

# **An Analysis of the Feasibility of an Illinois Pay It Forward Program**

**As Directed by Public Act 98-920**

Report to the Illinois General Assembly

## **APPENDIX**

12/1/2014

Illinois Student Assistance Commission

## **Appendix I: Pay It Forward (PIF) Program FAQs**

## **Pay It Forward (PIF) Program FAQs**

### **What are Pay It Forward programs?**

*A Pay It Forward (PIF) program is a way to pay for college that allows students to defer paying for college until they join the workforce. A Pay It Forward program helps students pay for college through the implementation of an Income Driven Repayment (IDR) or Income Based Repayment (IBR) Loan Program or through a Human Capital Contract (HCC) or Income Share Agreement (ISA). Payments made by students, beginning after they leave school are placed in a higher education trust fund. The fund contributions are then paid forward to fund college for future cohorts. PIF programs usually tie the size of a student's monthly or annual payment to the income they receive for a specified number of years after graduation. Students will ultimately pay more or less for their degree depending on the financial benefit they receive from the credential. If an HCC is utilized, there is no initial principal balance, no potential for a ballooning balance due to penalty and interest charges, and little possibility that a student's monthly payment will outstrip their ability to pay. An IBR with loan forgiveness yields similar results, but IBRs with no loan forgiveness can lead to extended repayment periods that result in higher total payments.*

### **What is the difference between an Income Driven Repayment Loan (IDR) and an Income Share Agreement (ISA)?**

*Either an IDR or an ISA can be the financing mechanism used in a PIF program, although the ISA has some advantages over a loan. ISAs and some IDRs (those structured with loan forgiveness): (1) relieve the student's uncertainty about being able to make fixed loan payments; (2) reduce default caused by financial distress; and (3) provide a subsidy to those who most need it during the repayment period. In addition, students with ISAs never face the prospect of "ballooning" loans because ISAs have no associated interest or penalty charges. These students may also be considered better credit risks by banks for car loans and mortgages.*

*Because there is some cross subsidization of students who obtain relatively low-paying jobs by those with higher-paying jobs, an ISA can be structured to become revenue neutral to the state. An IDR/IBR with loan forgiveness will require state subsidization because the most any student pays is what he owes so the student who receives loan forgiveness essentially receives a subsidy from the state. With an HCC, you pay a set percentage of income for a set number of years, regardless of the amount you initially deferred. With an IBR, you pay a set percentage of income until you pay off the amount that you initially deferred, regardless of how long that takes. With an HCC, a very successful graduate may ultimately pay more than was initially deferred, which would help make up for graduates who end up with lower incomes. With an IBR, however, a very successful graduate would simply be done making payments sooner; she wouldn't pay more into the system to subsidize those who have difficulty quickly re-paying.*

### **Why is there so much interest in Pay It Forward programs?**

*The interest in PIF programs is likely the result of a combination of factors: the rapidly rising cost of higher education in all sectors; the perceived necessity of pursuing higher education to insure a middle-class standard of living; the decline in the ability or inclination of the states to fund higher education; and the uncertain job market for college graduates which leaves students wondering if they will be able to*

pay off their loans. In Illinois, the high cost of college resulting in high debt levels for students facing an uncertain job market is creating a roadblock to achieving the state goal of 60% of the Illinois workforce obtaining a quality postsecondary credential by 2025. PIF is seen as an alternative funding mechanism that the states can use to help achieve their goals.

### **What are positive attributes of a Pay It Forward model?**

*Pay It Forward plans appear to address the financial issues students, schools and the state face today, specifically annual college costs that now exceed the average family's ability to pay and the prospect of cumulative debt levels exceeding the student's annual income upon graduation. Well-designed Pay It Forward plans, with either a human capital contract or an income-driven repayment program as the engine, could:*

- *Eliminate up-front costs, usually tuition and fees, in exchange for a fixed percentage of the student's earnings in the future, usually for a specific number of years. Students might pay more or less than under a conventional loan system, but the amount could be bounded and uncertainty would be reduced.*
- *Shift the risks associated with rising college costs and uncertain student post-college employment to those who can bear them. If a borrower earns more in the future he pays more each month; if he earns less, he pays less. Both options would minimize the risk of debt that does not decrease after years of repayment due to late or missed payments, or insufficient payments causing additional fees and interest to be charged. IBRs can have a maximum number of years of repayment and an HCC is, by definition, a percentage of income for a fixed number of years. These risks would be shifted to the investor or the state.*
- *By reducing the impact of the family budget constraint, HCCs could eliminate a major barrier to college attendance and completion. Family income would matter less; students could base their school and professional choices on other, more meaningful attributes. By tamping down the fear of overwhelming debt, PIF could reduce restrictions on graduates' career choices. PIFs could also provide information on returns to college. Private PIF programs can highlight high- and low-performing colleges and majors. It may be possible to structure a state program to do the same.*
- *A Pay It Forward program could keep both Illinois students and education funds currently leaving the state in Illinois. Programs providing "free" or reduced-priced college have had mixed results in states and communities where it has been tried when the goal has been to keep exceptional students or students from wealthy families in state, but overall there is some indication that these programs do keep good students and middle-class students in state. A PIF program also would keep in Illinois the share of student income now devoted to paying federal interest on student loans. If a student chooses to leave the state for work, her PIF dollars would remain in state in the trust fund and ultimately be returned to the schools.*
- *An additional benefit for the student may result with Pay It Forward programs driven by a human capital contract. Students with an HCC would appear to be more credit worthy as the HCC does not show up as a debt obligation, as does an IBR, which has the potential for "ballooning" through additional interest, penalties and other charges. Pay It Forward programs that are financed with an HCC refute the argument that PIF programs are essentially redundant because existing federal IBR loan programs already address the payment issues that can influence career choice. Federal IBR programs have many restrictions and are limited to Stafford debt. Stafford debt limits are often not*

sufficient to cover the cost of college, forcing students to take out private loans or parents to take out PLUS loans, neither of which is IBR eligible. The extended payment periods, with accumulating interest, can also result in very high total cost. Some state Pay It Forward programs, could, when coupled with need-based state and federal aid, eliminate the need for loans for some students. For others, while a federal Stafford loan might still be necessary, the PIF can replace the higher interest private and PLUS loans.

### **What are potential problems of a Pay It Forward model?**

Those opposed to Pay It Forward programs make their arguments several ways: (1) they are not feasible (difficult to administer and especially hard to collect the payments); (2) they will not have the impact on affordability as advertised; and (3) they will encourage the state and the schools to resort to behavior not in the best interest of students. The last issue is the biggest one. Pay It Forward programs mean for many critics the implicit shifting of the notion that higher education is both a public and a private good to being strictly a private good conferring to the state no benefits worth paying for. State funding for higher education has already been declining; states are spending 28% less than they did in 2008 and some states have cut their higher education funding in half. In Illinois spending on higher education has decreased by 6.6% since 2008. Critics fear that PIF could exacerbate this shift, further increasing the cost of higher education. With a shift from need-based grants to income share agreements which could be perceived by lower income students, who are loan-averse, to be loans, it's feared that PIF could result in even lower participation rates among the student groups who have long been shut out of higher education. A PIF program could exacerbate schools' tendency to increase tuition and fees at rates far in excess of inflation, a particular problem in Illinois. Illinois has some of the highest public university tuition and fees in the country and a Pay It Forward program could "provide cover" for further increases. Any workable PIF program would have to control costs and maintain existing state subsidies to guard against these detrimental effects.

The other huge hurdle to a Pay It Forward program is its cost. The countries that have implemented these types of programs were moving from a fully taxpayer funded system to a system of shared responsibility. They used their programs to save money so that they could expand their higher education system to include more students. In the U.S. the situation is very different. Students in Illinois are paying over half the costs of their education. Removing this source of funding from the schools will leave a big hole in their finances that the state will have to fill in until payments from the PIF program begin to flow back into the state. The amounts are not trivial. A full-scale PIF involving all students in public institutions in Illinois would cost around \$2 billion per year. Reasonable assumptions can cut that number in half, but that is still at least \$1 billion per year for several years. The state would have to provide significant support for about 20 years before revenues coming in exceeded the costs incurred.

### **How far along is the Pay It Forward concept?**

In July 2013, Oregon became the first state to sign into law legislation which directs the Higher Education Coordinating Commission in the state to study and consider proposing a pilot HCC program (H.B. 3472). Since then, legislation has been introduced in at least 22 other states. The legislation varies considerably by state and no program, pilot or otherwise, has been fully developed as of November 2014. The most complete PIF program ready for implementation, designed by Oregon, was recently tabled for lack of funds.

*In Illinois, HB5323 – the Pay It Forward, Pay It Back Act - was passed, requiring the Illinois Student Assistance Commission to “undertake a study to determine the practical and fiscal impacts of adopting a program in Illinois similar to Pennsylvania’s Pay It Forward Pay It Back program.” The bill further requires that the “study shall focus on the particular intricacies, details, and mechanics of funding with specific regard to the proposal contained in the language of House Bill 5323 [the Pennsylvania model] from the 98th General Assembly, as introduced.” The report also includes the results of a survey of similar programs in other states “with specific regard to funding and programmatic practicality and feasibility.”*

*At the federal level, two bills (S. 1884/H.R. 3959 - The “Pay It Forward” Guaranteed College Affordability Act and S. 2260/H.R. 4436 – The Investing in Student Success Act of 2014) have been introduced to make it easier for both private entities and states to develop Pay It Forward models. These bills could change the perception of human capital contracts and encourage states to develop them. At a minimum, passing these bills would clarify the legitimacy of this type of financial instrument and provide some guidelines for implementing programs utilizing them.*

### **In states where a Pay It Forward program has been proposed, what are the parameters the programs have in common?**

*While there are variations in the state proposals and many of them are not fleshed out in any way, the states that have begun to define a potential Pay It Forward proposal usually have the following elements:*

- *Some type of binding contract between the state and the borrower creating a mandatory repayment obligation. Both human capital contracts (HCCs, such as Oregon) and income-driven repayment loans (IDRs, such as Pennsylvania) are being proposed.*
- *Some limit on participation. All have voluntary participation which allows students to opt out and some further limit participation to students based on income. Pilot programs, by definition restrictive, further limit participation to students from certain high schools, attending certain colleges, or through lottery selection.*
- *All proposals to date require state residency.*
- *With one exception (California), the programs cover tuition and fees only at public colleges and universities. Tuition and fees are usually about 40 percent of the total cost of attendance. Students might still require loans for the other 60 percent of expenses. California is suggesting piloting part of its program at a private institution and proposes to cover costs in addition to tuition and fees.*
- *All suggested programs are for undergraduate education only.*

### **How much would a Pay It Forward program cost?**

*An annual estimate of the cost of a Pay It Forward program will depend on the parameters of the program – what the current tuition and fees are; whether the program is a human capital contract or an income-based repayment loan; whether it is offered to everyone or just a pilot group or just community college students or some other group; whether it is an “all or nothing” proposition or if partial contracts are available; and, of course, the payment terms.*

*PIF program funding in the initial years is problematic due to the large investment required initially and the uncertainty of the future revenue stream. In Illinois, the maximum amount of potential revenue that would need to be replaced initially would be around \$1.2 billion at public universities and an additional \$0.9 billion at community colleges. That is for the first year. The state would need almost as much the second year and considerable funding each year thereafter for at least 20 years. These numbers can be whittled down by making some behavior assumptions and restricting access to the program.*

### **How would a Pay It Forward program be funded at startup?**

*The PIF proposals currently being considered appear to have all of their funding coming from the state either through existing resources (redirection of current funding) or from new revenue sources (bonds or new taxes). PIF proposals that cover large numbers of students are extremely expensive in the early years before repayment from students begins. Another version of a PIF could require coordination among federal, state and private entities. The federal government would need to provide assurances that Income Share Agreements are valid, enforceable contracts; HR 4436, with some modifications, should provide that assurance. Given that, a private market for ISAs could emerge and become a partner for state investment.*

*The private sector could ultimately provide some of the funding necessary for a state PIF and is in a position to accurately price the contracts. A “one-size-fits-all” PIF, a likely result from a state-funded PIF, is not efficient and does not provide one of the biggest benefits of ISAs – information about the success of a particular program, defined in financial terms. What private ISAs can do is identify areas of program imbalance – where the costs far outweigh the returns. By either not engaging in ISAs or charging high income percentages for some majors at some schools, clear signals would be provided as to the financial return a student could expect from these majors. For degrees where some of the benefits may be societal and not financial, such as elementary education, states could either offer a state PIF, provide a subsidy to the student to reduce the cost of the PIF, or perhaps provide a guarantee that would reduce the risks of the PIF to the investor.*

*There is one other option for initial funding that has been mentioned. A Parents’ PIF would allow parents to prepay some percentage of a student’s college costs ahead of time. When the student is in grade school, a parent could start “PIFing” a percentage of his income each year into the PIF Trust Fund. For each year PIFed, one year would be removed from the student’s PIF after graduation.*

### **Who would control Pay It Forward funds?**

*The state funds would be collected by the state and paid into a Higher Education Trust Fund. The funds would then be distributed back to the schools (to cover their costs) and investors (return on investment).*

### **How would a Pay It Forward program’s structure and revenue generation differ from campus to campus?**

*There are some PIF bills that describe programs that would change the repayment terms based on the type of institution. For example, a state college could have a repayment rate of 3 percent of annual gross*

*earnings, while a research university could have a rate of 4 percent. It is not yet known, however, how PIF revenues would differ from campus to campus, including for institutions of similar size but with different missions. While PIF programs could exacerbate tensions between campuses on matters related to state funding programs, it depends on the structure of the PIF.*

*When Australia began its program, it chose to keep it relatively simple but later made it more differentiated. It initially set a fee for all of its universities at about 25% of the average full-time higher education cost per student. Australia was moving from a fully tax-funded system to a system with some private responsibility in an attempt to expand its higher education program and acknowledge a private benefit to education as well as a public benefit. It structured its program as an Income Contingent Repayment Loan (ICL) and set a payment schedule by taxable income. The uniform tuition fee aspect was removed in 1997, and Australia's Higher Education Contribution Scheme (HECS) was "increased and differentiated into three cost bands based on a combination of the relative cost of course delivery and the relative profitability (the rate of return) of certain programs." Reforms introduced in 2003 led to a partial fee deregulation that allowed institutions to set student contribution levels within a range from \$0 to a maximum set by the Australian government. Students who choose areas of study in Band 1 (social studies, humanities, etc.) fall within the smallest contribution range, followed by Band 2 (accounting, economics, etc.), and then Band 3 (law, medicine). Repayment rates, ranging from 4 to 8 percent, vary by income range, and increase with the student's income.*

#### **How would a Pay It Forward program affect existing student aid programs?**

*To ensure that participation rates for students from lower income families do not decline under a Pay It Forward plan existing levels of grant aid should be maintained. Lower-income families, particularly Hispanic families, have been shown to be averse to taking on loan debt. There are many studies that demonstrate that increasing need-based grant aid has been shown to be much better at increasing college participation rates among at-risk groups than loans.*

*Under the terms of Federal HR 4436, the Investing in Student Success Act of 2014, PIF programs would not be used in the calculation of a student's expected family contribution (EFC), the measure used to determine eligibility for Pell Grants. If this bill passes, then students with a state PIF would still be eligible for a Pell Grant and subsidized loans if they were eligible prior to the implementation of a PIF.*

*The situation with the Illinois Monetary Award Program (MAP) is not as clear-cut. It has already been determined that cutting grant aid to lower-middle and lower income students results in reduced college participation rates for these students. Maintaining existing grant levels is important for at-risk student success. MAP could be used to reduce the tuition and fee burden that these students would have to PIF, or the grant program could be changed and used to reduce the other costs of attendance. Currently, MAP can only be used for tuition and fees and is paid directly to the school on behalf of the student. Changes to MAP to make it more "Pell-like" – grant dollars that can be used for any cost associated with college - may, in combination with Pell, enable students from lower income families to restrict undergraduate college financing to a single PIF for tuition and fees.*

*For middle income students who do not qualify for need-based aid, and whose families cannot cover the remaining cost of attendance, a loan in addition to PIF may be the only option. The federal government has many loan repayment options and loan forgiveness for some occupations. An Illinois PIF could be*



*coordinated with at least the most common federal repayment option to offer a single repayment timeframe and keep payments manageable.*

*Institutional aid also presents challenges. In addition to providing some need-based assistance, institutional aid is often used by institutions to help create the student body they want to serve at their institutions. Institutions could continue this practice by translating merit aid into a reduction in the PIF percentage paid, or public institutions could be required to have a single price for all.*

### **How much would participants pay under a Pay It Forward program?**

*Oregon is the only state to have cost out a PIF program. Under Oregon assumptions, a student could pay for a two year degree with 1.5% of his income for twenty years. A student with a four-year degree would pay 4.0% for twenty years.*

*The public university figure is likely low for a 20-year Illinois PIF because of the higher college costs in this state. The example described in this report has students paying 1.3% of income for 20 years for a two-year degree and 4.9% for a bachelor's degree, both completed in 100% time. Extending the repayment period to 25 years reduces the percentages to 1.0% and 3.4%, respectively.*

### **Would students pay more or less under Pay It Forward than they do currently?**

*Because Pay It Forward payments would be linked to income, those that end up having relatively higher incomes over time may pay more into the system than they would have using traditional loans. Those who do not benefit as much financially from their education and those who do not finish their education and are in lower paying jobs would pay less.*

### **Would a Pay It Forward program only cover tuition?**

*Pay It Forward programs in other countries such as Australia include financing for expenses in addition to tuition and fees. With the exception of the California program that proposes to cover some of the non-tuition and fee related costs of college, US states' PIF proposals provide financing only for tuition and fees. For many students, tuition and fee charges, while substantial, are not their biggest financial hurdle. Nationally, only approximately 39% of the cost of attendance would be covered by a PIF that covered only tuition and fees. In Illinois, a PIF that covered tuition and fees would cover about 50% of the costs of a student attending a public university. How that other half of the cost is paid for can determine how workable and transparent a PIF program is. Pay It Forward proposals can be very transparent in the sense that students know they will be able to pay regardless of how much they earn after college. However, if students have to take out additional loans, public or private, under different terms to cover other expenses such as room, board, and books, then the system could become more confusing than the current loan programs.*

**How would a Pay It Forward program take into account students who transfer to different colleges, states, or drop out altogether?**

*A PIF program based on credit hours, such as the one proposed by Oregon, would eliminate the problem with changing majors, or transfers to different colleges, or dropping out. Students could PIF as many credit hours as they want; if they choose to go out of state to a different college without a PIF program then they would only pay for the credits PIFed in Illinois upon graduation. For students who drop out, again, their PIF is based on the number of hours PIFed and, after a repayment grace period, their income would be assessed at the rate accumulated by the number of credit hours attempted. Students who attend two schools with different PIF rates per credit hour would simply sum them together. Students who drop out pay only for the credit hours PIFed.*

**How would Pay It Forward program payments be collected? What happens when someone moves out of state?**

*Being able to collect the payments is essential to a functional PIF, either state-sponsored or private. High default rates raise the cost of the PIF and can make the program untenable for the state or uneconomic for the private investor or the student, who would be subjected to higher rates to cover other's defaults.*

*Automatic enrollment through payroll deduction or through an automatic payment from a checking account would yield the best results for collecting PIF payments. To automatically enroll borrowers in an HCC and automatically adjust their payments in response to changes in annual income, Illinois would need access to their tax records or other income information for the life of the loan. One potential mechanism would involve requiring borrowers to provide such access via a promissory note, as a condition of the contract. Borrowers' permissions could last for the entire repayment period or a smaller number of years. Oregon would base its repayment amounts on Oregon AGI (state tax return) for participants who stay in-state and federal AGI (the federal tax return) for those who leave the state.*

*Moving out of state does provide additional challenges. Federal bills H.R. 4436 and S. 2230, the "Investing in Student Success Act," have been introduced to help create the legal framework for ISAs. These could use a helpful modification to allow the IRS to provide basic income and address data to states for the purpose of tracking PIF participants. The federal legislation could also address important outstanding questions about legality of these types of contracts, contract provisions, definitions of income subject to a PIF, and treatment of PIF contracts in bankruptcy.*

*PIF programs require updated information annually, and state time and money will have to be dedicated to tracking down borrowers who decline or forget to update their information for automatic enrollment. About 92 percent of Illinois students who attend Illinois schools stay in Illinois upon graduation, and while 8 percent is not trivial, it is manageable, and many of the techniques currently applied in loan collection activities would be appropriate for defaulters who leave the state.*

**What if Pay It Forward program participating students only take lower-income jobs after finishing school?**

*A Pay It Forward program allows its participants the freedom to choose careers based on their interests and the needs of society rather than by salary alone. This includes necessary careers in teaching, healthcare, and social services, often performed in areas of the state that are economically*

*disadvantaged. It is possible that only students who were going into lower-paying professions would want to PIF credit hours but to date, no country using PIF has reported this phenomenon. It would also seem unlikely that many students would deliberately choose to earn less just to avoid paying the small percentage of income required for Pay It Forward programs.*

*About 88 percent of the U.S. population makes less than \$75,000 a year. Pay It Forward programs can be structured to be self-sustaining without needing to rely on the few who make millions of dollars annually.<sup>1</sup>*

### **What would happen to college funding if the Pay It Forward program's recent graduates lack jobs?**

*A Pay It Forward model would utilize a trust fund that provides the up-front costs to universities. Participants of the program would be paying money to the fund overall, not directly to the institution. Any short-term economic circumstances of individuals would not harm short-term university funding streams. Pay It Forward programs would require extensive state funding during the first decade, at least, of operation to make up for the tuition and fee payments that students deferred. PIF programs would be expensive state programs in the short term.*

### **Could colleges start pushing students that participate in a Pay It Forward program into higher-paying majors?**

*Colleges want to recoup the cost of educating their students. Currently they do this by recruiting students from higher income families or students from other countries who are willing and able to pay more for their education. Many schools with need-blind admissions policies have had to reconsider them in recent years as costs have risen and competition for good students has increased merit aid. A Pay It Forward program could be structured with reasonable assumptions so that it is sustainable with graduates achieving moderate incomes. For example, the Oregon plan, with its set of cost and income assumptions, priced its bachelor's degree PIF at 4% of income for 20 years. The Illinois example provided in this document has a price of 4.9% for twenty years under moderate assumptions of income growth.*

*Colleges would be paid under a PIF based on the cost of educating their undergraduates. There is potentially an incentive to raise these costs because the increase could be obscured by the PIF. It would be up to the state to provide oversight and maintain cost control.*

### **How would college savings change under a Pay It Forward program?**

*It could make it easier for families to save. Most parents want to contribute to their child's education, and a Parents' PIF, where parents PIF a percentage of their income before their child attends college, could make it easier to budget for college by prepaying a portion of the costs. For families who won't or can't save, PIF programs make it possible for their children to go to school without incurring unmanageable debt.*

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<sup>1</sup> Questions About Pay It Forward. (2013, November). Center For Working Families. Retrieved from <http://thecenterforworkingfamilies.org/wp-content/uploads/2014/01/Pay-It-Forward-QandA-November-2013.pdf>

**How would a Pay It Forward program alter transparency for students and families about financing higher education?**

*Both policymakers and experts agree that more transparency in higher education information is critical for students, largely because current levels of misinformation are causing them to incur too much debt. Because students would know they would be able to pay no matter how much they earn after college, a Pay It Forward program has the potential to be reassuring for students. Students and families could also gain additional information through a “differential pricing PIF” that could also indicate which majors/schools offer the best values. PIFs could also substitute for private loans and PLUS loans which are expensive and complicated.*

**Would a Pay It Forward program have consumer protections built in?**

*It would be necessary to include consumer protections in any PIF program that are similar to protections for federal student loan borrowers. For example, a student’s debt should not pass to another person if they die, and debts should be dischargeable if a student becomes permanently disabled.*

**Who would be eligible to participate in a Pay It Forward Program?**

*The large scale of state-wide Pay It Forward programs makes them very expensive even when only the public sector is involved. Also, as noted above, cost control is absolutely essential for a successful PIF, and states have more control over tuition and fees at public institutions than at private ones. Therefore, despite the large percentage of Illinois students who attend private institutions, the model simulated in this paper contemplates a Pay It Forward option only for students attending public universities and community colleges.*

*There are many ways to restrict eligibility for these programs beyond sector choice. It is also possible to make them mandatory, although no state program to date is proposing to do so. One universal restriction on the state proposed programs is state residency. Beyond that, some of the suggested programs are offered to all in-state students in the sector; others restrict eligibility, usually based on need.*

**Would a Pay It Forward program be 100% participation or voluntary opt-in?**

*PIFs can be both voluntary and restrictive. For example, students from the highest income levels may be excluded from the PIF program while keeping the program voluntary for the rest of the students, both as to whether or not to participate and the degree of participation. The example in this report is a voluntary PIF offered to students from families with incomes in the 1<sup>st</sup> through 4<sup>th</sup> income quintiles.*

**Would the payment rate or term of repayment for Pay It Forward students differ by college attended or major pursued?**

*For the beginning stages of a complex endeavor of a PIF program, keeping it as simple as possible by using a single PIF based on average cost and average post-graduation income has appeal. Doing so, however, reduces one of the principal benefits of an ISA, the assessment of the value of a program. Under a differentiated PIF, public or public/private, school programs that are relatively expensive relative to their financial benefits upon graduation would have fairly high cost PIFs. Programs that produced good financial benefits relative to their costs would have lower PIFs.*

*Differentiated PIFs could attract private investors. If an Illinois PIF were designed to include private investors, those investors would set the rates for the PIFs they would offer. These rates could provide guidance to the state, which could sponsor the PIFs for the fields/schools that the private market would not sponsor. Since the absence of a PIF would indicate a financial disconnect – a sign that the program investment was too expensive relative to the increase in salary that would be obtained - the state could, over time, evaluate these majors at these schools and decide if it wanted to continue to offer a PIF for students at those schools and in those programs. Societally beneficial programs may warrant continuation and perhaps a subsidy to bring the costs more in line with the financial benefits; other programs may be left without a PIF, sending a clear signal to prospective students that the financial rewards to a particular degree are likely not to be in line with the costs of acquiring it.*

#### **How would a Pay It Forward pilot project be structured?**

*There are many uncertainties surrounding a Pay It Forward Program that are difficult to bound with existing information levels. Data such as program participation rates, both the number of students who would choose to participate in a PIF program and the level of participation for those that do participate (number of hours PIFed) are important data elements that are uncertain. Implementation issues such as identifying and tracking students and finding the best repayment mechanisms would need to be more fully worked out. Establishing and maintaining an efficient collection procedure is essential for a successful PIF program. While there are examples to follow, the existing PIF-type programs do not mimic a state sponsored program exactly. The lack of a direct precedent means that some of the important details contributing to a PIF program's success or failure have yet to be settled, such as taxability of benefits, whether debts could be discharged in bankruptcy, and what collections efforts would be permitted. If the legislature decides that it is interested in pursuing the PIF program option, the best way to acquire data and work out procedural and collection issues is by running a pilot program. If the pilot is carefully structured, the data on participation rates will be obtained and there will be ample opportunity to make process adjustments to fine-tune the administration of the program. A carefully selected sample of participants may also allow us to collect some data on whether PIF programs affect student and school behavior such as enhancing year to year retention.*

*The pilot developed for this report would have 2,400 participants at public institutions, cost an estimated \$38m plus nearly \$10 million more in administrative costs over the seven years of the pilot, and require participants to pay 4.9% of income for a bachelor's degree and 1.3% of income for an associate's degree over the course of 20 years. The administration costs are high because all the full-scale program parameters would have to be put in place prior to implementation of the pilot program. All the legal, actuarial, and IT work would have to be contracted out and finished prior to implementation of even a pilot program. At the end of the pilot, after six years, these students would still have to be tracked and payments collected from them for twenty more years. A pilot program for this type of initiative can be restricted as to the number of participants but the length cannot be shortened. A "small" pilot program would actually run for 27 or 28 years.*