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Biden's Latest Student Loan Reforms May Cost Far More Than Forgiveness

They also may be tougher for opponents to challenge

Published 07/18/23 04:02 PM ET | Updated 07/18/23 04:10 PM ET
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Supporters of student debt relief demonstrate in front of the White House after the Supreme Court struck down the president's forgiveness program on June 30. Anna Moneymaker/Getty Images

The Supreme Court blocked the president from canceling hundreds of billions of dollars in federal student loans last month, but a sweeping set of changes to certain repayment rules may end up costing taxpayers even more — and may be tougher for opponents to challenge.

An estimate on Monday from the University of Pennsylvania's Wharton School puts the price tag of the Education Department's new income-driven repayment plan at $475 billion over the next 10 years.

That's higher than the $361 billion Wharton projected in January and more than the $315 billion it would have cost if the Supreme Court had allowed the Biden administration's cancellation plan, according to the latest Congressional Budget Office estimates.

In fact, the Supreme Court decision is one reason Wharton economists raised their estimate: The more debt that exists, the more that is eligible for the reduced payments, they said.

"The showdown in the Supreme Court over Biden's marquee blanket forgiveness program stole the limelight, but the proposed income-driven payment reforms could cost as much or more over the next 10 years," said Nat Malkus, deputy director of education policy at the American Enterprise Institute, a conservative think tank that's opposed both the loan cancellation plan and the reforms.

While the new repayment plan may make it easier for President Joe Biden and millions of borrowers to get over not having up to $20,000 in balances canceled, some opponents have suggested it's a backdoor way to achieve forgiveness — and with even more of an impact on taxpayers.

"Many of the same dollars that could have been forgiven through the original loan forgiveness might now be just as easily forgiven through IDR," Michael Brickman, who works with Malkus at AEI, wrote in a commentary published Monday.

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It was last August when Biden first announced the reforms to the Education Department's income-driven repayment (IDR) plan, along with his high-profile cancellation, or forgiveness, plan. The White House said student loans would become more affordable for low and middle-income borrowers, helping them avoid default.

It wasn't nearly as big a headline, but the changes were significant: It would reduce monthly payments to 5% of a borrower's discretionary income from 10% for undergraduate loans, raise the threshold for what qualifies at discretionary income, waive any interest that monthly payments don't cover, and depending on the loan amount, cancel remaining balances in as soon as 10 years rather than 20.

The Department of Education set to work putting the plan through a negotiated rulemaking process — including a public comment period in which opponents raised objections — and then ultimately finalized it last week, giving its own estimated price tag of $156 billion over the next 10 years. The program is set to be rolled out over the next year, with some features not kicking in until next summer.

Just like with forgiveness, there will probably be legal challenges. But opponents aren't as likely to win, according to some experts.

"They're not going to be successful," said Mark Kantrowitz, who has written a number of books and run several educational websites on college financing. "Unlike the president's student loan forgiveness plan, this is an area where the Department of Education has clear legal authority to make the changes."

Opponents could question whether the president has overstepped his authority, said Malkus, but there is more of a precedent than with the forgiveness the Supreme Court blocked.

"It is a tougher case in many ways than the forgiveness plan because we've had administrations change these IDR programs in the past without any challenges," he said.

The new program, called SAVE (Saving on a Valuable Education,) would likely mean almost all community college borrowers can be debt-free within 10 years, according to the Department of Education. In fact, it's so much more favorable to borrowers that the Wharton economists expect more people to borrow than otherwise would have — another reason they raised their cost estimate.

"Future student borrowers have the incentive to increase their federal student loan borrowing, shifting the current college financing pattern towards more loan borrowing instead of paying out-of-pocket," the economists wrote.

Proponents of the reforms say the current system traps borrowers under exorbitant monthly payments far too often. Before 2020, when the Education Department suspended loan obligations in response to the COVID-19 pandemic, nearly one in every five borrowers was in default, according to the Bipartisan Policy Center, another think tank.

And lowering a household's monthly bills benefits the entire U.S. economy, said Shannon Seery, a Wells Fargo economist.

"The people who see payment reductions or forgiveness, if that occurs, will have that money to save for a home or to put away for retirement," Seery said. "It puts those households on firmer footing."

Opponents object to the new IDR plan for many of the same reasons they protested the broad-based loan forgiveness, which Biden has said he will keep trying to achieve in some way.

Besides the cost to taxpayers, it's unfair to people who repaid their student loans in full and to people who didn't go to college because it was too expensive, opponents have said. Others said Congress should be required to approve the changes.

All this amounts to a "showdown" that is only just beginning, according to Brickman of AEI.

"The biggest question will once again prove not to be whether the Biden administration truly has the constitutional authority to enact a mass loan forgiveness program, but whether anyone has the ability to stop them," he wrote.

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