

July 2020

A Gift for 2020 Grads: Enhanced Premium Subsidies for Student Loan Debtors

Peter Newell, Director, Health Insurance Project
United Hospital Fund

Graduates from the class of 2020—certificate holders, associate and bachelor’s degree recipients, and those completing graduate programs—face a daunting task as they set out in a terribly damaged economy. Over 2.8 million New Yorkers filed for unemployment insurance between March and June, 2020,¹ and in April 2020, regional unemployment rates ranged from a *low* of 13.2% in Yates County to a high of 21.9% in Niagara County near Buffalo.² Separately from this constrained economic environment, many of these new graduates are losing school-sponsored coverage upon graduation, will be aging off their parents’ policies soon, or might have lost coverage when a parent lost a job. And to top it off, after a brief grace period, student loan payments for most borrowers will start coming due this fall. This *Health Watch* report explores a way to make health coverage more affordable for New Yorkers carrying student loan debt.

Background

The explosion of student loan debt in the U.S. has been well documented—its consequences in terms of defaults and disparate effects in lower-income communities.³ Total student debt nationally reached \$1.64 trillion in January 2020.⁴ Measured on a per capita basis for New York, student loan debt jumped more than 300% from \$1,420 in 2003 to \$6,180 in 2019, sixth-highest in the nation.⁵ A 2016 report from the New York State Comptroller cited over 2.8 million student loan borrowers in New York,⁶ and a recent survey reported an average debt per New York borrower of \$31,523.⁷ Graduate students are forced to take on much higher levels of debt, particularly when pursuing careers in fine arts (\$72,800), the law (\$145,000), or medicine (\$246,000).⁸

Policymakers and analysts are addressing the runaway student debt problem in a number of ways: for instance, proposing to cancel student loan debt and establish free or reduced-cost post-secondary education,⁹ shining a light on abuses at for-profit institutions with low per-pupil spending and high default rates,¹⁰ and improving the quality of information and services available to students making choices on degrees and loans.¹¹ Another approach would be to look at the problem through the lens of a different but overlapping financial issue: health insurance premiums. Many of New York's estimated 410,000 uninsured between the ages of 19 and 34¹² with large monthly loan repayments are struggling to find money for health insurance premiums. One way to tackle this problem would be a state premium tax credit tied to student debt repayments, supplementing existing advance premium tax credits (APTCs) provided for qualified health plans under the Affordable Care Act.

Enhanced Premium Subsidy Based on Student Loan Debt

Under the ACA, tax credit eligibility determinations start with a consumer's modified adjusted gross income, based on adjusted gross income figures from federal tax returns. Monthly premium payments for those with incomes between 200% and 400% of the federal poverty level (\$24,980 to \$49,960 for an individual) are capped at a percentage of their income, according to a sliding scale that ranges from 6.54% to 9.78%.¹³ APTCs, paid directly to health plans, make up the difference between the capped amount that the eligible consumer pays and the actual cost of coverage. Basing the credits on a consumer's adjusted gross income makes sense, because it is universal and verifiable. But it's also something of a blunt instrument because it doesn't take into account extraordinary expenses—such as student loans. New York State could provide a supplemental subsidy to borrowers by allowing them to deduct the amount of their loan payments from their modified adjusted gross income. The reduced income figure that would result from this deduction might reposition borrowers lower on the income scale, entitling them to deeper subsidies through the operation of income-based premium caps. New York would then make up the difference by paying state premium tax credits directly to health plans. Table 1 (on next page) provides a look at how such a program might work for borrowers from a range of circumstances.

To prepare these scenarios, federal data on graduates' median salaries (used as a proxy for income) and monthly loan payments were organized by types of institution and degree to create hypothetical purchasers of coverage at different income levels and in different geographic areas. Next, the “search for a plan” tool from the NY State of Health

Marketplace¹⁴ was used to calculate monthly coverage costs for a silver-tier plan under current rules (“current premium”) and then as if a state student loan-based subsidy was in place (“new premium”); the last two columns show the dollar and percentage amount change. In all scenarios shown, individuals with student loan debt would see lower premiums under a new state program, but the amount saved would depend on salaries and monthly loan payments.

As shown in Row A, the biggest beneficiary of the program would be borrowers with salaries that push them past the current ACA 400% FPL limit for premium subsidies, combined with the higher monthly debt payments typical of graduate students. Rows B and C

show the smaller premium savings that would accrue to two graduates with less loan debt and salaries that already make them eligible for APTCs; they would see some savings because the reduction in income would move them to a lower premium cap. The second-highest reduction (Row D) would come to a graduate from a private institution with high loan payments but a modest salary, such as a visual artist. Row E shows the benefits for a household with two different loan payments and moderate salaries. The final student (Row F), with a small loan payment and the lowest salary, would benefit from a lower cap; they could also shop for a \$0-premium bronze-level plan available at that income level, if willing to take on the added risk from high deductibles.

TABLE 1. HOW WOULD A STATE STUDENT LOAN SUBSIDY AFFECT HEALTH CARE PREMIUMS?

	School	Degree	Income (Annual)	Loan Debt (Monthly)	Current Premium	New Premium	Change	
							\$	Pct.
A	Columbia	MPH	\$60,900	\$800	\$614	\$402	\$212	35%
B	CUNY Hunter	BA Psychology	\$27,700	\$130	\$168	\$149	\$19	11%
C	SUNY Albany	BA Economics	\$38,100	\$222	\$306	\$276	\$30	10%
D	Rensselaer Polytechnic Institute	BA Visual Arts	\$33,600	\$259	\$245	178	\$57	24%
E	SUNY Buffalo	BA Teaching & BA Social Work	\$30,300 & \$25,386	\$226 & \$263	\$431	\$381	\$50	12%
F	CUNY Kingsborough	Assoc. Business	\$26,400	\$97	\$152	\$137	\$15	10%

Note: The couple in Row E has coverage as a couple; all others have individual coverage.

Source: UHF analysis of United States Department of Education College Scorecard, <https://collegescorecard.ed.gov>, and NY State of Health “search for a plan” tool.

Discussion

Several policy and operational issues arise in consideration of a student loan-based premium subsidy program, including whether there should be a floor and a ceiling built into the design. Because New York expanded Medicaid eligibility and created a Basic Health Program (the Essential Plan) when it implemented the ACA, lower-income students generally earning less than \$24,000 are eligible for free or \$20/month coverage with little cost sharing. Because lower-income borrowers might become eligible for the EP with the loan debt deduction, one policy decision would be whether to set a maximum subsidy equal to the highest subsidy available for a qualified health plan, or fully underwrite the cost of Essential Plan coverage. A second decision is whether to limit the program to certain income or age groups, such as the 18- to 34-year-olds who account for about 45% of outstanding student debt in New York.¹⁵ The 35- to 54-year-old segment accounts for another 21% of student debt, but a portion probably represents parents who have taken on debt to help finance their children's education.

A targeted approach to young adults starting out their careers—a valuable addition to the individual market risk pool—would also address some of the imbalance created by New York's pure community rating system, which does not allow premium variations based on age. As a result, the lowest unsubsidized 2020 silver premium for a 25-year old in New York County is \$619, compared to \$359 in San Francisco and \$276 in Boston,¹⁶ cities in states with active state exchanges that allow rates to vary based on age by a factor of 2:1. With a student loan debt subsidy, young borrowers would see a reduction in premiums, and older enrollees would not be burdened with premium increases, as a result.

Since New York runs its own marketplace (New York State of Health) rather than relying on the federal one, NYSOH could incorporate the student debt subsidy into its current processes, using loan documents to verify eligibility and reconcile subsidy payments at the close of the year. In 2016, NYSOH undertook a similar though temporary effort to provide subsidies in addition to APTCs to lower-income individuals purchasing through the marketplace, during the transition from the Family Health Plus program to the Essential Plan.¹⁷ Exchanges in California, Massachusetts, and Vermont all supplement APTCs for eligible enrollees through their respective enrollment, eligibility, and payment systems.

Conclusion

New York State faces daunting challenges as a result of the destructive COVID-19 pandemic and the economic damage that has resulted from the shutdown needed to slow the deadly curve; officials project a \$13.3 billion drop in revenues compared to estimates made when the budget was originally adopted.¹⁸ After digging out of this hole, state policymakers will be making choices among many competing needs, such as addressing the health disparities laid bare in a crisis that claimed a disproportionate share of Black and Brown lives, improving primary care and supporting telehealth, and providing better coverage for undocumented New Yorkers. But a modest program targeted at New Yorkers with student loan debt would send a strong message in difficult and uncertain times, and could help young borrowers stay current with their payments and stay healthy by enrolling in coverage.

Acknowledgment

This work was made possible through the support of The New York Community Trust.

Endnotes

- 1 United States Department of Labor Employment and Training Division. Weekly Claims Reports. https://oui.doleta.gov/unemploy/claims_arch.asp
- 2 New York State Department of Labor, Division of Research and Statistics. Employed, Unemployed, and Rate of Unemployment by Place of Residence for New York State and Major Labor Areas. April 2020. <https://www.labor.ny.gov/stats/pressreleases/prtbur.pdf>
- 3 Office of the New York State Comptroller. September 2016. Student Loan Debt in New York State <https://www.osc.state.ny.us/sites/default/files/reports/documents/pdf/2018-12/education-loan-debt-2016.pdf>; Federal Reserve Bank of New York, Research and Statistics Group and New York City Department of Consumer Affairs. December 2017. Student Loan Borrowing Across NYC Neighborhoods. <https://www.newyorkfed.org/medialibrary/media/outreach-and-education/community-development/credit-conditions/student-loan-borrowing-nyc-neighborhoods.pdf>; NYC Department of Consumer Affairs. December 2018. Student Loan Debt Distress Across NYC Neighborhoods, Identifying Indications of Vulnerability. November 2018. <https://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-StudentLoanDebtDistressAcrossNYCNeighborhoods.pdf>
- 4 Federal Reserve Statistical Release. G.19. Consumer Credit January 2020. March 6, 2020. Board of Governors of the Federal Reserve. <https://www.federalreserve.gov/releases/g19/current/g19.pdf>
- 5 State Level Household Debt Statistics 2003-2019. Federal Reserve Bank of New York, February 2020. New York Fed Consumer Credit Panel/Equifax Citation: State Level Household Debt Statistics 2003-2018, Federal Reserve Bank of New York, February 2020. NY Federal Reserve, Center for Microeconomic Data. <https://www.newyorkfed.org/microeconomics/databank>
- 6 Office of the New York State Comptroller. September 2016. Student Loan Debt in New York State <https://www.osc.state.ny.us/sites/default/files/reports/documents/pdf/2018-12/education-loan-debt-2016.pdf>
- 7 Lendedu. Student Loan Debt by School by State. 2019. <https://lendedu.com/student-loan-debt-by-school-by-state-2018/#NY>
- 8 Lane R. December 16, 2019. *What Is the Average Student Loan Debt for Graduate School*. Nerdwallet. <https://www.nerdwallet.com/blog/loans/student-loans/average-student-loan-debt-graduate-school/>; Trends in Student Loan Debt for Graduate School Completers. U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics. https://nces.ed.gov/programs/coe/indicator_tub.asp
- 9 Warren E. April 27, 2019. *I'm calling for something truly transformational. Universal free public college and cancellation of student loan debt*. Medium. Election 2020. <https://medium.com/@teamwarren/im-calling-for-something-truly-transformational-universal-free-public-college-and-cancellation-of-a246cd0f910f>; State of New York. Tuition-free Degree Programs: the Excelsior Scholarship
- 10 Cao Y. March 23, 2018. *Grading New York's Colleges*. The Century Foundation. <https://production-tcf.imgix.net/app/uploads/2018/03/26094105/grading-new-yorks-colleges.pdf>
- 11 New York City Department of Consumer Affairs. NYC Financial Empowerment Centers. <https://www1.nyc.gov/site/dca/consumers/Student-Loans-In-Person-Help.page>
- 12 American Community Survey. 2018 1-yr estimates. Health Insurance Coverage Status by Sex and Age. Table B27001.
- 13 KFF. January 2020. *Explaining Health Care Reform: Questions About Health Insurance Subsidies*. Henry J. Kaiser Family Foundation. <https://www.kff.org/health-reform/issue-brief/explaining-health-care-reform-questions-about-health/>

- 14 NY State of Health Marketplace. <https://nystateofhealth.ny.gov/individual/>
- 15 Federal Reserve Bank of New York/Equifax Consumer Credit Panel, tabulated by the Federal Reserve banks of Philadelphia and Minneapolis and accessed by the Consumer Credit Explorer. <https://www.philadelphiafed.org/eqfx/webstat/index>
- 16 CoveredCA. <https://apply.coveredca.com/lw-shopandcompare/>;
Massachusetts Health Connector. <https://mahealthconnector.optum.com/individual/>
- 17 Newell P and Thaper N. *New York's Temporary Premium Subsidies: Meeting Immediate Goals and Yielding Useful Lessons*. June 2016. United Hospital Fund. <https://uhfnyc.org/publications/publication/new-yorks-temporary-premium-subsidies-meeting-immediate-goals-and-yielding-useful-lessons/>
- 18 State of New York. Division of the Budget. FY 2121 Enacted Budget Financial Plan. <https://www.budget.ny.gov/pubs/press/2020/fy21-enacted-fp-released.html>