OFFICE OF HIGHER EDUCATION

Affordability Metrics - Minnesota

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Affordability Minnesota - Overview

Purpose: Part of a larger statewide higher education finance strategic planning effort led by our office

- Phase I – Document the historical financing policies (both financial aid and system appropriations) 1950-present
- Phase II – Develop guiding metrics to set goals for future financing
  - System appropriations
  - Financial aid

Affordability Measures

- No agreed upon measure exists in Minnesota
- Measures for state policy differ from measures for families
  - Family – the ability to purchase needed/appropriate education and have sufficient resources to enjoy at least the minimum consumption of other essential goods and services
  - State –state affordability is measured by the share of individuals who can afford higher education; weighted by completion rates
- Affordability measured at 3 points in time
  - Entry
  - Lifetime
  - During repayment

Affordability Measures

Affordability at Entry

- Does the student have the required level of resources to fully pay the cost of attendance?

Cost of Attendance   Grants + Work + Family Contribution + Loans

COA > Resources: College is not affordable for the family

COA < Resources: State is being inefficient in using resources

Reassess throughout the college enrollment timeframe as costs or resources change

State affordability achieved when:

- Typical family can afford 50%+ of statewide educational options available to them
- Typical family can afford 50%+ of local educational options available to them

Affordability Measures

Affordability at Entry - Resource Benchmarks

- Work: 600 hours
  - Percent of students needing to work 600 hours per academic year or less (after taxes)
  - Average number of hours of work required to fully cover COA
- Family Contribution: Percent of income and assets available given local cost of living
  - 10% of disposable income each year for 10 years if saving for college
  - 25% of disposable income each year for 4 years if not saving for college
- Loans: 3 versions
  - None – is there a no loan option for students?
  - Minimal borrowing - what is the borrowing required to cover COA?
  - Maximum fed borrowing – what percentage of students have to borrow the maximum to have 100% of COA covered?

Affordability Measures

Affordability Over a Lifetime: Return on Investment

- Total Net Cost Net Earnings Post-College
- Net Cost > Net Earnings: Negative ROI
  - These programs may require additional subsidies in order to entice students (e.g. child care workers, legal aid attorneys) or maybe shouldn't be offered (e.g. culinary)
- Net Cost < Net Earnings: Positive ROI
  - Net Earnings should incent students to enroll, not further state subsidies

IF Affordability at Entry is achieved, then positive ROI more likely

Affordability Measures

Affordability of Repayment: Cumulative Debt Burden

- Percent of income required to fully pay cumulative debt in 5-10 years

Percent of Income too high: students risk default

Percent of Income too low: not sure what the downside is here

IF Affordability at Entry is achieved, then manageable debt burden more likely

Next Steps

- Finalize next draft of report June 2019
- Discuss with stakeholders
- Build into policy discussion

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