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U.S. Student Loans and Debt Levels Set Record: What's a Legislature to Do?

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In 2018, the collective U.S. student debt reached a record $1.5 trillion, owed by more than 44 million Americans. In fact, the Federal Reserve Board notes that this represents 42% of Americans who attended college, and that 30% of all adults have acquired debt to obtain a degree. Of genuine concern is that nearly 40% of student loan borrowers are expected to default by 2023. And although federal loans make up 90% of student debt, the overall impact of this situation has raised concerns at both national and state levels.

This brief provides an overview of the basic issues relating to student debt and briefly examines how those issues can potentially challenge overall economic stability. Examples of state responses are offered to spur discussion among legislators about options for their states.

About this series

With the support of the Arnold Ventures, this is the sixth of eight briefs published by NCSL as "A Legislator's Toolkit to the New World of Higher Education." The series seeks to inform legislators about the current challenges to public postsecondary education so that they can form cohesive, strategic approaches to building effective and efficient postsecondary systems responsive to future statewide economic and community needs. In addition, an interactive database on the NCSL website identifies state approaches to governance, funding and affordability, allowing policymakers to share information, exchange ideas and adopt the best practices for their state's particular needs.

The Basics

To better understand the size and scope of the national student loan issue, it is helpful to start with a few basic facts. Drawing on the most recent available data from the Federal Reserve, The Institute for College Access and Success, the U.S. Department of Education and the College Board, consider the following statistics:

HOW MUCH DOES THE AVERAGE BORROWER OWE?

- The average student loan debt per borrower is $32,731.
- The total national student loan debt is $1.52 trillion.
- The total number of U.S. student loan borrowers is 44.7 million.

Yet, to gain a sense of balance, consider:

- 56% of borrowers with outstanding debt owe less than $20,000.
- 14% of borrowers who owe $60,000 or more are responsible for 52% of the overall outstanding loan debt.

HOW DOES THE DEBT AFFECT BORROWERS BY AGE?

- The largest age group owing student debt are borrowers under the age of 30.
- Borrowers between the ages of 30 and 39 have the largest amount of student debt.
- Borrowers age 60 and over have increased 1,256% since 2004.

WHAT IS THE DIFFERENCE BETWEEN UNDERGRADUATE GRADUATE DEBT?

According to the most recent data from The College Board:

- In 2016-2017, the 59% of bachelor's degree recipients from public and private nonprofit institutions who borrowed graduated with an average of $28,500 in debt.
- In 2015-2016, 5% of master's degree recipients, 20% of doctoral degree recipients, and 50% of professional degree recipients borrowed $100,000 or more to fund their graduate study.

Therefore, although student loan debt covers all age groups, most of the debt is owed by borrowers between the ages of 30 and 39, many of whom took loans to pursue graduate and professional degrees. With this general understanding, the complicating factors related to graduate student debt, parent and grandparent debt, and nonprofit institutions warrant closer examination to help clarify the broad nature and causes of the national student loan/debt issue.

Graduate Students

Although most attention is given to undergraduate student borrowers, many of the concerns are the same for graduate student borrowers—except that the amounts borrowed are significantly higher. Research reveals that federal graduate student loans are more generous due to the perception that they are safer and less risky than undergraduate loans. The general assumption is that borrowers with graduate degrees will earn higher salaries and therefore be able to repay higher loans. But the increased level of loans has been significant. Based on 2014 data:

- The average graduate student carries a debt of about $65,000.
- Borrowers with balances above $100,000 make up only 5.5% of all borrowers yet owe over a third of all student loan debt.
- Default rates are high among graduate borrowers attending for-profit institutions.

Parents and Grandparents

As noted previously, the number of borrowers age 60 and over has increased 1,256% since 2004. Older family members are taking loans to help their children or grandchildren avoid or reduce their need for debt. In fact, research shows that over the past 25 years, the average annual amount borrowed by parents has more than tripled from $5,200 per year in 1990 to $16,100 per year in 2014—and parents typically borrow for more than one year. What's more, they often take out multiple loans for multiple children. The result is that repayment outcomes of parent borrowers are getting worse and default rates are increasing.

Furthermore, a 2017 study found that 2.8 million Americans over the age of 60 have taken out at least one student loan to help support a student in the family—and 53% of families borrow to help pay for an undergraduate college education. Similarly, the age group entering into "serious delinquency" in student loan payments at the fastest rate is 40- to 49-year-olds. These are parents borrowing to pay for their children's expenses.

For-profit Institutions

Whether enrolled in graduate or undergraduate programs, students attending for-profit institutions tend to have worse outcomes and more struggle with student debt and default compared to their counterparts attending traditional nonprofit public and private postsecondary institutions.

With the increased workplace demands for postsecondary credentials, for-profit institutions focus on offering professional credentials to non-traditional, often first-generation adult learners who have limited understanding of the difference between nonprofit and for-profit education. In general, for-profit colleges have much higher acceptance rates since their business model depends upon high enrollments and market-driven tuition that includes federal aid. The result for the student is often debt higher than the overall average ($39,950 compared to $25,550 for nonprofit public colleges). Beyond the debt, for-profit students default at twice the rate of public two-year students (52% compared to 26% after 12 years). The overall default rate among for-profit borrowers is nearly four times that of public two-year student borrowers (47% compared to 13%).

Yet Loans Are Still Helpful

Although the concerns about the amount of student loan debt are well-founded, research still shows that the academic benefits were significant for community college students who received loans after their institutions informed them of the amount they could borrow and how the loans were to be repaid. These recipients outperformed their peers who did not borrow, since borrowers typically take more classes, earn higher grades and graduate sooner. These students also were more likely to transfer to a four-year institution.

With this general overview of the current situation, it is helpful to understand how the situation developed, what are borrowers doing to help themselves, and how can states respond.

How Did We Get Into This Situation?

There are basically two reasons for the increase in student debt. First, more Americans are seeking post-secondary credentials and degrees than ever before. The Georgetown Center on Education and the Work-force predicts that by 2020, 65% of all jobs in the U.S. economy will require some form of education beyond high school. Also, postsecondary credentials and degrees remain a good investment. Federal Reserve research shows that in 2018, college graduates earned 80% more in weekly wages than high school graduates.

Second, the cost of higher education has increased significantly over the past few decades. From 1988 to 2018, the price doubled at public two-year and private nonprofit four-year schools while in-state tuition and fees at public four-year schools tripled. Taken together, these two reasons have created a "no-win" situation: Americans need a postsecondary credential or degree to compete in the modern economy, but the cost can be simply unaffordable for many students and their families.

This situation did not develop overnight. Before 1958 the issue of student debt did not exist. Federal programs such as the GI Bill, Perkins Loans (directed toward low-income students), Stafford Loans (government-backed student loans) and the Pell Grant made postsecondary education affordable in partnership with state governments, which provided appropriations to public institutions to help keep tuition low. This partnership held into the early 1980s, and most college students with decent summer jobs could obtain a degree with little or no debt.

In the 1980s, state postsecondary appropriations decreased as states sought to reduce overall spending. In response, postsecondary tuition increased while available financial aid remained nearly the same—creating the need for student loans. The Great Recession of 2008 only accelerated this situation as state legislatures further reduced postsecondary appropriations to meet pressing needs.

What About Defaults?

Surprisingly, student loan delinquencies are highest among individuals with relatively small amounts of student loan debt. This is because these individuals are more likely to have attended one-year or two-year institutions or for-profit institutions with lower resulting pay increases. Furthermore, the most difficult consequences of student debt are faced by those who left school with debt and no degree, or with a degree that provided little benefit in the labor market.

What is troubling is that the number of delinquencies continues to increase even as the unemployment rate is below 4%. This suggests that the strong U.S. job market is not generating enough wage growth to help certain borrowers meet their debt agreements. The age group transitioning into the "serious delinquency" category at the fastest rate is the 40- to 49-year-olds, who are often parents borrowing to pay for their children's expenses.

What Are Borrowers Doing to Address Their Situations?

As noted previously, 90% of student debt consists of federal loans—and currently, there are more than 30 federal loan forgiveness programs. The most prominent is the Public Service Loan Forgiveness Program (PSLF). The PSLF premise is straightforward: Many public service careers—such as teaching and social work—require postsecondary and even graduate degrees, which in turn often entail substantial student loans. These careers generally do not offer high salaries yet are important to society. Therefore, to encourage people to consider these careers, "loan forgiveness" is offered by the federal government. To qualify for the PSLF, the individual is required to work full time for a government agency or a nonprofit organization and complete 120 qualifying payments (usually over 10 years) before their loans can be forgiven. It should be noted that in many cases, what is "forgiven" after 10 years of payments is not the loan balance, but the accumulated interest on the original loan.

While the program is potentially available to a wide range of graduates, the program is not widely used. A recent GAO report from September 2018 found that only 96 out of 28,000 applications were approved. Among the rejections, 28% were due to filing and clerical errors which could be remedied over time. Yet more than 70% were due to lack of a manual or clear guidelines of program requirements such as eligibility, employer certification, and correctly counting payments toward the required 120 needed for loan forgiveness.

The second most prominent federal student loan forgiveness programs are income-driven repayment plans (IDRs). While there are several IDR variations, all establish an automatic monthly student loan payment at an amount that is intended to be affordable based on income and family size. The upside is that borrowers are less likely to fall behind on their payments since the repayment is through payroll withholding. Thus, they are significantly less likely to default on their loans.

However, while IDRs are fairly simple in their design, circumstances can make them challenging. These can occur when life circumstances change for the borrower—such as family medical emergencies, or when a borrower is drawing from multiple sources of income or works in unsteady "gig" positions.

What's the Impact?

The current debt situation raises concerns about how the 44 million Americans saddled with debt can participate in the economy, society and workplace. For many of the younger individuals, wrestling with the debt means delaying or being denied home ownership, marriage and parenthood. For example, the Federal Reserve reports that approximately 20% of the decline in homeownership among young adults can be attributed to their increased student loan debts since 2005. In fact, each $1,000 increase in student debt causes a 1- to 2-percentage point decrease in the homeownership rate of student loan borrowers in their late 20s and early 30s. Sizeable debt means limited spending, and limited spending means constrained economic growth.

What Can States Do to Help?

According to The Institute for College Access and Success, there are seven state-level policy recommendations to help reduce student loan burdens:

1. **When allocating state financial aid, emphasize need-based aid over merit-based aid**. Students with greater financial need are more likely to borrow to cover costs. Intentional need-based grant aid policies can help reduce the need of students to borrow.

2. **Strengthen state-level longitudinal data systems**. A comprehensive K-12, postsecondary and workforce state data system can help identify where affordability problems develop and allow for effective solutions.

3. **Consider developing a Student Loan Bill of Rights**. To help prevent borrowers from being poorly advised or misled by student loan collection companies, some states have enacted borrower bills of rights. Many of these include an ombudsman to assist borrowers in navigating uncertain situations and respond to their complaints. The bills also often require student loan collection companies to be licensed and transparent in their collection and pricing policies.

4. **Consider exempting forgiven amounts of federal student loans from state income tax**. When federal student loan debt is forgiven after 20 or 25 years of payment, the IRS currently treats the amount forgiven as income, turning a source of relief into a liability. State lawmakers can ease this burden by excluding forgiven federal student loan debt from being a state tax liability.

5. **Set institutional accountability standards for schools that receive state grant aid**. State policymakers can require colleges that receive state aid funds to monitor student loan default rates and meet graduation standards. This will help guide potential students to schools where their loans can be manageable, and they can expect to achieve their goals.

6. **Increase awareness of income-driven repayment plans**. Most student loans are federal loans and can be repaid via the borrower's post-graduation income. This allows borrowers to avoid default and often have a portion forgiven after a certain term of payments. Potential students and their families benefit from knowing of these options prior to taking on loans.

7. **Require postsecondary institutions to adopt strategies to help reduce student debt burden**. Postsecondary institutions could offer loan counseling to students and provide institutional data on student borrowing to state-level systems to aid statewide policy adjustments.

How Are State Legislatures Responding?

States legislatures are responding through bills that recognize that student debt limits overall consumer spending, and limited spending constrains economic growth. As such, bills that offer pathways to reduced student debt can also provide incentives to meet state needs. These are done primarily through three categories: profession-based legislation (often focused on health care or education); residency-based legislation; and tax incentives/employer-based legislation. A fourth category focuses on student loan regulations and student bills of rights. Below are examples of recently enacted bills.

Student Loan Forgiveness

Profession-Based: Health Care

Year	State	Bill	Summary
2018	HI	HB 916	Appropriates funds to the Department of Health for the Hawaii Health Care Provider Loan Repayment Program administered through the John A. Burns School of Medicine.
2017	CO	HB 1282	Creates the state veterinary education loan repayment council to administer the Rural Veterinary Education Loan Repayment Program for veterinarians who agree to practice for up to four years in a rural area of the state that is experiencing a shortage of veterinarians.

Profession-Based: Education

Year	State	Bill	Summary
2018	DE	HB 346	Creates the High Needs Educator Student Loan Payment Program. Allows educators working in a high needs area to receive up to $10,000 in student loan relief over five years.
2017	ND	SB 2037	Creates a student loan forgiveness program for teachers teaching in content areas and geographical locations with an identified teacher shortage or critical need.

Residency-Based

Year	State	Bill	Summary
2018	UT	SB 104	Creates the Talent Development Incentive Loan Program which provides an incentive loan to individuals working a qualified job in the state of Utah. Appropriates $2.5 million to fund the program.
2015	VT	SB 138	Creates the Vermont Strong Scholars loan forgiveness program, whereby graduating high school students will be counseled and encouraged to apply to Vermont schools, take certain courses, graduate and then take certain Vermont jobs, in exchange for student loan forgiveness.

Student Loan Tax Related Legislation

Year	State	Bill	Summary
2018	MD	HB593	Expands the student loan tax credit to include graduate student loan debt.
2017	CA	AB461	Expands exclusion from taxable income for student loan debt that is cancelled under loan repayment plans.

Student Loan Regulation

Year	State	Bill	Summary
2018	PA	HB2124	Requires higher education institutions to inform students of loan details. This includes an estimate of the total amount of loans taken by the student and disbursed by the institution, as well as estimates of the potential total payoff amount, the number of years used to determine the total payoff, and information on how the student can access online repayment calculators.
2018	MD	SB1012	Requires the Office of Commissioner of Financial Regulation to appoint a student loan ombudsman. Subjects student loan servicers to the Maryland Consumer Protection Act.
2015	CT	HB6916	Creates the Student Loan Bill of Rights which imposes requirements on loan servicers. Also creates an ombudsman to receive, review and monitor student loan borrower's complaints and data.

Conclusion

With rapidly changing economic demands, postsecondary education is crucial for citizens and states to successfully adapt to workforce and societal challenges. In addressing the issues of student loans and debts, legislatures have the opportunity to help keep postsecondary education affordable and to strengthen their citizens' ability to prepare for 21st century needs.

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