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# BACK A BOILER

/ BRIAN E. EDELMAN /

Economist Milton Friedman first proposed the concept of income share agreements (ISAs) in 1955 as a way to provide funding for students through an “equity investment,” in which students would receive funding for an agreed-upon percentage of future earnings for a fixed period of time. Beyond a brief experimental pilot at Yale University in the 1970s, however, ISAs never really gained traction in the U.S.

Over the past 50 years, the continued rise in college tuition has forced students to rely increasingly on government-subsidized loans and high-interest-rate private loans to



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finance their education, leaving students locked out of quality education or saddled with substantial student debt. Since obtaining a college degree has become an even more crucial path to economic security in the modern economy, universities have advocated for higher education access but have failed to rein in degree costs. Higher education can never, despite the best of intentions, be truly accessible if it's not affordable and cost-effective.

To assist our students in funding their education, Purdue became the first major U.S. research university to institute an ISA program with its Back a Boiler-ISA Fund in the fall of 2016. The program was designed to expand higher education access and increase tuition affordability. Launched by Purdue President Mitch Daniels and managed by the Purdue Research Foundation, Back a Boiler has provided over \$14.6 million to nearly 1,000 Purdue students in need of additional financial assistance to earn their degrees.

## IT'S NOT A LOAN

The Back a Boiler-ISA Fund is an innovative approach to affordability. Our ISA was designed as an alternative to private and federal Parent PLUS loans to bridge student financing gaps once other funding sources (e.g., scholarships, Pell Grants, or federally subsidized loans) are exhausted. When a student takes out a loan, that student bears the entire



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risk, since repayment is expected regardless of whether the student finds a well-paying job after graduation. In contrast to loans, ISAs offer greater flexibility, provide important upside and downside protections, and align incentives with student success.

The terms of our ISA are quite different from those of a standard student loan:

- Students receive funding through the program and fulfill the agreement by paying back a set percentage of their post-education salary—which varies by the student’s major—typically over 10 years, a payment period comparable to most loans.
- Students have a six-month grace period post-graduation to obtain employment and begin to save.
- If students are unable to obtain a job above the minimum salary cap of \$20,000 or if they remain unemployed, they make no payment, offering substantial downside protection.
- Once students hit their payment cap (approximately 2.3 times the amount they borrowed) or reach the end of their contracted payment window, no additional payments are required—even if the student has paid less than the amount they initially received.
- Every contract has a “payment window” that is equivalent to the maximum number of payments a student would have to pay plus any deferment months.

As an example, imagine a Back a Boiler student who earns less than \$20,000 annually while employed full-time or seeking employment. This student would not make a monthly payment until they find employment over \$20,000 annually, and the term of their contract would remain fixed. If this same student decides to pursue additional education or faces an unexpected life event, the contract can be “paused” and deferred for up to an additional 60 months without a monthly payment if:

1. They are enrolled at least half-time in higher education or training,
2. They earn less than \$20,000 annually while working fewer than 35 hours per week, or
3. They are not in the labor force currently or not seeking employment actively, such as when expecting to have a child.

The contract obligation is fulfilled at the end of the maximum payment term, even if the student has not made the full number of payments or reached the payment cap. In an alternative situation where a student outperforms their earning expectations, they will never pay more than the payment cap, which provides them upside protection as well.

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Purdue's ISA includes important downside protection ensuring that if a graduate's career starts slowly or not at all, their repayment obligation drops or goes to zero. Back a Boiler participants have the freedom and time to search for the job they want, rather than accepting any job offer for the purpose of servicing a debt.

## A STUDENT'S STORY

The experiences of our students support our hypotheses about the potential impact of the ISA option. Andrew Hoyler used Back a Boiler to help bridge the financial gap during two semesters at Purdue as he studied to become a professional pilot. After earning his degree in May 2017, Hoyler taught as a flight instructor at Purdue for a year before accepting an airline job in the Washington, D.C. area as a pilot for regional flights.

While pilots have tremendous career and earning potential, they often start in lower-paying positions. Because ISA payments are based on salary, the terms are a good fit for job paths like Hoyler's with lower starting salaries and uncertainty regarding salary trajectories.

Hoyler explains, "Back a Boiler has really helped for those first couple of years after college when my pay was lower without having to worry about interest rates. I think a big thing for students looking at an ISA is that they have to be honest about where they see themselves in two, three, five, or 10 years. If they are entering an industry where they are going to be making \$90,000 right out of school, then an ISA might not be for them. An ISA is perfectly suited for those who are worried about loan interest racking up from day one."

While Hoyler hopes to move to a commercial airline as a pilot for longer domestic flights eventually, a benefit of his



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current position is it allows him to travel for free to different parts of the world—and the ISA offers him the financial flexibility to continue to enjoy this lifestyle without feeling obliged to obtain a higher-paying job quickly.

"Being at an airline, I really have a great quality of life," he says. "I'm at the point where I have a pretty solid financial foundation. While I'm still paying off almost double what I owe every month on a traditional loan to pay it down, I don't really have to worry about that with the ISA."

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## THE ISA IN ACTION

When we started Back a Boiler, the program was open

only to rising juniors and seniors during the fall and spring academic terms. Student interest led us to expand eligibility to sophomores as well as students enrolled in summer sessions. To qualify for the ISA, students must be enrolled full-time, have a declared academic major, and be a U.S. citizen or permanent resident. Back a Boiler requires students to declare a major because the field of study and potential career path offers students important data to inform their decision to participate. Since many first-year students have yet to declare a major and are less likely to have specific career goals or salary expectations in mind, they are not eligible for our ISA program.

It was important to us that, regardless of major, Back a Boiler was a practical option for students. Students' contract terms vary by major and are based on comprehensive national and Purdue-specific salary survey data so that participants will have similar repayment experiences across majors and earning potentials. By obtaining a blend of majors in our cohort, we created a viable program that prevents the need for higher-earning majors to subsidize those with lower earning potential.

A look at student participation to date validates our hypothesis that an ISA would appeal to a significant number of our students. In the first year of the program, we provided a total of \$2.2 million to about 180 students. Three years later, participation grew to roughly 400 students and \$4.2 million in funding for the 2019-2020 academic year. Back a Boiler students represent more than 150 unique majors across Purdue, and those majors are roughly representative of our overall undergraduate population. Students can apply for multiple rounds of ISA funding, but to reduce the risk of creating an unsustainable financial obligation, students are eligible for ISA financing of only up to 15% of their total anticipated earned income.

The following represents a sampling of situations that have led students to enroll in Back a Boiler:

1. First-generation students who might not be able to have parents co-sign for a loan,
2. Students with multiple siblings in school whose parents cannot afford additional Parent PLUS loans, or
3. Students who want to pay their own way but are concerned about student debt.

What links all of these examples is a desire for the additional protections and flexibility ISAs offer over loans.

An ISA can help our students manage the unexpected pitfalls that might come their way. The COVID-19 pandemic presents an all too real example of how events outside a student's control can be potentially devastating. Tragically, too many Americans are facing layoffs or pay reductions or grappling with the decision to leave the workforce due to a sick or vulnerable loved one. While millions of students with federal loans have relied on the loan relief from emergency government action, our Back a Boiler students had assurances built into their ISAs.

### **LESSONS LEARNED ON CREATING AN ISA PROGRAM**

Over the past four years we have learned a lot about what works and what can be improved with an ISA program. One key observation that is intuitive, but bears mentioning, is that each student has their own reason(s) for considering an ISA. To build an ISA program with broad appeal, a school must first understand and respond to those unique student needs, including inability to access other types of financing due to first-generation status, families maxing out Parent PLUS loans, or students needing to fund their own education.

We have also discovered the importance of consumer education. ISAs are a novel concept, and many students have been overwhelmed by the amount of information we provide. In our desire for complete transparency, we created a data deluge for students considering the program, which further complicated their decision. To ensure students fully comprehend the information we provide, in our second year we instituted a quiz that all eligible students must pass to demonstrate an understanding of the program and their financial obligations. We also developed a Back a Boiler website with a robust FAQ section and sample contracts for students and their families. An ISA is not the right option for every student, so we maintain a close working relationship with Purdue's Division of Financial Aid to support students in their decision process. We encourage every interested student to talk with their parents and our financial aid department to determine whether an ISA is the best option for them.

As we developed the ISA, we were cognizant of the lack of federal and state regulation. We believe strongly in the potential of ISAs to serve as a viable alternative to unsubsidized loans. However, while proposals have been drafted in the U.S. Senate and House, at the time of publication of this book, no legislation exists to provide much-needed guidance and guardrails for ISA programs. In the absence of legislation, institutions bear the responsibility to develop the right terms and protections to safeguard students.

An ISA cannot exist in a vacuum. Any institution considering an ISA program should understand that such an offering is part of a broader institutional culture—an additional option that supports a subset of students. At Purdue, we saw Back a Boiler as a logical extension of our focus on higher education access and affordability. For example, we froze tuition for the past eight years and simultaneously lowered the cost of room and board and streamlined the university's

business processes. We estimate that if Purdue had raised prices at the average rate of Big Ten schools since 2013, students and their families would have paid \$600 million more, a significant portion of which would have likely been funded by more debt. Not coincidentally, since 2013, Purdue's average annual borrowing per undergraduate has steadily declined.

Building an ISA program is challenging, and any institution considering developing an ISA should have a clear-eyed vision of what they seek to accomplish. Our recommendations include:

- 1.** Understand how an ISA fits into your institutional culture and, by talking with students and financial aid experts, how an ISA can help bridge a key financing gap.
- 2.** Identify and address key questions, such as:
  - a.** Should your ISA be available institutionwide or just in select schools, departments, or programs?
  - b.** Is the ISA designed to help remove a barrier to entry for some students, encourage degree completion, or achieve other goals?
  - c.** Could an ISA help your institution extend gift dollars?
  - d.** Could an ISA help students transfer from two-year to four-year institutions or help adult learners return to college without the burden of traditional loan debt?
- 3.** Student involvement in the design process is essential. Students should play a role in ISA program design teams, and their input should be gathered through vehicles such as focus groups and surveys.
- 4.** Partner with an external ISA expert to help design and implement an ISA program that is student-friendly and

financially sustainable. Your institution will know what features and parameters an ISA program must include to be true to your institutional goals and values. A partner will bring the expertise to turn that vision into a robust program.

5. Three key drivers of the financial impact for students and for the institution are the ISA payment percentage rate, the payment cap, and the number of required payments. Adjusting these variables can help make the ISA an attractive alternative to students while supporting the program's sustainability.
6. Information is king. Parents and students need to have the resources and tools to make informed decisions, and having a robust website in place prior to your program launch is essential. As an example, Purdue offers an FAQ, a comparison tool, and sample contracts on its website at [www.purdue.edu/backaboiler](http://www.purdue.edu/backaboiler).
7. Be open to change. At Purdue, we review Back a Boiler annually. An ISA plan is not something to leave on the shelf once it's complete as it's a living mechanism. A commitment to continual improvement keeps the features of your ISA and related information relevant to those considering it as an option.



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and make the work a labor of love.***

Building an ISA program is time-consuming and difficult, so my last piece of advice is perhaps most important: Always remember the why, and make the work a labor of love. Higher education is all about students achieving their dreams and goals. Your ISA can be a tangible way of showing students that you believe in the education you are providing and, most importantly, that you believe in them.



*Brian E. Edelman is president of the Purdue Research Foundation, which, in its mission to serve Purdue University, manages a nearly \$4 billion financial portfolio and accepts gifts, administers trusts, funds scholarships and grants, acquires property, protects Purdue University's intellectual property, and promotes entrepreneurial activities on behalf of the university. Edelman is responsible for the Foundation's overall operations, and he served as project director of its Back a Boiler-ISA Fund.*



This chapter came from the book *Workforce Realigned: How New Partnerships are Advancing Economic Mobility*.

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