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Who Would Benefit Most From Warren’s Student Loan Proposal?

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Democratic presidential candidate Sen. Elizabeth Warren (D-Mass.) has called for a one-time cancellation of most federal student loan debt as the first step in a broader plan to overhaul college affordability by eliminating tuition at public colleges.

The announcement has inspired a flurry of distributional analyses, including some arguments that the plan would unduly benefit higher-income college graduates relative to lower-income Americans who did not attend college.

Warren’s plan would forgive up to \$50,000 of federal student loan debt for all households with less than \$100,000 in annual income, and then gradually taper off that forgiveness for higher-income households up to a maximum of \$250,000 in annual household income — offering no forgiveness to the richest five percent of households. As a result, forgiveness is somewhat muted for higher-income households.

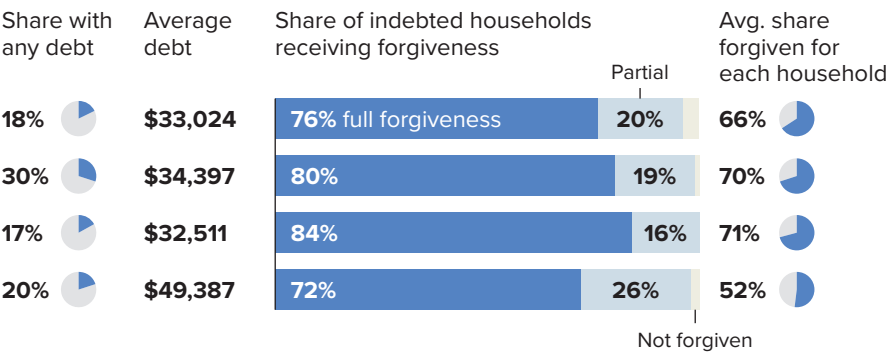
Based on the formula in Warren’s plan, an analysis of federal student loan data by independent think tank Urban Institute, charted below, reveals how much debt forgiveness would be provided to different demographic groups.

Black households would receive a large share of benefits

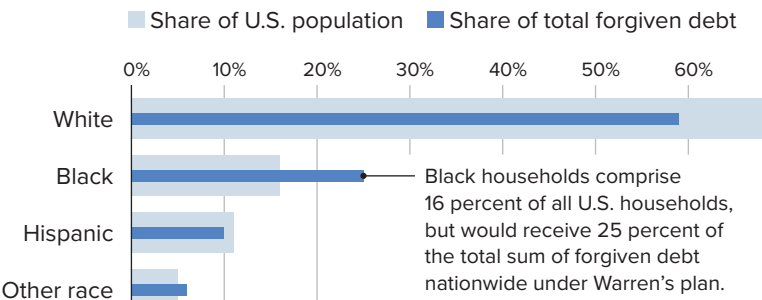
According to federal student loan data, black households are the most likely to have student loan debt, tend to have slightly higher than average debt burdens and are less likely to be high income. As a result, black households would benefit from Warren’s plan more than any other racial or ethnic group relative to their overall share of the population.

A report by the National Center for Education Statistics found that approximately half of black student borrowers default on at least one of their loans within 12 years, more than twice the rate of their white peers.

Share of households that would receive forgiveness, by race



Overall distribution of benefits, by race

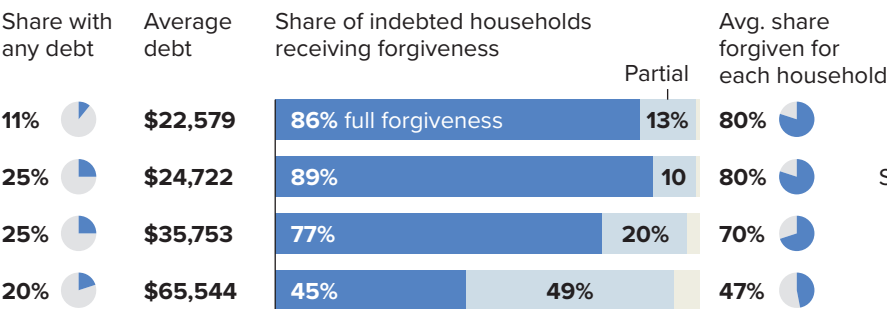


Degree holders would see more debt forgiveness

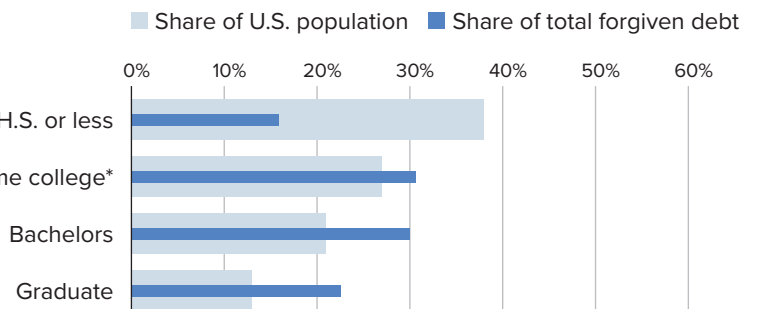
While student loan default rates are highest among those who attend college but do not complete their degree, these borrowers are not the largest beneficiaries of Warren’s plan in dollar terms because they typically accumulate less debt than those who attend for more years and complete their degrees.

Graduates with advanced degrees, whose average debt is nearly twice as large as other borrowers, would see the largest financial benefits in dollar terms, although many would see only partial forgiveness because of the \$50,000 limit.

Share of households that would receive forgiveness, by education level



Overall distribution of benefits, by education level



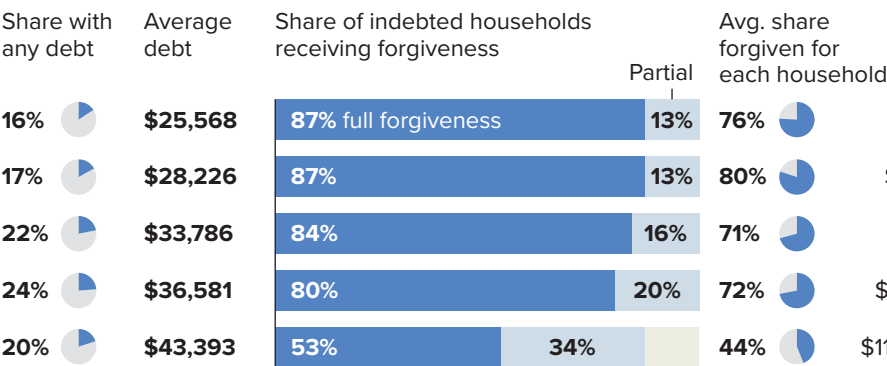
*Includes associate’s degree holders and those who reported having started but not completed a higher degree. The respondent answering on behalf of the household may not necessarily be the direct holder of debt.

Largest benefits would go toward middle income households

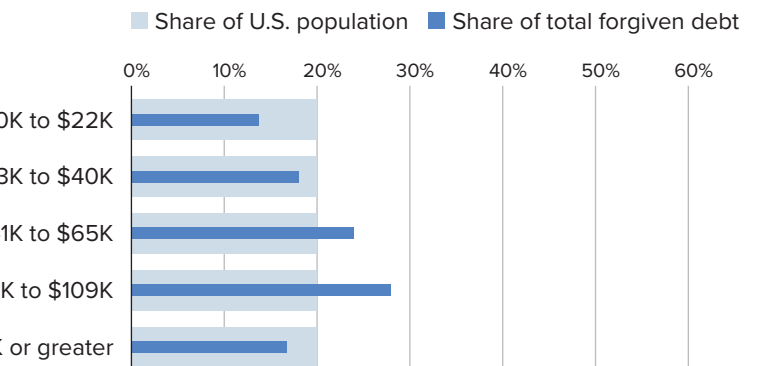
Borrowers with household incomes between \$41K and \$109K would benefit more than the highest income households because of the income limits in Warren’s plan. But they would also see larger benefits in dollar terms than lower income households due to differences in college attendance rates and average debt loads.

While most households earning more than \$110,000 would receive at least some relief, these households as a whole would see less than half of their federal student loan debt forgiven.

Share of households that would receive forgiveness, by household income



Overall distribution of benefits, by household income

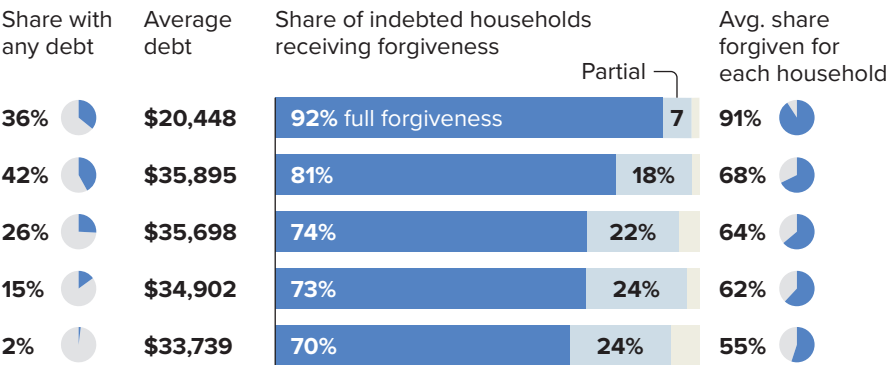


Debt forgiveness would benefit young Americans most

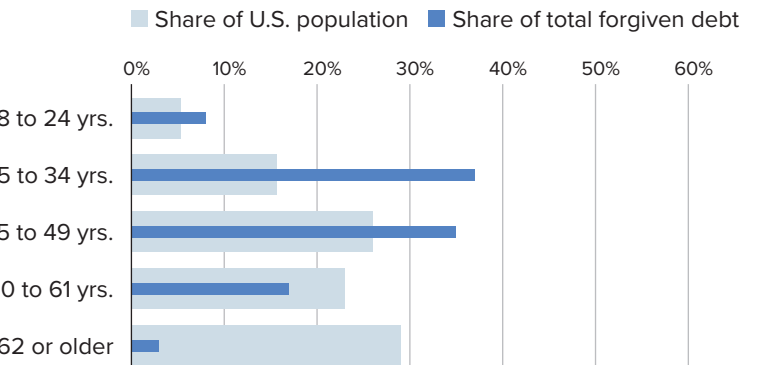
Older households have substantially less student debt partly because they are more likely to have already paid their debts, but also because of historical trends in college attendance and college costs. In previous decades, far fewer Americans attended college, and those who did faced smaller tuition costs than today’s students.

As a result, younger Americans who attended college within the past two decades would receive the largest share of benefits in dollar terms.

Share of households that would receive forgiveness, by age



Overall distribution of benefits, by age



Note: Household characteristics are based on the respondent answering on behalf of the household.

Sources: Matthew Chingos and Kristin Blagg, “Who would benefit from Elizabeth Warren’s student loan forgiveness proposal,” Urban Institute; Paul Fain, “Default crisis for black student borrowers,” Inside Higher Ed

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