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Budget Model

Analysis of President Biden's New Plans for Student Loan Debt Relief – April 2024

Summary: We estimate that President Biden's recently announced "New Plans" to provide relief to student borrowers will cost $84 billion, in addition to the $475 billion that we previously estimated for President Biden's SAVE plan. Moreover, some debt relief in the New Plans accrues to borrowers in households with income more than the SAVE plan coverage.

Key Points

- President Biden recently announced five main provisions to provide student loan debt relief. Some of provisions are already mostly covered by President Biden's SAVE plan introduced in 2023. Some provisions, however, are more incremental to the SAVE plan, including one provision---the forgiveness of longer-term debt---that expands eligibility to higher-income households.
- We estimate that the New Plans will cost $84 billion in addition to the $475 billion that we estimated for President Biden's SAVE plan, for a total cost of about $559 billion across both plans.
- While the New Plans, like the SAVE plan, contain provisions to relieve debt based on individual or household income, the New Plans will also relieve some longer-term student debt for about 750,000 households making over $312,000 in average household income. The main reason for this high average household income is that the SAVE plan already provides long-term debt relief to households with lower incomes.

Introduction

On Monday, April 8, 2024, President Biden introduced several new student loan debt relief provisions ("New Plans") that are in addition to President Biden's new Income-Driven Repayment ("SAVE") plan that PWBM previously analyzed. As the New Plans and the SAVE plan contain some overlapping benefits to student borrowers, our budgetary and distributional estimates of the New Plans provided in this brief are incremental to our previous estimates of the SAVE plan, which is now part of our current law baseline.

New Plans

President Biden's New Plans contain five main provisions:

- **Waiving accrued and capitalized interest for millions of borrowers:** Up to $20,000 in accrued and capitalized interest will be waived for borrowers with current balances above the initial balance upon entering repayment, regardless of borrower's income. Single borrowers making less than $120,000 or couples making less than $240,000 a year will qualify for a total waiver of all current balances above the initial balance if they are enrolled in any IDR plan. Automatic relief will be applied, and so no application is needed.
- **Eliminating student debt for borrowers in repayment for 20 years or more:** If student loan repayments started on or before July 1, 2005, all debt will be eliminated for borrowers with undergraduate loans only. (For borrowers with any graduate debt, this date is pushed back to July 1, 2000). No enrollment in IDR plans will be needed to receive the relief, but currently it's unclear if any other application will be required from the borrowers.
- **Assisting borrowers who experience hardship in paying back their loans:** The individual circumstances of the borrowers will be evaluated to provide relief. It is currently unspecified whether debt relief will be partial or total.
- **Automatically discharging debt for borrowers otherwise eligible for loan forgiveness under SAVE, closed school discharge, or other forgiveness programs, but not enrolled:** The most favorable repayment option rules (including those of the SAVE plan) will be applied to all borrowers who qualify under the specific repayment option rules but are otherwise not enrolled in it. Automatic relief will be applied, and so no application will be needed.
- **Helping borrowers who enrolled in low-financial-value programs or institutions:** Debt cancellation will be granted to borrowers who accumulated debt after attending institutions/programs "that lost their eligibility to participate in the Federal student aid program or were denied recertification" or didn't provide "sufficient value" in terms of postgraduation earnings.

Conventional Budgetary Cost Estimate

Unlike the SAVE plan, most of the costs associated with the New Plans accrue in a single year, as shown in Table 1, for the year 2024. We estimate the total budgetary cost of the New Plans to be about $84 billion, which is incremental to the $475 billion 10-year cost estimate that we previously provided for the SAVE plan.

Table 1: Budgetary Costs of Biden New Provisions, April 2024

Billions of Dollars

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Provision	Budgetary Cost
Waiving accrued and capitalized interest for millions of borrowers	57.75
Eliminating student debt for borrowers in repayment for 20 years or more (*)	19.07
Assisting borrowers who experience hardship in paying back their loans	7.24
Automatically discharging debt for borrowers otherwise eligible for loan forgiveness under SAVE, closed school discharge, or other forgiveness programs, but not enrolled	(**)
Helping borrowers who enrolled in low-financial-value programs or institutions	(***)
Total Cost	**84.06**

* For borrowers with any graduate school debt, the number of years is increased to 25 years.
** We have accounted for this expenditure in our previous analysis of the SAVE plan.
*** Not enough details have been provided for this provision by the Biden Adminstration. However, based on a reasonable set of assumptions and historical college enrollment and cohort default rates, we estimate that this provision would cost less than $1 billion.

Of the $84 billion, about $58 billion comes from waiving accrued and capitalized interest. The second largest cost of $19 billion stems from eliminating debt for borrowers in repayment for 20 years or more (or 25 years with graduate student debt). The remaining $7 billion is associated with assisting borrowers who are experiencing hardship, which we interpret to imply shorter-term income or cost shocks that are otherwise not covered by the SAVE plan.[1] The costs associated with the other two provisions have already been almost fully accounted for in our previous analysis of the SAVE plan, thereby producing no additional material costs for the New Plans.

Individual and Household Characteristics

Table 2 reports household characteristics of borrowers who will receive any positive debt relief from the New Plans. Two findings warrant more explanation.

Table 2: Borrower Characteristics for Individuals and Households Receiving any Debt Relief, Biden New Provisions, April 2024

DOWNLOAD DATA

Provision	**Average Debt Relief (dollars)**	**Borrowers Impacted (millions)**	**Average Household Income (dollars)**
Waiving accrued and capitalized interest for millions of borrowers	3,595.14	16.06	82,019.96
Eliminating student debt for borrowers in repayment for 20 years or more	25,541.39	0.75	312,976.57
Assisting borrowers who experience hardship in paying back their loans	20,318.18	0.36	39,887.64
Average Student Debt Relief	**4,899.26**		

First, notice that we estimate a positive level of debt relief for about 17.2 million individual borrowers in the New Plans. This number that is smaller than the 25 to 30 million value that is estimated by the Biden Administration, which includes households that also gain from the SAVE plan. Second, notice that eliminating student debt for borrowers in repayment for more than 20 years (or for more than 25 years with graduate debt) provides debt relief for about 750,000 individuals residing in households that, on average, earn $312,977 in annual household income.[2]

Both findings are explained by our analysis of the New Plans that focuses on benefits that are incremental to the benefits already provided under the SAVE plan. Adding our estimate of the number of borrowers helped by the SAVE plan to the 17.2 million new individuals helped under the New Plans produces a total value of about 28 million individuals, roughly in the middle of the range estimated by the Biden Administration.

Moreover, several of the provisions in the New Plans are already provided under the SAVE plan but to households with lower income. Our previous take-up rate modeling estimates that borrowers largely select the repayment option that minimizes the present value of their future repayments, with an eventual take-up rate of about 70 percent for the SAVE plan. As such, the SAVE plan already eliminates student debt for borrowers in repayment for 20 or 25 years, depending on whether the borrower takes out any graduate student loans. The New Plans expands this specific benefit to higher-income households.[3]

This analysis was produced by Junlei Chen and Jesús Villero under the guidance of Kent Smetters. Mariko Paulson prepared the brief for the website.

1. The New Plans have a high interaction with SAVE, which we have accounted for previously. For example, if a borrower has been in repayment for 20 or more years and selects into the SAVE plan, she would already immediately get loan forgiveness through SAVE. As another example, a delinquent borrower who is auto-enrolled into SAVE could already face zero repayments under SAVE with low enough income. More generally, the New Plans only provide additional costs to the extent that the discretion by the Department of Education is more generous than the SAVE provisions. The Department of Education has not yet provided this guidance. For now, we focus on households with severe income and cost shocks that who are unlikely to separately qualify for SAVE. For those households, we assume that all remaining balances are forgiven. We will update this specific estimate as more information becomes available. ↩

2. For married couples, we calculate the averages across individuals and households using a standard approach. If only one partner receives debt relief, this household is "counted once" when forming the average. If both partners received debt relief, they are "counted twice". ↩

3. For many borrowers with 20 years or more in repayment, we have already scored SAVE as canceling most debt, often completely for a borrower due to credit for payments made before SAVE. In so doing, we accounted for the "subsidy rate" in the pre-SAVE baseline with debt that would otherwise not be recovered through channels such as the Fresh Start initiative or gaining access to an IBR plan. We also previously estimated that the take-up rate in SAVE at 70 percent will be much higher than previous IDR plans. Therefore, borrowers who are largely impacted by New Plans tend to have elected to remain on standard repayment plans due to higher income. Even if the New Plans, based on administration rulemaking and enforcement, forgave some *additional* debt for a given participant who is also participating in SAVE, that *incremental* amount forgiven is small. Moreover, the total number of higher-income households treated by New Plans would remain unchanged. The corresponding income distribution is very skewed, however, with the median income at $223.7K. Moreover, the confidence intervals around the mean and median are wide, which is common when dealing with higher-income households interacted with proposed new program qualification. Households in standard plans generally do not need to report their income until applying for program treatment such as IDR. ↩