THE CENTURY FOUNDATION

THE NEW ERA OF EXECUTIVE ACTION

EASING THE BURDEN OF FEDERAL STUDENT LOAN REPAYMENTS

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Background

Higher education in the United States was once the preserve of a relatively small group of Americans. Yet, as the country continues its half-century-long transition to a postindustrial economy, more than ever U.S. jobs demand the skills and education that a bachelor's degree provides. Since the end of World War II, the proportion of the population with a college education has increased sixfold, according to the Census Bureau.

As the proportion of Americans with a college education has increased, however, so too has the price of a degree. Even when adjusted for inflation, the annual tuition, room, and board for an undergraduate at a four-year university has increased 240 percent. Public institutions—which educate the vast majority of university students in the United States—have seen the greatest increases.

In the long run, statistics consistently show that a college education is very much "worth it," from a financial perspective—lifetime earnings of Americans with a bachelor's degree have for decades been 50 to 100 percent greater than those of their peers with just a high-school diploma.

Yet these simultaneous trends—the ever-greater appeal of attending college, and the ever-greater cost of doing so—have caused an explosion in the amount and prevalence of student debt. As recently as the early 1990s, the average student graduated college with just $15,000 in debt, adjusted for inflation. Today, that figure has surpassed $30,000 and is inching closer to $35,000. At the same time, the proportion of students graduating with loans has increased 55 percent.

Federal action on the issue has been haphazard.

This brief is part of The Century Foundation initiative, The New Era of Executive Action, which is available online at https://tcfdotorg.atavist.com/executive-action.

Though the maximum Pell Grant is worth less in current dollars today than in the mid-1970s, Congress has enacted student loan-relief programs in recent years to ease the burden on Americans who are already in debt as a result of a university education. The first, known as the Income-Based Repayment (IBR) initiative, was signed into law by President George W. Bush as part of the 2007 College Cost Reduction and Access Act. IBR allows debtors to limit their payments to 15 percent of discretionary income without penalty, and to retire loans for which payments have been consistently made over twenty-five years.

The Pay As You Earn (PAYE) initiative, which was enacted in 2010 as part of the Health Care and Education Reconciliation Act (HCERA), improved on the precedent set by IBR. PAYE's provisions, which reduce the cap on payments to 10 percent of discretionary income and the loan-retirement term to twenty years, took effect in 2014.
As helpful as these initiatives have been, they remain severely underused among those who qualify for them, and as such are the target of these memoranda.

Action

To help students manage the burden of their higher education debt, President Barack Obama issued two presidential memoranda. On June 7, 2012, he issued Improving Repayment Options for Federal Student Loan Borrowers, and on June 9, 2014, he issued Helping Struggling Federal Student Loan Borrowers Manage Their Debt.

What It Does

The memoranda simplify and promote the process by which students with federally issued and federally guaranteed loans can take advantage of programs that reduce repayment obligations. They direct various agencies of the federal government to establish outreach efforts, websites, and other notification procedures to ensure that the programs are used by qualified students.

With regard to these programs, the 2012 memorandum requires that the Department of Education:

- allow students applying for IBR aid to provide income verification via a website (previously, applicants had to provide a signed copy of their tax return to Department of Education);

- create a centralized Internet resource that explains federal loan-aid options on a personalized basis, using information on students' "individual circumstances"; and

- develop a "model exit counseling module" that eventually can be replicated at individual educational institutions, which will inform graduating students of the federal loan-aid options.

The 2014 memorandum expands on the 2012 one by asking that the Department of Education:

- issue regulations to expand PAYE to cover debtors who had borrowed before 2008 and still held loans after 2011, who are currently subject to the more stringent pre-HCERA IBR repayment rules, and specifically target "borrowers who would otherwise struggle to repay their loans" (the secretary of education is to issue the regulations by the end of 2015);

- develop "targeted strategies" that will inform the maximum possible number of qualified students of the PAYE program, while using "data analytics" to determine which groups of students are currently the least informed;

- work with private sector tax-preparation companies to spread awareness of IBR and PAYE; and

- convene experts to develop more effective loan-counseling strategies, including but not limited to the current Department of Education Financial Awareness Counseling Tool.

Status

While at the moment it is unclear whether IBR income verification can be submitted online, the memoranda have led to some positive developments:

Studentloans.gov, which was created in 2010, now includes comprehensive information comparing and contrasting the financial terms of existing loan-relief programs.

TurboTax and H&R Block software now include "banners" that direct taxpayers to the Department of Education's Repayment Estimator, which is designed to guide debtors toward IBR and PAYE, if they qualify.

The Department of Education has begun the rulemaking process for the expansion of PAYE eligibility. Two public hearings were held, one on October 23, 2014, in Washington, and the other on November 4 in Anaheim. The first rulemaking session took place at the Department of Education February 24–26, with two more meetings scheduled for March 31–April 2, and April 28–30. According to the Obama administration's proposed budget, the expansion is estimated to cost $9 billion.

Impact

The proximate impact of the student loan memoranda is difficult to attribute to any one executive action, but the short-term increase in IBR and PAYE enrollment has been remarkable:

- IBR enrollment more than doubled, from 910,000 in the third quarter of 2013 to 2.07 million in the first quarter of 2015.

- PAYE enrollment increased over tenfold, from 40,000 in the third quarter of 2013 to 410,000 in the first quarter of 2015.

- As a share of total student loans currently in repayment, IBR and PAYE participants increased from 6 percent in the third quarter of 2013 to 10.5 percent in the third quarter of 2014, and is now almost certainly higher, according to the New America Foundation.

Response

Public reaction has focused mostly on the expansion of PAYE eligibility, and has been generally but not universally positive.

- The Institute for College Access and Success (TICAS) submitted a report to the Department of Education on February 18, 2015, recommending a series of reforms as part of the PAYE expansion. As with Obama's memorandum, chief among these is ending the restriction regarding the date on which the student entered into debt as a qualification for PAYE eligibility. However, the TICAS proposals go further, including suggestions such as eliminating the need to prove a "partial financial hardship" to qualify, removing interest capitalization for PAYE loans, and closing the loophole that allows debtors to exclude their spouse's income from their eligibility reporting if they file taxes separately.

Meanwhile, two notable criticisms include:

- As Alan Pyke at Think Progress has noted, the number of federal borrowers in loan trouble increased during the same period when IBR and PAYE enrollment was increasing. The number of people holding federally issued student loans who entered into default increased from 2.1 million in the third quarter of 2013 to 2.9 million in the first quarter of 2015. The number of borrowers considered delinquent (more than 361 days of nonpayment) increased from 2.47 million in the third quarter of 2013 to 2.92 million in the first quarter of 2015.

- As noted by the New York Times Upshot blog, PAYE participants that have an average or below-average amount of debt would actually owe more over the long term than a student using the Standard Payment Plan. Additionally, there is the issue that the current tax code would likely count the unpaid amount of the loan after twenty years as a "gift" included in gross taxable income, meaning students would be hit with a hefty tax bill twenty years after they first started paying off their loans.