

## POLICY NOTE

# Pay It Forward would help students pay for college

An innovative higher education funding concept proposed by Washington Policy Center and Equal Opportunity Institute

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### Key Findings

1. *Access to higher education has always been about creating opportunity.*
2. *In that spirit, Washington Policy Center and Equal Opportunity Institute present Pay It Forward, a public program to add another opportunity for students to finance their education.*
3. *Pay It Forward is a voluntary funding plan by which students would pay a small proportion of future earnings to the state for a limited time.*
4. *It would apply on a per-credit basis; students would only be obligated to pay for courses in which they actually enrolled.*
5. *Pay It Forward is not a loan. It would be a mutual agreement between a graduate and the state to pay for the education he or she had received.*
6. *Funds would be paid to the state and appropriated by the legislature, and would be directed to helping educate more students.*
7. *The proposal would make no change in current financial assistance programs, loans, scholarships or work-study programs.*

### Introduction

In the United States, access to higher education has always been about creating opportunity. Expanding access to college advances both a social good and a public purpose. Higher education lets young people expand their minds, make the most of their innate talents and abilities, and be well prepared to pursue their own goals and dreams in life. In turn, society gains as young people bring their best to succeed in the economy and to serve the wider community.

Far from being the near-exclusive purview of the privileged and powerful, as in some countries, American colleges and universities, especially state institutions, seek to be open to anyone who is academically qualified and can pay the tuition.

It is that second condition, paying tuition and fees, that presents the greatest barrier to many students aspiring to acquire a college education, and gain the personal development, career training and improved life chances that come with it. This is the purpose of the G.I. bill, which opens the door to college for thousands of young people who have served in the military and who otherwise may not have the chance to pursue advanced learning.

In that same spirit, Washington Policy Center and Equal Opportunity Institute present the concept of Pay It Forward, a public program that would add one more opportunity students could use to finance their higher education.

### A new way to pay for college

Over the years colleges, philanthropists and policymakers have developed a wide range of methods students can use to finance their education. Today's students use a combination of scholarships, work-study, loans and family savings to pay for college.

Pay It Forward is a policy proposal that would add to this menu of finance options. The concept is designed to help students reach their fullest potential in college, while providing a dependable future revenue stream for state colleges and universities.

Pay It Forward is a simple, voluntary funding plan by which students would pay a small proportion of their future income, for a limited time,

to the state. That revenue in turn would be used to help fund college and university budgets to serve the students who come after them.

### **How Pay It Forward works**

Under Pay It Forward, a student would attend a public college or university and pay no tuition or fees. Instead, the student would agree to pay the university or college a fixed percentage of future gross income, for example two percent per year, for a set period, such as 20 years. After that point the student's financial obligation to the university or college would end.

Pay It Forward would be applied on a per-credit basis. That means the student would only be obligated to pay in the future for the courses in which he or she had actually enrolled. This avoids the problem of students who take out college loans but do not graduate, leaving them burdened by debt but without a college degree.

### **Pay It Forward is not a loan**

Importantly, Pay It Forward is not a loan. It would be a mutual agreement by which a graduate would pay for the education he or she received by redirecting to the state a small portion of the future income which that education made possible.

Today's students are rightly concerned about taking on too much debt, or adding to the debt burdens they have already accumulated. Student loans can take decades to pay off, causing personal stress and delaying other life goals, like getting married, buying a home or starting a business.

Pay It Forward would not leave graduates struggling with long-term debt. A base minimum of income, for example \$15,000 a year, would not be subject to the yearly percentage payment. Above the amount, the annual obligation under Pay It Forward would only rise as the graduate's income rises. Payments would be easily calculated from year to year, and the arrangement would have a definite end-date.

### **Pay It Forward would provide stable funding for higher education**

In Olympia, funding for higher education has been hotly debated in recent years. The level of state support available for public colleges and universities depends on votes in the legislature and can vary with each budget cycle.

A Pay It Forward program would not be meant to provide full funding for state colleges and universities, but it would create a stable new funding stream for state-funded higher education.

The regular percentage payments provided by graduates as they embark on their work careers would go directly to funding the college or university from which they graduated. The funds would be paid to the state and appropriated by the legislature, and would be restricted to a single purpose: to provide funding to help educate students.

If Pay It Forward financing were used primarily by students in one field, like nursing or engineering, administrators would have an even better idea of future

funds generated by the program, since graduates in the given field could be expected to have earnings within a predictable range.

The revenue would also be predictable in future years. While no one, including the graduates themselves, know what their individual future earnings will be, college and university administrators would have a clear idea of how much revenue to expect each year, on average, from Pay It Forward graduates collectively.

### **Pay It Forward aligns higher education funding with student success**

As a voluntary agreement, Pay It Forward would align the interest of the state with that of graduates seeking success in life. As graduates progress in their careers and incomes, the amount paid to the state would increase. While the careers of individuals will vary, in general the funding available for state higher education would share in each graduate's earned success.

Pay It Forward would not create a disincentive to earning a good income. The percentage of annual earnings Pay It Forward graduates would pay is not high enough to discourage decisions about future work. There would be little incentive, or common sense, in a graduate accepting a lower-paying job simply to reduce the dollar amount owed to the state under Pay It Forward. The proportion of income to be paid is simply too small to affect a person's earnings decision-making.

More specifically, Pay It Forward graduates in certain fields, like nursing, engineering or business administration, would be on track to good-paying careers, making it easy for them to provide their yearly percentage payments to the state.

### **Pay It Forward is voluntary**

Just as attending a state college or university is itself voluntary, so a student's decision to pay for college through Pay It Forward would be voluntary. As a limited program, the Pay It Forward approach would make no change in current financial assistance programs, loans, scholarships, work-study or other ways students pay for their education. It would merely add one more option.

### **Pay It Forward is affordable...by definition**

Pay It Forward would be affordable for every student who chooses this option to pay for college. By definition, no graduate would pay more than a set percentage of future income, for a limited period of time, to the state. While graduates would pay varying dollar amounts over time, every student who chooses this financing option would be treated equally by the state. The percentage of income owed would remain fixed, even as the graduate's income changes over time.

### **Pay It Forward is flexible**

The legislature would not have to reduce current state support for public colleges and universities in order to add a new financing option for students. Pay It Forward would be an add-on, offered to a limited number of entering students, perhaps at a certain school or program within the university. A modest start would



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allow administrators and legislators to judge the practicality and popularity of the idea.

If student applications for Pay It Forward financing greatly outstrip the number of spaces available, policymakers could consider expanding the program. Alternatively, lawmakers could limit the option to a set number of entering students, until experience allowed state budget analysts to develop more accurate estimates of how much revenue would be generated.

## **Conclusion**

Pay It Forward is designed to add a new way for students to pay for college. It would reduce financial risk for students, who would avoid taking on a crushing debt load just as they started their working careers. It would provide dependable funding for state institutions of higher education, since as a group Pay It Forward graduates could be expected to earn healthy, stable incomes in the years ahead.

Most importantly, Pay It Forward would provide an added opportunity to overcome perhaps the greatest challenge young people face today in gaining access to higher education: how to pay the tuition.

Pay It Forward financing would be voluntary, flexible, dependable, affordable and, perhaps best of all, would open the door to higher education and better career training to young people who cannot afford it now, all while remaining free of incurring long-term college loans.