WHITE PAPER
(Updated: October 15, 2016)

Student Security:
Allowing Citizens To Forego Periods of Social Security Benefits To Alleviate The Pressures of Student Loan Debt

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Purpose:

This white paper introduces a proposal for reform to the Old Age & Survivors Social Security Trust along with the current structure of federal student loan financing. It is meant to address the rise in student loan debt by providing a solution that also resolves the longstanding threat to the solvency of Social Security.

Section 1 of this Paper discusses the problems to be addressed. Section 2 introduces the fundamentals of "Student Security", an initiative that serves to fix the issues mentioned in Section 1. Section 3 introduces proposals already offered by members of Congress, President Obama, and candidates for President in 2016. Section 4 refers to additional measures that would likely need to take place over time to ensure that collateral consequences are properly considered.

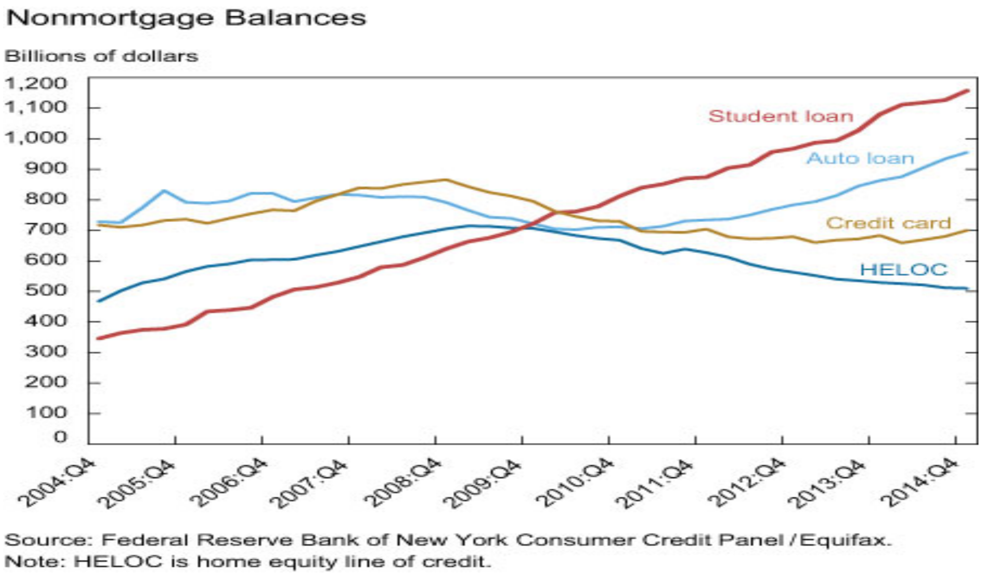
Section 1: The Problem

I. Student Loans

A. Introduction

The United States is in a crisis of rising student loan debt affecting 40 million Americans. To date, student loan debt amasses over $1.2 trillion.[1] It represents the second largest amount of consumer debt in the United States, behind only residential mortgages. It accounts for more consumer debt than credit cards, car loans, and other personal loans.

[1] Total student loan balances at the end of March 2015 were reported as $1.27 trillion. Federal Reserve, *How Much Student Debt is Out There?* (August 17, 2015), available at http://www.federalreserve.gov/econresdata/notes/feds-notes/2015/how-much-student-debt-is-out-there-20150807.html (last visited Jan. 6, 2016).



Since 2007, the amount of outstanding student loan debt has risen by 94%, with an average increase of 11.5% each year.[2] Since 2004, student loan balances have more than tripled, at an average growth rate of 13% per year.[3] The most recent graduating class, the Class of 2016, left college with a record level of debt: $37,173 per borrowing student on average, according to calculations from student loan expert Mark Kantrowitz.[4] That represents a 6 percent increase from 2015, when students left school with an average of $35,051.[5] The Class of 2014 had been the previous record holder, at roughly $33,000, and the Class of 2013 had the record before them, at roughly $32,000. About 70 percent of the undergraduate class of 2012 needed student loans, and average debt at graduation approached $30,000.[6] Seventy-one percent of all bachelor's degree recipients are graduating with debt—a 5% rise in the past decade, and a 21% rise in the last twenty years.

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[2] *Id*.

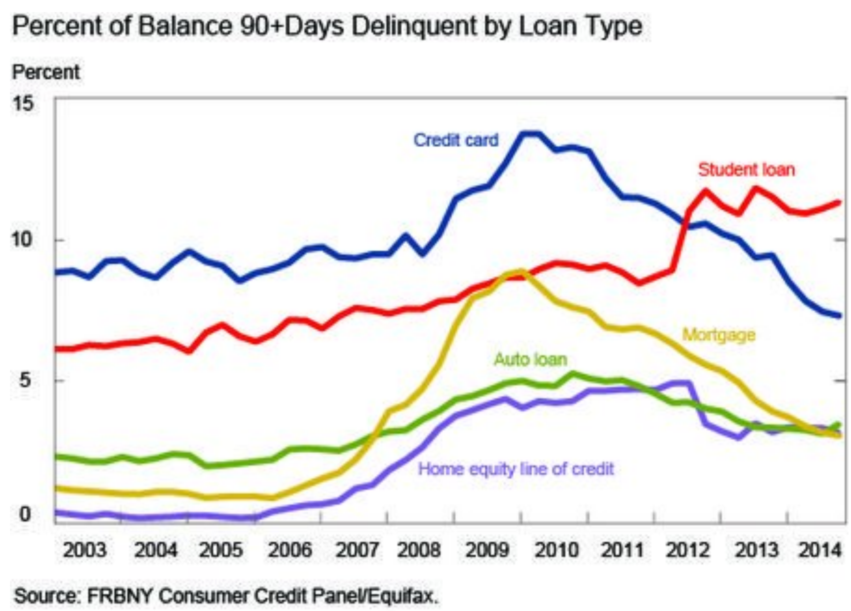
[3] Federal Reserve Bank of New York, *The Student Loan Landscape* (February 18, 2015), available at http://libertystreeteconomics.newyorkfed.org/2015/02/the_student_loan-landscape.html#.Vnw0-PHUXVp (last visited Jan. 6, 2016).

[4] Aimee Picchi, *Congrats, class of 2016: You're the most indebted yet* (May 4, 2016), CBS NEWS, available at http://www.cbsnews.com/news/congrats-class-of-2016-youre-the-most-indebted-yet/ (last visited May 31, 2016).

[5] Jillian Berman, *Class of 2015 Has the Most Student Debt in U.S. History* (May 9, 2015), MARKETWATCH.COM, available at http://www.marketwatch.com/story/class-of-2015-has-the-most-student-debt-in-us-history-2015-05-08 (last visited Jan. 6, 2016).

[6] Jared Meyer, *What was missing from the GOP Debate? Student Loan Debt* (September 17, 2015), FORBES.COM, available at http://www.forbes.com/sites/jaredmeyer/2015/09/17/gop-debate-student-loan-debt/ (last visited Jan. 6, 2016).

Contrary to previous debt burdens, student loans are not just publicly subsidized; they are *overwhelmingly* funded by the federal government. In 2013, privately provided student loans accounted for less than 8% of the market, a figure that has continued to fall in the last two years.[7] This debt increase is an anomaly to American finance, in that one major distinction makes it unlike every other rise in debt known in history (i.e. bond markets, housing markets, etc.). Because public capital is primarily at stake, insolvent borrowers are barred from seeking relief via bankruptcy. This inhibits the traditional avenue that would trigger the deflation of a "bubble." Instead, the economic pressure of rising debt is choking millions of Americans who continue to fall behind without a way to seek relief. The 90-day delinquency rate for student loans has risen to 11.3%. For comparison: the rate for mortgages has dropped to 3.1%, and credit-card delinquencies have reached historical lows according to the Fed.[8]



Americans younger than 39 years old hold roughly 65% of all student debt, with an additional 30% being held by those ages 40 to 59. Student loans represent 36.8% of the total debt for consumers

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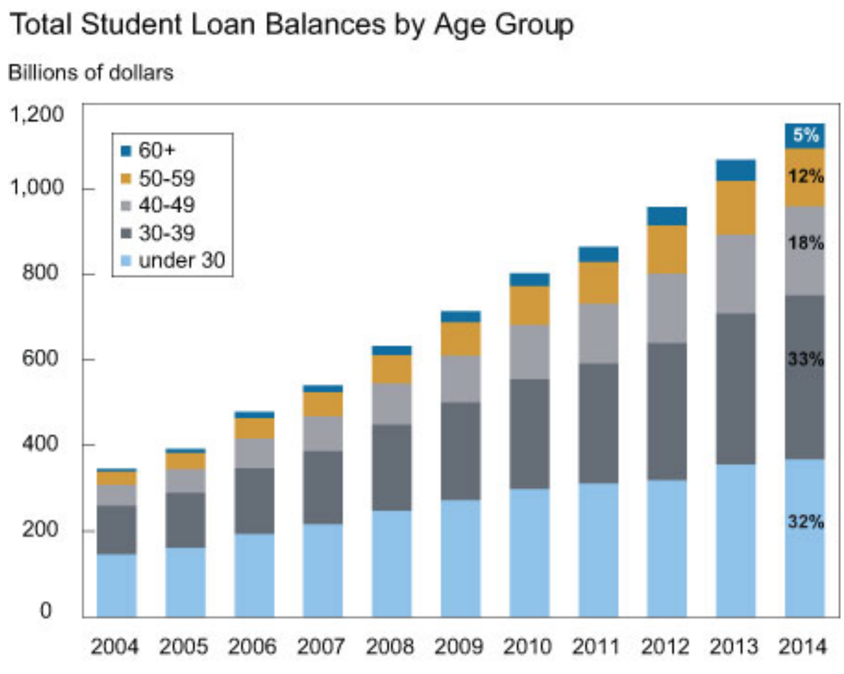
[7] Allie Bidwell, *Is The Private Student Loan Market as Bad as it Seems?* (December 23, 2013), USNEWS.COM, available at http://www.usnews.com/news/articles/2013/12/23/is-the-private-student-loan-market-as-bad-as-it-seems (last visited Jan. 6, 2016).
[8] Federal Reserve, *How Much Student Debt is Out There?* (August 17, 2015), available at http://www.federalreserve.gov/econresdata/notes/feds-notes/2015/how-much-student-debt-is-out-there-20150807.html (last visited Jan. 6, 2016).

between the ages of 20-29 years old. Seventeen percent of borrower's are currently behind in payments or in default, a figure amounting to roughly 7 million Americans. The average student-loan balance among people with a bachelor's degree has risen from $15,000 in the mid-1990s to over $27,000, according to the most recent survey by the Fed.[9]



Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax.

As early as 1985, Congressman William Ford of Michigan, one of the nation's strongest advocates for federal support of student aid at the time, cautioned that due to the debt created by student loans, "we are producing a class of indentured servants who must work to free themselves of the bondage of educational debts. How will the next generation afford a home or car if their disposable income is committed to paying off student loans?"[10] Entering 2016, a majority of student borrowers face that dilemma—struggling to find ways to actively participate in our economy while managing burdensome amounts of debt. The promise of economic opportunity with the help of student loans has been flipped on

[9] Federal Reserve Bank of New York, *The Student Loan Landscape* (February 18, 2015), available at http://libertystreeteconomics.newyorkfed.org/2015/02/the_student_loan-landscape.html#.Vnw0-PHUXVp (last visited Jan. 6, 2016).
[10] American Student Assistance, *Life Delayed: The Impact of Student Debt on the Daily Lives of Young Americans* (2013), available at http://www.asa.org/site/assets/files/3793/life_delayed.pdf (last visited Jan. 6, 2016).

its head, as today's students now find their financial futures imperiled by the economic realities of holding student debt. These figures have had significant collateral consequences on the economy for younger generations and the United States as a whole.[11]

B. Collateral Consequences

1. Housing Market & Consumer Spending

"Baby boomers can't sell houses because Millennials can't afford to buy them, that's huge," said Barbara O'Neill, a specialist in financial resource management for Rutgers University. "There clearly is a relationship there—just talk to anybody trying to sell a home."[12] Professor William Elliot, director of the School of Social Welfare at the University of Kansas, agreed with this sentiment by stating "It's a drag on the economy because purchases aren't being made. It's probably dragging down our GDP."[13]

A study by Harvard University's Joint Center For Housing recently posted that the rate of home ownership for people 25-34 has dropped 8% in the last 10 years. By 2014, 31.6% of young adults were living with a spouse or partner in their own household, below the share living in the home of their parent(s) (32.1%).[14] Some 14% of young adults were heading up a household in which they lived alone, were a single parent or lived with one or more roommates. The remaining 22% lived in the home of another family member (such as a grandparent, in-law or sibling), a non-relative, or in group quarters (college dormitories fall into this category). It's worth noting that the overall share of young adults living with their parents was not at a record high in 2014. This arrangement peaked around 1940, when about 35% of the nation's 18- to 34-year-olds lived with mom and/or dad (compared with 32% in 2014). What has changed, instead, is the relative share adopting different ways of living in early adulthood, with the

[11] *Id*.
[12] Ryan Gorman, *How Student-Loan Debt is Dragging Down the Economy* (May 1, 2015), BUSINESS INSIDER, available http://www.businessinsider.com/3-charts-explain-the-effect-of-student-loans-on-the-economy-2015-5 (last visited Jan. 6, 2016).
[13] *Id*.
[14] Richard Fry, *For First Time in Modern Era, Living With Parents Edges Out Other Living Arrangements for 18- to 34-year olds* (May 24, 2016), PEW SOCIAL TRENDS, available at http://www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/st_2016-05-24_young-adults-living-02/ (last visited May 26, 2016).

decline of romantic coupling pushing living at home to the top of a much less uniform list of living arrangements. The burden of student debt is the key factor in young graduates not starting a business, buying homes, and starting a family. Even the marriage rate for Millennials has fallen, down 12% from the previous generation. A record of 57 million Americans—about 18% of the United States population—live in multigenerational households.[15] A significant reason is the sharp increase in the number of 25-to-34-year-olds crowding into the family home with parents and grandparents. The crowding can be attributed to joblessness and debt.

A variety of factors contribute to the long-run increase in the share of young adults living with their parents. The first is the postponement of, if not retreat from, marriage. The median age of first marriage has risen steadily for decades.[16] In addition, a growing share of young adults may be eschewing marriage altogether. A previous Pew Research Center analysis projected that as many as one-in-four of today's young adults may never marry.[17] While cohabitation has been on the rise, the overall share of young adults either married or living with an unmarried partner has substantially fallen since 1990. In addition, trends in both employment status and wages have likely contributed to the growing share of young adults who are living in the home of their parent(s), and this is especially true of young men.[18]

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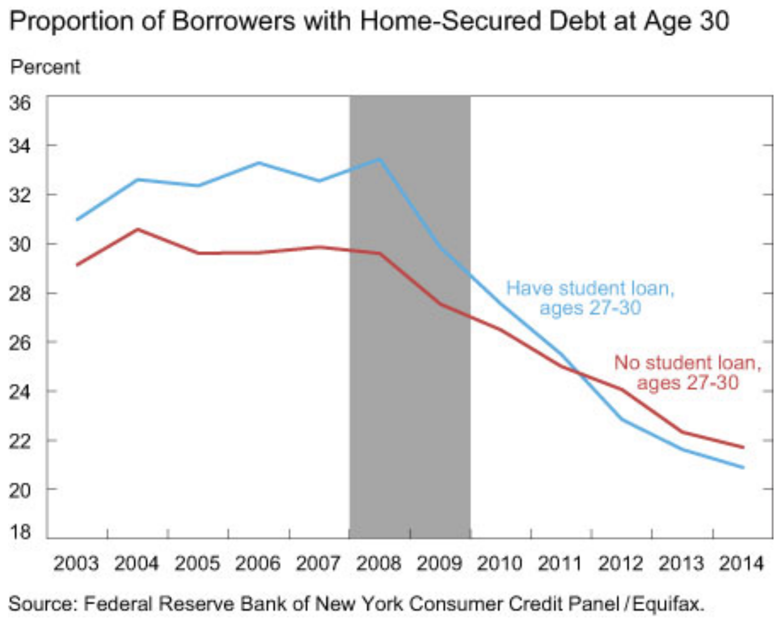
[15] *Id.*
[16] *Id.*
[17] *Id.*
[18] *Id.*



2. Small Business Development

Mitch Daniels, the President of Purdue University and former Republican governor of Indiana, recently reported in his *Wall Street Journal* opinion piece that rising student debt has hindered small business development and entrepreneurship.[19] In 2010-2013, the percentage of younger people owning part of a new business dropped to 3.6% from 6.1%.[20] The Federal Reserve of Philadelphia reported that in counties where education debt increased 2.7% over the course of a decade, there was a 17% decline in new firms with four or fewer employees.[21] "Saddled with student loan debt, Millennials can't afford to be entrepreneurs," according to the 2015 State of Entrepreneurship report from the Kauffman Foundation, a nonprofit devoted to studying entrepreneurship.[22]

The U.S. Small Business Administration (SBA) documents that small businesses account for

[19] Mitchell E. Daniels, *How Student Debt Harms The Economy* (January 27, 2015), THE WALL STREET JOURNAL, available at http://www.wsj.com/articles/mitchell-e-daniels-how-student-debt-harms-the-economy-1422401693 (last visited Jan. 6, 2016).
[20] *Id*.
[21] Federal Reserve Bank of Philadelphia, *The Impact of Student Loan Debt on Small Business Formation* (July, 2015), available at https://www.philadelphiafed.org/research-and-data/publications/working-papers/2015 (last visited Jan. 6, 2016).
[22] Kate Rogers, *Millennial Entrepreneurs and Student Debt: It's Complicated* (February 11, 2015), CNBC.COM, available at http://www.cnbc.com/2015/02/11/a-new-normal-for-us-start-up-activity.html (last visited Jan. 6, 2016).

approximately one-half of the private-sector economy and 99% of all businesses. Furthermore, approximately 60% of new jobs in the private sector are created by small businesses.[23] To launch a small business, individuals need access to capital. The SBA reports that small businesses receive approximately 75% of this capital from banks in the form of loans, credit cards, and lines of credit, which often have personal liability attached.[24] Given the importance of an entrepreneur's personal debt capacity in financing a startup business, personal debt that is incurred early in life and that restricts a person's ability to take on future debt can have profound implications for the growth in small businesses. In particular, student loan debt can have lasting effects. Individuals often acquire student loans to finance the acquisition of human capital to be used later in life. While many studies show that the returns on higher education can be significant, the use of student debt to finance higher education can alter future employment and occupational decisions as student loans reduce individual future debt capacity.

C. The Shrinking Middle Class & Income Inequality

Student loan debt continues to contribute to widening gaps in income equality, the shrinking in the middle-class, and racial disparity among income levels. An example was recently highlighted by the comments of Allen Aston, a recent graduate who received a full academic and financial-need scholarship at Ohio State University. The 22-year-old software engineer estimates that his scholarship allowed him avoid roughly $100,000 in debt.[25] Aston is now able to contribute 6% of his salary to a retirement fund that is matched by his employer and he doesn't have the same financial concerns his friends do. "I'm making the same money as them, but they have student loans they're paying back that I don't. So, it definitely seems noticeable," he said.[26] At the other end of the spectrum is Gregory Zbylut, an accountant-turned-attorney in Glendale, Calif. He's been chipping away at nearly $160,000 in student debt since

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[23] Federal Reserve Bank of Philadelphia, *The Impact of Student Loan Debt on Small Business Formation* (July, 2015), available at https://www.philadelphiafed.org/research-and-data/publications/working-papers/2015 (last visited Jan. 6, 2016).
[24] *Id*.
[25] Carolyn Thompson, *Student Loan Crisis is Making Inequality Worse: Experts* (March 17, 2014) ASSOCIATED PRESS, available at http://finance.yahoo.com/news/1-trillion-student-loan-debt-141440433.html (last visited Jan. 6, 2016).
[26] *Id*.

graduating in 2005 from law school at Loyola University in Chicago. Now 48, the tax attorney estimates he could have $150,000 to $200,000 in a 401(k) had the money he's paid toward loans gone there. Instead, he continues paying $1,300 monthly toward his law school loans, another month from qualifying for a decent mortgage.[27]

Black and low-income students borrow more, and more often, to receive a bachelor's degree. A full 84% of graduates who received Pell Grants graduate with debt, compared to less than half (46%) of non-Pell recipients.[28] While less than two-thirds (63%) of white graduates from public schools borrow, four-in-five (81%) of Black graduates do so. Latino graduates borrow at similar rates and slightly lower amounts than white students. Associate's degree borrowing has spiked particularly among Black students over the past decade.[29] At public institutions, well over half (57%) of Black associate's degree recipients borrow (compared to 43% of white students), and borrow nearly $2,000 more than white students. A decade ago, 38% of black associate's degree recipients borrowed (compared to 32% of white students).[30] A 6-point gap in borrowing between white and black associate's degree holders has turned into a 14-point gap. While those with a college degree are more likely to save or buy a home, student debt is a barrier. At every level of education, households without student debt are more likely to own homes, have slightly lower interest rates on mortgages, and have retirement and liquid assets that are considerably larger than those households with student debt.

D. Marriage and Family Development

The average age for a marriage in the United States has gone up significantly over the last few decades. In 1965, the average age for marriage was 23 years old for men and 21 years old for women. Today, that average has gone up by six years to 29 years old for men and 27 years old for women. One of the reasons for this higher marriage age is the inability of young people to meet the financial milestones

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[27] *Id*.
[28] Mark Huelsman, *The Debt Divide: The Racial and Class Bias Behind the "New Normal" of Student Borrowing* (2015), DEMOS.ORG, available at http://www.demos.org/sites/default/files/publications/Mark-Debt%20divide%20Final%20%28SF%29.pdf (last visited Jan. 6, 2016).
[29] *Id*.
[30] *Id*.

of *Kiplinger*'s outlines, such as paying student loans, starting an emergency fund, and starting to save for retirement in a timely way. Sociologist Mary Elizabeth Hughes points out, "One of the leading explanations for this trend points to a series of economic transformations that has made attaining economic security more difficult for many and impossible for some. From this perspective, marriage is being delayed—and even forgone— because inauspicious economic context prevents individuals from reaching the minimum economic threshold required for marriage." Recent studies have found that an additional $10,000 for education decreases the probability of marriage by 11 and 17 percentage points, respectively, for men and women below 37 years old.[31] Ten years after graduation, a $1,000 increase in loans is associated with 3.4 percentage point decrease in marriage.[32]

In addition, "culturally, young adults have increasingly come to see marriage as a 'capstone' rather than a 'cornerstone'—that is, something they do after they have all other ducks in a row, rather than a foundation for launching into adulthood and parenthood." While there are many reasons for this economic insecurity and for delays in marriage, a growing factor is student loan debt.

II. Social Security:

A. The Simple Facts

Social Security must be reformed. Even the Social Security Administration and the U.S. Treasury have recognized the dire need for reform in the near future.[33] The benefits promised to the public have a present value of $13.6 trillion *greater* than the revenues the system is projected to receive.[34] In order to

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[31] Dora Gicheva, *In Debt and Alone? Examining the Causal Link between Student Loans and Marriage* (June, 2012), UNIV. OF NORTH CAROLINA AT GREENSBORO, available at http://www.uncg.edu/bae/people/gicheva/MBA_loans_marriageMay12.pdf (last visited Jan. 6, 2016).

[32] Ling Shao, *Debt, Marriage, and Children: The Impact of Student Loans on Marriage and Fertility*, (January 26, 2014), UNIVERSITY OF CALIFORNIA, SAN DIEGO, available at http://iacs5.ucsd.edu/~lshao/pdfs/shao_jmp.pdf (last visited Jan. 6, 2016).

[33] Social Security Administration, *Summary of Provisions That Would Change The Social Security Program* (September 16, 2015), available at https://www.socialsecurity.gov/oact/solvency/provisions/summary.pdf (last visited Jan. 6, 2106); United States Department of Treasury, *Social Security Reform: The Nature of The Problem* (2007), available at https://www.treasury.gov/resource-center/economic-policy/ss-medicare/Documents/post.pdf (last visited Jan. 6, 2016).

[34] United States Department of Treasury, *Social Security Reform: The Nature of The Problem* (2007).

survive, the present value of benefits (less taxes—what might be referred to as "net payments to the public") must be reduced by $13.6 trillion relative to scheduled benefits and taxes. This can be done by either increasing revenue (via taxes) relative to what is provided for under current law and/or lowering benefits relative to what is currently promised (but not actually payable, given that the system is insolvent). The Treasury has recognized that "there is no alternative to these two choices."[35] Social Security can only be made permanently solvent by reducing the present value of scheduled benefits and/or increasing the present value of scheduled tax revenues. Delaying changes to Social Security reduces the number of cohorts over which the burden of reform can be spread. Not taking action is thus unfair to future generations and presents a significant cost of delay.

Social Security cash flows become increasingly negative after 2017. As a result, Social Security will have a larger and larger impact on the rest of the federal budget, as general revenues and/or greater public debt issuance are needed in order to redeem trust fund bond holdings and fund full benefit payments until 2041. The most widely cited single measure of Social Security's financing shortfall is the 75 year actuarial deficit, which is estimated at $5.1 trillion in present-value terms, or 1.95 percent of the present value of taxable payroll over the 2007 to 2081 period. This estimate implies that Social Security can achieve actuarial balance by reducing the present value of Social Security's 75-year net outflow (benefits less taxes) by $5.1 trillion. One way to do this would be to immediately raise the payroll tax rate by 1.95 percentage points (i.e., to 14.35 percent); alternatively, scheduled benefits could be immediately reduced by 13 percent. In 1940, the life expectancy of a 65-year-old was almost 14 years; today it is about 20 years. By 2033, the number of older Americans will increase from 46.6 million today to over 77 million. There are currently 2.8 workers for each Social Security beneficiary. By 2033, there will be 2.1 workers for each beneficiary.

[35] *Id.*

B. Generational Clash to Come

Former Senator, Alan Simpson described them as "the greediest generation" when referring to elderly voters keenly opposed to reforms needed to keep Social Security solvent. With an estimated 10,000 new Baby Boomers (1946-1964) qualifying for Social Security each day, the funds will soon run out. In the coming years, Millennials (1984-2006) will continue to bankroll a retirement scheme for elders that we ourselves will never participate in. A steadily declining birthrate, a swiftly graying population, an extended average life span, and unsustainable national spending have created a perfect storm for Social Security and set the stage for generational culture and political wars.

To date, the generations are equally strong in population. Millennials currently outnumber Baby Boomers. Entering 2016, Millennials are now the largest generation in the United States and represent 25% of the voting age population.[36] Boomers have paid into Social Security throughout their working careers and are rightfully entitled to their promised benefits. But Millennials also feel entitled to keep the fruits of their labor and are hesitant to pay into a system that won't be around when it's their turn to retire. Equal in number, the two generations are far from equal in political power. Millennials are just now entering the political and financial world, while Boomers command the top echelons of society.

Though Millennials might determine what's trendy in music or fashion, Boomers pull the strings of economic and political power. As a result, the will to implement meaningful reform of Social Security has been absent. Those who have retired, or are nearing retirement, don't want to see their benefits affected. The end result of inaction is clear: The Social Security Trust Fund will go bankrupt by 2037. Accordingly, Millennials will pay into a system for decades but see no benefits or significantly reduced benefits at best.

Two key retirement benefits—Social Security and pensions—that are available to older generations are not being established at a viable rate for future generations. In addition, the dearth of jobs

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[36] United States Census Bureau, *Millennials Outnumber Baby Boomers and Are Far More Diverse* (June 25, 2015), available at http://www.census.gov/newsroom/press-releases/2015/cb15-113.html (last visited Jan. 6, 2016).

means the United States and the younger generations are losing key earning and saving years that could go a long way toward alleviating the retirement debacle. Millennials do not have their collective heads in the sand on Social Security's insolvency. A recent Pew Research Center report found that 72% of Millennials don't expect Social Security to be their main source of retirement income, and 51% don't think they will get income from the entitlement at all.[37] That's why the Millennial generation is far more willing to support an overhaul. The same Pew survey found that an overwhelming number of Millennials, 86 percent, support reforms that would allow them to invest their Social Security contributions in a private retirement account.

Half of Millennials and Gen Xers Doubt They'll Receive Any Soc. Sec. Benefits

When you retire, Social Security will provide ...	**Millennial** %	**Gen X** %	**Boomer*** %
Benefits at current levels	6	9	26
Benefits at reduced levels	39	36	42
No benefits	51	50	28
Don't know/Ref. (Vol.)	4	5	4
	100	100	100

Note: *Includes only Boomers under age 65. Based on those ages 18 to 64. Figures may not add to 100% because of rounding.

Source: Pew Research survey, Feb. 14-23, 2014

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The generational fleecing is not confined to Millennials. Thomas Firey, managing editor of the Cato Institute's publication *Regulation*, made the point in an article published more than a decade ago. While young people now have 12.4% of our earnings commandeered by Social Security, Boomers who entered the workforce in the late 1960s paid only 6.5% of their earnings to the entitlement. Even later, when the payroll tax was raised, Firey estimated that Boomers paid around 10% during the latter half of

[37] Bruce Drake, *6 New Findings About Millennials* (March 7, 2014), PEW RESEARCH, available at http://www.pewresearch.org/fact-tank/2014/03/07/6-new-findings-about-millennials/ (last visited Jan. 6, 2016).

their working careers. “That’s the Boomers’ bargain: They’ve paid less of their earnings into Social Security than we have, yet they'll receive more in benefits than we will and we'll pick up the tab,” Firey wrote. “And when we retire, there will be no money saved in Social Security to pay for our retirement, unless we pull the same scam on our children that the boomers are pulling on us.”

Section 2:

I. Proposal: Student Security

A. Basics

All citizens may elect to receive federal student loan forgiveness in exchange for prolonging their qualifying age for Social Security benefits according the following metric:

Tier 1: For every $5,000 in student loan forgiveness, an exchange for a 1-year delay in Social Security benefits. Up to $30,000 and a 6-year delay.

Tier 2: Up to $45,000 in exchange for delaying Social Security benefits for 8 years.

Tier 3: Up to $60,000 in exchange for delaying Social Security benefits for 10 years.

Tier 4: Up to $75,000 in exchange for delaying Social Security benefits for 12 years.

Tier 5: Up to $100,000 in exchange for delaying Social Security benefits for 15 years.

B. Summary

By allowing those with student loans to choose whether they would rather receive forgiveness for their debt in lieu of receiving Social Security benefits for an extended period of time (while continuing to pay into Social Security), the Social Security Old Age Trust benefits will be reduced drastically in the future, while providing an immediate relief to an extremely burdensome debt. This model would require any participant to forego the actuarial adjustment traditionally granted for delaying one’s benefits. This program would also allow co-signors, such as parents or grandparents, the option of voluntarily raising their age of receiving Social Security benefits in exchange for forgiveness of the underlying debt.

According to the Social Security Administration, a man reaching age 65 today can expect to live until age 84.3 on average.[38] A woman turning age 65 can expect to live until age 86.6. These equate to 18.3 and 21.6 years respectively. The average monthly benefit amounts to $1,335 per month or $16,000 per year.[39] That amounts to a lifetime receipt of $288,000-$336,000 for a social security recipient. Student Security will ultimately *save*, rather than cost, the United States, as the amount of forgiven debt is roughly 300% less than the amount provided to a Social Security beneficiary over a recipient's lifetime. The following illustrations make this point:

A Tier-1 Example: An individual who chooses to engage in a tier-1 debt forgiveness program will ultimately receive up to $30,000 in student loan forgiveness today, while sacrificing $96,000 in future benefits (6 year delay x $16,000/yr). This results in a $66,000 gross gain to the Social Security Trust, reducing the lifetime benefits owed to this individual by 33-28%. Rather than paying for 18.3-21.6 years of benefits the Trust is only responsible for paying 12.3-15.6 years. The table below makes this clear.

Tier	Loan Forgiveness	Soc. Sec. Waived	Age of Receipt	Lifetime Benefits (yrs)	Lifetime Benefits ($)	Benefit Reduction	Cost[40]	Net Benefit Reduction
Current	0	-	67	18-21 yrs	$288,000-$336,000	0	0	0
Tier 1	$30,000	6 years	73	12-15 yrs	$192,000-$240,000	$96,000	$60,000	$36,000
Tier 2	$45,000	8 years	75	10-13 yrs	$160,000-$208,000	$128,000	$90,000	$38,000
Tier 3	$60,000	10 years	77	8-11 yrs	$128,000-$176,000	$160,000	$120,000	$40,000
Tier 4	$75,000	12 years	79	6-9 yrs	$96,000-$144,000	$192,000	$150,000	$42,000
Tier 5	$100,000	15 years	82	3-6 yrs	$48,000-$96,000	$240,000	$200,000	$40,000

C. Funding

[38] Social Security Administration, *Calculators: Life Expectancy* (2015), available at https://www.ssa.gov/planners/lifeexpectancy.html (last visisted Jan. 6, 2016).
[39] Social Security Administration, *Social Security Basic Facts* (October 13, 2015), available at https://www.ssa.gov/news/press/basicfact.html (last visited Jan. 6, 2016).
[40] For these purposes, calculations incorporate a simple interest rate of 2.5% for bonds at 40 years.

Because of the large amount of net benefit reductions in the future, the Social Security Trust will be able to forecast a net positive stream of revenues throughout the lifetime of participants. The costs of the plan come from immediate loan forgiveness, whereas the net benefits far outweigh the costs.

Tier	Cost	Benefit Reduction	Net ROI
Current	0	0	
Tier 1	$60,000	$36,000	60%
Tier 2	$90,000	$38,000	42%
Tier 3	$120,000	$40,000	30%
Tier 4	$150,000	$42,000	28%
Tier 5	$200,000	$40,000	20%

This plan is most appropriately funded via a new Government Bond Program to conduct the equivalent of a leveraged buyout ("LBO") of an entitlement program. LBO's are common in private markets and are traditionally used to facilitate transactions when companies or single assets (real estate) are purchased with significant amounts of borrowed money, structured in such ways that use the target's future cash flow as the collateral (or "leverage") to secure and repay the borrowed money. Since the debt has a lower cost of capital than the equity, the returns on the equity increase as the amount of borrowed money does until the perfect capital structure is reached. As a result, the debt effectively serves as a lever to increase returns-on-investment.

LBOs have become attractive funding mechanisms, as they usually represent a win-win situation for the financial sponsor and the banks: the financial sponsor can increase the rate of returns on his equity by employing the leverage; banks can make substantially higher margins when supporting the financing of LBOs as compared to usual corporate lending, because the interest chargeable is that much higher.

The amount of debt banks are willing to provide to support an LBO varies greatly and depends, on the quality of the asset to be acquired (stability of cash flows, history, growth prospects, hard assets, etc.); the amount of equity supplied by the financial sponsor; the history and experience of the financial sponsor; and the overall economic environment, among other things. For entities with very stable and secured cash flows (e.g., real estate portfolios with rental income secured with long-term rental agreements), debt volumes of up to 100% of the purchase price are often provided. The possible debt ratios vary significantly among regions and the targeted asset.

A debt volume of 100% would be the most attractive for Student Security, as it would not require the use of current Government funds. Because of the returns-on-investment, this program should be self-sustaining and would not require the transfer of funds from any other source. In some sense, the program would be the first concrete example of the Federal Government using private financing to facilitate "good debt." Other net-positive debt programs have been funded by the treasury and therefore the taxpayers, including the current scheme for federal student loans, and cannot be considered truly "good" in that the return on investment continues to be subject to rising default rates. In theory, an LBO in this program would allow immediate loan forgiveness to be entirely funded by the private sector through a new bond program.

Section 3: Alternative Proposals

I. Democratic Proposals

Liberal politicians have seized on the student debt issue for their campaigns. Hillary Clinton has said that college should be "as debt-free as possible" and Martin O'Malley boasts, "Our ultimate goal must be for every student, most especially low-income and middle-class students, to be able to get to college debt-free." Bernie Sanders has gone the furthest of all, arguing there should be a "Robin Hood Tax" on Wall Street that funds free public college for all. "We have a crisis in higher education today. Too many of our young people cannot afford a college education and many of those who are leaving school are faced with crushing debt. It is a national disgrace," he said in a press conference in May. President Barack Obama has even gone so far as to propose solutions like the free community college plan—allowing anyone who works at least part-time and has a 2.5 GPA to have their tuition waived.[41]

A. Democratic Presidential Candidates – 2016

[41] White House Press Secretary, *White House Unveils America's College Promise Proposal: Tuition-Free Community College for Responsible Students* (January 9, 2015), available at https://www.whitehouse.gov/the-press-office/2015/01/09/fact-sheet-white-house-unveils-america-s-college-promise-proposal-tuitio (last visited Jan. 6, 2016).

1. Hillary Clinton

a. Student Loans

On August 10, 2015, Hillary Clinton introduced her student loan debt proposal titled the "New College Compact." The plan will cost in the range of $350 billion over 10 years and is to be paid for by "limiting tax expenditures for high-income taxpayers." It mixes portions of the Obama proposal, along with portions of proposals proffered by Sen. Elizabeth Warren, among others. The plan calls for the following:

Students at community college will receive free tuition but will have to contribute their earnings from working a minimum of 10 hours a week. Families will be required to make "an affordable and realistic family contribution." States will have to maintain current levels of higher education funding. The Federal Government will eliminate interest on student loans for college students while "colleges and universities will be accountable to improve their outcomes and control their costs to make sure their tuition is affordable" and that "students who invest in college leave with a degree." Those will current student debt will be able to refinance "loans at current rates." The average borrower is expected to save $2,000 over the life of their loans. For future undergraduates, the plan will significantly cut interest rates so they reflect the government's low cost of debt. This can save students hundreds or thousands of dollars over the life of their loans. Everyone will be able to enroll in a simplified income based repayment program so that borrowers never have to pay more than 10% of what they make.

b. Social Security

Clinton's social security plan primarily focuses on what she won't do, rather than what she will. She mentions that she will "fight" privatization, oppose reducing annual cost-of-living adjustments, oppose efforts to raise the retirement age, and oppose closing the long-term shortfall on the backs of the middle class, whether through benefit cuts or tax increases.[42] Her plan for the incoming insolvency

[42] *Issues: Social Security and Medicare*, HILLARYCLINTON.COM, available at https://www.hillaryclinton.com/issues/social-security-and-medicare/ (last visited Jan. 6, 2016).

involves taxing income above the current Social Security cap, and taxing the higher income not currently taken into account by the Social Security system.

2. Bernie Sanders

a. Student Loans

Sanders College Debt Plan calls for free tuition at public colleges and university. He wants to prevent the federal government from profiteering and wants to use the interest otherwise earned "to significantly lower student loan interest rates." If this plan were in effect today, interest rates on undergraduate loans would drop from 4.29% to just 2.37%. Americans would be able to refinance their student loans at today's low interest rates. Sanders would also require public colleges and universities to meet 100% of the financial needs of the lowest-income students. Low-income students would be able to use federal, state and college financial aid to cover room and board, books and living expenses. And Sanders would more than triple the federal work-study program to build valuable career experience that will help them after they graduate. Finally, he alleges that the cost of his plan is "fully paid for by imposing a tax of a fraction of a percent on Wall Street speculators who nearly destroyed the economy seven years ago."[43]

b. Social Security

Sen. Sanders has introduced legislation lift this cap on taxable income on those who make over $250,000 a year.[44]

B. Congress

1. Sen. Mark Warner

Sen. Mark Warner joined Sen. Marco Rubio and introduced the "Dynamic Student Loan Repayment Act" to "consolidate, simplify and improve income-based repayment options for federal

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[43] *Issues: It's Time To Make College Tuition Free and Debt Free*, BERNIESANDERS.COM, available at https://berniesanders.com/issues/its-time-to-make-college-tuition-free-and-debt-free/ (last visited Jan. 6, 2016).
[44] *Issues: Strengthen and Expand Social Security*, BERNIESANDERS.COM, available at https://berniesanders.com/issues/strengthen-and-expand-social-security/ (last visited Jan. 6, 2016).

student loans."[45] The proposal called for federal student loan payments to be automatically adjusted based upon income and borrowers would be able to repay loans at a more affordable pace and with more manageable payments. "On average, today's graduates carry nearly $30,000 in student loan debt. But our current loan repayment system often turns what should be reasonable debts into crippling payments. Some graduates are forced to work multiple jobs, often in fields they didn't train for, simply to keep from defaulting on these loans," Rubio and Warner said in a joint statement. "Current income-driven repayment plans are underutilized because the system is so complicated. Our proposal doesn't just layer another option on top of existing plans. Instead, it will streamline the current repayment options into a simpler, user-friendly repayment plan, one that automatically adjusts to the changes in a borrower's income with none of the hassle or paperwork required in the current system."

Rubio and Warner partnered another bipartisan proposal to address growing concern about the rising cost of higher education with Sen. Ron Wyden (D-OR). The senators introduced The "Student Right to Know Before You Go Act of 2013," which was to change college reporting guidelines so "future students could compare schools' graduation rates, average college loan debt, and future potential earnings for particular areas of study.

2. Sen. Elizabeth Warren

Senator Elizabeth Warren has been the most vocal proponent of student loan debt reform and has called for various policy measures. A majority of her suggestions have been incorporated into the New College Compact introduced by Hillary Clinton. On March 25, 2015, Sen. Warren introduced a budget amendment that would have allowed people with college loan debt to refinance at interest rates from the 2013-2014 academic year.[46] It was meant to allow undergraduates to refinance their loans to a 3.9 percent interest rate, with a "slightly higher" rate for graduate students. She cited the reality that millions of

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[45] *Rubio, Warner Introduce Dynamic Student Loan Repayment Act* (July 16, 2014), available at http://www.rubio.senate.gov/public/index.cfm/press-releases?ID=21677deb-ff24-40a4-8033-b39d9a1ff26a (last visited Jan. 6, 2016).

[46] Jordain Carney, *GOP Blocks Warren's Student Loan Plan* (March 25, 2015), THEHILL.COM, available at http://thehill.com/blogs/floor-action/senate/236918-republicans-block-warrens-student-loan-amendment (last visited Jan. 6, 2016).

borrowers are "paying interest rates at 6 percent, 8 percent, 10 percent and even higher." Her plan would have been paid for by "requiring millionaires to pay at least a 30 percent effective federal tax rate." Most of Warren's suggestions have centered around her belief that "We have a choice: protect a tax loophole for billionaires or give millions of middle class people a chance to build some real economic security. ... Congress has worked too long for the billionaires."[47]

II. Republican Proposals

There are no Republican Party initiatives comparable to the debt-free college plan, but conservative leaders say there are a number of proposals that GOP candidates can support to gain a toehold with young voters.[48] As Robert Farrington, Forbes contributor notes in his article, "The long-term impact of student loan debt is crippling our recent graduates and it's lowering the growth of the overall economy. Students are spending years after college deleveraging rather than investing in the economy."[49]

A. Presidential Candidates – 2016

Of the record amount of Republican candidates, only *three* went on the record as to how they plan on addressing both student loan debt and social security reform.

1. Sen. Marco Rubio

a. Student Loans

Sen. Marco Rubio's plan for student loan debt reform includes making existing higher education information (including graduation rates for nontraditional students, transfers rates, student debt, post-graduation earnings, and likely employment outcomes) available online in an "easily-accessible format to

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[47] *Id*.
[48] Danielle Douglas-Gabriel, *How Student Debt Became a Presidential Campaign Issue* (May 24, 2015), THE WASHINGTON POST, available at https://www.washingtonpost.com/business/economy/how-student-debt-became-a-presidential-campaign-issue/2015/05/24/1463948e-f41c-11e4-b2f3-af5479e6bbdd_story.html (last visited Jan. 6, 2016).
[49] Neale Godfrey, *Student Loan Debt is Not Just for the Young* (July 19, 2015), FORBES.COM, available at http://www.forbes.com/sites/nealegodfrey/2015/07/19/student-loan-debt-is-not-just-for-the-young/ (last visited Jan. 6, 2016).

help students and families make well-informed decisions."[50] It also includes the creation of the income-based repayment (IBR) as the universal repayment method for federal student loans.

b. Social Security

Sen. Rubio's Social Security plan calls for the increase in age for benefits and a shift toward means-related, rather than equal, benefits.[51]

2. Sen. Rand Paul

a. Student Loans

Senator Paul has voiced his support for allowing all tuition and student loan debt payments to be tax deductible, which would do away with the current income restrictions and tax credit program.[52]

b. Social Security

Senator Paul has proposed the gradual increase in the age of full retirement and by means testing yearly earnings, while preserving those benefits for near and current retirees.[53]

3. Gov. Chris Christie

a. Student Loans

Governor Christie's proposals are very to similar to Sen. Rubio's in that his primary focus is on: income based repayment systems, greater transparency in the costs of education, and alternatives to traditional four-year public universities.[54] "Stackable credentials" would allow students to re-enroll at different colleges over time without losing credits so students have the flexibility to jump in and out of education as needed. The only additional plan is the creation of "tax credits" to pay for programs that pay off a student's debt in exchange for community service.

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[50] *Issues: Higher Education*, MARCORUBIO.COM, available at https://marcorubio.com/issues-2/marco-rubio-position-higher-education-policy-college/ (last visited Jan. 6, 2016).
[51] https://marcorubio.com/issues-2/marco-rubio-social-security-medicare-plan/
[52] Stephen Dash, *What Plan Does Rand Paul Have to Relieve Student Loan Borrowers?* (April 18, 2015), available at http://www.huffingtonpost.com/stephen-dash/what-plan-does-rand-paul_b_7091358.html (last visited Jan. 6, 2016).
[53] *Issues: Social Security*, RANDPAUL.COM, available at https://www.randpaul.com/issue/social-security (last visited Jan. 6, 2016)
[54] *Issues*, CHRISCHRISTIE.COM, available at https://www.chrischristie.com/issues (last visited Jan. 6, 2016).

b. Social Security

Governor Christie is proposing a change to a need-based Social Security system that will be phased in over future generations.[55]

B. Congress

There have been no notable reforms to Student Loan debt to be offered by Republicans in Congress aside from those already mentioned.

Section 4: Additional Measures

I. Student Loans

A. Necessary & Immediate: Preventing The Rise of Tuition

A recent study by the New York Federal Reserve validated the long-held concerns of many economists and policy analysts alike when it found that "on average, for a $1 increase in the subsidized-loan cap, tuitions rose by as much as 65 cents."[56] In short, there is too much money available for colleges and universities because of government loans and it drives up tuition prices in a way that is all too similar to public finance. Student Security will require a collateral measure that stymies the rise of tuition, especially if the hikes are caused by public funding.

Tuition at public four-year institutions has increased faster than inflation every year since 1980. College tuition is expensive, and it will keep rising unless major change happens. There is a simple way to control the rise in tuition – alignment of incentives for both borrowers and schools. The best way to do this is through a tuition cap, a federally mandated cap on tuition for all universities receiving any type of Federal funding. In 2011, 896 different schools received roughly $40 billion in federal funds.

Student Security also includes an aggressive call for tuition reform to account for the rise in costs affiliated with student loans. The plan will implement a cap on those schools receiving federal backed loans or other federal appropriations. Modeled after Missouri's tuition reforms of 2008, schools with

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[55] *Id.*
[56] Josh Mitchell, *Federal Aid's Role in Driving Up Tuition Gains Credence* (August 2, 2015), THE WALL STREET JOURNAL, available at http://www.wsj.com/articles/federal-aids-role-in-driving-up-tuitions-gains-credence-1438538582 (last visited Jan. 6, 2016).

tuition above the average cost in their state may no longer raise tuition above inflation, or else they will risk a reduction in federal funding, their ability to receive federal funding altogether, their 501(c)(3) status, or other possible federal financial penalties such as paying the otherwise applicable corporate tax rate for revenue generated from tuition hikes rising above the CPI inflation rate. Institutions with tuition amounts above the state average may raise tuition only by the annual change in CPI. If an institution charges tuition below the state average, then it may raise tuition by the change in CPI multiplied by the average state tuition. Institutions may also receive a waiver to increase tuition more in certain circumstances, such as when federal support declines during a recession.

Tuition reform is a natural requirement for student loan debt reform. Just as other financial bubbles have come as a result of available public funds, so too is the rise in college tuition. The Federal Government's participation in the loan industry is largely to blame for the rise in costs, therefore it must play an even more prominent role in reversing course. A final proposal is to eventually phase the federal government out of the loan industry altogether by eventually *requiring* those students seeking federal loans, rather private loans, to raise their age of retirement. This would make private loans more attractive, thereby reintroducing their place in the market.

B. Necessary (Not Immediate) – Academic Creditworthiness, Graduation Rates, etc.

The federal funding of student loans is unique from any other form of finance in that the "creditworthiness" of a debtor is practically impossible to assess. Therefore, several debtors are receiving loans at rates that do not reflect the likelihood that they will or will not be able to graduate, receive employment, and ultimately pay the loan. This means that an amazing student with an amazing background, who is going to a high-powered university and receiving a degree in a difficult subject to enter a career in high demand will have the same interest rate as the likely-drop out or poorly qualified student. Measures must be taken to ensure that rates reflect the real creditworthiness of an incoming student and would require an academic and job market assessment. This endeavor would be no different than the rating of mortgagees but would introduce an "admissions-styled" component to risk-evaluation.

Another significant factor contributing to default and debt burdens are the likelihood for loan abuse, drops out, and intentional withdrawals. Constant monitoring of student performance, institutions of higher education, and the timing of loan disbursement will need to be revamped in order to ensure that the United States is getting what it is investing in and that students and schools are really getting what they are bargaining for (literally, if they exercise their Student Security option).

II. Social Security

A. Long-term Protection

By allowing for younger generations to extend their Social Security eligibility, there is an added risk of a future generation being forced to suffer through 6-15 years of old age without the public pension that they sacrificed. The initial response to this concern is the added value of an education, as well as the additional value of decades for preparation and personal savings. The U.S. Census Bureau reports that over an adult's working life, a high school graduate will earn \$1.2 million, whereas those while a bachelor's degree will earn \$2.1 million; a master's degree, \$2.5 million; doctorates, \$3.4 million; and professional degrees, \$4.4 million. With higher education come higher earnings, a foundation for quality financial decisions, and ultimately less reliance on public pensions. The initial purpose for Social Security was to protect the future for those who age. By investing in one's education, that is exactly what Student Security does. That being said, it does stand to reason that a marginal increase in old-age welfare is available in 40 years. It is not absolutely necessary that this be accounted for at this stage, as relief (if necessary) would be more appropriately fashioned by the generations impacted at that time.

B. Solvency

Because insolvency is an immediate threat to the Old Age Trust, it stands to reason that more Americans would be willing to exercise the options provided by Student Security. It is meant to reduce the long-term benefits to be paid by the Trust in such a substantial fashion that solvency becomes an absolute reality. The practical result of this program will make Social Security a real option for our children's children and into the future, which should reduce the amount of college-aged debtors who choose to make the long-term sacrifice. The economic principles introduced by "game-theory" underlie Student Security. A significant portion of Millennials do not believe that they will receive any Social Security in the future (51%),[57] and they are correct as the program currently stands. But, by acting on that presumption and exercising their options within Student Security, the likelihood of long-term solvency will rise. As the Trust becomes a solvent reality, fewer members of the next generation will exercise their option for loan forgiveness and the program should strike equilibrium. If this were not to take place, and the future youth continued to exercise their loan forgiveness option even after Social Security was secure, there would be such a surplus in the Old Age Trust that additional funding for public welfare programs would remain available if needed. Under this scenario, if the surplus were not necessary for a welfare-net, it would ultimately allow Social Security taxes to be reduced.

[57] Bruce Drake, *6 New Findings About Millennials* (March 7, 2014), PEW RESEARCH, available at http://www.pewresearch.org/fact-tank/2014/03/07/6-new-findings-about-millennials/ (last visited Jan. 6, 2016).