



GOP College Loan Interest Plan Would Hurt Ohio

Gutting Illness Prevention Fund Would Cost Ohio Millions

And Be Especially Hard on Women and Children

Executive Summary

Unless Congress acts, interest rates on federally subsidized Stafford student loans will double on July 1 from the current 3.4% to 6.8%, costing the average student borrower an extra \$1,000 in interest payments. Nationally, Stafford loans are used by 7.4 million college students, including 380,000 Ohioans. Student loan debt now stands at \$1 trillion –exceeding both credit card and auto loan debt –and the average Ohio college student graduates with nearly \$28,000 in loans. Doubling the interest rate could cause many students to transfer colleges or drop out of school altogether.

Although Democrats and Republicans alike (ranging from President Obama and Mitt Romney to House Speaker John Boehner and Senate Majority Leader Harry Reid) agree that interest rates should be kept at the current level, the parties have proposed distinctly different ways in which to pay the estimated \$6 billion cost.

Democrats, including Ohio Senator Sherrod Brown, want to close a corporate tax loophole (worth \$6 billion) that allows some wealthier business owners to escape paying Social Security and Medicare taxes.

House Republicans have already passed a bill that would zero out the Prevention and Public Health Fund (PPHF) of the Affordable Care Act (worth \$11.9 billion), which funds a number of disease prevention programs.

Innovation Ohio has examined statistics from both the Stafford Loan program and the Prevention and Public Health Fund, and has analyzed the impact on Ohio if (a) Stafford Loan interest rates are allowed to double and (b) the Prevention Fund is zeroed out in order to pay for keeping interest rates low. Among our key findings are:

- The average Ohio college student graduates with \$27,713 in college loan debt, higher than the national average of \$25,000.
- Keeping the interest rate at 3.4% would cost \$6 billion. The House Republican plan to kill the Prevention Fund would cut \$11.9 billion –twice as much as needed to pay for keeping interest rates low.
- Since 2010, Ohio has received \$17 million in Prevention Fund grants.
- Programs funded by the PPHF are used by 2 million Ohioans, over 1.4 million of whom are

women and children.

- Among the most important of these are programs for breast and cervical cancer screenings, child immunizations, smoking cessation, and local projects to combat heart disease, strokes and diabetes.
- Prevention programs like these are especially important for Ohio since we already rank near the bottom for many of these diseases and conditions. For example, Ohio ranks 47th (third worst among the 50 states) for breast cancer deaths, 46th in smoking rates, 40th in lung cancer deaths, and 42nd in both heart disease and diabetes.

The Stafford Loan Interest Rate Issue

Unless Congress takes action, interest rates on federally subsidized Stafford student loans will reset on July 1, 2012 –and double to 6.8% from the current rate of 3.4%. This would be devastating for the nation’s college students for several reasons.

First, the Stafford Loan program is the nation’s largest, used by some 7.4 million students.

Second, college students are already taking on massive debt to fund their educations, graduating with an average loan debt of \$25,000.ⁱ

Third, a doubling of the Stafford Loan interest rate would add an estimated \$1,000 per college year in interest payments for the average student borrower over the life of his or her loan.ⁱⁱ

The added burden –about 20% more in interest payments –could cause many students either to transfer out of their current schools or to drop out of college altogether. The spike in interest rates might also cause more borrower defaults, which could be damaging to the nation as a whole considering that total college loan debt now tops \$1 trillion –exceeding both total credit card debt and automobile loan debt.ⁱⁱⁱ

The Impact on Ohio College Students

Ohio college students are particularly vulnerable. 380,000 Ohio students use Stafford Loans and the average Ohio graduate leaves school with loan debt of \$27,713, higher than the national average.^{iv}

The Cost of Keeping Interest Rates Low and How to Pay for It

Both Democrats and Republicans have expressed support for keeping Stafford Loan interest rates at 3.4%. President Obama was the first to highlight the issue in a series of speeches on several college campuses. Congressional Democrats immediately echoed the President’s call to keep the current rate. Presumptive Republican presidential nominee Mitt Romney subsequently expressed his support, followed by House Speaker John Boehner and Senate Minority Leader Mitch McConnell.

Almost immediately, however, a dispute arose over how to pay the roughly \$6 billion it will cost to keep interest rates at 3.4%.

The House GOP Plan

On April 27, the Republican-controlled U.S. House of Representatives passed HB 4628, which calls for eliminating the Prevention and Public Health Fund of the Affordable Care Act. This would represent a “savings” of \$11.9 billion –almost twice as much as the \$6 billion needed to maintain the current low interest rate for student loans.^v

President Obama immediately threatened to veto the bill, saying, along with House and Senate Democrats, that the program (already cut from \$16 billion previously) funds programs for things like cancer screening, child immunizations, and campaigns to combat cigarette smoking and prevent heart disease, strokes and diabetes.

The Senate Democratic Plan

On April 24, Senate Majority Leader Harry Reid (D-NV), along with Ohio Senator Sherrod Brown (D) and others, introduced the “Stop the Student Loan Interest Rate Hike” (S.2343) that would keep student loan rates low, but pay for it by closing a corporate tax loophole for so-called “S-Corporations.”^{vi}

Under current law, businesses organized as “S-Corps” don’t pay corporate taxes, and income earned is passed through to shareholders who, in turn, report that income on their personal income tax returns. But if these shareholders are also employees, they can opt to treat some of their income as business profit (not salary), which lets them escape payroll taxes on that money.

S. 2343 would end that flexibility by requiring those earning over \$250,000 per year to pay employment taxes on income received from an S-Corp or limited partnership engaged in a “professional service” business. This change, however, would apply only to S-Corps and partnerships in which more than 75% of gross revenue comes from (a) the work of three or fewer shareholders and (b) the provision of services, like those involving lobbyists and lawyers.^{vii}

A vote on S. 2343 is expected soon.

The Prevention and Public Health Fund and Why It’s Important

“An ounce of prevention is worth a pound of cure,” is an old adage that is still relevant. Indeed, it is axiomatic among health care practitioners and health policy researchers that proactively working to keep people well makes far more sense (and is far cheaper) than reactively treating them only after they fall ill. Yet it is the latter approach that best describes America’s current approach to health care: a dysfunctional “sick-care” system whose exploding costs pose a growing financial threat to both individuals and institutions.

The Affordable Care Act (ACA) sought to address this issue by creating the Prevention and Public Health Fund (Title IV, Section 4002) which is a mandatory funding stream to support public health infrastructure and programs at local, state and national levels. The Fund’s mandate is “to provide for expanded and sustained national investment in prevention and public health programs to improve health and help restrain the rate of growth in private and public health care costs. (ACA, Title IV, Section 4002)”

Through key agencies such as the AHRQ (Agency For Healthcare Research and Quality), CDC (Centers For Disease Control and Prevention), HRSA (Health Resources and Services Administration), and SAMHSA (Substance Abuse and Mental Health Services Administration) the Fund assists local, state and national organizations and populations with breast and cervical cancer screening, chronic disease prevention and emergency responses to disease outbreaks, nutrition, services and improved access, workforce development and training programs, primary care residencies, research and data collection. The ACA allocated \$18.75 billion for the fund between 2010 and 2022.^{viii}

Focusing prevention efforts on chronic afflictions like heart disease, cancer and diabetes is crucial to cost control since such diseases “are responsible for 7 out of 10 deaths and account for 75% of the nation’s health spending.”^{ix} Clearly, stopping these maladies before they begin is a wise investment.

The Ohio Impact of Eliminating the Prevention and Public Health Fund

Since the Affordable Care Act was passed in 2010, the Department of Health and Human Services has awarded more than \$17 million in Prevention Fund grants to Ohio and organizations in Ohio. As a result, over 2 million Ohioans have received expanded prevention services, including 797,000 women, 559,000 children, and 782,000 men.^x Since women and children account for well over half (1.4 million) of the 2 million Ohioans receiving services, they would be disproportionately impacted by the Prevention Fund's termination.

Beyond that, it is cynical politics and poor public policy to pit much needed affordable student loans against much needed affordable healthcare—or Ohio college students against Ohio's ordinary citizens. Ohio clearly needs a highly educated workforce. But it is bizarre to suggest that Ohio will somehow be better off if we seek to make college more affordable by gutting chronic disease prevention programs, child immunization programs, residencies for medical students and training for nurse practitioners, teen pregnancy prevention programs, and tobacco-use cessation programs.

Ohio's need for a robust public health infrastructure is especially clear in light of the fact that we already rank near the bottom in many of these disease categories. For example, Ohio ranks 47th (third worst among the 50 states) for breast cancer deaths, 46th in smoking rates, 40th in lung cancer deaths, 41st in mental health indicators and 42nd in both heart disease and diabetes.^{xi} In 2010, Ohio also ranked no better than 39th in child immunizations among those 19 to 35 months of age.^{xii}

Despite this dismal showing, Ohio continues to bring up the rear in public health spending. The \$15.13 per capita we spend each year on public health places us at 41st in the nation. The additional \$13.96 per person we receive from the CDC ranks dead last among all the states. And the \$17.27 per person we get from HRSA ranks 39th out of 50.^{xiii} Clearly, Ohio and Ohioans can ill afford to lose even more money through the elimination of the ACA's Prevention Fund.

Endnotes

- ⁱ Educating Our Way to an Economy Built to Last: Stopping the Student Loan Interest Rate Hike.” <http://www.whitehouse.gov/the-press-office/2012/04/23/educating-our-way-economy-built-last-stopping-student-loan-interest-rate>
- ⁱⁱ “Taking out Stafford Loans to help pay for college? You could owe an extra \$1,000 unless Congress takes action soon.” www.whitehouse.gov/dont-double-my-rates
- ⁱⁱⁱ “Student Loan Debt Exceeds One Trillion Dollars” <http://www.npr.org/2012/04/24/151305380/student-loan-debt-exceeds-one-trillion-dollars>
- ^{iv} How Ohio Will Be Affected if Stafford Loan Interest Rates Double.” Center for American Progress, May 2012.
- ^v Rowley, James, “House Votes to Avert Doubling of Student Loan Interest Rates.” Bloomberg News, 4/27/2012
- ^{vi} Kasperowicz, Pete, “Sen. Reid Proposes Changing Tax Law to Pay for Lower Rates on Student Loans.” The Hill, 4/25/2012
- ^{vii} *ibid*
- ^{viii} “Prevention and Public Health Fund: Dedicated to improving our nation’s public health.” American Public Health Association, 2011.
- ^{ix} “The Affordable Care Act’s Prevention and Public Fund in Your State: Ohio.” US Department of Health and Human Services, Feb. 14, 2012.
- ^x *Ibid*.
- ^{xi} “Making the Grade on Women’s Health: A National and State by State Report Card.” National Women’s Law Center, 2010.
- ^{xii} “Key Health Data About Ohio, 2012.” Trust for America’s Health. <http://healthyamericans.org/states/?stateid=OH>
- ^{xiii} “The State of Public Health in Ohio.” American Public Health Association, 2011.