Request for White Papers Exploring New Models of Student Financial Support

Lumina Foundation to support comprehensive policy white papers in the areas of affordability, loan repayment and federal-state-institutional partnership for student financial aid

The mission of Lumina Foundation is to expand access and success in education beyond high school, particularly among adults, first-generation college students, low-income students and students of color. This mission is directed toward reaching an ambitious, overarching goal — to increase the proportion of Americans with high-quality degrees and credentials to 60 percent by the year 2025. For more information about Lumina's Goal 2025, see our Strategic Plan, which is available on our website at http://www.luminafoundation.org/. We believe that achieving Goal 2025 is a national imperative. Reaching this ambitious goal will require many more students, especially those from under-represented populations, to complete high-quality degrees and certificates. However, various barriers to college[1] completion stand in the way of reaching this goal, and Lumina Foundation is working on a number of fronts to overcome those obstacles.

One of the biggest barriers is the amount students are required to pay to complete a postsecondary degree or certificate. Students consistently identify price as a major hurdle to enrolling in and completing college. Considerable research suggests that students are indeed price-sensitive, and that financial resources are a necessary tool to help students, particularly those who are low-income, complete college.

Even when adequate resources exist, their effectiveness is considerably diminished if students are not aware of how to take advantage of them. In other words, students need clear and accurate information about what aid is available and how best to use it to meet their educational goals. The current system fails to provide such information to far too many students. What's more, the student body is changing, as are institutions; we need solutions that meet the diverse needs of the 21st century higher education landscape.

In short, our nation's student aid system — at the federal, state and institutional levels — simply cannot properly support the successful enrollment and completion of huge numbers of today's students.

We believe it is time to fundamentally rethink our national approach to student financial aid. Only through substantive redesign can we assure that resources are used to support the success of the much larger number of students needed to reach Goal 2025. This call for comprehensive policy papers is an early step in that redesign effort.

Our goal here is to produce information that will help higher education leaders and policymakers implement good ideas where adequate evidence exists or, where evidence is lacking, to provide clear directives for future research. The Foundation will fund three to five papers each in the areas of affordability, loan repayment and federal-state partnership. Grants will range between $60,000 and $100,000 over six months.

I urge you to consider this important grant opportunity.

Best regards,

Jamie P. Merisotis

President and CEO

[1] By "college," we mean the highest level of undergraduate education that students are prepared to pursue.

TABLE OF CONTENTS

Design Principles for Student Financial Support

At Lumina Foundation, we have developed a set of design principles based on our knowledge of current research on "the theory of the case" as well as our values as an organization that will guide our work in this area:

- We need to make college more affordable for low-income students.
    - We must prioritize subsidies on needy students—those who, financial reasons, would not otherwise attend college. Family income should not be a barrier to enrolling in or completing college. Responsible student loan debt should not be a deterrent to enrollment or completion. Student loans should be easy to repay, and default should not be common. And aid should be flexible enough to meet unique needs that may come up throughout a student's term.

- We should make the cost of college more predictable and transparent.
    - Students and families should be given clear information that can aid their decisions about enrolling in college. Information should be structured in such a way that students are encouraged to choose a college where they are likely to complete in a timely manner and earn a high-quality credential. And students and families should be informed about financial aid early and often.

- We must provide incentives to students and institutions to increase completion and lower prices.
    - Incentives should build on the base subsidy provided by need-based aid, and be clearly communicated to students and institutions. And, when it comes to financial aid incentives, they should be included in as many aid programs as are practicable, not only on those targeted to low-income students.

- We need to align federal, state and institutional policies and programs.
    - States and institutions should be encouraged to offer low-tuition options for students so that price increases don't dwarf available aid. Federal investments should supplement, not supplant, state and institutional investment. And states and institutions should be held accountable for completion.

Purpose and Overview

A number of organizations have begun to broach the issue of reform in our student financing system. Lumina Foundation hopes to add value to this public dialogue by funding a series of papers that will provide detailed analyses and policy recommendations in discrete issue areas.

To that end, this Request for Proposals (RFP) invites comprehensive white papers to be written on the topics described below. The Foundation expects to fund three to five papers in each series ranging from $60,000 up to $100,000 over six months. Each paper series will be accompanied by a convening for authors to share first drafts with discussants who will help refine the ideas presented in the first drafts through provocative questions and conversation.

During these convenings, we will invite leading scholars in various fields to respond to the papers in a private forum. These work sessions will provide expert stakeholders the opportunity to improve upon the ideas presented in the papers. Authors will be asked to revise the papers based on the discussion, and final papers will be published in a compendium for policymakers and higher education leaders. The goal is for the final papers to provide a level of detail that will enable higher education leaders and policymakers to implement ideas supported by strong evidence or, where evidence is lacking, to provide clear directives for future research. Lumina Foundation will supplement the compendium with public briefings associated with the release of each set of papers. These briefings will seek to ensure that policymakers and higher education leaders are aware of the policy and research implications, and to involve the broader higher education community in conversations about these important issues.

We will begin with three areas, in particular:

- *Encouraging state policy for affordability: How can state financial support systems be improved to become more efficient? Would a federal/state/institutional partnership for aid be more effective at making college affordable? (Deadline for proposals: June 17, 2013)*

- *Exploring models of "passive" student loan repayment systems: What does a fair and effective income-contingent/income-based loan repayment program look like in the United States? (Deadline for proposals: June 17, 2013)*

- *Defining the Concept of Affordability: What is "affordable"? How much "unmet need" presents a true barrier to students enrolling and persisting in college? (Deadline for proposals: June 24, 2013)*

Paper Series Purpose and Format

Series 1- Encouraging State Policy for Affordability

States have a key role to play in determining whether students are able to afford college. States provide funding for both institutions and students in an attempt to make it easier for students to attend college in the state. State financial aid and scholarship programs have flourished for decades and, in some cases, represent a significant contribution to helping students pay for college. However, with state budget cutbacks and concerns about program efficacy, many states are rethinking their approaches to financial aid.

State per-pupil funding has also declined substantially over the past several years, a trend exacerbated by the recent economic downturn. There is some evidence that this reduction in funding has fueled cost-shifting, i.e., increasing the student's share of the cost of providing postsecondary education while decreasing the state's contribution.[2] Many efforts are under way to better understand this trend and to identify ways to reduce the underlying institutional costs, all with the goal of increasing productivity and passing savings along to students. Lumina Foundation is actively involved in these efforts to increase productivity among states.

Not only do states play key roles in shaping public college prices and potential scholarship and grant options for students, they are also in an optimal position to align secondary and postsecondary curricula, and to foster connections with adult education and workforce systems. If systemic alignment is a desirable outcome, states seem to be the natural locus for the work that needs to be done.

Given states' important role in providing financial support to students, federal efforts to ensure student affordability may not be fully realized without state involvement. To that end, some policymakers and higher education leaders have called on the nation to adopt a "shared responsibility" approach to achieving affordability for students, promoting a federal-state partnership for affordability and completion.[3]

Despite these public overtures, little new thinking has surfaced regarding how best to encourage states to adopt practices that increase college affordability and completion. A recent report by the Education Trust suggests one approach for designing a federal-state partnership for student aid, and another from the Committee for Economic Development suggests that the Pell grant program might actually work better as a block grant to states[4]. Still, these two approaches have only recently emerged, and a state-federal partnership for affordability is not yet a commonly accepted theme in the public dialogue about affordability.

---

[2] State Higher Education Executive Officers. *State Higher Education Finance Report FY 2012*. 2013

[3] The White House, Office of the Press Secretary. "FACT SHEET: President Obama's Blueprint for Keeping College Affordable and Within Reach for All Americans." January 27, 2012; M. Dannenberg & M. Voight. *Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families.* The Education Trust. February 2013

[4] Ibid; W. Doyle. *A New Partnership: Reshaping the Federal and State Commitment to Need-Based Aid.* The Committee for Economic Development. January 2013.

Purpose

This paper series will identify, explore, or propose state financial support systems that are consistent with the design principles for student financial support (i.e., those that are affordable, predictable, transparent and provide incentives for completion). In addition, respondents will suggest whether a federal-state partnership for student aid is desirable, and if so, provide policy recommendations for how such a partnership could be achieved.

Papers should address the following questions related to this topic:

- Can states provide a system of financial support for students to receive a high-quality education without creating tiered systems that may re-create stratification within higher education?

- How can state aid systems be designed that provide access to high-quality higher education and support for completion?

- How can states make the transition from common types of student aid support programs (lottery scholarships based on merit, small need-based aid, etc.) to a more holistic form of student support that leads to completion? Is this type of transition even necessary, or can systems effectively be introduced that entirely replace current structures?

- How can state systems be designed that comport with (or support) competency-based education?

- Is a federal-state-institutional partnership for affordability and completion desirable?

- How might the federal government best support states that provide an affordable, low- priced education to many more students? Can federal policy effectively encourage state improvements in affordability, completion, and quality?

- How can the federal government ensure that its resources aren't diffused by contradictory state policies?

- Is it possible for federal programs to ensure affordability without a larger federal-state partnership?

- Every state is different; each state has its own unique system of higher education governance. How can state policy be best informed when there are so many different systems?

- Are there other considerations not addressed by the questions above?

Series 2- Exploring Models of Passive Student Loan Repayment Systems

Student loans have become a ubiquitous feature of American higher education. Never before have Americans held as much student loan debt as they do now. The aggregate amount of student loan debt has now surpassed credit card debt, topping $1trillion just this past year.[5] A record one in five households now holds some student loan debt.[6]

Still, the vast majority of student loan debt is considered "good" debt, and it is designed to provide some students the choice to attend colleges that they otherwise would not have been able to pay for. Therefore, although student loan debt has grown, the amount of debt alone is not cause for alarm if evidence suggests that borrowers are reasonably managing these debt obligations and that this debt does not deter more students from completing college.

However, recent analyses suggest that student loan debt is increasingly becoming a burden for families. For the bottom fifth (by income) of households, federal student loan debt represents 24 percent of their entire household income.[7] For students who don't complete, federal student loan debt is 35 percent of family income, on average.[8] With the recent economic downturn, defaults on student loans within the three-year period after students enter repayment exceed 13 percent, and student loans are difficult to discharge in bankruptcy.

Even with these troubling trends, student loans are a potentially important tool for students. Given that the economic returns for earning a higher education credential are continually increasing, those students who complete a degree are in the best position to repay their loans, especially if the debt is manageable. However, the prospect of incurring debt to finance higher education deters some students from enrolling or completing their programs. In particular, certain demographic groups face cultural barriers to debt that must be addressed if we aim to increase postsecondary attainment more broadly. [9]

Acknowledging that student loan debt can be overwhelming, federal policymakers have recently attempted to ease the burden of student loan repayment in the Federal Student Aid program, particularly by expanding income-based repayment (IBR) options. Even with this expansion, many students are unaware of these options, find them difficult to access, and/or remain skeptical of borrowing for college.

Meanwhile, other countries have successfully experimented with forms of income-contingent student loan repayment that has served as a model for the American IBR. Australia, New Zealand and the United Kingdom all have some form of an income-contingent system of loan repayment. The systems in these countries are different from the United States' system in that they typically: retain more government control over institutional price and costs, involve fewer repayment options, and are repaid through employer withholding to the country's internal

---

[5] Consumer Financial Protection Bureau. March 21, 2012 http://www.consumerfinance.gov/blog/too-big-to-fail-student-debt-hits-a-trillion/

[6] R. Fry. Pew Research Center, Social and Demographic Trends. "Burden Greatest on Young, Poor: One in Five Households Now Owe Student Loan Debt." September 26, 2012

[7] ibid

[8] C.Wei & L. Horn, "Federal Student Loan Debt Burdens of Noncompleters." National Center for Education Statistics, April 2013

[9] A. Cunningham & D.Santiago, Institute for Higher Education Policy. "Student Aversion to Borrowing: Who Borrows and Who Doesn't?" Institute for Higher Education Policy. December 2008

revenue service. Even beyond these differences, the U.S. system retains its systemic challenges of incomplete information, program complexity and potentially conflicting messages about borrowing.

Purpose

Recently, several think tanks, policymakers and higher education leaders have embraced the idea of reforming the U.S. income-based repayment option to encourage more individuals to participate; some have even suggested making it the nation's only system of student loan repayment. However, key challenges in considering this proposal remain unanswered. The purpose of this inquiry is to seed critical exploration of these important questions so that policies may be crafted in a way that acknowledges the tradeoffs and moves toward a solution that improves completion more broadly.

Papers should address the following questions related to this topic:

- How is the United States' IBR model similar to or different from models in other countries?

- Should the U.S. IBR system be more like international income-contingent systems? What would the pros and cons of such an approach be?

- What are the tradeoffs involved in moving to a wholly income-contingent system in the U.S.? If we moved to an IBR-only approach, what are the necessary conditions for such a system to succeed? Are there other systemic policy implications that must be addressed in tandem with such an effort, should it be desirable?

- For an income-contingent or other passive repayment system to be successful, must it necessarily be operated through the tax system and via employer withholding (regardless of whether it is the only repayment option)?

- How do you construct an income-contingent repayment system that prevents price escalation, over-borrowing, and moral hazard due to forgiveness options?

- Do income-contingent loan repayment systems effectively combat the challenge of debt aversion, particularly among student populations that have shown particular sensitivity to debt?

- Could a passive system[10] of student loan repayment operate in a way that does not rely on income-contingent loans?

- Are there other considerations not addressed by the questions above?

[10] A passive system of student loan repayment is one that provides seamless enrollment for borrowers without being a financial burden.

Series 3- Defining the Concept of Affordability

Policymakers, higher education leaders and advocates all use the term “affordable” when discussing desired outcomes of any higher education reform. However, there is little consensus on what “affordability” really looks like in practice. Indeed, some of the most potent debates in student aid policy hinge on different perceptions of the meaning of this term.

While the purely economic definition of affordability may be tied to a simple “return on investment” concept (i.e. if the financial returns outweigh the cost, it is “affordable”), in reality, student behavioral choices regarding college enrollment and completion do not align with this notion of affordability.

Though these concepts may seem straightforward from a purely economic perspective, there are honest disagreements about what is really “affordable” when it comes to college pricing. Indeed, previous inquiries into “affordability” have found that it is a concept which may be “unavoidably subjective”[11]. Certainly, the concept of affordability is one that is mired in personal biases and notions about the true purpose of college.

It turns out that it is actually quite difficult to separate the concept of affordability from that of value[12]. Particularly when debt is used to finance college, on a very basic level, the idea that some types of higher education provide more value than others becomes apparent. Some colleges and some majors provide more value than others — and this could be a key factor in assessing their “affordability.”

Higher education may be affordable to an individual who sees clear financial returns to his or her investment and is able to pay back the loans, but unaffordable to someone whose life is ruined by debt. The question of affordability then could potentially be linked not only to perception, but to the realized return on investment in a program.

Despite the challenge that we face in clearly defining the term, it will be difficult to define success in achieving “affordability” until we begin by answering the baseline question of what we mean by the term.

Purpose

This base inquiry is designed to determine the level of financial expectation among different types of students that is consistent with college enrollment, persistence and completion. The overarching goal of this work is to encourage policymakers and higher education leaders to be transparent about their own definitions of affordability, so discussions can lead to a clear and shared understanding of success.

[11] S. Baum & S.Schwartz “Is College Affordable? In Search of a Meaningful Definition” Institute for Higher Education Policy. July 2012)

[12] R.Shireman, S.Baum, P. Steele “How People Think About College Prices, Quality, and Financial Aid”. Change: The Magazine of Higher Learning, v44 n5 p43-48 2012

Papers should address the following questions related to this topic:

- Is there a quantitative means of defining affordability? If so, what is it?
    - If not, can our policy levers work toward affordability, lacking that kind of definition?

- How much of a barrier does "unmet need" present to students enrolling and persisting in college?

- Can affordability be separated, conceptually, from value? Is there a base-level sticker price that higher education should aim for, absent the quality of the education or the potential for a person to repay?

- Should affordability be defined the same way for all populations? Do students benefit from knowing their net price, rather than only the sticker price? Does knowing the net price for an individual student or family increase the likelihood of enrollment or completion?

- How is affordability determined in international contexts? Can we learn from international examples?

- Should paying for college be thought of as a lifetime commitment (consistent with an "investment model") rather than as a fixed cost (consistent with a "consumption model")?
    - Do policies focused on the investment model versus the consumption model affect student enrollment or persistence differently?

- How should the concept of affordability be used to determine a student's "need" at a particular college or for a particular program?

- Would additional research help clarify any of these questions or lead to a quantitative definition?

Note: Future work of the Foundation will also seek to explore institutional aid and identify how institutional financial aid policies either advance or hinder efforts to increase student attainment levels, especially among under-resourced groups.

Eligibility

This is an invitation-only, competitive grant opportunity. Eligibility requirements are as follows:

- An author/organization may apply for a grant in only one of the three paper series categories.
- By participating in this white paper series, each author/organization agrees to allow their work to be published in future Lumina Foundation publications in a variety of formats.
- Lumina Foundation only awards grants to organizations classified as tax-exempt under section 501(c)(3) of the Internal Revenue Code and as public charities under section 509(a)(1), (2) or (3) of the Code or to public organizations that are designated under section 170(c) of the Code. Please note that the Foundation does not award grants to (a) supporting organizations controlled by disqualified persons to the Foundation or (b) Type III supporting organizations that are functionally integrated Type III supporting organizations (such terms are defined in the Internal Revenue Code).

Number, Amount and Duration of Grants

The Foundation will award three to five grants in each paper series. They may range from $60,000 up to $100,000, depending on the scope of the work. The duration of the grant may vary, but the final draft must be completed within six months.

Selection Criteria

Successful proposals will:

- Attempt to address as many of the questions related to each series as are practicable. Describe which of the questions the author/organization is best suited to address and why.

- Demonstrate an understanding of the current legislative and regulatory structure underpinning affordability, student loan repayment and state policy for affordability.

- Demonstrate the capacity to create legislative or regulatory recommendations for policy improvement consistent with the analysis conducted.

- Be able to demonstrate how any policy recommendation/frameworks align with the design principles expressed in this document.

- Provide evidence of a track record of publications and activities related to the research question being addressed.

- Demonstrate a willingness to make novel contributions to the public dialogue.

- Demonstrate a desire to engage in conversations with colleagues within the policy and research fields to improve the strength of the working papers.

- Provide as much detail with respect to recommendations and policy structure as possible.

The Foundation also is interested in diverse perspectives for each topic, and is particularly interested in authors and organizations that have expertise in understanding low-income and minority student populations.

Deadlines

- Proposals for Series 1 (state policy): June 17, 2013
- Proposals for Series 2 (passive repayment): June 17, 2013
- Proposals for Series 3 (affordability): June 24, 2013

All proposals are due at 5:00 p.m. EST on the designated deadline. An informational webinar regarding this paper series will be held on May 14, 2013. Interested parties may register for the webinar here: WEBINAR LINK. Successful applicants will be notified no later than July 30, 2013.

Submission

A complete proposal will include the concept paper cover sheet and a concept paper (no more than 10 pages double-spaced with 1-inch margins in 12pt Times New Roman font), should be submitted electronically to EXPLORINGNEWMODELS@luminafoundation.org with the following title in the subject line: **[Exploring New Models #].** Applicants should use the series number appropriate for their paper (i.e. [Exploring New Models Series 2).

Electronic copies are strongly preferred; alternately, however authors and organizations may submit a hard copy of the proposal to:

Candace Brandt

Grants Management Coordinator

SUBJECT: EXPLORING NEW MODELS

Lumina Foundation

30 South Meridian Street, Suite 700

Indianapolis, IN 46204

Notifications

Applicants will receive electronic confirmation of receipt of their proposal. Applicants whose proposals are recommended for funding and those not selected for funding will be notified by July 30, 2013.

Additional information and updates about this paper series can be found at: www.luminafoundation/WEBSITE