

Pennsylvania House Finance Committee Hearing, December 6, 2023

Testimony of Diana Polson, Senior Policy Analyst at the Keystone Research Center

Thanks for letting me speak today. We at the Keystone Research Center released a report¹ last year that examined the student debt crisis in Pennsylvania. I'd like to share some of the findings from that report here and also express our support for Representative Isaacson's proposal² to include student loan interest in the list of itemized deductions taxpayers in PA can deduct from their personal income tax. While this proposal will not solve the student debt crisis in the state, it will provide some help to those in Pennsylvania who face crushing student debt.

From our research, we found the following:

- More than 2 million students/former students have outstanding college loans in the state of Pennsylvania.
- Total student loan debt in the state has increased to four times what was owed in 2003 – from a total of \$19 billion to \$76 billion (in inflation-adjusted dollars).
- Pennsylvania ranks SIXTH highest in the nation for the percentage of 2020 college graduates who graduate with debt – 64% of Pennsylvania graduates have debt when they graduate.
- Because of our state's high tuition compared to other states, in 2020, Pennsylvania graduates had the THIRD-HIGHEST student loan debt in the nation, behind only New Hampshire and Delaware. Graduates in 2020 left school with an average debt of \$39,375. While student loans have become the norm, student debt really weighs down our young people just as they are trying to start their careers and take off as young adults. It hampers their ability to buy a car and a first home, start a family, and choose a career based on their passion including in public service and caring or helping occupations. College debt fundamentally compromises students' future and quality of life while holding down consumer demand and the Pennsylvania economy and eroding students' contribution to the greater good.
- This student debt crisis impacts borrowers in rural and urban areas, and it impacts individuals across race, gender, and ethnicity. That said, some communities are harder hit by the crisis than others.
 - We found that higher shares of Black, Latino, and female undergraduate students receive no financial support from their families than white students. We also found that

¹ Diana Polson, "Why Pennsylvania Needs Student Debt Relief: A Look at Our State's Student Debt Crisis," Keystone Research Center and Pennsylvania Budget and Policy Center, September 2022. Online at: https://krc-pbpc.org/wp-content/uploads/2022_PA-Student-Debt-Report-1.pdf

² Rep. Isaacson's proposal is to add a deduction to the personal income tax in Pennsylvania for student loan interest. As the instructions for the Pennsylvania Personal Income Tax Return Form PA-40 says, "PA law allows four deductions against income:" for Medical Savings Account contributions; Health Savings Account contributions; Internal Revenue Code (IRC) Section 529 contributions to savings accounts for college; and IRC Section 529A contributions to Pennsylvania ABLE Savings Account for disability-related expenses through a contributions. (See Pennsylvania Department of Revenue, "Pennsylvania Personal Income Tax Return 2022 Instructions Booklet: PA-40IN," online at https://www.revenue.pa.gov/FormsandPublications/FormsforIndividuals/PIT/Documents/2022/2022_pa-40in.pdf.) Rep. Isaacson's bill would add a fifth deduction.

- those living in majority communities of color are more likely to have student loans in collection than those in majority white communities.
- While a greater share of those in urban areas have student debt, those in rural areas have a harder time paying off their loans.
 - One other piece of information I wanted to share from our report is that because tuition is so high in Pennsylvania – students are taking out more private loans to pay for college. Private loans are riskier because they don't come with the kind of protections or repayment options that federal loans do and the interest rates are higher.
 - 22% of graduates in 2020 in PA left school with private loans – this is one of the highest shares in the nation behind only North Dakota and New Hampshire.
 - Pennsylvania also stands out among other states for having much higher average private borrowing for use at public colleges than other states.

Rep. Isaacson's bill is a small step in the right direction that will begin to lessen the burden of student debt in the state. It is also a way for the legislature to signal its support for the bigger steps that need to be taken to address the student debt crisis.

First, we need federal action, like the student debt forgiveness proposal President Biden sought to implement³ only to be blocked by federal courts.

Second, we need to address the issue of high tuition in Pennsylvania, which prices higher education out of reach for some students and for others means taking on crushing debt. Pennsylvania is a leader in the nation in terms of underfunding higher education, currently ranking 47th for state funding per capita.⁴ We also know that the price of college is increasing much faster than median household income, meaning it is getting more and more expensive for families. We helped to champion legislation called the PA Promise, which would make college more affordable for Pennsylvanians and we believe action should be taken to move this legislation forward.

But, in the meantime, the proposal that Rep. Isaacson has sponsored, to include student loan interest as an allowable deduction for our state's personal income tax, is a no-brainer. It will put money back in the pockets of individuals who are still struggling to pay off their loans and that money will go right back into the economy as loan holders pay for rent, food, transportation, and other basic needs. We are all for it.

³ See: Diana Polson, "How will President Biden's Student Debt Relief Impact Pennsylvania?," Keystone Research Center and Pennsylvania Budget and Policy Center, 9/12/2022. Online at: https://krc-pbpc.org/research_publication/how-will-president-bidens-student-debt-relief-impact-pennsylvania/; and Diana Polson, "Changes to President Biden's Student Debt Relief Plan," Keystone Research Center and Pennsylvania Budget and Policy Center, 10/6/2022. Online at: https://krc-pbpc.org/research_publication/changes-to-president-bidens-student-debt-relief-plan/

⁴ See p. 4 and 5 of: Diana Polson, "Why Pennsylvania Needs Student Debt Relief: A Look at Our State's Student Debt Crisis," Keystone Research Center and Pennsylvania Budget and Policy Center, September 2022. Online at: https://krc-pbpc.org/wp-content/uploads/2022_PA-Student-Debt-Report-1.pdf