modified version of Friedman's shared-income agreement. This program allowed students to attend the university without costs, until after graduation. Students were placed in cohorts and agreed to pay back the cohort's debt. Upon graduation students agreed to pay 0.04% of their future earnings for the next 35 years, or until the cohort's debt was repaid. Borrowers could opt to "buy out" at 150 percent of what they originally borrowed plus interest. This program is considered a "privatized-gains, socialized-losses" program, where gains are privatized and losses are shared by the community. Initially, the TPO was well-received by graduates; however, backlash emerged in response to inflation, tax law changes, and non-payment by some borrowers. After a number of complaints, the program was discontinued in 1978, and by 1999 the remaining alumni TPO debt was forgiven. [5]

More recently, a student at Portland State University reintroduced the income-share concept as a capstone project. Similar to the previous programs, this PIF approach would allow students to attend the state's public community colleges and universities without payment. After students complete their degree program, community college graduates would agree to pay 1.5 percent of their gross earnings for 24 years. Students who earned a bachelor's and master's degree would pay back 3 to 4 percent of their gross income, respectively, during this period.

## Common Elements of PIF Programs across States

As mentioned, several states launched feasibility studies or pilot projects to better understand the economic and social consequences of PIF programs. There are variations in each PIF initiative; therefore, the elements may vary slightly across states. Below are basic elements of the PIF programs that have been proposed:

[5] Yale to Erase Alumni Debts in 2 Loan Plans," The New York Times, April 13, 1999, accessed November 17, 2014, http://www.nytimes.com/1999/04/13/nyregion/yale-to-erase-alumni-debts-in-2-loan-plans.html.

- The PIF program is voluntary. Students and their families decide whether or not to participate in the PIF program.
- For those that choose to participate, the PIF contracts are between the state (or institution) and the borrower. The PIF program links payment to borrower's gross annual income, rather than tuition rates. Therefore, there is no principal to repay upon completion. While there is no principal to repay, the program requires a mandatory repayment obligation.
- The PIF program is accessible to students that are state residents only.
- The PIF program covers tuition and fees. Students cover room and board, books, supplies, and other expenses.
- In most cases, the PIF program is limited to undergraduate education.
- The PIF program requires degree completion. While most programs do not address the consequences for non-completers, one program suggests that students transition to a traditional loan if they are unable to complete their undergraduate degree.

## Potential Unintended Consequences of the PIF Program

Supporters of PIF argue that there are interlocking educational, social and economic benefits to implementing this program. The benefits include reducing the financial burden to college entry and completion and, in turn, mitigating the social and economic challenges associated with large amounts of debt for graduates. While at face-value these advantages appear to promise great strides toward ensuring that education is accessible and affordable for all students, it is reasonable to argue that a PIF program could exacerbate the financial burdens on graduates and place considerable burdens on states and postsecondary education institutions. Consequently, a PIF program could have long-term negative effects on Louisiana's local economy and workforce.

*1. Pay It Forward May Not Address Student Debt.* As previously mentioned, the primary goal of a PIF program is to reduce the financial burdens and increase accessibility to college by delaying payment of tuition and fees until students graduate or enter the workforce. However, according to the College Board, tuition and fees cover roughly 40%

of college debt.[6] The remaining costs (e.g., books, supplies, and room and board) may have to be covered by student loans or other sources of institutional aid. Consequently, under this scenario, students would likely graduate from college with repayment obligations in addition to loans. It should also be noted that the Pell Grant amount awarded to students may be decreased since tuition and fees would not appear as a cost of attendance.

2. *PIF Creates Class-based Participation*. Some institutions' programs (i.e., Yale's PIF program) allowed students who obtained higher paying jobs to opt to "buy out." This would leave a smaller, less wealthy group participating in the program. Moreover, the wealthier students or those students who anticipate obtaining lucrative career earnings may pay their tuition upfront and choose not to participate in the program. Given these possibilities, the program might become overly reliant on low-earning graduates – which might jeopardize the long-term financial stability of the program.

3. *A PIF Program may not be Financially Feasible for the State to Initiate.* Income-based repayment programs are difficult to adopt because they require large, upfront seed investments that generally are state-funded. Since Louisiana's public postsecondary institutions have become heavily dependent on tuition revenue to operate, they cannot assume any upfront obligations or delay reimbursement from a PIF initiative. Therefore, a dedicated source of state funds would need to be established. To estimate the potential upfront costs to Louisiana, the following scenario is presented.

   The PIF program would benefit students who currently receive student loans. The data available indicate that 47% of students attending public four-year institutions and 31% attending public two-year institutions begin college with a student loan in Louisiana. Of the 2013 entering first-time freshman cohort who began college with a student loan, 10,013 began at a public four-year institution and 4,514 began at a two-year institution. For illustration purposes, fifty percent of these entering freshmen chose to participate in

[6] College Board "Trends in College Pricing." 2013. Accessed November 3, 2014. http://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf)

the PIF program. Using these figures and multiplying the average tuition at Louisiana's 2-year and 4-year institutions, an initial seed investment for initiating a PIF program in Louisiana was calculated. If 50% of students participated in the PIF program, approximately $35 million in seed funding would be required in the first year and would continually increase to approximately $160 million budget by year six. A new freshman cohort would be allowed to participate each year thereafter and because the majority of students graduate in 150% of time (six years for bachelor's degree attainment, and three years for associate degree attainment) a significant number of students would not begin paying back their debt until seven years following the initial implementation of the PIF program. Furthermore, because the starting salaries of graduates will most likely be low in their early years of employment, the initial payback years may yield marginal return on investment.

4. *Graduation Rates may Affect the Financial Stability of the Program*. As explained previously, the program will most likely attract students who do not have financial scholarships or tuition waivers. Data indicate that there are significant differences in graduation rates between students who are scholarship recipients and those who do not receive a financial scholarship.

   There are two competing arguments in regards to the impact of a PIF program and graduation rates. Supporters of PIF might argue that the variations in graduation rates among scholarship recipients and students who do not receive scholarships could be explained by financial barriers. Thus, a PIF program would reduce the financial barriers associated with tuition and fees and, in turn, increase graduation rates among students who do not receive scholarships or tuition waivers. However, on a much more cautionary note, research has demonstrated that it is by far the academic preparation of students who are awarded financial scholarships which contributes to their high graduation rates, more so than the financial award itself. Since the PIF program would attract more students who are ineligible for a financial scholarship, and thus less academically prepared for college-level work, the state must be cautious in projecting the payback of PIF program recipients.

5. *Implementation of PIF and Collection of Repayments Pose Challenges.* In designing any PIF program, the state would need to identify and dedicate the resources (e.g., personnel and technology) to design the necessary processes to track information regarding graduates' employment, income, and residency and to collect the revenues from the graduates of the PIF program. Additionally, the state would have to identify adequate financial resources to cover losses from the PIF program, resulting from either low incomes of some graduates or failure to meet the obligations of the program (i.e., delinquency or default).

6. *A PIF Program might Discourage Recipients from Careers in Public Service.* Depending on how the PIF program is structured, the repayment obligations might be designed in such a way as to deter recipients from service-oriented careers. This is especially true if the beginning balance is high and a lower-paying career extends the repayment period over multiple decades. Under these conditions, recipients would steer themselves into careers with the fastest payback terms marginalizing public service careers (i.e., teachers, policemen).

## Summary and Recommendations

Based on the overview of current PIF programs and policy considerations as outlined above, the Board of Regents deems it inadvisable and impractical to implement a PIF program at this time. Notwithstanding the potential benefits of a PIF program to the students and their families, the following challenges make a PIF program infeasible under the current circumstances.

1. Considering the declines in state support for public higher education over the past 6-7 years and in the absence of any dedicated state funds to establish a PIF program, the institutions have no ability to finance the upfront costs of a PIF program or to delay the reimbursement of expenses. Projections as outlined in previous sections estimate that even a bare-bones program beginning with an entering class would cost the state $35 million expanding to $160 million before any meaningful collections are returned to the fund.

2. There have been a number of PIF programs examined, proposed or adopted over the past decade. Either due to a lack of funding, ill design, improper implementation, or limited interest, these programs, though well-meaning, have not proven successful.
3. The framework for a more practical and less burdensome alternative to a PIF program already exists, though it has not been utilized to its fullest extent. Providing additional resources for Louisiana's need-based Go Grant program would provide more immediate results without the potential unintended consequences of a PIF program.

Should the Legislature choose to consider a PIF program notwithstanding the above challenges, the Board of Regents recommends the following:

1. The implementation of the PIF program should begin no sooner than the 2016-17 academic year, allowing for the proper design and implementation of the program. Any program design and implementation would be subject to an appropriation directed for those purposes.
2. A separate fund in the Treasurer's office to support the PIF program, with reimbursements to the institutions on a semester-by-semester basis in a fashion similar to TOPS, should be established.
3. The State Treasurer, possibly in concert with the Louisiana Office of Student Financial Assistance (LOSFA), should design, implement, and administer the repayment process and associated systems.

**ENROLLED**

Regular Session, 2014

HOUSE CONCURRENT RESOLUTION NO. 21

BY REPRESENTATIVE DIXON

A CONCURRENT RESOLUTION

To urge and request the Board of Regents, in consultation with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, the Board of Supervisors for the University of Louisiana System, the Board of Supervisors of Southern University and Agricultural and Mechanical College, and the Board of Supervisors of Community and Technical Colleges, to study the feasibility of implementing a college tuition program that would allow students to pay tuition after leaving college and to submit a written report of findings and conclusions, including any recommendations for legislation relative to the issue, to the House Committee on Education and the Senate Committee on Education not later than sixty days prior to the beginning of the 2015 Regular Session of the Legislature of Louisiana.

WHEREAS, good jobs increasingly require workers with postsecondary education, and the nation's economic growth depends on developing a workforce ready for 21st century jobs in the global economy; and

WHEREAS, long-term declines in state higher education funding and more recent severe budget cuts are pushing college out of reach for middle class and low-income students; and

WHEREAS, "Pay It Forward", a proposal from the Economic Opportunity Institute, provides a potential remedy to this problem; and

WHEREAS, under the "Pay It Forward" plan, students attend college with no upfront tuition and fees, and instead contribute a small, fixed-percentage of their income after college; and

WHEREAS, under the plan, contributions are placed in a public higher education trust fund that funds education for the next generation of students, giving each new cohort the same opportunity to attend college; and

WHEREAS, over time, the trust fund becomes entirely self-replenishing and allows for more and more students to participate in the plan, and by linking contributions to students' incomes, the plan allows graduates to choose work based on their interests and skills, rather than solely on the prospect of higher incomes; and

WHEREAS, "Pay It Forward" can be implemented in conjunction with other forms of federal, state, local, and private financial aid; and

WHEREAS, several states are exploring "Pay It Forward" programs, including Oregon, where lawmakers recently voted to create a commission to study the plan in detail.

THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby urge and request the Board of Regents, in consultation with the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, the Board of Supervisors for the University of Louisiana System, the Board of Supervisors of Southern University and Agricultural and Mechanical College, and the Board of Supervisors of Louisiana Community and Technical Colleges, to study the feasibility of implementing a college tuition program that would allow students to pay tuition after leaving college and to submit a written report of findings and conclusions, including any recommendations for legislation relative to the issue, to the House Committee on Education and the Senate Committee on Education not later than sixty days prior to the beginning of the 2015 Regular Session of the Legislature of Louisiana.

BE IT FURTHER RESOLVED that a suitable copy of this Resolution be transmitted to the commissioner of higher education and the presidents of Louisiana State University, University of Louisiana, Southern University, and the Louisiana Community and Technical College systems.

________________________________________

SPEAKER OF THE HOUSE OF REPRESENTATIVES

________________________________________

PRESIDENT OF THE SENATE