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SHOULD COLLEGE COME WITH A MONEY-BACK GUARANTEE?

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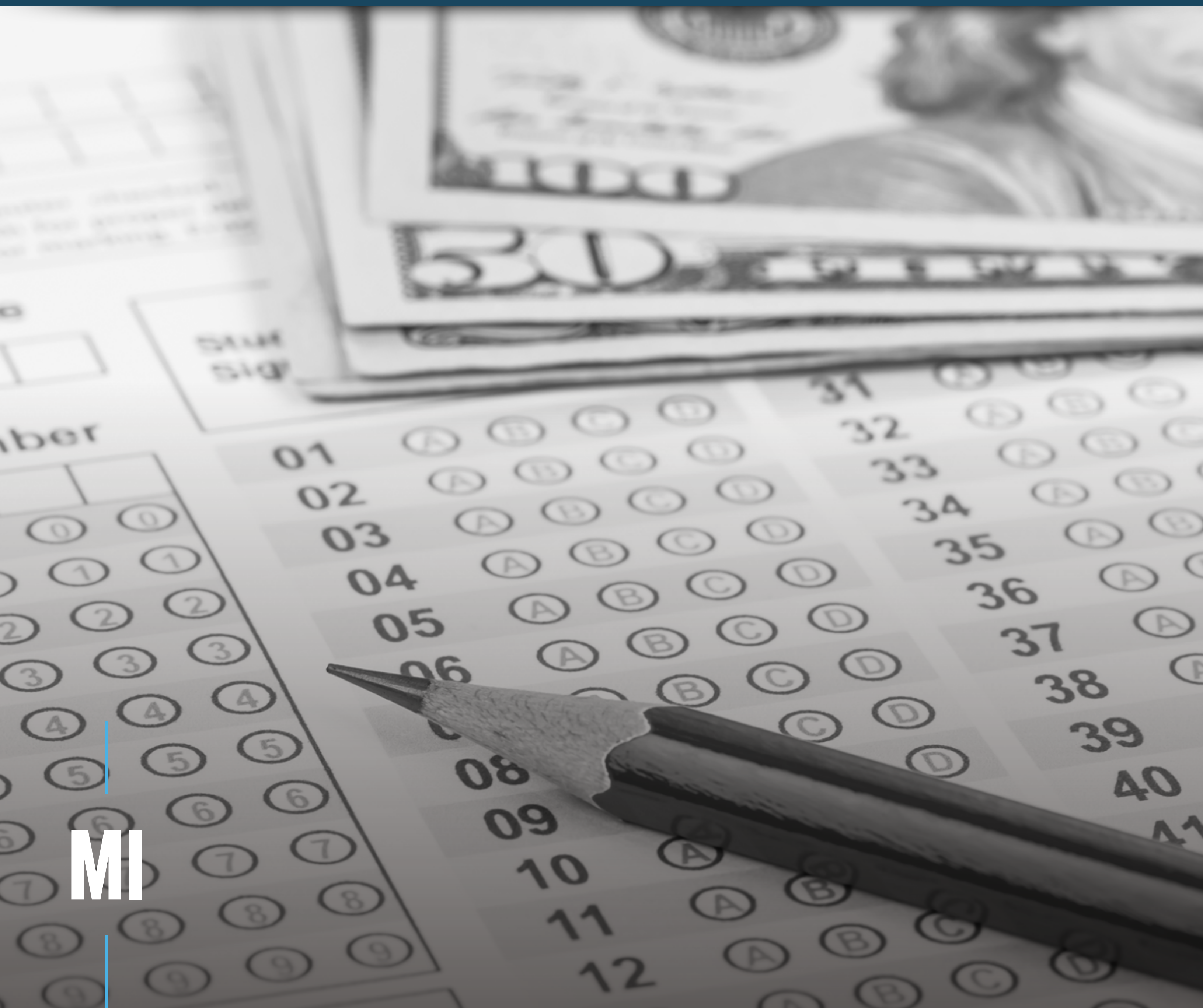

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About the Author

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Executive Summary

Today, costs loom large in public discussions about the problems in higher education. Tuition at four-year private colleges has grown at an average annual rate of 2.3% above inflation over the past 10 years. Four-year public and two-year institutions have seen similar trends, with tuition growing at an annual rate of 3.1% and 3.0% beyond inflation, respectively. Many students borrow to meet the cost of attending college. In doing so, they assume the risk that their earnings after graduation will be sufficient to enable repayment or, even more fundamentally, to justify the cost of attending college in the first place, regardless of how the college education was paid for.

There are a number of initiatives that postsecondary education institutions are undertaking to lower student financial risks. Some colleges, for example, offer on-time graduation guarantees or, failing that, no-cost continuing enrollment. Some coding academies guarantee job placement. Other colleges offer income-share agreements, which lower the future burden of debt repayment. The focus of this paper is loan repayment guarantees—which as many as 120 undergraduate colleges are currently offering their students.

SHOULD COLLEGE COME WITH A MONEY-BACK GUARANTEE?

Introduction

I first became interested in the idea of guarantees in higher education in 2015 at a meeting of Michigan Independent Colleges & Universities, which represents the state's private, not-for-profit colleges. After a presentation of my research on student loans, Jeffrey Docking, president of Adrian College, explained that his institution had launched a program that would help graduates make their student loan payments if they didn't land a high-enough-paying job after graduation. Specifically, graduates who earned less than $20,000 in annual income would have all their loan payments made by the college. Those who earned less than $37,500 would get some assistance, which would phase out as income increased.

Current data indicate that the average salary of Adrian graduates 10 years after completion is about $39,000.[1] This suggests that a nontrivial number of students would have been eligible. I quickly found that Adrian College was not alone in taking this step. The notion of colleges providing a guarantee was a new and growing phenomenon; today, as many as 120 undergraduate campuses are offering a loan repayment assistance program.[2]

We often like to think of colleges as benevolent institutions. And, to some extent, that may be an accurate characterization. But colleges, like businesses and people, respond to incentives. And sometimes that is a very good thing because it means that they will adjust their business models to meet the needs and desires of potential students.

Today, costs loom large in public discussions about the problems in higher education. That's no wonder. Tuition at four-year private colleges has grown at an average annual rate of 2.3% above inflation over the past 10 years. Four-year public and two-year institutions have seen similar trends, with tuition growing at an annual rate of 3.1% and 3.0% beyond inflation, respectively.[3]

Still, the single-minded focus on cost often diverts attention from a more basic problem: risk—the possibility that a college graduate's earnings will not be sufficient to enable loan repayment or, even more fundamentally, to justify the cost of enrollment, regardless of how the enrollment was paid for.

This paper explores how to understand risk as a greater challenge to higher education than cost alone and considers the ways that colleges have taken steps to address this core challenge.

Evidence on Risk in Higher Education

Tuition may be high relative to a student's current income or savings, but it is low relative to the average long-run benefits that it yields. According to a robust body of literature, the average returns to higher education exceed the cost by a very wide margin. An oft-cited study from the Federal Reserve Board of New York estimates that the rate of return on associate's and bachelor's degrees is approximately 15%.[4] This far exceeds the rate of return that a typical investor would earn by investing in the stock market.

If a degree program cost $100,000 per year but promised a boost in lifetime earnings that more than offset that cost, we'd all be willing to sign our children up. So it's not the cost we're really concerned about. It's that we aren't guaranteed to see the outcomes we expect. Borrowing large sums of money only to get derailed from the expected pathway to a lucrative career can have devastating financial impacts.

The run-up in tuition prices has confounded this problem. When the cost of higher education was low, the risk was tolerable. Now that the cost is high, the "downside risk" of higher education is unacceptably high.

The greatest driver of risk in higher education is the failure to obtain a degree. Only about two-thirds of people who start a four-year degree program will ever complete it.[5] And debt without a degree is the surest predictor of financial distress.[6]

By contrast, borrowers with the largest debt burdens struggle the least to repay their debt, according to research.[7] That's because borrowers with large debt burdens also tend to have lots of education, which tends to match up with higher earnings power. The highest rates of default on student debt, a decent indicator of financial hardship, are experienced among borrowers with a balance of less than $5,000. Many of these people started a degree but didn't complete it. Even though the monthly payments are modest on such a small balance, they can be crippling for a household without the earnings that often accompany a postsecondary credential.

Another source of risk in higher education is the uneven quality of educational institutions. While returns to education are positive on average, some institutions consistently generate poor results for their students, and others outperform the average. Unfortunately, we don't do a very good job helping students make enrollment decisions based on what we know to be true about the past performance of institutions. Today's students often choose where to enroll in college based on limited information about what to expect in terms of their future financial outcomes.

College Scorecard, a government website, publishes information on the financial outcomes that students experience after attending each U.S. college that participates in the federal aid program. The website includes data on student loan repayment, earnings, net cost, and the rate of graduation. It fails, however, to publish data on financial outcomes on the program level, aka the major. This means that a potential student knows only the average outcomes for all students who attended a given college but cannot see how, for instance, its engineering majors fare. Given this shortcoming, it isn't surprising that students don't often make use of this resource. Instead of choosing where to enroll based on these sorts of metrics, many students choose their college based on such factors as location,[8] campus amenities, or even less consequential factors such as being a fan of the sports team.[9]

Even if the information available to students were perfect, there would still be a role for the government to oversee quality in higher education. That's because the federal government is the single largest consumer of education, through its spending on aid programs. Currently, the standards for participating in the federal aid program are low. Colleges that offer academic programs of study need only have their students repay their student loans at a certain rate in order to maintain their eligibility for aid dollars. Programs of study that are more career-oriented—such as cosmetology or medical technology—have a slightly higher bar: they must show that their former students are often able to find "gainful employment" after completing their studies. But this system of oversight falls short of ensuring that students won't find themselves enrolled in, or even graduating from, a college that doesn't deliver.

Students also face another class of risk—a risk that can't be mitigated, even by optimal planning and impeccable oversight. Let's call it the risk of innovation.

Consider, for example, a worker in the health-care industry who earned a credential based on skills specific to X-ray technology. And suppose, thanks to a medical innovation, that we suddenly learn that X-rays have been completely superseded by a new, less expensive technology. The value of that worker's credential will plummet in an instant as hospitals and doctors' offices stop using X-rays. Risks like this one—the risk of innovation—can never be eradicated and may require ex-post intervention, such as the provision of social safety nets.

The solution to this problem of risk is not to make college less expensive, as tempting as that might be. Prices are high partly because the service that colleges provide is valuable. The recent scandal of parents paying exorbitant sums to get their children into elite colleges suggests that the "market" price may even exceed the published price tag by a wide margin. This means that efforts to reduce the cost of college through policy interventions will likely fail.

Increases in subsidies aimed at offsetting the net cost for students will be self-defeating, as they are known to cause further inflation.[10] When the government delivers a subsidy, in the form of a voucher, to a student, the student's purchasing power increases. Unfortunately, institutions are aware of that fact—or at least will "feel" that change when it comes to students' willingness to pay for enrollment. And whether they intend to or not, their prices will slowly creep up to capture that purchasing power, which means that the government will need to intervene with additional tax dollars again and again in order to keep the level of affordability constant.

Price controls won't fix the problem. Ultimately, if colleges face a restriction on what they can charge, the number of seats they make available will likely decline. That will undoubtedly hurt the most disadvantaged people first.

All this does not mean that we are stuck with the status quo. Students reap the benefits of a college education but also bear a large portion of the risk—and these students, often young people, are among the least well situated to handle that risk. But institutions are taking steps to mitigate their students' financial risk. The rest of this essay explores these steps, including "guarantees." It also reports the findings from a focus group that aimed to learn more about how students feel about the financial risks of investing in higher education and about the mechanisms that colleges have taken to mitigate them.

Mechanisms for Mitigating Student Risk

Loan repayment guarantees are one mechanism, among many, that colleges are beginning to undertake to quell students' concerns about the risk of going to college. Markets have for a long time developed financial instruments to help people cope with risk. Insurance is, of course, the most well-known. Heads of households often take out life-insurance policies to ensure that their families will be cared for in the case of their untimely death. People who purchase these sorts of policies find the risk of that outcome untenable and are willing to pay a premium to absolve themselves of it. Life-insurance companies don't sell policies as an act of benevolence; they sell them because they collect more in premiums than they pay out in benefits. There is nothing "predatory" in this transaction, as both parties benefit. Because an insurance company can pool risk across many individuals and even different types of policies, it has less of an aversion to risk than the individual. The same dynamic exists in higher education.

The financial mechanism that makes insurance work is in operation behind the scenes for most college loan repayment guarantee programs. The idea of guaranteeing outcomes for their students might appeal to a college, but particularly for institutions without a sizable endowment, the risk to them could be quite large. Imagine, for example, that a college created a loan repayment assistance program after which the country promptly fell into a deep recession—one in which graduates struggle to get jobs, even those from the most selective institutions. The payouts could be ruinous.

The way around this problem is to outsource the risk to a financier who has the capacity to withstand these sorts of fluctuations in cost. Colleges that offer a loan repayment guarantee often utilize the financial services of a company called LRAP (Loan Repayment Assistance Program) to make it work. In exchange for a fixed fee from the college, LRAP makes payments to students, or on behalf of students, based on the terms of their agreement with the college.

LRAP, which is the single provider of this type of financial service, reports that it supports loan repayment programs at some 120 undergraduate colleges and is seeing annual growth of about 20%. Company clients tend to be private, nonprofit institutions with good student outcomes but lesser national name recognition. Their client list includes Seattle Pacific University, Keystone College, and Cairn University. These colleges often use loan repayment guarantees explicitly as a marketing tool to recruit students to enroll. Most don't offer loan guarantees broadly to enrolling students; the guarantees are instead included in student financial-aid packages to entice students to enroll who might not otherwise have done so.

Aggressive marketing practices can be concerning when they aim to enroll students in degree programs that they can't really afford. But this program is different: students are not harmed even if things go wrong.

For that matter, colleges aren't generally on the hook directly, either. When students need help paying back their loans, LRAP makes the payments. But enrolling students who don't see good outcomes will cost the college in the long run, through a higher cost for administering LRAP. This is analogous to the way in which our car-insurance premiums increase when we frequently make claims. Rational drivers will try to avoid having accidents. And rational, even self-serving, institutions will try to ensure that their students find employment and don't need help paying back their loans.

Income-Share Agreements

The income-share agreement (ISA) is another mechanism that colleges and universities are beginning to employ to mitigate students' financial risk. An ISA is a contract between a student and a college in which a student accepts cash up-front to cover the cost of enrollment in exchange for a share of his future earnings for a predetermined length of time. Advocates for ISAs, myself included, generally celebrate the potential for the mechanism to prevent borrowers from ever having to face unaffordable loan payments, because the monthly obligation is fundamentally linked to the borrower's level of earnings. ISAs also introduce an alignment of incentives between students and colleges that, in the long run, could lead to colleges shifting their efforts to better match the goals of their students—namely, increased earnings and employment opportunities.

ISAs enjoy fervent support from advocates and vitriolic rejection from opponents, who often claim that ISAs are akin to indentured servitude.[11] This criticism ignores the fact that traditional student loans are arguably more punitive in the case of a borrower facing lower than expected earnings and an inability to pay (and cannot be discharged in the case of bankruptcy).

ISAs are now offered at a growing number of colleges. The trend began with training academies, such as those that teach computer coding. ISAs were a good fit because the academies had yet to prove themselves valuable enough for students to pay to enroll. The academies could tell potential students that they would pay only if they succeeded in getting the employment outcomes they were hoping for—which is a very strong selling point. ISAs were also important in this setting because students attending the training programs don't have access to subsidized federal loans. Without ISAs, they would have to take out private student loans, which charge a relatively high interest rate and lack flexible repayment plans or forgiveness provisions for borrowers who face enduring financial hardship.

Having proved their worth in training academies, it wasn't long before traditional college and universities began offering ISAs as part of their financial-aid packages. Purdue University, led by Mitch Daniels, was the first. Since 2016, Purdue's ISA, called Back a Boiler, has disbursed nearly $10 million in funding to several hundred students. ISA programs have also been started at Clarkson University, Colorado Mountain College, University of Utah, Lackawanna College, and Messiah College.[12]

While ISAs still play a relatively small role in the overall picture for higher-education finance, they offer a promising new model.

Employment Guarantees

Some colleges and programs of study take a different approach to guarantee student outcomes: by guaran-

teeing job placement. This model is used at coding boot camps like Flatiron School,[13] and at traditional colleges like Thomas College in Maine.[14]

These programs typically require that students make a good-faith effort to find employment and prove that they did so to the educational institution administering the job-placement guarantee. The definition of "good-faith effort" varies by program but often entails applying for a certain number of positions and a willingness to relocate. Some critics have argued that the requirements are excessive and are intended to reduce the cost to the educational institution of providing the guarantee. In some sense, that's exactly what they are intended to do. A guarantee of this nature can exist only if students, as well as institutions, are on the hook. Of course, reasonable people can disagree about what should be expected of students. In any event, these programs aren't imposed on anyone, and students, if adequately informed up-front about their responsibilities, can make their own decisions about the fairness of the terms.

When students fail to find qualifying employment, institutions compensate them in a few different ways. Some offer help paying back loans; others, such as Davenport University,[15] offer continuing enrollment at no cost. Since institutions can't force employers to hire anyone, they can't actually guarantee employment. Instead, they offer other benefits aimed to make joblessness less costly, or benefits such as continued enrollment and career counseling, which support students in their job search.

On-Time Graduation Guarantees

Most people imagine that a bachelor's degree takes four years to complete, the length of time that programs are designed to take. In reality, the average time-to-degree for students in the U.S. who complete a bachelor's degree is 5.1 years. That means that they may be paying 28% more in tuition and fees than they had intended at the time they enrolled.

While the failure to complete a degree program is often driven by students changing majors or needing to retake classes that are required for graduation, delays are sometimes caused by colleges that fail to offer enough seats in courses that students need for graduation.

Some colleges are responding to the latter problem. On-time graduation guarantees are now being offered at some campuses such as the State University of New York (SUNY) at Buffalo, which announced a "finish in four" guarantee in 2012.[16] These guarantees often require students to meet with an advisor periodically throughout their academic career to ensure that, if possible, they are making strides toward on-time graduation. If students, despite efforts with the support of an advisor, fail to get through their degree in four years, they are generally able to enroll in courses without having to pay tuition until they've completed their degree.

While on-time graduation guarantees benefit students, they didn't necessarily come about in response to student demands. In fact, most students aren't aware that extended enrollment is an issue.[17] Instead, it seems that institutions may be responding to pressure from third-party observers, namely *U.S. News & World Report*, which ranks institutions higher if more of their students graduate on time. SUNY Buffalo cites an improved ranking from *U.S. News* as a positive outcome of the "finish in four" program in a press release.

Regardless of the motivation, students with a clearer pathway to on-time graduation are undoubtedly better off.

Understanding Student Attitudes on Risk

As someone who studies the economic and financial risks of higher education, I think that guarantees sound like a great idea. But they might not seem like a great idea to students, for any number of reasons—and the future of guarantee programs will depend on their appeal to students.

Unfortunately, guarantees are not free. When a college, or a financial institution, accepts the risk that was formerly held by an individual student, it imposes a cost. In a marketplace for education, such as the one we have in this country, the cost will be passed on, at least in part, to the student. So the future of money-back guarantees depends on whether students value the alleviation of risk enough to be willing to pay the additional expense. Ultimately, this question can be answered only with data.

To generate evidence, I conducted focus groups, with the help of researchers at Mathematica,[18] to investigate how students perceive the riskiness of higher education and gauge their reactions to the idea of guarantees.

In February and March 2019, Mathematica conducted three three-day-long, asynchronous virtual focus groups with a total of 80 participants. Participants were organized into three separate groups drawn from the population of current postsecondary students (Group 1), recent postsecondary students (Group 2), and young adults with no postsecondary education (Group 3).

Although including a truly representative sample was outside the scope of this project, Mathematica endeavored to ensure that all three focus groups were roughly balanced in terms of participants' age, race, and gender.

The focus groups were conducted using QualBoard, an online discussion-board platform that allows participants to type in responses rather than speak as they would in face-to-face or telephone-based focus groups. This method allowed the groups to be asynchronous, meaning that participants were not necessarily online and responding to questions at the same time. Instead, they could log into and out of the discussion at their convenience. It also enabled participants to be anonymous (identified only by first name and last initial) and not bound by physical location.

During the first two days of each group, the study team asked participants about their postsecondary education decisions and how they made them, how they paid for their postsecondary education (if applicable), and their earnings after high school or their postsecondary program (if applicable). On the third day of each group, participants evaluated whether they would have been interested in programs that guaranteed job placement, a certain income, or help with loan payments after graduation. Participants also evaluated the fairness of various methods of funding such risk-mitigation tools, including by raising tuition, raising taxes, or requiring fees to be paid to third-party providers.

Focus Group Findings

Employment Guarantees

We described employment guarantees to all participants as programs that "guarantee that students will have a job within a certain period of time after graduating. If graduates don't find a job within that time frame, they can be compensated in one of a few different ways. Some programs offer full or partial refunds of the student's tuition, while others allow students to continue taking coursework for free, and others help students make any loan payments that come due."

Participants in Groups 2 and 3 (recent students and young adults without any post–high school education) also received an example of the job guarantee once offered by the online education platform Udacity, which specializes in offering online computer-coding courses. In this example, students who wanted a guarantee that they would find a job within six months of graduation (or else get their full tuition costs back) were required to pay 150% of the cost of the program ($1,200 versus $800). We asked all participants whether a guarantee program like this would have interested them when they were making decisions about continuing their education. Participants with any level of post–high school education were asked if they would have been encouraged to enroll in a different institution from the one(s) they had attended if that institution had offered such a guarantee.

In general, participants reacted positively toward job guarantees. Many participants in each group indicated that such a guarantee would have been interesting to them, had one been available when they were making their post–high school educational decisions. Some participants in each group thought that a job guarantee would definitely have encouraged them to make *different* decisions about their education: participants reported that they would have gone to college full-time instead of part-time, decided earlier to continue their education, or enrolled in a different institution.

Some participants thought that a job guarantee would provide a sense of relief from some of the anxiety that pursuing higher education can create, motivate them to work harder, or pursue higher levels of education. Some current and recent students expressed interest in the idea of job guarantees but had concerns about the pay and other potential requirements. Some participants looked beyond their specific circumstances and expressed the belief that if job guarantees were more widely available, they would encourage more people to continue their education and work hard in school.

Notably, some current students felt very confident in their own abilities to find employment after graduation and were not interested in job guarantees. No participants in Groups 2 or 3 expressed this feeling. Some recent students expressed skepticism about the concept of job guarantees. Some recent students thought that the premium in the Udacity example was too high.

Loan Repayment (Income) Guarantees

We described these as programs that "guarantee that a student will earn a certain level of income after graduation. If the student does not reach that income level, the program will provide financial assistance with the student's loan payments. The program might even forgive the student's debt entirely if his or her income stays low for a long time."

We offered participants in Groups 2 and 3 the specific example of the guarantee that was offered by Adrian College in Michigan. In this program, students are guaranteed that they will earn $37,000 or more after graduation. The college will reimburse part or all of the student loan payments for graduates whose annual income does not meet that minimum threshold, depending on their exact income. We asked all participants whether a guarantee program like this would have interested them when they were making decisions about continuing their education. Participants with any level of post–high school education were asked if they would have been encouraged to enroll in a different institution from the one(s) they had attended if that institution had offered such a guarantee.

In general, participants reacted very positively to a loan repayment guarantee; some expressed a preference for this type of guarantee over a job guarantee. Some participants in each group thought that having been offered an income guarantee would definitely have encouraged them to make different decisions about their education: some reported that they would have chosen a different institution, gone to college earlier in their lives, or changed their minds about not continuing their education.

As with the job guarantees, some participants in every group viewed a loan repayment guarantee based on postgraduation income as a way of easing fears about continuing their education. Some participants with experience with higher education saw great potential for this type of guarantee to benefit the lives of students more generally. Some participants in Groups 2 and 3 thought that the guaranteed income in the Adrian College example (of $37,000 or more) was unreasonably low, though not all participants who expressed this opinion were uninterested in the program.

Income-Share Agreements

We described ISAs to all participants as programs in which "students start making monthly payments after graduation that are set as a fixed percentage of their income, rather than a flat amount based on the total they borrowed. Their payment amount will fluctuate with their income, and they will continue to make payments that way for a predetermined number of years."

We also told students in Group 1 that "because the amount they pay is a percentage of their income, students who find high-paying jobs will end up paying back more than students who have lower-paying jobs." Participants in Groups 2 and 3 instead received a concrete example of such a guarantee from Purdue University, in which "students meeting certain criteria could get $10,000 to help pay tuition. In exchange, students would agree to pay back 3.38% of their salary for 100 months. Graduates of that program typically earn around $47,000, which means they'd start with making monthly payments of about $132. Of course, borrowers who earned more would have to pay more. And borrowers who earned less would pay back less. The monthly payments would be $197 per month if they were making $70,000 per year, and just $70 if they were making only $25,000 per year."

After this introduction, we gauged the participants' interest in this kind of guarantee. Participants with any level of post–high school education were asked if they would have been encouraged to enroll in an institution different from the one(s) they had attended if that institution had offered such a guarantee. Current and recent students who needed to borrow money to finance their education were asked if they would prefer to use a loan-guarantee program or a traditional loan with fixed monthly payments. After gathering participants' initial thoughts on loan guarantees, we asked two follow-up questions addressing more detailed aspects of such programs, which we will examine in the next section of this report.

Reactions about loan guarantees were more mixed. Although some participants in each group were interested, others saw this type of program as complicated, unappealing, or inherently unfair. Some participants in each group thought that basing loan repayment on an individual's income was more desirable than traditional loan repayment, while others expressed a clear preference for having a fixed amount to pay back. Still, some participants in each group thought that a loan guarantee would definitely have encouraged them to make different decisions about their education: participants reported that they would have chosen a different (possibly more prestigious) institution, enrolled in higher education earlier in their lives, or changed their decision not to attend college at all if a loan guarantee had been available.

Some current and recent students immediately balked at the idea that people who earn more after graduation would pay back a higher amount over time. Many participants who were not interested in loan guarantees expressed a strong desire to pay back their debts as quickly as possible.

After asking for participants' reactions to a basic description of loan-guarantee programs, we asked two follow-up questions to probe deeper about potential payment differentials between lower and higher earners. First, we asked all participants to think about a system in which higher earners pay more and evaluate how they would feel as high earners who "ended up paying back more than others who borrowed the same amount" and as lower earners who "ended up paying less." Then we introduced the idea of repayment caps by saying, "Since the payments that students participating in this type of program make are based on their income rather than on how much they borrow, it's possible that a high-earning graduate could end up having to repay a lot more than what was borrowed in the first place. To prevent that from happening, most programs create a cap on how much students can be required to pay."

To provide a concrete example, we referred back to the Purdue University program, in which the repayment cap is set at 2.5 times the original amount borrowed. We asked all participants if the certainty of knowing that they would never have to repay more than they could afford was worth the possibility of having to pay back as much as 2.5 times the amount they initially borrowed.

Overall, these aspects of loan-guarantee programs saw little outright support from our participants and largely produced more mixed feelings. Many participants felt they would appreciate paying less if they were lower earners but would be upset if they had to pay more than others as high earners.

Some participants thought that the system was inherently unfair and that it penalized higher earners, while others believed that higher earners would have more financial cushion and thus be less burdened by the amount of their repayments. Notably, some participants in each group saw this type of guarantee as a way for higher earners to give back to those less fortunate. Some participants in each group thought that loan guarantees would deter people from pursuing financial success after college. Some participants in each group strongly believed that each borrower should be required to pay back what he or she owes; some of these participants thought that allowances should be made for people with low incomes after graduation; others did not.

Many participants felt that capping the possible amount of repayment at 2.5 times the original amount borrowed was unreasonably high. Some participants who had originally expressed interest in loan guarantees reversed their opinions after learning how much it would be possible to repay. Many of these participants mistakenly believed that they would be required to repay the amount that they borrowed by this extreme amount, rather than understanding that only the highest earners would repay their borrowed amounts to such an extent. However, some participants in each group were grateful for the cap and thought that the possibility of repaying 2.5 times more than they had originally borrowed was worth the guarantee of affordable loan payments.

Willingness to Pay for Risk Mitigation

We informed all participants that if colleges were to provide guarantees like the ones we had discussed, they would likely pay for it by charging students higher tuition. We asked participants if this seemed fair and if they would have been willing to pay a higher price to enroll in a particular program of study if they knew that their job, earnings, or loan outcome were more certain.

Opinions were mixed about whether guarantees like the ones we had discussed were worth paying higher tuition. Some participants in each group thought that it was fair for colleges to ask for higher tuition in exchange for providing guarantees and that they would be willing to pay more for certain guaranteed outcomes. For many participants, the exact numbers mattered: How much more would they have to pay up-front, and what exactly were they being guaranteed of in terms of outcome? Some current students thought that paying higher tuition costs would be worth it because it would give them motivation or a sense of security in the future. Others thought that increasing tuition would add stress for students.

Some participants in each group emphasized that tuitions are already too high. Some participants in Groups 2 and 3 thought that it would be unfair for colleges to place an additional burden on students by asking them to pay more for guarantees, or that asking students to pay higher tuition seemed like a penalty. Some participants in Groups 1 and 3 noted that increased tuitions would likely deter low-income students from seeking higher education.

We informed all participants that "another way to make guarantees available to students is to have them sold by third parties, such as banks or insurance companies" and asked if they thought that they would have been interested in obtaining a guarantee if it required them to pay a fee to a separate company.

Few participants were willing to pay a fee outright to a third party. Many who said that they might or would consider it wanted more details on exactly what fees would be required and what the terms and conditions would be. Some participants in each group viewed third-party-funded guarantees with a high degree of skepticism or assumed that they would get a worse deal or be taken advantage of. Some participants in each group thought that introducing a third party would overly complicate the situation or simply feel too confusing. Some current and recent students expressed a clear preference for paying their educational institution directly.

We informed all participants "if the government were to provide guarantees, they could be paid for with an increase in taxes" and asked if it seemed fair to impose higher taxes for a system of postsecondary education that is less financially risky for students.

A few participants in each group supported the idea of funding guarantees through increasing taxes, while some participants in each group balked at the idea of raising taxes for everyone, as not all people continue their education after high school. These participants did not think that it would be fair to ask nonstudents to help fund guarantees for other people to take advantage of. Some participants in Groups 2 and 3 felt that the responsibility of minimizing risk for students should not be placed on taxpayers or the federal government. Some participants in Groups 1 and 2 expressed a clear lack of faith or trust in the government. Some participants in each group felt strongly that college should be made more affordable or even free to warrant increased taxes. A few participants in each group believed that the entire country would benefit in the long term from such a tax increase.

Existing Risk Mitigation for Federal Student Loans

We informed all participants that "students with federal student loans are generally able to repay their debt using a repayment plan that sets their monthly payment equal to an affordable fraction of their income. Sometimes those with very low incomes are even able to make no payment at all without being penalized." Participants were asked if they had heard of these types of repayment plans and, if so, whether knowing about them affected their education decisions. Participants who had not heard of income-based repayment options for federal student loans were asked how they think their decisions might have been influenced by knowing about such plans.

Many participants across all three groups had not heard of income-based repayment plans. Few of them felt that their educational decisions would have been different had they known such plans existed. A few participants thought that income-based repayment plans would provide peace of mind for continuing their education. Some current or former students who had experience with these plans found them hard to qualify for, or found that the help they provided was insufficient or even detrimental in the long run. Others thought that knowing about these programs positively influenced their educational path. At least one current student would have made a different educational choice had he known about income-based repayment plans when he was deciding what type of program to enroll in.

Focus Group Conclusions

The exact terms and conditions of each example guarantee were favorable to some participants and unfavorable to others; but overall, our participants recognized that risks are inherent in our educational system and responded positively to the idea of guaranteed outcomes as a way to mitigate risks. In these focus groups, two characteristics seemed to influence perceptions of loan guarantees: all participants who decided their area of study after postsecondary enrollment were interested in loan guarantees, whereas nearly all participants who attended trade or technical schools were not interested in them. Future research could probe these connections more deeply and explore other participant characteristics that may affect participants' perceptions.

There was more agreement on the appeal of these guarantees than on which methods of funding them were fair and reasonable. Future research should explore these populations' reactions to these and other potential funding methods in more depth.

Conclusion

Experience will show if guarantees play an important role in the future of U.S. higher education. But with tuition prices continuing to rise year after year and the fact that many perceive that college degrees will be necessary to enable participation in the future economy, it's very likely that we'll see dramatic, systemic changes in the way we think about higher-education finance.

Endnotes

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18. The focus groups were designed and administered by Mathematica's Maya Reid, survey specialist; and Andy Weiss, vice president and director of human services.

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