

Federal Education Update: OBBBA

Interim Joint Committee on Education
Kentucky Legislature

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OBBB Final Bill Score: Congressional Budget Office



- **Total: \$3.4 trillion increase to fed deficit / 10 yrs**
 - Direct spending decreased by \$1.1 trillion
 - Revenues decreased by \$4.5 trillion
- **Tax Cuts and Extensions: +\$4.5 trillion**
- **Medicaid: -\$911 billion**
- **Student Loans: -\$284 billion**
- **SNAP: -\$186 billion**

SNAP and Medicaid Changes: State and Local Fiscal Implications



- **SNAP:** Potential for clear and direct state fiscal impact starts FY28.
 - New state cost share based on state payment error rate.
 - **Error rate below 6%:** No benefit cost share requirement.
 - **6%-8% error rate:** State required to pay 5% of SNAP benefits.
 - **8%-10% error rate:** State required to pay 10% of SNAP benefits.
 - **10% or higher error rate:** State required to pay 15% of SNAP benefits.
 - Higher state admin costs: States now cover 75% of admin costs.
 - Schools: Possible reduction in SNAP eligibility could affect SNAP as proxy for free or reduced-price meals or state school funding formula.
- **Medicaid:** States fiscal impacts could vary widely, change over time
 - Reduced benefits, lower enrollment achieves majority of fed cost savings.
 - Many provisions phase in over years.
 - Increased costs for states less certain, depends (partly) on:
 - Reliance on state provider tax, and use of those tax revenues.
 - State choices on benefits coverage (if reduced by federal changes).
 - Schools: No changes to billing for Medicaid services, impacts possible.

Scholarship Tax Credit: Overview

- Individuals who donate to non-profit, scholarship-granting organizations can receive a dollar-for-dollar tax credit for up to \$1,700.
 - Donation → SGO → Families → Schools
- **Student eligibility:** Household income up to 300% of the area median income.
- **Eligible expenses:** Tuition, tutoring, and other educational supports for both private and public schools (same activities as Coverdell Education Savings Accounts).
- **State role and impact**
 - States can decide to opt into the credit.
 - State provides list of eligible SGOs.
 - Federal credit reduced by similar state tax credit.
- Department of Treasury directed to create regulations on SGO requirements and state lists- timeline TBD.
- **AND:** 529 Plan expansion covers expenses such as learning materials and tutoring fees.

Scholarship Tax Credit: Questions to Consider



- **Can legislatures choose to opt-in or out?**
 - Likely yes, based on statute.
 - “individual, agency, or entity as is designated under State law”
 - Legislation introduced in IL, PA, and NC.
- **Can states develop criteria for eligible organizations?**
 - Likely to be addressed in regulation or guidance.
 - Stark differences in statutory interpretations.
 - General SGO requirements:
 - Provides scholarships to 10+ students who do not all attend same school.
 - Spends not less than 90% on scholarships.
 - Does not provide scholarships for anything other than eligible expenses.
- **Could states pass general laws on scholarships that would interact?**

Pell Grants

- **Workforce Pell:** grant expands to cover short-term (8-14 weeks), workforce-aligned programs.
 - Fed Role: Programs must meet outcomes measures (70%+ placement rate, 70%+ completion rate, value-added earnings).
 - State Role: Governors, with state workforce board, determine which programs qualify based on fed criteria.
 - Programs must prepare students for work in high-skill, high-wage jobs or in-demand industry sectors.
 - Programs must lead to recognized postsec credential, or additional certificates or degrees.
 - Implementation date of July 1, 2026- states like receive final regulations less than 3-4 months before.
- **Pell Grant Aid Eligibility:** Changes to determinations,
 - Excludes farm and small business assets from aid eligibility.
 - Exclude families with a Student Aid Index twice the max Pell from receiving grant.
 - Excludes full-ride scholarship from Pell eligibility.

Student Loan Limits



- **All Student Loans**
 - Institutions can now set lower loan limits
 - Borrowing prorated based on enrollment intensity
- **Undergraduate Loans:** No changes
- **Graduate Loans:** New limits
 - Graduate program cap of \$100k (\$20.5k/yr)
 - Professional program cap of \$200k (\$50k/yr)
- **Parent Loans:** New limits
 - \$20k/yr per student, \$65k lifetime per student
- **State Fiscal Impact:** Minimal, maybe for institutions
- **Federal Fiscal Impact:** -\$44 billion / 10 yrs

Federal Student Loan Limits

Changes via OBBBA

Table 1: Federal Student Loan Limits Under Previous Law and OBBB

Category of Borrower	Loan Limits Under Previous Law	Loan Limits Under OBBB
Undergraduate Students	\$5,500 to \$12,500 annually; \$31,000 to \$57,500 in aggregate	\$5,500 to \$12,500 annually; \$31,000 to \$57,500 in aggregate
Nonprofessional Graduate Students	Cost of attendance (as defined by the institution)	\$20,500 annually; \$100,000 in aggregate
Professional Graduate Students	Cost of attendance (as defined by the institution)	\$50,000 annually; \$200,000 in aggregate
Parents of Undergraduates	Cost of attendance (as defined by the institution)	\$20,000 annually; \$65,000 in aggregate (per child)

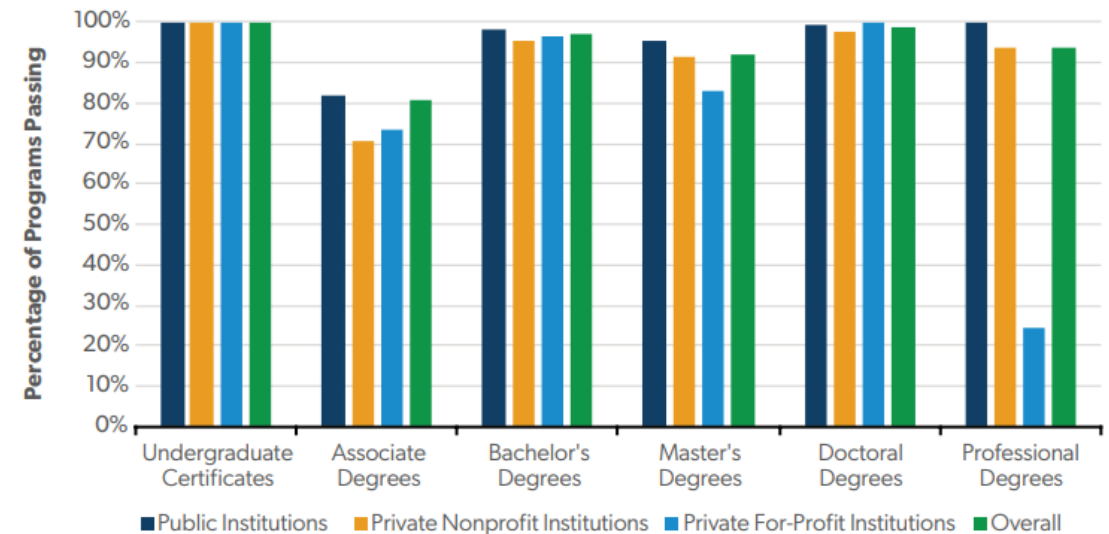
Source: US Department of Education, Federal Student Aid, <https://studentaid.gov/help-center/answers/article/how-much-money-can-i-borrow-federal-student-loans>; and One Big Beautiful Bill Act, H.R. 1, 119th Cong. (2025).

Analysis by Preston Cooper, American Enterprise Institute

Student Loan Accountability

- “Do No Harm” Accountability Standards
 - Undergrad: Prohibit loans to programs where majority of completers earn less than median high school grad.
 - Graduate: Prohibit loans to programs where majority of completers earn less than median bachelor’s degree.
 - Programs lose eligibility if they fail in 2 of 3 years, includes appeals process.
 - **State Impact:** Some community programs could lose access to loans, many students do not borrow for community college.

Figure 5: Share of Programs Passing the OBBB Earnings Benchmark Test, by Credential Type and Institutional Sector



Source: College Scorecard and American Community Survey, 2018–22.

Note: Results are weighted by enrollment.

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Student Loan Repayment

- **New borrowers:** only have two plans available after July 1, 2026:
 - Standard plan: Fixed payments like a mortgage.
 - 10 years for less than \$25,000 borrowed, 5 years added for every \$25,000 borrowed, max of 25 years.
 - Repayment Assistance Plan (RAP): Income-based payments (see right)
 - Subsidizes unpaid interest, provides matching principal payment of up to \$50 monthly, payments reduced by \$50 per dependent.
- **Current borrowers:** Select income-driven repayment plans (ICR, PAYE, SAVE) must choose new plan by July 1, 2028, including RAP and exiting Income-based Repayment (IBR) plan.
- Eliminates economic hardship and unemployment deferments by July 1, 2027, limits forbearance to 9 months every two years.
- **State Impact:** Supporting borrowers to successfully repay loans.
- **Federal Fiscal Impact:** -\$269 billion / 10 yrs.

Repayment Assistance Plan (RAP) Payment Calculation

AGI	Annual Payment
\$0-10K	\$120
\$10-20K	1% of AGI
\$20-30K	2% of AGI
\$30-40K	3% of AGI
\$40-50K	4% of AGI
\$50-60K	5% of AGI
\$60-70K	6% of AGI
\$70-80K	7% of AGI
\$80-90K	8% of AGI
\$90-100K	9% of AGI
>\$100K	10% of AGI

H.R. 1 Student Loan Rulemaking Timeline



- **Schedule for Negotiated Rulemaking (Neg Reg)**

- Reimagining and Improving Student Education Committee (RISE Committee).

- Broadly covers loan limits, loan repayment provisions.
 - Meets Sept. 29-Oct. 3, Nov. 3-7.
 - Big question: which programs will be defined as professional degrees?
 - Discussion draft: Pharmacy, dentistry, vet med, chiropractic, law, medicine, optometry, osteopathic med, podiatry, theology OR any other degrees designated by Secretary via rulemaking.

- Accountability in Higher Education Access through Demand-driven Workforce Pell (AHEAD Committee)

- Covers Workforce Pell, accountability provisions.
 - Meets Dec. 8-12, Jan. 5-9.

- **Post Neg Reg Timeline**

- Department notices proposed rule, offers 30-day comment window.
 - Final rules likely go into effect on July 1, 2026.