



New Financing System for Higher Education Students

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The Ministry of Education explained the ideas concerning the bill which creates a New Financing System for Higher Education Students. A single system of scholarships and loans will be established, to which students belonging to the first 9 income deciles shall have access to, regardless of the type of accredited institution they choose. This ends with the discrimination associated to the student aids, which favored students from the Council of Rectors of Chilean Universities (CRUCH, in Spanish), which paradoxically concentrates a lesser number of students with limited resources.

The proposed financing system is compatible with the idea that, although it is not the only benefit, higher education provides graduates a higher probability of being employed and reaching an income which allows them to have a better quality of life in the future. In this perspective, lending students the resources which they lack today to finance their studies, and which they will pay back later on, when they have the funds available, is a fair and reasonable strategy.

This premise is also consistent with the idea that payment capacity is a phenomenon that changes over time. Somebody who is poor today is not necessarily poor tomorrow; maybe, thanks to the education he received. In this context, it seems more convenient to give a scholarship to a student considering his future condition and not the current one: those who in the future will not have the resources to finance the education already received, will need more aids than those who do not have the resources today, but will have them tomorrow.

After last year's strong demands for cost-free higher education, now even the sectors defending it are more cautious on this matter. Today, people are fully aware that it would involve a significant amount of resources, which could be invested in other more relevant spheres when it comes to level the playing field in Chile, for example, for preschool and school education.

The End of Discrimination

Maybe the most remarkable aspect is that it proposes a single loan system which ends with the discrimination according to the type of higher education institution. The student aid, in the form of scholarship or loan, is a benefit for the student and not for the institution; therefore the eligibility criterion and the aid's conditions should be based on the need and/or merit of the person, and not on the characteristics of the higher education institution he chooses. Nevertheless, today a student attending a CRUCH university receives more and better aids than a student of the same characteristics who chooses a professional institute (IP, in Spanish), technical training center (CFT, in Spanish) or non-CRUCH university. Still worst, according to figures from the CASEN Survey 2009, precisely the latter concentrate a greater proportion of young coming from the first income quintiles and who therefore require more help to finance their studies.

Table 1

ENROLLMENT DISTRIBUTION BY INSTITUTION TYPE AND INCOME QUINTILES

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
CFT	13.8%	17.1%	18.5%	19.1%	31.5%
IP	13.2%	20.9%	24.1%	24.3%	17.5%
CRUCH U.	10.6%	15.6%	17.1%	25.1%	31.6%
Non- CRUCH U.	6.5%	11.6%	15.0%	21.8%	45.2%
Total	9.9%	15.4%	18.0%	23.4%	33.4%

Source: Report Commission for Higher Education Students Financing.

Characteristics of the New Loan System

In the first place, the proposal is as follows: the State provides the funds to finance the student loans, thus replacing the banks, and the collection is made through the *Tesorería General de la República* (Treasury Department) with the support of *Servicio de Impuestos Internos* (Internal Revenue Service). The idea is that the collection is made in a similar way

as the pension funds contributions. In this context, an adequate control is necessary, since the idea is not to discourage formal work, nor give space to make contract arrangements to conceal salaries and elude the loan's devolution.

The current system has operated under the logic that banks, by definition, are better collectors, since that is exactly their function. However, since loans are guaranteed by the State, the banks lack the incentives to make the necessary collections, since anyhow loans are 90% returned. This issue should be taken into account, because if the aim is to improve collection, it would be enough to better compromise banks in case loans are unable to be charged. On the other side, at first sight, it does not seem that a state agency has the best incentives to collect, so mechanism will have to be designed to handle this issue.

As for the administrating agency, it has to be completely independent, such as the INGRESA Commission (Administrative Commission for the Higher Education Loan System), because it will manage a significant amount of resources that can be used for political purposes by the government in place; it is especially important that the agency is not subject to political pressures aimed at not collecting the loans.

There is no clear reason a priori that justifies this measure of replacing banks by a public agency. Maybe, excluding the banks from the system responds to a political and not technical justification.

As for the characteristics of the state loan, which would substitute the Solidarity Fund (CFS, in Spanish) and the Government Guaranteed Loan (CAE, in Spanish), it would have a 2% annual interest rate (in UF), it would cover the career's reference fee and it would start to be returned once graduates are employed. Payment would be made in fixed installments, but with a maximum average ceiling of 10% of the income (the ceiling varies according to the income segment; for a graduate who receives a salary lower than 14 UTM, that is CLP\$55,000, the ceiling to pay the debt is 5% of his income). Furthermore, a maximum payment term is proposed, which is equivalent to 180 monthly payments (15 years), after which the remaining debt would be forgiven.

In this perspective, the fact that it is not truly an income-contingent payment, but rather fixed installments with a maximum ceiling, is positive since an income-contingent payment with a maximum payment term entails the problem of not always allowing the loan's full return and encourages under-declaration of incomes. Instead, in this proposal the maximum payment term implies that the installment's overhang above the maximum ceiling will finally be a burden on the public treasury and not the borrower. An additional issue which should be considered is to adjust by worked hours, since otherwise, a crossed subsidy could be created from those

working full time to those working part-time, or even to those who voluntarily decide not to work (e.g., housewives).

In the third place, and as a complement of the above, the proposal includes a loan with a solidarity component, so that high income graduates pay 7.5% more than the value of their loan. Although it could be useful to specify what “high incomes” means, it does not seem necessary, since those who receive higher revenues in our country have to pay a higher tax rate, and this is the way they contribute more to the State to finance these and other measures. This mechanism would also imply a crossed subsidy towards less profitable careers, because, if they do not have positive externalities or a high social appraisal, it is not worth subsidizing them.

The Access to Scholarships

First, the scholarship’s amount shall cover the reference fee of the career, regardless of the institution chosen by the student. This way, there is no more discrimination towards students attending institutions not belonging to the CRUCH, who received aids for lower fixed amounts.

As for the requirements, nowadays students who wish to receive scholarships need a PSU score of 550 points. The proposal is to lower this score to 500 points for the students belonging to the first income quintile and 525 for those of the second quintile. The question is, what is the purpose of the scholarships? The aim is to exclusively reward the best students of the country or additionally include young people of scarce resources in the higher education system? In the last case, it has to be considered that the PSU is a test which assesses knowledge learnt at school, so in practice those who come from less favorable socioeconomic contexts have more difficulties to obtain high scores. If the scholarship intends to integrate in the higher education those students that do not obtain good scores due to a bad school education, but who show capabilities and effort to overcome adversity, then maybe a better way to reach them is by including the school ranking.

Gap between the Reference Fee and the List Price

Finally, as for the gap between the reference fee and the actual fee paid by students, the following was proposed: first, to include new variables to recalculate the reference fees, such as the graduates’ expected employability and income. This responds to the logic that those having a better economic situation in the future will have greater capacity to pay the loan back. This mechanism does not deny that there are other benefits derived from studying in higher education, such as personal development enabling a better relationship with the world, but acknowledges that financing should depend on measurable factors, and that careers

generating higher incomes also have greater costs, while the careers with null employability do not deserve aids that will not be able to be returned.

Second, the higher education institution should finance the difference through scholarships or loans on the same conditions that the state loan, to a 100% of the students belonging to the first two income quintiles and in a lower proportion to the students with medium income levels. Although this measure is similar to the proposal of the Financing Commission for Higher Education Students, concerning a Loan Guaranteed by the Institution, it has the inconvenience that, since it is directly financed (and not just guaranteed) by the higher education institution, the latter would be involved in the financial sector, which is not precisely its area. Therefore, it is questionable if we should go beyond the proposal of the Paredes Commission, which recommended the participation of education institutions by means of guaranteeing the loans to finance the gap between the reference fee and the actual fee.

Along these lines, it is worth highlighting that a Loan Guaranteed by the Institution is a way of compromising the education institutions with careers having a labor field and with curriculum programs which are really useful for the graduates to succeed. Likewise, it is an indirect manner of forcing them to keep fees controlled, since in the case of artificially inflating them, it would be their responsibility to respond for the loans that cannot be paid back.

It seems that the purpose of going beyond the guarantee is to have a more direct influence upon the fees' value. Although it is necessary to watch that fees are not increased as a result of a state intervention, the determination of reference fees presents weaknesses. On the one hand, it is another version of centralized pricing, which the experience shows that it introduces distortions instead of correcting them and that they do not consider the changes over time. In fact, many times the current reference fees greatly differ from the real cost of the careers. Moreover, inasmuch as most part of financing is through loans and not scholarships, students would be facing the cost of their education and the institutions would have the incentive of keeping low fees, without the need for the State to fix them arbitrarily.

Conclusion

The chief merit of the proposal is that it ends with the student aids' discrimination according to the institution chosen by the student. Additionally, it reaffirms that absolutely cost-free education is not the right policy for our higher education system. There are still certain aspects that need to be clarified before introducing the bill, with the aim of avoiding regulations that can encourage behaviors that are precisely sought to be eliminated.

In brief...

MAIN POINTS OF THE NEW FINANCING SYSTEM:

- Single loan system: end of the discrimination according to the type of higher education institution.
- The State shall provide the funds to finance the loans, thus replacing the banks.
- The payment of the loans is through fixed installments with a maximum ceiling: this enables that graduates are not surpassed while paying their debt back.
- As for the gap between the reference fee and the list price, the proposal is to recalculate the first ones in terms of new variables such as the graduates' expected employability and income, and that the institution finances the difference through scholarships or loans under the same conditions of the state loan: it understands that financing must depend on measurable factors and that careers that will generate higher incomes also have a greater cost.
- However, forcing institutions to become funds managers is to take them to an activity which is not proper of them.