Issue: PA - Education

Student Loan Debt in Pennsylvania

Pennsylvania college students and their families are being crippled with debt. Ranked 48th of 50 states and the District of Columbia, Pennsylvania has one of the highest student debt burdens that will continue to compound unless legislators take preemptive steps to avoid potential insolvency across the state[1]. In 2019, student debt totaled a stunning $68 billion in the state with average debt for each borrower of $35,510. Looking at only students who graduate, the debt was even higher at $37,061. [2,3]

These unsustainable debt levels are directly attributed to several factors, including Pennsylvania's decreased funding for higher education, increased college tuition rates, wage stagnation, and the ready availability of loans that benefit private lending institutions. With regard to Pennsylvania's decreased college funding, state funding per student is down fully a third since 2008. This decline is the fifth highest in the nation behind Alabama, Arizona, Louisiana, and South Carolina.[4] Thus, students have had to take on greater responsibility for paying for their secondary education due to this decreased state funding.

The consequences of this higher level of debt in Pennsylvania include:

- Higher education in Pennsylvania is proportionately more expensive than in other states, causing students to leave the state for their schooling and enrollment to decline.[5,6]
- The number of borrowers in serious delinquency is 25% in PA[7], compared to 10.9% nationally.[8]
- The number of Pennsylvania grandparents taking out loans for their grandchildren rose 57% between 2012 and 2017. Of borrowers over the age of 60, more than 10% are delinquent on their loans.[9]
- Pennsylvania ranks *last in the nation* for higher education by a US News analysis based on student debt, and tuition and fees.[10]

Less than successful mitigation efforts

Pennsylvania is absolutely lagging behind in efforts to address the student debt problem, although it has not been for lack of trying on the part of Democratic legislators. Despite repeated attempts to mitigate the student loan crisis, bills proposed by Pennsylvania legislators have failed numerous times, lacking the support required of a Republican-controlled statehouse. In 2019 alone, more than a dozen bills were introduced to address student loans, only to die in committee without benefit of further hearings. Administrative entities servicing student loans, such as the Pennsylvania Higher Education Assistance Agency (PHEAA), have met with similar, dismal results in their efforts to lessen the burden of student loan debt.

The PHEAA administers the Public Service Loan Forgiveness program on behalf of the U.S. Department of Education for graduates working in public service fields such as education and underserved communities in primary health care.[11, 12] However, PHEAA's program administration appears to have been abysmal. Democrats in Congress have called for an investigation since their " 'missteps, errors and mismanagement' of loan forgiveness applications caused harm to tens of thousands of public servants and their families" including a 99% rejection rate of requests for loan forgiveness.[13] Both New York and Massachusetts have filed lawsuits against the agency.[14] In response, Representative O'Mara (D-HD165), who co-chairs the Student Debt Caucus, is considering legislation to create a student debt ombudsman to investigate mistakes and problems with student debt in the state.[15]

On the positive side, Pennsylvania's Democratic State Treasurer, Joe Torsella, launched the "Keystone Scholars" college savings program modeled after successful initiatives in Nevada, Rhode Island, Connecticut, and Maine. The Keystone Scholars program, a type of 529 college savings program, uses private funding to provide $100 towards a college fund for babies born or adopted in the Commonwealth after December 31, 2018. The money, while modest, is designed as seed money to encourage parents to set aside college savings on a regular basis and will be invested by the Pennsylvania Treasury Department to be used for the child's college expenses.[16]

And on the legislative side, one bill (HB 2124) was passed and signed into law in 2018 requiring colleges and universities to tell each student with a loan the total amount of loans taken out by the student, monthly repayment amounts, total payoff amount and the number of years used to calculate it, and information on accessing on-line payment calculators.[17] This could be viewed as legislators taking the initiative to proactively advise students about taking on debt were it not for the existing federal loan counseling requirements already in place—which presumably drove the legislation creation.

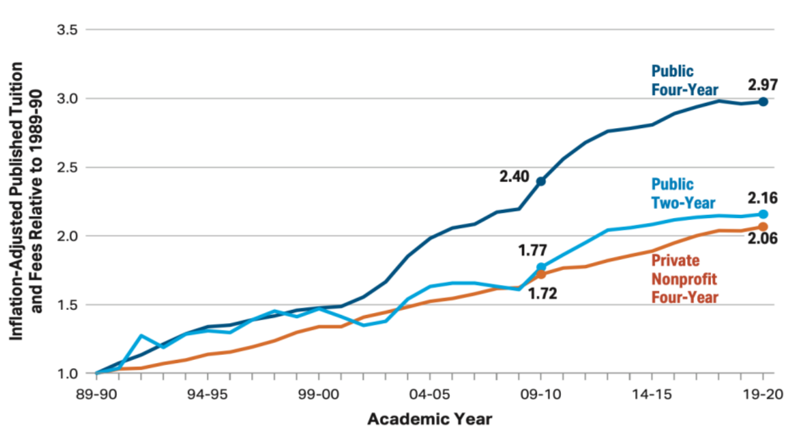
A list of student loan-related legislation introduced in the 2019-2020 regular session is included in the appendix. Most bills propose loan forgiveness for specific professions. One measure, HB1786, which provides loan forgiveness for first responders, unanimously passed the House. Unfortunately, the remainder of the bills has been relegated to committee, failing to garner the critical support the subject should engender.

Post-secondary education costs have risen sharply

High student loan debt in Pennsylvania is also due to the increasing cost of education. Tuition at state universities increased from $5,358 per semester in 2008 to $7,716 for the 2018-19 school year, which is a 44% increase. Tuition was not increased for 2019-20.[18] Nationally, college and university costs have increased at a rate higher than inflation. For public four-year colleges, inflation-adjusted costs in 2019 nearly tripled from 1989, as can be seen in Figure 4B. Costs slightly more than doubled in the same period for public two-year colleges and private nonprofit four-year institutions.[19]

As early as 1987, there was concern that the availability of student loans was driving increases in college costs.[20] Recent studies have shown evidence that at least part of the increased costs is due to the availability of student loans. The Federal Reserve Bank of New York issued a report in 1987 on the effect of student loans on tuition

FIGURE 4B Inflation-Adjusted Published Tuition and Fees Relative to 1989-90, 1989-90 to 2019-20 (1989-90 = 1.0)



NOTES: Figure 4B shows published tuition and fees by sector, adjusted for inflation, relative to 1989-90 published prices. For example, a value of 2.97 indicates that the tuition and fee price in the public four-year sector in 2019-20 is 2.97 times as high as it was in 1989-90, after adjusting for increases in the Consumer Price Index. Average tuition and fee prices reflect in-district charges for public two-year institutions and in-state charges for public four-year institutions.

SOURCES: College Board, Annual Survey of Colleges; NCES, IPEDS Fall Enrollment data.

which concluded that each additional dollar in subsidized loans increases tuition by 58 cents.[21]

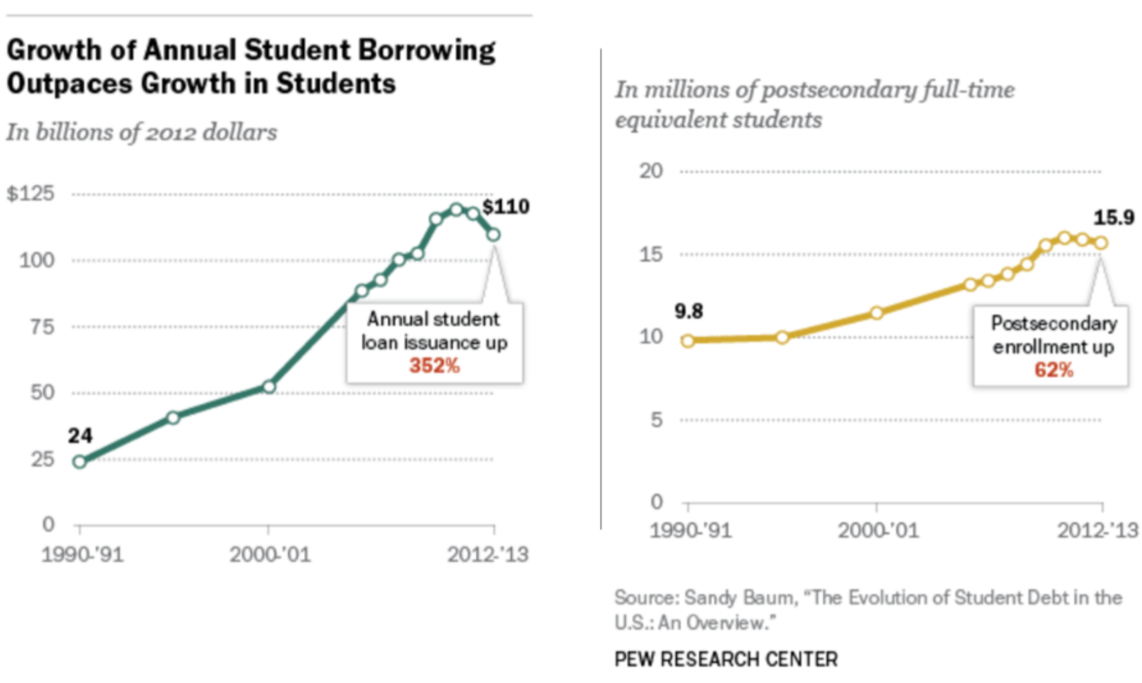
The National Bureau of Economic Research issued a working paper in 2016 describing a quantitative model of the steep rise in college tuition between 1987 and 2010. The model showed that the increased availability of federal student loans can fully account for the tuition increase on its own, without consideration of any other variables that may affect college costs.[22]

Lastly, in the report, "Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs," issued by the Federal Reserve Bank of New York and updated in 2017, executives of private for-profit colleges have explicitly stated that they raise tuition based on increases in federal funding. In a 2007 earnings call for the Apollo Education Group (which runs the University of Phoenix), an executive stated "The rationale for the price increase…had to do with Title IV loan limit increases. We raised it to a level we thought was acceptable in the short run knowing that we want to leave some room for modest 2 to 3% increases in the next number of years. And so, it definitely was done under the guise of what the student can afford to borrow." [23]

Student loan debt has subsequently increased sharply

Total student loan debt in the nation has risen from $24 billion in 1990 to $110 billion in 2012 (2012 dollars). In 2019, total student debt topped $1.5 trillion.[24] Increases in enrollment over the same period were lower than increases in debt, with enrollment up 62% and debt up 352%. For a full-time student, the period from 1990-91 to 2012-13 saw annual loans increase from $2,485 to $6,928.[25] The number of students taking out student loans also increased from 49% of college graduates in 1990 to 69% in 2012.[26]

Debt among students at for-profit colleges is even higher, with 88% of graduates having student loans with an average amount owed of $39,950.[27]



Student loan debt understates total education debt-burdens families

In addition to student loans, students and their family members take out additional debt to pay for the student's education. In 2017, other debt included credit cards, home equity lines of credit, or other loans. Approximately 20% of students and their family members used credit card debt, with home-equity and other loans more common for family members. This additional debt can add tens of thousands of dollars to the student loan debt, as shown in the table below.[28]

Form and amount of debt currently owed for education

Form of Debt	Student Borrowing		Family Borrowing
	% Students with debt	Mean debt per student ($)	% Family members with debt
Student loan	93.7%	$32,731	86.6%
Credit card	20.3%	$6,814	22.4%
Home-equity loan	5%	$38,650	13.2%
Other loan	3.6%	$52,885	7.8%

The burden of debt incurred to pay for college often continues for decades after the student leaves education. Approximately 60% of college graduates can expect to be paying off loans into their forties.[29] The number of borrowers over the age of 60 increased from 700,000 in 2005 to 2.8 million in 2015. By 2017, seniors aged 60 and over owed a total of $66.7 billion, an average of $23,500 each.[30]

Wage stagnation makes debt repayment difficult

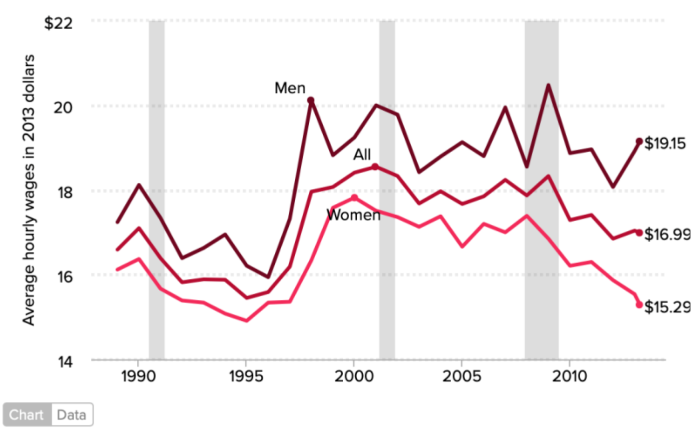
The underlying assumption of student loans is that students will be employed in well-paying jobs after college that will allow them to pay off their loans on schedule. However, wages of young college graduates have been decreasing since 2000. This further limits students' ability to pay off debt. As the figure shows, the average hourly wage for college graduates in 2013-2014 was $16.99 per hour, which provides a monthly after-tax income of approximately $1900 for full-time work.[31] Student loan holders under the age of 36 pay approximately one fifth of their salary on loan repayment.[32]

For families, median household income has also remained flat. Since 1973, public college tuition has increased 274% while median household income rose only 7%.[33]

FIGURE 5

Wages of young college grads have been falling since 2000

Real average hourly wages of young college graduates, 1989–2014



Note: Data are for college graduates age 21–24 who do not have an advanced degree and are not enrolled in further schooling. Data for 2014 represent 12-month average from April 2013–March 2014. Shaded areas denote recessions.

Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata

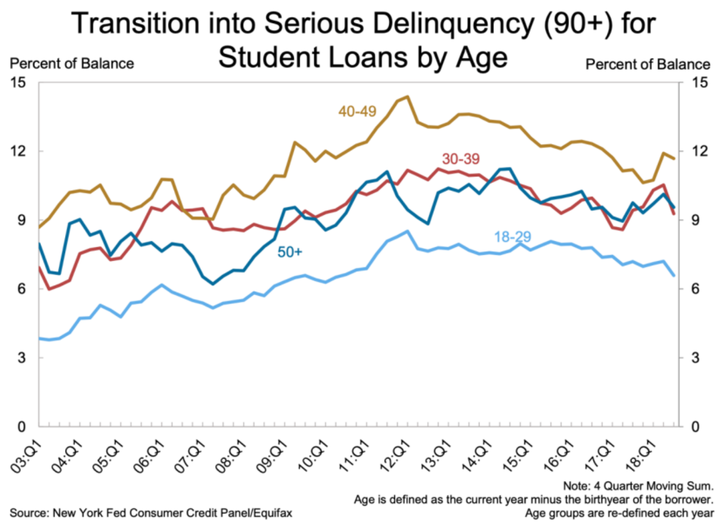
Adapted from Figure N in *The Class of 2014: The Weak Economy Is Idling Too Many Young Graduates*

Economic Policy Institute

Borrowers fall into delinquency

Given the large debt incurred, it is not surprising that many people cannot keep up with loan payments. In Q3 2019, 10.9% of student loan debt nationally was more than 90 days delinquent compared to only 4.8% of all debt in delinquency. The percentage of loans in delinquency has been higher for student loans than for credit card, auto loan, and mortgage debt since 2013.[34]

In 2018, loans in serious delinquency (more than 90 days overdue) occurred in all age groups. These numbers underestimate the number of people who cannot meet their payment schedule because "about half of these loans are currently in deferment, in grace periods or in forbearance and therefore temporarily not in the repayment cycle. This implies that among loans in the repayment cycle, delinquency rates are roughly twice as high." (Note, Percent of Balance is the percent of the balance due on the loan.)[35]



When a loan is delinquent, a debt collection agency is hired, and the borrower may be charged for collection fees and commissions. The Department of Education can then seize the borrower's tax refund, garnish their paycheck, take some retirement and disability Social Security benefits, revoke a state professional license, sue the borrower, collect funds from bank accounts, seize valuable property, or place a lien on real estate.[36]

Extremely limited options to discharge student loan debt

Because of the restrictions Congress has placed on discharging student loans in bankruptcy, there are few options for student loan forgiveness. Congress did create the Public Service Loan Forgiveness Program in 2007 to encourage more graduates to engage in work that benefits society. As noted above, however, it is administered by the PHEAA on behalf of the Department of Education whose program is riddled with administrative problems. Within that program, only federal student loans are eligible for forgiveness. To qualify, a person must be a full-time employee of one of the following:

- A federal, state, tribal, or local government organization
- A 501(c)(3) non-profit organization

- A not-for-profit without tax-exempt status, but has a purpose of providing qualifying public service
- Peace Corps
- AmeriCorps

A total of 120 qualifying loan payments must be made before borrowers are eligible. These rules are strictly enforced and can be burdensome. For example, in 2018 the Education Department stated that fewer than 100 people had their loans forgiven,[37] with a 99% rejection rate of requests for loan forgiveness overall.[38,39]

The other option for loan release is death of the borrower.[40] However, if the borrower owns real estate, a lien can be placed on the property to repay the loan after death.[41]

Impact on people's lives

Continuing student loan debt has serious consequences throughout life for many borrowers. This debt can result in inability to attend graduate school because of existing undergraduate debt; inability to buy a house or rent an apartment, forcing the borrower to move back home with parents; decreased consumer spending; decreased net worth; pursuit of higher paying jobs instead of preferred jobs e.g., limiting the ability to work for nonprofits; and a lower credit score, which can also lead to disqualification from a desired job.[42,43]

In addition, carrying a student loan may limit a parent's ability to assist their child in paying for college. If the parent's credit history is not positive, it may be difficult for the parent to co-sign for their child's student loan or to receive a loan themselves.[44]

Who profits from high student loan debt?

Sallie Mae, the largest private student loan provider and its spin-off, Navient Corporation, are publicly traded companies.[45] Navient now manages and services student loans and also provides asset recovery services for private and federal loans. In 2018, Sallie Mae reported a net income of $487 million.[46] Navient reported a net income of $395 million in the same year.[47]

Colleges and universities profit because they collect more money both from federal and private loans and can thus increase tuition. These institutions receive the money up-front, with no risk of student loan defaults since the default falls on the actual lenders—primarily the federal government.[48,49]

On paper the federal government made a $1.6 billion annual profit on student loans in 2016 dollars. This "profit" is based on the accounting method the Congressional Budget Office (CBO) is required to use which assumes most loans will be paid in full with a basic default risk factor applied. The CBO acknowledges, however, that when more likely default risks are factored in, the program would actually lose $20.6 billion per year. "The two estimates are so widely different because there's no way to know the exact cost of loans given out in one year until it's fully paid off—and that could take 40 years," according to the Government Accountability Office. These amounts vary even more when undergraduate versus graduate loan forecasts are factored in. One final factor being looked at by the government to help mitigate defaults is to expand a limited program which offers income-based repayment plans rather than fixed rates for fixed terms.[50]

Alternative approaches to avoiding student debt

Many states have implemented a variety of programs involving financial aid based on need or merit to assist students in paying for public two- and four-year colleges to avoid incurring student loan debt. Most of these financial aid offerings, though, are narrowly targeted and impact a relatively small number of students. In recent years an increasing number of "promise programs" have been adopted by communities with broader coverage to assist local students with the cost of public colleges. Generally, these programs involve a partnership with local philanthropists or companies to cover in-state college tuition for students who graduate from high schools in a certain community or metropolitan area.[51, 52]

The first such program was adopted in Kalamazoo, Michigan, in 2005, and offers students in Kalamazoo public schools the ability to attend any two- or four-year public college in Michigan tuition free if the student meets certain residency requirements and graduated from one of the four local high schools. Students who attended the designated high schools for four years receive 65% of the scholarship and those who attended the school district for 13 years (K–12) receive 100% of the scholarship. This kind of program has become popular, with over 200 promise programs functioning in 41 states.[53] As these programs proliferated, their rules have varied considerably: some of these programs base awards on merit; some base awards simply on residency in a certain place; some are "last dollar" awards (after all other federal or state aid) and some are "first dollar" awards (provided without regard to other financial aid); and some even provide awards without consideration of financial need or merit.[54]

In recent years, states have begun to establish state-wide equivalents of promise programs. The most high-profile state program is the Tennessee Promise program established in 2014 (backed by a Republican governor) that offers two years of tuition-free community college or technical school to all high school graduates. This program provides a "last dollar" scholarship (after all other aid) covering all tuition and fees and is available to all high school graduates, regardless of family income. It provides each student with a mentor to assist in the process and requires eight hours of community service each semester.[55] State-wide promise programs with variations on these elements have been enacted and funded in sixteen states, starting in 2014.[56]

Companion bills (SB 111/HB 244) to establish a Promise Program in Pennsylvania were introduced in early 2019. This program would provide tuition assistance for students whose family income was less than $110,000. Students whose family income was less than $48,000 would not have to pay for room and board. The bills had no mechanism for funding the program and are stalled in committee.[57]

Conclusion

The current generation of college students can expect to be indebted for at least a decade, with almost no option for the debt to be discharged if life events reduce their ability to repay their loans. Simultaneously, the addition of for-profit companies in lending and servicing student loans has created great wealth for investors at the expense of students and their families. This results in a drag on the national economy since the current generation is much less able to buy homes, rent apartments, buy cars, take on additional debt, or even contribute to their children's education.

Whatever steps state legislators can take to help reduce this debt load—often taken on by unwitting young students and their families—will not only benefit students' wellbeing, but also the wellbeing of the state's economy as they contribute to an ever-growing workforce and a vibrant consumer base.

Appendix – Student Loan Debt Bills Introduced in Pennsylvania

Year	Topic	Bill	Synopsis	Party of Sponsor	Vote (if any) and Status
2019	Student loans	HB50	Legalizes marijuana and assigns a portion of sales to the Student Loan Reimbursement Program	Dem	Referred to committee
2019	Financial benefits	SB435	Allows state employees to reduce contributions to their pension plan in order to make loan payments	Bipar-tisan	Referred to committee
2019	Forgiveness	HB488	Loan forgiveness for dentists working in underserved communities	Bipar-tisan	Referred to committee
2019	Financial benefits	HB678	Income tax credit for interest paid on student loans	Bipar-tisan	Referred to committee
2019	Financial benefits	HB1306	Allows tax-free withdrawal from retirement plans to pay for a family member's student loans	Bipar-tisan	Referred to committee
2019	Forgiveness	HB1307/ SB706	Loan forgiveness for graduates working in mental health, intellectual disability, drug and alcohol treatment professions	Bipar-tisan	Referred to committee
2019	Forgiveness	HB1680	Provides loan forgiveness for physicians	Dem	Referred to committee
2019	Forgiveness	HB1681	Loan forgiveness for dentists	Bipar-tisan	Referred to committee
2019	Forgiveness	HB1786	Loan forgiveness for emergency services workers	Bipar-tisan	Referred to committee
2019	Forgiveness	HB1980	Loan forgiveness for child welfare workers	Bipar-tisan	Referred to committee
2019	Financial benefits	SB400	Refinancing of high-interest loans, tax credits, enables employers to help pay debt	Bipar-tisan	Referred to committee
2019	Financial benefits	SB1042	Allows borrowers to pay a fixed share of income	Bipar-tisan	Referred to committee
2019	Financial benefits	SB1043	Allows students to pay a fixed share of future income to their school in exchange for free or reduced-cost education	Bipar-tisan	Referred to committee
2019	Financial benefits	SB111 HB244	Establishes a Promise Program to provide tuition assistance for students whose family income was less than $110,000.	Dem	Referred to committee

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