

“Pay It Forward” Is Not a Solution to Maine’s College Affordability Problem *It still leaves working adult students behind*

By Christy Daggett

Executive summary

A good education, including a college degree, is the path to good jobs and economic security for Mainers and their families, especially the working poor. Over 20 percent of jobs in Maine don’t pay enough to keep a family with two children above the poverty line.¹ A degree carries a significant wage premium—only four percent of bachelor’s degree holders live in poverty, while almost a third of high school dropouts are poor.² It’s projected that jobs requiring some kind of postsecondary degree will grow by 15,000 by 2018, while jobs for high school graduates will grow by only 2,200 over the same period.³ Yet, over 200,000 working Mainers have some college credit, but no degree.⁴ Bringing working adults into institutions of higher education is essential to increasing wages, security, and prosperity. A well-educated workforce, possessing the knowledge and skills employers need, is also essential for Maine’s future economic growth and prosperity. That is why college affordability is a growing concern for Maine families and students.

Maine has one of the highest average student loan debt levels in the country. “Pay It Forward” is a program intended to reduce student loan debt by deferring tuition and fees for public college students. In exchange for attending college with no upfront tuition cost, program participants commit to paying the state as much as four and a quarter percent of their income for approximately 20 years after graduation. The concept underlying this repayment model, tied to after-college earnings, is to help fund the program for future generations of students and remove the sticker shock that deters many students from going to college in the first place.

As a solution to Maine’s college affordability problem, however, Pay It Forward has serious flaws. The program does not cover room and board, a major expense for all students and a significant barrier for thousands of working adults and middle-income students. Students are still expected to pay back the cost of their tuition after college, but because repayment for Pay It Forward is based on income, students who expect to earn more are more likely to opt out of the program. This undermines the program’s financial sustainability and makes it less secure for the low-income adults that remain. If Pay It Forward were implemented broadly at the University of Maine or the community college system, this would create a disincentive for students in higher-earning fields to earn their degree from the state public higher education system.

The start-up costs for Pay It Forward are significant and potentially jeopardize more targeted financial aid. Finally, the program may not generate the necessary revenue to cover expenses during an economic downturn and does little to slow the rise in higher education costs.

To date, Pay It Forward has not garnered widespread support in Maine. However, the plan has attracted a fair amount of media attention, and still is being studied elsewhere. This brief summarizes the major flaws with Pay It Forward and particularly its impact on low-income adult students struggling to complete college.

The need for financial aid is growing, particularly for low- and middle-income students of all ages

Providing financial aid to students with limited income is critical if they are to obtain the education and skills they need to secure a well-paying job and avoid a cycle of debt and delayed independence. The gap between a student's aid package and the total cost to attend college is called the *unmet need*. Many students and families will plug this hole in any way they can—through available savings, work, and debt.

Over half of the approximately 34,000 Mainers who filed for financial aid for the 2014-2015 school year qualify to pay nothing out of pocket to attend college, due to their low family income on financial aid forms. This group includes both traditional and independent students alike. In fact, independent students—usually those older than 24, married students, or veterans—represent half of the recipients of education grants from the state.⁵

Financial aid at the federal level, while growing, has failed to keep pace with rising college costs. At the state level, the governor and legislature have cut the need-based State of Maine Grant by more than 20 percent in recent years.⁶

Reductions in public aid mean that unmet need has increased most for working poor students and families.⁷ Unmet need drives dropout and indebtedness for those who can least afford it⁸ and creates a longer-term cost for the state. For every hundred Mainers who start college, only 20 will graduate.⁹ This is a sunk cost that the state—and the students—can ill afford.

Pay It Forward leaves many adult students in the lurch when it comes to paying for college

Pay It Forward only addresses one part of the cost of college attendance—tuition and fees. It does not cover room, board, books, and other expenses. For students attending the University of Maine at Orono in 2014, the costs of room and board plus books and related supplies was \$12,500 compared to \$10,600 for tuition and fees.¹⁰

For students with children, the financial hurdles are even greater. Licensed daycare costs \$7,200 annually in Penobscot County where Maine's flagship university is located.¹¹ Because University of

Maine System campuses have closed daycare centers in recent years, students with children also now incur greater transportation costs. These expenses fall outside the purview of Pay It Forward and become either debt, or an insurmountable barrier for working poor parents aspiring to attend college.

The Maine Community College System (MCCS) has worked hard to keep tuition costs down and remain affordable. However, 60 percent of MCCS students are enrolling after taking time out from education—rather than entering straight from high school.¹² Adult students at MCCS are *more* likely to take on student debt than are traditional students, who can opt to live with their parents to keep non-tuition costs down.¹³ Adult students, on the other hand, must apply for student loans to help cover the wages lost when they returned to school, to cover transportation, and to cover childcare. Pay It Forward would not help adult students wrestling with their higher costs of attendance.

Pay It Forward is costly to implement, does not pay for itself, and requires substantial long-term state subsidy

The start-up costs of implementing Pay It Forward in the University of Maine System for all incoming freshmen would exceed \$25 million in the first year and \$100 million¹⁴ in the fourth year before the first cohort of graduates begin repayment. While the state could implement the program on a pilot basis with a smaller population of students and lower start-up costs, the lag between securing initial funds and when repayment is sufficient to cover program costs creates the need for a substantial long-term subsidy. Based on projections for a pilot project in Maine, taxpayers could be responsible for substantial costs to fund the program for close to 20 years.

At present, Maine already faces an anticipated state budget shortfall of over \$460 million between what it will cost to fund all programs and services at statutorily mandated levels and what the state expects to raise in revenue through the General Fund. Adding an additional \$25 million to that amount seems unwise in the current fiscal climate especially at a time when funding for education and need-based aid has been flat or declining in recent years. Such concern about the high start-up cost of Pay It Forward and the long-term financial commitment needed to implement the program fully doomed Oregon's Pay It Forward initiative.¹⁵

Students who expect to earn more have a disincentive to participate, undermining the program's financial sustainability

Students are expected to pay back the cost of their tuition after college but because repayment for Pay It Forward is based on a fixed percentage of income over a fixed period of time, students who expect to earn more are more likely to opt out of the program—or attend a different college if the state mandates participation. This is because high post-college earners will ultimately pay more than they would have if they had taken out a traditional student loan. By contrast, post-college lower wage earners will likely pay less over time than their original tuition costs, but may not earn

enough to meet their repayment obligations and provide for their families —especially if they need to take additional loans to cover room and board, books, or childcare.

Yale University observed these incentive effects in action when it implemented a Tuition Postponement Option in 1971 with some similarities to Pay It Forward. High earners who were able bought their way out of the system early.¹⁶ Some low earners, many of whom came from low-income backgrounds to begin with, defaulted. Yale discontinued the program in 1978.

An important feature of the Pay It Forward financial model is that all participants pay in proportion to their income. This creates a pool of funding whereby high-income earners effectively subsidize the education costs for low-income earners. If high earners “opt out,” then the funding pool shrinks and the program becomes unsustainable absent additional taxpayer subsidy or modification. Furthermore, if the state mandates participation in the program as a condition to attend University of Maine System schools, then students with high-earning majors such as science and engineering may choose to avoid the public higher education system altogether.

The program’s financial stability is also susceptible to economic downturns

During economic downturns, income and employment of Pay It Forward participants who have graduated and are repaying tuition costs will likely suffer. As a result, absent proper controls and reserve accounts, there will likely be a funding shortfall for the program at a time when the need for tuition assistance is greatest. In the event of such a shortfall, the expectation would be for the state to keep the program afloat at a time when state revenues are also down as well and demand for other public programs and services such as temporary income and health care assistance is on the rise. For the program to function properly over time, Pay It Forward proponents must take these risks into account.

Pay It Forward does nothing to rein in steadily rising college costs

From 2001 to 2013 the average cost of attending a University of Maine System school rose 80 percent.¹⁷ These rising costs discourage low- and middle-income earners from seeking a college education, but for working poor families they too often pose an insurmountable obstacle. As an alternative payment model, Pay It Forward does little to change this trend. In fact, the problem is likely to get worse, not better.

General Fund appropriations to higher education have remained flat in Maine for many years. The governor and legislature have passed on more and more of the costs of higher education to Maine students, especially in the University of Maine System. The community college system has effectively frozen tuition, but at a cost—thousands of Mainers are unable to enter the community college system because of tight admissions limitations.¹⁸ This disproportionately impacts adults, especially working poor parents, since the average age of a community college student is 27.¹⁹

Conclusion

Legislators proposed Pay It Forward as a way to improve college affordability in Maine. However, the program has several significant limitations that call into question its appropriateness as a solution. Rather than allocate scarce resources to a new, untested initiative like Pay It Forward, it would better serve Maine working adults to focus limited resources to ensure broad access to public higher education for all students regardless of income, age, or previous education.

Pay It Forward has a 20 year horizon, but in order to lift people out of poverty and keep the state economy competitive, the current generation of Mainers needs access to higher education now. Pay it Forward does not ensure Mainers, especially parents and children from working poor families, the education they need to get good jobs and make their families and Maine's economy more prosperous.

About MECEP

The Maine Center for Economic Policy provides citizens, policy-makers, advocates, and media with credible and rigorous economic analysis that advances economic justice and prosperity for all Maine people. MECEP is an independent, nonpartisan organization founded in 1994.

About the Author

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End Notes

¹ See data produced by The Working Poor Families Project, <http://www.workingpoorfamilies.org/>. All data is compiled by the Working Poor Families Project and comes from American Community Survey, 2012.

² U.S. Census Bureau, 2013 American Community Survey. Available at http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_13_1YR_S1703&prodType=table

³ Georgetown University Center on Education and the Workforce, “Help Wanted: Projections of Jobs and Economic Requirements through 2018.” See Table for Maine. Available at <https://cew.georgetown.edu/jobs2018/states>

⁴ See data produced by The Working Poor Families Project, <http://www.workingpoorfamilies.org/>. All data is compiled by the Working Poor Families Project and comes from American Community Survey, 2012.

⁵ Based on September 18, 2014 letter from William S. Norbert, Finance Authority of Maine, to the Commission to Study College Affordability and Completion. Available at <http://www.maine.gov/legis/opla/collegeaffordfamedoc.pdf>.

⁶ Interview with William Norbert, Finance Authority of Maine, August 2014.

⁷ Colleen Quint and Lisa Plimpton, Mitchell Institute, “Investing in Higher Education is Economic Development,” p. 2

⁸ Kevin Carey, “Drowning in debt: the emerging student loan crisis.” July 8, 2009. Available at <http://www.educationsector.org/publications/drowning-debt-emerging-student-loan-crisis>

⁹ Complete College America, “College completion: who graduates from college, who doesn’t, and why it matters.” See three-year efficiency data for Maine. Available at

http://collegecompletion.chronicle.com/state/#state=me§or=public_four

¹⁰ See “Costs at UMaine – Undergraduate Costs of Attendance,” available at <http://umaine.edu/stuaid/costs-at-umaine-2/undergraduatecoa/>. In-state tuition (\$8,370) plus fees (\$2,236) total \$10,606 for academic year 2014-2015. Cost of attendance totals \$12,496 and includes room and board (\$9,296), books and supplies (\$1,000) and travel/miscellaneous (\$2,200).

¹¹ Maine Department of Health and Human Services, Child Care Market Rates, October 2013. Available at <http://www.maine.gov/dhhs/ocfs/ec/occhs/2013-child-care-market-rates.pdf>.

¹² Maine Community College System, “About MCCS.” Available at <http://www.mccs.me.edu/about-mccs/>

¹³ Based on interviews with MCCS staff.

¹⁴ Implementing Pay It Forward would have cost Oregon between \$5 and \$20 million a year for twenty years. An estimate of start-up costs just for the public university system in Maine is similarly daunting. Tuition and fees are critical to the System’s finances. In 2012, \$267 million in tuition and fees made up 50% of the state university’s system-wide revenues. If a cohort of in-state incoming students stopped paying upfront tuition in lieu of a “Pay It Forward” plan, a tremendous portion of the university system’s budget would have to be replaced immediately. UMS anticipates 2,823 new in-state students in fall 2014. Using the weighted annual average tuition figure of \$9,020, the annual tuition and fee revenue attached to these students is more than \$25 million (at present, some of this is tied to federal grants and loans, which flow to the university’s coffers immediately). The mechanism by which this \$25 million in tuition and fee revenue would be replaced is unclear.

¹⁵ Betsy Hammond, “Oregon’s tuition-free ‘Pay It Forward’ college finance plan appears dead.” *The Oregonian*, August 15, 2014. Available at

http://www.oregonlive.com/education/index.ssf/2014/08/oregons_tuition-free_pay_it_fo_1.html

¹⁶ Bret Ladine, “’70’s debt program finally ending,” *Yale Daily News*, March 27, 2001. Available at <http://yaledailynews.com/blog/2001/03/27/70s-debt-program-finally-ending/>.

¹⁷ Based on 2001 average cost of attendance: \$9,883, from University of Maine System Annual Financial Report for the Year Ended June 30, 2002 (see page 5), and average 2013 cost of attendance: \$17,802, from University of Maine System Annual Financial Report for the Year Ended June 30, 2013 (see page 8). 2001 report available at <http://www.maine.edu/wp-content/uploads/2013/08/annrpt02.pdf>; 2013 report available at

<http://www.maine.edu/wp-content/uploads/2013/11/FINAL-2013-Annual-Financial-Report-merged-11-20-2013.pdf>.

¹⁸ March 7, 2013 address by Dr. John Fitzsimmons, President, Maine Community College System, available at

<http://www.mccs.me.edu/about/2013stateofthesystemaddress.pdf>.

¹⁹ See Enrollment Factsheet, Maine Community College System, available at <http://www.mccs.me.edu/press/pdf/factsheet.pdf>.