

Student Loan Debt Forgiveness



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On August 24, 2022, the Biden administration announced plans to forgive a portion of outstanding federal student loans and to enact various changes to the program. The main provisions are as follows:

- Borrowers earning less than \$125,000 (single) or \$250,000 (married) a year can qualify for up to \$10,000 of debt cancellation. Pell Grant recipients under the income thresholds can qualify for up to \$20,000 of debt relief. The forgiven debt would not be subject to federal income tax.
- The student loan forbearance is extended through December 2022. It is the seventh extension (two under the prior administration), and the administration asserts it will be the final extension.
- The income-driven repayment (IDR) plan would be revised to (1) cap monthly payments at 5% of discretionary income for undergraduate borrowers, (2) cover the borrower's unpaid monthly interest so that debt balances do not grow even if monthly payments are zero, (3) raise the amount excluded from the discretionary income computation from 150% to 225% of the federal poverty level and (4) forgive loan balances after 10 years of repayments (instead of 20 years) for borrowers with original loan balances of \$12,000 or less.¹

This research brief presents estimates from the Penn Wharton Budget Model on the federal budget impact of the changes, the impact across household income quintiles and uses those findings to estimate the potential impact on Pennsylvania borrowers. The most recent data from the U.S. Department of Education are also used to examine loan balances and average balances across states.

Table 1: Federal Budget Estimate of Student Loan Program Changes

	2022	2023	2024	2025	2026	2022-31
Loan Forgiveness	\$468.6	\$5.5	\$5.0	\$5.0	\$5.4	\$519.1
Extend Loan Forbearance	\$16.0	\$0.0	\$0.0	\$0.0	\$0.0	\$16.0
New IDR Program	<u>\$41.6</u>	<u>\$2.8</u>	<u>\$2.8</u>	<u>\$2.7</u>	<u>\$2.6</u>	<u>\$70.3</u>
Total Static Estimate	\$526.2	\$8.3	\$7.8	\$7.7	\$8.0	\$605.4

Potential Additional Impact from IDR Changes

\$450.0

Note: Billions of dollars. Federal fiscal year. Estimate for New IDR Program is static and does not assume a higher take-up rate for program. Penn Wharton estimates that a dynamic estimate that allows for higher take-up rates under the more generous repayment parameters could increase the cost of the IDR program by \$450 billion or more.

Source: Penn Wharton Budget Model (August 26, 2022).

Table 1 presents estimates from the Penn Wharton Budget Model on the federal budget impact. For federal fiscal year (FFY) 2022, the analysis estimates the following costs to the federal government: \$469 billion for loan forgiveness, \$16 billion for the forbearance extension through December 2022 and \$42 billion for

¹ This summary is from the Penn Wharton Budget Model analysis at <https://budgetmodel.wharton.upenn.edu/issues/2022/8/26/biden-student-loan-forgiveness>.

revisions to the IDR program.² Over the 10-year federal budget window, the cost is \$605 billion. As noted by Penn Wharton, that estimate is static and does not assume an increase in the use of the IDR program. Allowing for an increase in borrowers that use the program would dramatically increase the potential 10-year cost and could increase the overall cost to more than \$1.0 trillion. The Penn Wharton analysis noted that there is a high degree of uncertainty related to the cost of that provision, and the estimate will be reissued once additional details and data become available.

Table 2 uses the income breakouts from the analysis and applies it to the Pennsylvania share of total federal student loan debt. Data from the U.S. Department of Education show that the Pennsylvania share of outstanding federal student loans is 4.5%, or \$69.2 billion and 1.96 million borrowers.³ The table assumes that (1) the household income distribution for the U.S. is similar to Pennsylvania and (2) the distribution of loan balances across income quintiles in Pennsylvania is similar to the U.S.⁴ For FFY 2022, the total benefit to Pennsylvania borrowers is \$23.7 billion.⁵ Nearly 90% of the benefit is due to loan forgiveness. If the state distribution of federal loans is similar to the U.S., then roughly 74% of the benefit would flow to the lowest three income quintiles (income up to \$82,400 per household).

Table 2: Estimate of Impact on Pennsylvania Borrowers in FFY 2022

Income Percentile	Income Up to	Share	Dollar Amounts (millions)			
			Forgive	Extend	New IDR	Total
Bottom Quintile	\$28,784	14.3%	\$3,015	\$103	\$268	\$3,386
Second Quintile	\$50,795	23.5%	\$4,955	\$169	\$440	\$5,565
Third Quintile	\$82,400	36.0%	\$7,596	\$259	\$674	\$8,529
Fourth Quintile	\$141,096	20.5%	\$4,323	\$148	\$384	\$4,854
80-90%	\$212,209	4.7%	\$991	\$34	\$88	\$1,113
90-95%	\$321,699	1.0%	\$211	\$7	\$19	\$237
Top 5%	no limit	0.0%	\$0	\$0	\$0	\$0
Total		100.0%	\$21,087	\$720	\$1,872	\$23,679

Note: Income percentile pertains to households.
Source: Penn Wharton Budget Model estimates pro-rated to PA based on data from U.S. Department of Education.

Table 3 displays total balances, number of borrowers and average loan balance by state.⁶ The states are ranked based on average federal loan balance (excludes private lenders). Pennsylvania ranks 6th in total balance (\$69.2 billion) and 21st in average balance (\$35,300).

² For loan forgiveness, the analysis notes the following: The \$468.6 billion cost in 2022 corresponds to loans only for students who have separated from eligible post-secondary education and no longer have their debt payments deferred. The \$519.1 billion cost over the 10-year budget window includes students currently enrolled in college with loan deferral status as well as future students during the budget window.

³ These amounts include a pro-ration to Pennsylvania for borrowers who did not report their state location (\$92.0 billion, 3.6 million borrowers). For data see <https://studentaid.gov/data-center/student/portfolio>.

⁴ The income distribution for Pennsylvania is generally comparable to the U.S. average. For 2019, IRS data show that 19.7% of all income tax filers reported more than \$100,000 of adjusted gross income on the federal tax return. For Pennsylvania, the share was the same. For filers reporting \$50,000 to \$100,000 of adjusted gross income, the shares were 23.0% (U.S.) and 24.1% (PA).

⁵ For the U.S., the data show that borrowers with a loan balance under \$10,000 comprised 32% of all borrowers and 4.5% of the total outstanding loan balance.

⁶ Data from U.S. Department of Education: <https://studentaid.gov/data-center/student/portfolio>.

Table 3: Federal Loan Balance and Number of Borrowers by State (March 2022)

State	Balance	Rank	Borrowers	Avg. Balance	Rank
District of Columbia	\$6.9	41	127	\$54,343	1
Maryland	\$38.5	13	903	\$42,613	2
Georgia	\$73.5	5	1,782	\$41,226	3
Virginia	\$45.6	12	1,170	\$38,964	4
South Carolina	\$30.1	20	792	\$38,034	5
Florida	\$108.3	3	2,849	\$38,006	6
Illinois	\$66.1	8	1,755	\$37,647	7
New York	\$99.6	4	2,652	\$37,547	8
North Carolina	\$52.8	10	1,412	\$37,419	9
Vermont	\$3.1	48	83	\$37,176	10
Delaware	\$5.1	43	138	\$37,145	11
Alabama	\$25.2	23	683	\$36,888	12
Oregon	\$21.5	26	584	\$36,753	13
Mississippi	\$17.4	29	473	\$36,649	14
Hawaii	\$4.8	45	132	\$36,558	15
California	\$154.8	1	4,240	\$36,515	16
Colorado	\$30.5	19	837	\$36,405	17
Tennessee	\$33.6	14	933	\$36,050	18
Michigan	\$54.4	9	1,520	\$35,820	19
New Jersey	\$45.9	11	1,294	\$35,462	20
Pennsylvania	\$69.2	6	1,963	\$35,251	21
Washington	\$29.9	21	850	\$35,196	22
Missouri	\$31.5	18	898	\$35,082	23
Connecticut	\$18.8	28	538	\$35,041	24
Arizona	\$33.5	15	960	\$34,906	25
Ohio	\$66.4	7	1,928	\$34,418	26
Louisiana	\$24.1	25	701	\$34,304	27
Massachusetts	\$33.2	16	972	\$34,198	28
Alaska	\$2.5	50	73	\$33,952	29
New Hampshire	\$6.9	40	205	\$33,824	30
New Mexico	\$8.3	37	246	\$33,613	31
Nevada	\$12.7	34	379	\$33,426	32
Minnesota	\$28.3	22	849	\$33,366	33
Arkansas	\$13.9	32	421	\$33,155	34
Montana	\$4.5	46	137	\$33,091	35
Maine	\$6.7	42	202	\$33,005	36
Texas	\$129.2	2	3,954	\$32,680	37
Indiana	\$31.8	17	976	\$32,590	38
Kentucky	\$21.1	27	648	\$32,555	39
Kansas	\$13.4	33	413	\$32,481	40
Idaho	\$7.7	39	236	\$32,475	41
Utah	\$10.8	35	334	\$32,433	42
Rhode Island	\$5.0	44	155	\$32,048	43
Nebraska	\$8.5	36	267	\$31,860	44
Wisconsin	\$24.9	24	783	\$31,774	45
West Virginia	\$7.7	38	245	\$31,584	46
Oklahoma	\$16.5	30	527	\$31,289	47
South Dakota	\$3.9	47	126	\$30,974	48
Wyoming	\$1.8	51	59	\$30,685	49
Iowa	\$14.1	31	466	\$30,251	50
North Dakota	<u>\$2.7</u>	49	<u>94</u>	<u>\$28,846</u>	51
Total	\$1,607.3		44,967	\$35,744	

Note: Dollar balance in billions. Borrowers in 000s. Includes pro-ration for borrowers who do not report state.
Source: U.S. Department of Education.