Q&A on Biden's Student Loan Forgiveness

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The White House announced on Aug. 24 that President Joe Biden will take action this year to cancel thousands of dollars in federal student loan debt for millions of Americans, fulfilling a campaign promise he made during the 2020 election cycle.

Under his plan, individuals who meet income requirements will be eligible for up to $10,000 in debt cancellation. Another $10,000 could be waived for some people who also received federal Pell Grants, which are awarded to students based on financial need.
In addition, for one last time, Biden's plan extends the COVID-19 pandemic-related pause on repaying federal student loan debt until Dec. 31. The pause, which included waiving interest as well as penalties and action on defaulted loans, began in March 2020, at the start of the pandemic.

The president also has proposed capping monthly payments for current and future undergraduate loans at 5% of a borrower's discretionary income, down from 10%.

Below we answer some of the questions readers may have about the debt relief plan. We also address political claims about whom the plan benefits most, how it may impact inflation and whether Biden has the authority to cancel student loan debt.

Who is eligible for debt forgiveness?
Single borrowers are eligible for the relief if their adjusted gross income in 2020 or 2021 was less than $125,000. Married couples and heads of households need an AGI below $250,000 to qualify.

For current students who are dependents, eligibility will be based on the income of their parents, a senior administration official said in an Aug. 24 background call with reporters.

The relief is capped at the amount of the individual's outstanding debt balance, meaning no one can receive more in relief than they currently owe.

"If all borrowers claim the relief that they're entitled to, 43 million federal student loan borrowers will benefit," the administration official said on the call. "And of those, 20 million will have their debt completely canceled."

Which loans will be forgiven?
The Department of Education says that all federal loans held by the department are eligible for forgiveness, including undergraduate loans, graduate loans, spousal loans, and Parent PLUS and Grad PLUS loans.

However, loans from private lenders are not eligible for debt cancellation. That is why there is concern that some Federal Family Education Loans and some federal Perkins loans — specifically those that originated with and are owned by a private bank, college or other entity — may not be eligible for cancellation.

To ensure that they qualify, borrowers with FFEL or Perkins loans not owned by the Education Department could consolidate their loans into a Direct Consolidation Loan provided by the department, according to the Student Borrower Protection Center, a nonprofit organization that works to make loan debt less burdensome.

The Federal Student Aid office says individuals can review their loan documents or log into their account at studentaid.gov to check if their loan is federally or privately held.

Will future borrowers qualify for relief?
No. Loans that were made after June 30 are not eligible for cancellation, Susan Rice, White House Domestic Policy Council director, said in an Aug. 24 press briefing.

When will the debt be canceled?
The application for cancellation should be available sometime in early October, Bharat Ramamurti, deputy director of the White House National Economic Council, said in an Aug. 26 press briefing.

"Once the borrower completes the application, they can expect relief within four to six weeks," he said.

Individuals can sign up on the Education Department website to be notified when the application is available. Applications will be accepted until Dec. 31, 2023, but administration officials are encouraging borrowers to apply before Nov. 15 of this year to ensure that they benefit from the debt cancellation before monthly loan payments restart in January.

Ramamurti said that the Education Department already has relevant income information for about 8 million borrowers, so they may automatically receive relief, if they qualify.

How much will it cost?
The White House has not released an estimate of the total cost of Biden's loan forgiveness plan, but White House Press Secretary Karine Jean-Pierre told CNN, "Assuming that 75% of folks who take us on, on the president's student loan cancellation plan, and you look at the average monetary cash flow on that, it's going to be about $24 billion per year."

That's far below what other independent budget experts have forecast.

The Committee for a Responsible Federal Budget estimated the cost of the plan at about $500 billion over the next 10 years. That comes from about $360 billion for debt cancellation, $120 billion from the new income-driven repayment, or IDR, plan and $20 billion to extend the moratorium on student loan repayments through the end of December.

"The changes announced today will likely cost more than double the amount saved through the recently passed Inflation Reduction Act, completely eliminating any disinflationary benefit from the bill," CRFB wrote.

The Penn Wharton Budget Model estimated the 10-year cost of Biden's plan at $605 billion. The vast majority of that cost comes this year, with the one-time loan forgiveness program.

However, Kent Smetters, the faculty director of the Penn Wharton Budget Model, told us in a phone interview that the $605 billion estimate was a "conservative cost assumption."

The White House has not provided enough detail on how the income-driven repayment program will be implemented, Smetters said, but if participation is significantly higher than it is now, it could push up the cost of the program by $450 billion over 10 years and drive the total cost of Biden's plan over $1 trillion.

How might this affect college tuition?
Several experts have warned the plan might nudge up tuition prices at colleges.

"Part of the benefit [of the income-driven repayment plan] might be captured by colleges and universities in the form of higher net prices, either higher tuition prices or reduced needs-based tuition offsets," Penn Wharton Budget Model wrote in its analysis of the Biden plan.

"A lot of schools will consider tuition increases," Smetters told us, and are likely to encourage students to take on more debt. "It's almost silly not to do it in this case."

Jason Furman, a Harvard economics professor who served eight years as a top economic adviser to President Barack Obama, expressed similar concerns via Twitter. He said the plan had numerous "highly problematic impacts including encouraging higher tuition in the future, encouraging more borrowing, creating expectations of future debt forgiveness, and more."

The Committee for a Responsible Federal Budget warned that "debt cancellation may drive up tuition prices by creating the expectation (and in the case of IDR, promise) of future debt cancellation, thereby increasing willingness to borrow among prospective students. Studies have shown that these effects can lead students and parents to be less sensitive to the cost of tuition, which could encourage colleges and universities to further hike tuition and fees."

What income levels will receive the most benefits?
Democrats and Republicans have offered competing rhetoric about who would benefit most from Biden's plan.

According to Biden, "These targeted actions are for families who need it the most — working and middle-class people hit especially hard during the pandemic making under $125,000 a year."

Senate Minority Leader Mitch McConnell, meanwhile, tweeted that Biden's plan is a "wildly unfair redistribution of wealth toward higher-earning people."

"The median American with student loans already has a significantly higher income than the median American overall," McConnell said in a released statement. "Experts who studied similar past proposals found that the overwhelming benefit of student loan socialism flows to higher-earning Americans. Democrats specifically wrote this policy to make sure that people earning six figures would benefit."

Sen. Richard Burr, the ranking Republican on the Senate Health, Education, Labor and Pensions Committee, released a statement saying that Biden is "asking taxpayers to subsidize debt held by some of America's highest earners in order to court votes."

In its analysis of the Biden plan, PWBM found that about 74% of the benefit of the debt cancellation measures would accrue to households making $82,400 or less. (Median household income was $67,521 in 2020, according to the U.S. Census Bureau.)

Furman warned that analysts "need to be careful with all of the distributional numbers because the beneficiaries will tend to have higher lifetime incomes than current incomes. A 24 year-old making $75,000 is likely to be at a relatively high percentile on a lifetime basis."

To try to better account for some of the "lifecycle effects" associated with age and household income, PWBM says it also ran its analysis of just people ages 25 to 35 in the year 2022, since most of the debt forgiveness falls to them. The distribution fell similarly, with about 75.5% of the benefits accruing to those making less than $88,043.

Still, it is also true that about 18% of the benefit of loan elimination accrues to those making between $88,043 and $153,513, and about 6% accrues to those making between $153,513 and $223,655 (when looking just at the effect on people ages 25 to 35), according to PWBM. Virtually none of the benefit comes to those in the top 10% of earners among those ages 25 to 35. The biggest beneficiaries are those in the middle 20% of earners, with about 37% of the debt forgiveness falling to them.

How will the plan affect inflation?

Several economic experts agree the plan will increase inflation over the next year by a small amount. George Selgin, senior fellow and director emeritus of the Center for Monetary and Financial Alternatives at the Cato Institute, told us "it's a no-brainer" that the loan forgiveness plan would make inflation go up, but "not very much."

Smetters, at the Penn Wharton Budget Model, put the inflation increase at 0.2 percentage points over the next six months to a year. Furman similarly said on Twitter that his "rough back-of-the-envelope" calculation showed an increase in inflation of 0.2 to 0.3 percentage points. The Committee for a Responsible Federal Budget's analysis of the plan said it would add "meaningfully" to inflation over the next year, 0.15 to 0.27 percentage points.

Inflation, or the Consumer Price Index, was up 8.5% in July over the prior 12 months, according to the latest figures from the Bureau of Labor Statistics.

"Nearly forgiving these loans isn't quite the same as putting money in people's pockets," Selgin said in explaining why he thought the inflationary impact would be small relative to the amount of government spending involved. Those affected will have less debt and less reason to save money to pay off the debt, "but it hardly follows that they're going to go on spending sprees." It's not the same as getting a windfall in their bank accounts, he said.

There's also debt that has been in arrears, or behind in payment, for some time, he said. So in those cases, the policy gives those former students "permission to do what they've already been doing."

In fact, there has been a pause on student loan payments and an elimination of interest on the loans since March 2020 under COVID-19 emergency relief measures. The payments and interest are set to resume on Dec. 31 of this year. That means some with student loan debt haven't been making payments for more than two years.

Smetters said the additional loan forgiveness for Pell Grant recipients would target more lower-income people, a demographic that is more likely to spend than to save. That boosts inflation, though it won't be a big factor in 8.5% or higher inflation. "Other things will matter more," he said.

CRFB's analysis assumes "households will behave as if their wealth has increased by the full amount of cancelled debt."

Other economists, such as those at Goldman Sachs, have said the inflationary impact would be essentially zero, because the resumption of student loan payments at the end of this year would offset increased spending by those who had part or all of their loans forgiven.

Mark Zandi, chief economist of Moody's Analytics, told CNN that the net effect of resuming loan payments and forgiving some debt "is largely a wash." Moody's estimated a net *drop* in inflation of 0.03 percentage points for those policies combined.

CRFB argues that since the repayment pause was scheduled to expire — in other words, the resumption of payments is already part of current law — factoring in this disinflation isn't the appropriate way to measure the effect of the loan forgiveness plan.

Regardless of the size of the impact, "the timing is unfortunate," Segin said. "Anything that contributes at all to inflation right now is giving people reason to be concerned and is causing trouble with people dealing with the higher prices," and it's "adding to the burden on the Federal Reserve."

The Federal Reserve has been raising interest rates this year to try to tamp down inflation. Furman estimated the Fed would need to add another 0.5 to 0.75 percentage points to its rate hikes if it wanted to counter the inflationary impact of the student loan forgiveness program over the next year. That would mean other borrowers would face higher interest rates than they normally would.

Does the Biden administration have the authority to cancel student loan debt?
It's unclear whether this particular act of debt forgiveness would survive an expected court challenge. Even Biden and House Speaker Nancy Pelosi seemed certain in 2021 that he could not implement such a proposal without Congress.

The administration now argues that its authority to cancel student debt rests in the Higher Education Relief Opportunities for Students Act of 2003, bipartisan legislation that was enacted to help borrowers serving in the military following the Sept. 11 terrorist attacks.

In an Aug. 23 memo, Lisa Brown, the Education Department's general counsel, in consultation with the Justice Department's Office of Legal Counsel, wrote that the HEROES Act gives the education secretary "broad authority to grant relief from student loan requirements during specific periods (a war, other military operation, or national emergency, such as the present COVID-19 pandemic) and for specific purposes (including to address the financial harms of such a war, other military operation, or emergency)."

Her memo noted: "The Secretary of Education has used this authority, under both this and every prior administration since the Act's passage, to provide relief to borrowers in connection with a war, other military operation, or national emergency, including the ongoing moratorium on student loan payments and interest."

But some legal experts disagree with using the HEROES Act, and COVID-19, as the legal basis.

"I think it's a loser argument with the [Chief Justice John] Roberts US Supreme Court," Jed Shugerman, a Fordham University professor of law, said in an interview with BU Today, the daily news website of Boston University, where Shugerman is a visiting professor at the BU School of Law. "The Roberts court has already indicated in three different decisions that it has a different approach to major questions and that it's skeptical of COVID being invoked in a broad way to achieve policy goals."

Shugerman added: “The Biden administration has relied heavily on narrow textual analysis of a couple of words. Individuals *affected* by an *emergency*. That’s really broad. Anyone with student loans has been affected by COVID. And COVID is clearly an emergency. I understand that argument. But the Roberts court has said that it does not apply textual methods to major question cases. It’s not as simple as pointing out a word like *affected*. Or *emergency*. People read that in different ways.”

Shugerman said the administration would need to strengthen its argument in order to overcome a potential legal challenge.

But it’s also uncertain whether anyone has the legal standing necessary to sue to stop the debt cancellation policy.

To satisfy the federal standing requirement, a plaintiff would have to demonstrate that the policy actually harmed them in some way, and that blocking implementation would redress or remedy that harm.

An April analysis in the Virginia Law Review argued that “under current standing doctrine,” none of the potential litigants, including taxpayers, former borrowers, members of Congress, state governments or loan servicers, “will meet requirements for standing in federal court.”

“As a result, commentators should not assume that the merits of student loan cancellation can be litigated in federal court,” the author said.

The Wall Street Journal has written that some “would-be litigants” are prepping their cases anyway.