Pay-it-forward college financing policies examined in new study

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Pay-it-forward financing programs could have differing effects on college access and voter support for tax subsidies, depending on how individual voters fare economically, suggests a paper co-written by University of Illinois education professor Jennifer Delaney. Credit: L. Brian Stauffer

Pay-it-forward college financing programs that enable students to pay tuition upon departure rather than entry may make college more accessible to greater numbers of students in the U.S., a new analysis suggests.

And despite some critics' fears, PIF programs could increase - rather than erode - public funding for higher education, say the researchers, higher education finance expert Jennifer A. Delaney and co-author Dhammika Dharmapala.

In a paper published in the journal *Contemporary Economic Policy*, Delaney and Dharmapala used a theoretical model to examine how public funding for higher education might be affected if U.S. colleges and universities changed from an upfront tuition model to PIF programs that allowed students to pay for their education after graduating and obtaining employment.

Delaney, a professor of education at the University of Illinois, and Dharmapala, a professor of law at the University of Chicago, examined two types of potential PIF policies - deferred tuition programs and income share agreements.

Deferred tuition programs, which are common in other countries, generally take the form of income-contingent loans that students begin paying back upon leaving college and entering the workforce.

Income share agreements are financing contracts in which students agree to pay a percentage of their earnings for a predetermined period of time after graduation. These agreements typically cap participants' repayment period at 10 years and don't charge interest.

Delaney and Dharmapala compared the potential impact of deferred tuition and income share programs on college access and voter support for taxes that subsidize higher education. Their analyses assumed a theoretical national PIF system funded by the federal system that currently supports the federal student loan program.

Since 2012, at least 24 states, including Illinois, have considered PIF programs, according to a report by the Illinois Student Assistance Commission. Some states, such as Ohio, looked at deferred tuition programs, while Florida and other states considered income share arrangements.

The scope of the PIF programs considered - such as whether they would apply to all public institutions within a state, to tuition only or the full cost of attendance - varied widely from state to state, according to the Illinois Student Assistance Commission's report.

Despite a flurry of proposed legislation, no state started a PIF program, Delaney and Dharmapala wrote, and critics' arguments against PIF policies have been as forceful as those of supporters who favor them.

By removing the financial barrier of upfront tuition, a deferred tuition model would promote college access, making attendance nearly universal, the researchers suggested.

However, the impact of income share agreements would be more complicated, the researchers found. While these agreements would increase access under many conditions, they also could deter people from attending college if the incremental gain in income they expected from a college degree was relatively small and their anticipated increase in taxes was relatively large.

Critics of PIF programs contend that PIF legislation would further erode public funding of postsecondary education, which has been trending downward over the past two decades.

"While PIF critics have suggested that subsidy levels would absolutely go down, we didn't find that," Delaney said. "In some cases, subsidies would go down, while in others they'd stay the same or increase."

Voters' likelihood of supporting higher taxes to subsidize postsecondary education would depend on whether their personal incomes increased or decreased compared with the societal median income, the researchers' model suggested.

"One important takeaway from our work is that the extent to which higher education either increases or decreases income stratification really matters for the level of subsidy provided to higher education in the political equilibrium," Delaney said.

"If only wealthier individuals can get into and pay for college - that matters for how people vote in supporting higher education," she said. "If college attendance solidifies structural income inequality in society, then we might see decreases in subsidies. But if college attendance narrows income disparities and promotes upward mobility, subsidy levels don't necessarily go down - and they may even increase."

Since public investment in postsecondary education won't necessarily be undermined, concerns about subsidy levels should not derail discussions about implementing alternative tuition policies, the researchers wrote.

More information: Jennifer A. Delaney et al, "PAY IT FORWARD" AND HIGHER EDUCATION SUBSIDIES: A MEDIAN VOTER MODEL, *Contemporary Economic Policy* (2017). DOI: 10.1111/coep.12222

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