THIRD WAY

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Pay Down, Upskill

Tamara Hiler
Director of Education
@TamaraHiler

The rapid onset of the COVID-19 pandemic has thrown our country and labor force into unprecedented tumult. Students enrolled in brick and mortar colleges have been forced to move fully online, as campuses around the country remain shuttered for the foreseeable future. A record number of Americans—to the tune of 30 million and climbing—have filed for unemployment benefits, creating mass uncertainty about the micro- and macroeconomic health of our country. [1] Current, former, and future students have real questions about whether they'll be able to afford tuition payments or to repay outstanding student loan debts, in addition to wondering if there will even be an intact labor market to enter or re-enter once the initial phase of this pandemic ends. [2]

Luckily, lawmakers have already attempted to provide short-term relief for some of these concerns through their first three COVID-19 stimulus packages. Institutions of higher education have received $14.25 billion in federal aid, of which they must use at least half directly to assist students dealing with the fallout of the crisis. [3] Borrowers have also seen direct benefits, including an unprecedented full-stop forbearance on all federal loans over the next six months and a suspension on the involuntary collection of defaulted student loans. But these efforts alone will not be enough. This crisis is persisting well beyond what all of us anticipated, and beyond most families' capacity to withstand the financial hit. And historically, economic recessions change postsecondary enrollment patterns, as the absence of existing jobs forces many workers back to school to find the training and credentials they'll need to reenter the labor market. Yet to date, the conversation on Capitol Hill has focused most of its relief suggestions on *former* students through calls for universal debt cancellation —an expensive and regressive proposal that would cut out most Americans from ever seeing this postsecondary-specific benefit.

Instead, we need a massive higher education investment that can help Americans anywhere along the postsecondary pipeline, whether they've already been to college or will need to head back to school in the months and years ahead to weather this economic downturn. To accomplish this, Congress should pass a simple one-time "pay down, upskill" education benefit that will provide every American over the age of 18 with a credit they can use to either pay down existing student loan debt or pursue high-quality training to upskill for the current and future economy.

The Problem

Very few American adults have student loan debt.

It's widely discussed that student loan debt has topped $1.6 trillion in the United States, and during this economic crisis those loans are contributing to the financial stress of millions of American families—triggering calls for widespread loan forgiveness. But what's often obscured in this statistic is the reality that only 18% of American adults currently hold student loan debt of any kind. [4] A number of factors contribute to this seemingly low proportion. First, we know that fewer than two-thirds of Americans over the age of 25 have ever obtained postsecondary education of any kind, with nearly half of those attendees never taking on student loans in the first place. [5] And for those who did borrow money to attend college, many have already paid off their student loan debts. According to one report on the economic well-being of Americans by the Federal Reserve, 48% of those who incurred debt to attend college have already paid down those loans. [6] As a result, proposals to cancel all, or even a large portion of, the student loan debt portfolio would spend a huge amount of taxpayer dollars while leaving out the vast majority of the adult population, completely excluding those who have yet to obtain any postsecondary training. If the purpose of a debt cancellation plan is to provide relief to those who need it most and/or stimulate the economy, we most broaden the target audience so that a greater number of Americans can benefit.

A large portion of student loan debt is held by wealthy Americans and those with graduate degrees.

When taking a closer look at the student loan debt that is held by fewer than one-in-five American adults, we can also see that *nearly half* (48%) of our country's outstanding student loan portfolio is held by Americans who hold graduate degrees. [7] In most cases, graduate degree holders face the best employment prospects and have the highest earning potential of any demographic in the U.S. For example, while the usual median weekly earnings is $932 for all workers and $1,198 for Bachelor's degree holders, workers with Master's, Professional, and Doctorate degrees see median weekly earnings of $1,434, $1,884, and $1,825, respectively. [8] But even looking beyond degree type, a recent analysis of student loan debt from the Urban Institute found "that more than one-third of all outstanding education debt is actually held by the top 25% of households with the highest earnings, with households making more than $173,000 or higher holding 11% of that debt." [9] Not only are wealthy Americans and graduate degree holders the least likely to default on their loan payments, they are also the demographic best equipped to weather this economic storm. A massive education investment of this nature should not disproportionately benefit the wealthy and those with graduate degrees—instead it should be targeted to benefit the majority of Americans who do not currently have the credentials or salaries they'll need to navigate the labor market in a recession.

Debt cancellation alone does nothing to help current students or future workers.

Another pitfall of focusing efforts solely on debt cancellation is that it is completely retroactive in nature, doing little to help current or future students who may need to take on new debt to earn postsecondary credentials. This type of approach can be a big problem in the face of a looming recession. Historically, we know that economic recessions force many students back into the postsecondary pipeline due to job shortages, especially for lower-credentialed workers. Following the Great Recession in 2009, college enrollment spiked 33% by 2011—particularly at two-year colleges, where half of those new enrollments occurred. [10] It is unclear how long it will take unemployment rates to return to pre-COVID-19 levels, but like past recessions, many American adults are likely reevaluating whether or not they need to upskill. In addition, most debt cancellation plans being proposed today are not clear whether they would apply to current students who are actively working to secure their credential or degree right now but whose loans are not yet in repayment status. As such, Congress would be remiss to leave out the existing and future postsecondary needs of Americans by spending an enormous sum on debt cancellation alone.

The Solution

Instead of focusing our collective efforts (and much-needed taxpayer dollars) on blanket student loan forgiveness, Congress should make a postsecondary investment that will benefit all American workers who need it by providing every eligible American over the age of 18 with a credit they can use to either pay down existing student loan debt or pursue high-quality training to upskill for the current and future economy. Known as "Pay Down, Upskill," this $5,000 credit could be used anywhere along the postsecondary pipeline, ranging from apprenticeships, stackable credentials, or certificate programs all the way to traditional two- and four-year programs. Those who have already obtained the credentials they need to be stable in a good-paying career can apply this credit retroactively to pay down any undergraduate federal student loan debt that remains, and those who do not need the credit for either upskilling or paying down student loans can donate it to an immediate family member who does or to a postsecondary institution that has a track record of serving Pell students well.

There are several ways Congress could design "Pay Down, Upskill" to either expand or limit the scope of this benefit (and its cost), as well as to ensure that taxpayer dollars are only being spent at high-quality programs and institutions that will provide a return on investment for students. Below are a handful of questions Congress should consider when developing this proposal:

Should it be means-tested? While universal debt cancellation plans may be simple, their biggest downfall is that they're highly regressive (as laid out in detail above). To ensure that limited taxpayer dollars are being targeted toward the Americans who may need the financial boost that the Pay Down, Upskill credit provides the most, Congress could choose to apply various income-level thresholds for who may qualify. One easy approach may be to apply the same income thresholds used for the stimulus check payouts in the CARES Act (full payments are allotted to individuals with adjusted gross incomes up to $75,000 or $150,000 for married couples filing jointly). [11] Alternatively, the plan could include income thresholds that more closely mimic existing debt cancellation proposals like legislation from Senator Elizabeth Warren (D-MA) and House Majority Whip Jim Clyburn (D-SC) that allows full cancellation for students earning less than $100,000 a year or partial cancellation for students earning less than $250,000. [12] Another option may be to simply limit the credit only to those who received or would currently qualify for the Pell Grant. Any of these options would be simple and significantly less regressive than the loan forgiveness proposals under discussion.

How should this payment be administered? To make this program as simple and usable in the short term as possible, the easiest method of delivery would be to provide the credit directly to students in the form of an education voucher, credit, or government issued debit card that could only be spent on eligible loan payments or at eligible postsecondary institutions and training programs. Unlike other Title IV federal financial aid that passes through institutions to students, this one-time payment could be set up through individualized education savings accounts that recipients could draw down from at once or over time.

What's the right amount? Given the extreme circumstances we find ourselves in, many of the debt cancellation proposals being discussed have ranged anywhere from $10,000 to $30,000 for each borrower. And while these figures would certainly be life-changing for some American families, the reality is that we do have limited resources and competing interests when determining the best investments to provide relief and get our economy back up and running. To that end, we have proposed making the Pay Down, Upskill credit $5,000. This amount is substantial enough to help borrowers who may find themselves in financial distress avoid default on their loans, as nearly one-third of all borrowers who default on their loans owe less than $5,000, with two-thirds owing less than $10,000. [13] This amount is also on par with (and even slightly higher than) the average Pell Grant award that supports low-income students accessing higher education, which for 2017-18 was $4,271. [14]

Which programs and institutions should be eligible? To ensure that taxpayer dollars are not creating an incentive for low-quality programs and institutions to take advantage of students, there should be strict guardrails in place to prevent predatory actors from cashing in on the Pay Down, Upskill credit. At minimum, these dollars should only be allowed at Title IV-eligible institutions, or for those seeking shorter-term training certificates, at programs that are currently on the Eligible Training Provider Lists (ETPL) under the *Workforce Innovation and Opportunity Act* (WIOA). There could also be a mechanism that allows recipients to petition to use their credit on programs that aren't on the list—if the program has a record of good outcomes. Additional quality controls could be added, such as only allowing its use at schools or programs with a minimum of five consecutive years of certain outcomes, like above-average graduation rates, post-attendance earnings above a high school graduate, or above average repayment rates—to ensure that fly-by-night schools cannot open in an effort to cash in on these funds.

Should it cover any student loans or just federal loans? For the debt cancellation portion of the Pay Down, Upskill credit, Congress can also put in place restrictions on what debt may qualify to be paid. To mimic existing loan cancellation options in federal law, like the school closure discharge, students should be allowed to use this credit to help pay down all undergraduate federal loans, including Direct Loans, FFEL Program loans, Perkins Loans, as well as for PLUS and Parent PLUS loans. Congress could also choose to broaden this credit to apply to private loans as well, as students with private loans do not have the same protections like income-driven repayment options that federal loans offer. However, expanding which loans are eligible would allow taxpayer dollars to flow to private lenders and banks, which may not be seen as the best use of those dollars given the current circumstances.

Critiques & Responses

This is more complicated than universal debt forgiveness.

If universal debt cancellation has one thing going for it, it's that it's unquestionably simple. But like most policy decisions, trade-offs must be made when it comes to maximizing resources in a way that will simultaneously reach the most people and benefit those who need it the most. Given the unprecedented circumstances—and the once-in-a-generation opportunity Congress has to invest in borrowers and postsecondary training, we believe this proposal can have a much longer-term impact than simply focusing on debt cancellation alone. And while there may be various qualifications for who may receive the credit itself, once the money is disbursed, recipients can use it however they see fit for their educational needs, with loan servicers and qualifying institutions and programs accepting the funds as a standard form of payment.

This would be way too expensive.

There's no doubt that a plan of this nature would be costly. But estimates for the universal debt cancellation plans that would target the 42 million current borrowers could range anywhere from $420 billion for a plan that cancels up to $10,000 per borrower to $1.6 trillion if the entire portfolio was erased. That's why if we are urging Congress to make an investment of anything near this scale for borrowers who have already attended postsecondary education, we should make sure those who haven't yet enrolled in higher education can benefit from such an investment as well. There are ways to make the Pay Down, Upskill stimulus more or less expensive, depending on the amount of credit that is offered and whether the plan is means-tested to better target the funds towards the Americans who need it most. If Congress were to give every adult over the age of 18 a $5,000 credit, this plan would cost an estimated $1.3 trillion dollars. However, if we limited the credit only to those who qualify for the CARES Act stimulus checks—an estimated 80 million Americans according to the U.S. Treasury—we could see the cost of Pay Down, Upskill drop to an estimated $400 billion, with the cost being even lower if additional income restrictions were included or if the amount of the credit was less than $5,000. [15] In addition, any credit that was not used within a certain amount of time —like 5 to 10 years—could be reimbursed to the U.S. Treasury.

This could just turn into a giveaway to predatory or low-quality postsecondary programs.

It is critical that any infusion of new money into the postsecondary system does not open the door for predatory actors or programs to take advantage of students and leave them with no discernable wage premium (or worse off than when they started). At a minimum, this funding should only be allowed to flow to institutions or training providers that meet existing minimum federal thresholds for operation, such as full accreditation status and/or being listed as a WIOA eligible training program to ensure that each qualifying program has been vetted by an external oversight body. However, additional quality controls should also be put into place, with one option being to only allow institutions or programs with good student outcomes to qualify for the dollars.

Borrowers already have options for income-driven repayment that account for shifts in income—that should be enough built-in protection for economic hardship.

Income-driven repayment (IDR) is a helpful and important option the federal government offers to borrowers to ensure that they are never paying more than a certain percentage of their income (typically 10%, but it can be up to 20%) towards paying off their student loans. It offers a critical safeguard for both times of personal economic hardship and circumstances like an unforeseen economic recession like the one we're in. [16] Yet as of 2017, only 45% of borrowers were enrolled in an income-driven repayment plan. [17] And similar to debt cancellation alone, IDR does nothing to help borrowers gain further training if a credential or degree they hold loses value due to job scarcities—or if they don't have one at all (many students who borrow don't graduate, and they are the most likely to default). A plan like Pay Down, Upskill would allow borrowers and nonborrowers alike to invest in their futures, including those who are in an IDR plan that makes their loan payments manageable.

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