

# Community Legal Aid

A non-profit law firm serving the legal needs of low-income individuals and families in central northeast Ohio



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## Forgiving student loan debt is not only vital, it's humane

*by Rachel Nader, advocacy director*

Ten years. That's how long it took me to pay off my student loans. I made it out of undergrad and law school owing roughly \$20 grand. I was lucky. Tuition was reasonable, about \$25 grand before books and living expenses. Family provided room and board, and when I went off to law school, helped with groceries and rent. Scholarships, waiting tables, a clerking job with education benefits also helped.

Ten very long years. 120 payments at \$235.91 a shot. Yes, I remember the exact amount. I remember counting down the payments and fantasizing about all the things I would buy once those payments were done. But by the time I paid off my student loans, I had kids. And well, kids have a way of making money magically disappear.

By the time my kids were college age, higher education costs had gone through the roof. In the span of 20 years, college tuition had not only doubled...not only tripled...but had multiplied six times over. I couldn't say the same for my family's income. Poof went our college saving plans. Poof went our early retirement plans. Poof went the dream of one day owning a place in the sun.

Instead, we donned our chain metal and faced the mighty tuition battle, determined to avoid student loans. For another twelve years, every resource we had went toward paying college tuition. We stayed in our starter home and ran our cars to the ground. We performed CPR on major home appliances. The kids were also a big help, earning scholarships, working multiple jobs and surviving on ramen noodles. But again, we were lucky. My family could afford to make that choice. And did, for twelve very long years.

So I figure if anyone should have the right to stomp and rail against student loan forgiveness, it should be me. I paid my dues. My family paid its dues. How dare the White House forgive a portion of student loans...the hell with forgiveness, forgiveness be damned. It's not fair!

Yeah, you could say I had a moment. Ok, a big moment. My self-righteous sense of entitled indignation reared its ugly head and the red haze took over. But then came the waves of shame, washing my rage away. Because I knew better. Having spent years representing low-income clients in the areas of housing, consumer and bankruptcy, I knew that debtors' prisons exist and that they are more prevalent than ever.

Think not? Think again. Debt hits hardest on those who can least afford it. Poor people are prevented from paying down their debts by the debts themselves. Debt can take a driver's license away, prevent you from getting a job, stop you from buying a home. It can deny you access to food, utilities, medical care and other necessities. Debt destroys relationships and health. And for those struggling with student loan debt, it can be a real killer. Doctors, dentists and veterinarians have some of the highest suicide rates in the country...attributable, in part, to crushing loan debt.

For years, the cost of college education has increased at a much faster rate than inflation. Thirty years ago, student loan debts were a fraction of a college grad's starting wage. The class of '84, however, was the last to have a higher percentage of grants than loans. Since that time, wages have increased at less than a third of the rate of tuition. Today, a college grad's starting wage is a fraction of their student loan debt. For those who didn't finish college, their debt-to-income ratio is even more disparate. Adding insult to injury, federal bankruptcy laws make student loans nondischargeable and virtually inescapable, unlike medical and credit card debt. Had Ben Franklin been alive today, his mantra may well have been that nothing is certain except death, taxes and student loan debt.

So for many student loan borrowers, the White House's announcement that it planned to forgive some student loan debt was met with a welcome sigh of relief. Under the loan forgiveness program, an individual making less than \$125,000 may be eligible for up to \$10,000 in federal student loan forgiveness and up to \$20,000 for Pell Grant recipients. The White House estimates that 90% of the relief will go to people earning less than \$75,000. Roughly 43 million borrowers will have their debt reduced and another 20 million borrowers will have their debt completely erased.

Critics see the plan as adding fuel to inflation, being fiscally irresponsible and being unfair to individuals who paid off their loans. Proponents, on the other hand, believe that loan forgiveness will raise the standard of living for millions of people. People who benefit from the program will have more money to pour back into the economy, become more self-sufficient, and be more productive for the economic good.

Forgiving student loan debt is not only vital, it's humane. It provides individuals with the chance to realize their potential, be productive, and retain their dignity. Gene Sperling, former Director of the National Economic Council and Senior Fellow at the Center for American Progress, states that economic dignity should be not only the North Star but the end goal of America's economic future. In his book, *Economic Dignity*, Sperling says that the goal of economic dignity must rest on three essential pillars:

- The ability to care for family without economic deprivation or desperation denying us the most meaningful moments and joys in our most important loving relationships;
- The capacity to pursue potential and a sense of purpose and meaning; and
- The ability to contribute and participate in the economy with respect, free from domination or humiliation.

The concept of dignity has always been hard to define, but at its core, it's an acknowledgement that each of us has intrinsic value. Although we may well argue about the price of education and loan forgiveness, the value of freeing people from debt prisons and lifting their families out of poverty is priceless. Simply put, we're talking about economic justice...and that should be our goal for America's economic future.

*This article is part of Legal Aid's "Big Ideas" series.*

**SIDEBAR:**

## Quick Facts about the Federal Student Loan Forgiveness Program:

**Forgiveness Guidelines:** Federal loans up to \$10,000, Pell Grants up to \$20,000. The program does not apply to private student loans.

**Eligibility:** Borrowers earning less than \$125,000 a year based on adjusted gross income or \$250,000 a year for married couples filing taxes jointly

**When to apply:** The Education Department will be releasing the application in early October. You can sign up on [Studentaid.gov](https://studentaid.gov) to be notified when the form goes live. Borrowers should apply by November 15 to have their balances lowered or eliminated before the student loan payment pause ends on December 31, 2022. Borrowers, however, have until December 31, 2023 to file their applications.

**When to expect relief:** 4 to 6 weeks after the application is approved.

**Tax consequences:** At the federal level, the loan forgiveness will not be taxable under provisions of the American Rescue Plan Act. States that follow the federal tax rules, such as Ohio, will not be imposing a tax. Thirteen states, however, may levy a state income tax. Those states are Arkansas, Hawaii, Idaho, Kentucky, Massachusetts, Minnesota, Mississippi, New York, Pennsylvania, South Carolina, Virginia, West Virginia and Wisconsin.

### **Steps You Can Take Now:**

- Sign up for an application alert at [www.ed.gov/subscriptions](https://www.ed.gov/subscriptions), as well as [www.studentaid.gov](https://www.studentaid.gov)
- Check whether you are a Pell Grant recipient at [www.studentaid.gov](https://www.studentaid.gov).
- Determine if your loans are covered. In addition to undergraduate federal loans, Parent Plus and graduate student loans are also covered.
- Gather your income data. The application will require your adjusted gross income, which

you can find at Line 11 on your tax return (Form 1040). You can use either your 2020 or 2021 tax return.

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