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Redesigned Income-Driven Repayment Plans Could Help Struggling Student Loan Borrowers

Research indicates that policymakers should address enrollment, affordability, and balance growth

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Overview

Today, approximately 43 million Americans hold a federal student loan. When these borrowers fall behind on payments, they become delinquent on their loans; once the loans reach 270 days past due, borrowers are in default. As of March 2021, roughly 1 in 5 borrowers was in default, according to data from the U.S. Department of Education.¹

Failing to repay a student loan can have serious, long-term financial consequences: Borrowers can face collection fees; wage garnishment; money being withheld from income tax refunds, Social Security, and other federal payments; damage to their credit scores; and ineligibility for educational loans and grants.²

Income-driven repayment (IDR) plans, which were first made available to borrowers in 1995, are designed to make federal student loan repayment more affordable. IDR plans calculate monthly payments based on a borrower's income and family size and typically offer lower monthly payments than the standard 10-year repayment plan that borrowers are automatically placed into if they don't select another option. In addition, balances that are not repaid after 20 or 25 years of qualifying payments are forgiven. Today, around 30% of all federal student loan borrowers—over 9 million people—are in such a plan.³

A growing body of research examines how borrowers use these plans and whether such plans effectively meet the needs of those struggling with delinquency and default. This report reviews the goals and structure of income-driven plans and identifies themes in research on borrowers' experiences in repayment to help policymakers better understand the benefits, drawbacks, and potential effectiveness of reforms to income-driven plans.

Key takeaways from the research:

IDR eases repayment for many borrowers.

- Income-driven repayment is largely meeting the goal of lowering the risk of delinquency and default for many borrowers. Those enrolled in IDR plans have much lower delinquency and default rates than borrowers enrolled in the standard 10-year repayment plan. In addition, borrowers who previously defaulted may be less likely to redefault if they enroll in an IDR plan after bringing their loans back into good standing.⁴
- Borrowers in income-driven plans tend to have moderate to low annual incomes and higher debt than those in other plans. About half have incomes low enough to qualify for a \$0 monthly payment.

However, significant barriers still prevent some borrowers from benefiting from income-driven plans.

- Many struggling borrowers are still not enrolled in income-driven repayment. Borrowers with incomes of about \$20,000 or below, who are typically at greatest risk of delinquency and default, are less likely to be enrolled than moderate-income borrowers.
- A significant number of borrowers say that income-driven payments are still unaffordable, given their financial circumstances. According to a recent Pew survey, nearly half of borrowers previously or currently enrolled in IDR plans reported that their monthly payment was still too high.⁵ This may be because the payment calculation formula does not sufficiently account for the range of expenses that borrowers may incur or because their incomes vary sharply from month to month.
- Borrowers in income-driven plans often experience an increase in their loan balances and take longer to pay down the loan principal than those in standard repayment plans. This growth is largely the result of plan design: Lowering monthly payment amounts and extending repayment periods causes interest to

accrue when payments are less than the amount of interest that is charged monthly. However, despite the prospect of loan forgiveness after 20 or 25 years, research has found that growing balances can overwhelm and discourage struggling borrowers from engaging with the repayment system.

- Many borrowers encounter administrative barriers to accessing and maintaining affordable payments in income-driven plans. These obstacles include a lack of information and assistance from loan servicers, problems with the application process, and difficulties with the required annual recertification of income and family size. As a result, borrowers can experience delays in entering plans or payment increases when they miss recertification deadlines, and research indicates that many do not recertify on time.

This report also proposes principles for reform that would address these four key problems with the structure and implementation of IDR plans: the under-enrollment of struggling borrowers in income-driven plans; the unaffordability of monthly payments for some borrowers, even those in income-driven plans; an increase in loan balance for some participants in income-driven plans; and barriers to enrollment in and recertification for these plans.

These principles include:

- Increasing income-driven plan enrollment among borrowers who are most likely to benefit from protections against delinquency and default. This can be achieved by streamlining the current multiple income-driven plans into a single option; allowing borrowers to exit default by directly enrolling in an income-driven plan without needing to first navigate the lengthy and complex “rehabilitation” process; and ensuring clear and consistent communication with, and targeted outreach to, borrowers.⁶
- Ensuring that income-driven payments are affordable, especially for low-income borrowers. In addition, permanently exempting forgiven student debt amounts from being taxed as income would prevent borrowers from facing unaffordable tax bills.
- Reducing the growth of borrowers’ loan balances in income-driven repayment. Policymakers should consider ways to reduce interest accrual or capitalization—the addition of outstanding interest to the principal—to prevent balances from ballooning under income-driven plans.
- Making it easier for borrowers to enroll and remain in income-driven plans, which could be done by implementing the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act. This law directs the IRS and the Department of Education to securely share relevant borrower data, allowing borrowers to opt into a process that eliminates the need for them to proactively provide income data to loan servicers.

The Department of Education should consider principles focused on affordability, limiting balance growth, and reducing program complexity as it finalizes a new income-driven repayment plan after the fall 2021 negotiated rule-making session. These principles will be explored in greater detail in follow-up publications that will model the effects that implementing certain reforms may have on borrowers.

Finally, this report identifies unresolved questions and research that are needed to help policymakers move forward with reforms to the student loan repayment system. Improving the data available would help ensure that policymakers have a robust understanding of how to help those most at risk of delinquency and default.

About income-driven repayment plans

One of several repayment options available to federal student loan borrowers, income-driven plans can lower borrowers’ monthly payments compared with those in repayment plans with fixed monthly payments, such as the standard 10-year repayment plan. Borrowers must provide information about their income and family size

when applying for income-driven repayment and must update that information each year, via a process called “recertification.”

For a detailed look at borrower eligibility requirements for the existing IDR plans, see Appendix A.

Eligibility requirements

Eligibility requirements differ among plans. For example, some plans require that borrowers have a certain debt-to-income ratio, which means that borrowers can enroll only if their income-driven payments would be lower than their payments would be in the Standard Repayment Plan. In addition, some plans are available only to people with specific types of loans or those who borrowed before or after a certain date.⁷

Treatment of income

Generally, monthly payments are calculated as a percentage of the borrower’s “discretionary income,” and the definition and percentage of discretionary income varies among plans. In most plans, discretionary income is defined as the difference between the borrower’s adjusted gross income (AGI)—as reported on federal tax returns—and 150% of the federal poverty guidelines for the borrower’s family size and state of residence.⁸

When enrolled in an income-driven plan, borrowers are required to pay 10%-15% of this amount. Borrowers with incomes under 150% of the poverty guideline pay nothing each month, because they are not considered to have any discretionary income.

- For example, consider an **unmarried borrower with no dependents and a \$40,000 AGI**.
- The 2021 poverty guideline for a household size of one is \$12,880, and 150% of this amount is \$19,320.
- This borrower would have **\$20,680 in annual discretionary income** (\$40,000 - \$19,320).
- If that borrower enrolls in the income-driven plan Revised Pay As You Earn (REPAYE), his or her monthly payment would be 10% of this discretionary income, or **\$172/month** (\$20,680 x 10%, divided by 12 months).

Those who file tax returns can electronically transfer their income information using an online interface called the IRS Data Retrieval Tool.⁹ They can also provide their servicers with copies of their tax returns or tax return transcripts, or self-certify that they received no taxable income the previous year. If borrowers’ income has changed significantly since their most recent federal tax return or if they have not recently filed a federal tax return, they can provide “alternative documentation of income.”¹⁰ This can include pay stubs or other items that demonstrate current earnings.

The treatment of a borrower’s spouse’s income varies by plan. In some plans, tax filing status—for example, whether taxes are filed individually or jointly—affects whether a spouse’s income and debt level are included in the calculation of the borrower’s monthly payment amount.

Finally, as borrowers’ incomes rise, some income-driven plans have a limit on the amount a borrower can pay each month, which is called the “Standard Payment Cap.” In these plans, monthly payments are capped at the amount that borrowers would have paid had they enrolled or remained in the Standard Repayment Plan instead of an income-driven plan.¹¹ REPAYE, the newest income-driven plan, does not include this payment cap, and borrowers with high enough incomes, relative to debt, are required to pay more than they would have in the Standard Repayment Plan.

Treatment of interest

When borrowers enroll in income-driven plans, their payments may be less than the interest that accrues on their

loans each month (and for some, can be as little as \$0). Some plans have caps on the amount of interest that can accrue.¹² This is called an interest subsidy. For example, borrowers enrolled in the REPAYE plan whose monthly payment does not cover accruing interest receive a subsidy from the government for all the remaining interest on their subsidized loans for the first three years of repayment. Once this three-year period expires, those borrowers will receive a subsidy for half the remaining interest. The terms for receiving an interest subsidy differ for each IDR plan and are described in greater detail in Appendix A.¹³

In some plans, missing the annual recertification deadline or having an increase in income such that a borrower hits the standard repayment cap can trigger interest capitalization. Capitalization increases the loan principal subject to future interest charges, though some plans have a limit on how much interest can be capitalized.

Length of time spent in repayment

All income-driven plans have a maximum repayment period—once a borrower has made 20 or 25 years' worth of qualifying payments, any unpaid balance is forgiven. Periods during which a borrower has a \$0 required monthly payment because his or her income is below the income threshold or receives an economic hardship deferment count toward the maximum repayment period.¹⁴ A small number of borrowers have received loan forgiveness through income-driven repayment, though many borrowers in income-driven plans are not yet eligible for forgiveness.¹⁵

Note that some borrowers are projected to fully repay their loans before the end of the maximum repayment period. The latest budget documents from the Department of Education project that 20% of IDR borrowers will either repay in full or prepay before the end of their repayment period.¹⁶

Treatment of forgiven balances

There is a potential tax liability for loan balances forgiven under income-driven plans. Until recently, that forgiven debt has been considered taxable income, which means that borrowers must pay taxes on the forgiven amount. The American Rescue Plan Act of 2021 exempts discharged and forgiven student loan balances from taxation through 2025, but the change is not permanent.¹⁷ Meanwhile, some other forms of federal student loan discharge are permanently exempt from taxation, including for borrowers pursuing Public Service Loan Forgiveness—a program that allows eligible borrowers with public sector jobs to access loan forgiveness after 10 years' worth of qualifying payments—as well as for those who become totally and permanently disabled, and for borrowers whose schools closed before they could complete their programs.¹⁸

Evolution of income-driven plans

The first income-driven plan, Income-Contingent Repayment, became available to borrowers in 1995. Over time, new plans have been enacted through legislation and the Department of Education's regulatory process, to address perceived limitations with existing plans.¹⁹ (See Appendix A.) New plans were implemented to expand eligibility to additional borrowers, as well as lower monthly payment amounts and shorten the amount of time a borrower is required to make payments before he or she becomes eligible for forgiveness.²⁰ Concerns about rising debt amounts and borrowers' ability to find well-paying jobs after the 2008 recession helped fuel the effort to make income-driven plans more generous.²¹ In addition to further expanding eligibility, the newest plan, REPAYE, was also designed to address concerns about targeting, interest accrual, and interest capitalization.

Goals of and considerations for income-driven repayment plans

There is wide, bipartisan agreement on the overarching goal of income-driven repayment: to provide more affordable payments to borrowers, reducing their likelihood of becoming delinquent and ultimately defaulting

on their loans.²² By lowering monthly payments from those that would otherwise be made in the Standard Repayment Plan, income-driven plans provide relief to borrowers, particularly those with high debts relative to their incomes and at the beginning of their careers.²³ Stakeholders have also noted that making student loan payments more affordable can help borrowers devote those resources to long-term financial stability, including buying homes and starting businesses.²⁴ Note that income-driven repayment is generally envisioned as a way to address medium- or long-term financial insecurity. For borrowers experiencing short-term financial hardship (e.g., temporary medical expenses, a short break between jobs), deferment or forbearance may be more appropriate as they offer more immediate relief for shorter periods of time and carry a smaller administrative burden than enrolling in an income-driven plan.²⁵

While there is broad agreement on the primary purpose of income-driven plans, stakeholders have differing perspectives on the benefits and consequences of these plans for borrowers, taxpayers, and the higher education system and which issues policymakers should take into account in plan design.

Reducing time spent in repayment

Although income-driven plans lower monthly payments and extend the repayment period, interest accumulation can result in borrowers repaying more over the long term than they would under the Standard Repayment Plan.²⁶ The Department of Education projects that, depending on income and loan balance, some borrowers enrolled in IDR plans could repay as much as 1.5 to two times what they originally borrowed.²⁷ A series of focus groups with student loan borrowers conducted by The Pew Charitable Trusts in 2018 and 2019 found that despite the promise of loan forgiveness, borrowers expressed tension between their desire to have lower monthly payments and their frustration at stagnant or rising balances in income-driven plans.²⁸ Concerns about ballooning balances are shared by organizations across the political spectrum, and there is broad bipartisan support for limiting interest accrual for borrowers in income-driven plans.²⁹ Other stakeholders have also expressed concerns about the longer duration of payments in IDR and the potential consequences of carrying student debt for a longer period of time.³⁰

When evaluating the trade-offs between lower monthly payments and longer time in repayment, it is important to recognize that borrowers have varying repayment goals. Some borrowers seek to lower their monthly payments as much as possible, but that can lead to more interest accruing. Other borrowers prefer to pay down their loans as quickly as possible, making higher monthly payments but accruing less interest. Also, these goals may change after borrowers leave school and have different experiences in the workforce.

Targeting benefits and cost to the government

Some researchers and members of Congress have concerns about IDR plans' cost to taxpayers, especially about high-income, high-debt borrowers potentially receiving large amounts of loan forgiveness.³¹ Because borrowers' monthly payments in the future are worth less than payments now,³² there is a budget cost to the government to spreading out payments over a longer period of time. Additionally, providing some forgiveness of unpaid balances means that the government will not end up recouping the cost of all loans repaid in an income-driven plan. Cost concerns have affected the design of existing income-driven plans.³³ For example, the Department of Education cited costs to taxpayers in its rationale for rejecting suggestions to change the forgiveness provisions in the REPAYE plan to provide forgiveness after 20 years to all borrowers, including those with debt from graduate school.³⁴

Concerns about targeting are largely centered on how much forgiveness borrowers receive and how much they end up repaying within income-driven plans. Though no data is yet available on actual forgiveness amounts or total amounts repaid in income-driven plans, government agencies calculate projections of total amounts repaid and forgiven in income-driven plans. The Congressional Budget Office (CBO) and the Department of Education

project that some borrowers in IDR will end up repaying at least the original amount they borrowed, whether or not they receive forgiveness.³⁵ Additionally, 1 in 5 borrowers who enroll and remain in IDR plans throughout the life of their loans is expected to repay their principal balances plus interest, before any remaining balance would become eligible for forgiveness.³⁶

In terms of which borrowers are expected to receive the most loan forgiveness in income-driven plans, researchers have identified differences by graduate student status and borrower income. Graduate students are able to borrow more than undergraduates and are projected to account for the vast majority (81%) of the amount forgiven under income-driven plans and Public Service Loan Forgiveness.³⁷ Looking at borrowers by income, lower- and moderate-income borrowers may be more likely to have remaining balances after 20 or 25 years, because their monthly payments are lower than those of higher-income borrowers. A recent analysis projects that the lowest-earning borrowers would receive more than four times as much forgiveness as the highest-earning borrowers, if all borrowers were enrolled in Pay As You Earn (PAYE).³⁸ Borrowers in the middle of the earnings distribution are projected to receive the most loan forgiveness.³⁹

It is important to note, however, that the government's costs are determined by the amount borrowers actually repay, not the accrued interest that may end up getting forgiven. The cost of the federal loan program is estimated by comparing the amount the government lends with the amount that borrowers pay back, discounting future cash flows to a present value. The government can still generate income on loans when borrowers receive forgiveness.⁴⁰

To improve targeting and fairness, policymakers and advocates from the right, left, and center have supported removing the standard payment cap, which would ensure that borrowers continue to pay 10%-15% of their incomes, even as their incomes rise.⁴¹ Similarly, there has been bipartisan support for having married borrowers' payments be calculated the same in IDR regardless of whether they file jointly or separately.⁴² The IDR plan REPAYE was designed to address both of these concerns. REPAYE removes the standard payment cap, ensuring that high-income borrowers don't pay a smaller share of their income than lower-income borrowers,⁴³ and it considers the borrower and spouse's combined incomes, regardless of how they file their taxes (with an exception for spouses who are separated). Other targeting proposals include requiring higher-income borrowers to make higher monthly payments than lower-income borrowers⁴⁴ and requiring longer repayment periods for borrowers with debt from graduate school⁴⁵ or for borrowers with higher debts.⁴⁶

Limiting borrower, institutional, and government risk

The department and some researchers have underscored that, given the increased reliance on borrowing to finance college costs, the ability to make monthly payments based on income rather than amount borrowed helps to limit the risks of borrowing, so that students can pursue higher education regardless of their financial means.⁴⁷

However, other researchers are concerned that income-driven plans may create a "moral hazard" where students engage in riskier financial behavior because they will not have to face the full cost of their actions. Specifically, there are concerns that students will end up borrowing more and becoming less sensitive to education costs because of the availability of income-driven payment plans.⁴⁸ As a result, colleges may face less pressure to limit tuition increases and other costs and fees.⁴⁹

Moreover, there is concern among some researchers that increased or automatic enrollment in income-driven plans could reduce pressures on governments and colleges to make higher education more affordable.⁵⁰ The assurance of more affordable payments on the back end (i.e., in repayment) could draw attention away from the costs that students are asked to cover on the front end. If governments continue to roll back their funding of public colleges, tuition charges at those institutions would likely increase. Faced with budgetary pressures, both colleges and governments could also end up providing less need-based grant aid, which has been shown to

increase college access and completion.⁵¹ This concern was expressed as early as the first proposals for income-driven repayment in the 1960s⁵² and is related to the broader shift that has already taken place from public funding of higher education to financing by students and families themselves, as demonstrated by students' increased reliance on loans.⁵³

Reducing program complexity

Targeting benefits to specific types of borrowers or otherwise adding elements to the income-driven repayment formula can make these plans more difficult for borrowers to navigate and for servicers to administer. Research shows that the programs' confusing enrollment and annual recertification processes already make it difficult for borrowers to take advantage of these choices.⁵⁴ While the 2019 FUTURE Act—which directs the IRS and the Department of Education to securely share relevant borrower tax return data—will streamline administrative roadblocks and help borrowers more easily enroll and remain in IDR plans, this law has not been fully implemented and leaves some problems unaddressed.

Income-driven payments are typically lower than payments in other plans, reducing borrowers' likelihood of delinquency and default

For many borrowers, being enrolled in an IDR plan lowers monthly payments.⁵⁵ In fact, for those with incomes below a certain threshold (e.g., 150% of the federal poverty guideline), payments can be as little as \$0. A snapshot of borrowers enrolled in REPAYE reveals that more than half (54%) had a \$0 scheduled monthly payment.⁵⁶ Similarly, another analysis found that almost half (48%) of borrowers enrolled in IDR plans pay \$0 per month.⁵⁷

Beyond this, existing studies report widely different estimates of borrowers' average monthly payments—ranging from \$12 to \$250, as shown below. These discrepancies may reflect differences in how the research was conducted and the population of borrowers studied.

- When examining borrowers enrolled in REPAYE, one analysis found that the median monthly payment was \$91.⁵⁸
- A Consumer Financial Protection Bureau analysis of credit bureau data found that borrowers' average monthly payment the quarter after enrolling in an income-driven plan was \$97, compared with \$219 before enrolling.⁵⁹
- However, another analysis identified the median income-driven payment as \$12.⁶⁰
- An analysis of 2016 Department of Education data found the average payment to be \$154.⁶¹
- A small survey of those with mostly four-year and graduate degrees—and thus more debt and higher incomes than average—found the median income-driven payment to be \$250.⁶²

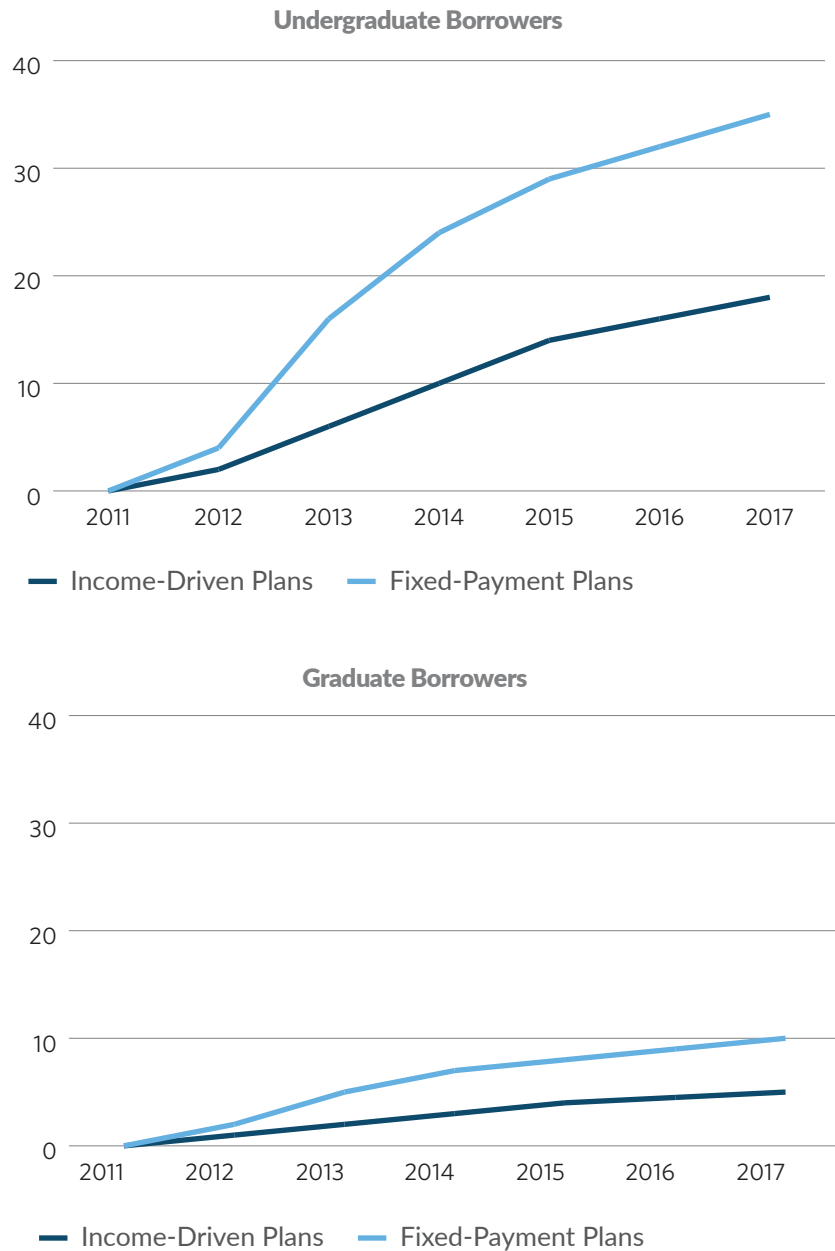
Although the Department of Education's data systems include borrowers' monthly payments in income-driven plans, those statistics are not regularly shared with the public.

As a result of lower payments, the delinquency and default rates for borrowers in income-driven plans have been consistently found to be substantially lower than those of borrowers in fixed-payment plans, such as the Standard Repayment Plan.⁶³ For example, the CBO has documented that borrowers enrolled in income-driven plans have about half the default rate as borrowers in other plans. (See Figure 1.)⁶⁴ In addition, one analysis found that previously defaulted borrowers were less likely to redefault if they enrolled in an IDR plan after bringing their loans back into good standing through rehabilitation—one mechanism for exiting default.⁶⁵

Figure 1

Borrowers Enrolled in IDR Plans Have Lower Default Rates Than Borrowers Enrolled in Fixed Payment Plans

Cumulative default rates by repayment plan type among borrowers who began repayment in 2012



Note: In this figure, borrowers are categorized as repaying through an income-driven plan if they were enrolled in such a plan in their first or second year of repayment.

Source: Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options" (2020), <https://www.cbo.gov/system/files/2020-02/55968-CBO-IDRP.pdf>

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Key problem: Income-driven payments may still be unaffordable for some borrowers.

However, qualitative research shows that some borrowers still find income-driven payments unaffordable, primarily because their income is volatile or because income-driven plans don't sufficiently account for the range of expenses they may incur.⁶⁶ Recent Pew survey data shows that while more affordable payments are an important reason why borrowers chose to enroll in IDR plans, nearly half of borrowers previously or currently enrolled reported that their monthly payment was still too high.⁶⁷ Monthly payments in income-driven plans are typically based on the borrower's income from their most recent federal income tax return, which may not reflect their current income. While borrowers can ask their loan servicer to recalculate their payment amounts because of changes in income, monthly payments are not automatically adjusted in real time. Additionally, borrowers may owe payments on private student loans, medical costs, or other expenses that are not factored into the income-driven payment calculation. For example, one small survey found that nearly half of borrowers in income-driven repayment also had private student loan debt.⁶⁸ Some borrowers reported missing or pausing payments because income-driven plans did not adequately take into account other aspects of their household expenses and financial obligations.⁶⁹ Additionally, more than one-fifth of Black borrowers in a recent study reported being unable to afford food, rent, or health care, despite being enrolled in income-driven plans.⁷⁰ Quantitative data supports these concerns raised about income-driven plans' affordability—while delinquency and default rates are lower for borrowers enrolled in income-driven plans, delinquency and default are not completely eliminated.⁷¹

Borrowers in income-driven plans often experience balance growth, take longer to pay down principal, and pay more over the life of their loans

Several studies have found that borrowers in income-driven plans are less likely to pay down or take longer to start paying down their principal, compared to borrowers in fixed-payment plans.⁷² The CBO found that loan balances increase over time for the typical borrower in income-driven repayment but decrease over time for those in fixed-payment plans.⁷³ Within five years of entering repayment, more than 75% of borrowers in income-driven plans owed more than they originally borrowed. Although other analyses have found different trends for short-term balance growth, balances may grow over time.⁷⁴

This balance growth in income-driven repayment is largely the result of plan design: Lowering monthly payment amounts and extending repayment periods causes interest to accrue.⁷⁵ Yet balance growth is not limited to borrowers enrolled in income-driven plans. A recent Pew analysis found that borrowers who owed more than their original balances after five years in repayment had frequently missed and paused their payments while interest continued to accrue.⁷⁶ Those borrowers typically paused their payments for almost a year, and 75% had been delinquent at least once. Another study of bachelor's degree recipients found that delaying repayment reduced the likelihood of paying down principal by almost 57%.⁷⁷

Moreover, borrowers who enroll in income-driven repayment may exhibit other characteristics associated with taking longer to pay down their loan balances, even if they were in a different repayment plan. For example, research links higher debt amounts⁷⁸ and lower incomes with borrowers' having a lower likelihood of paying down their loan balances over time, and several analyses indicate that borrowers in IDR plans tend to have lower incomes and higher debt loads than borrowers in other repayment plans.⁷⁹

Key problem: Borrowers often experience balance growth in income-driven plans, which can cause discouragement and frustration.

Qualitative research reveals that balance growth can cause discouragement and frustration among borrowers.⁸⁰ Having a growing balance—from interest accrual, capitalization, periods of paused payments or nonpayment, or income-driven payments that did not cover the accruing interest—can create psychological and financial barriers to repayment for many borrowers. In recent focus groups, the tension between borrowers’ desire for lower payments and their frustration at rising balances was especially prevalent in conversations about IDR plans.⁸¹ Additionally, a study of Black borrowers found that some of those enrolled in income-driven plans described their student loans as a lifetime sentence and growing balances as “shackles on their ankle,” expressing skepticism about eventual forgiveness.⁸²

Borrowers in income-driven plans tend to have low or moderate incomes and high debt, yet some of the lowest-income borrowers are not enrolled

Studies have shown that most borrowers in income-driven plans have low or moderate incomes. Based on a review of 2014 data from the Department of Education, the Government Accountability Office found that 70% of borrowers enrolled in an income-based repayment plan and 83% of PAYE borrowers earned between \$1 and \$20,000.⁸³ Similarly, using 2016 data from the nationally representative Survey of Consumer Finances, the Urban Institute found that most borrowers in income-driven plans had household incomes between \$20,000 and \$60,000.⁸⁴ Additionally, about half of borrowers in income-driven plans are making \$0 monthly payments, which indicates that their income is so low that they are not considered to have any discretionary income.⁸⁵

However, studies suggest that the lowest-income borrowers are less likely to enroll in income-driven plans than moderate-income borrowers, even though they are more likely to fall behind on payments.⁸⁶ For example, one analysis of 2019 Survey of Consumer Finances data found that 53% of borrowers with incomes between \$60,000 and \$80,000 were enrolled in income-driven plans, compared with only 30% of borrowers with incomes between \$1 and \$20,000.⁸⁷ Research has also found that the highest earners were less likely to enroll in income-driven repayment than moderate earners.⁸⁸ In one study, the highest earners (earning \$100,000 or more) were 11 percentage points less likely to be enrolled in income-driven repayment than those earning between \$40,000 and \$55,000.⁸⁹

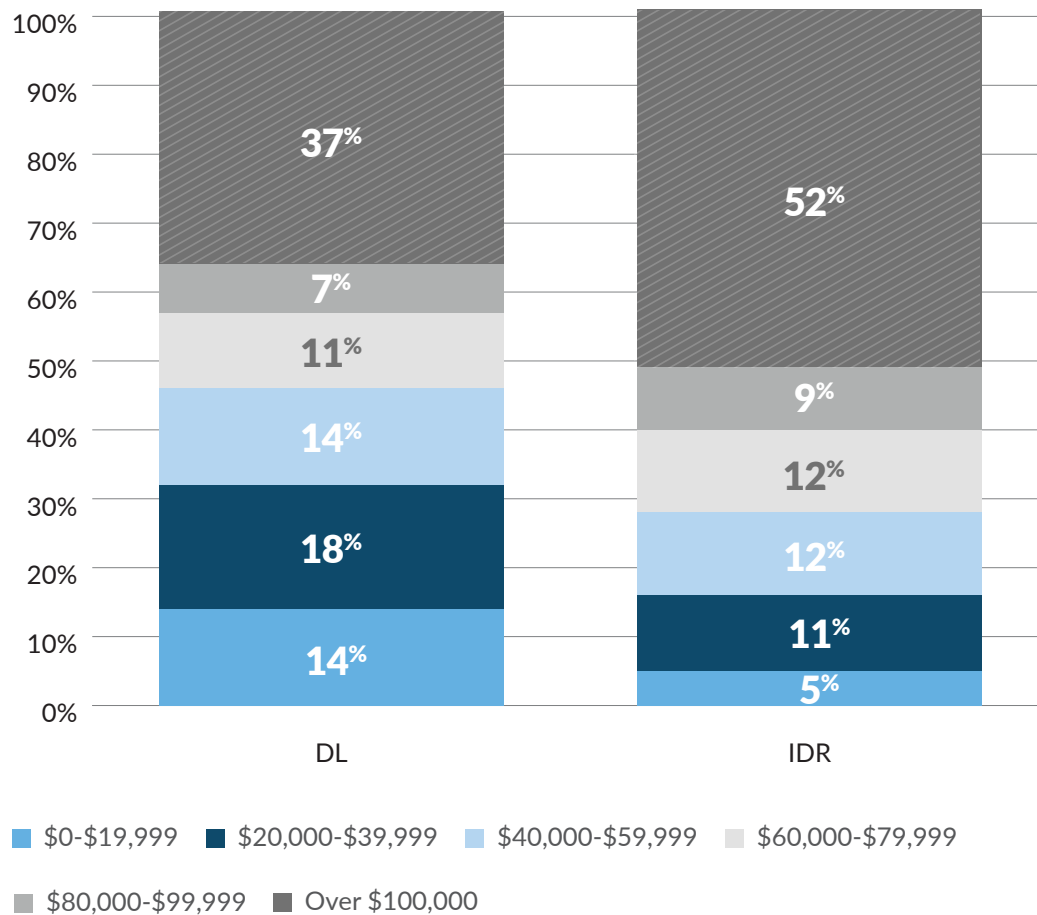
Studies have also found that borrowers in income-driven plans have higher debts than borrowers in other repayment plans. For example, one analysis found that recent borrowers who entered such plans had nearly twice as much debt, on average, as borrowers in the Standard Repayment Plan.⁹⁰ Similarly, a study of bachelor’s degree recipients found that borrowers in income-driven plans borrowed, on average, over \$15,000 more than non-income-driven plan borrowers.⁹¹ Another analysis found the starting debt amounts of borrowers in income-driven repayment to be higher than those of borrowers in standard payment plans for certain household income brackets only.⁹² In terms of whether borrowers enroll in income-driven plans, some studies have found that borrowers with higher debt were more likely to enroll.⁹³

Since 2010, the Department of Education has been the lender for all new federal loans through a program called the William D. Ford Direct Loan program, commonly referred to as Direct Loans. Figure 2 illustrates how a disproportionately large share of direct loan dollars being repaid in income-driven plans are held by borrowers with high loan balances. For example, only 37% of Direct Loan dollars are held by borrowers with more than \$100,000 of debt, compared with more than half (52%) of loan dollars repaid under income-driven repayment.

Figure 2

A Greater Share of Borrowers With More Than \$100,000 of Debt Are Enrolled in Income-Driven Plans

Direct Loan portfolio compared to IDR portfolio, as of March 31, 2021



Notes: Figures reflect the share of dollars outstanding in the Direct Loan portfolio as well as the share of dollars being repaid within an IDR plan. Data is accurate as of March 31, 2021.

Source: Office of Federal Student Aid, "Direct Loan Portfolio by Borrower Debt Size" (2021), <https://studentaid.gov/sites/default/files/fsawg/datacenter/library/DLPortfolio-by-Debt-Size.xls>

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Key problem: Some borrowers who could benefit most from protections against delinquency and default are not enrolled in income-driven repayment.

As mentioned above, studies show that the lowest-income borrowers are less likely to enroll in income-driven plans than moderate-income borrowers, even though they are more likely to fall behind on payments.⁹⁴ Additionally, while graduate borrowers represent a disproportionately large share of borrowers in income-driven plans, compared to fixed-payment plans,⁹⁵ borrowers with lower levels of education—particularly those who do not complete a college degree—are more at risk of delinquency and default.⁹⁶ In fact, a recent study found that

almost one-third (32%) of borrowers who did not complete college were behind on their payments and were not enrolled in income-driven repayment.⁹⁷ Since the widely agreed-upon goal of income-driven repayment is to provide more affordable payments to borrowers and help them avoid delinquency and default, it is crucial to evaluate whether the borrowers who most need those protections are enrolled.

Considerations External to the Repayment System

While this paper focuses on borrower characteristics and behaviors that are directly related to repayment, it is important to acknowledge that not all borrowers are at the same risk of default when entering the repayment system. For example, and perhaps counterintuitively, borrowers who owe the least—often less than \$10,000—and may not have completed their programs of study default at higher rates than those with larger balances.⁹⁸ And borrowers who attend for-profit institutions (and, to a lesser extent, public two-year institutions) default at higher rates than those attending other types of schools.⁹⁹ In addition, borrowers of color, particularly African Americans, and first-generation students face default at higher rates than their peers.¹⁰⁰

These disparities require a long-term, systemic approach, such as one that includes efforts to increase college completion, ensure that colleges are offering quality programs, address labor market discrimination, and reduce the amount of debt that students need to borrow in the first place. Nevertheless, improvements to the student loan repayment system—both in design and implementation of income-driven plans—could be extremely helpful to the borrowers who are struggling the most.

While there is limited available data on and research into the demographics and enrollment behavior of those in IDR plans, some studies are beginning to shed light on these characteristics. Gaining a better understanding of who is accessing and using income-driven plans allows researchers and policymakers to assess the effects and effectiveness of these plans.

Gender: Some studies have found that female borrowers are more likely to enroll in income-driven plans,¹⁰¹ and female borrowers make up a larger share of borrowers enrolled in these plans.¹⁰²

Race: There is not consensus on trends in enrollment in income-driven plans by race. A recent analysis found that nearly half of Black (49%) and Hispanic (46%) borrowers are enrolled in income-driven plans, compared to 39% of White borrowers.¹⁰³ Though Black borrowers were more likely to enroll than White borrowers, they were also twice as likely to fall behind on payments without accessing income-driven repayment. Other studies have also found that non-White borrowers are more likely to enroll in income-driven repayment than White borrowers,¹⁰⁴ while another analysis found that the relationship between racial minority status and income-driven plan enrollment varies based on the model specified.¹⁰⁵

Age: The Department of Education regularly publishes data on the age of borrowers in income-driven plans. More than 2 in 5 (44%) borrowers repaying federally held loans in income-driven plans are between 25 and 34 years old.¹⁰⁶ Another 37% are between 35 and 49 years old. A separate analysis of credit bureau data found that the average age of borrowers at the time of enrollment was 36 years old.¹⁰⁷ Additionally, the Urban Institute found that borrowers in income-driven plans are younger than those in other plans and that borrowers over 50 are less likely to be enrolled.¹⁰⁸

Characteristics while in school: Some studies have found that borrowers enrolled in income-driven plans had lower family incomes when they were in college than those not in income-driven plans.¹⁰⁹ Studies

Continued on next page

have also examined the educational attainment,¹¹⁰ majors,¹¹¹ and GPAs of borrowers in income-driven plans,¹¹² though more research would be needed to clarify those trends.

Family structure: Data from the Department of Education shows that a larger share of borrowers in income-driven plans file federal taxes as single than as married.¹¹³ Also, a study based on a small, nonrepresentative sample of borrowers found that married borrowers were less likely to enroll in such plans.¹¹⁴ Another analysis found that, compared with those not enrolled in income-driven plans, borrowers who were enrolled and received bachelor's degrees are more likely to be unmarried with dependent children, and less likely to be married without dependent children.¹¹⁵

Type of school: The Department of Education regularly publishes snapshots of data on borrowers and their loan balances by school type, and distributions by school type are also available in the department's longitudinal studies. Among borrowers who entered college in the 2011-12 year and entered repayment by 2017, private for-profit (20%) and private nonprofit four-year college students (21%) were more likely to enroll in an income-driven plan than public four-year (17%) and public two-year college students (15%).¹¹⁶

Barriers to accessing income-driven plans

IDR plans can help borrowers stay on top of their loan payments and avoid default, but first borrowers must be aware of these plans, enroll, and recertify each year.

Key problem: Borrowers face administrative challenges accessing and retaining affordable payments in income-driven plans.

Both quantitative and qualitative data reveal major procedural obstacles to accessing income-driven plans. These obstacles include a lack of information and assistance from loan servicers, problems with the application process, and difficulties with the required annual recertification of income and family size. These barriers can lead to real consequences for borrowers, including delays in entering plans or payment increases when borrowers miss recertification deadlines.¹¹⁷

Loan servicers have been criticized for inadequately informing borrowers about income-driven plans. In a 2019 audit, the Department of Education's Office of the Inspector General found "recurring instances at all servicers" in which servicers did not sufficiently inform borrowers about their available repayment options.¹¹⁸ An earlier investigation from the Government Accountability Office found that servicers' communications did not include information about how these plans work or what their eligibility requirements were.¹¹⁹

Complaints from borrowers echo those findings. In some cases, borrowers report being told about income-driven plans only if they asked about them.¹²⁰ Instead of being informed about these plans, some borrowers were advised to delay their payments through deferments or forbearances.¹²¹ In addition, borrowers in recent focus groups stated that they only learned about income-driven repayment after they were already experiencing repayment distress.¹²² A significant share thought they would have benefited from being enrolled and having lower payments earlier.

However, in a recent Pew survey, 75% of borrowers reported having heard about income-driven repayment.¹²³ And other research indicates that borrowers who did hear about these plans were sometimes confused or suspicious about the option,¹²⁴ which could reflect a lack of understanding of or trust in the program. Some

borrowers decided not to enroll because they were concerned about growing balances and skeptical that their balances would eventually be forgiven, while others said they were given other options but still requested a deferment or forbearance.¹²⁵ (One servicer reported that it was unable to contact most severely delinquent borrowers by phone, and only a small share of those contacted took the steps needed to enroll in an income-driven plan.¹²⁶)

Additionally, once borrowers enroll in income-driven plans, data shows that a substantial share have difficulty with the required annual recertification process. According to 2013 and 2014 data from the Department of Education, more than half (57%) of borrowers enrolled in income-driven plans did not recertify their incomes on time.¹²⁷ Almost one-third (31%) of these borrowers had their loans go into a hardship-related forbearance or deferment. Additionally, an estimated 15% of those who did not recertify on time and did not recertify within six months were delinquent when the data was collected.

More recent data from other sources continues to show that borrowers miss recertification deadlines in income-driven plans, but the estimates vary. This variation may be due to differences in how the data was measured. An analysis of more recent credit bureau data found that 20% of borrowers in income-driven plans appear to have missed their recertification deadline.¹²⁸ Delinquency rates tripled among borrowers who did not recertify on time and experienced increases in their monthly payments. Another analysis found that over 60% of borrowers failed to recertify on time after their first year in income-based repayment and experienced payment increases as a result.¹²⁹ Similarly, an analysis of federal data suggests that about half of borrowers enrolling in the REPAYE plan fail to recertify on time and are moved into the alternative repayment plan.¹³⁰ Additionally, Navient, a student loan servicer, reported that 32% of borrowers in an income-driven plan did not recertify, even after an average of 40 contact attempts.¹³¹

Borrowers also report application delays, the rejection of incomplete applications without an opportunity to fix them, being placed in the wrong repayment plans, and difficulty transitioning into these plans after defaulting on their loans.¹³² Some borrowers indicated that they did not receive notices for recertification, while others received them but said that the notices did not clearly explain the recertification process or state the deadline.¹³³

Government investigations and borrower complaints have revealed other issues with income-driven repayment-related processes, as well. For example, servicers have incorrectly calculated monthly payment amounts in income-driven plans, which can lead borrowers to face payments that are not affordable.¹³⁴

Options for reforming income-driven repayment

The research outlined above highlights four key problems related to income-driven repayment: the under-enrollment of struggling borrowers; the unaffordability of monthly payments for some borrowers, even while in an income-driven plan; balance growth; and barriers to enrollment in and recertification for these plans. This section considers potential options for addressing those problems, with a focus on the widely agreed-upon goal of income-driven repayment—providing more affordable payments to borrowers, reducing their likelihood of delinquency and default—and the borrowers who could benefit most from those protections.

Table B.1 in Appendix B outlines the key challenges with income-driven repayment, as identified in the research, principles for reform to address those problems, and potential options for reform. This table includes a summary of potential benefits and drawbacks for each reform option, given considerations raised by stakeholders. (For more details, see the “Goals of and considerations for income-driven repayment plans” section earlier in this paper.) In many cases, more data and research are needed to fully assess the effects of each potential reform on different types of borrowers. But in some cases, existing research points toward promising solutions that could be undertaken by Congress and the Department of Education.

Principle for reform: Increase income-driven plan enrollment of borrowers who are most likely to benefit from protections against delinquency and default.

Though income-driven repayment is largely successful in reducing monthly payments for borrowers and reducing their likelihood of delinquency and default, some struggling borrowers are still not enrolled in those plans, and some are not made aware of income-driven plans until after they are already experiencing repayment distress. For example, studies have found that borrowers with the lowest incomes are less likely to be enrolled in income-driven plans than moderate-income borrowers, despite the lowest-income borrowers' higher likelihood of falling behind on payments.¹³⁵ To address this problem, reforms should seek to increase the enrollment of borrowers who are most likely to benefit from income-driven repayment's protections against delinquency and default.

Simplify how income-driven plans are offered within the student loan repayment system.

Many stakeholders have recommended **streamlining the multiple existing plans into one income-driven option**.¹³⁶ An income-driven option could be provided alongside a fixed repayment plan,¹³⁷ or it could be the only repayment plan available.¹³⁸ Other proposals would **automatically enroll** delinquent borrowers in an income-driven plan,¹³⁹ or would require all borrowers, regardless of their payment status, to be automatically enrolled in such a plan unless they opt out.¹⁴⁰ In the fall 2021 negotiated rule-making session, the department proposed automatically enrolling borrowers who are at least 80 days delinquent or in default into an income-driven plan, if the borrower provides consent to disclose his or her tax information.¹⁴¹

Streamlining the existing income-driven plans into one option would help reduce borrower confusion and make the program easier for borrowers to access and for servicers to implement and communicate to borrowers. At the same time, research supports the need to retain a fixed payment option, like what is currently available in the standard 10-year repayment plan. Allowing borrowers to choose a fixed payment option acknowledges that borrowers can have different preferences in repayment. Research shows that some borrowers prefer paying down their loans more quickly and paying less in total,¹⁴² while others prefer to have lower monthly payments in an income-driven plan.¹⁴³ There are a number of reasons why borrowers may prefer fixed payment plans over income-driven payments, including a desire to repay their loans more quickly, make consistent payment amounts, avoid the paperwork requirements of income-driven repayment, and potentially access lower payments. These varying preferences reflect the trade-offs of income-driven repayment, from the borrower perspective. Though borrowers in income-driven plans are less likely to experience delinquency and default, they also tend to experience balance growth and can end up paying more over the life of their loans. Although some of these preferences could be addressed by prepaying loans within income-driven plans (i.e., borrowers paying more than their calculated monthly amount), that option would still require borrowers to enroll in income-driven repayment, provide income documentation, and recertify every year—hurdles that some may prefer to avoid.

Retaining a fixed payment option may also help mitigate the potential consequences of making income-driven repayment the only repayment option for student loan borrowers, such as costs to taxpayers and concerns about “cost-shifting” and “moral hazard.” For more information about those concerns, please see the “Goals of and considerations for income-driven repayment plans” section above.

Additionally, research suggests potential benefits for automatically enrolling borrowers in income-driven repayment, rather than having standard 10-year repayment be the plan that borrowers are automatically placed in if they do not make a different choice. Pew research has previously found that automatic enrollment—where individuals have to opt out rather than opt in—can have a dramatic impact on takeup for employer-sponsored

retirement savings plans, an effect that could be mirrored within the student loan repayment system.¹⁴⁴ Setting income-driven repayment as the default (automatic) plan would likely increase enrollment in that plan and help borrowers avoid delinquency and default. Borrowers who prefer fixed payments could choose that option. However, broadly implementing automatic enrollment in income-driven plans would require the Department of Education to have access to borrowers' income data, such as through data-sharing with the Treasury Department and IRS, without borrowers first needing to opt into the data-sharing.

Automatic income-driven plan enrollment would especially help the low-income or otherwise vulnerable borrowers who struggle to afford payments in the standard plan and experience difficulty enrolling and remaining in income-driven plans. Although there are trade-offs associated with income-driven repayment, the relative benefits of automatic enrollment are largest for borrowers who are at the highest risk of default, such as those who have already missed a substantial number of payments. Allowing borrowers to easily opt into a fixed payment option would also help address the potential drawbacks of automatic enrollment in income-driven repayment. If policymakers do choose to streamline the income-driven plans and/or make income-driven plan enrollment automatic, it is crucial to ensure that the plan is designed to best achieve the goals of income-driven repayment, while addressing the drawbacks and challenges regarding balance growth, affordability, and administrative hurdles.

Make it easier for defaulted borrowers to enroll in income-driven repayment.

To help the neediest borrowers access income-driven repayment, research supports **allowing borrowers with defaulted loans to exit default by enrolling in an income-driven plan**, rather than needing to first navigate the lengthy and complex rehabilitation process.¹⁴⁵ Rehabilitation requires borrowers to make nine on-time payments within a 10-month window.¹⁴⁶ Borrowers currently face a number of obstacles in exiting default and then transitioning into income-driven plans, including communication and paperwork processing breakdowns.¹⁴⁷ Even though income-driven plan enrollment substantially decreases the likelihood that previously defaulted borrowers will default again, fewer than 1 in 10 borrowers who completed rehabilitation were enrolled in IDR plans and making payments within the first nine months of exiting default.¹⁴⁸

Research suggests that simplifying the process of entering income-driven plans after default would help borrowers stay on top of their payments. Consolidation provides a faster path out of default than rehabilitation, and a government analysis showed that nearly all (95%) borrowers who used consolidation to exit default were still in active repayment 12 months later.¹⁴⁹ However, borrowers can generally only consolidate out of default once, unless they have taken out more loans. Allowing defaulted borrowers to more easily exit default and enter income-driven plans would help them stay current on their loan payments and avoid defaulting again. Considering this evidence, as well as the lack of downsides associated with this reform option, Pew recommends that policymakers take steps toward making directly transitioning from default to an income-driven plan possible for borrowers with defaulted loans.¹⁵⁰

Set servicing standards and improve communication with borrowers.

Separate from potential structural changes, **it is important to ensure that information about income-driven plans is consistently reaching borrowers**. While improving borrower communication and setting standards for servicing are both valuable goals, it is worth noting this approach alone may not be as effective for increasing income-driven plan enrollment as the larger, structural proposals discussed above. None of these proposals are mutually exclusive; policymakers should consider both structural reforms and improvements to student loan servicing as they evaluate measures to improve the student loan repayment system.

Pew supports efforts to ensure that the information provided to borrowers is consistent, accurate, relevant, and timely.¹⁵¹ Communication efforts should be designed using research on how and when information is most

effectively delivered. For example, recent studies suggest that the way in which servicers explain income-driven plans when borrowers are considering enrollment could influence how many borrowers choose to enroll, and that personalized emails may be an effective mechanism for enhancing borrower outreach.¹⁵² The Department of Education should consider how to provide targeted, timely information about repayment through its own channels, such as direct communication with borrowers or its Aid Summary or Loan Simulator tools.

The Department of Education should also work to improve loan servicers' communications about income-driven repayment, including outreach about the program generally and responses to incomplete applications.¹⁵³ It should facilitate more uniform, effective servicer communications by identifying promising methods for servicers to deliver timely information to borrowers, evaluating the outcomes, and requiring servicers to adopt those best practices.

More broadly, the department should establish clear standards for high-quality servicing, including income-driven repayment-related metrics, and provide oversight to ensure proper implementation. Those standards should include a focus on borrower outcomes—such as reducing rates of delinquency and default—and require targeted outreach to borrowers in periods of transition, such as early in repayment and while using a forbearance or deferment. Those transition periods align with research showing that borrowers who end up defaulting show signs of distress early in repayment,¹⁵⁴ and that many borrowers who eventually defaulted on their loans had paused payments.¹⁵⁵ The department can also consider other risk indicators, as they are identified by additional research, when providing guidance and compensation to servicers and deploying resources to manage the federal student loan portfolio. For example, it could provide incentives for loan servicers to successfully contact at-risk borrowers and enroll delinquent borrowers in income-driven plans before their loans become 90 days past due. More research is needed into how to best set up those standards and metrics.

Principle for reform: Ensure that income-driven payments are affordable, especially for low-income and low-resource borrowers.

Though based on income, monthly payments in income-driven plans can still be unaffordable for some borrowers. Borrowers may face payments on private student loans, medical costs, or other expenses that are not factored into the income-driven payment calculation.¹⁵⁶ Some borrowers in income-driven plans still become delinquent and default, though their risk of doing so is much lower than in fixed repayment plans.

More research about low-income and low-resource borrowers' experiences with income-driven repayment is needed to determine how to best design reforms addressing affordability concerns. For example, it would be helpful to investigate which borrowers are experiencing delinquency or default in income-driven plans, and why. To what extent is their risk of default associated with their monthly payment amount, income, expenses, loan balance, or other factors? Additionally, learning more about the characteristics of borrowers who perceive income-driven payments to be unaffordable, the drivers of that perception, and any contributing factors that are external to the repayment system would provide helpful context for policymakers when weighing the trade-offs of potential reform options, including those discussed below.

Use potential reforms to address the affordability of payments in income-driven plans

Several elements of IDR plan design could be adjusted to help make low-income and low-resource borrowers better able to afford their monthly payments.

The most direct way to make payments more affordable would be to **reduce monthly payments for some or all borrowers in income-driven plans**. This can primarily be accomplished in two ways, using the existing formula for calculating monthly payments. First, policymakers can lower the percentage of a borrower's discretionary

income—currently 10%-20%—that he or she is required to repay each month. Second, they can raise the percentage of the federal poverty guidelines that is withheld from income-driven repayment calculations.¹⁵⁷ These new formulas could be applied equally to all borrowers or differ based on the borrower's income, debt amount, or other characteristics. In the fall 2021 negotiated rule-making session, the department proposed reducing monthly payments through both of these methods—increasing the percentage of federal poverty guidelines withheld from payment calculations and lowering the percentage of discretionary income used to calculate monthly payments, using a marginal rate based on borrowers' income.¹⁵⁸

Reducing monthly payment amounts in income-driven plans would help ensure that those payments are affordable and could help low-income and low-resource borrowers avoid delinquency and default, advancing the goal of income-driven repayment. However, there are potential drawbacks. These changes would extend some borrowers' time in repayment (as their balances get paid down more slowly), lead to increased balance growth, and could increase the total amount they repay (depending on whether they end up fully paying off their balances before the end of their repayment period). Those drawbacks could be addressed by interventions limiting balance growth, which are discussed in the next section. Additionally, lowering monthly payments could provide a larger benefit to high-balance borrowers than low-balance ones.¹⁵⁹ This change would also increase government costs and could raise concerns about moral hazard and cost-shifting, though those consequences could be mitigated by targeting reforms toward specific groups of borrowers.

Another option for addressing the affordability of income-driven payments is to **consider borrowers' expenses in the monthly payment calculation**.¹⁶⁰ Pew's research on family financial security indicates that the state of a family's balance sheet can play a role in its ability to repay a student loan: Many families, even those who appear secure, can have income that varies sharply from month to month or experience financial shocks that make it difficult to plan and budget, even for regular expenses such as student loans.¹⁶¹ There is some precedent for consideration of this problem in the current system: Borrowers who default on their loans and try to rehabilitate their defaulted loans can ask their loan holders to calculate a monthly payment that is based on their income and expenses.¹⁶²

The main drawback of attempting to account for borrowers' expenses is that it would add substantial complexity to program implementation. Notably, the automatic option for borrowers rehabilitating their defaulted loans is to calculate a monthly payment using 15% of borrowers' discretionary income, rather than the approach that incorporates expenses. A simpler way to ensure that low-resource borrowers can afford their payments is to increase the percentage of the federal poverty guidelines withheld from income-driven payment calculations for some or all borrowers. For example, the percentage could be increased for borrowers with children, other dependents, or those using federal safety net programs such as the Supplemental Nutrition Assistance Program.

Permanently exclude forgiven debt from taxation

Finally, **permanently exempting forgiven student debt amounts from being taxed as income** would prevent borrowers from facing unaffordable charges because of income-driven repayment. Though not the central goal of income-driven repayment, forgiveness at the end of the repayment period helps protect borrowers against carrying student debt for the rest of their lives. More data is needed on the characteristics of borrowers who have already received forgiveness under income-driven repayment, but program design suggests that borrowers who end up with unpaid balances after 20 or 25 years of repayment are likely those with low incomes relative to their debt for a long period of time. Those borrowers may not have the resources to pay a tax liability, and the forgiveness of their unpaid loan balances does not provide a windfall of income that borrowers can use to cover their increased tax burden. If a goal of providing forgiveness in income-driven repayment is to prevent borrowers from carrying student debt in perpetuity, it is counterproductive to then require borrowers to make additional payments to the IRS.

Until recently, forgiven debt in income-driven plans has been considered taxable income, which means that borrowers must pay taxes on the forgiven amount.¹⁶³ The American Rescue Plan Act of 2021 exempts discharged and forgiven student loan balances from taxation through 2025, but the change is not permanent.¹⁶⁴ Modeling done by researchers shows that borrowers can face high tax liabilities if their forgiven debt is considered taxable income.¹⁶⁵ Because of these factors, Pew supports permanently eliminating the taxation of debt amounts forgiven under income-driven plans for all borrowers, after the temporary exemption expires.

Principle for reform: Reduce the growth of borrowers' loan balances in income-driven repayment.

Research shows that IDR can cause borrowers to pay more in total and take longer to pay down their balances. Growing balances due to negative amortization can be discouraging and frustrating for borrowers.

Potential reforms

Reducing balance growth might have psychological benefits for borrowers and could remove a barrier that prevents some borrowers from enrolling in income-driven plans. However, more research is needed to determine the best approach for addressing balance growth, and to explore the effect of balance growth on borrowers' repayment behavior. Future Pew analyses will model how different reform options addressing balance growth would affect borrowers' repayment trajectory.

There are a number of options for reducing balance growth in income-driven repayment. For example, policymakers could **cap the amount of unpaid interest that can accrue each month**.¹⁶⁶ Most existing IDR plans already include some kind of interest subsidy, with REPAYE offering the most generous version, where the government pays all remaining interest for the first three years of repayment on subsidized loans and half of remaining interest afterward, as well as half the remaining interest on unsubsidized loans during all periods. However, the interest subsidy could be increased further, and the government could even subsidize all unpaid interest.¹⁶⁷ In the fall 2021 negotiated rule-making session, the department proposed a new income-driven plan that would subsidize all unpaid interest when borrowers' monthly payment is calculated to be \$0.¹⁶⁸ Other options to reduce balance growth include **eliminating interest capitalization within income-driven plans**,¹⁶⁹ **waiving interest for low-income borrowers**,¹⁷⁰ or **pausing interest accrual during periods of deferment or forbearance** when borrowers are enrolled in income-driven plans. In the same fall 2021 session, the department also proposed eliminating interest capitalization in certain cases for borrowers in income-driven plans.¹⁷¹

Additionally, to reduce borrowers' total payment amounts, policymakers could **shorten the amount of time that borrowers make payments in income-driven repayment before receiving forgiveness**. This shortened period could be applied for all borrowers or certain groups of borrowers (e.g., based on income or debt amount).¹⁷² These changes would help mitigate the impact of balance growth in income-driven plans, and reduce the total amount that borrowers end up paying over the life of their loans.

Also, rather than providing forgiveness of all unpaid balances after the end of the maximum repayment period, policymakers could consider **providing incremental forgiveness, in which part of the borrower's balance would be forgiven based on the remaining balance and/or the number of years the borrower has spent repaying**.¹⁷³ **And payments made before loan consolidation could be counted toward loan forgiveness**.¹⁷⁴ Under the current policy, the maximum repayment period is reset when borrowers consolidate their loans and their previous qualifying payments are not counted.¹⁷⁵ Notably, this also applies to borrowers who consolidate their loans as a way to exit default. If they make payments in an income-driven plan, default, consolidate out of default, and then re-enter an income-driven plan, their previous payments will not count toward forgiveness. Note that their repayment period would not start over if they rehabilitated their loans to exit default, rather than consolidating.

As part of its fall 2021 negotiated rule-making session, the department proposed counting payments made before consolidation toward forgiveness, in addition to counting additional types of deferments and payments made under “hold harmless” procedures.¹⁷⁶

When evaluating these proposals, it is worth considering that they would likely increase the cost of IDR plans to taxpayers, by reducing the amount that borrowers end up repaying.¹⁷⁷ Providing forgiveness sooner might also raise concerns about how colleges could raise tuition and shift more costs onto students, or how students could end up borrowing more. While these concerns are worth taking into account, the benefits to borrowers of limiting balance growth may outweigh them.

Principle for reform: Make it easier for borrowers to enroll and remain in income-driven plans.

Many borrowers encounter barriers to accessing and retaining affordable payments in income-driven plans, which can lead to delays in entering IDR, payment increases, and missed payments. Thus, there is a clear need to make it easier for borrowers to enroll and remain in income-driven repayment.

Implement the FUTURE Act

The most direct way to address these issues is for the Department of Education and the IRS to work together **to promptly and effectively implement the federal FUTURE Act.**¹⁷⁸ This law, enacted in December 2019, directs the IRS and the Department of Education to securely share relevant borrower data, so that borrowers who opt into the data-sharing would no longer have to proactively provide their income data to loan servicers. If implemented effectively, the FUTURE Act will help ensure that millions of borrowers are able to more easily enroll and continue making affordable payments in income-driven plans. Yet the department has not yet announced a timeline for implementing the portions of the law that relate to income-driven repayment.¹⁷⁹

To successfully deliver on the law’s promise, the IRS and Department of Education must begin coordinating as soon as possible to ensure that implementation is prompt and designed to reduce administrative hurdles.¹⁸⁰ The agencies should put in place multiple opportunities to engage with borrowers to give approval to have their data shared, both before and after they leave school, and make sure that borrowers are clearly informed about payment changes. It is also important to ensure that the repayment process remains manageable for those who do not give approval. These borrowers must still be allowed to access income-driven plans by using the IRS Data Retrieval Tool or submitting alternative documentation of their incomes.¹⁸¹ In addition, a clear process must be established to allow borrowers with special circumstances, such as those who lose their jobs, to manually recertify their incomes before the next year’s tax information is available. Finally, FUTURE Act implementation should align with other efforts by the department to improve the student loan servicing system.

Improve the IDR application form and consider additional structural changes

Before the FUTURE Act is fully implemented, efforts could also be made to **revise the current IDR application form to make it more user-friendly.** Options include introducing more streamlined pathways throughout the application, including with pre-filled information, especially for borrowers who are recertifying their eligibility for IDR. A field experiment conducted by a student loan servicer found that pre-populating the application dramatically increased the likelihood that borrowers enroll in income-driven plans.¹⁸²

Some of the structural changes to address the under-enrollment of struggling borrowers into income-driven plans would also generally make it easier for borrowers to enter income-driven plans. These changes include **streamlining the existing plans into one income-driven option and automatically enrolling some or all borrowers into income-driven repayment.** Those changes involve important trade-offs for both borrowers and

society at large, as discussed above. Allowing **defaulted borrowers to directly enter income-driven repayment**, without needing to first rehabilitate or consolidate, would also reduce barriers to enrollment.

Insufficient evidence to support paycheck withholding of student loan payments

Changes to **how borrowers actually make their loan payments** could simplify processes for some borrowers, but complicate them for others, along with carrying a host of other potential consequences. Currently, borrowers send their payments to loan servicers, and can opt in to set up automatic recurring payments. In lieu of that system, some researchers have proposed automatically withholding student loan payments from borrowers' paychecks¹⁸³ or having borrowers make payments through the tax system.¹⁸⁴ Real-time withholding could allow monthly payments to automatically adjust to borrowers' financial circumstances. Paycheck withholding of student loans within an income-driven framework has been implemented in other countries, but because the U.S. systems of higher education financing, taxation, and social safety nets are fundamentally different, implementing paycheck withholding of student loan payments may introduce an array of unintended consequences that harm vulnerable borrowers.¹⁸⁵

Until the answers to a number of important questions are better understood, policymakers should not prioritize paycheck withholding over other reforms that are better targeted toward struggling borrowers' needs. For example, research shows that some borrowers prioritize other expenses over student loan payments,¹⁸⁶ and data is needed to evaluate how the most vulnerable borrowers would be affected by the forced prioritization of student loan payments over expenses like housing, utilities, food, and health care. Additionally, evaluating the feasibility of paycheck withholding in the U.S. and whether it would truly simplify processes for all types of borrowers requires data on the share of student loan borrowers with unstable employment, multiple jobs, or gig economy employment. More research is also needed into how the income-driven repayment formula could work with paycheck withholding. For example, would employers have to know about a borrower's other sources of income, their spouse's income, family size, and other information? Qualitative research would help explore borrowers' perspectives on this potential change, such as privacy concerns.

Relying on employers to stop and start withholdings for student loan payments could also make it more difficult for policymakers to suspend repayment during periods of national crisis. For example, some defaulted student loan borrowers continued to have their paychecks garnished throughout 2020 despite a collections moratorium imposed earlier in the year.¹⁸⁷

More research and data on income-driven repayment are needed to help inform policy changes

Despite the desire for action among many groups to reform IDR plans, surprisingly little data is available to help researchers, advocates, and policymakers consider elements of plan design, how and which borrowers use these plans, and trade-offs involved with potential changes.

For example, the best source of data on borrowers in income-driven plans is the Department of Education, which records detailed borrower information in the National Student Loan Data System. However, analysts and researchers typically are not permitted to use this data, primarily due to privacy concerns. The department could make more data securely available without significant changes to its existing procedures. Department staff routinely extract random, de-identified samples of several million borrowers for use by its Office of Budget Service and could share those extracts, or other anonymized data, with researchers to enable them to assess the repayment status of struggling borrowers and identify potential interventions to reduce delinquency and default.¹⁸⁸ The department could also collect and publish data from loan servicers, which may include more detail

about borrowers' payment and delinquency histories. In addition, the department should provide more aggregate data on the characteristics of borrowers enrolled in IDR plans, improving what is available in the Federal Student Aid Data Center.¹⁸⁹ (For example, the FSA Data Center currently does not include data on the incomes or family size of borrowers in income-driven plans.)

Some studies that rely on data from other sources—such as credit panel data and the Survey of Consumer Finances—have notable limitations. For example, some sources can only identify income at the household level, which might not be the income used to calculate the borrower's payment in an income-driven plan. Other sources cannot directly measure enrollment in income-driven repayment, so studies have to infer enrollment based on other indicators.

Answers to the outstanding questions below would help policymakers make evidence-based plan design decisions:

- **Who is enrolled in an income-driven plan, and how do borrowers' characteristics change over the course of repayment?** In particular, more information is needed about borrowers' debt levels, income, family size, level of schooling, and tax filing status when entering an income-driven plan, as well as how certain factors change over time. (Changes in a borrower's income, family size, and tax filing status can affect his or her monthly payments, which are recalculated every year, as well as interest capitalization.)
- **How much do borrowers actually pay when enrolled in income-driven plans?** For example, how much more or less do borrowers end up paying in income-driven plans over the life of their loans, compared with what they would repay in the Standard Repayment Plan or other repayment options?¹⁹⁰ How long are borrowers typically in repayment? How much are their monthly payments, and how do they change over time? What share of borrowers in each plan are making monthly payments that are the same or higher than what they would have paid under the Standard Repayment Plan, and what are those payment amounts? Qualitative research would help further explore borrowers' preferences for repaying under an income-driven versus a fixed plan.
- **How do interest accrual and capitalization affect borrowers' experiences in repayment and how much they repay over time?** Though studies have examined balance growth and borrowers' likelihood of paying down principal, no data is currently available that specifically examines interest accrual and capitalization, beyond some modeling with hypothetical borrowers.¹⁹¹ Specific data on this issue would be helpful for evaluating the impact of interest growth in these plans for different types of borrowers and exploring whether changes should be made to the treatment of interest (e.g., how to set an interest accrual cap, which loan types the cap should apply to, etc.).
- **How many borrowers have received forgiveness within income-driven plans, and what are the characteristics of those borrowers?** While some counts of borrowers receiving forgiveness have been revealed via Freedom of Information Act requests,¹⁹² the department has not proactively shared those counts or other relevant information (e.g., the loan amounts borrowers were forgiven, their original debt amounts, and their income trajectories over time).
- **What are ideal metrics and standards for servicing?** The department should regularly publish data on the number of borrowers who have applied for an income-driven plan, how many were successfully enrolled, and how many missed their annual recertification deadline. It would also be helpful to have data on how long it takes borrowers to get enrolled in and how long it takes them to successfully recertify for income-driven plans if they missed the deadline. Data could also be published on which communication methods were most effective in reaching borrowers who miss recertification deadlines.

More research is also needed on repayment pathways to help identify indicators of serious distress that are likely to lead to default, as well as to shed light on the efficacy of existing repayment options and the barriers that borrowers currently face. Though numerous studies examine loan delinquency and default, most do not track the details of borrowers' pathways through repayment, such as whether and for what length of time borrowers made payments or postponed payments before defaulting.

Conclusion

Income-driven plans are an important tool in helping borrowers avoid delinquency and default, and enrollment in such plans has increased substantially over the past decade. While a growing body of research explores how and which types of borrowers use these plans and whether the structure of such plans effectively meets the needs of those struggling to repay their loans, much remains unknown, in large part because of limited availability of data.

As policymakers move forward with reforms to the student loan repayment system, they should weigh the benefits and drawbacks of income-driven plans and consider how trade-offs in plan design would affect those most likely to be delinquent or default on their loans or experience balance growth over time.

Appendix A

Table A.1

Borrowers Are Eligible for Multiple Income-Driven Plans

Each option has different eligibility requirements and formulas for determining monthly payments

	Income-Contingent Repayment (ICR) plan	Income-Based Repayment (IBR) plans		Pay As You Earn (PAYE) plan	Revised Pay As You Earn (REPAYE) plan	
		15% IBR plan	10% IBR plan			
Year plan was first made available to borrowers¹⁹³	1995	2009	2014	2012	2015	
Eligibility requirements	<p>Direct Loan borrowers, with no other eligibility requirements.</p> <p>ICR is the only income-driven plan available for borrowers with Parent PLUS loans, though they would need to consolidate those loans into a Direct consolidation loan.</p>	<p>All federal student loan borrowers (Direct or Federal Family Education loan), not including Parent PLUS loans.</p> <p>Borrowers' payments in IBR must be lower than what they would pay under the Standard Repayment Plan.</p>	<p>All federal student loan borrowers (Direct or FFEL), not including Parent PLUS loans.</p> <p>Borrowers' payments in IBR must be lower than what they would pay under the Standard Repayment Plan.</p> <p>Only borrowers who took out their first loan on/after July 2014 are eligible for the 10% IBR plan.</p>	<p>Direct Loan borrowers, excluding Parent PLUS loans.</p> <p>Borrowers' payments in PAYE must be lower than what they would pay under the Standard Repayment Plan.</p> <p>Only borrowers who took out their first loan on/after October 2007 and at least one loan on/after October 2011 are eligible.</p>	<p>Direct Loan borrowers, excluding Parent PLUS loans.</p>	
Treatment of income	Definition of discretionary income	Calculated as the difference between a borrower's annual income and 100% of the poverty guideline, depending on family size and state.	Calculated as the difference between a borrower's annual income and 150% of the poverty guideline, depending on family size and state.	Calculated as the difference between a borrower's annual income and 150% of the poverty guideline, depending on family size and state.	Calculated as the difference between a borrower's annual income and 150% of the poverty guideline, depending on family size and state.	Calculated as the difference between a borrower's annual income and 150% of the poverty guideline, depending on family size and state.
	Percentage of discretionary income	20% ¹⁹⁴	15%	10%	10%	10%

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Treatment of income	Inclusion of spouse's income¹⁹⁵	Spouse's income is included if spouses file taxes jointly, not included if spouses file separately.	Spouse's income is included if spouses file taxes jointly, not included if spouses file separately.	Spouse's income is included if spouses file taxes jointly, not included if spouses file separately.	Spouse's income is included if spouses file taxes jointly, not included if spouses file separately.	Spouse's income is included, regardless of whether spouses file taxes jointly or separately.
	Payment cap	Never more than a fixed 12-year plan	Never more than the standard 10-year plan	Never more than the standard 10-year plan	Never more than the standard 10-year plan	No payment cap
Treatment of interest	Accrual and capitalization	Unpaid interest is capitalized annually until the outstanding loan principal is 10% higher than when a borrower started repayment. Once this threshold is reached, interest continues to accrue but will no longer be capitalized.	Unpaid interest is capitalized if borrowers lose eligibility to make payments based on their income or choose to leave the plan. IBR does not have a limit on interest capitalization.	Unpaid interest is capitalized if borrowers lose eligibility to make payments based on their income or choose to leave the plan. IBR does not have a limit on interest capitalization.	Unpaid interest is capitalized if borrowers lose eligibility to make payments based on their income or choose to leave the plan. Capitalization as a result of eligibility loss is limited to 10% of the original loan principal. If a borrower chooses to leave the PAYE plan, there is no limit on capitalization.	Unpaid interest is capitalized if a borrower does not recertify their income by the annual deadline or if they choose to leave the plan. REPAYE does not have a limit on interest capitalization.
	Subsidies (if monthly payments do not cover the amount of monthly accrued interest)	ICR does not offer an interest subsidy.	The government will pay for all of the remaining interest for the first three years of repayment for subsidized loans. IBR does not offer an interest subsidy for unsubsidized loans.	The government will pay for all of the remaining interest for the first three years of repayment for subsidized loans. IBR does not offer an interest subsidy for unsubsidized loans.	The government will pay for all of the remaining interest for the first three years of repayment for subsidized loans. PAYE does not offer an interest subsidy for unsubsidized loans.	The government will pay for all of the remaining interest for the first three years of repayment for subsidized loans and half of the remaining interest once the three-year period concludes. Unlike IBR and PAYE, the government will pay for half of the remaining interest on unsubsidized loans during all periods.

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Consequences of missing annual recertification deadline	If borrowers do not recertify on time, they remain in ICR but their payments change to what they would be under the Standard Repayment Plan with a 10-year repayment timeline.	If borrowers do not recertify on time, they remain in IBR but their payments change to what they would be under the Standard Repayment Plan with a 10-year repayment timeline.	If borrowers do not recertify on time, they remain in IBR but their payments change to what they would be under the Standard Repayment Plan with a 10-year repayment timeline.	If borrowers do not recertify on time, they remain in PAYE but their payments change to what they would be under the Standard Repayment Plan with a 10-year repayment timeline.	If borrowers do not recertify on time, they are removed from REPAYE and placed in an alternative payment plan. The alternative plan will calculate payments using a different, non-income driven formula.
Maximum length of time spent in repayment	25 years	25 years	20 years	20 years	20 years for borrowers with only undergraduate loans; 25 years for borrowers with any graduate or professional loans

Notes: “10% IBR” refers to plan terms that apply to new borrowers on or after July 1, 2014, under which monthly payments are calculated as 10% of discretionary income. “15% IBR” refers to terms that apply to borrowers who took out their first loan before July 1, 2014, under which monthly payments are calculated as 15% of discretionary income. In addition, borrowers with Federal Family Education Loan (FFEL) program loans are eligible for Income-Sensitive Repayment (ISR) plans, which also calculate borrowers’ payments based on their annual income. The specific terms of ISR plans may vary depending on which lender possesses the FFEL loan in question.

Source: Office of Federal Student Aid, “Income-Driven Repayment Plans,” <https://studentaid.gov/manage-loans/repayment/plans/income-driven>

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Appendix B

Table B.1

Options for Reforming Income-Driven Repayment Plans

Each approach contains pros and cons for policymakers to consider

Key problem	Principles for reform	Option for reform	Details	Major pros and cons	Additional data/ research needed
Some struggling borrowers are not enrolled in IDR	Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default	Streamline the multiple existing IDR plans into one IDR option*	An income-driven option could be provided alongside a fixed repayment plan, or it could be the only repayment plan available.	<ul style="list-style-type: none"> Streamlining the existing IDR plans into one IDR option would simplify the program for borrowers, loan servicers, and the Department of Education. Making IDR the only repayment plan available would ensure that struggling borrowers are enrolled in IDR, but it would take away borrowers' ability to choose a fixed repayment plan (where they could end up paying less in total, over a shorter period of time), increase costs to the government, and may raise concerns about "moral hazard" and cost-shifting (potentially leading to higher college costs for students and their families). 	<ul style="list-style-type: none"> Modeling and data to determine how to design the streamlined plan (e.g., effects on the amounts paid and forgiven by different types of borrowers) Qualitative data on borrower preferences for repayment, to determine whether a fixed payment option should remain available
	Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default	Automatically enroll borrowers in IDR*	If a fixed payment option still exists, some or all borrowers could be automatically enrolled in an IDR plan unless they opt out. This change could be targeted toward certain borrowers, such as those who are severely delinquent and at high risk of default.	Would increase the likelihood that struggling borrowers are enrolled in IDR, while preserving borrowers' ability to choose a fixed repayment plan. However, it would increase costs to the government and may still raise concerns about "moral hazard" and cost-shifting.	<ul style="list-style-type: none"> Data on amounts paid and forgiven in IDR vs. the fixed payment option, for different types of borrowers Qualitative data on borrower preferences for repayment

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Some struggling borrowers are not enrolled in IDR	Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default	Allow defaulted borrowers to directly enroll in IDR*	Borrowers could be allowed to enroll in IDR to repay their defaulted loans, without needing to first exit default through rehabilitation or consolidation.	Would make it easier for defaulted borrowers to access affordable payments in IDR and avoid defaulting again.	<ul style="list-style-type: none"> • Data on monthly payment amounts under rehabilitation, compared to what they would be in an IDR plan • Research on the repayment pathways of borrowers who try to exit default (e.g., how particular factors may affect their likelihood of defaulting again)
	Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default	Improve communication and outreach about IDR plans	Department of Education can provide guidance on best practices and set clear standards for servicing that focus on borrower outcomes.	Would increase enrollment in IDR, but may be less effective than structural changes to the program.	<ul style="list-style-type: none"> • Data on servicers' current performance in implementing IDR (e.g., application, recertification, borrowers' risk of delinquency/default) • Research into best practices and how to establish standards
Some borrowers still find IDR payments unaffordable	Ensure that payments are affordable, especially for low-income and low-resource borrowers	Reduce monthly payment amounts	Options include lowering the percentage of discretionary income that borrowers are required to repay or increasing the percentage of federal poverty guidelines that is withheld from income-driven repayment calculations. Changes can be applied to some or all borrowers (e.g., they can be targeted based on the borrower's income or debt amount).	Would help ensure that payments are affordable, but would also extend some borrowers' time in repayment (as their balances get paid down more slowly), lead to increased balance growth, and could increase the total amount they repay. It would also increase government costs and could raise concerns about moral hazard and cost-shifting.	<ul style="list-style-type: none"> • Data on monthly payment amounts for different types of borrowers • Modeling on different options
	Ensure that payments are affordable, especially for low-income and low-resource borrowers	Consider borrowers' income volatility or expenses in the monthly payment calculation	As precedent, borrowers who seek to rehabilitate their defaulted loans can ask their loan holders to calculate a monthly payment based on their income and expenses.	Would more fully account for borrowers' financial circumstances, but would add substantial complexity to program implementation.	Data on monthly payment amounts for different types of borrowers, as well as their income volatility and expenses

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Some borrowers still find IDR payments unaffordable	Ensure that payments are affordable, especially for low-income and low-resource borrowers	Permanently prevent debt forgiven as part of an IDR plan from being treated as taxable income	The American Rescue Plan Act of 2021 temporarily prevents forgiven student debt from being treated as taxable income.	Would prevent borrowers from facing unaffordable tax burdens but would increase costs to the government.	Data on the actual amount that IDR borrowers have forgiven, and their tax liability
	Reduce the growth of their loan balances in IDR	Cap the amount of unpaid interest that can accrue each month	Some existing IDR plans include interest subsidies that cover part of the remaining interest, in cases where a borrower's monthly payment does not cover their accruing interest. Details vary by plan.	Would reduce balance growth, but may be complicated to communicate to borrowers and increase costs to the government.	<ul style="list-style-type: none"> • Data on interest accrual in IDR for different types of borrowers • Modeling to examine options for the interest accrual cap
IDR borrowers often experience balance growth and may pay more over the life of their loans	Reduce the growth of their loan balances in IDR	Waive interest for low-income borrowers	For borrowers below a certain income threshold or debt-to-income ratio, interest could be set to 0%.	Would reduce balance growth and target the neediest borrowers, but may increase costs to the government and add program complexity.	<ul style="list-style-type: none"> • Data on interest accrual in IDR for different types of borrowers (particularly by income and debt-to-income ratio) • Modeling to examine options for setting the income threshold
	Reduce the growth of their loan balances in IDR	Eliminate interest capitalization within IDR plans	Existing IDR plans vary in which situations trigger interest capitalization. In all plans, interest capitalizes at the end of certain forbearances and deferments, for certain types of loans.	Would reduce balance growth, but may be complicated to communicate to borrowers and increase costs to the government.	Data on interest capitalization in IDR for different types of borrowers
	Reduce the growth of their loan balances in IDR	Pause interest accrual during periods of deferment or forbearance when borrowers are enrolled in IDR	Interest accrual varies based on the type of loan (subsidized vs. unsubsidized) and the type of forbearance (e.g., interest does not accrue during the forbearance offered due to the COVID-19 emergency).	Would reduce balance growth, but may increase costs to the government.	Data on the use of deferment and forbearance by borrowers in IDR, and the amount of interest that accrues during that time

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<p>IDR borrowers often experience balance growth and may pay more over the life of their loans</p>	<p>Reduce the growth of their loan balances in IDR</p>	<p>Shorten the amount of time that borrowers make payments in IDR, before receiving forgiveness of any remaining balances</p>	<p>Options include shortening the maximum repayment period in IDR for some or all borrowers, providing incremental forgiveness, and counting payments made before loan consolidation toward loan forgiveness.</p>	<p>Would reduce the total amount that borrowers repay, but would increase costs to the government and may raise concerns about moral hazard and cost-shifting.</p>	<ul style="list-style-type: none"> ▪ Data on repayment period length for different types of borrowers and the amount of forgiveness they receive ▪ Modeling on how incremental forgiveness could be operationalized
	<p>Make it easier for borrowers to enroll and remain in income-driven plans</p>	<p>Promptly and effectively implement the federal FUTURE Act</p>	<p>The 2019 FUTURE Act directs the IRS and the Department of Education to securely share relevant borrower tax return data, so that borrowers do not have to proactively send their income data to loan servicers for IDR enrollment or annual recertification.</p>	<p>Would make it easier for borrowers to enroll in IDR and complete their annual recertification.</p>	<p>None</p>
<p>Many borrowers encounter barriers to accessing and retaining affordable payments in IDR plans</p>	<p>Make it easier for borrowers to enroll and remain in income-driven plans</p>	<p>Automatically withhold student loan payments from borrowers' paychecks or have borrowers make payments through the tax system</p>	<p>Some other countries withhold student loan payments from borrowers' paychecks, though their systems of higher education financing, taxation, and social safety nets fundamentally differ from those in the U.S.</p>	<p>Paycheck withholding would simplify payments for some borrowers, but complicate them for others and require borrowers to prioritize student loan payments over other expenses. Involving employers in student loan payments may raise privacy concerns among borrowers, and automatic paycheck withholding may make it more difficult for policymakers to suspend payments during national crises.</p>	<ul style="list-style-type: none"> ▪ Quantitative and qualitative data on how borrowers would be affected by the forced prioritization of student loan payments over expenses like housing, utilities, food, and health care ▪ Data on the share of borrowers with unstable employment, multiple jobs, or gig economy employment ▪ Research on how the IDR formula could work with paycheck withholding (e.g., would employers have to know about borrowers' other income, their spouse's income, family size, etc.?)

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<p>Many borrowers encounter barriers to accessing and retaining affordable payments in IDR plans</p>	<p>Make it easier for borrowers to enroll and remain in income-driven plans</p>	<p>Improve the current IDR application form to be more user-friendly</p>	<p>Options include introducing more skip-logic and pre-filling information, particularly for borrowers completing their annual recertification.</p>	<p>Would help borrowers navigate the process of enrolling and recertifying in IDR, but may not be necessary after the FUTURE Act is fully implemented.</p>	<ul style="list-style-type: none"> • Data on how much income volatility IDR borrowers experience, and the problems caused by the time lag in income data • Qualitative data on borrowers' perspectives on this change (e.g., privacy concerns) • Research into which parts of the form are confusing for borrowers
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Notes: Asterisks signify reform options that could also make it easier for borrowers to enroll and remain in income-driven plans.

Source: Pew analysis of research and governmental data sources discussed and cited throughout this report

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Endnotes

- 1 Office of Federal Student Aid, "Federal Student Loan Portfolio," accessed Oct. 6, 2021, <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>. The March 2021 figure of 1 in 5 borrowers in default includes Direct and Federal Family Education program loans held by the U.S. Department of Education. Although default technically occurs after 270 days of missed payments, these figures measure default after 360 days.
- 2 The Pew Charitable Trusts, "Student Loan Default Has Serious Financial Consequences" (2020), <https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2020/04/student-loan-default-has-serious-financial-consequences>.
- 3 Office of Federal Student Aid, "Federal Student Loan Portfolio." Figures include borrowers with Direct Loans and Federal Family Education Loan program loans held by the U.S. Department of Education whose loans are in repayment, deferment, or forbearance, and capture repayment plan enrollment through September 2020.
- 4 Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options" (2020), <https://www.cbo.gov/publication/55968>; H.M. Mueller and C. Yannelis, "The Rise in Student Loan Defaults," *Journal of Financial Economics* 131, no. 1 (2017): 1-19, <http://people.stern.nyu.edu/hmueller/papers/sld.pdf>; C. Campbell and N. Hillman, "A Closer Look at the Trillion: Borrowing, Repayment, and Default at Iowa's Community Colleges" (Association of Community College Trustees, 2015), https://www.acct.org/files/Publications/2015/ACCT_Borrowing-Repayment-Iowa_CCs_09-28-2015.pdf; Government Accountability Office, "Federal Student Loans: Key Weaknesses Limit Education's Management of Contractors" (2015), <https://www.gao.gov/products/GAO-16-196T>; D. Herbst, "Liquidity and Insurance in Student-Loan Contracts: The Effects of Income-Driven Repayment on Borrower Outcomes" (2020), https://drive.google.com/file/d/1A-gq_LlqffY6r2gDTcUK9-Y3ZV8Go6SU/view; Consumer Financial Protection Bureau, "Data Point: Borrower Experiences on Income-Driven Repayment" (2019), https://files.consumerfinance.gov/f/documents/cfpb_data-point-borrower-experiences-on-IDR.pdf; L. Ahlman, "Casualties of College Debt: What Data Show and Experts Say About Who Defaults and Why" (The Institute for College Access and Success, 2019), https://ticas.org/sites/default/files/pub_files/casualties_of_college_debt_0.pdf; Navient, "Navient Response to the Consumer Financial Protection Bureau Request for Information Regarding Student Loan Borrower Communications and the 'Payback Playbook'" (2016), <https://www.regulations.gov/document/CFPB-2016-0018-0665>.
- 5 T. Plunkett et al., "Upcoming Rule-Making Process Should Redesign Student Loan Repayment," The Pew Charitable Trusts, Sept. 24, 2021, <https://www.pewtrusts.org/en/research-and-analysis/articles/2021/09/24/upcoming-rule-making-process-should-redesign-student-loan-repayment>.
- 6 Borrowers in default can return their loans to good standing through "rehabilitation," in which they make nine on-time payments within 10 consecutive months. Payments are generally calculated based on the borrower's income, but borrowers who cannot afford these payments may be able to make lower alternative monthly "reasonable and affordable" payments that take expenses as well as income into account. Rehabilitation can typically be used only once. The Pew Charitable Trusts, "Student Loan Default Has Serious Financial Consequences."
- 7 Office of Federal Student Aid, "Income-Driven Repayment Plans," accessed July 16, 2021, <https://studentaid.gov/manage-loans/repayment/plans/income-driven>; Office of Federal Student Aid, "Loans," accessed July 16, 2021, <https://studentaid.gov/understand-aid/types/loans>. Federal loan types include Direct, Federal Family Education Loan program, and Perkins loans.
- 8 Office of the Assistant Secretary for Planning and Evaluation, "Poverty Guidelines," accessed July 16, 2021, <https://aspe.hhs.gov/poverty-guidelines>.
- 9 U.S. Department of Education, "Data Retrieval Tool Available for Income-Driven Repayment Plan Application," accessed March 17, 2020, <https://www.ed.gov/news/press-releases/data-retrieval-tool-available-income-driven-repayment-plan-application>.
- 10 Office of Federal Student Aid, "Income-Driven Repayment Plans."
- 11 The "Standard Payment Cap" could lead to lower monthly payments for certain borrowers, compared with not having a payment cap. On the other hand, not having a cap on payments can allow high-income borrowers to pay off their loans faster and pay the same percentage of their income as lower-income borrowers, rather than a smaller percentage of income. There is a standard payment cap in place for all IDR plans, except for REPAYE.
- 12 Office of Federal Student Aid, "Subsidized and Unsubsidized Loans," accessed July 16, 2021, <https://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized>. The treatment of interest depends on whether the federal student loan in question is a Direct Subsidized Loan or Direct Unsubsidized Loan. For Direct Subsidized Loans, the Department of Education will provide a subsidy that pays for accumulating interest while a borrower is enrolled at least half-time; during the six-month grace period after a borrower leaves school; and while a deferment is being used to pause payments. In contrast, borrowers are responsible for paying the interest on Direct Unsubsidized Loans under all circumstances.
- 13 Office of Federal Student Aid, "Do You Have Questions About the Different Types of Income-Driven Repayment Plans?" accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven/questions>.
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- 15 National Consumer Law Center and Student Borrower Protection Center, "Education Department's Decades-Old Debt Trap: How the Mismanagement of Income-Driven Repayment Locked Millions in Debt" (2021), https://www.nclc.org/images/pdf/student_loans/IB_IDR.pdf. This data does not include borrowers who made payments in income-driven plans but received loan forgiveness through the Public Service Loan Forgiveness program, after 10 years. Many borrowers in income-driven plans are not yet eligible for forgiveness. The borrowers who received forgiveness through income-driven plans as of January 2021 had enrolled in the income-contingent repayment plan and switched to REPAYE after it was made available, to become eligible for forgiveness after 20 years of payments instead of 25.
- 16 U.S. Department of Education, "Fiscal Year 2022 Budget Proposal: Student Loans Overview" (2021), <https://www2.ed.gov/about/overview/budget/budget22/justifications/r-sloverview.pdf>. This Department of Education budget document for fiscal year 2022 also projects that 43% of borrowers would receive forgiveness under IDR, 17% would receive forgiveness under the Public Service Loan Forgiveness program, 13% would not complete their repayment term due to default, and 7% would not complete their repayment term due to loan discharge.
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- 31 Bipartisan Policy Center, “A New Course for Higher Education”; Cheng and Thompson, “Make It Simple, Keep It Fair”; Sen. King, “King, Burr Renew Bipartisan Push”; U.S. House of Representatives, Committee on the Budget, Concurrent Resolution on the Budget, Fiscal Year 2018 (July 21, 2017), <https://www.congress.gov/115/crpt/hrpt240/CRPT-115hrpt240.pdf>; Asher, Cheng, and Thompson, “Should All Student Loan Payments Be Income-Driven?”; M.A. Cooper (president, Institute for Higher Education Policy), testimony before the United States Senate Committee on Health, Education, Labor, and Pensions, 113 (March 27, 2014), <https://www.help.senate.gov/imo/media/doc/Cooper7.pdf>; J. Delisle and A. Holt, “Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans” (New America, 2012), https://static.newamerica.org/attachments/2332-safety-net-or-windfall/NAF_Income_Based_Repayment.18c8a688f03c4c628b6063755ff5dbaa.pdf; J. Mitchell, “Student Loan Losses Seen Costing U.S. More Than \$400 Billion,” *The Wall Street Journal*, Nov. 21, 2020, <https://www.wsj.com/articles/student-loan-losses-seen-costing-u-s-more-than-400-billion-11605963600>. For more information on how the costs of income-driven repayment are calculated, see: U.S. Department of Education, “Fiscal Year 2022 Budget Proposal: Student Loans Overview”; Congressional Budget Office, “Income-Driven Repayment Plans for Student Loans.”
- 32 Pennsylvania State University, “Introduction: What Is Time Value of Money?” accessed Nov. 5, 2021, <https://psu.instructure.com/courses/1806581/pages/introduction-what-is-time-value-of-money>.
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- 62 D.A. Collier, “Exploring IDR: A Comparison of Financial Situations and Behaviors Between Those in Traditional Student Loan Repayment and Those in Income-Driven Repayment,” *Journal of Student Financial Aid* 49, no. 2 (2020), <https://ir.library.louisville.edu/cgi/viewcontent.cgi?article=1695&context=jsfa>. This survey was dominated by respondents who had completed bachelor’s and graduate degrees, so their incomes (and thus, income-driven payments) would be expected to be higher than borrowers overall.
- 63 Herbst, “Liquidity and Insurance in Student Loan Contracts”; Consumer Financial Protection Bureau, “Borrower Experiences on Income-Driven Repayment”; Ahlman, “Casualties of College Debt”; Navient, “Navient Response.”
- 64 Congressional Budget Office, “Income-Driven Repayment Plans for Student Loans.”
- 65 Consumer Financial Protection Bureau, “Update From the CFPB Student Loan Ombudsman.” The income-driven calculation used for making rehabilitation payments differs from the calculation used in actual income-driven plans in several significant ways. Borrowers using rehabilitation to exit default must make nine payments during a period of 10 consecutive months, where payments are either based on 15% of their annual income (the default) or based on both income and expenses. The minimum rehabilitation payment is \$5 per month, while payments in IDR plans can be as low as \$0. Though the 15% formula is similar to the IBR plan, borrowers do not have to qualify for IBR to use the 15% formula for their rehabilitation payment. Additionally, IDR plans do not take borrowers’ expenses into account when calculating payments.
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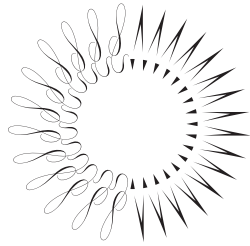
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- 194 Borrowers enrolled in the ICR plan can also choose to repay based on a fixed payment schedule over the course of 12 years that is adjusted to their income.
- 195 For all the income-driven plans, the spouse's income is not included if the borrower is separated from his or her spouse or unable to reasonably access the spouse's income.



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