

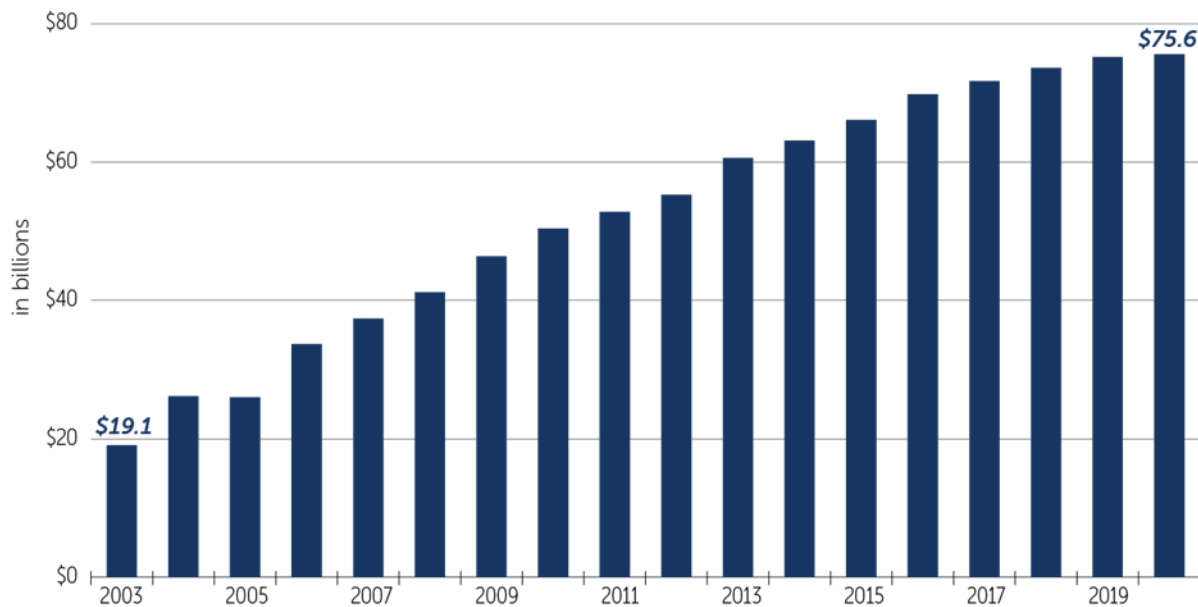
How will President Biden’s student debt relief impact Pennsylvania?

President Biden announced student debt relief by executive order in recent weeks in response to a profound barrier to economic stability for millions of Americans. Pennsylvanians know first-hand that the high cost of college prevents some from pursuing a higher education and can weigh down those who do attend with what is often a crushing amount of student debt. Total student loan debt has increased nearly fourfold since 2003 in Pennsylvania, with borrowers now owing a total of \$76 billion in both federal and private loans.

Figure 1

Student Loan Debt in Pennsylvania Increased Nearly Four Times Since 2003

Total student loan debt owed by residents of Pennsylvania, 2003-2020 (inflation adjusted to 2021)



Source: Keystone Research Center analysis of State Level Household Debt Statistics 2003-2020, Federal Reserve Bank of New York, March, 2021

Here is what we know so far about President Biden’s student debt relief plan:

- Student loan holders making an annual income less than \$125,000 a year (or \$250,000 for households) will receive \$10,000 in student debt relief; those who received Pell grants could be eligible for as much as \$20,000. The \$10,000 debt relief applies to both undergraduate and graduate student loan holders. Relief only applies to federal loans, not private loans.
- President Biden extended the freeze on federal loan payments through the end of 2022.
- The plan will make the following changes to the income-driven repayment (IDR) plan on federal student loans:
 - Capping monthly payments for undergraduate loans at 5% of a borrower’s “discretionary income,” compared to 10% currently.
 - Raise the amount of income considered “non-discretionary” and therefore protected from repayment from 150% to 225% of the federal poverty level, so no borrower

- earning under this amount (which is about the full-time equivalent of \$15 an hour) will have to make monthly payments.¹
- Cover any unpaid monthly interest so that no loan borrowers' balances will grow as long as they make their monthly payments (even if their payments are \$0 because their income is low.²
 - Forgive loan balances after 10 years of payments, instead of the current 20 years, for those with original loan balances of \$12,000 or less. The Department of Education estimates that this reform will allow nearly all community college borrowers to be debt-free after 10 years.³
- Fix problems with the Public Service Loan Forgiveness (PSLF) program, building on temporary changes to the program this year.

What does this loan forgiveness mean for Pennsylvania? In Pennsylvania there are about 1.96 million people who have \$69 billion in total federal student debt, which is about 4.5% of total U.S. outstanding federal debt.⁴ In short, **this plan takes a bite out of the crushing student debt faced by many in Pennsylvania.** We estimate that \$21.9 billion in federal student debt owed by Pennsylvanians is eligible for relief, which means that nearly one-third of federal student debt could be eliminated in Pennsylvania because of this plan. (See figures 2 and 3.)

Figure 2

1

http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2022_09_Student_Loan_Forgiveness.pdf.

² <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>.

³ <https://www.silive.com/education/2022/08/student-loan-forgiveness-5-things-to-know-about-bidens-college-debt-relief-plan.html>; <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>.

⁴ These amounts include a pro-ration to PA for borrowers who did not report their state location (\$92.0 billion, 3.6 million borrowers).

http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2022_09_Student_Loan_Forgiveness.pdf. For data, see <https://studentaid.gov/data-center/student/portfolio>.

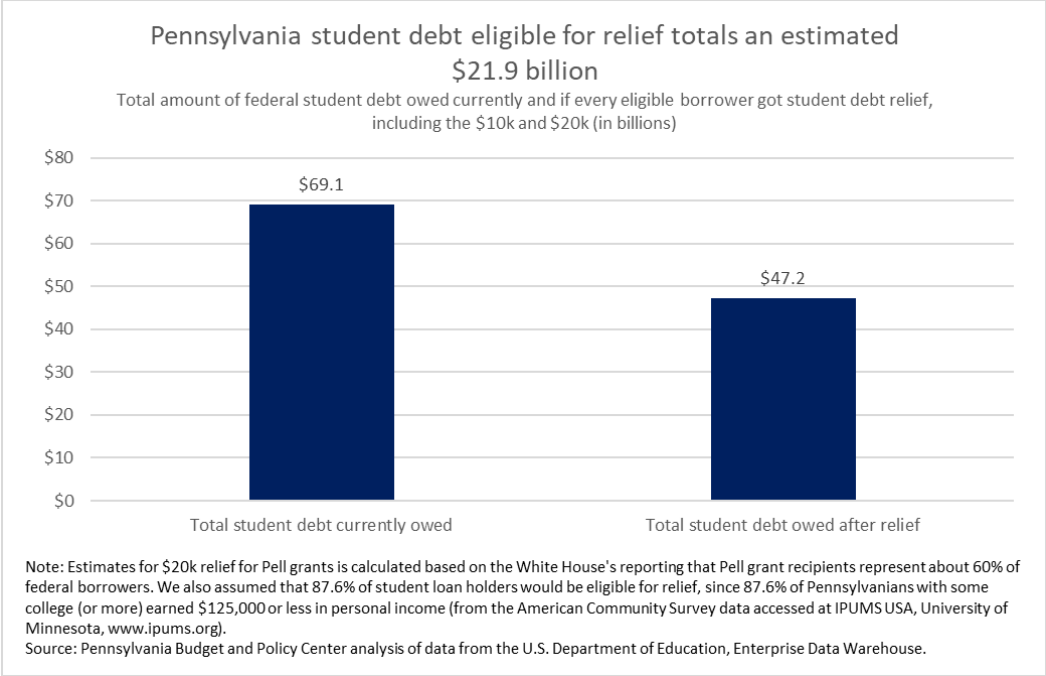
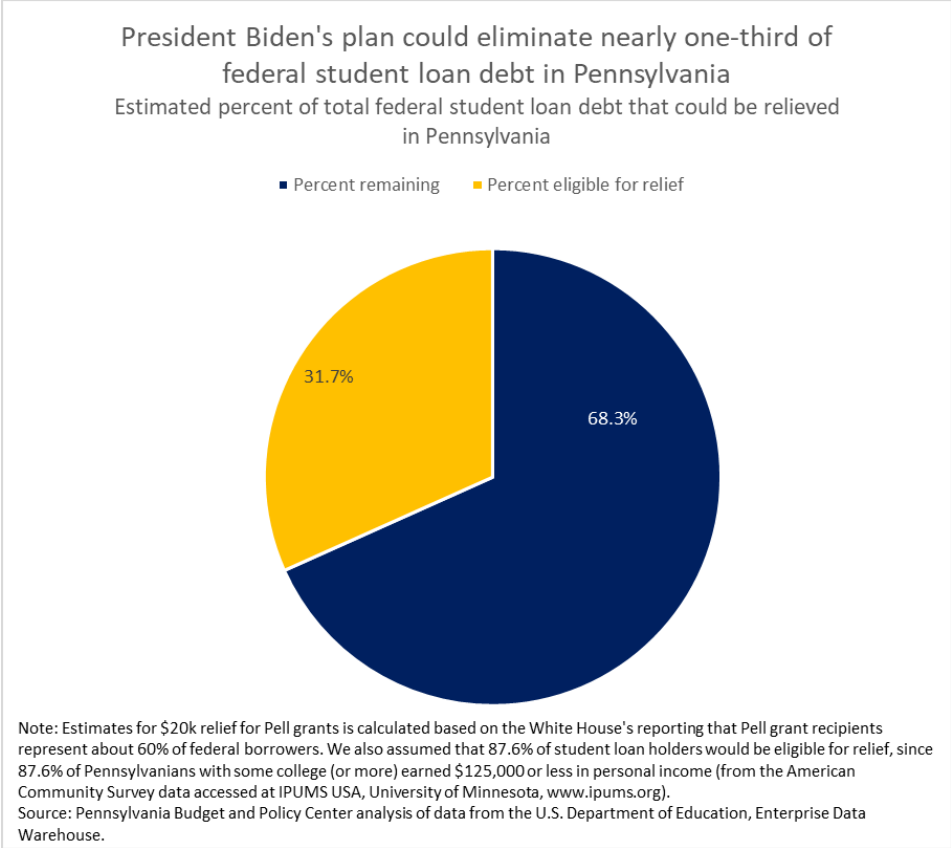


Figure 3



The figure below shows the number of federal student loan holders in Pennsylvania by the amount of debt that is owed. As you can see, an estimated 30% of Pennsylvania student loan holders owe less than \$10,000, meaning that, as long as they meet the income requirements, they stand to have their entire federal student debt wiped out.⁵ An additional 21% of loan holders in Pennsylvania owe between \$10,000 and \$20,000—if these folks received any Pell grants (and the White House estimates that about 60% of federal borrowers did), they would see their entire student debt wiped out as well.

Figure 4

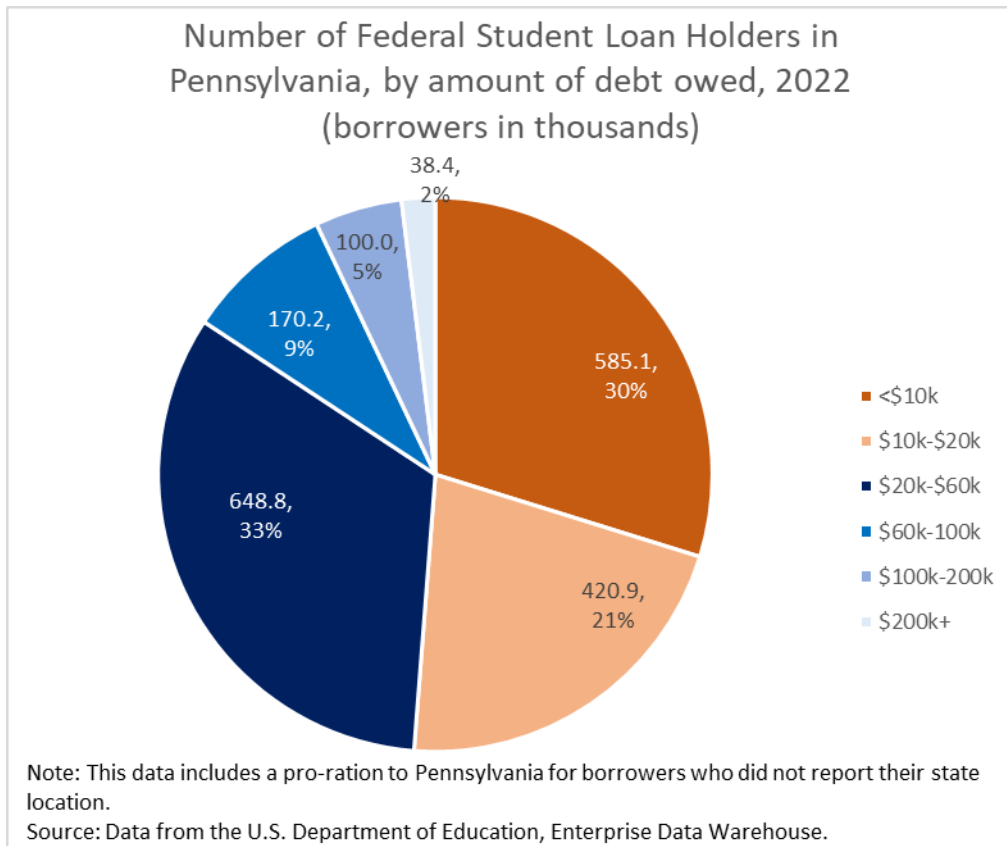
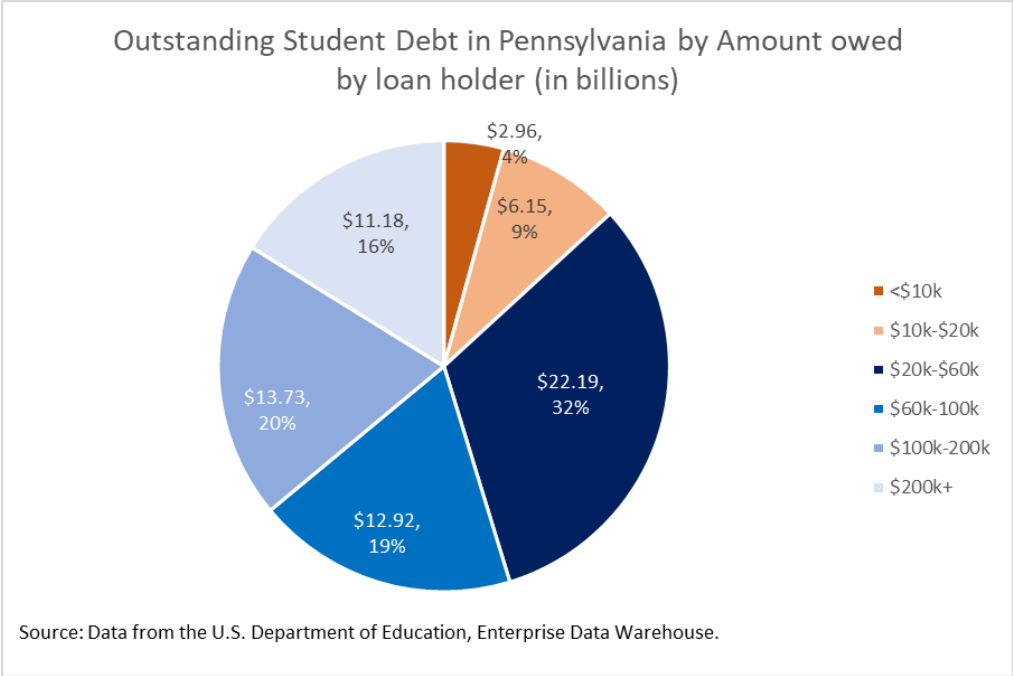


Figure 5 looks at how much outstanding federal loan debt there is in Pennsylvania by amount owed. As you can see, those who owe less than \$10,000 in federal student loans only make up 4% of total outstanding federal student loan debt in the state. About half of the outstanding loan debt in Pennsylvania is held by those owing between \$20,000 and \$100,000.

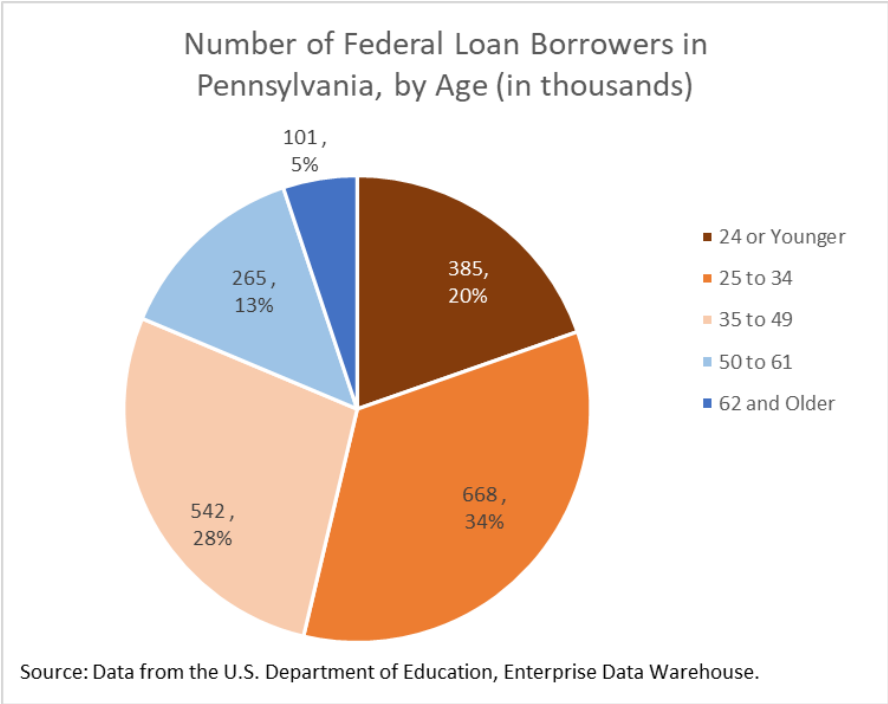
Figure 5

⁵ An estimated 87.6% of Pennsylvania residents with some college (or more) earned \$125,000 or less in personal income in 2020.



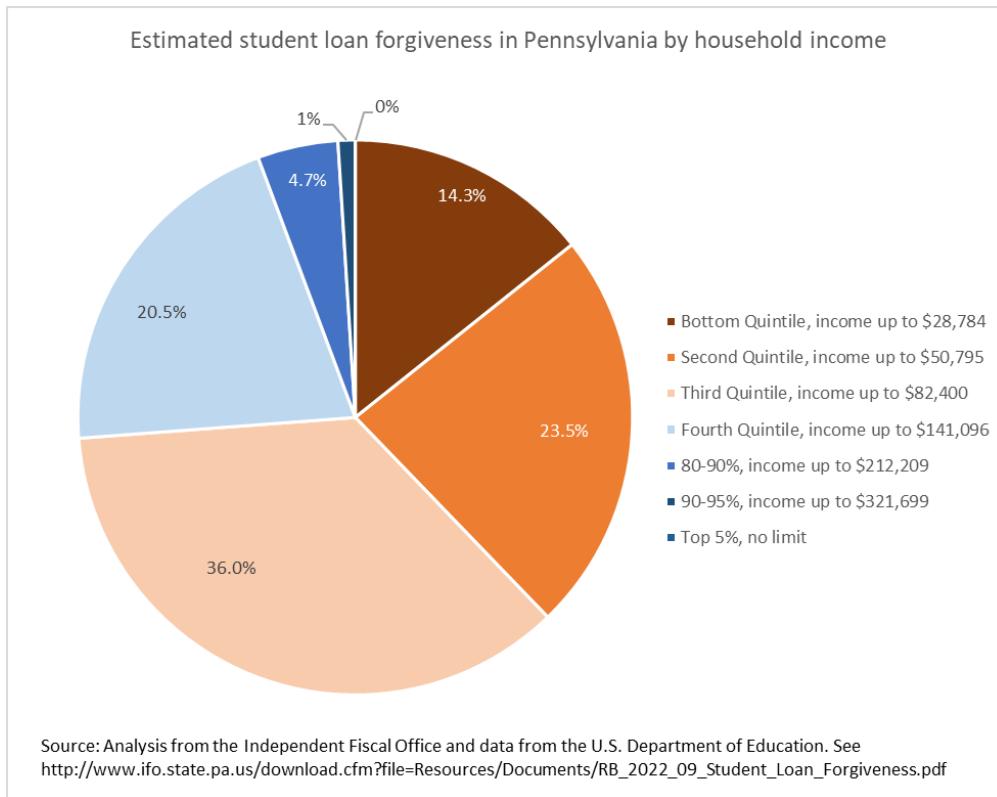
While we usually think of student debt as an issue mostly affecting young people, 46% of federal debt holders are aged 35 or over. The largest cohort with student debt is aged 25-34 (34%) followed by the cohort aged 35-49 (28%). Many individuals in the age range 25-34 are beginning to think about growing their family and buying houses but have put these off or are struggling due to high levels of student debt.

Figure 6



Some critics of Biden’s student loan forgiveness plan argue that the plan will benefit mostly high-income individuals. However, as the figure below shows, relief is targeted mostly to low- and middle-income borrowers. In fact, the Independent Fiscal Office estimates that in Pennsylvania nearly three-quarters (74%) of student loan forgiveness will benefit the bottom three quintiles of income earners in Pennsylvania—those who earn less than \$82,400 per year.⁶ There is a misconception that those who are college-educated in this country are the elite and make high incomes. The reality is that most people who have gotten some level of higher education and have student debt are working class and middle class.

Figure 7



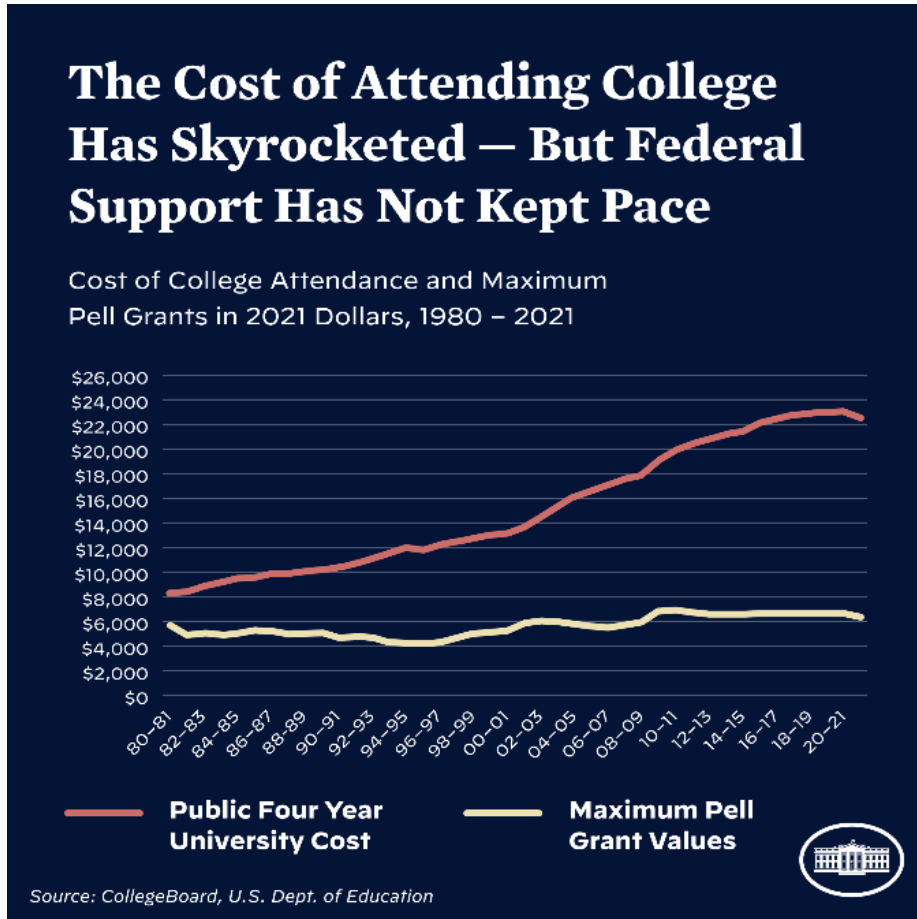
The higher relief for Pell grant recipients (up to \$20,000) targets lower-income individuals who have student debt. As the White House shows in the figure below, the maximum Pell grants, which are given to lower income students, have not increased much since the 1980s (in 2021-22, the maximum grant was \$6,495 a year), while the cost of college nationally has skyrocketed. Pell grants once covered nearly 80% of the cost of a four-year public college, but today they only cover about one-third of these costs. So, most Pell grant recipients in recent decades have still had to take out loans to cover the cost of college. Nearly all Pell grant recipients come from families that make less than \$60,000 per year and students who receive Pell grants typically face more difficulties in repaying their debt than other borrowers. The White House estimates that 60% of federal borrowers were Pell grant recipients,

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http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/RB_2022_09_Student_Loan_Forgiveness.pdf.

meaning significant numbers of federal loan holders will see the more generous student debt relief amount of \$20,000. This targeted relief will also help address racial inequities, as Black borrowers are twice as likely to receive Pell grants than their white peers.⁷

Figure 8

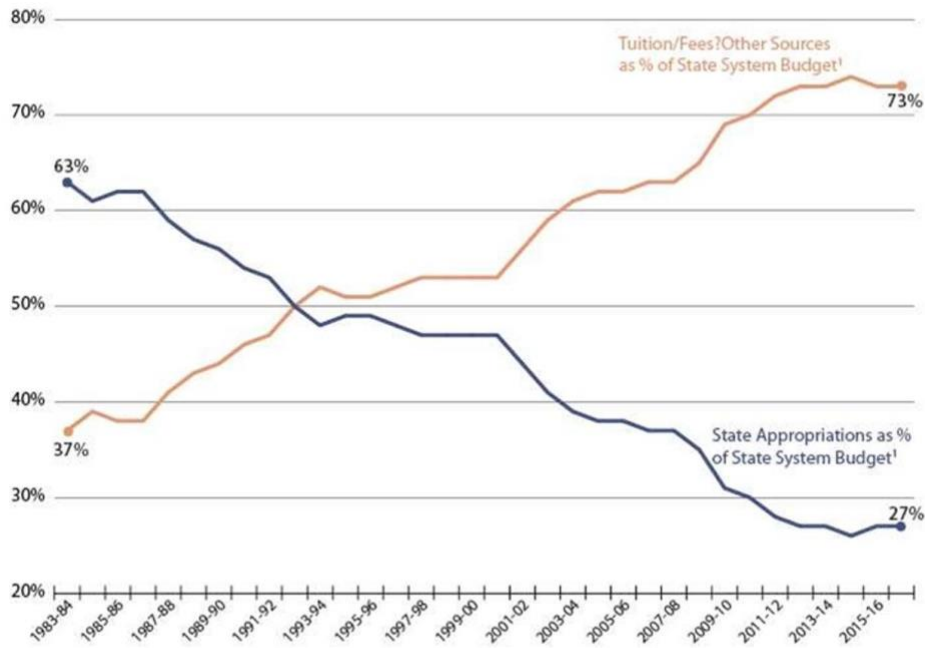


In Pennsylvania, the fact that student debt has skyrocketed and has become an increasing hardship for families and students partly stems from low state investment in higher education. Figure 9 shows that state appropriations for our State System of Higher Education plunged from 63% of the state system budget in 1983-84 to 27% by 2016-17. What made up the difference was tuition, fees, and other sources of revenue that fall heavily on students and their families. In recent decades, Pennsylvanians have faced a much greater financial burden to pay for college than college students of the past.

Figure 9

⁷ <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>.

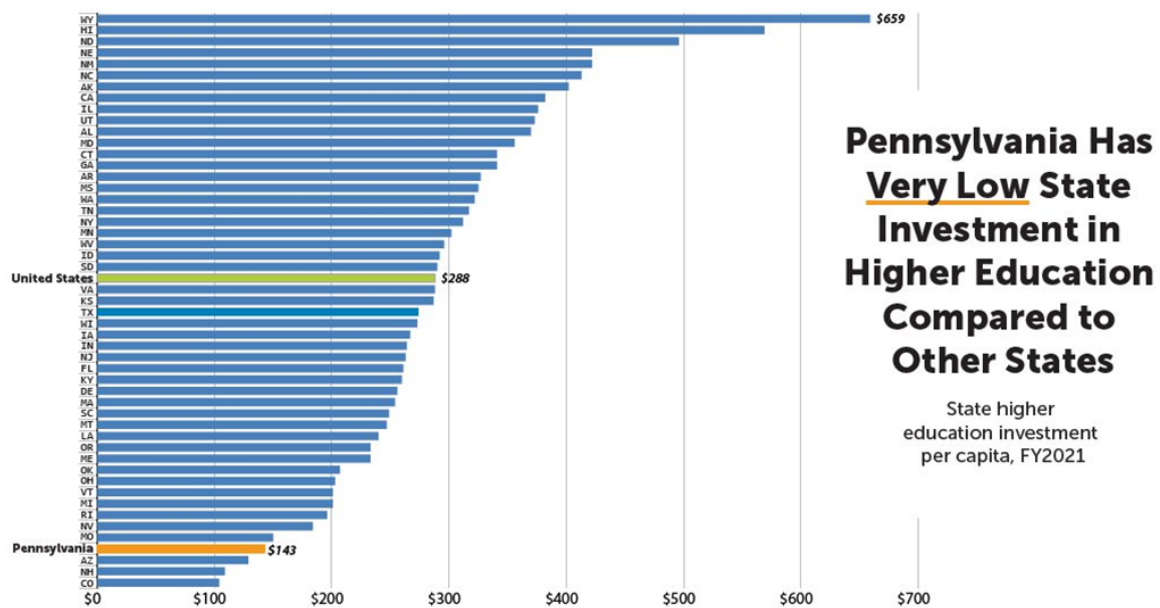
State Appropriations Plunge from 2/3 to 1/4 of State System Revenue Over Time



¹ State System budget here refers to the "Educational and General Appropriations" budget
 Source: Pennsylvania Budget and Policy Center analysis of Pennsylvania State System of Higher Education's 2017/18 Appropriations Request, Appendix B-13.

In fact, Pennsylvania ranks 47th in the nation for state per capita investment in higher education, spending \$143 per capita, far below the national average of \$288 per capita.

Figure 10



Pennsylvania Has Very Low State Investment in Higher Education Compared to Other States

State higher education investment per capita, FY2021

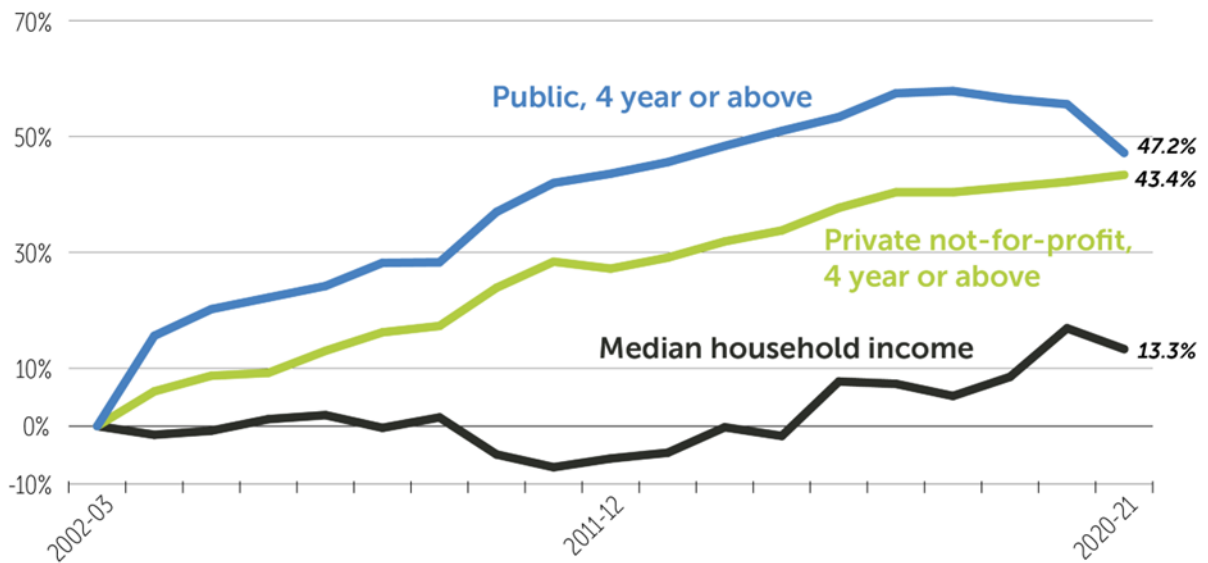
The prices for a post-secondary education at both public and private four-year colleges in Pennsylvania have increased at a greater rate than the median household income. While the state median household

income grew by only 13% between 2002-03 and 2020-21, the cost of public college increased by 47% and the cost of private college increased by 43%, making it more of a financial strain for families across the Commonwealth. This means that paying for college is becoming a greater burden on Pennsylvania's students and their families. In fact, the yearly cost of a public four-year college in our state is now 41% of Pennsylvania's median household income (of \$70,117 per year); one year of private 4-year college is 77% of the median income.

Figure 11

The Price of College Has Outpaced the Change in Median Income in Pennsylvania

Relative change in price of college* by institution type compared to median household income (inflation adjusted 2021 dollars), 2002-2020



*This is the price of college for in-state students living on campus, which includes in-state tuition and fees, books and supplies, on campus room and board, and other on-campus expenses.

Source: Keystone Research Center analysis of NCES, IPEDS data, <https://nces.ed.gov/ipeds/datacenter/Data.aspx>, and FRED economic data and inflation adjusted to 2021\$, <https://fred.stlouisfed.org/series/MEHOINUSPAA646N>

President Biden's plan is receiving mixed reviews. For some, the \$10,000 student loan forgiveness is a life saver—it wipes out some people's entire, or nearly entire, student debt, which will free them up to buy a house or a car, take a much-needed vacation or start a family. For others, the \$10,000-\$20,000 forgiveness is welcome but amounts to a drop in the bucket. Class of 2020 graduates in Pennsylvania, for example, are graduating with an average student debt of \$39,375, which is the third-highest student debt average in the nation behind only New Hampshire and Delaware. Students taking out more loans in undergraduate school or for graduate school face even higher amounts of debt repayment. Public service loan forgiveness is one option to help loan holders erase debt after 10 years of payments, but not everyone qualifies since it is mostly meant for those working in government or non-profits.

Another limitation with President Biden's student debt relief initiative is that it only forgives federal debt, not private debt, which many Pennsylvania students rely on to get through college. In Pennsylvania, 22% of 2020 graduates finished school with private loans, behind only North Dakota (27%)

and New Hampshire (25%). Pennsylvania ranked 8th in the nation for highest private loan debt at \$42,361 for 2020 graduates.

Acknowledging these limitations, President Biden's student loan forgiveness is a welcome first step in addressing our student loan crisis in this country. It shows that government can play a critical role in forgiving student debt which many said was not possible. It will help to lighten the load for individuals and families across our state. For many eligible borrowers, loan forgiveness will happen automatically if the U.S. Department of Education already has their income information. Those for whom the DOE does not have this information (or if a borrower doesn't know), a simple application will become available to fill out and loan balances will be adjusted.

Looking forward to next steps, we must remember that the student debt crisis and the forgiveness plan highlight another problem: the incredibly high cost of college in this country and, even more so, in Pennsylvania. High college costs limit our future, locking out some who would benefit from higher education, creating great and increasing hardships on families who try to help their children afford college, and weighing down college students themselves, who so often have to begin their careers with enormous debt. That's no way to set our young people up for success. We know there large benefits to a college education—for individuals, families, communities and for our economy as a whole. To fully reap these benefits, we must tackle the enormous financial burden of higher education.