

## Exploring the Relationship between Student Loan Forgiveness, the Pell Bonus, and Race

An Essay for the Learning Curve by Bryan Cook and Alexandra Tilsley  
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After deliberating for more than a year, the Biden administration, in August, announced a plan to forgive up to \$10,000 in student loans for almost all borrowers, with up to an extra \$10,000 for borrowers who had received Pell grants. The addition of the Pell bonus, as it has become known, was intended to “advance racial equity” and “narrow the racial wealth gap.”<sup>1</sup> A common critique of a broad student loan forgiveness plan was that it primarily benefited white borrowers.<sup>2</sup> And because students of color are more likely than their peers to receive Pell grants, the Pell bonus could provide a larger share of benefits to underserved students, particularly Black students. Looking at a sample of a recent cohort of borrowers, it appears the Pell bonus has little impact on the racial distribution of recent students who will receive student loan relief, but it does significantly increase, for all racial and ethnic groups, the share of Pell recipients who will see all their loans forgiven.

The plan the Biden administration introduced provides up to \$10,000 in federal student loan forgiveness, and up to \$20,000 for Pell grant recipients, for borrowers who earned less than \$125,000 per year, or less than \$250,000 for married couples, in 2020 or 2021. A primary objective of the Pell bonus is to advance racial equity by targeting forgiveness to the 27 million borrowers with the greatest economic need.<sup>3</sup> These are most often borrowers of color, Black borrowers in particular.

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<sup>1</sup> White House, “Fact Sheet: President Biden Announces Student Loan Relief for Borrowers Who Need It Most,” press release, August 24, 2022, <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>.

<sup>2</sup> Gerald Daniels, Jeffrey Galloway, and Venoo Kakar, “Who Benefits from Blanket Student Loan Forgiveness?” Policies for Action blog, August 18, 2022, <https://policiesforaction.org/blog/who-benefits-blanket-student-loan-forgiveness/>.

<sup>3</sup> White House, “Fact Sheet: President Biden Announces Student Loan Relief.”

To determine whether the administration’s plan does in fact disproportionately provide student loan forgiveness to borrowers of color, we focus on a group of recent students by using the National Center for Education Statistics’ Beginning Postsecondary Students Longitudinal Study (BPS). The BPS dataset—one of the few nationally representative datasets that has data on borrowers’ debt, household income, and Pell status—allows us to observe students who began their postsecondary education in the 2011–12 school year and to follow them through 2016–17. Patterns in the BPS may not hold for borrowers who have been out of college longer, but looking at how the 2011–12 cohort might be affected in 2016–17 by the Biden administration’s student loan forgiveness plan allows us to explore the potential effects of forgiveness on a group relatively new to the workforce. And even though the BPS data represent just a subset of the population eligible for debt forgiveness, they contain a similar share of eligible Pell recipients as the national share estimated by the White House.<sup>4</sup>

## Differences between Pell Borrowers and Other Borrowers

To begin to understand the effects of the Pell bonus, we first look at how Pell recipients with loans differ from their non-Pell peers (figure 1). BPS data show that among non-Pell recipients eligible for up to \$10,000 in loan forgiveness, the largest share are borrowers who earned bachelor’s degrees. This is not surprising, given that students pursuing bachelor’s degrees are more likely to take on educational debt than students in two-year or certificate programs. But the second-largest group benefiting from student loan forgiveness are students who, six years after first enrolling in postsecondary education, are no longer enrolled and have no degree. Not surprisingly, research on student debt has found borrowers earning a bachelor’s degree (or higher) are least likely to default.<sup>5</sup> Conversely, not completing a degree is a significant predictor of repayment difficulty and default, even for borrowers with low levels of debt.<sup>6</sup> As such, borrowers who take on student debt but do not earn a credential could see a big difference in their lives with \$10,000 in student loan forgiveness.

Though the same pattern of degree attainment holds true among Pell recipients, these borrowers are less likely than their non-Pell peers to have earned bachelor’s degrees and are nearly twice as likely to have left school with no credential. As such, given the research on the relationship between debt, degrees, and defaults, along with the fact that students receiving Pell grants come from the lowest-income families, targeting Pell students for loan forgiveness seems like a reasonable approach to assist borrowers with the greatest financial need.

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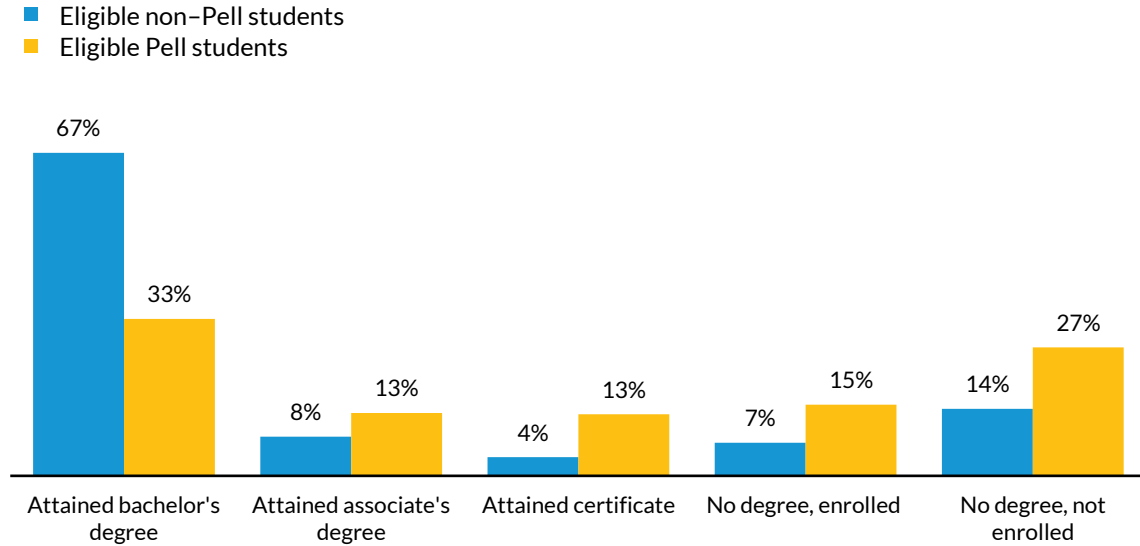
<sup>4</sup> The White House estimates 63 percent of eligible borrowers are Pell recipients, while BPS data show 69 percent are Pell recipients (see White House, “Fact Sheet: President Biden Announces Student Loan Relief”). But the BPS excludes students returning to school after a stop out (these students are often Pell recipients). Additionally, although the BPS includes borrowers enrolled in graduate school, it generally does not include data on graduate debt.

<sup>5</sup> Judith Scott-Clayton, “The Looming Student Loan Default Crisis Is Worse Than We Thought” (Washington, DC: Brookings Institution, 2018).

<sup>6</sup> Sandy Baum and Martha Johnson, *Student Debt: Who Borrows Most? What Lies Ahead?* (Washington, DC: Urban Institute, 2015).

FIGURE 1

**Pell Recipients Eligible for Student Loan Forgiveness Are Less Likely Than Their Peers to Earn a Degree or Credential**



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Source: 2012/17 Beginning Postsecondary Students Longitudinal Study.

**Forgiveness by Race and Ethnicity**

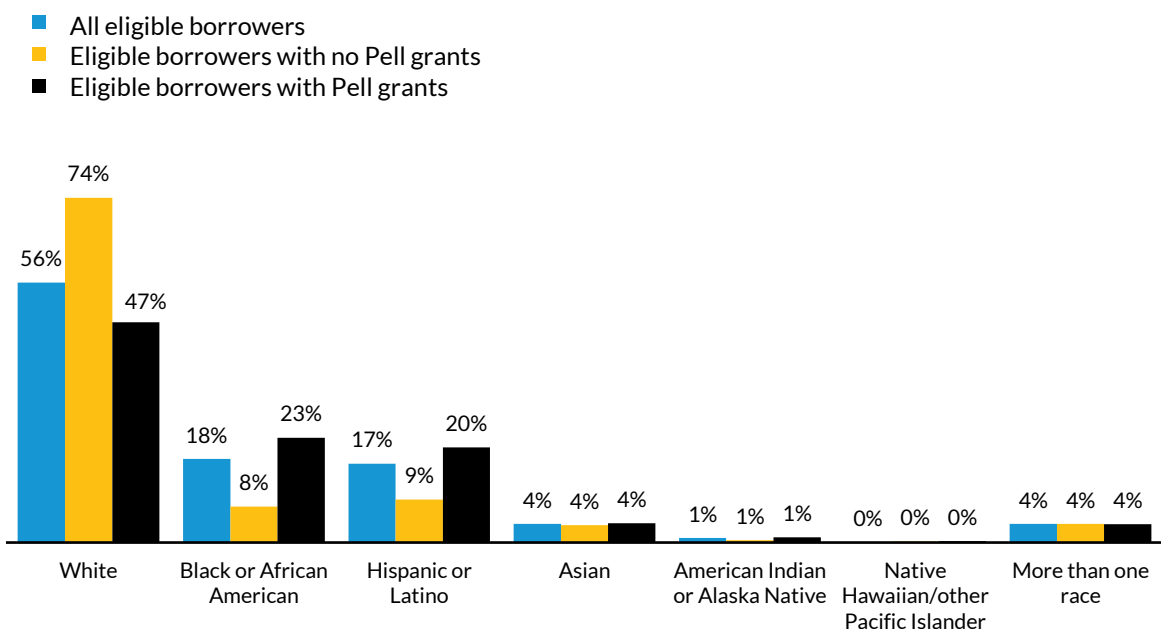
According to a White House fact sheet, a major motivating factor for the additional forgiveness amount for Pell recipients is to reduce the racial wealth gap among college graduates, particularly for Black students, who are more likely than their peers to borrow and take out larger loans for school.<sup>7</sup> Among all students in our sample eligible for \$10,000 in debt forgiveness, the racial distribution does not look much different than the racial distribution of college enrollment overall,<sup>8</sup> both of which are majority white. But when eligible borrowers are disaggregated by their Pell status, a different picture emerges (figure 2). Among Pell grant recipients, though white students still compose the largest share, most beneficiaries are racially underrepresented borrowers, particularly Black and Hispanic borrowers. This suggests that targeting Pell students in the debt forgiveness plan should provide more benefit to underrepresented borrowers than would have occurred under a broad-based \$10,000 forgiveness plan. But underrepresented Pell borrowers' ability to benefit from the Pell bonus is based on the amount of federal student debt they hold.

<sup>7</sup> White House, "Fact Sheet: President Biden Announces Student Loan Relief."

<sup>8</sup> Digest of Education Statistics, [table 306.10](#).

FIGURE 2

Eligible Black and Hispanic Borrowers Are More Likely to Receive Pell Grants



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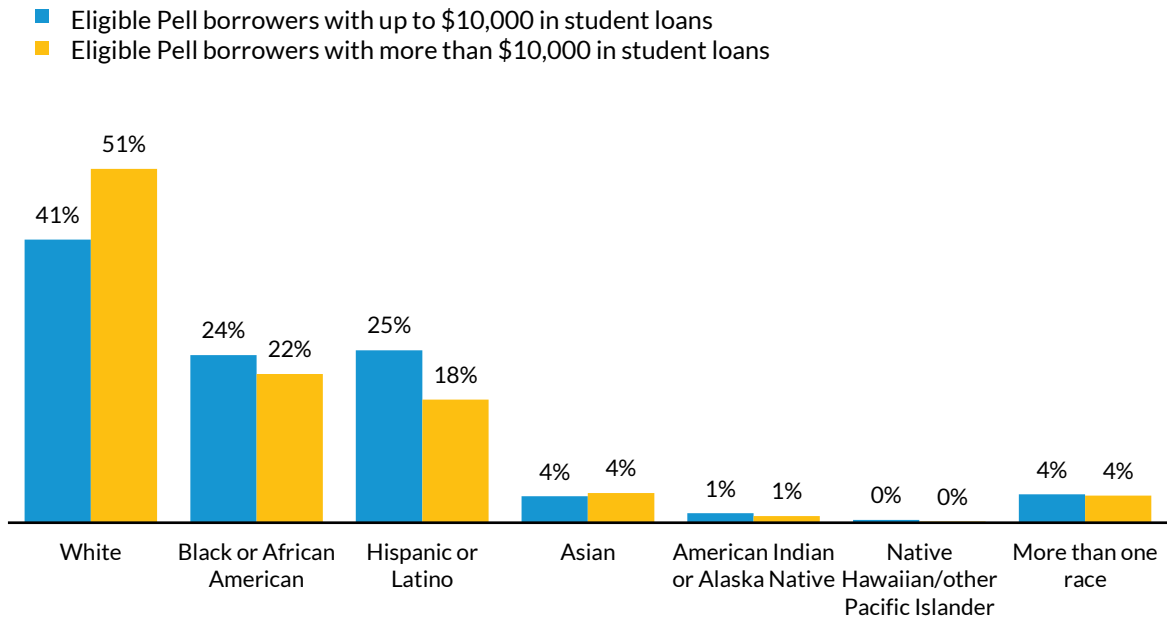
Source: 2012/17 Beginning Postsecondary Students Longitudinal Study.

Amount of Debt Forgiven

Among the BPS sample, it appears that targeting Pell recipients likely benefits students of color and those who left school with no degree or credential. But to receive any benefit from the Pell bonus, borrowers would need to have more than \$10,000 in federal student loans, as their loans are entirely forgiven at the \$10,000 debt level without the Pell bonus. Though eligible Pell recipients are more racially diverse than eligible borrowers who did not receive Pell, Pell recipients with \$10,000 or less in student loans are more racially diverse than Pell recipients with more than \$10,000 in student loans. In other words, among recent graduates, Pell borrowers who benefit from the additional \$10,000 in student loan relief are less racially diverse than Pell borrowers as a whole (figure 3).

FIGURE 3

**Pell Borrowers Who Benefit from the Pell Bonus Are Less Racially Diverse**



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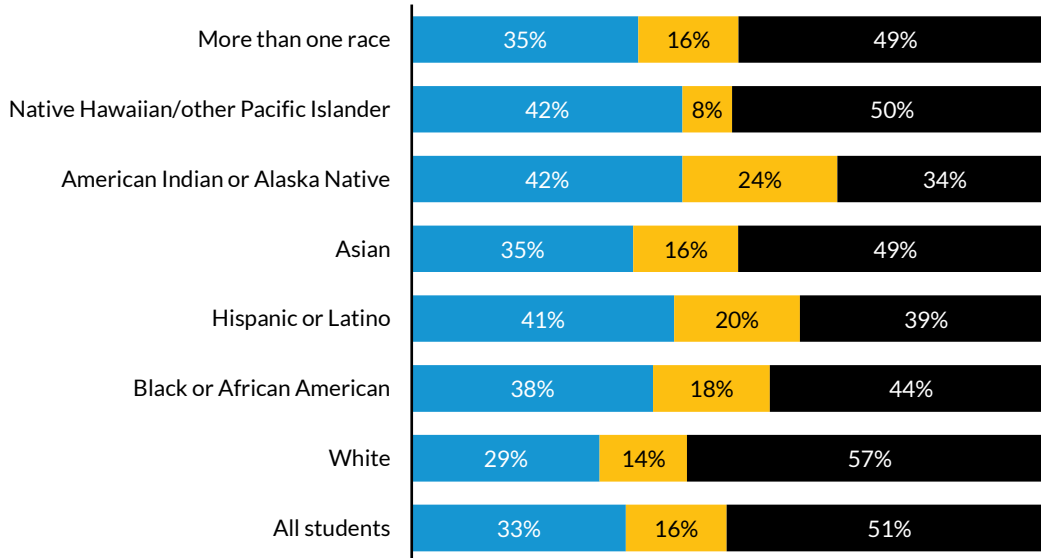
Source: 2012/17 Beginning Postsecondary Students Longitudinal Study.

The Pell bonus may not increase the racial diversity of borrowers eligible for student loan forgiveness, but it does disproportionately help underrepresented borrowers eliminate all their federal student loan debt. The addition of the Pell bonus increased the share of Pell recipients in the sample who would have the full amount of their federal student loans forgiven from 37 percent (at the \$10,000 level) to more than 50 percent (at the \$20,000 level). The additional \$10,000 in student loan relief is particularly beneficial for racially underrepresented borrowers, as at least 50 percent of them would have all their federal student debt erased. Among the groups that would have the largest share of borrowers debt-free are American Indian or Alaskan Native borrowers (66 percent), Hispanic borrowers (61 percent), and Black borrowers (56 percent) (figure 4).

FIGURE 4

**Racially Underrepresented Students Are More Likely to Have Federal Loans Paid Off**

- All students whose federal loans would be completely paid off at the \$10,000 level
- Pell students whose federal loans would be completely paid off between \$10,000 and \$20,000
- All students with more than \$10,000 in federal loans who would have a balance after forgiveness



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Source: 2012/17 Beginning Postsecondary Students Longitudinal Study.

**Conclusion**

The White House fact sheet states that the intent of the Pell bonus is to target relief to borrowers with the greatest economic need as a way of narrowing the racial wealth gap. But Pell recipients can benefit from the Pell bonus only if they had more than \$10,000 in federal student loans. And the BPS data show that, among recent borrowers, Pell students with that much federal student loan debt are less racially diverse than those with \$10,000 or less in loans. The Pell bonus does not appear to shift the racial distribution of student loan relief among recent students, but it does significantly increase the share of racially underrepresented borrowers who will have all their federal student debt erased.

Other research exploring the impact of student loan forgiveness targeting Pell recipients suggests there is a trade-off between generosity and specificity. My former Urban Institute colleague Erica Blom proposed a forgiveness plan based on Pell receipt.<sup>9</sup> Her analysis showed such a plan would be highly targeted to low-income students and students of color, but that is in part because in her proposal, only Pell recipients would be eligible for forgiveness. Adam Looney of the Brookings Institution recently

<sup>9</sup> Erica Blom, "A More Targeted Approach to Student Loan Forgiveness," *Urban Wire* (blog), Urban Institute, April 12, 2021, <https://www.urban.org/urban-wire/more-targeted-approach-student-loan-forgiveness>.

estimated the cost per borrower of the Biden administration’s forgiveness plan,<sup>10</sup> concluding that the administration would spend roughly the same amount per borrower on Pell recipients and borrowers who did not receive Pell, again highlighting the tension of trying to target benefits while providing benefits broadly.

Given the estimated \$400 million price tag (not including the proposed change to income-driven repayment), this is a significant investment in borrowers with great economic need.<sup>11</sup> But the future of loan forgiveness is uncertain, as several lawsuits have been or are expected to be filed to block the plan.<sup>12</sup> Assuming the plan survives these legal challenges and is ultimately implemented, it will be critical for the administration to track not only the number and share of eligible borrowers who apply for forgiveness but the short- and long-term outcomes for those borrowers to understand the full value of this investment.

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<sup>10</sup> Adam Looney, “Does Biden’s Student Debt Forgiveness Achieve His Stated Goals?” *Up Front* (blog), Brookings Institution, September 26, 2022, <https://www.brookings.edu/blog/up-front/2022/09/26/does-bidens-student-debt-forgiveness-achieve-his-stated-goals/>.

<sup>11</sup> Phillip L. Swagel, “Costs of Suspending Student Loan Payments and Canceling Debt,” letter to Richard Burr and Virginia Foxx, September 26, 2022, <https://www.cbo.gov/system/files/2022-09/58494-Student-Loans.pdf>.

<sup>12</sup> Katherine Knott, “Lawsuits Threaten Biden’s Debt-Relief Plan,” *Inside Higher Ed*, October 6, 2022, <https://www.insidehighered.com/news/2022/10/06/lawsuits-pile-against-bidens-debt-relief-plan>.

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