CENTER ON POVERTY and INEQUALITY
GEORGETOWN LAW

BRIEF

# Four Ways To Prevent Unrepayable Debt & Increase Opportunity for Parent PLUS Borrowers

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Postsecondary education is more than just a pathway to a degree—for many parents, it is a dream for their children's future. It represents a powerful gateway to opportunity, opening potential doors to better jobs, higher salaries, and upward mobility. At the same time, college has become unaffordable: tuition has soared over the last 20 years and borrowing for higher education has increased,[1, 2] even for wealthy students. With limited options for affordable and accessible paths to college, many parents find themselves in unrepayable debt to support their children.[3] No parent should be driven into poverty because they prioritize their child's education and future.

Each year, more than half a million parents borrow through the Federal Direct Parent Loan for Undergraduate Students (Parent PLUS) program—the only federal financial aid option designed for parents in the United States—to help their children pay for higher education.[4] This program fills a critical gap in college financing options, but Parent PLUS disproportionately saddles low-income parents and parents of color with immense, unrepayable debt. As illustrated in the Georgetown Center on Poverty and Inequality's 2022 chartbook, "Unrepayable Debt: How Economic, Racial, & Geographic Inequality Shape the Distribution of Parent PLUS Loans," the collision of program design with racialized economic inequality harms borrowers of color and will continue to do so without critical action from policymakers.[5, 6, 7, 8, 9]

The 1980 Higher Education Authorization Act established Parent PLUS to provide high-wealth families with fixed-rate, lower-interest loans not available on the private market.[10] Since 1980, as higher education costs and inflation rose and public funding relatively shrunk,[11, 12] an increasing share of low-income parents turned to Parent PLUS loans to bridge the gaps. By 2018, parents with low incomes held nearly one-quarter of all Parent PLUS loans.[13]

Parent PLUS loans are quite risky for parents with low incomes. They burden low-income parents with debt levels that are extremely high in proportion to their earnings and provide less favorable terms than standard federal student loans from a loan's start through repayment,[14] including higher origination fees and interest rates.[15] Ineligible for most federal debt relief programs, these parents face an increased risk of being pushed into poverty due to the unrepayable nature of the loans.[16, 17, 18]

Parent PLUS loans create immense and often *unrepayable* debt for hundreds of thousands of parents with low incomes and parents of color each year.[19] Systemic, racialized gaps in wealth and access to higher education drive negative impacts of Parent PLUS's current, one-size-fits-all policy design. Parents of color, on average, start with less wealth than white families when they take out Parent PLUS loans.[20] The program's features, including interest rates, accelerate debt accumulation in a way that can be particularly disastrous for families with limited resources that cannot repay at the same rate as parents with greater levels of wealth and income.[21] Parent PLUS borrowing exacerbates the racial wealth gap.[22]

For parents nearing retirement with limited savings and modest incomes, a Parent PLUS loan can seem like an opportunity to help secure their children's future. However, growing postsecondary debt can delay or put retirement out of reach.[23] Some parents face wage garnishment, while others risk losing a significant source of income—part of their Social Security benefits.[24] This system warps the promise of postsecondary education into an intergenerational burden.[25] Every day, parents face impossible choices—with a particularly onerous burden falling on parents from low-income households and Black families.[26]

Restricting access to Parent PLUS for low-income families is not the answer. Families deserve access to higher education, and in the absence of better options, this loan program can help make that possible. Dramatic restrictions in access to this important financing vehicle could also have harmful impacts on the institutions that students utilizing Parent PLUS attend, especially Historically Black Colleges and Universities (HBCUs) and other Minority-Serving Institutions (MSIs); see Box 1 for more information.[27]

BOX 1.

## CHANGES TO PARENT PLUS CAN DISPROPORTIONATELY IMPACT MSIS

Minority-Serving Institutions (MSIs) provide an important pathway to economic opportunity and mobility for many students. Parent PLUS loans play a major role in facilitating access to these institutions.[28] In 2021, 10 percent of students at HBCUs utilized Parent PLUS loans, compared to 6 percent of students at predominantly white institutions (PWIs).[29]

MSIs face significant resource constraints. Compared to other colleges, MSIs often have fewer resources to spend per student, including on financial aid.[30] MSIs, especially land-grant HBCUs, are chronically underfunded compared to peer institutions and receive insufficient public investment at the federal and state levels.[31, 32, 33] MSIs are also more likely than PWIs to serve low-income students while having smaller endowments.[34, 35]

Changes to the Parent PLUS program can have significant ripple effects for families and MSIs. For example, a 2011 program change in the credit check procedure for parent borrowers resulted in a 46 percent decrease in the number of Parent PLUS loans at HBCUs during the following academic year— and a plunge in HBCU enrollment.[36, 37] Ultimately, robust federal and state investment in MSIs is required to sustain these engines of racial equity and economic mobility.[38]

This brief makes four recommendations for federal policymakers and U.S. Department of Education officials to help ensure students and their parents are not driven into debt-burdened poverty to access higher education.[39] The priority recommendations, informed by the uneven distribution of Parent PLUS debt by race and income, as well as the broader higher education landscape, proposed in this brief include:

- Strengthen Pell Grants to reduce the need for Parent PLUS.
- Extend Saving on a Valuable Education (SAVE) Plan eligibility to Parent PLUS borrowers.

- Increase Direct Subsidized Loan limits for students with low incomes.
- Prohibit garnishment of low-income parent borrowers' wages.

Federal and state policymakers must work with higher education institutions on systemic changes that make college more affordable for all and address structural inequities in funding for HBCUs and MSIs.[40] As we move towards broader changes that close racial wealth and opportunity gaps, policymakers should prioritize changes to the Parent PLUS loan program to minimize harm to borrowers of color and borrowers with low incomes.[41]

# Recommendations To Reduce Unrepayable Parent PLUS Debt, Protect Parent PLUS Borrowers, & Increase Racial Equity

The Parent PLUS loan program allows parents to borrow money to help pay increasingly steep tuition bills so their children can attain higher education and access the economic opportunity that follows. Parent PLUS was originally designed in 1980 for high-asset households needing liquidity, such as a family with real estate investments, to meet their expected family contribution (EFC) for loans. Over time, the program changed to expand borrowing among middle-income students and their families.[42] However, as of 2018, over one-quarter of all undergraduates with parents participating in Parent PLUS were at or under 200 percent of the Federal Poverty Line.[43, 44]

Over the last four decades, rising tuition,[45] shrinking public higher education funding,[46] and limited financial aid sources have left few options for parents with low incomes.[47] As a result, parents with low incomes have increasingly had to turn to one of the only options left to fill in the gaps: Parent PLUS loans.[48, 49] Colleges have played a role in the growth of family reliance on Parent PLUS by steering parents towards the loans with recommendations for Parent PLUS loans in their financial aid award letters (also known as "packaging").[50, 51] In the absence of broader reforms addressing the higher education affordability crisis, the evolution of the program's use has come at an unrepayable and unsustainable price.

Four steps would protect Parent PLUS borrowers, prioritize racial equity, and mitigate harm to families with low incomes and families of color.

## 1. STRENGTHEN PELL GRANTS TO REDUCE THE NEED FOR PARENT PLUS

**A robustly funded Pell Grant program that keeps up with inflation would reduce the need for Parent PLUS loans and reduce debt for families with low incomes.**[52, 53] The Pell Grant program is the largest source of federal grant aid for undergraduates and a cornerstone of need-based aid.[54] This program has helped millions of low-income students afford college since the first grants were awarded in 1973.[55] However, since the mid-1970s, the Pell Grant's value has failed to keep up with inflation and the rising costs of higher education.[56, 57, 58, 59] During the 2023-2024 academic year, the maximum Pell Grant award ($7,395) covered just under 30 percent of the average cost of attending a four-year college—among the lowest levels in the program's history.[60] Larger individual Pell Grants could reduce or even eliminate the need for low-income families to borrow Parent PLUS loans. One study of families with children beginning college in 2011 showed that an additional $6,000 per year in Pell Grants (which would nearly double the total maximum award) would have eliminated the need for federal loans for more than 75 percent of parent borrowers with incomes below the poverty line.[61]

In the absence of sufficient financial aid, an increasing share of students and their families from households with low incomes have had to turn to the Parent PLUS program,[62] saddling them with unrepayable debt. There was a particularly sharp increase in the use of Parent PLUS between 2008 and

2018 among Black, Latinx, and Asian students with parents with annual incomes below $30,000.[63, 64] These trends have troubling outcomes: one 2022 analysis found a staggering racial disparity in long-term debt burdens.[65] Ten years into the repayment process, parents who took out Parent PLUS loans for children who attended the top 50 institutions for Black student enrollment still owed nearly the full amount (96 percent) of the principal loan—more than double the percentage still owed (47 percent) by parents whose children attended the top 50 schools for white enrollment.[66]

Meaningfully increasing the Pell Grant maximum award amount per student, tying it to inflation, and making the program funding fully mandatory would restore a vital federal pathway for students from low-income households and students of color,[67] and would be a significant step towards preventing parents from having to choose between poverty and their children's higher education.

Momentum for changes to Pell has been building among bipartisan policymakers, universities, financial aid administrators, advocates, and researchers.[68, 69, 70, 71] The growing consensus calls for restoring and preserving the purchasing power of the Pell Grant through increasing the maximum award and indexing it to inflation, and making the program fully mandatory to protect it from funding shortfalls.[72, 73] Leading proposals, including from the Biden-Harris Administration and Congress, have called for doubling or nearly doubling the maximum award amount.[74] Estimates suggest that doubling the maximum award, which has strong bipartisan support, would help advance racial equity.[75, 76] Black and Latinx students would be expected to receive an average increase of more than $2,000 on their individual annual Pell awards,[77, 78] which could remove the need for Parent PLUS loans entirely for some families and significantly reduce the loan amount needed for others.[79]

## 2. EXTEND SAVE ELIGIBILITY TO PARENT PLUS BORROWERS

**Parents deserve feasible repayment plans that do not double down on economic inequality.** The Parent PLUS loan program caters to higher-income, asset-rich parents who can optimize their use of the program, using it as a way to pay for college without selling a high-value asset, such as a second home or other real estate investment. In contrast, parents with limited assets whose incomes may be too low to repay their loans experience the program very differently.[80] They face significant burdens, such as growing debt due to climbing interest, potential tax refund withholding, and Social Security and wage garnishment.[81]

The program's less favorable terms hit parents with low incomes harder. Parents can borrow up to the full cost of college attendance through Parent PLUS, but are ineligible for the most generous Income-Driven Repayment (IDR) plans that cover student loans.[82] IDR plans adjust monthly loan payments based on one's income and family size,[83] helping to right-size payments for borrowers and preventing harmful and unproductive debt spirals that can occur under less favorable conditions—such as with Parent PLUS loans.

Parent PLUS borrowers are excluded from the Saving on a Valuable Education (SAVE) Plan,[84] an IDR plan established in 2023 with features uniquely beneficial for low- and middle-income borrowers.[85] SAVE allows for typically lower monthly payments relative to other IDR plans, a government interest subsidy that prevents the growth of principal balance due to unpaid interest as long as a borrower meets their monthly payment,[86] and a shorter time to forgiveness relative to other IDR plans (as low as 10 years).[87]

Low-income borrowers having access to SAVE could help mitigate the risk of Parent PLUS loan repayment challenges, including those leading to default.[88, 89] Fewer defaults among low-income borrowers would likely lead to reductions in current racial disparities for default rates,[90] putting more money back into Black and Brown households and communities. The U.S. Department of Education previously estimated that roughly one in eleven Parent PLUS borrowers will default, with additional estimates projecting a default rate of approximately one in five for parents of Black students receiving Parent PLUS loans.[91, 92, 93] This is due to structural wealth and income inequities and burdensome education financing policies.[94, 95] Black families face elevated risks of harm from the program,[96] since they are far more likely to experience income loss due to job and housing discrimination and far less likely to have wealth or liquid assets to help buffer challenges leading to default.[97, 98, 99, 100] Defaulting on Parent PLUS loans can hurt a borrower's credit and trigger a harmful spiral, such as garnishment of Social Security benefits, increased barriers to repayment, and widening economic and racial inequities in higher education and in society overall.[101]

Access to SAVE would help support "double-up" parent borrowers, who are managing their own student loans on top of taking out loans for their children's education.[102] Approximately 33 percent of Black parents and 29 percent of Latinx parents carry student loans both for their children and themselves, in comparison to only 13 percent of white parents.[103] Parents shouldering this double burden should be able to do it under feasible and equitable repayment terms for both types of loans, such as those offered by the SAVE Plan.

Many key stakeholders, including federal policymakers, advocates, and researchers,[104] support expanding SAVE to Parent PLUS borrowers.[105] For example, the 2024 Parent PLUS Parity Act would ease the debt burden for Parent PLUS borrowers by making them eligible for repayment plans established under the Biden-Harris administration, including SAVE.[106, 107]

## 3. INCREASE DIRECT SUBSIDIZED LOAN LIMITS FOR STUDENTS WITH LOW INCOMES

**Allowing access to higher levels of Direct Subsidized Loans for students would reduce the need for unrepayable Parent PLUS loans for parents.** Parent PLUS loans are risky: they have less favorable terms and fewer repayment options than student loans.[108, 109] Students taking on more debt is not an ideal solution; college should be affordable for everyone and not require massive debt. However, in most cases, Direct Subsidized Loans—need-based loans to students for which the federal government pays the interest—offer the least risk and most favorable repayment terms for low-income families, compared to Direct Unsubsidized Loans, Parent PLUS loans, and private loans.[110]

Currently, an undergraduate student can borrow a maximum combined amount between $5,500 and $12,500 of Direct Subsidized and Unsubsidized Loans each academic year, which can fall drastically short of the average cost of a four-year college.[111, 112] Due to the limits of this capped, combined amount,[113] families may resort to unlimited Parent PLUS loans to fill in the difference.[114] For example, research has found that dependent students attending a four-year college are the most likely among students who use federal loans to borrow up to their loan limit.[115] Those students also have an increased likelihood of utilizing Parent PLUS and private loans—both of which have fewer protections and higher interest rates—to bridge the distance between the cost of attendance and the aid received.[116] As a result, increasing subsidized federal loan limits for students from low-income households could help decrease borrowing from other riskier sources such as Parent PLUS loans.[117]

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Increasing the Direct Subsidized Loan limit for students would reduce harm to families with low incomes.[118, 119] Without other viable choices, parents may sacrifice their financial well-being to invest in their child's dreams and future. Some parents are nearing or already retired when they take out Parent PLUS loans or are working with limited opportunities for their income or savings to grow.[120] With the likelihood of more years remaining in the workforce than their parents and increased earnings over time, students may have comparatively more aggregate income and wealth growth potential than their low-income parents.[121] Students also have access to IDR plans, like SAVE, that have much more favorable terms for repayment than their parents have currently with Parent PLUS.[122] These factors make repayment of Parent PLUS loans more difficult than direct student loans.[123] Some parents may have to delay retirement, draw from savings prematurely, or experience poverty if they default on their loans and their Social Security benefits are garnished as an offset.[124] Redirecting students to subsidized loan options eligible for the SAVE Plan would be better for families than unrepayable Parent PLUS debt.

## 4. PROHIBIT GARNISHMENT OF LOW-INCOME PARENT BORROWERS' WAGES

**Higher education loans should not push borrowers with limited resources into poverty by withholding wages or other forms of income.** Parent PLUS borrowers are subject to wage garnishment in the case of loan default.[125, 126] Low-income parents and parents of color who participate in Parent PLUS are at a high risk of loan default due to the disproportionate debt burden the program places on them.[127, 128, 129] With razor-thin margins for making ends meet, low-income borrowers may be forced to make an impossible choice between meeting basic needs or defaulting on their loans. An unexpected car repair or health issue can put parent borrowers in dangerous territory of having to choose between food and rent or making a loan payment. In default, the parent faces spiraling consequences of lost wages, Social Security income, or tax refunds garnished by the loan servicer.[130] It then becomes even more challenging to pay bills while the interest on the Parent PLUS loan continues to grow, driving parents deeper into poverty.

*An unexpected car repair or health issue can put parent borrowers in dangerous territory of having to choose between food and rent or making a loan payment.*

Parent PLUS borrowers who are retired or disabled and whose only source of income is their Social Security benefits are in an especially precarious position.[131, 132] One 2022 estimate using Government Accountability Office (GAO) data found that in 2015, 40,000 Parent PLUS borrowers had portions of their Social Security benefits withheld to offset their loan defaults.[133] Such withholding can have devastating impacts on an older or disabled borrower, who may have limited or no financial wiggle room or may already be struggling to make ends meet on a fixed income. The children of borrowers may also experience additional financial pressures and hardships when their parents need support after garnishment.

Parents are being driven into poverty as punishment for utilizing government loans to provide their children with educational opportunities. Policy changes should end wage garnishment for all higher education loans, including Parent PLUS loans. Many federal policymakers and advocates support protecting Social Security benefits from garnishment, including for student loans.[134] For example, the 2023 Protection of Social Security Benefits Restoration Act would prevent the federal government from garnishing Social Security benefits for "repayment of all non-tax federal debt"[135, 136]—Parent PLUS loans included. Ending wage garnishment for higher education loans could also build upon similar efforts made within the context of other programs, such as with Medicaid through the proposed Stop Unfair Medicaid Recoveries Act of 2024, which focuses on protections for low-income families being subjected to estate garnishment to recoup costs of end-of-life care paid through Medicaid.[137] This bill and other efforts, such as in child support enforcement regulation,[138] all focus on protecting low-income families from the harms of garnishment in various contexts and show a path forward for improved, family-centered policies that prioritize economic security over draconian enforcement measures.

## Conclusion

The four steps outlined in this brief—strengthening Pell Grants, extending SAVE eligibility to Parent Plus borrowers, increasing Direct Subsidized Loan limits, and prohibiting wage and Social Security income garnishment—would protect Parent PLUS borrowers, prioritize racial equity, and mitigate harm to families with low incomes and families of color. As we progress towards broader systemic reforms to make higher education more affordable and equitable, policymakers can and should change the Parent PLUS loan program to ensure parents do not have to take on unrepayable debt to help their children go to college.[139]

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## ABOUT

Recommendations in this brief are informed by a literature review, quantitative analysis published in the Georgetown Center on Poverty and Inequality's (GCPI) "Unrepayable Debt" Chartbook,[140] and an extended external engagement process that included consultations with experts with lived experience with the Parent Loan for Undergraduate Students (Parent PLUS) loan program.

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136 "Wyden Reintroduces Bill to Protect Social Security Benefits from Garnishment." Ron Wyden United States Senator for Oregon, September 2023, Available at https://www.wyden.senate.gov/news/press-releases/wyden-reintroduces-bill-to-protect-social-security-benefits-from-garnishment.

137 The Stop Unfair Medicaid Recoveries Act was introduced in March 2024. At time of this publication, the bill has been referred to the House Energy and Commerce Subcommittee on Health. The bill would protect family members of Medicaid beneficiaries who utilized high-cost long-term care services by repealing the federal mandate that Medicaid programs recoup these costs through estate garnishment after the beneficiary passes away. See H.R.7573. 118th Congress, introduced 6 March 2024. Available at https://www.congress.gov/bill/118th-congress/house-bill/7573.

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