

Proposals Affecting Federal Education Programs— CBO’s Estimate of the President’s Fiscal Year 2021 Budget

Most of the assistance that the federal government provides to students comes through its student loan programs and the Federal Pell Grant Program.

Under the William D. Ford Direct Loan Program, the federal government provides education loans to undergraduate and graduate students and to the parents of undergraduate students. In the direct loan program, the federal government serves as the lender for all borrowers but contracts with private entities to service those loans. The current program offers four types of loans:

- **Subsidized loans** are need-based loans for undergraduate students. No interest accrues while the borrower is enrolled or during other deferment periods, and borrowing is limited by a student’s class level and dependency status.
- **Unsubsidized loans** are non-need-based loans for undergraduate and graduate students. Interest accrues from origination, and borrowing is limited by a student’s class level and dependency status.
- **PLUS parent loans** are non-need-based loans for parents of dependent undergraduates. Interest accrues from origination, and borrowing is limited only by the cost of attendance.
- **GradPLUS loans** are non-need-based loans for graduate students. Interest accrues from origination, and borrowing is limited only by the cost of attendance.

The Federal Pell Grant Program provides low-income students with access to funding for postsecondary education at four-year colleges and universities, for-profit schools, two-year colleges, and institutions that specialize in occupational training. Grants are awarded on the basis of financial need and academic course load. The program has three sources of funding: discretionary budget authority, which provides the largest portion and supports a maximum award set in the annual appropriation act; mandatory budget authority, which is specified in the Higher Education Act; and a “mandatory add-on,” which is automatically added, on the basis of a formula, to the discretionary portion of each award.

These estimates are based on CBO’s baseline budget projections as of March 6, 2020, which do not incorporate changes to the nation’s economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus.

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Millions of Dollars, by Fiscal Year

March 25, 2020

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2025	2021-2030
Increases or Decreases (-) in Direct Spending Outlays												
Federal Student Loan Programs, using FCRA procedures^a												
Create a single income-driven student loan repayment plan ^b	-660	-1,505	-2,075	-2,715	-3,395	-4,110	-4,760	-5,415	-6,095	-6,455	-10,350	-37,185
Eliminate standard repayment cap ^b	-170	-410	-570	-735	-910	-1,070	-1,205	-1,300	-1,375	-1,430	-2,795	-9,175
Use combined AGI to calculate loan payments for taxpayers who are married and filing separately ^b	-25	-60	-80	-105	-125	-150	-170	-190	-210	-220	-395	-1,335
Eliminate subsidized student loans ^b	-375	-1,045	-1,580	-1,920	-2,250	-2,665	-3,015	-3,155	-3,235	-3,295	-7,170	-22,535
Eliminate the Public Service Loan Forgiveness program ^b	-530	-1,290	-1,805	-2,285	-2,715	-3,245	-3,800	-4,325	-4,585	-4,750	-8,625	-29,330
Enact student loan risk sharing	Not Estimated											
Eliminate account maintenance fee payments to guaranty agencies	-85	-76	-69	-62	-56	-50	-45	-40	-36	-33	-348	-552
Limit graduate student loan borrowing ^b	-730	-1,650	-2,400	-3,260	-4,145	-5,200	-6,175	-7,280	-7,835	-8,430	-12,185	-47,105
Limit parent loan borrowing ^b	275	785	1,175	1,420	1,635	1,900	2,145	2,290	2,375	2,435	5,290	16,435
Interactions	<u>265</u>	<u>570</u>	<u>830</u>	<u>1,190</u>	<u>1,630</u>	<u>2,095</u>	<u>2,535</u>	<u>3,075</u>	<u>3,320</u>	<u>3,620</u>	<u>4,485</u>	<u>19,130</u>
Subtotal	-2,035	-4,681	-6,574	-8,472	-10,331	-12,495	-14,490	-16,340	-17,676	-18,558	-32,093	-111,652
Federal Pell Grant Program												
Expand Pell grants to short-term programs (also affects discretionary spending)	9	33	37	41	46	50	54	54	55	56	166	435
Reduce improper payments in Pell grants ^c	-2	-4	-4	-4	-4	-4	-4	-4	-4	-4	-18	-38
Reallocate mandatory Pell grant funding to support expanded eligibility (also affects discretionary spending)	-16	-63	-79	-91	-98	-102	-106	-107	-107	-108	-347	-877
Make incarcerated students eligible for Pell grants (also affects discretionary spending)	7	30	42	49	52	52	52	52	52	52	180	440
Move Iraq-Afghanistan Service Grants into the Pell grant program	*	*	*	*	-1	-1	-1	-1	-1	-1	-1	-6
Subtotal	-2	-4	-4	-5	-5	-5	-5	-6	-5	-5	-20	-46
Total	-2,037	-4,685	-6,578	-8,477	-10,336	-12,500	-14,495	-16,346	-17,681	-18,563	-32,113	-111,698

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Components may not sum to totals because of rounding; AGI = adjusted gross income; FCRA = Federal Credit Reform Act of 1990; * = between -\$500,000 and zero.

This table does not include the proposal to establish Education Freedom Scholarships.

a. Under FCRA rules, the present value of expected future cash flows is calculated by discounting those cash flows using the rates on Treasury securities with similar terms to maturity. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time. The present value depends on the discount rate used to translate future cash flows into current dollars.

b. For these estimates, CBO assumes that the policies will be effective for student loan borrowers with no outstanding federal student loan balances as of July 1, 2021.

c. This proposal was not sufficiently specified for CBO to make its own estimate of its effects on the budget. However, CBO included the Administration's estimates as a placeholder because the agency judged those estimates to be achievable targets for the budgetary effects of detailed policies that might be proposed in the future.