# Relieving Student Debt & Growing Our Middle Class

Ensuring Americans' access to quality higher education is a critical piece of the U.S. economy's success. A higher education is one important pathway to the middle class and making it available to more Americans leads to a strong, diverse, and globally competitive workforce. Yet, student loan debt can act as a barrier to entry into the middle class, denying many borrowers the ability to build wealth, save for retirement, and support a family.

Recognizing these challenges, the Biden-Harris administration has overhauled the income-driven repayment (IDR) system to give millions of middle-class borrowers the relief they need to pay back their loans in a sustainable way. The administration's actions will give full credit for the payments borrowers have already made, while also introducing the Saving on a Valuable Education (SAVE) plan to reduce IDR payments going forward.

Accurately counting past IDR payments is expected to forgive the loan balances of 804,000 borrowers. Additionally, the new SAVE plan will reduce monthly payments to $0 for an estimated additional 1 million borrowers, and lower payments for many others. Together, these efforts represent a common-sense way to reduce student loan debt and open more pathways into the middle class.

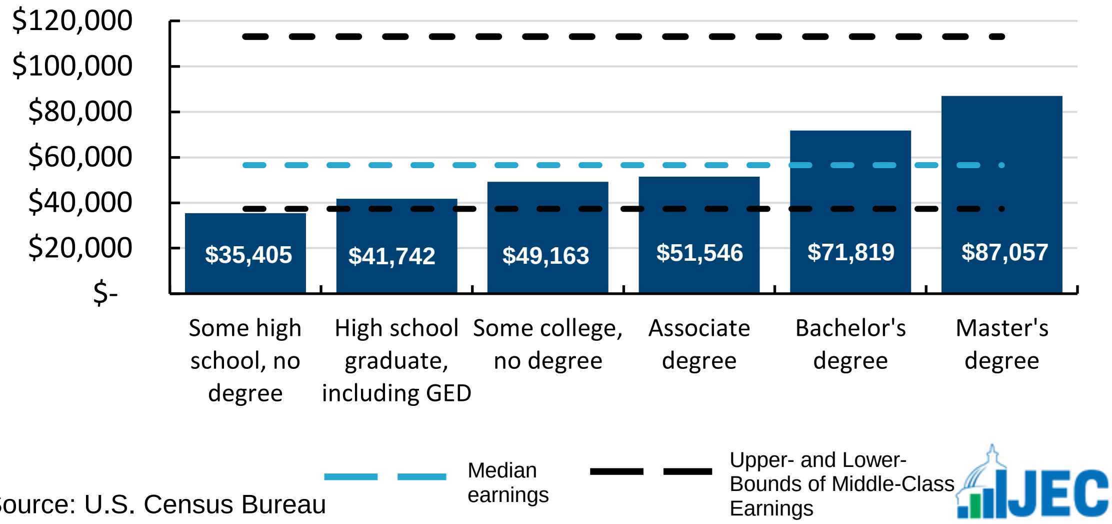
**Higher education still represents a reliable pathway to the middle class**

Students today are forced to take on debt in order to access pathways to the middle class. While there is no broadly agreed upon definition of what income level represents the middle class, some researchers have defined the middle class earnings range as between 66% and 200% of U.S. median earnings. According to the U.S. Census Bureau, median earnings for individuals working full-time, year-round in 2021 were $56,540 which would put the middle-class range for these workers between roughly $37,316 and $113,080.

Many educational pathways to middle-class earnings often cause Americans to take on student debt. For example, full-time year-round workers with some college education but no degree ($49,163) or with an associate degree ($51,546) fell within the middle-class earnings range in 2021, but were still below the national median. Workers with a bachelor's degree ($71,819) or a master's degree ($87,057) sit comfortably within the middle-class earnings range and above the median. Meanwhile, median earnings for those with a high school education were $41,742 in 2021, right by the lower bound of the middle-class earnings range. Since the median represents the mid-point in the earnings distribution for any given group, this means that a significant number of those with a high school education do not earn enough to be considered middle class.

**Workers with Higher Educational Attainment Have Higher Median Earnings and Are Closer to the Middle Class Range**

Median annual earnings for full-time, year-round workers, by educational attainment, 2021




Source: U.S. Census Bureau

**Student debt is creating new challenges to reaching the middle class, which past American generations did not face**

For those with a higher-education degree, more than 1 in 3 people have used student debt to help finance their education. In the academic year (AY) 2017 – 2018, for example, 33% of associate degree earners held federal student debt, as did more than half of those with a bachelor's degree. Additionally, 49% of people with an undergraduate certificate owed debt. The average debt level for those with associate degrees, bachelor's degrees, and undergraduate certificates was $20,900, $27,500 and $14,800, respectively. Note that these numbers only include those who took out federal student loan debt to finance their education and exclude private student loan balances.

Previous generations did not have to take on this level of debt. One study reported "today, two out of three jobs require postsecondary education and training, while three out of four jobs in the 1970s required a high school diploma or less." Yet, growth in tuition has been outpacing growth in income over at least the last 40 years. For example, between 1980 and 2019, the average cost of college has increased by 169%, while median income has increased by only about 53%. Ultimately, debt repayment for higher educational attainment has also taken up a larger portion of the average American's budget. Student loan debt was 34% of non-housing debt held by households in the first quarter of 2023 compared to 12% in the first quarter of 2004.

**With current levels of student debt, Americans are struggling to establish a life that would allow them to build wealth, save for retirement, and support a family**

The generations that will drive our future economy are currently carrying a heavy weight of student loan debt. According to the Office of Federal Student Aid, the age ranges with the greatest number of Americans owing federal student loans, as well as Americans who owe the greatest total amount of debt, are between ages 25 to 49. About two-thirds of federal borrowers are within this age range, and these borrowers owe 70% of all federal student debt. Older generations are also facing higher levels of student loan debt than their parents' generations were at their age, creating more economic stress in their retirement.

Americans with high levels of student debt face challenges to accessing wealth-building tools like owning homes and small businesses, accumulating savings for retirement, and supporting their families. Debt impacts Americans' feelings of financial wellbeing and ability to weather emergencies. Only 58% of people with some college but no associate's degree who had debt in 2021 reported doing at least okay financially compared to 76% who never had debt. Associate degree-holders were similar, at 65% of borrowers and 83% of non-borrowers expressing the same financial sentiment. These effects are acute for people who are low-income, women, parents, and borrowers of color, and are especially profound for Black borrowers. Each group either has a higher level of debt, a harder time paying debt back given pay disparities, or both.

**Student debt relief puts money back in people's pockets and can help grow the economy**

The federal government stepping in to reduce loan payments both supports the economy and addresses economic fairness. Rather than putting money toward their student loans, borrowers will be able to build their savings, build wealth, support their families, and relieve themselves of additional debt burdens. A recent Federal Reserve survey found that if student debt was forgiven most borrowers would primarily allocate the new savings towards paying off other loans, indicating that those with student loan debt are experiencing other debt burdens simultaneously. Notably, younger borrowers, between ages 18 and 44, were most likely to allocate student debt forgiveness towards savings for homeownership. Black and Hispanic borrowers were most likely to save their funds from loan forgiveness, or allocate them towards repayment of other debt, rather than spend them.

**Overhauling the income-driven repayment system will lead to a fairer system for middle-class borrowers**

On July 14th, the Biden-Harris administration announced that the Department of Education had taken action to provide borrowers the correct count of monthly payments needed to complete the IDRs on their student debt. IDRs limit the amount a person pays towards their loans to a specific percentage of their income, and discharges principal and interest that remains unpaid at the end of the 20- or 25-year repayment period. As a result of their review, the Department of Education found many borrowers who qualified for forgiveness had not yet received it under past administrations, and on July 14th, announced it would discharge federal student debt totaling $39 billion.

Additionally, on June 30th, the Biden-Harris administration announced the creation of the SAVE plan. This is a new IDR plan being implemented in part this summer and in full on July 1, 2024. Borrowers' monthly payments under IDR plans are based in part on their income above a pre-determined percentage of the federal poverty line. So, if a borrower makes at or below the specified percentage of the federal poverty line in a given month, the borrower will then not need to make a payment for that month, and the month will still be counted towards the total repayment period. As of this summer, that threshold increases from 150% of the federal poverty line to 225%, exempting an additional 1 million borrowers from having to make a monthly payment and reducing payments for many more.

Furthermore, beginning this summer, borrowers no longer need to include their spouse's income in their payment calculations if their taxes are filed separately and will no longer pay interest beyond what is covered in their payment. Next summer, borrowers will see their payments cut in half (for those with only undergraduate loans) and will see loan forgiveness after 10 years of repayment, instead of 20 or 25, if their original balance was $12,000 or less. Additional protections for borrowers who have consolidated their loans or defaulted, who are unemployed, in cancer treatment, in the military, or in deferment or forbearance for certain reasons, or who miss payments will also go into effect next summer. The SAVE plan will be transformational for low-income borrowers' economic security—and the economy.

**The Biden Administration's Move to Accurately Count Past IDR Payments Benefits Borrowers Throughout the United States**

| State | Borrowers Who Now Benefit from an Accurate Count of their IDR Payments | Debt Eligible for Forgiveness Due to the Accurate Count of IDR Payments (in millions) |
|---|---|---|
| Alabama | 12,720 | $553.90 |
| Alaska | 970 | $51.40 |
| Arizona | 20,530 | $1,030.40 |
| Arkansas | 6,940 | $342.60 |
| California | 61,890 | $2,958.80 |
| Colorado | 15,010 | $805.40 |
| Connecticut | 7,230 | $309.90 |
| Delaware | 2,430 | $113.10 |
| District of Columbia | 2,230 | $130.20 |
| Florida | 56,930 | $3,036.80 |

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|---|---|---|
| Georgia | 38,590 | $2,130.40 |
| Hawaii | 1,690 | $90.20 |
| Idaho | 5,720 | $252.90 |
| Illinois | 28,450 | $1,316.00 |
| Indiana | 19,470 | $932.80 |
| Iowa | 10,730 | $465.10 |
| Kansas | 8,410 | $424.50 |
| Kentucky | 11,180 | $447.70 |
| Louisiana | 15,190 | $824.70 |
| Maine | 4,790 | $212.50 |
| Maryland | 16,750 | $918.30 |
| Massachusetts | 12,530 | $592.00 |
| Michigan | 26,980 | $1,267.30 |
| Minnesota | 13,610 | $645.20 |
| Mississippi | 9,480 | $450.90 |
| Missouri | 18,800 | $956.80 |
| Montana | 3,700 | $185.20 |
| Nebraska | 5,700 | $268.90 |
| Nevada | 6,820 | $330.00 |
| New Hampshire | 3,090 | $143.80 |
| New Jersey | 17,290 | $788.00 |
| New Mexico | 5,410 | $260.30 |
| New York | 42,070 | $1,924.10 |
| North Carolina | 24,870 | $1,135.10 |
| North Dakota | 2,110 | $100.60 |
| Ohio | 37,070 | $1,736.90 |
| Oklahoma | 11,530 | $548.40 |
| Oregon | 11,780 | $572.80 |
| Pennsylvania | 29,840 | $1,343.50 |
| Rhode Island | 2,580 | $109.70 |
| South Carolina | 16,330 | $855.20 |
| South Dakota | 3,030 | $147.40 |
| Tennessee | 16,970 | $867.90 |
| Texas | 63,730 | $3,091.80 |
| Utah | 3,940 | $212.00 |

| | | |
|---|---|---|
| Vermont | 1,930 | $95.80 |
| Virginia | 21,560 | $1,042.50 |
| Washington | 16,310 | $777.10 |
| West Virginia | 4,950 | $196.20 |
| Wisconsin | 12,220 | $576.10 |
| Wyoming | 1,230 | $61.50 |
| All Other Locations | 8,710 | $350.30 |
| **Total** | **803,990** | **$38,980.90** |

Source: U.S Department of Education
Note: these figures are only for the monthly payment count corrections and do not include beneficiaries of the SAVE plan.