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[Student Loans] [1]

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Gene

An IRS/Student Loan Issue

The people who do the analyses for the IRS vs. Ed. repayment options have been cranking away and have an issue they want your input on:

Under the mandatory (for business) option do you want analysis of:

1 IRS collection of income contingent loan repayments only.

(Within this category, should IRS collection be the only option for borrowers who wish for income contingent repayment?)

no, people w/o income then would not choose choice

discuss Sorty

or

2 IRS collection of all loan repayments.

or both

Do you want these situations analyzed with an IRS system that is run separately from the normal tax system or within the normal system?

Sorty

The person doing the analysis will be working on it starting very early in the morning (like 3 AM), and would like an answer tonight.

Theo

Cost methodology -- Explain current analysis (Methodology #1)

Describe all of the assumptions, formula and calculations used to develop the cost figures that we used in the most recent draft of the PDM on Student Repayment and wage withholding for each of the six costed options.

For example, here is how we did it: X number of borrowers, y number of businesses, z frequency of activity. This is step 1. This is step 2. Here is the conclusion. Here is how we would analyze it. The kinds of conclusions that can be drawn from this option are N. Here is a unusual property of this model O.

Intro

Method #1

D: R

M

V

IRS special cr

M

V

[illegible] [illegible] [illegible]

M

V

Method #2

(Fixed + Variable) x Volume

Agenda

overview of process

[illegible]

questions

results

Student Loan Repayment and Wage Withholding
Employer Reporting Burden

Characteristics of the Options for Implementing Wage Withholding

	Internal Revenue Service		**Department of Education**
	Separate from the Tax System	*Using the Current Tax System*	
Mandatory Employer Withholding	- Employers withhold student loans separately from taxes - real-time reporting to IRS by employers - IRS compliance centers on employers - More stringent reporting required by employers - Increased employer reporting burden - Borrowers indicate to employers how much to withhold for student loans - Employers must participate	- Employees increase allowances on Form W-4 - Employers would not know of withholding for student loans - Reconciliation between taxes and student loan payments occurs when the 1040 is filed - Since all employers withhold for taxes, all employers already participate	- Withholding program similar to the savings bond program - Education's compliance centers on borrowers - Education first contacts borrowers if an underpayment or nonpayment is detected - Minimal employer reporting required by Education - Employers must participate if an employee repayment through wage withholding Same as above
Voluntary Employer Withholding	- Employers withhold student loans separately from taxes - real-time reporting to IRS by employers - IRS compliance centers on employers - More stringent reporting required by employers - Increased employer reporting burden - Borrowers indicate to employers how much to withhold for student loans - Employers may participate if they choose to Same as above	- Employees increase allowances on Form W-4 - Employers would not know of withholding for student loans - Reconciliation between taxes and student loan payments occurs when the 1040 is filed - Since all employers withhold for taxes, all employers already participate in the withholding program Same as above What dif	- Withholding program similar to the savings bond program - Education's compliance centers on borrowers - Education first contacts borrowers if an underpayment or nonpayment is detected - Minimal employer reporting required by Education - Employers may elect to offer repayment through wage withholding as an employee benefit

Note: Repayment through wage withholding is always an option for borrowers. Borrowers may elect to repay through a number of methods

what important dif

Student Loan Repayment and Wage Withholding
Employer Reporting Burden

Estimates of Employer Reporting Burden

	Internal Revenue Service		**Department of Education**
	Separate from the Tax System	*Using the Current Tax System*	
Mandatory Employer Withholding	Total Burden = Fixed Costs + Variable Costs Fixed Costs = (1.2 million employers x 4.4 hours x $10 per hour x 12 months) +(1.2 million employers x .04 hours x $10 x 33) + (4.8 million employers x .04 x $10 x 12) = $672 million Variable Costs = 6 million employees x .53 hours x $10 per hours x 33 pay periods = 1,050 million **Total Burden = $672 + $1,050 = $1,722 million**	Not Applicable	Burden = Fixed Costs + Variable Costs Fixed Costs = 1.2 million employers x $42 per month x 12 months = $605 million State def Variable Costs = 196 million transactions x $2.5 per transaction = $490 million **Burden = $605 + $490 = $1095 million** 196 million transactions = is a function of 6 million borrowers and the payroll frequency
Voluntary Employer Withholding	Total Burden = Fixed Costs + Variable Costs Fixed Costs = (.174 million employers x 4.4 hours x $10 per hour x 12 months) +(.174 million employers x .04 hours x $10 x 33) = $94 million Variable Costs = 4.5 million employees x .53 hours x $10 per hours x 33 pay periods = $787 million **Total Burden = $94 + $787 = $881 million**	Not Applicable	Burden = Fixed Costs + Variable Costs Fixed Costs = 174 thousand employers x $42 per month x 12 months = $88 million Variable Costs = 147 million transactions x $2.5 per transaction = $368 million **Burden = $88 + $368 = $456 million** 147 million transactions = is a function of 4.5 million borrowers and the payroll frequenc

Note: Mandatory affects employers with ten or more employees--Employers with 50 or more employees elect to participate.

Student Loan Repayment and Wage Withholding
Employer Reporting Burden

Alternative Estimates of Employer Reporting Burden Based on Industry standard of $10/transaction

	Internal Revenue Service		Department of Education
	Separate from the Tax System	*Using the Current Tax System*	
Mandatory Employer Withholding	Total Burden = Number of Transactions x $10 per transaction Number of Transactions = 196 million Based on 6 million borrowers repaying through wage withholding Total Burden = $1,960 million per year	Not Applicable why - [illegible] based on add'l transactions that occur btwn employee + employer?	Total Burden = Number of Transactions x $10 per transaction Number of Transactions = 196 million Based on 6 million borrowers repaying through wage withholding Total Burden = $1,960 million per year
Voluntary Employer Withholding	Total Burden = Number of Transactions x $10 per transaction Number of Transactions = 147 million per year Based on 4.5 million borrowers repaying through wage withholding Total Burden = $1,470 million per year	Not Applicable	Total Burden = Number of Transactions x $10 per transaction Number of Transactions = 147 million per year Based on 4.5 million borrowers repaying through wage withholding Total Burden = $1,470 million per year

Note: Mandatory affects employers with ten or more employees–Employers with 50 or more employees elect to participate.

Ed This section describes method H — in a step by step explanation of the ~~[illegible]~~ equation variables and assumptions

Student Loan Repayment and Wage Withholding
Employer Reporting Burden

Overview

Employer reporting burden represents the time (expressed in terms of money) and and expenses incurred by employers for withholding, remitting, and reporting student loan payments to the Federal government. The burden experienced by employers will depend on the characteristics of the program, as set up by the government; the number of borrowers who choose to repay their loans through wage withholding; and the number of firms that are affected. Because the IRS and the Department of Education have proposed similar withholding systems, from the borrower's perspective, it is essential that the characteristics of each system and that the burden estimation methodology be thoroughly understood.

The estimates of employer burden have been developed within the expected steady-state for the Direct Loan Program. Under steady-state conditions, it is expected that there will be 20 million borrowers repaying their Direct Loans. As borrowers have a number of choices in repayment plans (standard, extended, graduated, and income-contingent), borrowers will also have a number of options in how they elect to repay their loans. Borrowers will be able to repay through monthly checks, automated bank debits, or wage withholding.

20 mil which

Order IRS first to match chart

Department of Education

Characteristics of the Education Administered Program

The following points highlight the student loan withholding system envisioned by the Department of Education:

- ~~Education envisions a withholding program~~ similar to a savings bond campaign or employer charitable contribution program.
- ~~Education~~'s compliance efforts will be centered on the borrower
    - ~~Education first~~ contacts borrowers if either a nonpayment or underpayment is detected.
    - Borrower attempts to resolve issues with employers before involving Education.
- ~~Education envisions a program that requires~~ minimal reporting requirements by employers
- Borrowers will always have the ability to select the method of repayment that best suits their situations. not in IRS?

Burden Estimation Methodology

The estimate of employer burden is based on the following equation:

(1) **Total Burden = Total Fixed Costs + Total Variable Costs**

where

Total Fixed Costs are the costs incurred by employers for having the necessary infrastructure to withhold student loan payments from employees' paychecks and remit the amounts to Education. This cost primarily consists of the system maintenance costs (updating of records and other changes to the system) and the cost of recordkeeping. Total Fixed Costs for student loans is the cost over and above what the employer expends to comply with Federal tax requirements or other withholding programs.

Total Variable Costs represent the transaction costs to the employer of actually withholding, reporting, and remitting payments to the Department of Education. These costs are in addition to the burden experience by employers in complying with Federal tax requirements and other withholding programs.

The estimate of Total Fixed Costs is based on the following equation:

(2) Total Fixed Costs = number of employers **x** Average Monthly Fixed Costs **x** 12 months

where

Average Monthly Fixed Costs = \$42.00[1]

The estimate of Total Variable Costs is based on the following equation:

(3) Total Variable Costs = number of transactions per year **x** average cost per transaction

where

Average cost per transaction = \$2.50[2]
Number of transactions = f(number of employees participating, payroll frequency distribution)
Payroll frequency distribution:[3]
Weekly: 31.5%
Biweekly: 36.3%

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[1] Per conversations with Automated Data Processing, Inc. (ADP), the American Payroll Association, and the American Society of Payroll Management, it was determined that the model for child support administrative wage garnishment was the closest model to the proposed Education student loan withholding system. The Average Monthly Fixed Cost was provided by ADP.

[2] Source: ADP, The transaction cost per employee for administrative wage garnishment.

[3] Source: ADP's distribution of client pay cycles. Discussions with the American Payroll Association indicated that ADP's clients were representative of the employer population.

Monthly: 7.0%
Bimonthly: 25.2%

Much line; weighted avg of payroll f #33

Therefore, to estimate the employer reporting burden under a program administered by the Department of Education, it is first necessary to determine:

why

- the number of employers affected
- the number of borrowers repaying through wage withholding
- the number of transactions per year

Estimated Number of Employers Affected by Student Loan Withholding

To estimate the Total Fixed Costs, it is necessary to first estimate the number of employers who withhold for student loans. Based on the IRS's employment tax reporting, approximately 6 million employers could be affected by a student loan wage withholding program. However, there is no reason to believe that all employers would be affected. It is reasonable to assume that the probability of employers having less than 10 employees would be affected, even under a mandatory program, would be almost zero. Based on an analysis of IRS, Census, and Department of Education data, it is expected that the maximum number of employers that potentially could be affected under a mandatory withholding program is 1.2 million employers.

How

With respect to the voluntary withholding program, one would expect that larger employers would be more willing to offer repayment of student loans through wage withholding as an employee benefit. While the average monthly fixed cost per employer and the average cost per transaction are identical under both the mandatory and voluntary programs, the perception changes. The mandatory withholding program would be viewed as another government mandate while the voluntary program permits businesses to decide whether to offer loan repayment via wage withholding to their employees. In other words, the business community could be viewed as a cost while the voluntary program is viewed as an employee benefit.

why

wrong wording

Based on conversations with United Way concerning employer participation in charitable withholding programs, and on Treasury statistics for the government savings bond program, our best estimate of the number of employers offering wage withholding on a voluntary basis is 174,000. This assumes that employers with fewer than 50 employees will elect not to participate.

why?

To summarize, the projected number of employers participating in a wage withholding program for the repayment of Federal student loans are:

- Mandatory Withholding Program: 1.2 million employers
- Voluntary Withholding Program: 174 thousand employers

Margin

Estimated Number of Borrowers Participating in a Wage Withholding Program

Under the mandatory withholding program, it was estimated that 1.2 million employers would be affected by the requirement. Approximately 84% of all employees are employed under this employer subpopulation. Based on all available information, IRS, Treasury, and Education estimate that approximately 6 million borrowers would elect to repay their loans through wage withholding (including income contingent and all other repayment plans). why / How

Because the number of firms electing to participate in a voluntary withholding program is considerably less, fewer borrowers will be able to repay student loans through wage withholding. Approximately 4.5 million employees would be able to participate under the voluntary withholding program. why

To summarize, the best estimates for the number of borrowers electing to repay student loans through wage withholding are:

- Mandatory Withholding Program: 6.0 million borrowers
- Voluntary Withholding Program: 4.5 million borrowers

Estimated Number of Transactions Per Year

As stated in the methodology, the number of transactions is dependent upon the payroll frequency distribution and the number of employees participating. It is reasonable to assume that the payroll frequency distribution can be used to extrapolate how frequently employees are paid. Therefore the number of transactions per year can be estimated through the following equation:

(#/yr)

(4) Number of Transactions = number of borrowers x $\sum$(payroll frequency distribution x number of pay cycles per year) cycle/yr

Using the estimate of 6 million borrowers under the mandatory withholding system the number of transactions per year would be:

- 6 million x (.315 x 52 + .363 x 26 + .07 x 12 + .252 x 24)
  or
  196 million transactions under a mandatory program

.315
.363
.07
.252
1.000

Using the same approach for the voluntary withholding program, 4.5 million employees participating generates 147 million transactions.

Estimate of Employer Reporting Burden under an Education Administered Program

Recall that the employer reporting burden is represented by the following equation:

(1) **Total Burden = Total Fixed Costs + Total Variable Costs**

Both Total Fixed Costs and Total Variable Costs were also determined based on the analyses presented above.

(2) Total Fixed Costs = number of employers x Average Monthly Fixed Costs x 12 months

per employee/month employer

= number of employers x $42 x 12 months
= number of employers x $504

(3) Total Variable Costs = number of transactions per year x average cost per transaction

= number of transactions per year x $2.50

The preceding sections developed the inputs necessary to estimate employer burden under both a mandatory and voluntary program. Based on the assumptions and the analytical approach detailed above, the estimates for employer burden are:

- Mandatory Withholding:

- Total Fixed Costs:	$ 605 million
- Total Variable Costs:	$ 490 million
- Total Burden:	$1,095 million

- Voluntary Withholding:

- Total Fixed Costs:	$ 88 million
- Total Variable Costs:	$ 368 million
- Total Burden:	$ 456 million

Internal Revenue Service

The Internal Revenue Service envisioned several ways of implementing a student loan repayment system using wage withholding. The first method involves using the current tax withholding system to collect student loan payments. The second method involves setting up a special operation within the IRS, yet separate from the tax system, for the collection and servicing of Direct Loans. Each method has it own distinct characteristics and implications for employer reporting burden.

Characteristics of the Proposed IRS Administered Programs

Using the Current Tax System

The following ~~points highlight the student loan~~ withholding system envisioned by the Internal Revenue Service ~~as~~ using the current tax withholding system:

- Employees increase the amount withheld by employers to cover both student loans and income taxes.
- Employers would not know that employees would be repaying Direct Student Loans through wage withholding.
- Reconciliation between student loan and income tax payments would be done on a new schedule attached to Form 1040.

Because employers would not be required to differentiate between income tax withholdings and student loan withholdings, this program would impose no additional burden on employers.

Intro

Separate from the Tax System

- Withholding program separate from the tax program
- Real-time reporting of individual employee's student loan payments made via wage withholding
- IRS compliance action centers on employers rather than the borrower
  - The IRS would contact the employer if nonpayment or underpayment is detected
  - Employers would be required to keep and submit detailed records with each transaction
  - The IRS would only contact the borrower if the employer demonstrated that the borrower did not specify enough withholding to cover the liability
- Program requires more stringent reporting by employers than what is currently required under the tax system.
- Increased employer reporting burden

Assertion or fact. If fact, why?

Burden Estimation Methodology

Under the existing tax system, the IRS designed a program that would not require employers to differientate student loan withholdings from income tax withholdings. Therefore, the following burden analyses applies only to IRS operating a special operation separate from the current tax system.

The estimate of employer reporting burden for a withholding system separate from the tax system is based on the following equation:

Say why have different

(4) **Total Burden = Employer Burden$_A$ + Employer Burden$_U$**

Unavailable.. unaffected

where

Available .. affected

Employer Burden$_A$ represents the costs incurred by employers in reporting student loan repayments to the Internal Revenue Service.

Employer Burden$_U$ represents the burden experience by employers who do not have employees who repay student loans through wage withholding, yet have to certify to the IRS that withholding was not required. This burden would not be applicable to firms under a voluntary program.

Could the ... and add certification costs

Like the program administered by the Department of Education, burden under the IRS special operation can be expressed in terms of fixed and variable costs. Rewriting (4), burden is defined as:

why ... we chose it for the IRS ... why not ... [illegible]

?

(4)' Total Burden = Fixed Costs + Variable Costs

where

Fixed Costs = Recordkeeping Costs (for firms affected) + Summary Reporting Costs + ~~Certification Costs (for firms which do not have to withhold)~~

Variable Costs = Detailed Reporting Costs

Estimate of Fixed Costs under an IRS Administered Withholding Program Separate from the Tax System

From the basic definition of Total Burden, the first major component of Fixed Costs is the recordkeeping costs. Firms affected by the withholding requirement would be required to set up and maintain a withholding system, as was the case in the Education administered system. To comply with the Paperwork Reduction Act, the Service developed models to estimate the time necessary to comply with Federal tax reporting requirements. The IRS estimates the average time for each IRS form. Not only does the IRS estimate the average time per form, but it also estimates the average time to perform subtasks. For example, the IRS estimates both the recordkeeping and reporting burden for all business tax forms. Extrapolating from known tax forms to what student loan requirements would necessitate permits the estimation of employer burden.

How show example

Fixed Costs for student loans are the sum of the recordkeeping costs, the summary reporting costs, and the cost of employers not affected by the withholding requirement to certify that they did not have to withhold.

The recordkeeping required for students loans would approximate what would be required by firms in filing the Form 941, Employers Quarterly Withholding. Therefore, recordkeeping for firms affected by the withholding requirement can be estimated by the following equation:

estimate for

why does the 941 (a quarterly instrument) ~~estimate~~ only for a monthly estimate

(5) Recordkeeping Costs = $Time_R$ x $Freq_R$ x Monetary Value x number of employers affected

where

Time = 4.4 hours per month
Freq = 12 months per year
Monetary Value = \$10 per hour

or

Recordkeeping Costs = 4.4 hours x 12 months x \$10 per hour x number of employers
= \$528 x number of employers affected

where get

Based on the analyses performed in estimating the Department of Education burden, the number of employers participating in a mandatory program is 1.2 million while the number of employers participating in a voluntary program is 174 thousand.

explain

The Summary Reporting costs represent the cost of employers to summarize the withholdings each pay period. It was estimated that there would be 196 million transactions per year under a mandatory program administered by the Department of Education. Given 6 million employees, each employee is paid, on average, 33 time per year. The summary reporting costs can be estimated by the following equation:

(6) Summary Reporting Costs = number of employers affected x time x \$ value x frequency

where

explain

time = .04 hours (based on the time estimate for Federal Tax Deposits)
$ value = $10 per hour (from ____)
frequency = 33 times per year (from page ___)
number of employers = 1.2 million, if mandatory (.174 million, if voluntary) (from ____

or

Summary Reporting Costs = number of employers affected x .04 x $10 x 33
= number of employers affected x $13.20

While not all firms would not necessarily be affected, the Service would still require that firms certify that they were not required to withhold for student loans (only under the mandatory program). Because employers would be the conduit for wage withholding, the IRS would begin investigating underpayments or nonpayments through employers. The certification cost is estimated by:

why every month

(7) Certification Costs = number of employers not affected x time x $ value x frequency

of reporting requirement

where

time = .04 hours (based on Federal Tax Deposits)
$value = $10 per hour
frequency = 12 times per year
number of employers = 4.8 million, if mandatory (5.83 million, if voluntary)

not correct

or

[.04 x 10 12]

Certification Costs = number of employers not affected x time x $value x frequency
= number of employers not affected x $4.8

The estimate of Fixed Costs is based on the following equation:

Fixed Costs = Recordkeeping Costs + Summary Reporting Costs + Certification Costs

= $528 x number of employers affected + number of employers affected x $13.20 + number of employers not affected x $4.8

Therefore, it is estimated that the Fixed Costs are:

- Mandatory Withholding: $672 million
- Voluntary Withholding: $ 94 million

Estimate of the Variable Costs

The variable costs are dependent upon the number of employers for whom employers are required to withhold for the repayment of student loans. Under the IRS administered program, it is envisioned that employers would be required to submit W-2 type information every pay period. Therefore, variable costs can be estimated by the following equation:

(8) Variable Costs = number of employees x estimated time x number of pay periods x $10
where

estimated time = .53 hours (based on Form W-2)
average number of pay periods per year = 33 (from p 2 —)
number of employees = 6 million, if mandatory (4.5 million, if voluntary)

The estimated Variable Costs are:

- Mandatory Withholding: $1,050 million
- Voluntary Withholding: $787 million

Estimate of Employer Burden under the IRS Administered Program (Separate from the Tax System)

The preceding sections developed all of the necessary assumptions and inputs for estimating the total employer reporting burden for an IRS administered student loan collection and servicing system separate from the tax system. Recall the basic defination of employer reporting burden:

(4) **Total Burden = Employer Burden$_A$ + Employer Burden$_U$** — Can't have 2 equations = to same thing

or

why alternate formulation. Don't you mean contributing equation

(4)' Total Burden = Fixed Costs + Variable Costs

Based on this analysis, the estimates for employer reporting burden as administered by the Internal Revenue Service are:

- Mandatory Withholding:
  - Fixed Costs: $672 million
  - Variable Costs: $1,050 million
  - Total Burden: $1,722 million

- Voluntary Withholding:
  - Fixed Costs: $ 94 million
  - Variable Costs: $787 million
  - Total Burden: $ 881 million

Develop alternative methodologies -- Methodology #2

Perhaps this could be called the "common sense option". We estimated that of the pool of x million borrowers that only y would actually participate in the program to do Z. We assumed a simple once a month option, letter and stamp cost of M. This is step 1. This is step 2. Here is the conclusion. Here is how we would analyze it. The kinds of conclusions that can be drawn from this option are N. Here is a unusual property of this model O.

Develop alternative methodologies -- Methodology #3

Develop a third approach here and explain it in the same way as before. Full disclosure, self sufficient explanations in all cases.

Try radical assumption. For example, half of businesses opt in to the program. Provide a range of costs.

Table 1

Federal Direct Loan Program, Borrowers In Repayment Status: FY 1994 to FY 2003

NUMBER OF BORROWERS	FY 1994 (millions)	FY 1995 (millions)	FY 1996 (millions)	FY 1997 (millions)	FY 1998 (millions)	FY 1999 (millions)	FY 2000 (millions)	FY 2001 (millions)	FY 2002 (millions)	FY 2003 (millions)
Annually:										
o Direct Student Loans	0.0	0.0	0.3	0.5	0.8	1.2	1.4	1.6	1.7	1.7
o Consolidations	0.0	0.3	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9
Total, Annual Borrowers	0.0	0.3	0.5	0.8	1.2	1.7	2.0	2.3	2.5	2.6
Cumulative:										
o Direct Student Loans	0.0	0.0	0.4	0.9	1.7	2.9	4.3	5.9	7.6	9.4
o Consolidations	0.0	0.3	0.4	0.7	1.1	1.6	2.2	2.9	3.7	4.6
Cumulative Borrowers	0.0	0.3	0.8	1.6	2.8	4.5	6.5	8.8	11.3	13.9

Source: U.S. Department of Education, Office of the Undsersecretary,
"Draft Report, Estimates of Loans In Repayment:
Federal Student Loan Program", October, 1994.

U.S. Department of the Treasury
Office of Planning and Management Analysis
21-Oct-94

TABLE 2

Selected Statistics, By Size of company, By Number of Employees: 1987

Employment Size Class:	Companie (000)	Owned Establish (000)	Employee (000)	Annual Payroll ($ bil)	Sales and Receipts ($ bil)
0 to 4	2,231.0	2,239.4	4,121.2	$50.6	$384.6
5 to 9	783.8	804.9	5,135.0	56.2	357.9
10 to 49	722.3	841.7	14,092.7	161.6	1,008.3
50 to 99	81.9	146.3	5,583.2	63.5	386.4
100 to 499	51.1	200.2	9,699.2	110.6	669.5
500 to 999	4.6	61.4	3,141.1	35.5	217.2
1,000 and over	4.2	454.2	26,368.2	435.9	2,338.1
TOTALS	3,878.8	4,748.1	68,140.5	$913.9	$5,362.0
DISTRIBUTION					
0 to 4	57.5%	47.2%	6.0%	5.5%	7.2%
5 to 9	20.2%	17.0%	7.5%	6.1%	6.7%
10 to 49	18.6%	17.7%	20.7%	17.7%	18.8%
50 to 99	2.1%	3.1%	8.2%	7.0%	7.2%
100 to 499	1.3%	4.2%	14.2%	12.1%	12.5%
500 to 999	0.1%	1.3%	4.6%	3.9%	4.0%
1,000 and over	0.1%	9.6%	38.7%	47.7%	43.6%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%

Office of Planning and Management Analysis
August 12, 1994

Table 3

Number of employees: Size Class	Percent of Total	Number of Employees % x 5 million	Marginal Cost	Mandatory Withholding	Voluntary, Excl under 10	Excl uner 50
0 to 99	42.4	2,120,000	1605.14	3402896800		
50 to 99	8.2	410000	1605.14			658107400
10 to 99	28.9	1,445,000	1605.14		2319427300	
100 and over	57.6	2,880,000	104	299520000	299520000	299520000
				$3,702,416,800	$2,618,947,300	$957,627,400

Assumptions:

1. For small Employers, i.e., with less than 100 employees, the marginal annual cost per employee is the following:

Basic set up cost	$175.00
Assume Weekly Pay, therefore 52 weeks	52
Cost per employee, average per week, is:	$30.87
Cost per year, i.e., 52 x 30.87 + Set Up Cost	$1,605.14

2. Assume that employers with less than 100 employees experience marginal costs equal to the $1,605.00per year.
3. Assume that employers with 100 or more employees experience marginal marginal costs of $2..00 per employee per each of 52 pay periods. $104.00
4. Assume number of borrowers in repayment, cumulative, averages 10 million per year; and that 5 million want withholding.
5. Assume that borrowers have same distribution as employees

DRAFT

OCT 24 1994

Student Loan Repayment Through Wage Withholding

Option to implement the President's Vision Using Mandatory Wage Withholding Administered by the Department of Education

what is it:

- Builds on the system that ED has already established for collecting student loans through wage withholding: ED's system makes use of the widespread existing practice of the employer effecting deductions from wages as a service to employees, such as deductions for charitable contributions, for 401(k)-type retirement programs, or for savings and savings bond programs.[1]

- **How it works:**

  - Education's contracted loan servicer (servicer) would notify employers about the system and provide a description of the wage withholding program and all information necessary to make deductions and forward payments to a servicer. This would be done periodically to remind employers of their obligation.

  - When a student loan borrower is ready to begin repaying the loan, the servicer would provide him or her information regarding loan repayment through wage withholding.

  - If the borrower chose wage withholding, the borrower would be given loan specific information about how much the employer must withhold on a monthly basis and to where the deduction must be sent. Thereupon the borrower would notify the employer who would begin salary deductions and forward payments monthly.

  - The servicer would provide borrowers with periodic statements of the amounts received and the status of the account so the borrower could notify the employer and/or the servicer of any discrepancies.

  - Education would set up appropriate internal controls to identify missing payments and ensure employer and borrower compliance.

Is this step included in cost estimate?

How does employer know borrower wants to repay loan?

- **Advantages or Disadvantages**

  - Employers that do not offer wage withholding benefits would have a significant cost and administrative burden.

Avoid option —

---

[1] If administered by ED, a voluntary and mandatory system operate in the same way. Employer participation is optional in a voluntary system, while it is required in a mandatory system. The costs to the participating employer and the benefits to the borrower are the same under the voluntary or mandatory system.

- Using the ED system, employer data processing costs are relatively inexpensive, even if mandated. However, other significant costs occur due to back end transactions: coordination between payroll and personnel management operations; keeping and maintaining records; setting up and revising accounting system changes; resolving reconciliation problems; and fees for legal and professional advice.

- Political costs are significant, with the principal one being the cost burden placed on employers, especially small businesses. Payroll associations report widespread dissatisfaction with the increased number of government mandated wage withholdings and the complexity involved.

- A second political cost is perceptions of federal intrusion that accompany a federal mandate versus an invitation to offer the same thing under the umbrella of an employee benefit. Federal intrusion would also be seen if employers are mandated to use a central payroll processor due to the necessary administrative burden coordination would impose. ?

- A third political cost is that legislation is required to mandate employers to withhold for student loan payments when requested by an employee.

advantage up front

- The system is borrower focused, meaning that the amount withheld and reconciliation of amounts withheld are the responsibility of the borrower in communication with the Department of Education, similar to other borrower initiated wage deductions.

- Being borrower focused, the system reduces employer burden, since ED would not require employer reports to demonstrate the status of revenue collections. Borrowers, notified of missing payments, would be an automatic compliance check.

- System is available to everyone in a firm @ ≥10 empl's?

Describe split servicing between IRS and DoE

This is what would be required for split servicing, an option considered as Option X during the task force deliberations.

This is how it would work.

Advantages

Disadvantages

Option to implement the President's Vision
Through Split Loan Servicing

split loan servicing means

- Under split loan servicing, IRS would collect all loans that involve wage withholding and ED would service all loans and collect loans under all other methods of repayment (e.g. monthly checks, EFT transfers from bank accounts).

- IRS would collect loans through the tax system.

- **How it works**

    - When a student loan borrower is ready to begin repaying the loan, the ED contracted loan servicer (servicer) would provide him or her information regarding loan repayment by all methods including wage withholding paid to IRS through the tax system.

    - If the borrower chose to repay through any means except wage withholding, the servicer would provide the borrower information and assistance for making the monthly payments to the servicer, would monitor the receipt of monthly payments and would send the borrower periodic quarterly reconciliations.

    - If the borrower chose wage withholding, the borrower would be given loan specific information about how much the employer must withhold monthly based on the repayment plan selected.[2] Thereupon the borrower would notify the employer to appropriately increase tax withholdings.

    - The borrower would be advised that the borrower must file a tax return to declare the loan liability and adjustments, even if a tax return were not otherwise required.

    - Employers would withhold wages according to the employee's request according to normal tax withholding rules.

    - ED would annotate its own records and would notify IRS during the tax year concerning which borrowers were repaying loans through wage withholding and how much was expected to be repaid.

    - At year end, ED would notify IRS concerning any adjustments to the

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[2] Borrowers can repay their loans according to 5 repayment plans: standard repayment plan (fixed payments for 10 years); extended repayment plan (fixed payments for 12 to 30 years depending on amount borrowed); graduated repayment plan (increasing payment amounts for 12 to 30 years depending on the amount borrowed); income contingent (varying payments for up to 25 years depending on amount of income, with forgiveness of balance at 26th year); alternative plan (unspecified conditions to meet special circumstances).

repayment obligation (forebearances, unemployment, deferments, changed payment plans)[3] and, by January 31 of the next year, ED would furnish the borrower a yearly statement of loan obligation to file with the tax return.

- The borrower would file a tax return and declare the loan obligation on a tax schedule furnished by IRS, making the loan obligation a tax liability.
- IRS would collect any tax shortage or refund any tax overage.
- After returns were filed, IRS would notify ED monthly of collections and discrepancies.

- **Advantages:**
  - The borrower has the benefits of automatic wage withholding and ease of loan payments with little or no inconvenience to the employer.
  - This method builds on an existing framework that all employers and employees are required to use.
  - The employer has no significant additional cost or administrative burden than already present in the tax withholding system.
  - IRS could integrate loan collections as taxes into its current system and administer loan repayment through the tax system.
  - Since student loan repayment would be treated as a tax, IRS could use existing authority as a tax collector to collect any amounts due.

- Disadvantages
  - Results in critical disparities in treatment between borrowers who use wage withholding, other direct loan borrowers and guaranteed student loan borrowers that would be capitalized upon by banks and guaranty agencies to discourage participation in the direct loan program or in the wage withholding method of repayment, such as:

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[3] Neither IRS nor ED would know how much a borrower had paid on the loan until the tax return was filed. However, to accommodate certain change in borrowers' status, ED and IRS are considering a system that would prorate the loan repayment obligation. A borrower changing the wage withholding plan would incur a tax liability for the months when wage withholding applied. The new plan would assume the wages withheld covered the prorated loan repayment.

- Borrowers would experience less certainty when changing payment plans during the year, since the wage withholding portion would be effectively based on estimated tax withholdings. Upon filing tax returns months later borrowers may confront large liabilities. If too much were withheld, they might have to wait several months for a refund.

- Remedies for collecting loan debts as tax liabilities would be more extensive than for non-tax debt (e.g. levies, seizures of assets).

- Borrowers would not be able to easily monitor the effect of monthly payments on principal reduction. Increased withholdings to reduce student loan debt might be applied to tax liability.

- Loans would be considered paid once a year after the end of the year; therefore, additional payments on principle would not reduce payments throughout the year.

- Shortfalls in contributions to cover tax and loan debt would be subject would be subject to interest charges and penalties for late payment, underpayment and late filing).

- Borrowers who underpaid their loans or failed to file tax returns would both incur a tax liability and be in default on their loans.

- Seriously hampers the ability of Education to reconcile payments with liabilities due to a minimum 18 month lag in receiving payment information.

- Education would not become aware of delinquencies and defaults as they occurred precluding early intervention to prevent defaults by assisting students or increasing the monitoring of problem schools.[4]

- Education would not be able to comply with financial management requirements specified in the Credit Reform Act of 1990 or the Chief Financial Officer's Act of 1990 because of the delays in getting current loan repayment information.

- IRS would have to reallocate significant resources from the recovery of large tax liabilities to the collection of small debt.

- There is a political disadvantage in that borrower focus groups and student

[4] Critics and analysts have pointed out repeatedly that, to prevent fraud and abuse, Education needs access to real time data on loan repayments for efficiency in loan servicing, monitoring of school performance, budget forecasting, and financial management purposes.

associations have expressed clear opposition to IRS involvement in loan collections.

- Legislation would be required to enable IRS to release specific tax information from returns to ED concerning loan repayment underpayments.

Compare service delivery advantages and disadvantages between IRS and DoE

For example:

IRS has the following record on compliance and experience working with a large base of payers. They have an existing system which is national in scope, in place, feared but honest, and expert in the collection and service areas.

IRS has the following disadvantages as a service provider:

Overburdened
In the middle of a major reorganization.

DoE, on the other hand, has the following strengths...

... and the following weaknesses.

Service Delivery Advantages and Disadvantages: IRS vs ED

- **IRS Advantages**

    - Assuming use of the tax system, use of IRS would pose little additional burden from the employer's perspective.

        - The tax withholding system already exists and both employers and employees are used to using it.

        - It would be available to all employees.

    - Assuming a newly created loan collection and servicing operation, IRS could collect loans less expensively than ED could through a servicer. How much?

    - IRS should bring about greater compliance in causing students to meet loan obligations.

- **IRS Disadvantages**

    - Student loan borrowers are concerned about IRS involvement in loan collections and its ability to change missions from tax collector to loan collector.

    - Unless IRS set up a customer service operation, a borrower would have to deal with two federal agencies, IRS for collections and ED for advice and counsel on repayment alternatives.

    - Using the IRS tax system, borrowers could not monitor payments on an ongoing basis and evaluate the effects of payments on interest and principle.

    - Borrowers changing employers would have difficulty knowing payments were current and may underpay the loan obligation incurring an unexpected liability.

- ED Advantages

  - The borrower could use wage withholding to repay loans under the most advantageous loan repayment plan and move between plans easily.

  - The borrower's payments would be made automatically, but the borrower would have the advantage of following his/her account balance, monitoring the effect of payments on principal and interest, and assuring him/herself that payments were posted and current.

  - ED can provide one-stop shopping. ED would be accountable for customer service for all aspects of student financial assistance administration; therefore, ED could control the outcomes.

  - Because there are necessary linkages between aspects of program administration and subsequent loan service and collection, customer service would be strengthened if responsibilities for it are carried out by a single agency.

  - With its close relationship to the schools and the continuous relationship it establishes with the students beginning in the earliest stages of the loan cycle, ED would be well placed to advise a student on loan repayment throughout the repayment process.

  - In general, withholding the payments and forwarding them to ED would be no more difficult than the common practice of withholding charity contributions or payments to a credit union.

  - The Department of Education has developed and put in place the infrastructure necessary to administer a centralized loan program that includes wage withholding as an option.

- ED Disadvantages

  - In terms of service delivery, there are no disadvantages to using ED as the primary servicer.

Develop a blend of carrot and stick options for the DoE mandatory and voluntary options

Mandatory

With respect to DoE,

Voluntary

Considerations to reduce political risk or help sell program choices

- **Mandatory option**

  - Excluding employers with fewer than 10 employees from the requirement would exempt over 75 percent of the employers but reach about 85 percent of the employees.

  - Reimburse employers for all or a portion of costs. Note: (Reimbursements would increase administrative burden considerably because of unavoidable government accountability standards. In addition to the budget impact, increasing direct loan program expenses has a high political cost).

  - Obtain legislation providing for civil penalties for non-compliance.

- **Voluntary option**

  - Employers could be offered cash incentives to cover expenses (Note: subject to the cautions cited under mandatory carrots.)

  - Using a wage withholding system based on the model of voluntary deductions from salary as an employee benefit.

  - Initiate public service advertising campaign, utilizing trade and payroll providers and associations, to promote wage withholding as a public service and employee benefit.[5]

  - Prepare instructional and software packages to assist employers in effecting the option.

  - Enlist payroll servicers, such as ADP, to assist ED in developing the operational aspects of the voluntary option as a simple and inexpensive service.

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[5] About 80 percent of the employees in the U.S. are employed by businesses that participate in the voluntary savings bond program. In terms of number of employees, only the top 25 percent of the employers have to participate to afford wage withholding to 85 percent of the employees.

Develop a meno of options from the student's perspective

Show the effects of major options on students "choice set".

Wage Withholding from the Student's Perspective

- Initially and at intervals, all borrowers will be thoroughly advised about repayment options and plans. They will be specifically advised about short and long run costs of different repayment plans.

- A voluntary or mandatory system of wage withholding as an automatic monthly loan repayment method, whether administered by ED or IRS, produces the same results from the borrower's perspective.

- A number of borrowers would not wish to use the IRS tax system, when tax returns were filed. They may be confronted with perceptibly large tax liabilities and they may fear the consequences.

- Borrowers using the IRS tax system, who encountered problems, would have to coordinate between IRS and ED, both of which may have trouble coordinating with the other because of the volume of filers at tax time, but especially because of the 18 month information lag.

- With current account information and only one point of contact, borrowers under an ED administered system would be able to easily change payment plans, yet continue to use wage withholding.

- Borrowers under an ED administered plan could easily stop wage withholding without enduring later reconciliations.

- Under the ED administered system, a borrower/employee could have all of the benefits of wage withholding, without dealing with the bureaucracy of the employer's personnel office.

- By authorizing the employer to pay salary through electronic funds transfer to the employee's bank account and authorizing the bank to transfer funds to an ED account, many borrowers could achieve the same benefit as wage withholding provides.[6]

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[6] ADP advises that a large percentage of businesses use electronic funds transfers to pay employee salaries.

Cost methodology -- Explain current analysis (Methodology #1)

Describe all of the assumptions, formula and calculations used to develop the cost figures that we used in the most recent draft of the PDM on Student Repayment and wage withholding for each of the six costed options.

For example, here is how we did it: X number of borrowers, y number of businesses, z frequency of activity. This is step 1. This is step 2. Here is the conclusion. Here is how we would analyze it. The kinds of conclusions that can be drawn from this option are N. Here is a unusual property of this model O.

Develop alternative methodologies -- Methodology #2

Perhaps this could be called the "common sense option". We estimated that of the pool of x million borrowers that only y would actually participate in the program to do Z. We assumed a simple once a month option, letter and stamp cost of M. This is step 1. This is step 2. Here is the conclusion. Here is how we would analyze it. The kinds of conclusions that can be drawn from this option are N. Here is a unusual property of this model O.

Develop alternative methodologies -- Methodology #3

Develop a third approach here and explain it in the same way as before. Full disclosure, self sufficient explanations in all cases.

Analyze and explain the Mandatory DoE option

Here is how this option works.

First, DoE contracts with a private company to do the following things.

Second, borrower gets a loan.

Third, this is what happens as a consequence.

Fourth, once repayment begins, this is what happens.

Fifth, under this scenario, a borrower would go to their employer and request X.

Sixth, the employer would then wire DoE funds for loan repayment on a monthly basis.

The costs associated with this option are:

Business

Government

Political

Convenience

Legislation required?

Describe split servicing between IRS and DoE

This is what would be required for split servicing, an option considered as Option X during the task force deliberations.

This is how it would work.

Advantages

Disadvantages

Compare service delivery advantages and disadvantages between IRS and DoE

For example:

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... and the following weaknesses.

Develop a blend of carrot and stick options for the DoE mandatory and voluntary options

Mandatory

With respect to DoE,

Voluntary

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR DISTRIBUTION

FROM: W. Scott Gould
Deputy Assistant Secretary
(Departmental Finance and Management)

SUBJECT: Draft Decision Memorandum to POTUS

I am enclosing the latest draft of the decision memorandum for the President. Since this issue is on an especially fast track I would appreciate receiving your comments by 10:00 am, Thursday, October 13, 1994.

Thank you for the effort you have already expended on developing this memorandum. Please fax your comments to me or to Alex Basso on (202) 622-2232.

Attachment

DISTRIBUTION:

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DONALD R. WURTZ
CHIEF FINANCIAL OFFICER
DEPARTMENT OF EDUCATION

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD W. RILEY & LLOYD M. BENTSEN

SUBJECT: STUDENT LOAN REPAYMENT AND WAGE WITHHOLDING

This memorandum requests your decision on issues involving implementation of the Student Loan Reform Act of 1993 contained in Title IV of the Omnibus Reconciliation Act of 1993 (OBRA '93). We can affect your vision for the student loan program as well as your desire to involve the Internal Revenue Service. There are three principal issues we think should be discussed--each with significant costs. The issues are as follows:

Responsibility for Collection--Education or IRS:

- Should the Administration rely on the Department of Education (DOE) to service and collect student loan repayments with assistance from the Internal Revenue Service (IRS), or should primary responsibility for either service or collection be transferred to the IRS?

Two Methods for Collection by IRS:

- If the decision is made to have IRS assume primary responsibility to service or collect student loans in the future, should this be accomplished under the existing tax structure or under a new, separate IRS student loan operation? Either choice would require legislation.

Voluntary or Mandatory Collection:

- Regardless of agency responsibility for servicing and collecting student loans, should the Administration seek legislation to require all employers to set up a mandatory wage withholding system to process loan repayments by their employees? Or should the wage withholding system remain voluntary, similar to the current system of allotments for charitable deductions or savings bonds, with the government creating an aggressive marketing effort to encourage employer participation?

Under either a mandatory or voluntary wage withholding approach, the borrower would always be the one to decide whether to repay through withholding or another method.

Not under voluntary if employer d/n participate

I. ACTION-FORCING EVENT

In mid-October, there will be a Presidential event concerning the Administration's new Direct Student Loan Program.

II. BACKGROUND

The Administration's new Direct Student Loan Program began phasing in on July 1, 1994. The Administration expects to loan or guarantee $30 billion in new loans in 1999. The Administration's intent is to build an ideal Federal student loan program. A model program requires simplicity in administration, clear lines of accountability, and improved quality control. It should be cost efficient, designed to reduce defaults and minimize FTE usage. Customer service, including ease and flexibility of repayment, should be given top priority. For instance, borrowers will now be able to choose among four plans designed to ease repayment burdens, including an income-contingent plan which bases repayment obligations, at least in part, on the borrower's ability to pay. *

To further improve repayment options, the Administration has explored the feasibility of different methods of repaying loans automatically through withholding. A model program should seek to minimize the burdens on employers and maximize convenience for borrowers participating in any wage withholding system.

At present, IRS plays a vital supportive role in the Federal Direct Student Loan program. IRS provides DOE with adjusted gross income and filing status information about borrowers who choose income-contingent repayment. IRS also performs address matches and offsets income tax refunds on defaulters.

this is not done on [illegible] the basis

The Departments of Education and Treasury have carefully studied the major issues associated with increasing the role of IRS in collection of student loans, particularly the effect of utilizing the existing tax system to impose a mandatory wage withholding system on employers. Various options were identified and assessed. During the course of this assessment we:

- sought the opinions of students, borrowers, defaulters and financial aid advisors through a series of focus groups conducted by Price Waterhouse;

- contacted payroll associations and services to determine the costs to businesses of implementing an additional withholding for student loans; and,

- consulted the Financial Management Service to identify other automated payment mechanisms that could be offered to borrowers.

Once a decision is made on the level of IRS involvement, OBRA '93 requires that we send a report to Congress.

III. OPTIONS & ANALYSIS

Table 1, attached, sets forth a summary of the options we examined and the criteria by which we assessed those options. The options considered--first with a mandatory and then a voluntary wage withholding system--are as follows: (1) collect loan repayments as a tax through the existing tax system at IRS; (2) service and collect loans through a new, separate IRS student loan operation; and (3) use DOE contractors to service and collect loans. Criteria considered included costs to the government and private sector, political costs, and convenience to the borrower.

For each option, Table 1 shows annual costs, delta from base, to the government and the private sector. These costs are strongly negative for all options with an acceptable customer service value, i.e., those options with an acceptable "ease of use" by students and adults with outstanding education loans. Specifically, the present value of costs to business and government of **mandatory** compliance administered by the IRS and DOE is $54 billion and $25 billion respectively at a discount rate of 10%, i.e., the additional costs of the program over the life of the program in current dollars are negative before consideration of the qualitative costs of political capital to implement the program or the benefit of additional convenience to borrowers. On the other hand, the costs of the programs in both areas under a **voluntary** system are $17.5 billion and $15 billion respectively making the DOE option under voluntary withholding the least expensive before considering political costs and value to the borrower.

Finally, using the IRS and the existing tax system would result in no net change in cost to government or the private sector. However, this attractive option in terms of dollar cost is more than offset by the political cost to obtain legislative changes to the existing tax system as well as considerable inconvenience associated with the inability to switch repayment plans, 18 month delay in reconciliation for borrower accounts, and loss of control with existing defaulters that could result in an additional loss of revenue of up to $2.7 billion per year due to significantly less contact with borrowers at or on the margin of default. In short, both mandatory and voluntary programs that use the existing tax system fail a test of basic quality and customer service. Below, we discuss selected issues relating to each option.

half of those in default which are not recovered

Option 1: Collect Loan Repayments as a Tax through the Existing Tax System at IRS.

This system would ease the borrower's monthly repayment obligation and would place little burden on the employer. Because this method would pose minimal cost and administrative burden on employers, we initially favored this approach. However, a careful analysis of the impact of such a program has led us to conclude that:

- With the information obtained through the tax system, which

• With the information obtained through the tax system, which currently lags 18 months, the Department of Education would lack the "on-line, real-time" information essential to tracking a high risk borrower population and effectively managing the loan program.

• The same 18-month information lag would prevent IRS and DOE from providing up-to-date repayment information to borrowers. Borrowers utilizing IRS withholding to repay student loans would face the complexities of determining the amount to be withheld from each paycheck and the reconciliation of the total amount withheld with student loan and income tax liabilities. Barring changes to the tax system, any underpayment of a student loan at the time a return was filed would be treated as additional tax owed by the student and subject to the same rules for collecting other delinquent debt.

• Without extensive changes to the tax system's and employers' reporting requirements, a borrower would not be able to access current loan repayment information until after filing a return.

• IRS could not implement wage withholding with its current resources without adversely affecting its ability to collect taxes. IRS estimates that it would need an additional $366 million to implement the program. Most of the required resources would be for default collection, software development, maintenance and customer service. In addition, studies demonstrate that IRS involvement in nontax activities usually results in a decline in voluntary compliance.

Option 2: Service and Collect Student Loan Repayments through a New, Separate IRS Operation.

A new IRS structure would allow for "real-time" information to manage the program and track defaulted borrowers. Employers would report wage withholdings under a separate mechanism from the tax system and on a more frequent basis to permit better customer service and administrative accountability.

However, creating a new structure under IRS administration--one that imposes a substantial new requirement on employers--has considerable political risk: the burden on employers, especially smaller businesses, could be substantial. A mandatory wage withholding system, under which every employer would report current loan repayment information to IRS on all student loans, could cost as much as $5.8 billion annually. A voluntary wage withholding system handled through a new IRS structure could amount to as much as $2 billion annually.

The private sector has opposed provisions in recent legislation (such as the Federal Welfare Reform Bill, Federal Child Support Enforcement Act, and federal and state wage garnishment laws) that would mandate wage withholding requirements. And we have reason to believe that opposition to any mandatory wage withholding provision for student repayments would be strong. Although a voluntary wage withholding system would not face the same opposition, creating a special IRS operation without a mandatory withholding provision would split the administration of a major government program between two agencies without providing a distinct benefit over providing wage withholding through DOE.

Option 3: Use DOE contractors to Service and Collect Loans.

DOE has developed the infrastructure necessary to administer a centralized loan program. Single agency control over servicing and collection of student loans creates greater program integrity, ease of administration, accountability, and uniform management of systems. DOE would use multiple contractors to collect and service its loans. Reliance on contractors would create greater flexibility to adjust the level of resources dedicated to administration. Fewer Federal employees would be needed than if IRS services and collects student loans.

There would also be improved capability for customer service. Multiple servicers, using a single integrated borrower data base, would compete on the basis of performance, helping to control costs and providing a single point for borrower access. In fact, under a Price Waterhouse study, nine focus groups with students, borrowers and members of the public indicated their belief that DOE--not IRS--would deliver the best customer service and efficiency. Of course, IRS would continue to assist DOE by sharing information to implement the income-contingent plan and resolve problem cases.

Finally, wage withholding would remain an integral part of the DOE student loan program. At present, DOE is establishing a voluntary program enabling students to repay loans through wage withholding and other automatic payment mechanisms utilizing electronic funds transfers.

IV. RECOMMENDATIONS

We strongly recommend that DOE, with assistance from IRS, retain responsibility to service and collect student loans, utilizing a voluntary wage withholding system that would be enhanced and aggressively marketed in the private sector. From a political, policy, and customer service perspective, we believe that DOE, using a voluntary wage withholding system, is the best agency to build a model student loan program.

This program would provide millions of borrowers receiving Direct Loans with the opportunity to take advantage of wage withholding immediately upon entering the job market. Within four years, DOE would have experience through its loan servicers on employer willingness or resistance to withholding, and could also do a definitive study on costs, recommending mandatory withholding if necessary.

V. DECISION

Concur in recommended option:

DOE services/collects loans using voluntary wage withholding____

Other Options:

DOE services/collects loans using mandatory wage withholding____

IRS collects loans as a tax within existing tax system____

IRS services/collects loans through new operation____

Need to discuss____

Attachment Table 1

TABLE 1

SUMMARY OF STUDENT LOAN PROGRAM OPTIONS AND COSTS IN A REPRESENTATIVE (FY 1999)[1]

(All dollar amounts in millions)

Wage Withholding: Options and Costs[2]	SERVICE ENTITY		
	Internal Revenue Service (IRS)		Department of Education (DOE)
	Existing Tax System[3]	Special Operations	
MANDATORY:		difference was not pointed out before 3	1
• Business Costs	$ 0	$5,800	$ 2,500
• Government Costs:			
• IRS	+ 366 workload issue	+ 580	0
• DOE	- 500[6]	- 750	0
• Net Incremental Costs	- 134	- 170	0
• Political Costs[4]	Medium	High	High
• Convenience[5]	Low[7]	High	High
• Is legislation required?	Yes	Yes	Yes
VOLUNTARY PARTICIPATION:		4	2
• Business Costs	$ 0[8]	$2,000	$1,500
• Government Costs:			
• IRS	366		0
• DOE	- 499	570	0
• Net Incremental Costs	- 133	- 750	0
		- 180	
• Political Costs	Medium		Low
• Convenience	Low	High	High
• Is legislation required?	Yes	High	No
		Yes	

negative: cost to business
'who could be excluded?
how work around?

neg:
get ~~more~~ bus. to participate

Summary of Student Loan Program Options and Costs in FY 1999, continued

1. The following assumptions underlie these estimates: 1) Federal Family Education Loan Program defaults are included; 2) these data are for FY 1999; 3) there is no net change in collection rates; and 4) there is no change in the default rate.

2. All amounts are costs at the margin. For example, under mandatory withholding with the existing system, IRS costs would increase by $366 million, DOE costs would decrease by $500, yielding a net government saving of $134 million because of the existing infrastructure at IRS and the attendant decline in quality of customer service.

3. Under this option responsibility for collection loan payments and servicing borrowers accounts is split, with IRS handling the former and DOE handling the latter.

4. Political costs include a variety of concerns. For example, there are program integrity issues which concern Congress, the General Accounting Office (GAO) and the media. There are competitive issues involving the private sector, i.e., financial institutions which make loans under the current system as well as educational organizations. Finally, IRS participation is not favorable viewed. For example, there are privacy issues, burdens on borrowers and exceptional burdens upon employers.

5. According to focus groups, from the borrowers perspective convenience means easy, free communication, ability to switch repayment amount options and repayment methods, fast access to loan status information, low paperwork burden, adequate withholding, and avoidance of penalties and excessive interest payments.

6. The IRS accomplishes collections at a lesser cost (by $134 million) than DOE because monthly reconciliation is not required lower frequency of contact translates into lower resource requirements. In fact, reconciliation is accomplished only after an 18 month lag.

7. Convenience is low because this option entails an 18 month lag before data on individual accounts are available.

8. Although the borrower may voluntarily change the loan amount withheld by completing a new withholding statement, the reason is transparent to the employer since the entire amount is considered to be an income tax item and therefore imposes no cost.

THE INTERNAL REVENUE SERVICE AND

THE DIRECT STUDENT LOAN PROGRAM

ISSUES MEETING, FRIDAY, OCTOBER 14, 1994

AGENDA

- Costs to Business
- Mandatory withholding and DOE as provider
- Split serving
- Advantages of IRS over DOE
- Menu of options for students

STUDENT LOAN REPAYMENT AND WAGE WITHHOLDING MEETING
AGENDA
OCTOBER 14, 1994

- Summary of Sperling meeting
- New tasks
  - Cost methodology
    - o Explain current analysis
    - o Develop alternative methodologies

      describe, brainstorm new ones
  - Analyze and explain the Mandatory DoE option
  - Describe split servicing between IRS and DoE

    logical and objective pro and con
  - Compare service delivery advantages and disadvantages between IRS and DoE
  - Develop a blend of carrot and stick options for the DoE mandatory and voluntary options — wage-w/

  - pretend we're the customer
- Next steps
  - Task assignments
  - Schedule progress meeting
  - Schedule next meeting with Sperling and Galston for week of October 24th.

VI. BUSINESS TAXPAYER BURDEN METHODOLOGY

A. Introduction

In addition to the burden models we developed for individual taxpayer activities, we developed models to estimate business taxpayer paperwork burden. As was the case with the individual taxpayer models, our objective was to specify the models such that burden estimates could be made by burden activity and by tax form. This and the following chapters describe our development of the business burden models.

This chapter provides an overview of the methodology we used to develop the business burden models; it includes:

- The definition of business taxpayer paperwork burden
- A description of the six business taxpayer activities
- A description of our approach to specifying the business burden models

Chapter VII describes the collection and preparation of the data; it includes a description of:

- The data sources
- Preparation of the data

Finally, Chapter VIII describes our analysis of the data and development of the models; it includes a description of:

- The characteristics of the businesses in the sample
- Specification and estimation of the models
- Validation and selection of the models
- Use of the models to estimate business paperwork burden

B. Definition of Business Taxpayer Paperwork Burden

In this study, burden has been defined as the actual time businesses <u>and their paid preparers</u> spend in activities to meet federal income tax filing requirements. For individual taxpayers, the concept of "equivalent time" was used in order to more accurately assess true burden. Equivalent time is inappropriate for business taxpayers because only about 15 percent self-prepare their returns.

Burden was defined in our Survey of Business Taxfiler Paperwork to include:

- The time spent on the business' tax preparation activities for 1983 even if the business had not yet filed its return

- The time spent by the person most responsible for the business' federal income tax return and by other employees of the business in activities undertaken for the specific purpose of meeting its federal income tax filing requirements

- The time spent by people who helped with the business' return and were not paid

- The time spent by the business' subsidiaries if the business filed a consolidated return

Burden was further defined in the Survey of Business Taxfiler Paperwork to exclude:

- The time spent on activities the business would have performed in the absence of a federal income tax system

- The time spent on state and local taxes

- The time spent on financial planning, even if it was tax-related

- The time spent on return examinations, corrections requested by the IRS, audits, and preparing amended returns

The actual time spent by a business' paid tax preparer was also included in the definition of burden. However, the business was not asked to provide an estimate of this time. Instead, the business forwarded a different survey to its paid preparer which asked the paid preparer to report the time spent on the business' federal tax return.

C. Definition of Business Taxpayer Activities

1. Categories

For our study of business burden, six taxpayer activities were defined:

- Keeping records

- Getting advice and learning about federal income tax filing requirements

- Obtaining materials and deciding what to do

- Finding and using tax preparation services

- Preparing the federal income tax return
- Getting the federal income tax return out

In asking businesses to report the time spent on each activity, we defined each activity more precisely in the Survey of Business Taxfiler Paperwork.

2. Keeping Records

Keeping records was defined to include the time spent by the business:

- Identifying, annotating, saving, creating, or filing receipts and records specifically for federal income tax purposes
- Maintaining files of tax-specific records
- Setting up or revising the business' accounting system to provide data specifically for the tax return
- Operating and maintaining accounting systems to provide tax information that is not included in the business' routine financial and management accounting

3. Getting Advice and Learning About Filing Requirements

Getting advice and learning about federal income tax filing requirements was defined to include the time spent by the business:

- Obtaining advice from the IRS on 1983 tax issues
- Reading IRS materials on 1983 tax issues
- Obtaining and maintaining professional and commercial tax services such as BNA, Prentice-Hall, CCH
- Reading commercially prepared materials
- Collecting and reading popular and trade material related to current taxes
- Attending classes or seminars or participating in discussions on 1983 tax year issues
- Discussing current tax issues with other business people

4. Obtaining Materials and Deciding What To Do

Obtaining materials and deciding what to do was defined to include the time spent by the business:

- Traveling, writing, or telephoning to obtain forms, information, and advice from the IRS
- Determining filing requirements
- Identifying returns or forms to be filed
- Collecting and organizing tax forms and other material necessary for return preparation (exclusive of preparing records)

5. Finding and Using Tax Preparation Services

Finding and using tax preparation services was defined to include the time spent by the business:

- Deciding to use a preparer
- Arranging for a preparer
- Working with a preparer by letter, telephone, or visit
- Completing a checklist or organizer for the preparer
- Collecting information requested by a preparer
- Reviewing the tax return with the preparer

6. Preparing the Federal Income Tax Return

Preparing the federal income tax return was defined to include the time spent by the business:

- Grouping and totaling general ledger accounts for transfer to the return
- Reconciling book and tax accounts
- Preparing special schedules and attachments
- Obtaining extensions
- Reading and comprehending instructions accompanying the tax form
- Reading and comprehending the Internal Revenue Code and Regulations
- Reading and comprehending commercially prepared materials
- Preparing worksheets

- Filling out forms, schedules, and attachments
- Making alternative calculations, for example, to minimize tax liability at the time of return preparation
- Making decisions regarding elections
- Using an in-house computer to fill out forms, schedules, attachments, to make alternative calculations, or to compute the tax

Preparing the federal income tax return was further defined to include the time spent by a paid preparer (if one was used):

- Obtaining information (including the time spent following up on missing information)
- Organizing facts, preparing worksheets or account ledgers, or reconciling book and tax entries for the client
- Filling out tax forms for the client's return (including the time spent making calculations, transferring numbers from worksheets, and other activities associated with filling out tax forms)
- Preparing materials to send to a service bureau (including any time spent correcting or modifying previously prepared materials)
- Checking the calculations and reviewing the tax return prepared by the service bureau
- Assembling the tax return, making copies, or sending the tax return to the client

7. Getting the Federal Income Tax Return Out

Getting the federal income tax return out was defined to include the time spent by the business:

- Checking the return
- Making corrections
- Assembling and copying the return
- Obtaining signatures and mailing the return
- Storing the completed return in the business' files

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

25-Oct-1994 08:56

TO: William A. Galston
TO: Gene B. Sperling

FROM: Christopher F. Edley, Jr
Office of Mgmt and Budget, EG

SUBJECT: Direct ED Loans

Thanks for including OMB's Barry White in the upcoming session on direct loans and IRS/ED coordination. Barry has been very aggressively pushing the White House perspective in the interagency working group, and you really can rely on him to be your foot soldier in this. Belle is not engaged on this issue, but I am a very interested kibbitzer. Barry knows to mobilize me to talk to senior Treasury officials when and if needed. Let me know if I can help.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

SEP 27 1994

MEMORANDUM FOR DISTRIBUTION

FROM: George Muñoz WJH for
Assistant Secretary (Management)

SUBJECT: Decision Memorandum to the President of the United States on Wage Withholding and the Direct Student Loan Program

On August 23, 1994, the Direct Student Loan Program Group reviewed recommendations concerning mandatory and voluntary wage withholding by employers for repayment of student loans. The meeting resulted in an important mid-course correction in our approach that will bring our work more fully in line with the President's goals for the Direct Student Loan Program. This is an iterative process; we look forward to your comments on the draft outline attached.

During the meeting two decisions were made. First, the group decided to develop a strategy linking income-contingent payments and wage withholding. Second, the group agreed to prepare a student loan program decision paper which would implement the President's vision, having the following key attributes:

- **Simplified application.** A streamlined application process for borrowers, with reduced paperwork for educational institutions due to the elimination of intermediaries;

- **Flexible payments.** A program which would offer borrowers an array of flexible repayment plans, including the income-contingent plan that links payment amount to income; and

- **Convenient payment.** A process which would offer borrowers the opportunity to make payments using a variety of easy and convenient methods, including wage withholding.

The result of these decisions are presented in the enclosed draft options outline, which we are asking you to review and comment on by Thursday, September 29, 1994. Also attached is a workplan for the decision memorandum which will be drafted after receiving your comments on the outline. Thank you.

Attachments

DISTRIBUTION:

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DRAFT

Student Loan Repayment
Three Options
September 20, 1994

Overview

Presented below are three student loan repayment options. They were developed by the Direct Student Loan Program Group to meet the President's vision of a loan repayment program which would have simple and convenient application and payment processes. See Attachment B for an overview of the options.

Option I: Mandatory Wage Withholding Administered by the Department of Education

Option II: Voluntary Wage Withholding Administrated by Education

Option III: Mandatory Wage Withholding Using the Current Federal Tax System

In developing the options we sought to create options that would answer positively to the following questions.

- Is the option effective? Will student loan repayments increase as a result?
- Will the public approve of the option?
- Is the option cost effective? Do the benefits exceed the costs?
- Under this option, will making loan payments be easy and convenient?

Each option is described in Attachment C, complete with methodology, benefits, costs, and constraints.

Attachment A

Attachment B

Summary of Student Loan Option

Options	Description	Significant Issue
I. Mandatory Wage Withholding Administered by the Department of Education	This option builds on the existing system of employers withholding voluntary deductions from wages.	Small employers who do not use automated payroll systems will face additional costs. There will be an undetermined Education burden relating to compliance and enforcement if an employer refuses to participate in the mandatory program. The mandatory system could be perceived as a waste of taxpayer dollars unless it is clearly demonstrated that a new wage withholding system results in a net gain Government (e.g., by reducing student loan defaults).
II. Voluntary Wage Withholding Administered by Education	This method has the same features as Option I except that employers may elect <u>not</u> to offer wage withholding to their employees.	Some borrowers may not have the opportunity to repay their loans using wage withholding.

Options	Description	Significant Issue
III. Mandatory Wage Withholding Using the Current Federal Tax System	Student loans could be paid through the current Federal Tax System. Withholdings would be increased to cover additional costs associated with the student loan.	IRS estimates that it would be required to increased federal full-time equivalent employees by approximately 7,000 to 10,000 to support this program, depending on the future loan volume. This option limits the ability to change repayment plans, because changing repayment plans requires accurate loan information. Therefore, borrowers wishing to switch out of income-contingent into other repayment plans may not be able to base their new payment on the current loan information. This option requires an additional layer of communication between Education and IRS to reconcile payments with liabilities. A mandatory system could be perceived as a waste of taxpayer dollars unless it is clearly demonstrated that a new wage withholding system results in a net gain to Government (e.g., by reducing student loan defaults). The taxpayer may not agree that an elaborate wage withholding and tax return reporting system should be established solely for the "convenience" of the student borrower. The estimated cost of administering the program through the tax withholding system would be 7,000 to 10,000 FTE and up to $5.8 billion.

very high

I d/n agree w/ this

Option I. Mandatory Wage Withholding Administered by the Department of Education

A. **Description**: This option builds on the existing system of employers withholding voluntary deductions from wages (e.g., deductions for charitable contributions, for 401(k)-type retirement programs, or for savings programs). Reports from Automated Data Processing, Inc. (ADP) and two payroll associations indicate that nearly all employers using their systems could offer wage withholding without major system changes.

B. **Methodology**: Employers would be legislatively mandated to withhold for student loan payments when requested by an employee.

- The Department of Education would furnish employers with an explanation of the wage withholding program and all information necessary to make deductions and forward payments to Education.

- All student loan borrowers would be counseled by Education regarding repayment options, including repayment methods, payment plans, and the amount of the monthly payment resulting from their choice of payment plan and their circumstances.

- The borrower would tell the employer how much to withhold and when to begin making loan payments (by EFT or check; payment could be a batch payment with individual breakout).

- Education would provide borrowers with periodic statements of the amounts received and the status of the account. The borrower would notify the employer and/or Education of any discrepancies.

- Education would set up appropriate internal controls to identify missing payments and ensure employer and borrower compliance.

- The borrower would be relieved of liability for payments withheld by the employer which are not forwarded to Education.

- For employees using the income contingent repayment plan, Education would verify adjusted gross income wage information annually through an IRS data match.

C. **Benefits:**

To Borrowers:

- This option provides a convenient wage withholding system for repaying loans.

- Once selected, the system is automatic and provides a reliable payment method.

- The borrower can easily track payments and change repayment plans.

also true for option III

To Employers:

- The employer/employee relationship benefits from this employer effort to address the employee's personal needs.

- Employers need only to perform initial setup and make periodic adjustments at the employee's request (i.e., to increase or decrease payment amounts).

- Only employers with employees desiring the benefit would be affected.

true for III?

Other:

- This method uses systems and technology currently in place.

- The method would provide Education with the information needed to responsibly manage its loan programs and meet legislative financial management requirements.

- The borrower provides a built-in compliance check by reconciling periodic loan account statements from Education with personal records and notifying Education of discrepancies.

- Employers would not be required to maintain additional accounting records, thus relieving them of administrative burdens and associated cost in a system involving a Federal payroll reporting requirement.

is this really that much less work for employers?

D. **Administrative costs:**

Education:

- This system may result in savings to Education if borrowers repay their loan using EFT rather than writing monthly checks.

- There will be an undetermined Education burden relating to compliance and enforcement if an employer refuses to participate in the mandatory program.

big issue

Employers:

how will it be enforced? – will anything be done to protect employees from retribution?

Must Calculate

- Unit cost (e.g., dollars per payroll or per employee, perhaps as a range tied to company size or some other variable).

- Number of units (e.g., 12 to 52 payrolls per year).

- Cost per employer (derived from items 1 and 2).

- Size of the universe (all employers for Option 1, perhaps two or more hypothetical participation levels for the voluntary route, Option 2).

- Total cost of the option (derived form 3 and 4).

E. **Constraints/Considerations:**

General: – will Education be able to handle collection?

- Employers will bear the administrative cost of an added payroll deduction.

- Some employers may try to discourage employees from using wage withholding.

Political Considerations:

- The mandatory system could be perceived as a waste of taxpayer dollars unless it is clearly demonstrated that a new wage withholding system results in a net gain to Government (e.g., by reducing student loan defaults).

- The taxpayer may not agree that an elaborate wage withholding system, even if inexpensive, should be established solely for the "convenience" of the student borrower.

- The employer bears the burden and cost of the student loan repayment system.

yes

will be shared w/ all shareholders employees

moot

Option II. Voluntary Wage Withholding Administered by Education

A. **Description:** This method has the same features as Option I except that employers may elect not to offer wage withholding to their employees.

B. **Methodology**: The same as Option I if employers offer wage withholding. Employers would be encouraged to participate as a public service through information campaigns and/or outreach projects.

Education would have a process in place to advise students, receive the payments from employers, provide information packages to employers, and answer employer questions.

C. **Benefits:**

To Borrowers:

- Same as Option I if wage withholding is offered by the employer.
- Borrowers would be able to use wage withholding immediately (i.e., no additional legislation is required.)

To Employers:

- Benefits to the employer are nearly the same as under Option I, except that an employer could choose not to participate, thus avoiding the administrative burden.

Other:

- Same as Option I if wage withholding is offered by the employer.
- Effective outreach and public information campaigns should be able to bring about wide availability of wage withholding while avoiding the onus of another government mandate.

cost of doing this - no guarantee ~~that~~ will work

- No Federal enforcement procedures would be needed to ensure compliance by employers.
- The system is available today for students who wish to pay through wage withholding.

q repeat

D. **Administrative Costs:**

Education:

- If employees voluntarily withhold, considerations identified in Option I will apply.

Employers:

- Unit cost (e.g., dollars per payroll or per employee, perhaps as a range tied to company size or some other variable).
- Number of units (e.g., 12 to 52 payrolls per year).
- Cost per employer (derived from items 1 and 2).
- Size of the universe (all employers for Option 1, perhaps two or more hypothetical participation levels for the voluntary route, Option 2).
- Total cost of the option (derived form 3 and 4).

E. **Constraints/Considerations:**

- Some borrowers may not have the opportunity to repay their loans using wage withholding.

(The political constraints envisioned for Option I do not apply to Option II.)

Option III. Mandatory Wage Withholding Using the Current Federal Tax System

A. **Description:** Student loans could be paid through the current Federal Tax System. Withholdings would be increased to cover ~~additional costs associated with~~ the student loan.

- All employers are currently required to withhold for income taxes. Using the tax system to collect student loans would rely on current IRS enforcement and voluntary compliance efforts and would require no payroll system changes by employers.

- Employer withholding would be subject to the same procedures used for the withholding of income taxes to ensure that the correct amount was withheld.

B. **Methodology:**

Borrower's Perspective:

- Borrowers would specify additional tax withholdings on Form W-4 based on information provided by the Department of Education.

- Payments would then be taken out of each paycheck.

- Current tax withholdings and year-to-date tax withholdings would be provided to borrowers on the pay stub with the other withholding statistics.

- Borrowers could reconcile tax withholdings between student loan and income tax liabilities on their income tax returns and remit any shortfall.

Employer's responsibilities:

- The employer changes total income tax withheld to reflect the adjusted W-4s.

- Student loan withholding would be transparent to the employer (i.e., indistinguishable from taxes).

- Employers would not have to make any adjustments to their payroll systems. There would be no additional burden on the employer to withhold for student loans.

C. **Benefits:**

To Borrowers:

- The tax withholding system provides borrowers with an easy, convenient wage withholding system.

- This method of collecting student loans builds on an existing framework that all employees are required to use.

To Employers:

- None. — uses existing system

Other:

- The IRS already has the enforcement mechanism to ensure employer compliance with withholding requirements.

- This method uses an existing system, thus avoiding the need to create an additional infrastructure.

D. **Administrative Costs:**

IRS:

- The estimated cost of administering the program through the tax withholding system would be 7,000 to 10,000 FTE and up to $5.8 billion.

Employers:

- Unit cost (e.g., dollars per payroll or per employee, perhaps as a range tied to company size or some other variable).

- Number of units (e.g., 12 to 52 payrolls per year).

- Cost per employer (derived from items 1 and 2).

- Size of the universe (all employers for Option 1, perhaps two or more hypothetical participation levels for the voluntary route, Option 2).

- Total cost of the option (derived form 3 and 4).

(continued)

E. **Constraints/Considerations:**

General:

- This option limits the ability to change repayment plans, because changing repayment plans requires accurate loan information. Therefore, borrowers wishing to switch out of income-contingent into other repayment plans may not be able to base their new payment on the current loan information.

- This option requires an additional layer of communication between Education and IRS to reconcile payments with liabilities.

- While payments are received throughout the year as part of the employer's Federal Tax Deposits, those payments must be separated from income tax receipts; and that occurs only when individuals file their income tax returns.

- Receiving loan payment data eighteen months after the start of the withholding period would present enormous reconciliation problems, since data could not be reported until returns with student loan deductions were identified.

- A balance due in income tax payments may adversely affect student loan payments.

- Because payments would be recorded only once a year, it would be difficult to monitor continued employee compliance with their selection of wage withholding. Borrower abuses of the system may occur or the Department of Education may not be able to apply the early intervention techniques that minimize defaults.

- Education oversight of poorly performing schools would be hampered due to the lack of current information on delinquencies and defaults in making loan payments.

- The system would essentially be an honor system, and Education would have to rely on the student making payments and the employer remitting them for one and one-half years before taking corrective action.

- Education would not be able to comply with financial management requirements specified in the Credit Reform Act of 1990 or the Chief Financial Officer's Act of 1990.

- There is not 100% compliance with employer withholding. While this does not harm borrowers, it does impact Federal revenues. The reliance on employer withholding could result in reduced repayment revenues and an increase in the IRS' accounts receivable.

- (Because student loan wage withholding would be transparent to the employer, in contrast to Options I and II, no additional burden is placed on the employer.)

Political Considerations:

1. Public Perception

but they might like it

   - A mandatory system could be perceived as a waste of taxpayer dollars unless it is clearly demonstrated that a new wage withholding system results in a net gain to Government (e.g., by reducing student loan defaults).

   - The taxpayer may not agree that an elaborate wage withholding and tax return reporting system should be established solely for the "convenience" of the student borrower.

2. If IRS collects loans using the current tax system, the Department of Education could not comply with recent legislation intended to reform government financial management and permit accurate accounting for taxpayer dollars and budgeting for future outlays.

   - Loan collection data pertaining to the prior fiscal year would not be available until after April 15 of the next year.

   - The Credit Reform Act of 1990 requires prior fiscal year data on receivables and liabilities to be available by November 15 to close out accounting records for the fiscal year and to finalize the President's budget for the next fiscal year.

   - The Chief Financial Officer's Act of 1990 requires agencies to prepare auditable financial statements for the prior fiscal year by March 1 of the current fiscal year.

3. In a mandatory wage withholding system, using the IRS to collect student loans outside the tax system undermines the principles of the National Performance Review on reducing the size and cost of the Federal Government.

- IRS estimates that it would be required to increase federal full-time equivalent employees by approximately 7,000 to 10,000 to support this program, depending on future loan volume.

4. A mandatory wage withholding system, using the IRS to collect loans outside the tax system, would have a devastating impact on Education's ability to manage its student financial assistance programs and prevent fraud and abuse.

repeats

- Most of the deficiencies noted by Congressional committees, the GAO, Education's Inspector General, and media stories concerning Education's administration of its student financial assistance programs can be attributed to insufficient current data for management purposes.

- Using the IRS tax system to collect student loans would delay the receipt of repayment information considerably, since information pertaining to any calendar year would not be available until at least 6 months after the end of the calendar year.

- Critics and analysts have pointed out repeatedly that Education needs access to real-time data to the extent feasible for efficiency in loan servicing, monitoring of school performance, budget forecasting, and financial management purposes.

120 000 000

600

WORKPLAN FOR PREPARATION OF MEMORANDUM TO THE PRESIDENT OF THE UNITED STATES

TASK Note: POTUS = President of the United States Note: During steps 1 through 4 staff continues to flesh out outline	RESPONSIBILITY T = Treasury E = Education ALL = White House and OMB	DUE DATE (1994)
1. Draft Outline/Workplan	T & E	8/26
2. Circulate Draft for Comments (internal to IRS, T & E)	T	9/1
3. Comments returned to Treasury	T, E	9/6
4. Transmit final Draft Outline/Workplan to White House and Office of Management & Budget (OMB) for comment	T	9/22
5. Comments returned to Treasury	All	9/26
6. Transmit Draft POTUS Memorandum to Treasury & Education for Comment	T & E	9/28
7. Comments returned to Treasury on draft POTUS memo	T & E	10/4
8. Meeting if necessary	T & E	10/5
9. Transmit revised draft POTUS memo to all for comments	T	10/7
10. Comments returned to Treasury	All	10/13
11. Meeting if necessary	All	10/14
12. Decision memo to POTUS	T & E	10/21

September 20, 1994

DRAFT