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Fact Sheet: The Student Loan Affordability Act of 2013 (S.953)

The surest path to middle-class success and opportunity is higher education. On July 1st, interest rates on subsidized Stafford loans are set to double. If Congress does not act, the result would be an additional $1,000 in loan debt that would act like an extra tax on a college education for over seven million students. At a time when Americans owe more on student loans than credit cards, the last thing we should do is make college more expensive. Senate Democrats are committed to keeping interest rates on student loans low so all Americans get a fair shot at an affordable college education, obtain the skills they need to find a good job, and help our economy grow.

Legislative Background on the Student Loan Affordability Act (S.953)

On July 1st, the interest rate on federal subsidized Stafford loans is scheduled to double from 3.4% to 6.8%. The interest rate hike will hit more than seven million students across the country, saddling them with an additional $1,000 over the life of each loan. [White House, 5/30/13]

The Student Loan Affordability Act would maintain the current 3.4% interest rate on federal subsidized Stafford student loans for an additional two years. The bill is fully paid for by closing loopholes on tax-deferred retirement accounts, including tar sands in the Oil Spill Liability Trust Fund, and closing loopholes used by foreign-owned businesses to avoid U.S. taxes. [CBO, 5/23/13]

College is Already Expensive Without Interest Rate Hikes

- **The cost of college is skyrocketing.** For the 2012-2013 school year, in-state tuition and fees at public four-year institutions averaged $8,655, a 4.8% increase from the previous year. Adjusted for inflation, between 2000 and 2011, in-state tuition at public four-year colleges and universities increased 67% and out-of-state tuition increased by 47%, far faster than costs for gasoline, health care, and other consumer items. Over the last 30 years, tuition and fees have increased 167% at private four-year colleges and 257% at public four-year colleges. [College Board, 2012; Departments of Treasury and of Education, 12/12; NY Times, 3/12/12]

- **Students are shouldering more of the college cost burden.** As a percent of revenue, tuition and fees at public four-year colleges and universities have doubled since 1987, while the portion funded by state and local governments has dropped by one-third. State funding per student has also decreased from $10,726 per student to $8,655 per student since 1986. [Departments of Treasury and of Education, 12/12]

Student Debt Has Reached Record Levels

- **Student loan debt has exploded**. Today, student loan debt has surpassed credit card and auto loan debt, and is second only to mortgage debt for American families. More than 38 million student loan borrowers owe more than $1.1 trillion in outstanding student loan debt. In 2011, the average student graduated with $26,660 in student loan debt. [CFPB, 5/13; the Project on Student Debt, 10/12]

- **Americans are increasingly relying on debt to pay for college.** Of the 20 million Americans who attend college every year, at least 66% of students rely on loans to finance higher education. In 1993, less than half of students had to take out loans. 45% of American families have outstanding student-loan debt, compared to only 33% in 2007. [CAP, 4/10/13; CAP 5/16/13; TICAS, 2/13]

- **Student borrowers are having a tough time keeping up with mounting debt.** As a result of the mounting debt and difficult economic conditions, the student loan default rates rose to 9.1%, up from 8.8% the previous year. [Department of Education, 9/28/12]

- **Student loan debt will make it harder for graduates to get ahead.** As more students are burdened by increasing debt loads to pay for college, it will be more difficult for them to move forward in life and contribute to our economy.

    - As student debt has risen, household formation has declined. From 2007 to 2011, the number of Americans ages 25 to 34 living with their parents increased from 4.7 million to 6 million. A recent study found that every new household contributes an estimated $145,000 in economic activity. [CAP, 4/10/13; CFPB, 5/13]

    - Home ownership rates for young people are among the lowest levels in decades, with only 9% of 29 to 34 year olds purchasing their first home from 2009 to 2011, compared to 17% in 2001. [CAP, 4/10/13; CAP, 5/16/13]

    - An estimated 62% of workers ages 30 to 39 will not have sufficient resources to retire. This number increased by 9% from 2007 to 2010, and is significantly higher than for older age groups. [CAP, 4/10/13]

An Investment in Education is an Investment in Our Economy

- **A college degree improves job opportunities.** In 2012, the unemployment rate for workers with a bachelor's degree was 4.5%, compared to 8.3% for those with just a high school diploma. For young adults between the ages of 25 to 34, the difference was even more dramatic - individuals with just a high school diploma were three times as likely to be unemployed as individuals with a bachelor's degree. [Department of Labor; 5/22/13; TICAS, 2/13]

- **A college degree increases lifetime earnings.** A college degree is key to economic opportunity, providing substantially higher earnings for those with a degree than those without. A worker with a bachelor's degree will earn over 75% more during their lifetime than a worker with only a high school diploma. Workers with a bachelor's degree earn an average of $2.3 million over their lifetime, compared with $1.3 million for those with a high school diploma. [Georgetown University Center On Education and the Workforce, 8/5/11].

- **College graduates will grow the American economy.** A college education not only improves the economic well-being for individuals and their families, but can grow the overall economy. A recent study found that the U.S. could add $500 billion to the Gross Domestic Product over the next 15 years by increasing the number of workers with post-secondary education by 20 million. [Georgetown University Center On Education and the Workforce, 6/29/11]

- **An educated workforce is essential to our nation's economic competiveness.** American companies and businesses need a highly skilled workforce to compete in the global economy. However, while the U.S. has one of the highest percentages of adults ages 55 to 64 with a college degree out of 34 developed countries, among adults ages 25 to 34, the U.S. falls to 16th place, with only 43% of young adults possessing a college degree. [OECD, 9/13/11; Departments of Treasury and of Education, 12/12]

Offsets for the Student Loan Affordability Act

- **Closing a Loophole for Tax-Deferred Accounts:** Under current law, holders of IRAs and 401(k)-type accounts are required to begin taking taxable distributions from those accounts once they reach age 70-1/2. However, a loophole in the tax law allows taxpayers to stretch those distributions over many years if they leave their account to a very young beneficiary. When the account holder dies, the taxation of the account is then delayed as it is spread over the life of the beneficiary. The Student Loan Affordability Act would require the retirement savings accounts to be distributed within five years of the death of the account holder, unless the beneficiary is within ten years of the account holder's age, an individual with special needs or disabled, a minor, or the account holder's spouse. This provision saves taxpayers approximately $4.6 billion over ten years.

- **Including Tar Sands in the Oil Spill Liability Trust Fund:** The Student Loan Affordability Act eliminates a special tax loophole now enjoyed by the oil industry. Specifically, the Act would include oil from tar sands among the petroleum products that are subject to taxes that support the Oil Spill Liability Trust Fund. In 2011, the IRS determined that the definition of crude oil for purposes of the Oil Spill Liability Trust Fund does not include tar sands or oil sands. Yet there is no good reason for this special exclusion. Tar sands are refined using the same processes as those used in the refining of crude oil, and Oil Spill Liability Trust Fund revenues are used to clean up oil spills from oil derived from tar and oil sands. No distinction exists between finished products refined from crude oil or those refined from tar sands. This provision saves taxpayers approximately $1.3 billion over ten years.

- **Closing International Tax Loopholes:** Under current law, opportunities are available to inappropriately reduce the U.S. tax on income earned from U.S. operations through the use of foreign related-party debt. In its 2007 study of earnings stripping, the Treasury Department found strong evidence of the use of such techniques by expatriated entities. The Student Loan Affordability Act would tighten the limitation on the deductibility of interest paid by an expatriated entity to related persons. The current law debt-to-equity safe harbor would be eliminated and the 50 percent adjusted taxable income limit that applies to net interest deductions would be reduced to 25 percent. In addition, the carryforward for disallowed interest would be limited to ten years, and the carryforward of excess limitation would be eliminated. This provision saves taxpayers approximately $2.7 billion over ten years.