June 27, 2025

The Honorable Linda McMahon
Secretary
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Secretary McMahon,

The Pew Charitable Trusts (Pew) commends the Department of Education for suspending Social Security payment offsets to collect from older Americans who have defaulted on federal student loans. Pew supports the department's assertion that targeted outreach to these borrowers about affordable loan repayment options, combined with direct assistance to help those on fixed incomes return to good standing on their loans, is preferable to involuntary collections. Default is often more costly for borrowers than what they would owe in repayment, and it can take much longer for the government and taxpayers to recoup debt this way. Pew's research shows that struggling borrowers often do not know how to contact their servicer or are unaware of income-driven repayment (IDR) plans—barriers that targeted outreach could abate.

Pew is a nonprofit research and policy organization working to promote successful federal student loan repayment through its student loan initiative. As part of this work, Pew has rigorously researched how changes in student loan repayment requirements and options can help more borrowers in default return to active repayment of what they owe. A key recommendation from this work is to limit collection amounts to what borrowers would owe under a repayment plan for borrowers not in default, as data show that defaulted borrowers are much more likely to struggle financially, and current collection practices can push families further into poverty. The department's suspension of Social Security check offsets and pledge to conduct extensive outreach to struggling borrowers is a significant step toward creating a more productive system that enables these borrowers to continue making payments based on what they can afford.

As the department resumes collections efforts, we also urge you to consider additional ways that ensure defaulted debt is collected in an effective and responsible manner for both borrowers and taxpayers.

Older borrowers are at greater risk of default than their younger peers

Research shows that older borrowers are one of the fastest growing demographics with the borrower population and are more likely to struggle with repayment than younger cohorts.

Pew survey data finds that nearly half (47%) of federal undergraduate borrowers aged 45-59 have experienced default and are significantly more likely to do so than their younger peers (ages 18-29: 33%; ages 30-44: 34%). According to data from the Department of Education, there were over 800,000 defaulted borrowers aged 62 or older at the end of 2020. The breadth of loan default among older borrowers suggests that this group faces unique financial challenges that prevent them from being able to remain current on their student loans.

Meanwhile, another study found that the population of student loan borrowers aged 60 or older increased by over 500 percent between 2004 and 2021. This occurred despite a 20 percent decrease in adult postsecondary student enrollments over a similar timeframe. This is another indication that the repayment difficulties facing older borrowers is a growing problem that policymakers will continue to encounter.

Social Security offsets often leave retirees with below-poverty-line benefits

Borrowers who receive a student loan from the federal government should be accountable for repaying their debt, but the current parameters of the Social Security offset program are outdated and often leave those who experience these offsets with benefits below the poverty line.

A 2016 Government Accountability Office (GAO) study found that 66 percent of defaulted borrowers aged 50-64 were left with Social Security benefits below the poverty guideline after offset. This is because the amount of Social Security protected from seizure has not been updated since 1996, despite the increases in cost-of-living and inflation that have occurred since. This means only $9,000 is protected from borrowers' Social Security checks annually, leaving retirees to make do on as little as $750 per month.

Moreover, the GAO report also found that 40 percent of those subject to Social Security check offsets experienced growing, not shrinking, loan balances, an indication that many older defaulted borrowers risk remaining in collections indefinitely, as there is no time limit on these offsets.

It is also important to note that borrowers are often subject to multiple collections methods simultaneously, increasing the amount they pay in default. Pew's survey found that 59 percent of borrowers who default reported experiencing two or more default penalties. And involuntary collections can impede borrowers' attempts to exit default and resume repayment (See "Options for exiting default" in this report for more details).

The department can take additional steps to ensure that default collections' procedures allow borrowers to remain financially stable while repaying their loans

The suspension of Social Security check offsets is a significant step toward ensuring struggling borrowers remain in repayment and pay what they can afford. The department should consider improving other aspects of collections that similarly risk pushing borrowers and their families further into poverty. Specifically:

- *Prevent the seizure of Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) benefits for working families*. Tax refund offsets are a powerful tool to collect on defaulted student debt. Yet benefits designed to keep families out of poverty like the EITC and CTC can still be collected to pay off loans in default. One study estimated that such seizures could affect 20 percent of all federal student loan borrowers.

- *Allow access to Income-Based Repayment (IBR) for defaulted borrowers to better align collections with what borrowers can feasibly afford*. Republicans and Democrats at the department and in Congress have supported granting defaulted borrowers access to IBR. This would improve the collections system by continuing to hold borrowers accountable for their debt while capping what defaulted borrowers repay in collections to ensure that payments are affordable.

- *Limit collections fees as much as possible and make them transparent for borrowers*. Prior research has shown that the collection fee structure is not transparent to borrowers as they navigate through and out of default, and oftentimes these fees are counterintuitive. For example, the highest fees are levied on borrowers who exit default by paying off their entire balance, which is an ideal outcome for the government and taxpayers. Additionally, Pew's research has found that most borrowers who report experiencing such fees said they had a negative financial impact on them. The department should closely examine collection fees and, to the extent possible, limit how much borrowers are charged.

Federal student loan default has been a longstanding problem. Prior to the pandemic, approximately 1 million loans defaulted each year. Over the next few months, the department has projected that the number of defaulted borrowers may increase to as much as 9 million. Pew thanks the department for its attention to this important issue for borrowers receiving Social Security payments. We welcome the opportunity to provide support in increasing the ability of borrowers in default to resume repayment, which will benefit both borrowers and taxpayers.

For questions or requests, please reach out to Regan Fitzgerald, senior manager of Pew's student loan initiative, at rfitzgerald@pewtrusts.org.

Sincerely,

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