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# Budget Reconciliation and the Threats Posed to Higher Education

Following the administration's harmful decision to dismantle the U.S. Department of Education (ED), Congress is now considering another tool to slash potentially billions in critical education funding: budget reconciliation, a process to advance sweeping legislation that would further threaten our national education system, undermine public schools, and devastate programs and supports to address college affordability.

## *What is Budget Reconciliation?*

Budget reconciliation is a legislative process that allows Congress to fast-track legislation related to federal spending, revenue, or the debt limit with simple majorities in both the House of Representatives and the Senate and without being subject to the filibuster. Republican leaders in both the House and Senate are using this process to advance proposals that would cut education funding and redirect public dollars to private interests, with long-term consequences for both P-12 and higher education.

## *What's at Stake for College Students?*

The Republican majority in Congress is considering various options that would make substantial cuts to education, healthcare programs (i.e., Medicaid), and nutrition assistance (i.e., SNAP) to produce savings that would be used to pay for an extension of President Trump's 2017 tax cuts for the wealthiest Americans.

Cutting funds for crucial education programs and supports that help meet students' basic needs will only increase barriers for students to attain a postsecondary credential that can lead to a better-paying job at a time when Americans are struggling to make ends meet. And a good-paying job generally requires some sort of postsecondary education. In the early 1980s, 2 out of every 3 jobs only required a high school diploma. Now, 68% jobs require some postsecondary education, and by 2031, it is projected that 72% of jobs will require a certificate or degree.

Currently, nearly 20 million students nationwide are enrolled in higher education — with over half of undergraduates relying on federal student aid. In 2019-2020, 40% of undergraduates received federal Pell Grants, and 34% of them took out federal direct loans. Over 42 million Americans hold $1.6 trillion in federal student loans. Through budget reconciliation, Congress could make sweeping changes that would negatively impact the millions of students and borrowers that rely on federal aid.

## *Options under consideration include:*

- **Increasing monthly student loan payments by dismantling the current Income-Driven Repayment (IDR) system and scaling back loan forgiveness programs.** These changes will force millions of American families into decades of repayment, delaying homeownership, wealth-building, and financial stability. Instead of bringing down the cost of college, proposals under consideration would eliminate the SAVE plan and limit repayment plan options that could push working families further underwater by spiking monthly student loan bills.

  - **Eliminating the Saving on a Valuable Education (SAVE) plan** and implementing an alternative plan that would increase monthly payments for borrowers and extend the repayment term to 30 years would stall economic growth for our country while hurting borrowers and their families.

- **Weakening protections for students** against high-cost, low-quality programs that engage in waste, fraud, and abuse of the financial aid programs upon which millions of students rely. Congress could eliminate various regulations, including Borrower Defense to Repayment and Closed School Discharge, that have been put in place to protect students from being burdened by overwhelming debt when they are left worse off by a program they attended.

  - **The Borrower Defense to Repayment (BD)** rule refers to the provision in law that federal student loan borrowers should not be forced to repay loans for classes or degrees from schools that have lied to, deceived, or misled them. As of 2022, there were over 750,000 BD claims across all 50 states and $3.8 billion discharged for approved claims, highlighting the need for stronger accountability measures to protect students.

  - **The Closed School Discharge** rule provides a path to relief for students experiencing significant disruption and overwhelmingly poor outcomes when a college closes. The Higher Education Act empowers ED to grant federal student loan discharges to borrowers when their college closes. Students who experienced a closure were more than 50% less likely to complete their education.

- **Reducing college access and affordability.** Changes to bedrock programs such as the Pell Grant or to undergraduate loans would increase costs for millions of students who rely on federal aid to pursue higher education. At the same time, eliminating tax credits and deductions that help offset the cost of college would increase taxes on middle-class students and families who are paying for college.

  - **Making qualified scholarships and fellowships taxable income**, which are generally excluded if used for tuition and related expenses, would unfairly punish students most in need of resources.

  - **Eliminating the American Opportunity Tax Credit, Lifetime Learning Credit, and the Student Loan Interest Deduction** would raise taxes on millions of middle-class students, families, and borrowers who are paying for college. In 2023, over 24 million Americans claimed one of these education-related tax benefits, with average values ranging from $204 to $1,036.

  - **Restricting access to Pell grants for millions of students** will make it harder for low-income students to cover their costs and finish their programs.

As families are already struggling with the rising costs of groceries, gas, and rent, these changes will hit American pocketbooks hard. Some of the proposed cuts would even add costs for taxpayers while weakening protections for past and future students. We urge Congress to oppose any proposal that reduces or diverts resources from students and public education to fund tax cuts and credits for the wealthy. Rather than helping grow our economy, these proposed cuts will diminish opportunities for students, risk the fiscal health of institutions that serve as engines of employment and innovation, and jeopardize our nation's ability to compete globally.