

Florida TaxWatch

ECONOMIC COMMENTARY

AN UPDATE ON STUDENT LOAN FORGIVENESS

SEPTEMBER 2023

INTRODUCTION

Over the past few years, with college tuition growing much faster than income after graduation, the mountain of pending student loan debt is growing. This affects the younger generation's spending capacity, risk-taking willingness, and retirement savings. Recent debates focus on whether student loan debt should be forgiven, how much should be forgiven, the method of forgiveness, and the impact it would have on the future spending of taxpayers.

THE BIDEN PLAN

In August 2022, President Biden announced a three-part student loan debt relief plan. The most prominent and eye-catching part for low- and middle-income borrowers was the one-time targeted student-debt relief. Under this part of the plan, borrowers with income under \$125,000 (filing individually) or \$250,000 (filing joint or head of households) would be eligible for up to \$20,000 in debt forgiveness.¹ Toward the end of November 2022, the U.S. Department of Education had received applications for student loan debt forgiveness from 26 million people nationwide, of which 16 million had been processed and approved.²

Just months after this announcement, six state governments filed a lawsuit challenging the plan in the Supreme Court of the United States (SCOTUS), taking the position that the President was overstepping his constitutional authority in cancelling such large consumer debt.³ The basis of the Biden administration's defense in this lawsuit was "The Heroes Act of 2003,"⁴ wherein the COVID-19 pandemic was declared a national public health emergency. This pending case led to a pause in the acceptance and approval of the remaining ten million applications.

SCOTUS ruled against the Biden administration on June 30th, 2023, and rejected the student loan debt relief plan intended to help about 40 million federal student loan borrowers. In ruling against the plan, the Court states:

*"The text of the HEROES Act does not authorize the Secretary's loan forgiveness program. The Secretary's power under the Act to "modify" does not permit "basic and fundamental changes in the scheme" designed by Congress."*⁵

1 U.S. Department of Education (USDOE), "The Biden-Harris Administration's Student Debt Relief Plan Explained," retrieved from <https://studentaid.gov/debt-relief-announcement#the-biden-administrations-student-loan-debt-relief-plan>, accessed on July 10th, 2023.

2 USDOE Press, "Biden-Harris Administration Continues Fight for Student Debt Relief for Millions of Borrowers, Extends Student Loan Repayment Pause," retrieved from <https://www.ed.gov/news/press-releases/biden-harris-administration-continues-fight-student-debt-relief-millions-borrowers-extends-student-loan-repayment-pause#:~:text=On%20August%2024%2C%20President%20Biden,by%20the%20Department%20of%20Education>, accessed on July 10th, 2023

3 Annie Nova – CNBC, "Here's A Look At The Two Cases Against Biden's Student Loan Forgiveness Plan Headed To SCOTUS," retrieved from <https://www.cnbc.com/2023/02/24/supreme-court-to-hear-these-cases-on-bidens-student-loan-forgiveness-.html#:~:text=On%20Sept.,debt%20without%20authorization%20from%20Congress>, accessed on July 11th, 2023

4 The Higher Education Relief Opportunities for Students Act of 2003, Pub. L. No. 108-76, 117 Stat. 904 (2003) (codified at 20 U.S.C. §§ 1098aa–1098ee) vests the Secretary of Education ("Secretary") waive or modify any requirement or regulation applicable to the student financial assistance programs under title IV of the Higher Education Act of 1965 as deemed necessary.

5 SCOTUS, "Biden, President of the United States v. Nebraska. Certiorari Before Judgement to the United States Court of Appeals for the Eighth Circuit," October 2022

This student loan debt relief plan would have cost the U.S. taxpayers between \$330 billion and \$519 billion (Table 1) over the next 30 years. As a result of the Court’s decision, the federal student loan repayments are scheduled to start in October 2023, with interest rates accruing from September 2023.⁶

Institution	Estimate (USD in Billions)
Cato Institute	\$427
Committee for a Responsible Deferral Budget	\$330 - \$360
Congressional Budget Office	\$400
National Taxpayers Union Foundation	\$395
Penn Wharton Budget Model	\$467 - 519

Source: Federal Reserve Bank of Richmond (October 2022)

The Biden Administration released data of the number of borrowers eligible for automatic student loan forgiveness under the now renewed Income-Driven Repayment (IDR) Plan. The IDR Plan is not new; it was first applied in July 1995. Under this plan, federal student loan borrowers can make monthly payments based on their income bracket and family size. After a pre-decided amount of qualifying monthly payments are made (equivalent of 20 to 25 years), the rest of their student loan debt is fully forgiven.⁷

At present, under the IDR Plan, 804,000 borrowers will be debt-free, representing a \$39 billion decrease in the outstanding federal student loan debt which currently stands at \$1.6 trillion⁸ (Figure 1). The student loan debt relief is available to so many borrowers because the Biden Administration addressed the historical failures of the federal government to properly track student loan payments towards the IDR Plan in the past.⁹ Since this approach to student loan debt is not a new policy, there is a higher expectation for it to go through without any hindrance.

NATIONAL ECONOMIC AND FISCAL IMPACTS

The U.S. Government has supplied monetary help to students wishing to pursue higher education through federal student loans since 1958.¹⁰ With the motivation to earn more income, a higher number of high school graduates are pursuing two-year and

four-year diplomas than in the late 1900s. This has led to a higher number of students with federal student loans, raising the average debt per borrower by 25 percent from 2009 to 2021.¹¹ Due to higher tuition for degree programs and weaker employment markets, the amount of outstanding federal student loan debt has been rising at a higher rate than the number of borrowers.

With higher federal student loan debts to pay, the liquid income available to borrowers decreases and their spending capacity decreases. According to Student Data Reports, if federal student loan debts are forgiven, spending capacity increases by as much as 3.3 percent. When federal student debt increases by 3.3 percent, the number of new start-up businesses decreases by 14.4 percent.¹² Further, multiple real estate studies show that, nationwide, about one-half of the first-time home buyers hold off on buying homes due to their remaining student loan debt.¹³ Altogether, this implies that borrowers who are debt-free are more likely to take up investments, start families, and buy homes.

This all comes down to the question: “Is higher education worth the investment?” The Social Security Administration reports that men with bachelor’s degree earn \$900,000 more in median lifetime earnings than those with high school certificates and women earn \$630,000 more.¹⁴ This disparity in income between those with college degrees and those without degrees may be one of the most important reasons as to why thousands of students prefer to attain higher education despite the high cost of federal student loan debt.

While canceling federal student loans or providing relief may be beneficial to a high number of borrowers and, in some ways, the economy, it does have potential negative impacts on the regular taxpayer as well. For instance, as mentioned in Table 1, the student loan debt relief would cost the taxpayers about \$400 billion, which would eventually be seen in the form of higher tax rates and inflation in the consumer market – ultimately meaning a higher cost of living. According to the Committee for a Responsible Federal Budget, over a span of two years, the federal government would have to raise inflation rate 0.75 percentage points higher than planned, to overcome the loss caused by federal student loan debt relief.¹⁵

6 *Supra* 3

7 USDOE, “Income-Driven Repayment Plans,” retrieved from <https://studentaid.gov/manage-loans/repayment/plans/income-driven#repayment-period>, accessed on July 24th, 2023

8 Diane Rado – Florida Phoenix, “Debt Relief: About 57,000 Floridians qualify for student loan forgiveness under Biden plan,” retrieved from <https://floridaphoenix.com/blog/debt-relief-about-57000-floridians-qualify-for-student-loan-forgiveness-under-biden-plan/>, accessed on July 20th, 2023

9 USDOE Press, “Biden-Harris Administration Releases State-By-State Data on \$39 Billion in Loan Forgiveness for 804,000 Borrowers as a Result of Fixes to Income-Driven Repayment Plans,” retrieved from <https://content.govdelivery.com/accounts/USED/bulletins/365b549>, accessed on July 24th, 2023

10 New America, “Student Loan History,” retrieved from <https://www.newamerica.org/education-policy/topics/higher-education-funding-and-financial-aid/federal-student-aid/federal-student-loans/federal-student-loan-history/>, accessed on July 25th, 2023

11 Council on Foreign Relations, “Is Rising Student Debt Harming the U.S. Economy?,” retrieved from <https://www.cfr.org/backgrounder/us-student-loan-debt-trends-economic-impact#chapter-title-0-9>, accessed on July 21st, 2023

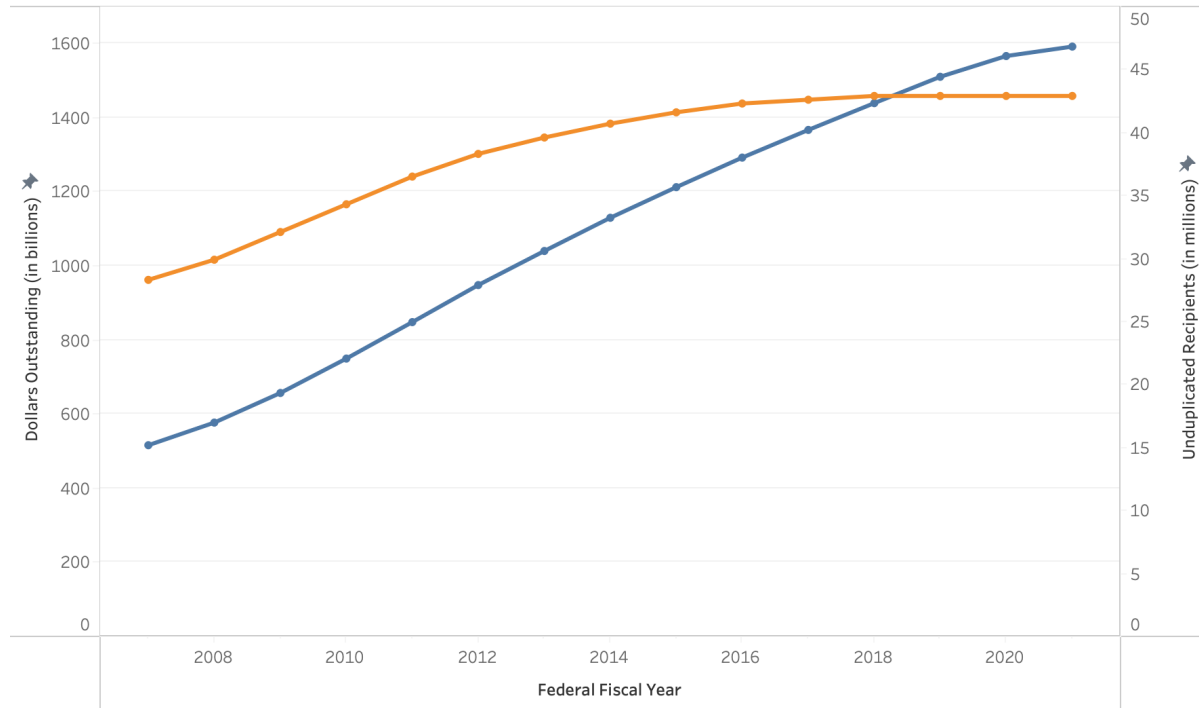
12 Melanie Hanson – Education Data, “Effects of Cancelling Student Loan Debt,” retrieved from <https://educationdata.org/what-happens-if-student-loan-debt-is-canceled#:~:text=Debt%20forgiveness%20could%20potentially%20increase,or%20obtain%20an%20advanced%20degree,> accessed on July 21st, 2023

13 See, e.g., National Association of Realtors, “Financing and Credit – Student Loan Debt,” retrieved from <https://www.nar.realtor/student-loan-debt>; Vincent Salandro – Builder Magazine, “Housing Affordability,” retrieved from https://www.builderonline.com/money/affordability/the-potential-impact-of-student-loan-debt-forgiveness-on-the-housing-market_o

14 Social Security Administration, “Education and Lifetime Earnings,” retrieved from <https://www.ssa.gov/policy/docs/research-summaries/education-earnings.html>, accessed on 24th July, 2023

15 Committee for a Responsible Federal Budget, “Student Debt Changes Would Boost Inflation,” retrieved from <https://www.crfb.org/blogs/student-debt-changes-would-boost-inflation>, accessed on 20th July, 2023

FIGURE 1: GROWTH RATE OF OUTSTANDING FEDERAL STUDENT LOAN DEBT IS SURPASSING THE NUMBER OF BORROWERS IN THE U.S.



Source: Federal Student Loan Portfolio

Legend
■ Dollars Outstanding (in billions)
■ Unduplicated Recipients (in millions)

FEDERAL STUDENT LOAN DEBT IN FLORIDA

According to the Federal Student Loan data reports, 2.7 million Floridians owe a cumulative \$105.5 billion in federal student loan debt as of March 2023. Of these 2.7 million, under the targeted student debt relief, 1.5 million Floridians had applied or were automatically eligible for relief and about one million had been fully approved.¹⁶

As reported by the Federal Student Loan Portfolio, Florida is ranked third highest in terms of outstanding student debt as of early 2023, behind California and Texas. The average student debt of a Floridian is around \$37,000 which is the fifth highest across the United States. While the average is high, the distribution amongst borrowers is more concentrated toward those with student loan debt ranging from \$10,000 to \$40,000, both nationwide and in Florida.¹⁷

Most borrowers in Florida (21 percent) owe between \$20,000 to \$40,000, followed by 19 percent that owe between \$10,000 to \$20,000. Unsurprisingly, the maximum number of borrowers is between the ages of 25 and 45 years old.¹⁸

¹⁶ White House Press, “Fact Sheet January 27, 2023,” retrieved from <https://www.whitehouse.gov/briefing-room/statements-releases/2023/01/27/fact-sheet-biden-harris-administration-releases-new-data-showing-26-million-people-in-all-50-states-applied-or-were-automatically-eligible-for-one-time-student-debt-relief/>, accessed on July 13th, 2023

¹⁷ Derived from data available at <https://studentaid.gov/data-center/student/portfolio>

¹⁸ *Ibid*

Florida’s economy has, for the most part, replicated the nation’s economy, except for the last three years, where it has surpassed it. With about 12 percent of Floridians still in student loan debt, a fall in consumer spending and large amount investments may be seen in the coming year as federal student loan repayments resume. The potential economic growth of \$50 million,¹⁹ in all sectors, will now be put toward paying off student loan debt; however, with the new student loan debt relief, 56,930 Floridians with federal student loan debt are automatically eligible for relief – amounting to \$3 billion in discharges.²⁰ Under this discharge, per the renewed IDR Plan, federal student loan borrowers who have made enough valid payments under the IDR Plan will become student loan debt free.

CONCLUSIONS

The Biden Administration’s initial proposed student loan debt relief plan represents bad public policy for a couple of reasons: First, it oversteps the executive branch’s authority, as vested in the U.S. Constitution, and SCOTUS was wise to acknowledge that in its ruling. Second, it picks winners and losers. The winners are those

¹⁹ Potential Growth = (Average loan per borrower – Average loan forgiven under debt relief) * Number of borrowers approved for forgiveness

²⁰ *Supra* 8


whose student loan debt, or a large portion of that debt, would be forgiven. The losers are those student loan borrowers who dutifully worked hard and made sacrifices to pay off their debt. What message does the proposed student loan debt relief plan send to these hard-working borrowers? It is also a loss for those students who chose not to pursue college because of its expenses and now would be forced to pay off someone else's student loan debt. Third, it raises the issue of taking responsibility for one's finances. Would forgiving student loan debt make students less likely to take responsibility for their other debts in the future?

The remaining borrowers of Florida should prepare for federal student loan repayment by getting in touch with their service providers and deciding on a repayment plan soon. While the recent one-time student loan debt relief is no longer available for those who do not qualify under the IDR Plan debt relief, there is a plethora of repayment plans available for different fields of study and different income levels, starting at a low of \$0 a month.²¹

²¹ USDOE, "SAVE Repayment Plan Offers Lower Monthly Loan Payments," retrieved from <https://studentaid.gov/announcements-events/save-plan>, accessed on July 14th, 2023



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