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February 10, 2023

The Honorable Miguel Cardona
Secretary of Education
U.S. Department of Education
400 Maryland Avenue SW
Washington, DC, 20202

Comment on the proposed rule: "Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program," Docket ID ED-2023-OPE-0004-0001, Federal Register 2022-28605

Dear Secretary Cardona,

We are writing to comment on the Department of Education's proposed rule to expand the Revised Pay as You Earn (REPAYE) program for federal student loans. We at the Progressive Policy Institute (PPI) broadly support this change to expand and simplify income-driven repayment programs conceptually. But we are concerned that the proposal's specific parameters would transfer too much of the cost for pursuing a degree from students — even those who benefit from above-average earnings — to taxpayers, and provide a windfall to predatory institutions that fail to offer degree programs with benefits that exceed their costs. We strongly urge the Department to delay implementation until the rule is revised or at least re-evaluated.

Founded in 1989, PPI — a 501(c)(3) think tank — is a force for radically pragmatic innovation in politics and government. PPI has been a prominent voice in fiscal policy through our Center for Funding America's Future, which works to promote a fiscally responsible public investment agenda that fosters robust and inclusive economic growth. The Center has played a critical role in shaping fiscal policy debates around key legislation over the past five years and has been extremely involved in the national college affordability discussion.

Considering the high cost of a college education today, policymakers ought to target relief to borrowers who are stuck with the debt of pursuing a degree without being able to reap the financial benefits of attaining one. That is why PPI has long supported the expansion and reform of income-driven repayment programs that directly tie debt cancellation to a borrower's ability to pay.

Accordingly, PPI strongly supports many aspects of the Administration's efforts to simplify and expand income-driven repayments. The current proposal should be commended for streamlining the array of repayment options, many of which have complicated terms and lengthy processes that deter enrollment by borrowers who would benefit, while also automatically enrolling eligible borrowers in an IDR plan. Additionally, the rule would offer new benefits for low-income borrowers with high loan balances. PPI supports efforts to make IDR more accessible, help distressed borrowers, and ensure affluent college graduates still pay their fair share for the benefits their degrees confer.

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However, we are concerned that the proposed expansion is overly aggressive. Our analysis below shows that the proposed rule will likely turn REPAYE from a safety net for vulnerable populations into a broad-based subsidy that Congress never intended. This change will likely encourage students to overleverage and will make it easier for schools to (further) increase tuition prices at an unsustainable rate. We are also concerned that the costs of the proposal in its current iteration will greatly exceed the department's projections. We urge you to delay the proposed rule and better target any future reforms to make higher education more affordable for all Americans in a sustainable way.

Proposed Changes Would Turn IDR From a Safety Net to a Standard

The main point of a college degree is to give students skills for jobs with higher earnings potential. Students borrow for school under the premise that the boost to their future income will outweigh the cost of their student loans. Income-driven repayment programs fulfill a vital role by insuring young borrowers against the risk that their investment in college won't pay off.

Accordingly, enrolling in the existing REPAYE program (the most popular of the income-driven repayment plans) doesn't confer a net benefit to the median-earning college graduate, even if they borrow up to the legal maximum for federal student loans. The table below shows that although such a borrower would have a lower monthly payment than under the default repayment schedule if they enrolled in REPAYE, they would make more total payments over a longer period of time. The upshot is that most college-educated workers will be better off repaying their loans under the default repayment schedule than enrolling in an IDR plan (the Congressional Budget Office estimated that in 2017, roughly one in four borrowers was enrolled in an IDR plan).

The new REPAYE proposal would break this principle. PPI estimates that a typical college-educated worker enrolled in the reformed REPAYE program would only pay 2.5% of their income in student loan payments over 20 years, after which point the remaining balance would be forgiven. As a result, they would pay less than half as much in real dollars over the lifetime of their loan as they would under the standard repayment schedule. In fact, they would only end up paying three fifths of the *amount they initially borrowed*, and not a dollar of interest.

A similar story could be told for college dropouts. These are the exact types of people that IDR programs were meant to help — individuals who took out student loan debt, but generally did not reap the income gains associated with a college degree. Certainly some expansion of IDR is needed, as a median-income college dropout is paying roughly the same total amount on a loan through the existing REPAYE program as they would under the standard repayment schedule. Yet the Department's proposed changes go too far: They would shift nearly the entire burden of the typical dropout's education onto the taxpayer. After the borrower paid just $19 per month for about five years, the taxpayer would be stuck with the remaining bill. In total, taxpayers would pay more than $13 for every $1 repaid by the person who chose to take out the loan in the first place.

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Hypothetical Borrowers Under Proposed REPAYE Plan VS Current Repayment Options

Median-Earning College Graduate With Maximum Federal Student Loan ($57,500) in 2023			
	Standard Schedule	Existing REPAYE	REPAYE Proposal
Monthly Payment	$565	$358	$141
Time in Repayment	10 Years	18 Years, 7 Months	20 Years
Lifetime Cost (in 2023 dollars)	$67,799	$79,839	$33,895
Total Payments as % of 20-year Income	5.1%	6.0%	2.5%
Percent of Principal Repaid	118%	139%	59%

Median-Earning College Dropout With Two Years of Mean Undergraduate Debt ($15,769) in 2023			
	Standard Schedule	Existing REPAYE	REPAYE Proposal
Monthly Payment	$155	$97	$19
Time in Repayment	10 Years	16 Years, 2 Months	4 Years, 10 Months
Lifetime Cost (in 2023 dollars)	$18,593	$18,799	$1,113
Total Payments as % of 20-year Income	2.7%	2.7%	0.2%
Percent of Principal Repaid	118%	119%	7%

Source: Authors' calculations based on data from the U.S. Census Bureau, the Congressional Budget Office (CBO), Bankrate's Student Loan Calculator, and the Bureau of Labor Statistics. The college graduate borrows $57,500, the legal maximum for undergraduate borrowing. The college dropout borrows $15,769, equivalent to twice the mean annual undergraduate borrowing from 2017, indexed to tuition price growth from 2017 to 2022. Their earnings are calculated based on census data showing the median college dropout earned just 52 cents for every $1 earned by college graduates. Using 2006, 2011, 2016, and 2021 data from the Census Bureau's Current Population Survey Tables for Personal Income, the authors extrapolated mean age-earnings profiles for college graduates from 2023 to 2042. The authors then divided median earnings for college graduates and college dropouts, respectively, by the mean earnings for college graduates; by multiplying this quotient by the mean earnings of college graduates for each one-year age group, the authors were able to construct median age-earnings profiles for both graduates and dropouts. Between 2023 and 2042, average inflation-adjusted annual earnings are expected to be $66,939 for the median college graduate and $34,764 for the median college dropout. The authors assume that borrowers pay a 5.566% interest rate, based on the CBO's average projected interest rates from 2022 to 2033. Normal amortization schedules for standard repayment plans were drawn from Bankrate's Student Loan Calculator using a standard ten-year repayment scheme. After 2023, the annual federal poverty line is assumed to grow in line with the previous year's consumer inflation as projected in the CBO's July 2022 Long-Term Budget Outlook. Payments and other dollar figures were calculated in nominal dollars then deflated to real 2023 dollars using the CBO's projections. Months with $0 payments are not counted in the "Time in Repayment" row, nor are they counted towards average monthly payments. Both borrowers are assumed to be single and childless throughout their payment periods, meaning that they are treated as one-person households under the federal poverty guidelines.

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With such generous terms for the average borrower, the new REPAYE plan is likely to become the new normal for most college students. Even families that can afford to save and pay for school with cash are likely to borrow money with such a generous subsidy for the vast majority of students. We are not alone in our findings: the Penn Wharton Budget Model and Adam Looney of the Brookings Institution both estimate that over 70% of college attendees would enroll in the revamped REPAYE program.

The Proposed IDR Plan Will Worsen Tuition Inflation

This large increase in the subsidy rate for most college-bound students will undoubtedly make them less cost-conscious and more willing to enroll in degree programs that are unlikely to boost their incomes. In turn, schools will find it easier to raise prices. As a 2017 study from the Federal Reserve Bank of New York noted, the average tuition increase associated with an expansion of student loans is perhaps as much as 60 cents per dollar. Put another way, the wide availability of student loans, combined with the creation and expansion of Pell Grants and tax incentives to help students pay for college, has allowed colleges and universities to increase tuition by 1,408% since 1978 (compared to 349% growth in overall consumer prices over the same period).

Rather than making college more affordable in the future, the proposed REPAYE changes would encourage colleges and universities to avoid making the tough choices needed to contain costs, and would enable them to keep hiking tuition and fees faster than the growth in incomes and other prices.

The problem will be particularly pronounced among predatory institutions. These “fly by night” schools offer the promise of a college education at seemingly affordable rates but rarely offer the promised benefits. Under the new REPAYE system, students would not be disincentivized from enrolling in these programs, since any unaffordable debts they accrued could simply be eliminated. The proposed REPAYE changes have the potential to create an open-ended subsidy to the worst actors and should be put on hold until strict accountability metrics are put in place, such as requiring institutions to shoulder some or all of the cost of debt cancellation.

Costs for Both Students and Taxpayers Are Likely Being Underestimated

The Department currently estimates this plan will cost $128 billion over 10 years, but this is likely an underestimate for three reasons. First, it assumes the new program would have comparable take-up rates among the existing college population to existing IDR programs, despite the fact that it could benefit a much larger share of the college-attending population. Second, it doesn’t take into account that the college-attending population itself would likely increase as a result of such generous subsidies. Finally, there is no accounting for the likely increase in tuition costs that will come from expanding the subsidy rate.

Independent estimates have found that the cost increase is likely to be between three and ten times as much as the $128 billion estimated by the Department. Even $128 billion — equivalent to more than $1,000 per household — would be a discomforting amount for an executive action with no direct

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approval from Congress. Redistributing hundreds or even thousands of dollars from the typical taxpayer to a new education subsidy should at least require an affirmative vote from Americans' elected representatives in Congress.

The imperative for Congressional buy-in is particularly pronounced given that many beneficiaries of this program are likely to have earnings exceeding those of people who never went to college. Whether it is through higher future taxes or inflation, workers who don't have the opportunity to benefit from a college education will be stuck footing the bill for those who do. In the case of a well-targeted IDR expansion that relieves a burden on low-income people with unbearable debt burdens, that is justified. But this program is anything but targeted: It is a widespread subsidy for most people who go to college, most of whom are in little need of additional financial aid.

Proposed Remedies

We urge the Department to delay implementation of this rule until it has conducted a more thorough estimate of the proposal's cost to taxpayers and the impact it would have on the higher education financing system. It is our hope that the proposal is refined to be more carefully targeted toward those borrowers who leave college with low incomes and high debts. Insofar as higher education suffers from structural problems such as runaway tuition hikes, those are issues for Congress to address. Expansion of income-driven repayment is not a solution for structural financing problems, and as we have demonstrated, is likely to make them worse.

In addition to a responsible, more modest expansion of income-driven repayment programs, comprehensive reform should hold schools accountable for the value of their degrees. If certain institutions or programs are producing large numbers of enrollees whose income benefits are less than the cost of their education, the burden of those costs should fall on those institutions — not on disadvantaged students, and also not on taxpayers. Funneling vulnerable Americans into low-value programs with open-ended taxpayer subsidies is bad for everyone but the schools themselves.

Sincerely,

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