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STUDENT LOAN CANCELLATION: ASSESSING STRATEGIES TO BOOST FINANCIAL SECURITY AND ECONOMIC GROWTH

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The problems associated with student loan debt are systemic and consequential. This brief analyzes and categorizes 16 proposals put forth by policymakers across political parties and ideologies, researchers, advocates, and others that could aid the 44 million borrowers who have student debt today. These proposals can generally be sorted into the following categories:

1. Major reforms to Income-Driven Repayment (IDR) plans, particularly automatic enrollment and expanded eligibility
2. Targeted cancellation of federal student loan debt held by borrowers whose student loans are most likely to undermine their financial security (such as low-income debtors)
3. Cancellation of federal student debt capped at $10,000–$50,000 per borrower
4. Full cancellation of all student debt

ABOUT EPIC

The Aspen Institute's Expanding Prosperity Impact Collaborative (EPIC), an initiative of the Aspen Institute Financial Security Program, brings an innovative approach to understanding and addressing the most critical challenges to Americans' financial security. EPIC deeply explores one issue at a time with the goal of generating widely-informed analyses and forging broad support to implement solutions that can improve the financial lives of millions of people.

EPIC's three-phase process includes Learning and Discovery, Solutions Development, and Acceleration. This process involves extensive research that includes expert and consumer engagement; developing solutions to the most critical problems we identify in the research phase; and working to accelerate highly promising solutions through outreach and partnerships with stakeholders in a wide variety of sectors and industries.

INTRODUCTION

Over the past two years the Aspen Institute Financial Security Program's Expanding Prosperity Impact Collaborative (EPIC) has researched the drivers of consumer debt, identified a series of challenges that systematically turn debt into a source of deeply consequential financial insecurity for millions of households, and developed a cross-sector framework for solving these problems. We published our findings in two reports: *Consumer Debt: A Primer*[1] and *Lifting the Weight: Solving the Consumer Debt Crisis for Families, Communities, and Future Generations*.[2]

Student loans emerged from this process as one of the most urgent consumer debt challenges to address. The burden of student loan debt is systemically undermining millions of households' financial security, with serious consequences for these borrowers and the nation.

It is important to acknowledge that student loans are not wholly bad for borrowers or the economy. Because of student loans, particularly those issued or backed by the federal government, more individuals have access to higher education today than in decades past. In 2017, 67% of those who graduated high school in the spring were enrolled in college at the end of the year (though more than 40% of those enrollees are not likely to complete a degree within six years).[3] The surge in attainment of at least some post-secondary education has created a more productive workforce and supported economic growth. For those who complete degrees, college education dramatically boosts their lifetime incomes.[4] Borrowing to attend college is a rational financial choice for most individuals who must either borrow or simply not attend college.

That said, millions of borrowers are not able to complete degrees and do not benefit from higher earnings.[5] And millions of degree recipients struggle to repay their student loans.[6] Even for those who have graduated and are current on student loan payments, the opportunity costs of repaying over 10–25 years are substantial, as the payments crowd out private savings and investment.[7] Moreover, an individual's experience in repayment depends on their race[8] and gender[9] (due to differences in labor market outcomes[10] and family wealth[11]) as well as the type of degree they received and type of institution they attended.[12]

The problems associated with student loan debt are systemic and consequential—but also solvable. EPIC's Consumer Debt Solutions Framework (*Lifting the Weight*) identified a number of solutions that leaders across sectors can implement to reduce the burden of record student loan debt on families and the economy. Some solutions focus on the nature of higher education financing itself, considering options to expand state funding, lower costs, and prevent current levels of borrowing in the future. This brief, on the other hand, focuses on debt relief proposals that would aid the 44 million borrowers who have student debt today. Both sides of the issue must be addressed, ideally in concert, to solve the problem for today's debtors, tomorrow's college students, and the communities and economies that rely on them.

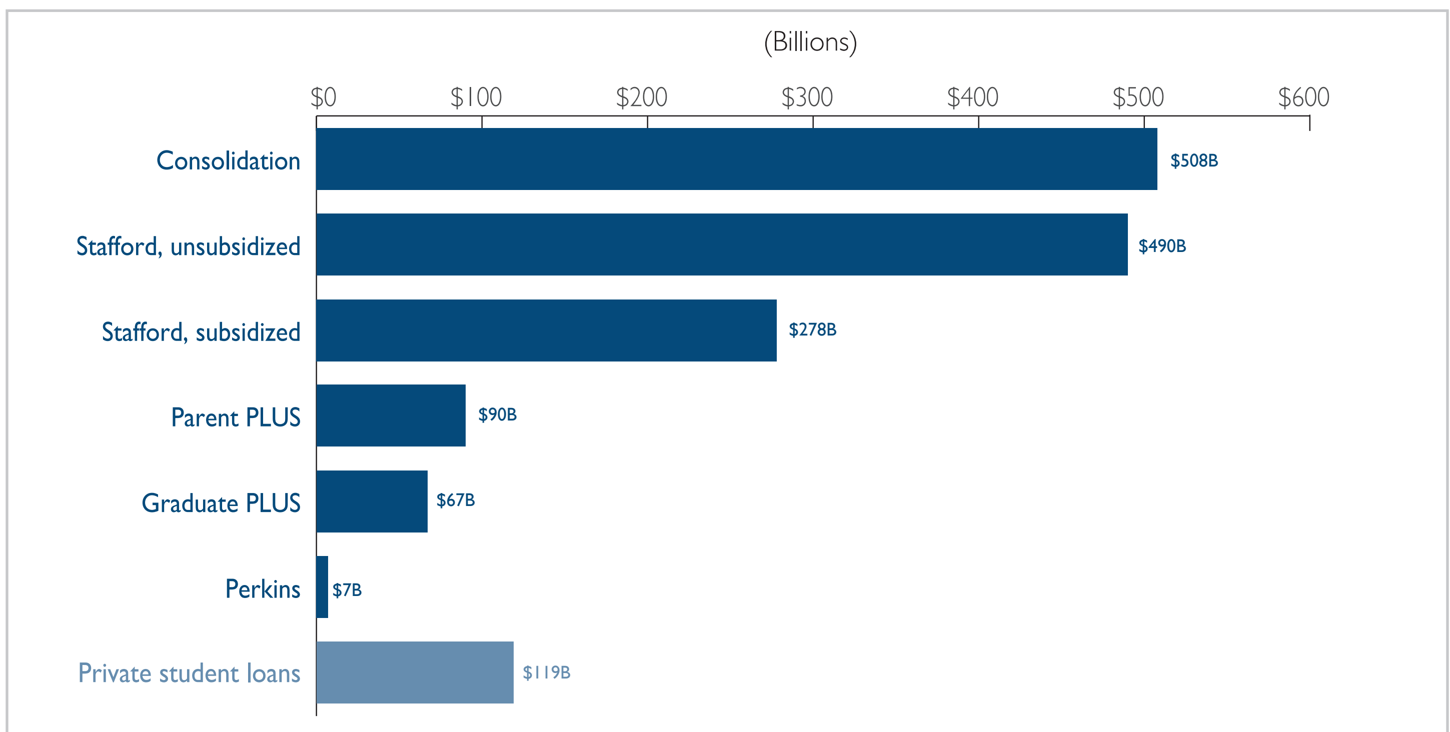
One sign of the urgency of the problem is the ideological and political diversity of stakeholders working on solutions. During the 115th Congress (2017–2018), for example, Democrats and Republicans, across the ideological spectra of their parties, introduced more than two-dozen bills to reform student loan repayment programs.[13] Presidents Obama[14] and Trump[15] included reforms in their budgets, and policymakers in red[16] and blue[17] states alike have implemented smaller-scale student loan relief policies.

> *The burden of student loan debt is systemically undermining millions of households' financial security, with serious consequences for these borrowers and the nation.*

This brief focuses on public policy opportunities to aid those who are currently struggling with student loan debt through penalty-free elimination of some portion of borrowers' existing federal student loans. Proposals to cancel large portions of these debts vary widely, from narrowly targeted reforms of federal repayment plans to total cancellation of all $1.5 trillion of outstanding federal student loan debt and $119 billion of private student loan debt. This brief provides objective analysis of 16 proposals, categorizing each as fitting within one of four broad forgiveness and cancellation strategies, and measuring them against a set of financial security goals EPIC first outlined in *Lifting the Weight*. Each of the four strategies we consider—reformed income-driven repayment, loan cancellation targeted to specific eligible populations, loan cancellation available to all borrowers with a cap on amount, and full cancellation of all student loans—can contribute to reaching these goals to varying degrees. EPIC's aim is to increase the ability of leaders, particularly policymakers, to understand the costs, benefits, and potential impacts of each of these student debt relief strategies, and to enable them to develop proposals that effectively achieve their specific policy objectives.

Federal policy reforms to forgive or cancel outstanding student loan debt have become a hot topic of debate among advocates, researchers, and policymakers, but represent only one of many approaches under consideration. Others that are similarly intended to reduce the monthly and lifetime costs of student loans include large-scale refinancing by the federal government, institutional risk-sharing, income share agreements, and employer-sponsored student loan repayment benefits. While these are all valid and interesting proposals, this brief focuses on proposals for forgiveness and cancellation because these have garnered significant public attention,[18] including from 2020 presidential candidates,[19] but have not previously been the subject of an independent analysis such as this.

Figure 1. Breakdown of $1.5 Trillion Outstanding Student Loan Debt



Sources: Federal Student Loan Portfolio Summary; Measure One private student loan report

THE COSTS OF STUDENT LOAN DEBT ARE LARGE AND INEQUITABLE

While borrowing to attend college is often an economically sound decision, the high cost of higher education frequently makes it a necessity, not a choice. The rapid rise of student loan debt has coincided with powerful trends such as income stagnation,[20] rapidly rising costs of housing[21] and healthcare,[22] and structural changes in education markets.[23] These forces shape how students incur debt and the consequences that debt has for their financial security. As a result, federal student loan debt has reached record levels: 44 million borrowers[24] owe $1.5 trillion,[25] with a median balance of $19,000.[26] It is notable that between 2000 and 2016, aggregate student debt more than tripled[27] while the number of borrowers has only risen by about 28%.[28] While borrowing to attend college does pay off for many in terms of increased lifetime income, the loans come with heavy costs: even among those who are current on their payments, student loan debt contributes to higher stress,[29] poorer health,[30] lower savings,[31] higher likelihood of carrying other forms of debt,[32] and reduced ability to become homeowners[33] or start businesses.[34]

As shown in Table 1, the average level of debt students incur varies widely depending on the level of degree they receive and the type of institution they attend. It may be rational for many students to borrow $25,500 to attain a Bachelor degree from a public university, as this is well below the median starting salary of a new graduate;[35] it may not make sense to borrow $39,950 to attain a Bachelor degree from a for-profit school, particularly given the poor outcomes of many of these schools.[36]

Unfortunately, there is not consistent data on typical amounts of student loans broken out by degree and type of institution. To create Table 1, we relied on three data sets from two institutions, with data spanning 2015-2017 and one of the figures is only available as a median rather than an average. The most recent statistics we could identify on the average cumulative loan balance of non-completers, the group most at risk of defaulting on student loans, were from 2009. At that time it was $8,225[37] and has surely risen since. More comprehensive research and public data are needed to fully understand the extent of the problem, particularly for attainment levels below four-year degrees.

Table 1. Average Cumulative Debt by Degree Type and Institution

Degree	Associate[35]	Bachelor[36]	Master[37]	Doctor, research[38]	Doctor, professional[39]
Public 4-Year	N/A	$25,550	$54,500	$92,200	$142,600
Private Nonprofit 4-Year	N/A	$32,300	$71,900	$94,100	$221,800
For Profit	N/A	$39,950	$90,300	$160,100	$190,200
All 2-Year	$13,800*	N/A	N/A	N/A	N/A
Year and Source Of Data	2015, National Center for Education Statistics	2016-2017, The Institute for College Access and Success	2015-2016, National Center for Education Statistics		

** this is the median debt, as the cumulative average is not available with this data set*

Furthermore, unlike mortgages, credit cards, and auto loans, whose default rates have all returned to pre-Recession levels, 11.5% of student loans are in default (compared to 7.4% in the first quarter of 2008).[38] Defaults are not primarily driven by the small proportion of students who could be described as "overborrowing," such as the 5% of borrowers with six-figure debt.[39] In fact, almost half of those who default did not complete a degree.[40] As Table 2 indicates, those most likely to default have lower-than-average balances; borrowers with loans of $10,000 or less make up more than half of all defaults. The default rate is likely to remain high for the near future: a recent Brookings Institution study suggests that as many as 40% of current borrowers could default on their federal loans by 2023.[41]

Defaulting on student loans significantly harms debtors' financial well-being by damaging their credit; exposing them to debt collection actions, wage garnishment, Social Security garnishment, and loss of tax refunds;[42] putting them at risk of losing their occupational license;[43] and, for many who borrowed from the federal government, precluding their access to income-driven repayment (IDR) plans and loan forgiveness.[44]

Table 2. Share of Defaulters and Three-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2010–11, by Loan Balance

Outstanding Loan Balance	Share of Defaulters	Default Rate
Less than $5,000	35%	24%
$5,001 to $10,000	31%	19%
$10,001 to $20,000	18%	12%
$20,001 to $40,000	11%	8%
More than $40,000	4%	7%

SOURCE: US Council of Economic Advisers (2016), Investing in Higher Education: Benefits, Challenges, and the State of Student Debt, *Figure 27.*

Student loan debt has significantly expanded the racial wealth gap, harming both black and Latinx households.

Borrowing to attend college should enhance borrowers' financial security, but many find themselves mired in debt they cannot pay down without short-term hardship or long-term negative consequences on both sides of their household balance sheet. These risks are not distributed evenly or fairly; those most likely to experience poor outcomes include:

- Historically disadvantaged racial groups (specifically black, Hispanic/Latino, Native American or Alaska Native, and multiracial borrowers, all of whom experience higher-than-average student loan default rates)[45]
- Borrowers whose incomes are near poverty for multiple years after leaving school[46]
- Borrowers who enrolled but did not complete a degree or certification[47]
- Borrowers who attended for-profit schools[48]
- Other groups of borrowers, including veterans,[49] disabled people,[50] women,[51] and borrowers aged 55+ with relatively low incomes[52]

The explosion of student loan debt over the past two decades has had a profoundly negative impact on the racial wealth gap,[53] undermining the promise of higher education as the pathway to middle class security for black and Latinx[54] households. One study found that student loans account for 13%–23% of the black-white wealth gap among young adults.[55] The magnitude of racial disparities is largest for black borrowers, but Latinx borrowers also face challenges. A recent study found that while having higher education generally acts as a buffer against loss of wealth during difficult

economic times, this is untrue for both black and Latinx borrowers.[56] Given the demographic shifts in the United States (US) population, the impact of student loan debt on the racial wealth gap is likely to become a more urgent problem in the future. The wealth gap already represents a financial manifestation of centuries of racial inequity in American society, but policy reforms can contribute to reversing the damage wrought by student loans.

Finally, these costs to individual households and demographic groups add up to enormous aggregate costs to society and the economy. In 2014, Deputy Secretary of the US Treasury Department Sarah Bloom Raskin stated that while neither she nor other economic policymakers anticipated student loans triggering a financial crisis or recession, the costs of reduced homeownership and business formation, as well as the cost of rising defaults, were significant and could be a drag on growth.[57] Also in 2014, the Federal Reserve Bank of Philadelphia found that an increase of one standard deviation in aggregate student loan debt reduced the number of new microbusinesses (firms with 0-4 employees, the most common type of small business in the US) by 14% between 2000 and 2010;[58] since then, outstanding student loan debt has nearly doubled.[59] More recently (2017), the Federal Reserve Board of Governors published an analysis finding that, for millennials who attended four-year public institutions, a $1,000 increase in a student loan debt reduced the homeownership rate by about 1.5 percentage points.[60]

Delinquency, Default, and Collections for Federal Student Loans

Delinquency occurs as soon as a borrower misses a payment. Servicers of federal student loans will not report missed payments to credit bureaus until they are 90 days late.

Source: https://studentaid.ed.gov/sa/repay-loans/default

Default generally occurs when payments for federal loans are 270 days past due. Once a loan is in default, the borrower is immediately liable for the full principal and interest balance and loses eligibility for forbearance, deferment, and most repayment plans. Borrowers may contact their servicer to work out an alternative repayment plan; if they are able to rehabilitate their loan and make payments on time going forward, borrowers may regain eligibility for those benefits. However, for borrowers who are not able to enter an alternative repayment arrangement or fail to rehabilitate, the Department of Education refers the loan to collections.

Source: https://studentaid.ed.gov/sa/repay-loans/default/

Collections actions make borrowers liable for additional charges levied by the collections agencies assigned to borrowers' loans. These agencies follow industry-standard practices to the extent permitted under federal law and their contracts with the Department of Education. Collections actions commonly include garnishing wages and intercepting federal payments, including from the Internal Revenue Service, Social Security, and Social Security Disability.

Source: https://studentaid.ed.gov/sa/repay-loans/default/collections

In 2018, Federal Reserve Chair Jerome Powell was asked in a hearing before Congress whether student loan debt was holding back economic growth. He stated that "it will over time," though its impact was not yet apparent in the Fed's data. Emphasizing the life-long impact of student loans on individual borrowers, he continued, "as this goes on and as student loans continue to grow and become larger and larger, then it absolutely could hold back growth."[61] A comprehensive analysis from the Levy Economics Institute at Bard College found, using independent macroeconomic models from Moody's and Yale University,[62] that cancelling all outstanding student loan debt would unleash between $800 billion and $1 trillion in additional economic growth over the next 10 years.[63]

It is unclear whether these costs could outweigh the very real benefits of a more educated and productive workforce in the long term, but the trends are alarming and the risks are too significant and consequential to ignore. Policymakers have a critical role to play in mitigating the macroeconomic and household financial security risks of student loan debt.[64]

GOALS FOR STUDENT LOAN DEBT RELIEF

Solving the student loan debt crisis requires focusing on the financial well-being of borrowers and deploying strategies that boost their short- and long-term financial security.[65] **The Consumer Debt Solutions Framework articulates two goals that solutions should achieve:**

- **Post-secondary education is more affordable for students and more equitable in cost and benefit for people of color**
- **Reduced financial burden and increased well-being for people with unaffordable student loan debt**

This brief focuses on policy strategies to achieve these goals by increasing the affordability of loans already taken out. It explores strategies that reduce the lifetime cost to borrowers and mitigate repayment problems that disproportionately affect borrowers of color. Strategies that directly reduce the amount students borrow up-front, such as debt-free tuition proposals or other large-scale changes to higher education financing, are also critical to ensure current and future students don't face the same burdens that current borrowers are contending with, but these are outside the scope of this brief.

This brief considers four strategies through the lens of these goals. EPIC identified these strategies by analyzing and categorizing 16 proposals put forth by policymakers across political parties and ideologies, researchers, advocates, and others. While each has unique characteristics, the proposals can generally be sorted into the following categories:

1. **Major reforms to Income-Driven Repayment (IDR) plans, particularly automatic enrollment and expanded eligibility**
2. **Targeted cancellation of federal student loan debt held by borrowers whose student loans are most likely to undermine their financial security (such as low-income debtors)**
3. **Cancellation of federal student debt capped at $10,000–$50,000 per borrower**
4. **Full cancellation of all federal student debt**

Table 3. Assessing the financial security impacts of student loan forgiveness and cancellation strategies

Strategy	Proportion of borrowers helped	Level of relief for general borrower population	Level of relief for financially vulnerable borrowers	Contribution to greater racial equity in post-secondary education cost and benefit	Approximate cost to federal government
Reformed Automatic IDR	Majority of borrowers	High	Medium	Medium	Uncertain
Targeted Cancellation	Varies; likely less than 50%	Low	High	High	Varies; Less than the $1.5 Trillion
Cancellation Capped at $10,000–$50,000 Per Borrower	95% - 100%	High	High	Varies based on the cap	$400 Billion–$640 Billion
Full Cancellation	100%	High	High	Uncertain	$1.5 Trillion

Table 3 summarizes how each strategy could reach EPIC's goals and, where possible, provides a cost estimate. The next section of this brief considers specific proposals representative of each strategy.

Strategies to Increase Financial Security through Federal Student Loan Debt Relief

This section includes a description of each strategy; summaries of the characteristics of 16 proposals; and EPIC's analysis of each strategy's ability to increase household financial security.

I. REFORMED AUTOMATIC INCOME-DRIVEN REPAYMENT

The federal government currently operates numerous student loan repayment programs. The Standard plan, which is the default option, amortizes the borrower's debt with fixed payments over a 10-year term. There is also a fixed-payment plan with a 25-year term, a graduated plan in which borrowers' monthly payments increase over time, and five plans that base monthly payments on borrowers' income.[66] Income-driven repayment (IDR) is frequently the best option for borrowers, as it provides more affordable payments in the short-term and forgives the remaining balance after 20 or 25 years.[67] We include an analysis of IDR reform proposals in this brief because they have large implications on the amount of current loan balances that could ultimately be forgiven or cancelled.

Most borrowers who enroll in IDR currently are placed in the REPAYE plan, which sets payments at 10% of the borrower's adjusted gross income (AGI) for a period of 20 years (undergraduate loans) or 25 years (graduate loans); remaining balances are taxed as income upon program completion (except for participants in the Public Service Loan Forgiveness (PSLF) program, who are exempt from these taxes).[68] Participants in any IDR plan must file an annual application to re-certify with the Department of Education and update their payment amounts based on their earnings.

Despite the clear benefits of IDR, only 24% (5.3 million) of federal borrowers currently in repayment are enrolled,[69] which is approximately half of those estimated to be eligible.[70] One reason for low participation is participation restrictions. For example, the 3.6 million borrowers holding nearly $90 billion in Parent PLUS loans are only eligible for the Income-Contingent Repayment option, which requires payments twice as large as other current IDR plans.[71] Moreover, borrowers in default lose eligibility for IDR and can only regain eligibility under limited conditions.[72]

Among those who are eligible for IDR, the most important factor influencing low enrollment is that borrowers must opt in to IDR.[73] But the barriers to participation do not end at enrollment; each year, borrowers in IDR must complete forms to recertify their participation and opt in to allow the Internal Revenue Service (IRS) to share individual and household income data with the Department of Education. Many participants exit IDR because they fail to recertify;[74] as of 2014, more than half (57%) of borrowers required to recertify did not submit paperwork by the deadline; only one third of those were able to successfully recertify within six months.[75]

Despite these challenges, IDR is critical to the financial security of participants. The program primarily helps those with low and moderate incomes.[76] Simply participating in an IDR plan is associated with higher likelihood of making payments and lower likelihood of being in deferment, forbearance, or default,[77] though this may in part be a function of the financial characteristics of those who self-select into the program. Given these benefits, reforming and expanding access to IDR could do much to relieve the burden of student loan debt on financial security.

Proposals to Reform IDR

Numerous policymakers, advocates, and researchers have proposed streamlining and simplifying IDR into a smaller

number of plans and either making IDR the default choice for borrowers entering repayment or automatically enrolling all borrowers in IDR. Recent experimental research indicates that simply changing the default choice from Standard to IDR could nearly double the proportion of students who participate.[78]

Below is a summary of six proposals from leading experts (including two of the several dozen legislative proposals on IDR introduced in the US House of Representatives or Senate during the 115th Congress, 2017–2018). It is not intended to be a comprehensive list, rather one that represents the range of recent proposals and identifies areas of consensus on specific reforms.

The "Streamlining Income-driven, Manageable Payments on Loans for Education Act" ("SIMPLE" Act)
Introduced in the House of Representatives by Rep. Suzanne Bonamici (D-OR) and in the Senate by Sen. Ron Wyden (D-OR) in 2017,[79] the bill proposed narrowing existing repayment plans to one income-based repayment plan and one fixed repayment plan, instituting automatic recertification

Table 4. Federal Direct Loan Repayment Programs

Type	Plan Name	Eligibility	Monthly payment	Repayment term (in years)
Non-Income-Driven Repayment Plans Loan fully repaid at end of term	**Standard Plan**	All Direct Loan Borrowers	Remains Fixed	10
	Graduated Plan	All Direct Loan Borrowers	Increases Over Time	10
	Extended Plan	Borrowers with $30,000 or more in Student Loans	Fixed Or Increases Over Time	up to 25
Income-Driven Repayment plans Forgiveness of any remaining balance at end of term	**Income-Contingent**	All Direct Loan Borrowers	20% Of Borrower's Discretionary Income	25
	Income-Based	Income-Eligible Borrowers (Loans Issued Before July 1, 2014)	15% Of Borrower's Discretionary Income	25
	New Income-Based	Income-Eligible Borrowers (Loans Issued July 1, 2014 or Later)	10% Of Borrower's Discretionary Income	20
	Pay As You Earn	Income-Eligible Borrowers (Loans Issued October 1, 2011 or Later)	10% Of Borrower's Discretionary Income	20
	Revised Pay As You Earn	All Direct Loan Borrowers	10% Of Borrower's Discretionary Income	20 or 25

SOURCE: US Government Accountability Office (2016), Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates, *Figure 1.*

for IDR participants, and automatically enrolling severely delinquent borrowers and those who rehabilitate their loans into IDR.

Cost estimate: Not provided

The Affordable Loans for Any Student Act

Introduced by Sen. Jeff Merkley (D-OR) in 2018,[80] the bill proposed narrowing existing repayment plans to one income-based repayment plan and one fixed repayment plan, instituting automatic recertification for IDR participants, and automatically enrolling severely delinquent borrowers and those who rehabilitate their loans into IDR. It also would have limited federal debt collection amounts obtained through wage garnishment or tax offset to no more than the amount the borrower would pay under IDR.

One additional provision of the bill would have significantly reduced all borrowers' costs, not just those in IDR: ending interest capitalization and origination fees on federal student loans. Capitalization is the process through which fees and incidental costs of a loan are not paid up front but are instead added to the principal balance of the loan; the borrower thus pays interest on those fees throughout the life of the loan. Under current law, both loan origination fees[81] and interest are periodically capitalized (with the exception of the 20% of loans that have temporary interest subsidies for undergraduates).[82] Student loans continue to accrue interest on the full principal balance while a borrower is not making payments because they are attending school, or their loans are in deferment or forbearance. For some IDR participants, monthly payments are less than the interest.[83] This is the primary reason that many see their loan balances grow even as they make payments.[84] For black borrowers, this problem is severe: 48% of black borrowers with a Bachelor degree see their loan balances grow within four years of graduation.[85]

Cost estimate: Not provided

The Parent PLUS Loan Improvement Act

Introduced by Rep. Marcia Fudge (D-OH) in 2018,[86] the legislation proposed reforms to Parent PLUS loans, which are the final option within the federal loan market for families who cannot afford the cost of attendance after receiving grants and loans in the student's name. Low-income parents and black parents of undergraduate students are the most likely to take out Parent PLUS loans.[87] Currently, PLUS loans have above-average interest rates and origination fees and the only income-based repayment option available is Income-Contingent Repayment (ICR), which requires 20% of income payments for 25 years, and depends on the borrower consolidating their loans.[88] The bill would have made Parent PLUS loans (and consolidation loans that are used to pay off Parent PLUS loans) eligible for most IDR programs, reduced the interest rate on new Parent PLUS loans, and eliminated the origination fee. It would also have instituted mandatory loan counseling prior to disbursement.

Cost estimate: Not provided

The Promoting Real Opportunity, Success, and Prosperity through Education Reform Act (PROSPER Act)

Introduced by Rep. Virginia Foxx (R-NC) in 2017,[89] the bill proposed narrowing existing repayment plans to one income-based repayment plan and one fixed repayment plan, eliminating PSLF, allowing the Secretary of Education to include severely delinquent borrowers and those who rehabilitate their loans in IDR, adjusting the length of repayment terms based on the loan balance, among other provisions unrelated to student loan repayment.

Cost estimate: According to the Congressional Budget Office, the PROSPER Act would cost $600 million in its first year but would reduce direct spending by $14.6 billion over ten years.[90]

Senator Lamar Alexander's proposal to "Make College Worth It"

Sen. Alexander (R-TN), chair of the Senate Committee on Health, Education, Labor and Pensions (HELP), outlined his committee's legislative priorities for student loan reforms in a 2019 speech to the American Enterprise Institute.[91] He proposed narrowing existing repayment plans to one income-driven repayment plan and one fixed repayment plan. Payments under both plans would be deducted directly from borrowers' paychecks. Borrowers in the remaining income-driven plan would have 10% of their discretionary income (defined here as gross income minus $18,735) deducted automatically. The senator indicated that after 20 years, undergraduates would have remaining balances forgiven. At the time of writing, legislation has yet to be introduced.

Cost estimate: Not provided

President's Trump's Fiscal Year 2019 Budget Proposal, Office of Management and Budget:

President Trump's 2019 budget proposal,[92] which was not adopted by Congress, would have consolidated current IDR plans into a single plan (including eliminating Public Service Loan Forgiveness for new borrowers). The single IDR plan would have capped a borrower's monthly payment at 12.5% of discretionary income. For undergraduate borrowers, any balance remaining after 15 years of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven. It also proposed multi-year certification of income agreements (preventing the need to submit authorization paperwork every 12 months) and automatic enrollment of severely delinquent borrowers into IDR.

Cost estimate: The Office of Management and Budget (OMB) estimated that reforms to IDR would save the government $128 billion over 10 years, while elimination of PSLF would reduce spending by an additional $46 billion.

Reforming Federal Student Loan Repayment: A Single, Automatic, Income-Driven System:

Sandy Baum and Matthew Chingos of the Urban Institute propose replacing the current student loan repayment system with a single income-driven program (eliminating the 10-year standard plan).[93] Repayment would be determined by both the borrower's total household income and their loan balance. They suggest a repayment requirement of 1% of income for every $10,000 borrowed, assessed only on income in excess of 150% of the federal poverty level. The authors also suggest tying the length of repayment term required before forgiveness to the amount borrowed, with a minimum of 20 years. Like Sen. Alexander's proposal, payments would be collected through payroll withholding.

Cost estimate: Not provided

Balancing risk and responsibility: Reforming student loan repayment:

Kevin James and Andrew Kelly of the American Enterprise Institute recommend maintaining the standard and graduated plans while condensing IDR.[94] The authors also propose basing the share of income required on the loan balance, suggesting 1% of income for every $3,000, with a cap on the total percentage of income required. Under their proposal, interest accruals would either be capped to prevent balances from growing when borrowers' payments are less than the interest accrued, or interest would be abolished entirely, replaced with an origination fee that amortized over the life of the loan.

Cost estimate: Not provided

Achieving EPIC goals on student loan debt relief through reforming and automating IDR

Several aspects of the reform proposals discussed above would meaningfully support borrowers' financial security, including:

- Make IDR the default option for student loan repayment while continuing to enroll high-earners in standard

repayment, without the opportunity for forgiveness

- Create a single IDR plan while maintaining PSLF and the Standard plan
- Create multi-year income verification agreements so that borrowers do not need to authorize the IRS to share data with the Department of Education every 12 months
- End capitalization of interest or cap interest accrual so that balances cannot grow out of control even as borrowers make required payments
- Maintain eligibility for borrowers who default, and automatically enroll defaulted borrowers who are not yet in IDR
- Make Parent PLUS loans eligible for all IDR plans
- Make all loan forgiveness tax-free, as proposed by the Institute for College Access and Success, to prevent borrowers from receiving unaffordable tax bills after they finish repayment[95]

Reforming and automating enrollment into IDR would help make higher education more affordable as well as reduce the financial burden and increase well-being for people with unaffordable student loan debt by reducing millions of borrowers' monthly costs through increased participation and millions of borrowers' lifetime costs through automated recertification and tax-free forgiveness. It would also prevent borrowers from losing eligibility due to financial hardship, particularly those who default.

These IDR reforms would contribute to efforts to increase racial equity in the cost and benefit of higher education primarily by prohibiting capitalization of interest. Capitalizing interest contributes disproportionately to the growth of black borrowers' loan balances after entering repayment, in part because black borrowers start with higher balances and therefore higher interest accruals. The problem is compounded by the black-white wage gap and the greater likelihood of experiencing financial hardship that black households face. In combination, these factors lead black borrowers to make fewer and smaller repayments.[96] Furthermore, this strategy would reduce defaults, which disproportionately affect students of color.[97]

The remainder of this brief focuses on opportunities to provide student debt relief through large-scale cancellation of outstanding debt for millions of borrowers. Unlike IDR and PSLF, these proposals would not forgive loan balances when borrowers satisfy certain conditions. Instead, they would simply cancel some or all of their outstanding loans. We address three different loan cancellation strategies ranging from those focused on specific high-need populations to proposals for universal cancellation of all federal student loan debt.

II. TARGETED CANCELLATION

Targeted cancellation of federal student loans would reduce the loan balances of specific populations. Currently, targeted cancellation is available to students enrolled in PSLF[98] and, to a more limited extent, AmeriCorps participants,[99] teachers in high-poverty schools,[100] and nurses working in non-profit institutions in high-need areas.[101] Targeted cancellation strategies minimize costs compared to proposals with universal eligibility and focus on providing relief to specific groups. The primary justification for targeted cancellation is that in a resource-scarce environment, assistance is best channeled to those who are most likely to experience financial hardship that is exacerbated by student loans.

While targeted cancellation of the most financially vulnerable borrowers' loans is intended to direct limited resources to those who most need support, programs structured in this way often face serious implementation challenges related to the administrative burden and expense of ensuring compliance with program rules while achieving high participation rates among eligible participants. In the education policy realm alone, this has been a challenge with free pre-Kindergarten programs,[102] free college programs,[103] and, as previously discussed, within current IDR programs. These challenges can be overcome; take-up of the nation's largest anti-poverty policy, the Earned Income Tax Credit,

remained low for decades, until the IRS began partnering with local governments and community organizations to stage annual outreach campaigns.[104]

Proposals to cancel student loans for targeted populations

Most of the well-developed proposals for targeted student loan cancellation that EPIC was able to identify call for reforms to PSLF designed to increase the proportion of participants whose applications for loan forgiveness are approved. One such proposal is discussed below, along with two others focused on other target populations.

Avoiding the PSLFiasco:

This 2017 proposal from the New America Foundation's Education Policy analysts Claire McCann and Rachel Fishman predicted the ongoing implementation failures in PSLF.[105] October 2017 was the first month in which eligible participants could submit applications to have their loans forgiven. By mid-2018, the Department of Education had denied nearly 30,000 applications and approved fewer than 100;[106] by October 2018, the Department had received and processed thousands more applications while maintaining a denial rate over 99%.[107] Evidence indicates that one common reason for denial among these early applicants was that many borrowers did not receive accurate, full information about the eligibility of each of their loans for PSLF until they applied for forgiveness.[108]

McCann and Fishman anticipated these challenges and suggested reforms focused on three goals: improving program administration;[109] ensuring early enrollment among eligible borrowers;[110] and limiting eligibility to workers in public institutions and 501(c)(3) nonprofit organizations while capping forgiveness at the federal limit on undergraduate borrowing, $57,500.[111] These final measures are intended to ensure that the program does not deliver windfalls to relatively high-earning public service professionals with significant graduate school debt.

Cost estimate: The authors cite a Brookings Institution analysis[112] of unpublished data from the Congressional Budget Office (CBO) indicating that capping PSLF forgiveness at $57,500 would save the government $6.7 billion over 10 years. Cost estimates for other elements of the proposal are not available.

Less Debt, More Equity: Lowering Student Debt while Closing the Black-White Wealth Gap:

This 2015 proposal from Demos considers two different targeted cancellation approaches, both designed to reduce the racial wealth gap by providing student loan relief to lower-income households.[113] The first option would eliminate student debt for households making $50,000 or below. The authors find that this would reduce the racial wealth gap between black and white families by over $2,000, or nearly 7%, and by nearly 37% among low-wealth households. The second option would eliminate student debt for a smaller group of low-income households, those making $25,000 or below. Demos estimates that this option would reduce the racial wealth gap between black and white families by over $1,000, or around 4%, and by over 50% among low-wealth households.

Cost estimate: Not provided

Automatic Loan Forgiveness for Disabled Veterans:

This 2018 proposal from Veterans Education Success, a coalition of advocates for veterans and disabled people, would automatically forgive the student loans of veterans who have been determined by the VA to be totally and permanently disabled or deemed Individually Unemployable.[114] Loan forgiveness is often already available to these veterans but requires a lengthy application process that many are not even aware exists. The proposal would also protect these veterans from state tax bills upon loan discharge.

Cost estimate: Through a Freedom of Information Act (FOIA) request, Veterans Education Success published a 2018 Department of Education estimate that approximately $1 billion in outstanding federal student loan debt is owed by disabled veterans who would likely receive forgiveness if they applied.[115]

Achieving EPIC goals for student loan debt relief through targeted cancellation:

Several aspects of the proposals discussed above would meaningfully support borrowers' financial security.

Implementing targeted cancellation of student loans would help make higher education more affordable as well as reduce the financial burden and increase well-being for many people with unaffordable student loan debt by prioritizing support for the most financially vulnerable borrowers. Its capacity to reach millions of borrowers depends on the size of the eligible populations.

While the eligibility parameters for each proposal vary, most would indirectly contribute to efforts to make higher education more equitable in cost and benefit for people of color. EPIC did not identify any proposals basing eligibility on race and ethnicity, potentially due to the risk it would be found unconstitutional. Demos's estimates of the impact of cancellation targeted by income on the racial wealth gap demonstrate the capacity of targeted programs to make a substantial difference. People of color, particularly black people, are disproportionately likely to be low-income,[116] attend for-profit schools[117] or schools that defrauded students[118] or consistently produce poor graduation and earnings outcomes,[119] and serve in the military.[120]

Finally, one challenge EPIC faced in assessing the strengths and weaknesses of targeted cancellation strategies is their potential variability. The eligible population(s) and parameters of cancellation (full or partial, immediately or over time, etc.) determine not only their cost to taxpayers but also their impact on beneficiaries' financial security.

III. CANCELLATION CAPPED AT $10,000–$50,000 PER BORROWER

One drawback of targeted cancellation strategies is that some individuals who truly need assistance will inevitably be ineligible. Using the Demos proposal, for example, struggling borrowers with household incomes above $50,000 would not receive relief even if their IDR payments were less than the accrued interest. An alternative approach to ensure that all struggling borrowers benefit would be to offer cancellation to all borrowers, capped at a certain amount.[121] (Under both strategies, a small proportion of beneficiaries are likely to be borrowers who are not struggling.)

The capped cancellation approach may be particularly well-suited to the federal student debt crisis, as many of the borrowers demonstrating student loan-related financial distress have relatively low balances. According to a College Board analysis of individuals who entered repayment in 2010-2011, 66% of those who had defaulted within three years had balances under $10,000.[122] Considering the full population of borrowers who entered repayment in that time, the College Board found that 24% of borrowers with balances under $5,000 had defaulted,[123] while an Urban Institute analysis found that borrowers with balances under $5,000 were the most likely to enter default, followed by those with balances between $5,009-$14,999.[124] Still, the Urban Institute notes that the problem remains significant among those with above-average balances; 15% of those with balances over $35,000 had defaulted.

Taken together, these findings suggest that capped cancellation could fully wipe out student loan debt for many of those who are in distress or face the highest risk, while still providing meaningful relief to other struggling borrowers and limiting the degree of relief available to highly indebted, high-income professionals such as lawyers and doctors.

The impact and cost of such a cancellation program depend on the cap. Below is a review of two proposals specific to student loan debt in the US. One comes from Democratic presidential candidate Senator Elizabeth Warren (D-MA) as part of her 2020 primary campaign. Another is an earlier, informal proposal from an economics journalist. Finally, we also review the capped cancellation policy currently in effect in Wales, United Kingdom.

Proposals for capped cancellation of student loan debt

Sen. Elizabeth Warren's proposal to Cancel Student Loan Debt:

In April 2019, Warren's presidential campaign released a proposal to both cancel millions of dollars in outstanding student loan debt and make public college tuition-free going forward.[125] She proposes cancelling up to $50,000 of student loan debt for all borrowers except those earning more than $250,000. While not quite universal, the plan would cover 95% of borrowers. Those with incomes below $100,000 would have up to $50,000 cancelled, with a gradual reduction in the amount for incomes between $100,000-$250,000. Sen. Warren highlights that this can largely take place automatically using existing data from the IRS and the Department of Education. The proposal also includes opportunities to cancel private student loan debt. None of the cancelled debt would be taxed as income.

Cost estimate: $640 billion

Forgive $20,000 of every student's debt:

In a *Slate* column, journalist Jordan Weissman informally proposed forgiving up to a flat amount of loans for every borrower.[126] Weissman proposed a $20,000 cap, with the rationale that the median student loan debt of borrowers who entered repayment in 2014 was more than $19,000. He also noted that borrowers with balances under $10,000 were most likely to default or have failed to complete a degree, suggesting that this could also be an appropriate cap.

Cost estimate: Not provided

Welsh student loan repayment Plan 1: Partial cancellation of student loan debt:

In the past decade, Wales implemented major reforms to higher education financing, student loans, and repayment. In fact, Wales appears to have implemented the first government-sponsored capped student debt cancellation policy.[127] All students who borrowed to attend school full-time starting in the 2010–2011 academic year are eligible for £1,500 in cancellation. The amount is automatically erased from their balance when they make their first monthly payment.[128]

Cost estimate: Not provided

Achieving EPIC goals for student loan debt relief through capped cancellation

Several aspects of the proposals discussed above would meaningfully support borrowers' financial security.

For individuals carrying federal student loan debt, a universally-available capped cancellation program would help make higher education more affordable, reduce financial burdens, and increase well-being by reducing the lifetime costs of the loan through both reduction of current principal and reduction of interest that would have accrued on the cancelled principal balance. It is also likely to moderately increase homeownership, the foundational element of long-term financial security.

It is unclear to what degree capped cancellation would contribute to efforts to make higher education more equitable in cost and benefit for people of color. To our knowledge, there is no existing analysis of this question. It is possible that, because black and Latinx borrowers experience default at higher rates and are more likely to leave school without obtaining a degree, capped cancellation would have a substantially higher positive impact on these populations. However, it is also true that capped cancellation would provide partial relief for the majority of black borrowers, specifically, due to their higher-than-average loan balances. Further study is needed to understand the racial equity dimensions of capped cancellation proposals.

Cancellation capped at $10,000 per borrower is advantageous from the perspective of maximizing benefits while minimizing costs. It would fully eliminate the balances of more than one-third of borrowers.[129] It would deliver the greatest amount of relief to many of the groups most likely to suffer financial insecurity due to student loans and could garner broader

support than population-targeted approaches by providing some relief to all borrowers.

Table 5: Distribution of Federal Borrowers and Debt by Outstanding Balance, 2018

Outstanding Loan Balance	% of Debt	% of Borrowers
Less than $5,000	1%	18%
$5,000 to $9,999	4%	17%
$10,000 to $19,999	10%	21%
$20,000 to $39,999	19%	21%
$40,000 to $59,999	14%	9%
$60,000 to $79,999	12%	5%
$80,000 to $99,999	7%	3%
$100,000 to $199,999	19%	4%
$200,000 or more	14%	2%

SOURCE: The College Board analysis of data from the Department of Education Federal Student Loan Portfolio.

It is possible to very roughly approximate the potential direct cost of a program with a $10,000 cap, though further analysis would be necessary to produce a precise, reliable estimate that factors in the cost of lost interest revenue. Of the current 44 million student loan borrowers, about eight million with balances below $5,000 would see their loans wiped out; the maximum cost would be under $40 billion. An additional seven million with balances between $5,000-$9,999 would also have their loans eliminated, with a maximum cost of less than $70 billion. The remaining 29 million borrowers would all have $10,000 cancelled, for a total cost of $290 billion. Thus, a rough estimate of the cost of universal cancellation capped at $10,000 per borrower is $400 billion. (By this same method of estimation, capping cancellation at $20,000 would cost approximately $480 billion.)

IV. FULL CANCELLATION

Several Democratic policymakers and progressive think tanks have proposed cancelling all federal student loan debt without restrictions. For recent graduates who borrowed the entirety of tuition, it would effectively make their college or graduate schooling free. Proponents offer several justifications for this strategy: it would firmly establish a right to access debt-free higher education while providing significant economic stimulus that would unleash growth. Supporters also argue that full cancellation would reduce the racial wealth gap.

Proposals to cancel all federal student loan debt

The Students Over Special Interests Act:

Introduced by then-Congressman (now Governor) Jared Polis (D-CO), this 2018 bill proposed cancelling all federal student loan debt.[129] The cost would be fully offset by repealing the Tax Cuts and Jobs Act of 2017.

Cost estimate: While the bill does not include a cost estimate and was not scored by CBO, Congressman Polis stated in his introductory remarks that the bill would cost less than the $1.9 trillion Tax Cuts and Jobs Act.[130]

The Macroeconomic Effects of Student Debt Cancellation, 2018:

This analysis from economists at the Levy Economics Institute of Bard College and the Roosevelt Institute explores the technical details, costs, and macroeconomic effects of cancelling all federal student loans and fully repaying all private student loans on borrowers' behalves.[131] The authors emphasize that such a large-scale response must be paired with radical reforms to higher education financing so that the problem cannot recur. They contemplate two options for achieving full cancellation. The first would have the federal government waive borrowers' balances as they become due, while simultaneously purchasing students' private education loans and waiving those as well. Under the second option, the Federal Reserve would buy the outstanding debt and either cancel it, pay it down to the Treasury over time, or hold it on their balance sheet and permanently defer the losses. With either option, the authors find large macroeconomic benefits

from cancellation, including an increase in the rate of GDP growth, additional job creation, higher consumer spending and, among former borrowers, greater capacity to build long-term wealth.

Freedom to Prosper, which advocates for student loan borrowers, adopted full cancellation of all federal and private student loans as a key policy objective in 2018.[132]

Cost estimate: Using 2014 data, the authors calculate a cost of just over $1.1 trillion and estimate that the policy would boost GDP growth by $860 billion-$1 trillion over ten years. Since 2014, outstanding student loan debt has increased from $1.1 trillion to $1.5 trillion, and the cost of this proposal would likely increase accordingly. (As described in footnote 2, the authors used models developed by Moody's and Yale University to develop these estimates.)

Achieving EPIC goals for student loan debt relief through full cancellation of student loan debt

Fully cancelling federal student loan debt would completely relieve the burden for all borrowers, boosting financial security for millions, though it would also deliver six-figure windfalls to a small group of high-earning, highly-indebted individuals.

There is disagreement regarding the degree to which full cancellation would contribute to or hinder efforts to make higher education more equitable in cost and benefit for people of color. The Roosevelt Institute's Marshall Steinbaum, who co-authored the Levy Institute paper, argues that that full cancellation of all student loan debt would reduce the white-black wealth gap. He estimates that full cancellation would reduce the ratio of the median wealth for white versus black households aged 25-40 from the current 12:1 ratio (the median black household has $0.08 in wealth for every $1 held by the median white household) to 5:1 (the median black household would have $0.20 for every $1 held by the median white household).[133] On the other hand, Demos posits that full cancellation would increase the racial wealth gap, as those receiving the greatest benefit would tend to be white graduates of high-cost graduate programs, like medical and law schools.[134]

CONCLUSION

Student loan debt has become a serious challenge to the financial security of millions of US households and entire communities. It is also threatening to undermine future economic growth of the nation. Bold action is needed to address both the plight of today's borrowers and the well-being of tomorrow's students. This brief explores four policy reform strategies to provide relief to current borrowers. An aggressive debt cancellation agenda should be paired with large-scale changes to higher education financing to ensure that the problem is permanently resolved.

Each of the four strategies represent systemic reforms, but they vary widely in ambition and cost. Of course, the details of specific proposals – how they are achieved and who they are likely to help – are critically important. This brief assessed each approach's ability to achieve the goals for student loan debt relief EPIC articulated in the Consumer Debt Solutions Framework:

- Post-secondary education is more affordable for students and more equitable in cost and benefit for people of color
- Reduced financial burden and increased well-being for people with unaffordable student loan debt

While tradeoffs abound, policymakers have tremendous capacity and opportunity to make progress toward these goals and mitigate significant risks to both people's well-being and economic growth, through a student debt relief initiative. Broad and bipartisan interest in taking action indicates that this is a moment of opportunity to advance solutions that improve Americans' financial security at scale.

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