



Budget Model

The Biden Student Loan Forgiveness Plan: Budgetary Costs and Distributional Impact

[Click here for analysis of President Biden's proposed Income-Driven Repayment \(IDR\) Plan \(details released 1/10/2023\).](#)

Summary: President Biden's new student loan forgiveness plan includes three major components. We estimate that *debt cancellation* alone will cost up to \$519 billion, with about two-thirds of the benefit accruing to households making \$88,000 or less. Loan *forbearance* will cost another \$16 billion. The new *income-driven repayment* (IDR) program would cost another \$70 billion, increasing the total plan cost to \$605 billion under strict "static" assumptions. However, depending on future IDR program details to be released and potential behavioral (i.e., "non-static") changes, total plan costs could exceed \$1 trillion.

Key Points

- We estimate that President Biden's proposed student loan debt cancellation alone will cost between \$469 billion to \$519 billion over the 10-year budget window, depending on whether existing and new students are included. About two-thirds of the benefit falls to households making \$88,000 or less per year.
- Loan forbearance for 2022 will cost an additional \$16 billion.
- Under strict "static" assumptions about student borrowing behavior and using take-up rates within existing income-based repayment programs, the proposed new IDR program will cost an additional \$70 billion, increasing total package costs to \$605 billion.
- However, depending on future details of the actual IDR program and concomitant behavioral changes, the IDR program could add another \$450 billion or more, thereby raising total plan costs to over \$1 trillion. These details require future study.

Introduction

President Biden has recently announced a [fact sheet](#) for a student loan relief proposal that includes:

- *Debt cancellation*: Individuals earning less than \$125,000 (or \$250,000 for families) a year will be eligible for up to \$10,000 in debt cancellation. Pell Grant recipients earning less than \$125,000 (or \$250,000 for families) a year are eligible for up to \$20,000 in debt reduction.
- *Forbearance*: Student loan forbearance extended through December 31, 2022.
- *New Income-Driven Repayment (IDR)*: This plan proposes:
 - Capping monthly payments to 5% (relative to the current rate of 10% or more) of the discretionary income for undergraduate loan borrowers;¹
 - Covering the borrower's unpaid monthly interest so that debt balances will not grow even when monthly payments are zero;
 - Raising the amount excluded from the calculation of discretionary income from 150% to 225% of the poverty line; and,
 - Forgiving loan balances after 10 years of payments, instead of 20 years, for borrowers with original loan balances of \$12,000 or less.

The estimation methods herein largely follow [our previous brief](#) on student loan debt forgiveness, along with some updates to accommodate the new details released by the Biden Administration. Our previous brief also provides additional background into existing income-based repayment programs.

Loan Forgiveness (“Debt Cancellation”)

Table 1 reports the 10-year budgetary cost estimates for the student loan forgiveness portion of the Biden proposal. 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 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. As discussed in [our previous brief](#), our loan forgiveness calculations include cost savings to existing income-based repayment programs with partial take-up rates.

Table 1. Conventional Budget Estimates of the Broad Student Debt Forgiveness, FY2022 - 2031

Billions of Dollars[DOWNLOAD DATA](#)

Provision	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Budget Window
Loan forgiveness (*)	468.6	5.5	5.0	5.0	5.4	5.2	5.9	5.9	6.1	6.4	519.1
Loan forbearance	16.0	0	0	0	0	0	0	0	0	0	16.0
New IDR program (*, **)	41.6	2.8	2.8	2.7	2.6	2.9	3.4	3.6	3.8	4.0	70.3
Total	526.3	8.3	7.8	7.7	8.1	8.1	9.3	9.5	9.9	10.4	605.4

* For clarity, costs are recorded in the shown year based on outstanding loan vintage. For IDR, Congress can determine a different cost path of subsidy rates by year.

** New IDR program costs are fully "static" by assuming takeup rates of existing IBR programs. A "conventional" score would include an increase in takeup rates, as discussed below.

Table 2A reports the distributional impact of loan forgiveness in 2022 across all ages while Table 2B restricts the ages to 25 – 35, an age range that is arguably a bit more consistent with [lifecycle effects](#). About 67 percent (Table 2A) to 66 percent (Table 2B) of forgiveness accrues to households making less than \$82,400 (Table 2A) or \$88,043 (Table 2B). Relative to [our previous brief](#), the extra Pell grant trigger bonus of an additional \$10,000 in forgiveness---for a total forgiveness of up to \$20,000 for Pell grant recipients---skews the distribution more toward lower-income households.

Table 2. Student Debt Forgiveness Benefit Distribution, FY2022

[DOWNLOAD DATA](#)

- 2A: All Ages
- 2B: Age 25-35

2A: All Ages

Income Group	Debt forgiven benefit distribution
Bottom quintile	13.27%
Second quintile	22.89%
Middle quintile	30.90%
Fourth quintile	23.19%
80-90%	8.06%
90-95%	1.70%
95-99%	0.00%
99-99.9%	0.00%
Top 0.1%	0.00%

Notes: Estimate household income percentile thresholds for 2022 all age: 20%: \$28,784; 40%: \$50,795; 60%: \$82,400; 80%: \$141,096; 90% \$212,209; 95%: \$321,699; 99%: \$961,711; 99.9%: \$3,668,499.

2B: Age 25-35

Income Group	Debt forgiven benefit distribution
Bottom quintile	10.97%
Second quintile	24.56%
Middle quintile	30.62%
Fourth quintile	23.03%
80-90%	10.39%
90-95%	0.43%
95-99%	0.00%
99-99.9%	0.00%
Top 0.1%	0.00%

Notes: Estimate household income percentile thresholds for 2022 age 25-35: 20%: \$29,348; 40%: \$53,052; 60%: \$88,043; 80%: \$153,513; 90% \$233,655; 95%: \$363,464; 99%: \$1,090,391; 99.9%: \$4,503,788.

Loan Forbearance

Table 1 reports that loan forbearance will cost an additional \$16 billion. This amount is “stacked” after loan forgiveness. The presence of loan forgiveness reduces the *additional* cost associated with forbearance. Given its size, the distributional impact is not reported, but it is more evenly distributed throughout the income distribution relative to loan forgiveness.

Income Driven Repayment

Table 1 also reports that the new IDR plan will cost an additional \$70.3 billion over the 10-year window when “stacked” after the loan forgiveness and forbearance.

This new program will likely target lower income households even more than loan forgiveness noted above. However, assigning the new IDR gains to specific income groups with reasonable accuracy requires the use of confidential data and an associated mandatory external review period. We will revisit this issue in coming weeks.

This calculation also assumes that take-up rates in the new IDR proposal are the same as in existing income repayment plans. As we document in [our previous brief](#), a majority of qualified borrowers do not enroll in existing programs.

Future Analysis is Needed

The new features in the new IDR proposal, however, could sharply increase take-up rates. Even many borrowers who anticipate not being qualified in future years would typically be better off enrolling in the intermediate years in which they are qualified. There would also be financial incentives for future borrowers to shift education financing toward more borrowing to take advantage of the 5% repayment threshold. If the Department of Education simply auto-enrolled borrowers for which it had sufficient information (i.e., switched from “opt in” to “opt out”), the additional costs of the IDR program alone could reasonably exceed \$450 billion.

The actual net distributional effects (the “incidence”) of the new IDR program will also depend on future program details yet to be released. Part of the benefit might be captured by colleges and universities in the form of higher net prices, either higher tuition prices or reduced needs-based tuition offsets.

We plan to examine these issues in future work, especially as new program details emerge.

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Updated on October 4, 2022

Editor's note: In the August 26 version of this brief, Table 2 showed distributional analysis corresponding to a version of Pell grant forgiveness being discussed around that time that is different from the the Pell grant treatment actually presented in Table 1. The current version of the brief updates Table 2 to the Pell grant treatment consistent with Table 1 (unchanged). Many thanks to Marc Goldwein for catching the original inconsistency. The net effect is to modestly reduce the progressivity of the plan, from three-quarters of the benefit falling to households making less

than \$88,000 to two-thirds. For the bottom 50% of the income distribution, the benefit distribution falls from 56% to 50%.

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1. Graduate student debt would also qualify, but at a 10% income cap, like existing programs although with more generous terms discussed below. ↩