The Right Way to Cancel Student Debt

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This issue brief is a collaboration between the Jain Family Institute and the Debt Collective.

Executive Summary

- Student debt cancellation presents a historical opportunity to take decisive action that will directly improve the lives of tens of millions of Americans, while providing far-reaching positive economic benefits for everyone.
- The two criteria by which this debt cancellation might be limited—by income and by total amount—risk undoing the practical and political benefits cancellation is aimed to achieve.
    - Limiting cancellation by income does not target the neediest borrowers, and in fact will leave a large number of borrowers with unaffordable debt.
    - Limiting cancellation by income will be administratively impractical, as demonstrated by the current Income Driven Repayment programs, and will likely miss the borrowers in the greatest need.
    - Limiting cancellation by dollar amount, particularly the low amounts currently being considered by the Biden administration, will not only miss huge numbers of borrowers in dire need, but it will also leave millions of borrowers with the exact same monthly payment they had before, thus negating the purpose of cancellation.
- Given past experience administering the federal student loan program, as well as other federal benefits, student debt cancellation should be universal among borrowers, automatic, and as generous as possible.
- If cancellation must be limited by amount, the amount should be set as high as possible in order to offer meaningful relief to the greatest number of people, bearing in mind that many of those excluded from cancellation by this measure will be those who have suffered the longest and greatest harm from their student debt. The arguments for limiting the dollar amount canceled, which claim cancellation is "regressive," have been shown to be empirically wrong and methodologically flawed. The federal student loan program, and the privatized, tuition-funded higher education system that it supports are regressive. Student debt cancellation is progressive.

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Introduction

Currently, the Biden Administration is [actively considering canceling *some* amount of outstanding student debt](). But the president has said the amount canceled will certainly not be as much as $50,000 per borrower, and reporting indicates [an application process, complete with an income test, is under consideration](). Limitations on amount canceled, income eligibility, and the inclusion of an application process would, separately and together, represent a serious political and policy error. That is particularly true if such a limited cancellation is combined with an end to the pandemic student loan repayment pause.

In this issue brief, we explain why experience with administering the federal student loan program indicates that the cost of adding administrative burdens onto debtors undermines the effectiveness of a debt cancellation program, while also failing to solve the political problem the proposed restrictions and stipulations are supposed to guard against. Furthermore, in April 2022, the White House Office of Management and Budget announced [a new initiative]() to "cut down on administrative burdens" associated with accessing government benefits. Establishing an application requirement and/or an income test for student debt cancellation would directly contradict the administration's own stated policy in this respect.

Today, the aim of any effort to cancel student debt should be to liberate as many borrowers as possible from an unfair and broken system—a system that continues to be dysfunctional despite serial patchwork reform attempts, all of which have been instituted to try to draw a distinction between deserving and undeserving debtors. Those attempts have invariably failed. Given that unsuccessful record, limiting the cancellation amount and requiring engagement with a broken administrative system is a recipe for frustration on the part of borrowers. Moreover, a program of this design would be a political disaster—it promises to inflame opponents while disappointing supporters.

Echoing other experts, our analysis of existing programs shows that a targeted approach will likely only exclude and harm the very people it purports to prioritize and help. Income caps and other administrative hurdles ensure that many of the most vulnerable borrowers will be denied relief. Many will not be aware of the opportunity to apply, how to apply, or will be unable to prove their income (a significant number of low income people do not file tax returns). Only 5 percent of borrowers make more than the $125,000 cap under consideration by the Biden

administration. As important, many of the borrowers above the $125,000 income cap are likely to have zero or negative wealth—especially borrowers of color. Instead of designing a convoluted, slow, and error-prone system intended to exclude this small subset of borrowers, we should prioritize swiftly and efficiently delivering every borrower the relief they are entitled to.

There is a huge opportunity cost for going small and complicated. Big and bold student debt cancellation is not only popular with the American people, it is the most practical option—the more balances that are wiped out, the less likely borrowers are to fall through administrative cracks. To achieve a maximally beneficial and progressive outcome, student debt cancellation should be universal, automatic, and as generous as possible.

The Relationship between Student Debt and Income: Limiting Cancellation Based on Borrower Income Is Counterproductive

Demands that student debt cancellation be limited on the basis of income arise from the widespread-though-false perception that student debtors on the whole are privileged and, in the absence of cancellation, would easily be able to repay their loans. Thus, so the reasoning goes, cancellation needs to be limited to borrowers who earn below a given income threshold, so it does not relieve what is assumed to be a lighter debt burden on more affluent borrowers. Our analysis shows that these perceptions are false, and scholars making the claim that student debt cancellation is regressive have resorted to Enron-like accounting gimmicks to mask the total amount of debt that borrowers are carrying.[1]

It is indeed the case that debt-to-income ratios tend to be lower for higher-income borrowers. However, rising student loan balances, both on the intensive margin (people who would have borrowed in any case borrowed more) and the extensive margin (people who previously would not have borrowed now do) have affected people throughout the income distribution. Figure 1 depicts the median

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[1] In a report decrying the large forgiveness implied by current IDR programs, researchers at the American Enterprise Institute concede that IDR cancellation after 20 years of repayment is not the same as eliminating the burden of student debt in the present: "Forgiven debt is not equivalent to the full cost of a loan made through IDR…" Like Enron, such an approach undervalues currently-existing liabilities by claiming their future repayment will take place on generous terms to the borrower.

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debt-to-income ratio for borrowers by census tract median income in 2009–2010 and 2020–2021.

RATIO OF MEDIAN STUDENT DEBT TO CENSUS TRACT INCOME BY INCOME DECILE

*Income is at the Census Tract level using the 2010 and 2020 5-year ACS median income estimates.
Source: Experian Information Solutions, Inc; ACS 5-year estimates.
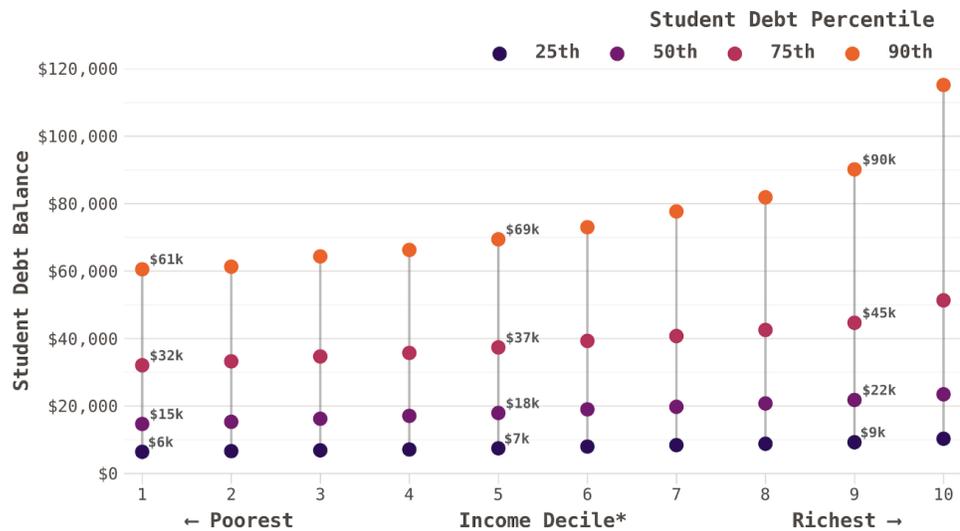©2022 Jain Family Institute | Eduard Nilaj.
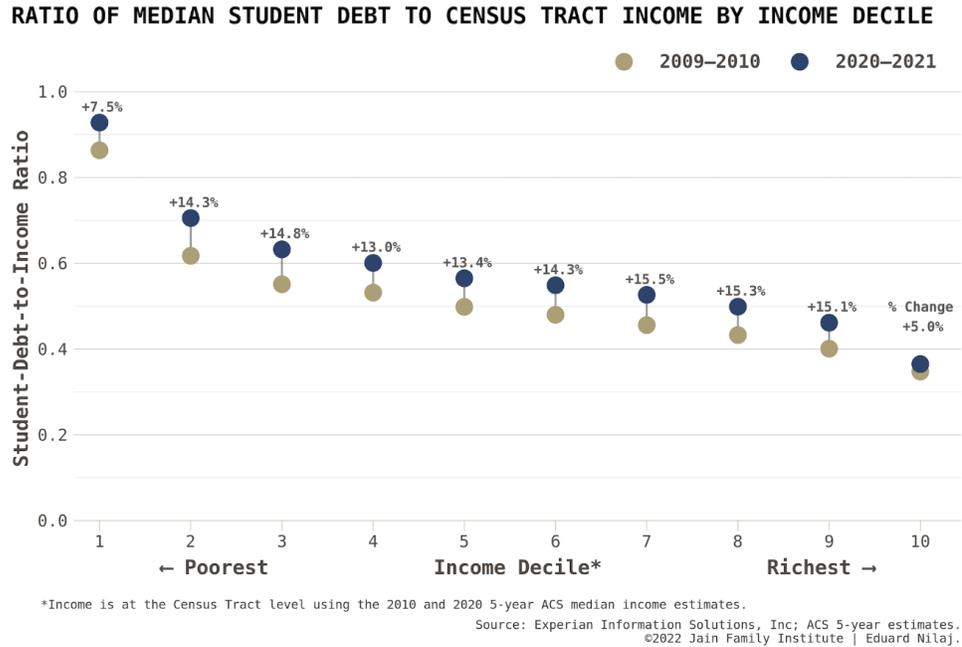
Figure 1: *For each of the 2009-2010 and 2020-2021 combined samples, this figure plots the ratio of the median student loan balance to the median income in the census tract where each borrower resides, ordered by census tract income decile.*

Figures like these have led commentators to naively conclude that if there is a problem with student debt, it is concentrated among low-income borrowers whose debt-to-income ratios are likely to be highest. They further reason that the numerator and the denominator of this metric are causally related: the reason that debt-to-income ratios are lower for higher-income borrowers is that student debt *causes* income to be higher. That reasoning ostensibly motivates some sort of income test for debt cancellation, figuring that lower-income borrowers are those for whom their education didn't "pay off," and who therefore deserve relief.

More detailed data reveals that this reasoning is flawed. When we look at the **distribution** of loan balances among borrowers by census tract income decile, depicted in Figure 2, we find much more variation within a given census tract income decile than there is between deciles. Put roughly, the distribution of debt is more-or-less similar across income bands, especially below the 75th percentile of the census tract median income distribution. Thus, it's factually inaccurate to claim that low-income borrowers (or at least borrowers who live in low-income

neighborhoods) have low balances, while high-balance borrowers necessarily have high incomes. While there is a small positive correlation between the amount of student debt a borrower carries and income, there is not as large a difference as [many commentators believe](#) between the student loan balance distribution conditional on a given income level and the unconditional loan balance distribution. There are plenty of high-balance, low-income borrowers, suggesting that in many if not most cases, student debt does not in fact cause incomes to go up.

DISTRIBUTION OF STUDENT DEBT BY CENSUS TRACT INCOME DECILES, 2021

Student Debt Percentile

● 25th ● 50th ● 75th ● 90th

Income is at the Census Tract level using the 2020 5-year ACS median income estimates.

Source: Experian Information Solutions, Inc; ACS 5-year estimates.
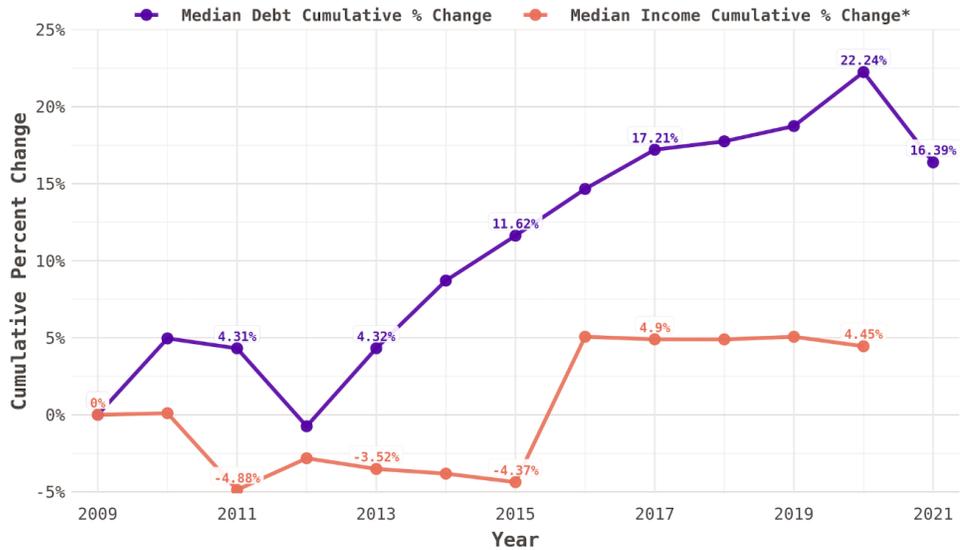©2022 Jain Family Institute | Eduard Nilaj.

Figure 2: This depicts the distribution of student loan balances within each census tract income decile for the 2021 student borrower sample. There are plenty of high-balance, low-income borrowers, suggesting that their student debt didn't cause their incomes to go up, and who would still be burdened if a small amount of student debt is canceled. Conversely, there are also many higher-income, high-balance borrowers who will not be able to repay. An income-limited cancellation won't benefit them, but the government still isn't going to be repaid.

The total amount of student debt taken out (on both the intensive and extensive margins) between 2009 and 2021 has dwarfed income growth, belying the idea that a college education "pays off" in the form of higher earnings, and can therefore be financed without issue by individual-level debt. Artificially limiting the amount of student debt canceled by income level will, therefore, leave out higher-income borrowers who nonetheless don't earn enough to retire their debt, setting up the strong possibility of recurrent cancellations that have the effect of making previous

ones appear to have been ineffective and inadequate. Simply put, even higher-income borrowers with high debt loads will never repay their loans, and so excluding them from cancellation now will only mean their debt will have to be forgiven later.

Figures 3 and 4 plot cumulative percent changes in median student loan balance as well as census tract median income from 2009 to 2021, first overall and then second broken out by race, where race is determined by the plurality race in each borrower's census tract (since like income, race is not directly observed in the credit reporting data). The divergence between income and student debt is largest for Black borrowers (as determined by census tract), illustrating the racialized dynamics that have already gotten a great deal of attention in both academic and public debate. Perhaps the most notable new finding here is the decline in balances between 2020 and 2021, which may reflect the partial paydown of balances thanks to both the pandemic repayment pause and the income support policies that made the COVID-19 recession unique in seeing households improve their economic security on average even as millions of people lost their jobs. That decline bears further investigation, but in the meantime, it demonstrates the danger of limiting any student debt cancellation alongside an end to the repayment pause. Unless the cancellation amount is substantial and easily accessible to all borrowers, regardless of income and without an onerous administrative burden, that decline in balances will not last.
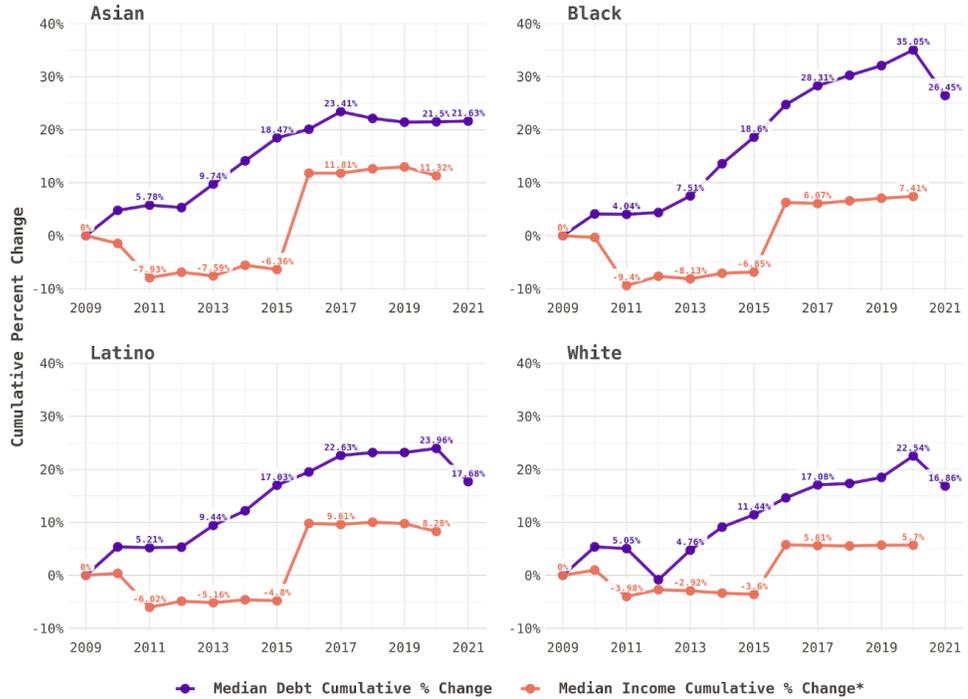
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CHANGES IN STUDENT DEBT AND CENSUS TRACT INCOME, 2009–2021

Figure 3: *Cumulative percent change in student loan balance and in census tract median income.*

CHANGES IN STUDENT DEBT AND INCOME BY CENSUS TRACT RACE DEMOGRAPHICS, 2009–2021

Figure 4: *Cumulative percent change in student loan balance and census tract median income, reported separately by census tract plurality race group.*

Given the debt-income divergence, particularly among Black borrowers, limiting cancellation by income threatens not only to leave behind many in great need of cancellation, but to do so in a way that disproportionately harms Black borrowers.

In addition to reducing the reach, effectiveness, and salience of cancellation, an income limit will be nearly impossible to administer. The Department of Education lacks contact information for about a quarter of the roughly 1 in 5 borrowers who are in default, despite existing relief programs. The inability of the Department of Education to access borrower tax data without explicit permission will mean that even if tax filings could be used to reliably assess income, which they cannot, any income limit will require affirmative action by borrowers. We know from experience both within and well beyond the student debt system that such an affirmative requirement will miss many borrowers, likely millions of them, and is more likely to miss the most vulnerable borrowers with the greatest need for cancellation. But even assuming the Department could reliably access and assess borrower income, administering an income limit in this context is a losing proposition. The Income-Driven Repayment (IDR) programs provide an instructive example.

Income Threshold Dysfunction: The Precedent of Income-Driven Repayment

The Department of Education has extensive experience administering a number of income-tested programs for reducing the burden of student debt in the form of IDR. Nine million borrowers, or about 30 percent of the total, are currently enrolled in IDR. Those programs offer the best precedent for predicting what means-testing debt relief would look like, since they are the versions that have been attempted to be implemented, and at this point we have considerable experience assessing their effectiveness.

Before recounting the evidence about how IDR has functioned in practice, it's important to explain how it works in theory and why it is designed the way it is. Borrowers with qualifying loans can have their monthly payments limited to a set percentage of their "disposable" income, usually income above some multiple of the federal poverty line. To do so, they certify their income by providing tax and other data to the Department of Education, because the IRS is prohibited by law from providing individually-identifiable tax data directly to the department. Eligible borrowers have their monthly payments re-computed to conform to whichever IDR plan they apply for, either 10, 15, or 20 percent of disposable income, which determines the repayment term. If the re-computed payment is insufficient to cover the interest cost of outstanding debt, so-called "negative amortization," the unpaid interest accumulates and is held separately; it does not accrue compound interest. But if the borrower fails to properly certify their income in any given year,

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they automatically fall out of IDR and accrued interest capitalizes into principal, after which the interest compounds. That is also true if borrowers voluntarily and consciously exit IDR or fail to qualify because their income is in principle sufficient to make full payments. All the IDR programs have a repayment term, at the end of which outstanding debt is canceled if it hasn't been repaid. In other words, cancellation already is the policy of choice—IDR as it currently is designed just wrongly requires borrowers to re-enroll ten to twenty-five times, wait up to twenty-five years, and make no [mistakes](#).

The premise of IDR is that difficulty with repayment arises from the temporary mismatch between (low) initial earnings soon after leaving college and high fixed student debt payments. If that is the problem, then IDR offers a solution: temporarily reduce payments to a manageable portion of current income, and then when the borrower earns enough to make full repayment, the borrower can leave IDR and pay down the balance, in which case the borrower's student-debt-to-income ratio will decline towards zero as they repay. The ten-, twenty-, or twenty-five-year repayment window is designed to backstop that structure: if the mismatch between earnings and payments lasts long enough (or recurs over the borrower's lifetime), then it's possible that borrowers will not be able to fully repay the accumulated balance of principal-plus-accrued-interest within that term, in which case whatever's left is canceled.

A reasonable rule of thumb is that an *initial* student-loan-balance-to-income ratio of 1:1 or higher will result in rising balances over time for a borrower enrolled in IDR, and if borrowers have that much student debt, they will almost certainly qualify for it.[2] Figure 5 reports the student-loan-balance-to-income ratio for the borrowers in our 2009 and 2021 samples.[3] Keep in mind that this distribution of ratios is for all borrowers. For borrowers making progress toward repayment, the ratio is

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[2] Back-of-the-envelope calculations using current interest rates on new student loans, which in general are lower than historical rates, indicate that a debt-to-income ratio of 60 percent when repayment begins (or thereafter) will lengthen the repayment term beyond the standard 10 years, and a ratio of 120-130 percent when repayment begins (or thereafter) will result in continuously-rising student loan balances over time. But it bears emphasis that these calculations have many significant moving parts and assumptions (most importantly, relating to lifetime income trajectories, which in many cases do not rise as quickly as interest is accrued), such that actual borrowers' experience, for example given income fluctuations over a lifetime, could be very different.

[3] Here we use the fact that Experian itself reports a debt-to-income ratio, and since we separately observe total debt, we can use that to back out individual borrower income, then compute a student debt-to-income ratio. However, any methodology used to guess a borrower's income is opaque, and so that is why we prefer to use ACS income data elsewhere.

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declining as they repay. For borrowers whose debt accumulates faster than their income rises, the ratio will rise as they age. The latter is the case for borrowers enrolled in IDR, which is why once a borrower enrolls, it's likely they'll never leave. That fact is baked into the structure of the program, notwithstanding the assumptions about income shortfalls being temporary that policy-makers assumed at the outset. More and more borrowers are enrolling (or were, before the pandemic repayment pause). If the repayment pause is ended in August 2022, that trend will almost certainly resume. The annual interest rate on federal student loans has varied between about 4 percent and 6-7 percent for unsubsidized graduate loans, whereas incomes don't grow nearly as fast, especially not in real terms. Nevertheless, the Department of Education's current policy is that more borrowers should enroll in IDR, and that the eligibility criteria and performance requirements ought to be streamlined to accomplish that.

DISTRIBUTION OF STUDENT-DEBT-TO-INCOME RATIO, 2009 & 2021
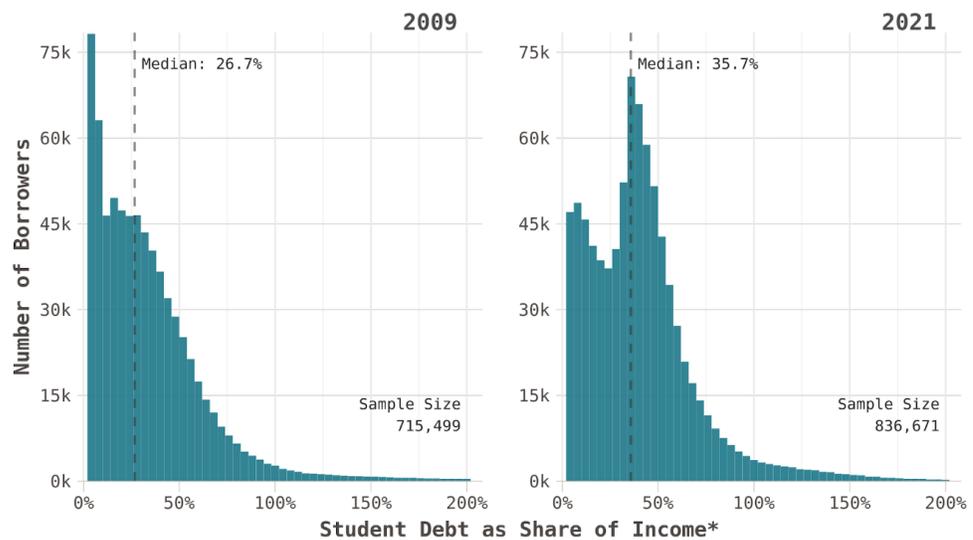
*Invidual income is estimated using the given aggregate debt balances and deb-to-income ratios.

Source: Experian Information Solutions, Inc.
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Figure 5: These histograms plot the student-debt-to-income ratio for borrowers in the 2009 and 2021 samples. Income in this case is the income imputed by the credit bureau Experian.

The IDR programs' original design did not intend for borrowers to remain enrolled in them indefinitely (even though the structure of the programs encourages that), or for the total amount canceled at the end to therefore represent decades of

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negative amortization and/or capitalized interest on top of the principal. But that is the way it has turned out, because for most borrowers, the mismatch between earnings and payments sufficient to fully amortize the original balance isn't temporary. If a borrower has a high debt-to-income ratio to begin with when they enter IDR, that ratio is very likely to get worse the longer they stay in it, because negative amortization and/or capitalized interest in the numerator will accumulate as fast or faster than income grows over the life cycle in the denominator. The lower the income is at the start of the IDR program, the more severe the downward spiral. Lower-income borrowers have more unpaid interest in the earlier years of repayment, which makes eventual repayment increasingly difficult the longer the borrower persists in the program. In addition, the lower a borrower's income is to begin with, the lower it is likely to be throughout their lives.

In this way, the non-repayment of student loans is a consequence of the [front-loaded structure of financial aid while students are enrolled](#). In part a consequence of rising loan limits as students progress through their education, borrowers often receive decreased aid after their first year of college. Increases in net tuition as they progress deter students from completing degrees, making it more likely they'll leave college with higher debt and no degree or with a delayed degree from a less prestigious institution, commencing the life cycle of non-repayment.

Labor market credentialization has been accompanied by proliferation of expensive graduate programs designed to attract students by offering them a solution to labor market slackness, leading to higher amounts of debt. For most IDR enrollees, this amount of debt is too high to ever be repaid, given their likely income trajectories. Hence, a large and growing share of IDR enrollees, who are themselves a large and growing share of student debtors overall, is simply accumulating debt they intend to have canceled at the conclusion of the IDR repayment period (up to twenty-five years) and making the minimum required payments in the meantime. In that case, IDR, and student debt more broadly, is acting as an income tax, with a very high marginal tax rate on student loan borrowers enrolled in IDR. Recall that unpaid interest is automatically capitalized into principal if the borrower exits IDR due to an increase in income, meaning that their student debt would suddenly become larger and accumulate faster thereafter. These are the unintended consequences of policymakers' past unwillingness to confront the harsh reality of the student debt crisis: student borrowers simply don't earn enough to repay their loans, and never will.

That dynamic is central to explaining the perverse outcomes of IDR: borrowers with low income relative to debt loads are encouraged to enroll and accumulate

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balances, even though the income required to ever pay it off rises much faster than their actual income grows. Combine this fact with the difficulty of achieving loan forgiveness through IDR. Only 157 loans have been forgiven as of June 2021, according to a March 2022 Government Accountability Office (GAO) report. 7,700 loans appeared to GAO to have sufficient qualifying payments, but have not been forgiven. GAO found another 62,600 loans in IDR that are old enough for forgiveness but appear not to have sufficient 'qualifying payments.' There are a number of reasons why, perhaps best conveyed by the lengthy footnotes to the GAO report explaining how loans can qualify for IDR.

ᵈThe New Income–Based Repayment plan is only available to new borrowers on or after July 1, 2014. For this plan, new borrowers are defined as individuals who had no outstanding federal student loan balance when they received a Direct Loan on or after July 1, 2014. Borrowers who do not meet this definition may be eligible for the Income-Based Repayment plan, but not the New Income-Based Repayment plan.

ᵉThe Pay As You Earn plan is only available to borrowers who (1) are new borrowers on or after October 1, 2007, defined as individuals who had no outstanding federal student loan balance when they received a Direct or FFEL loan on or after October 1, 2007; and (2) received a disbursement of a Direct Loan on or after October 1, 2011.

ᶠMonthly payments for IDR plans are generally set as a proportion of the borrower's discretionary income, which Education defines as adjusted gross income that exceeds 100 percent of the applicable federal poverty guideline for the Income-Contingent Repayment plan, and 150 percent of the applicable guideline for all other IDR plans. Poverty guidelines are published annually by the Department of Health and Human Services and vary based on geographic location and family size. Adjusted gross income is the adjusted gross income as reported to the Internal Revenue Service, and consists of gross income, including income from employment, unemployment compensation, dividends, interest, tips, and alimony received, minus certain deductions, such as certain retirement contributions, and moving and education expenses. For most plans, except Revised Pay As You Earn, when determining payment amounts, spousal income is considered only for borrowers who jointly file a federal tax return with their spouse.

ᵃDefaulted loans are ineligible for IDR plans unless a borrower rehabilitated the loan and re-enters a qualifying repayment status. In general, default occurs when a borrower reaches 270 days of delinquency (failure to make a payment when due). In addition, PLUS loans made to parents of dependent undergraduates (Parent PLUS loans) are ineligible for IDR plans; however, Parent PLUS borrowers who consolidated their loans on or after July 1, 2006, are eligible for the Income-Contingent Repayment plan.

ᵇBorrowers are eligible if their Standard 10-year repayment amount exceeds their repayment amount under the plan.

ᶜIncome-Based Repayment is the only IDR plan for which a FFEL loan may be eligible without first being consolidated into a Direct Consolidation Loan. For FFEL loans in Income-Based Repayment plans, the first allowable date for making a qualifying payment was July 1, 2009. Therefore, the first possible date for a FFEL loan to be granted IDR forgiveness would be 2034.

ᵍBorrowers pay the lesser of (a) 20 percent of discretionary income, or (b) the amount the borrower would pay over 12 years with fixed payments multiplied by an income percentage factor that is set and annually adjusted by Education.

ʰMonthly payment amounts are capped at less than or equal to the monthly payment amount under the Standard 10-year repayment plan.

This re-prints the footnotes to Table 1 of the Government Accountability Office's report "Education Needs to Take Steps to Ensure Eligible Loans Receive Income-Driven Repayment Forgiveness," March 2022.

Borrowers have to be enrolled in the right plan; consolidating earlier loans re-starts the repayment clock, a fact that is not conveyed to borrowers considering consolidation, unless they ask. Delinquent or defaulted loans do not qualify for IDR, and neither do loans in forbearance (prior to the pandemic repayment pause) or subject to deferment. The Department of Education's National Student Loan Data System didn't even track the necessary loan- and borrower-level information for determining and tracking IDR eligibility until 2014, and when loans are transferred from one servicer to another, the new servicer has no obligation to keep track of IDR-eligible payments made under the previous one. GAO concluded that over 50 percent of the loans it analyzed for forgiveness eligibility had at least seven years of non-qualifying payment months, meaning that borrowers have made substantially less progress toward forgiveness than they may believe, or than analysis that presumes full IDR compliance assumes. Despite the obvious harm in miscounting qualifying payments, education officials declined to force servicers to engage in a manual review due to the "costs and complexity." These outcomes and lack of urgency by the federal government to ensure the accuracy of borrowers'

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profiles underscore the framing of student loan cancellation as a justice-focused policy.

All of that presupposes that borrowers can document their income, a prerequisite to calculate their IDR payment amount. But the Department of Education does not have direct access to income verification from the IRS or any other agency. Borrowers who wish to enroll in IDR must provide this information directly, and they have to recertify their income every year. These tasks are easier for individuals with stable, formal employment—i.e. the more privileged subset of student debtors. A February 2022 report by The Pew Charitable Trust cites multiple analyses that find a varying 20 to 60 percent of borrowers enrolled in IDR programs fail to recertify their annual income on time. For those borrowers, delinquency rates increased three-fold, with 31 percent going into forbearance or deferment. Student debtors also tend to be young, and younger workers tend to experience higher year-to-year fluctuations in income. These fluctuations open up the possibility for inconstant qualification for IDR, which would mean intermittent periods in which payments don't qualify toward eventual cancellation, as well as the capitalization of previously unpaid interest.

Right now, the Department of Education is revamping servicing on direct loans in its so-called Next Gen servicing system, in which reporting requirements will be ramped up to back-fill the administrative capacity the structure of IDR presupposed. But that will not be in place until 2023 at the earliest, and it will never be able to re-constitute the backward-looking payment record that IDR's structure requires. We have been here before. From 2015-2020, Congress allocated over half a billion dollars to the Department of Education to create a single student loan servicing system. The Department could not deliver. Meanwhile, several of the major servicers have cut ties in serving loans citing increasingly complex customer service they have to provide, under threat of legal liability for misleading borrowers, which appears to be a systemic issue for some servicers. All of this demonstrates the effort involved in administering a program that is supposed to track individual performance and worthiness over a span of decades. That these processes are still being put in place, seemingly in response to the discovery that the program has not been successfully administered going back decades, illustrates how dangerous it is to design a complicated program on the basis of someone's theoretical notion of how student loan repayment should work or does work, without the administrative apparatus to ensure it works that way from the start. According to a 2015 Government Accountability Office Report, roughly 51 percent of Direct Loan borrowers were eligible for Income-Based or Income-Contingent Repayment options in September 2012, yet only 20 percent were participating in September 2014. A 2017 enrollment experiment on federal borrowers serviced by

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Navient found a comparable IDR take-up rate of 24 percent—that "the complexity and effort required to print, sign, and return the IDR application was negatively impacting" IDR enrollment.

The administrative burden of IDR plays out in the demographic and economic breakdown of who enrolls. Generally, it seems that female borrowers and potentially minority borrowers are more likely to be enrolled in IDR as are borrowers with above average balances ($40,000+). Additionally, borrowers with incomes below $55,000 were less likely to be enrolled than borrowers with incomes between $55,000 and $100,000, even though the design of the program imagines it to benefit low-earning borrowers. That is probably due to a combination of the administrative burden on the one hand and lower average nominal balances on the other, which makes the net benefit of navigating the program higher to higher-balance borrowers, even if they have relatively higher income. Although, it should be noted, [borrowers earning over $100,000](#) are less likely to be enrolled in an IDR program than middle-earners, countering discourse that rather well-off earners are the primary beneficiaries of these programs.[4] Trying to limit programs to alleviate the burden of student debt to "deserving" borrowers as measured by current income turns out to result in the opposite of its intended effect.

How Much Should Be Canceled? The More the Better.

The other axis on which debt cancellation limits have been proposed is a per-borrower limit for cancellation. This limit has been proposed at levels ranging from $10,000 to $75,000. It is important to note that much of the reasoning underlying dollar caps on cancellation stems from the misconceptions around debt and income discussed above. Many believe that those with more student debt have higher incomes, and therefore are more likely to be able to pay it off and less in need of cancellation. This line of reasoning infers, therefore, that canceling lower balances does more to alleviate the burden of student debt. Unfortunately, as explained above, this is simply not true. Not only are many borrowers drowning underneath high debt balances while working as teachers, social workers, or not able to work at all, but studies have shown that Black borrowers and female borrowers carry higher balances on average than their white male counterparts. A

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[4] This paragraph draws on Collier, Fitzpatrick, and Marsicano (2021) "Another Lesson on Caution in IDR Analysis: Using the 2019 Survey of Consumer Finances to Examine Income-Driven Repayment and Financial Outcomes."

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case in point: even if $10,000 of student debt was canceled it would leave 83 percent of Black borrowers who have carried their loan balance for 12 years and now owe more than they originally borrowed (due to growing interest), still in some debt.[5] Low levels of cancellation likely will leave already distressed Black borrowers still struggling with repayment. Dollar caps on cancellation will also leave many of these borrowers behind, will effectively punish those who pursued advanced degrees to work in jobs with lower pay but higher social value, and will leave many people in exactly the same financial situation they were in before cancellation.

This last point is essential: those whose entire balances are canceled will experience total relief thanks to the cancellation program, but many people who are left with a balance remaining will see effectively no benefit. This is because partial cancellation will not affect many people's required payments. Even for borrowers on a standard fixed repayment plan, a small amount of cancellation on a large balance will have little effect.[6] (It will have no immediate effect unless the payment plan is recast using the new balance.) This problem is compounded on graduated and extended graduated repayment plans, where partial cancellation will have an even smaller effect on monthly payments.[7]

This dynamic is particularly worrisome for the large number of borrowers on income-driven repayment. Since income-driven payments are generally calculated without regard for total loan balance, many people who are left with *any* student debt after cancellation will have *the exact same* monthly payment they had before cancellation. And because these are the people on income-driven plans, they are likely to be in the greatest need. For this population, a cap on the total amount of cancellation will mean effectively no benefit.

How much debt should be canceled? Figure 6 plots the total, unconditional distribution of loan balances in our sample of borrowers aged 18–35, as of the summer of 2021. Thus, one way to read the chart is as the share of borrowers "left"

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[5] Sentence was revised to more accurately reflect the data. May 20, 2022.

[6] A borrower with $110,000 of outstanding debt at 5 percent interest on a standard 10-year fixed repayment plan pays $1,167 per month. A $10,000 cancellation after recast will reduce that payment to $1,061 per month.

[7] The same borrower on an extended fixed plan pays $643 per month before cancellation, and $585 per month after $10,000 of cancellation. That borrower on an extended graduated plan starts at payments of $454 per month before cancellation, and starts at payments of $413 per month after $10,000 of cancellation.

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if a given total balance is canceled for every borrower.[8] It's worth pointing out that the age distributions of both student borrowers and student loans is getting older, and that older borrowers tend to have higher balances (likely due to lower-balance borrowers managing to repay their loans before they reach a given age). Hence, it's likely that the complete distribution of student loan balances unconditional on age would be shifted somewhat to the right from Figure 6, thus indicating higher balances.

SHARE OF STUDENT DEBT HOLDERS WITH BALANCES EXCEEDING CERTAIN AMOUNT, 2021
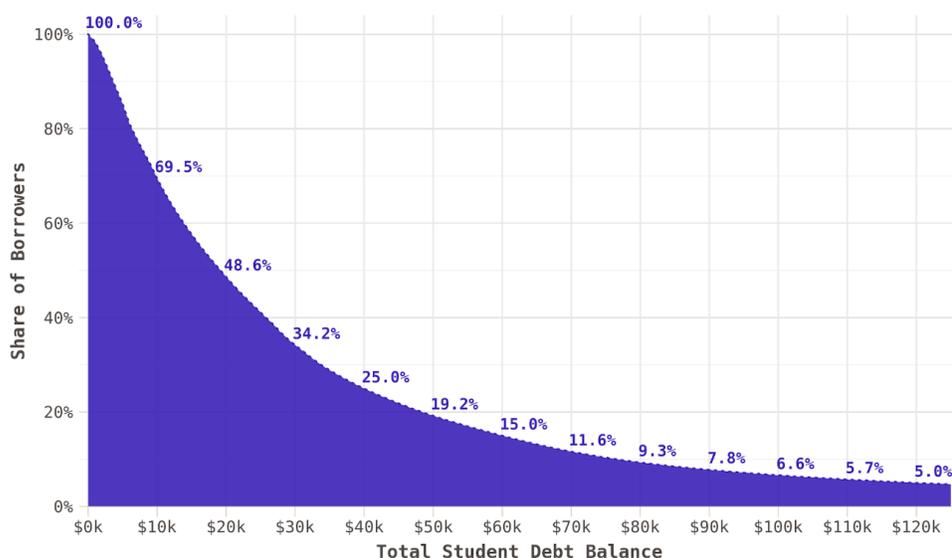
Note: Sample of 888,616 young borrowers with outstanding student loan debt in 2021.

Source: Experian Information Solutions, Inc.
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Figure 6: The unconditional distribution of student loan balances for borrowers aged 18–35, as of 2021. The horizontal axis plots total student loan balance, and the vertical axis reports the share of borrowers with balance greater than that amount.

Echoing other research, this analysis shows that maximum positive benefits correlate with higher amounts of per-borrower debt canceled. Though it may appear, at first glance, to be fiscally responsible and "fair," any limit on the amount of debt canceled will be arbitrary. High student debt balances are not as correlated with high incomes as previous analyses have suggested, and they certainly do not indicate comfortable borrowers who are able to repay their debt. Rather, those with higher balances are often those who sought out credentials to battle discrimination in the labor market, or who pursued advanced degrees to serve

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[8] Student borrowers with private or refinanced loans would be ineligible for a federal cancellation, so the chart would under-estimate the share of borrowers left if a given amount of federal debt is canceled since private borrowers are present in our sample.

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their communities, and most frequently are those whose balances have grown and grown over years or decades of inability to make the interest payments on their loans. The individuals in these groups who are most harmed by their student debt will also see the fewest rewards from partial cancellation. [Several](#) [studies](#) have found that the more student debt is canceled, the better the outcomes for racial and economic equity. A relatively small amount of cancellation, in addition to drawing the same political backlash that *any* amount of cancellation will bring, has the added risk of highlighting the millions of struggling borrowers who receive *no relief at all* from the program.

The administration should not underestimate the rhetorical and political consequences of designing a student debt cancellation program that leaves especially older, Black, and female borrowers in debt, *precisely because* they pursued education in the first place that didn't pay off for them, and then were buried under years of accumulated interest.

Conclusion

In a far cry from where we were only a few years ago, substantial student debt cancellation now appears likely in some form. This is welcome news, but not all cancellations are created equal. If too little debt is canceled, if income limitations are onerous and impossible to administer, and if some sort of application or qualification process is included, many borrowers may come away feeling cheated. At the same time, the actual distributional impact of the program could end up being the opposite of what those restrictions had intended.

Student debt policy is at risk of repeating the same error that has led to the current state of extraordinarily high indebtedness among borrowers: the assumptions about who has the debt and what its effect would be on borrowers' economic well-being have turned out to be wrong. State legislatures, colleges, universities, and employers took advantage of open-handed federal lending policies to jack up tuition, proliferate expensive graduate degree programs, credentialize the labor market, and de-fund public institutions. Meanwhile, the notion that student debt "pays off" in the form of higher earnings can't be reconciled with rising debt-to-income ratios and increasing non-repayment of student loans over the life cycle. If the new policies adopted do not make a significant dent, our current situation will quickly recur.

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Appendix: Millennial Student Debt Sample

The figures in this publication were constructed from a sample of student loan borrowers drawn from the credit bureau Experian's master database of everyone with a credit report. The sample consists of 1 million student borrowers (with federal and/or private student loans) aged 18–35 (18–34 in 2009) drawn annually, from 2009 to 2021, in a repeated cross section. Those borrowers are then matched to American Community Survey data for the census tract in which they reside. Census tract income data is aggregated in five-year increments. Individual-level income, where used (in figure 6) is the income imputed by Experian to construct a debt-to-income ratio. We do not know what methodology or data sources Experian uses to impute individual-level income.

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