Fixing Income-Driven Repayment for Federal Student Loans

By Jason D. Delisle and Preston Cooper

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Key Points

- The income-driven repayment (IDR) plan allows all federal student loan borrowers to limit payments to a small share of their incomes and provides loan forgiveness benefits.
- IDR plans now account for half of all direct federal student loans by volume, nearly one in three borrowers use IDR plans, and monthly payments average $154.
- Absent reforms, borrowers who attended graduate school stand to receive the largest benefits under the program, or about $52,000 in loan forgiveness on average.
- Instead of providing mass loan forgiveness, policymakers should strengthen IDR for vulnerable borrowers while reining in excessive benefits for borrowers with graduate school loans.

Many believe the US is in the midst of a student debt crisis and needs bold policy solutions to address it. Outstanding debt has increased rapidly over the past 20 years, the vast majority of which was issued through the federal student loan program. In 2000, outstanding federal student loans totaled approximately $318 billion in today's dollars.[1] That figure now stands at $1.6 trillion.[2]

The large stock of outstanding student debt—second only to home mortgages among consumer credit—is often presented as evidence that borrowers are overwhelmed by their student loans or that the debt is holding back productive economic activity such as homeownership and small business formation. In response, policymakers and advocates have focused much of their attention on proposals to forgive some or all outstanding debt. While mass student loan forgiveness proposals have garnered most of the public attention in recent months, alternative policies for helping borrowers repay their debts are hiding in plain sight.

Nearly all borrowers with federal student loans are currently eligible for an income-driven repayment (IDR) plan that allows them to cap monthly payments at 10 percent of their discretionary incomes. IDR plans also include a loan forgiveness benefit whereby remaining balances are canceled after a set period of making payments in IDR, typically 20 years.

That such an apparent solution to the student debt crisis seems to be in place already complicates the current policy debate on student debt relief. In theory, IDR should go a long way toward alleviating the problems of overly burdensome student debt. Empirical evidence suggests that the program can provide as much or more relief to low-income households as forgiving $10,000 of debt per borrower would.[3] Yet much of the policy debate implies IDR does not exist or work.

Complicating the discussion further, some policymakers and advocates (including President Joe Biden) nod to IDR as an existing solution to student debt burdens but say the program needs to be more generous to address the student debt crisis.[4] They would reduce the required payments in the program and cut the time borrowers must pay before debts are forgiven. Biden's proposal seems out of step, however, with evidence that the IDR program has grown far more costly to the government than originally expected—which has led some policymakers, including those in the Donald Trump administration, to propose significant cuts to the program.[5]

Given this complex and seemingly contradictory information, policymakers need a better understanding of the size, scope, and impact of the existing IDR program to assess whether it is working as intended and what reforms may be needed. In response, this report includes a brief explanation of the existing IDR program and its evolution. It also provides an overview of the program's current statistics, such as budget projections, enrollment figures, and loan forgiveness estimates. A discussion of key reform proposals advanced by policymakers and advocates is also included, along with a concluding section that offers our own recommended reforms.

Program History and Background

Borrowers in the federal student loan program have had the option to make payments based on income since the mid-1990s through the Income-Contingent Repayment Plan. However, this option was severely limited, and few borrowers used it. For instance, it was not available for the loans issued by private lenders—but backed by the government—that made up most loans at the time; only loans issued directly by the government qualified (direct loans).[6] And unless borrowers had poverty-level incomes, the plan rarely offered them lower monthly payments. Payments were set at 20 percent of a borrower's income over the federal poverty guidelines. Borrowers with remaining balances after 25 years of payments in the program would have their debts forgiven. Forgiven amounts would be taxed as income, which is currently the case with all loan forgiveness provided under IDR except Public Service Loan Forgiveness (PSLF) and any debts forgiven in the years 2021 through 2025.[7]

In the mid-2000s, advocacy groups and researchers argued that the federal loan program should offer borrowers a more widely available option to repay based on their incomes—and one that provided lower monthly payments than the Income-Contingent Repayment Plan did.[8] In 2007, lawmakers heeded their call and enacted the Income-Based Repayment Plan, which became available in 2009.[9] Borrowers with federally backed loans issued by private lenders and borrowers with direct loans both qualified for the program, although since 2010 all loans have been issued as direct loans. Payments were set at 15 percent of a borrower's adjusted gross income over 150 percent of the federal poverty guidelines, adjusted for household size.[10] Loan forgiveness would still occur after 25 years of payments, but policymakers added another loan forgiveness benefit, PSLF, that would occur after just 10 years of cumulative payments made while the borrower was employed in a government or nonprofit job.[11]

Shortly after the Income-Based Repayment Plan became available in 2009, President Barack Obama proposed reducing payments in the program to 10 percent of income over 150 percent of the federal poverty guidelines and shortening the loan forgiveness time to 20 years.[12] Congress quickly enacted these changes in early 2010 but delayed their effective start date to new student loan borrowers as of 2014. Later, however, the Obama administration used regulatory authority to expand these terms to nearly all borrowers with loans issued before that date.[13] In short, virtually all federal student loan borrowers have access to these repayment terms, which we refer to collectively as IDR.

How IDR Works: A Brief Example

An example of IDR in practice can help illustrate how the program makes debt affordable. Consider a borrower with $30,000 in federal student loans at an interest rate of 4 percent. Their monthly payments are initially set according to a fixed-payment, 10-year repayment plan (i.e., the "standard plan"), resulting in a $304 monthly payment. If they opt instead to enroll in IDR (which they may elect at any point in their repayment term), their payments will instead be calculated based on their income.

Assume they have an adjusted gross income of $35,000 and are the only person in their household. Their monthly payment under IDR would be

$131 instead of the $304 under the standard plan. The IDR payment is calculated in the following manner. First, their discretionary income is calculated by deducting 150 percent of the federal poverty guidelines for a single person ($19,320) from their income of $35,000. The remaining $15,680 is their discretionary income. Their IDR payments are 10 percent of that amount, divided into 12 equal monthly payments, or $131. Documents from the US Department of Education suggest that typical monthly payments in IDR range from $91 to $154.[14]

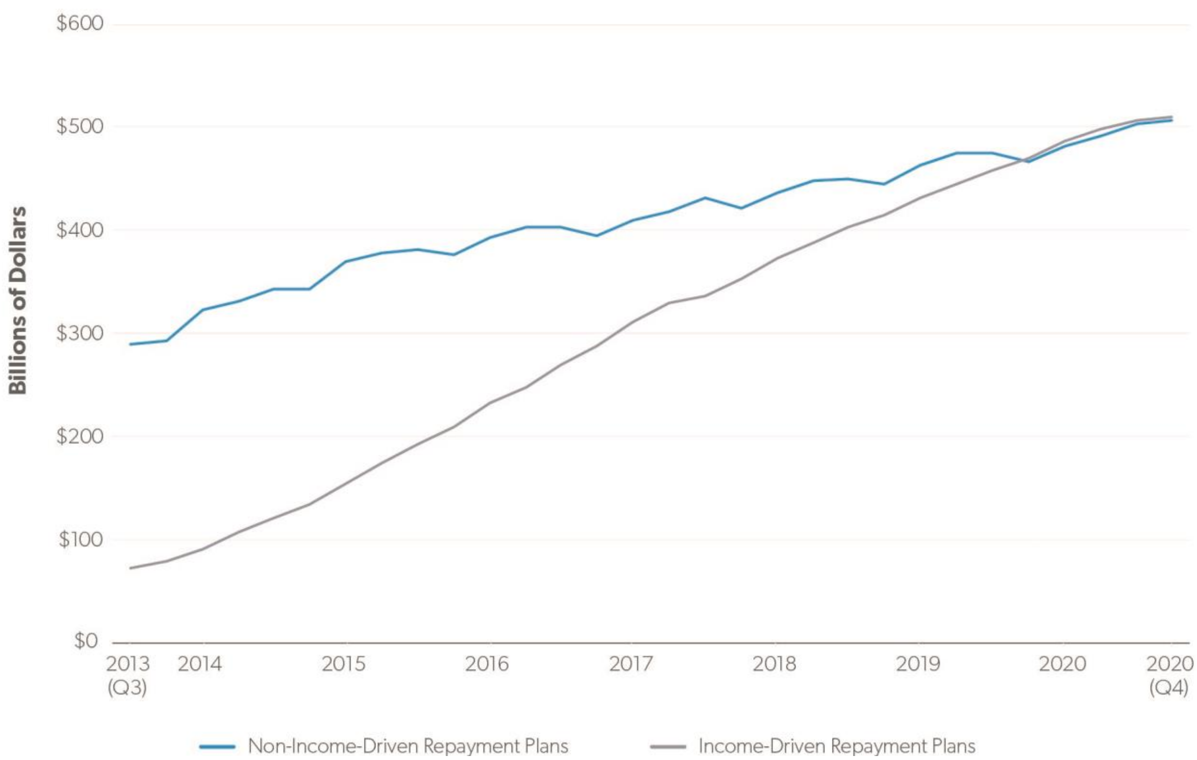
Because their payments are much lower than under the standard plan, IDR will cause them to stretch out their repayment term well beyond the standard plan's 10 years of payments and pay more in interest. (Interest continues to accrue on loans repaid through IDR even if payments do not cover all of it, but there are some limited exceptions to that policy.)[15] However, their repayment term can never be longer than 20 years because loan forgiveness occurs at that point. A borrower who fits the profile in this example is unlikely to have debt forgiven because their monthly payments will likely be sufficient to pay off the debt before 20 years.[16] If their loan balance were larger (e.g., $40,000) or their income were lower (e.g., $25,000), they would likely have some debt forgiven after 20 years of payments.

Borrowers may leave IDR at any point and return to a standard or other non-IDR plan whenever they choose. If they wish to remain in IDR each year, they must reenroll by updating their income and household-size information annually. If their incomes change, their payments will change accordingly.

IDR Enrollment Trends

Enrollment in IDR has grown rapidly since the program first became available. In 2013, 1.6 million direct loan borrowers were repaying approximately $72 billion in loans through IDR. By the end of 2020, IDR enrollment had grown to 8.2 million borrowers and over $500 billion. That growth far outpaces the overall increase in direct loan balances during that time. Total direct loan balances in repayment increased roughly 180 percent

Figure 1. Federal Student Loan Balances by Repayment Plan, Fiscal Years 2013–20



Note: Statistics are for the direct loan portfolio only but account for the majority of outstanding federal student loans and all loans issued since July 2010.

Source: Authors' calculation using data from the US Department of Education, Office of Federal Student Aid.

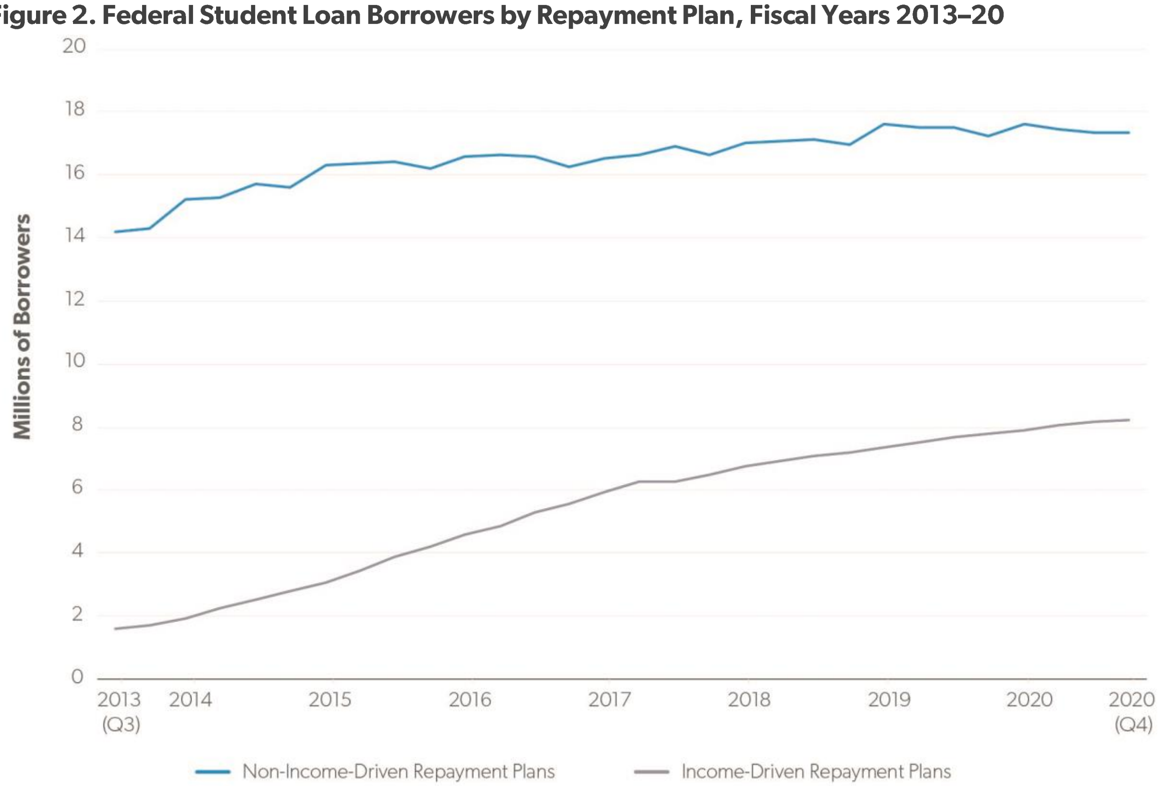
between 2013 and 2020. But direct loan balances in IDR increased over 600 percent.[17]

As shown in Figure 1, total loan balances enrolled in IDR now match those in non-IDR repayment plans. When measured in terms of borrowers rather than dollars, however, IDR enrollment still represents a minority of direct loan borrowers in repayment—about 32 percent, as shown in Figure 2. The disparity implies that IDR borrowers tend to have higher average balances than direct loan borrowers overall do.

While proponents of IDR often advocated for the program because it was meant to provide a safety-net program for undergraduate borrowers, the data reveal that these borrowers are not the primary beneficiaries of the program.[18] According to the US Department of Education, 68 percent of loans in IDR belong to individuals who borrowed as graduate students.[19] When measured in terms of benefits that the program provides, the data are even more skewed. The Congressional Budget Office (CBO) estimates that borrowers with graduate and professional degrees hold 80 percent of the debt that will be forgiven under IDR.[20]

Graduate students are better positioned than undergraduates are to take advantage of IDR's loan forgiveness benefits for one simple reason: Graduate students may borrow more than undergraduates in the federal loan program but qualify for the same repayment terms in IDR as undergraduates do. Undergraduates are subject to annual and aggregate borrowing limits (as low as $5,500 for a first-year student), whereas graduate students can borrow up to the full cost of attendance for their education with no annual or aggregate limit. They may also combine their undergraduate and graduate school debt into one sum when repaying in IDR, which can result in relatively large balances even for borrowers who take on average debt loads for each degree separately.[21] And because borrowers qualify for loan forgiveness after 20 years of payment whether they enroll with $10,000 in debt or $100,000, the borrowers with the most debt stand to have the most forgiven.

Figure 2. Federal Student Loan Borrowers by Repayment Plan, Fiscal Years 2013–20



Note: Statistics are for the direct loan portfolio only but account for the majority of outstanding federal student loans and all loans issued since July 2010.

Source: Authors' calculation using data from the US Department of Education, Office of Federal Student Aid.

Further, borrowers with graduate school debt do not need to have persistently low incomes during repayment to qualify for loan forgiveness under IDR. This is another way IDR provides large benefits to graduate school borrowers. Minimum payments under IDR are too low to fully repay large debts in 20 years, even if the borrower earns a middle-class income. The following example can help illustrate this effect.

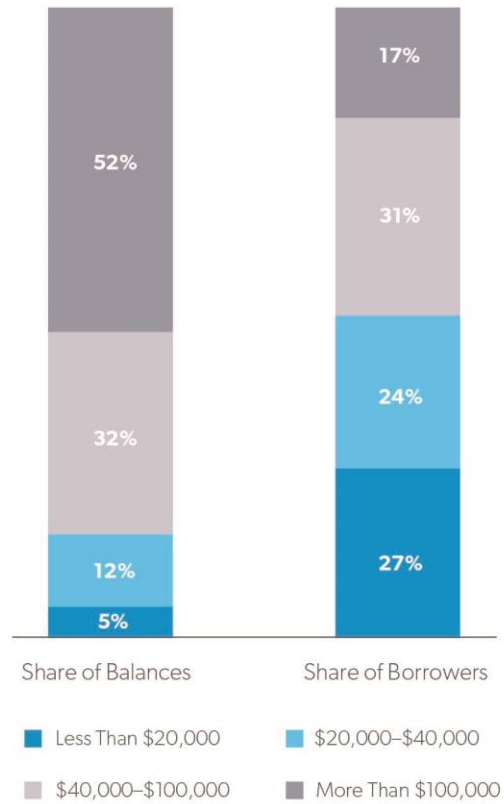
A borrower with an initial $50,000 income and $75,000 in debt would make monthly payments of just $256 under IDR. That is not enough to pay off such a large balance in 20 years, which would require fixed monthly payments of nearly $500. The $256 monthly payments under IDR are even less than the monthly accruing interest on the debt. Even if the borrower's income grows at 4 percent annually and their payments rise commensurately, they can still expect to have $42,000 in debt forgiven after 20 years in IDR.[22]

The evidence suggests that high-debt borrowers (those who attended graduate or professional school) are responding to the generous loan forgiveness benefits in IDR. The CBO calculates that more than half of all debt that graduate and professional students took out in recent years is being repaid through IDR.[23] On average, these graduate borrowers will have $52,000 forgiven through IDR.[24]

The data also reveal that even among the borrowers enrolled in IDR, the benefits of the program disproportionately favor borrowers with extremely high debts. US Department of Education data show that more than half of the student loan balances enrolled in IDR belong to just 17 percent of the borrowers. (See Figure 3.) Almost all of these high-balance borrowers have graduate loans. By contrast, the 27 percent of borrowers in IDR with less than $20,000 in debt have just 5 percent of all outstanding balances. Borrowers in this group are the most likely to be financially distressed and are therefore the main intended beneficiaries of IDR, but they reap only a small fraction of the program's benefits.[25]

Low-balance borrowers who use IDR tend to have very low incomes because their payments under the standard plan are already low. Put another way, borrowers with low balances tend to already have low monthly payments before entering into IDR,

Figure 3. IDR Plan Enrollment by Size of Borrower Balance



Note: Totals do not sum to exactly 100 percent due to rounding.
Source: Authors' calculation using data from the US Department of Education, Office of Federal Student Aid.

so for IDR to further reduce their monthly payments, their incomes must be low. To see this, consider a borrower with a $50 monthly payment under the standard plan. Their income must be below $25,000 for IDR to reduce their payment below that amount. Therefore, middle- and high-income borrowers with low balances tend not to benefit from IDR.

What Does IDR Cost Taxpayers?

Another way to see the size and scope of the IDR program is through its budgetary costs. As IDR plans lower borrowers' scheduled monthly payments and offer many the promise of future loan forgiveness, a loan being repaid through IDR costs taxpayers more, on average, than a loan repaid through a standard plan does. The CBO estimates that the government earns a 13-cent profit on each student loan dollar enrolled in a standard repayment plan. However, each dollar in an IDR plan instead costs the government 17 cents.[26] A different accounting method called "fair-value accounting," which the CBO says is more comprehensive but is not stipulated in official budgeting rules, shows that loans repaid in IDR cost taxpayers 43 cents for each dollar lent. That accounting method shows that loans repaid in the standard plan also impose a cost on the government.[27]

The CBO estimates that loans issued in 2021 that borrowers repay through IDR plans will cost taxpayers $7 billion and the annual cost of IDR will exceed $10 billion by the end of the decade.[28] These figures far exceed what policymakers expected IDR to cost originally. According to budget estimates from the US Department of Education, when it first became available in 2009, IDR was projected to cost less than $1 billion annually.[29]

Two related trends have contributed to the massive cost increase: greater use of IDR and changes by the Obama administration that cut monthly payments from 15 percent to 10 percent of discretionary income and reduced loan forgiveness from 25 to 20 years.

Another way to gauge the cost implications of IDR is through estimates of loan forgiveness. While forgiven debt is not equivalent to the full cost of a loan made through IDR, it gives a sense of the program's magnitude. In fiscal year 2021, the CBO expects the federal government to disburse $43 billion in loans that will eventually be repaid through IDR. Of that $43 billion, the CBO estimates that over $19 billion (45 percent) will be forgiven. In total, the CBO foresees that taxpayers will forgive $207 billion in student loans issued between 2020 and 2029 if current policies are maintained.[30] Again, the vast majority of this debt is for borrowers who financed graduate and professional degrees. Very little of it was used to finance an undergraduate education.

The *Wall Street Journal* reported that internal Education Department documents show loan forgiveness under IDR will be even higher at 50 percent of the amount owed.[31] These same documents project that IDR (and to a lesser extent, uncollected defaulted loans) will cost taxpayers $435 billion. That figure reflects losses for the entire outstanding portfolio of loans but not loans issued in future years. Overall, taxpayer losses on the current stock of outstanding student loans will rival those that banks faced during the 2008 subprime mortgage crisis, according to the *Wall Street Journal*.

Prominent Reform Proposals

Even though IDR currently favors borrowers with larger debts who have advanced degrees, this is not an unavoidable aspect of tying student loan payments to income. Rather, it is a consequence of IDR's specific design in that loan forgiveness terms are not adjusted for the amount of debt a borrower holds. For example, borrowers with $20,000 and $80,000 in debt receive the same repayment terms. The solution, as we will discuss in the conclusion, is treating different amounts of debt differently.

Unfortunately, many prominent proposals to reform IDR do not take this approach and would instead compound the problem of providing unnecessarily large benefits for high-debt borrowers who pursued graduate and professional degrees. Other prominent proposals are more careful to target lower-balance borrowers but would make the program so generous that many undergraduates will have some of their debt forgiven even if they can afford to fully repay.

The College Affordability Act, for example, introduced in the previous Congress by Rep. Bobby Scott (D-VA), would raise the amount excluded from discretionary income in the program to 250 percent of the poverty line, or $32,200 for a single person (up from $19,320 currently). Although the proposals would leave the share of discretionary income paid at 10 percent, raising the exemption still results in dramatic reductions in payments for many borrowers who would be able to repay and a large increase in the average amount of debt forgiven.[32]

For example, a borrower with a $35,000 adjusted gross income would see their $131 monthly payment under IDR's current terms drop to just $23. Payments over the life of the loan would not be enough to repay more than $2,000 of the original principal balance on an initial $30,000 loan; the borrower would have $28,000 forgiven.[33] A CBO estimate projects the proposal would increase the cost of the IDR program by about $16 billion a year.[34]

In his campaign platform, Biden proposed changing both parts of the IDR formula (the amount excluded and the share of discretionary income) to make the program more generous for undergraduates only. He wants to cut the share of discretionary income that undergraduate IDR borrowers pay from 10 percent to 5 percent and raise the amount excluded from discretionary income (for a single person) from $19,320 to $25,000.[35] This two-part proposal would substantially reduce payments for undergraduate borrowers using IDR. Many undergraduate borrowers would see even lower payments than under the terms proposed in the College Affordability Act.[36] Although graduate students would be excluded from the reduced payments, the reform could still add significant costs to IDR.[37]

Trump also proposed changes to IDR that would make the program more generous for undergraduate borrowers but less generous for graduate students.[38] He wanted to increase monthly payments from 10 percent to 12.5 percent of income. However, he also proposed allowing undergraduate borrowers to have their remaining loans forgiven after 15 years rather than 20. Graduate borrowers would receive forgiveness after 30 years. A previous analysis showed that many undergraduates would still see reduced payments overall under such a reform, though the added budgetary costs of the more generous loan forgiveness term would be more than offset by the longer repayment term required of graduate borrowers.[39]

Public Service Loan Forgiveness

Some borrowers who enroll in income-driven repayment (IDR) plans may also take advantage of Public Service Loan Forgiveness (PSLF), a program for borrowers who work for the government or most nonprofit organizations. If they work in a qualifying job, PSLF borrowers may receive forgiveness after 10 years (cumulatively or consecutively), rather than the normal 20. PSLF makes up a substantial portion of the costs associated with IDR; the Congressional Budget Office estimates that the program will cost taxpayers $18 billion over the coming decade.[40]

As of November 2020, 1.4 million borrowers with nearly $120 billion in student loans were working toward PSLF, and the average borrower had a balance of nearly $86,000.[41] However, a large number of borrowers expecting forgiveness have not yet received it, mostly because they have failed to make enough qualifying payments.

President Joe Biden has proposed converting PSLF into a program that forgives $10,000 in debt for every year of qualifying employment, up to five years.[42] Crucially, this plan would make the program easier to administer and reduce "surprises" for borrowers who have unknowingly failed to accumulate 10 years' worth of qualifying payments. It would also reduce forgiveness for high-balance borrowers. However, the plan would make many more borrowers eligible for benefits under PSLF and would significantly increase the program's cost.

Policy Recommendations

The IDR program offers all borrowers with federal student loans the option to link their monthly payments to their incomes. The program even lets low-income borrowers skip payments. IDR also promises to forgive borrowers' debts if their payments remain low for a long time.

The available evidence as presented in this report shows that many borrowers use this option, average monthly payments in the program are low (between $91 and $154), and borrowers are on course to have tens of billions of dollars forgiven in the coming years. These facts stand in contrast to the popular narrative that policymakers have failed to provide student loan borrowers with sufficient relief from unaffordable payments. The IDR program, which is available to all federal student loan borrowers, clearly provides such relief. One recent study showed that for low-income households, loan forgiveness under IDR is worth more than forgiving $10,000 in a lump sum, as some policymakers, including Biden, have proposed.[43]

That is not to say, however, that the program cannot be improved, and it is certainly debatable whether the program is providing enough relief. There are many ways in which the program can target more assistance to the borrowers who were the original intended beneficiaries of the program: undergraduates. And as this report has already identified, reforms are needed to curtail the windfall benefits that borrowers with graduate school debt stand to reap through the program. What's needed then is a two-pronged approach to reforms that improves the safety-net features of IDR while addressing the excessive benefits high-debt borrowers stand to receive through the program.

Previous research established that borrowers with balances below $10,000 are the most likely to default on their loans.[44] Therefore, safety-net features built into the loan program should target these borrowers. But low-balance borrowers may not think IDR is worth it for them because they must spend 20 years in the program to receive forgiveness and frequently watch their balances grow if their payments do not cover interest ("negative amortization"). The psychological effects of long repayment terms and negative amortization for relatively small balances can dissuade these borrowers from enrolling in IDR, even though the program could keep them out of default.

Trump proposed addressing this issue with a plan to forgive undergraduate borrowers' loans after 15 years in IDR, rather than 20. If Congress wanted to go further without incurring excessive costs, it could accelerate loan forgiveness for borrowers with the lowest balances (under $10,000) even more, to 10 years. In addition, policymakers could waive interest charges for low-balance, low-income borrowers whose monthly payments do not cover interest to prevent their balances from rising. If these changes are restricted to borrowers with low balances, they will add minimal extra costs for taxpayers.[45] These additional costs could easily be offset with savings that result from reforms for borrowers with debts from graduate school, which we turn to next.

The potential tax liability borrowers may face when their debts are forgiven is another flaw in the current program, particularly for lower-income borrowers. While the American Rescue Plan Act of 2021 makes forgiven student loan debt exempt from federal income tax, the policy is only in place through 2025.[46] Policymakers should make this policy permanent so forgiveness is always treated as untaxed income. However, they must first address the large benefits that high-debt borrowers can currently receive in the program; otherwise, changing the tax treatment of loan forgiveness will provide these borrowers with even larger benefits.

The options for addressing the large loan forgiveness benefits for high-balance borrowers in IDR (typically graduate students, though some graduate students may have relatively low balances) are fairly straightforward, though the proposed reforms would make the program more complex. As discussed above, IDR can provide loan forgiveness benefits to borrowers with larger balances (amounts over approximately $50,000), even if they earn middle-class incomes, because the payments are too low relative to the 20-year repayment term.

Policymakers could address this issue by increasing monthly payments for borrowers with larger debt. However, this may reduce IDR's safety-net benefits that ensure borrowers' payments are always a low and affordable share of their incomes. It also adds complexity for calculating a borrower's monthly payment.

A better alternative is to increase the amount of time a borrower with a higher balance must repay before qualifying for loan forgiveness. The original IDR term, which set loan forgiveness at 25 years, is one option. The CBO estimates this change would save the government about $1 billion a year.[47] But the original IDR program also required borrowers to pay more monthly than they do now. If policymakers are to maintain the lower, 10 percent discretionary income terms, then a repayment term for loan forgiveness longer than 25 years may be in order—at least if policymakers aim to restore terms comparable to the original 2009 terms of IDR. Trump proposed a 30-year repayment term for graduate borrowers, which brings the benefits that a high-debt borrower could earn in the program even closer to the original terms. There is no budget estimate available for the savings this change would produce.

Another way to address the large benefits that high-debt borrowers can obtain through IDR is by limiting how much graduate students can borrow in the federal loan program. As mentioned above, graduate students may borrow federal loans to cover the full cost of their education. These borrowers can thus obtain large balances, which they can repay without restriction in IDR, and then have them forgiven. Capping these loans at $20,000 per year, for example, would prevent the most excessive cases of loan forgiveness in the program. However, even under that limit, borrowers would still be able to accumulate $100,000 in the loan program (e.g., $35,000 in undergraduate debt and $60,000 for a three-year professional program, plus $5,000 in accrued interest during enrollment), which could still easily result in substantial loan forgiveness under IDR. That said, Figure 3 shows that nearly half the debt enrolled in IDR is held by borrowers with more than $100,000 balances. Thus, loan limits for graduate and professional student borrowers could still significantly affect the total amount of debt forgiven in the program.

Conclusion

Much of the national debate about student debt is framed around whether the government ought to forgive borrowers' balances en masse and is based largely on the assumption that the debt is unaffordable. But this ignores the payment-reduction and loan forgiveness benefits already available to all borrowers through IDR. Therefore, it is imperative that policymakers fully understand the IDR program before they consider mass loan forgiveness proposals, as they may be premised on an incomplete understanding of the benefits in existing policies. Policymakers should also consider, as an alternative to mass loan forgiveness, reforms that build on IDR for new benefits that may be needed to help low-income borrowers manage their debts.

About the Authors

Jason D. Delisle is a visiting fellow at the American Enterprise Institute, where he works on higher education financing with an emphasis on student loan programs.

Preston Cooper is a visiting fellow for higher education policy at the Foundation for Research on Equal Opportunity.

Notes

1. Executive Office of the President of the United States, "Fiscal Year 2002: Analytical Perspectives," US Government Printing Office, 2001, https://www.govinfo.gov/content/pkg/BUDGET-2002-PER/pdf/BUDGET-2002-PER.pdf. A total of $318 billion was adjusted for inflation using the Personal Consumption Expenditures Price index. See US Department of Commerce, Bureau of Economic Analysis, "Personal Consumption Expenditures: Chain-Type Price Index," Federal Reserve Economic Data, accessed January 29, 2021, https://fred.stlouisfed.org/series/PCEPI.
2. US Department of Education, Federal Student Aid, "Federal Student Aid Portfolio Summary," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls.
3. Sylvain Catherine and Constantine Yannelis, "The Distributional Effects of Student Loan Forgiveness" (working paper, Becker Friedman Institute for Economics at the University of Chicago, Chicago, December 9, 2020), https://bfi.uchicago.edu/wp-content/uploads/2020/11/BFI_WP_2020169.pdf.
4. Adam S. Minsky, "Biden's Income-Based Student Loan Plan Would Dramatically Lower Payments for Some—Here's How," *Forbes*, October 1, 2020, https://www.forbes.com/sites/adamminsky/2020/10/01/bidens-income-based-student-loan-plan-would-dramatically-lower-payments-for-some---heres-how/?sh=6efca4046354; and Alex Gailey, "President Biden Just Suspended Federal Student Loan Payments. Here Are All His Plans for Student Debt Relief," NextAdvisor, January 21, 2021, https://time.com/nextadvisor/in-the-news/joe-biden-student-loan-relief-extension/.
5. US Government Accountability Office, *Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates*, November, 2016, https://www.gao.gov/assets/gao-17-22.pdf; and US Department of Education, "Student Loans Overview: Fiscal Year 2018 Budget Request," https://www2.ed.gov/about/overview/budget/budget18/justifications/q-sloverview.pdf.
6. Technically, borrowers could have switched their loans into the direct loan program to access the Income-Contingent Repayment Plan, but this was not widely advertised and involved paperwork.
7. Taxing forgiven debt as income is how the federal tax code typically treats loan forgiveness. It is not a specific, nor an intentional, provision of the income-driven repayment plan. A provision of the American Rescue Plan Act of 2021 makes forgiven

student debt tax-free for the tax years 2021–25. See American Rescue Plan Act of 2021, Pub. L. No. 117-2, https://www.congress.gov/bill/117th-congress/house-bill/1319/text/pl?overview=closed.

8. Robert Shireman et al., "Addressing Student Loan Repayment Burdens: Strengths and Weaknesses of the Current System," Project on Student Debt, February 2006, https://ticas.org/wp-content/uploads/legacy-files/pub_files/WHITE_PAPER_FINAL_PDF.pdf. One of the most compelling arguments advocacy groups made for a more generous income-driven repayment program was that the terms of the Income-Contingent Repayment Plan required higher monthly payments (20 percent of income above the poverty threshold) than if the borrower defaulted on their debt and had their wages garnished (15 percent of disposable income). While there are other consequences to defaulting, it was arguably unfair and perverse to require higher payments for a loan in good standing under the Income-Contingent Repayment Plan than for a borrower who defaulted on their debt.

9. College Cost Reduction and Access Act, Pub. L. No. 110-84, http://www.gpo.gov/fdsys/pkg/PLAW-110publ84/pdf/PLAW-110publ84.pdf.

10. Adjusted gross income is figured on a borrower's federal income tax return and typically is a combined amount for both tax filers in a married household. Adjusted gross income reflects filers' pretax income after many "above-the-line" exemptions that include items such as pretax retirement plan contributions, health insurance premiums, and even student loan interest.

11. The Income-Based Repayment Plan includes another benefit by which a borrower's payment is capped at the amount they would have had to pay on a 10-year fixed amortization plan. This means a borrower whose income increases after enrolling in the program, causing their payment to exceed the amount on a 10-year plan, instead has their payment capped at the 10-year plan amount. They can still qualify for the loan forgiveness benefits while making payments of that amount, although they are no longer based on their income.

12. US Department of Education, "Student Loans Overview: Fiscal Year 2011 Budget Request," February 1, 2010, https://www2.ed.gov/about/overview/budget/budget11/justifications/t-loansoverview.pdf.

13. Borrowers with loans issued for graduate school and professional studies before 2007 must pay for 25 years before qualifying for loan forgiveness using the Revised Pay as You Earn (REPAYE) version of the IDR programs. For more details, see US Department of Education, Federal Student Aid, "Do You Have Questions About the Different Types of Income-Driven Repayment Plans?," https://studentaid.gov/manage-loans/repayment/plans/income-driven/questions.

14. This information is derived from two sources. One source was provided by the US Department of Education in response to questions from Sen. Patty Murray (D-WA) submitted to former Education Secretary Betsy DeVos following testimony before the Senate in 2019. A copy of the document is available from the authors upon request. It shows that for borrowers using the REPAYE version of IDR, payments are $91. This plan sets payments at 10 percent of discretionary income and so is a good proxy for typical payments in IDR. However, the mix of borrowers enrolled in the plan may differ from the overall mix across all IDR plans. The second source is a document provided by the US Department of Education during a 2016 conference. It shows that across all IDR plans in 2016, average payments were $154 per month; for borrowers with the largest debt-to-income ratios in those plans, payments were $92 per month. See Ian Foss and Barbara Hoblitzell, "Session 27: Income-Driven Repayment Plans/Pay as You Earn (PAYE)," 2016 Federal Student Aid Training Conference for Financial Aid Professionals, November–December 2016, https://fsaconferences.ed.gov/conferences/library/2016/2016FSAConfSession27.ppt.

15. There are two situations in which a borrower's loans will not accrue the full amount of interest each month when repaid in IDR. If the borrower holds a subset of loans called subsidized Stafford loans, then any unpaid interest that accrues in IDR is forgiven for up to three years during repayment. The other case is if the borrower uses the REPAYE version of IDR, which is open to all borrowers. Under that program, half of any unpaid accrued interest each month is forgiven immediately. There is no time limit for that benefit like there is for subsidized Stafford loans.

16. This example assumes the borrower's income increases at 4 percent annually.

17. US Department of Education, Federal Student Aid, "Direct Loan Portfolio by Repayment Plan," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/DLPortfoliobyRepaymentPlan.xls.

18. Office of the Vice President of the United States, "Annual Report of the White House Task Force on the Middle Class," February 2010, https://obamawhitehouse.archives.gov/sites/default/files/microsites/100226-annual-report-middle-class.pdf; and US Department of Education, "Student Loans Overview."

19. US Department of Education, "Comparison of Total Originations to the Net Present Value of Payments in Each IDR Repayment Plan: All Borrowers Expected to Enter IDR Repayment in 2018," https://www2.ed.gov/about/overview/budget/budget19/idrtables.pdf.

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

21. For example, a student who completes a graduate or professional degree and borrowed federal student loans leaves school with a median balance of about $22,000 on their undergraduate debt and another $50,000 on their graduate school debt. Each amount repaid separately in IDR would be far less likely to lead to loan forgiveness than when the combined $72,000 is repaid in

IDR. Authors' calculation using US Department of Education, Institute of Education Sciences, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS)," 2015–16.

22. The example assumes a 2 percent inflation rate, 5 percent interest rate, 4 percent annual income growth, and a single individual in the household size.

23. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans."

24. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans."

25. Adam Looney and Constantine Yannelis, *Borrowers with Large Balances: Rising Student Debt and Falling Repayment Rates*, Brookings Institution, February 2018, https://www.brookings.edu/wp-content/uploads/2018/02/es_20180216_looneylargebalances.pdf.

26. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans," 20.

27. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans."

28. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans."

29. Authors' calculation based on US Department of Education, "Student Loans Overview."

30. Congressional Budget Office, "Income-Driven Repayment Plans for Student Loans."

31. Josh Mitchell, "Student Loan Losses Seen Costing U.S. More Than $400 Billion," *Wall Street Journal*, November 21, 2020, https://www.wsj.com/articles/student-loan-losses-seen-costing-u-s-more-than-400-billion-11605963600.

32. The proposal also includes a modest reduction in benefits for very high-earning borrowers. Borrowers would see the exemption to calculate discretionary income phase out gradually when their incomes are between $160,000 and $210,000. See College Affordability Act, H.R. 4674, 116th Congress, 1st sess., (2019), https://edlabor.house.gov/imo/media/doc/SCOTVA_047_xml.pdf.

33. The example assumes 2 percent inflation, 4 percent annual income growth, 4 percent interest rate, and a single individual in the household.

34. The estimate was not published but was provided to committee staff and was obtained by the authors. It is available from the authors upon request. This figure excludes the additional cost of making Direct Plus Loan for parents eligible for IDR. That provision would add $2 billion to the annual cost of the proposal.

35. Biden for President, "The Biden Plan for Education Beyond High School," https://joebiden.com/beyondhs/.

36. Consider the difference in monthly payments under the two proposed reforms (the College Affordability Act and the Biden proposal) for a borrower with a $45,000 income. Under the existing IDR program, the borrower's monthly payment is $214. Under the proposed College Affordability Act, their payment drops to $107. Under Biden's proposed reforms, their monthly payment would be just $83.

37. Biden for President, "The Biden Plan for Education Beyond High School."

38. US Department of Education, "Fiscal Year 2018 Budget: Summary and Background Information," May 23, 2017, https://www2.ed.gov/about/overview/budget/budget18/summary/18summary.pdf.

39. Jason D. Delisle and Alexander Holt, "Winners and Losers in President Trump's Student Loan Plan," Brookings Institution, August 3, 2017, https://www.brookings.edu/research/winners-and-losers-in-president-trumps-student-loan-plan/.

40. Congressional Budget Office, "Reduce or Eliminate Public Service Loan Forgiveness," December 13, 2018, https://www.cbo.gov/budget-options/54721.

41. US Department of Education, Federal Student Aid, "Public Service Loan Forgiveness (PSLF) Program Data," November 30, 2020, https://studentaid.gov/sites/default/files/fsawg/datacenter/library/pslf-nov-2020.xls.

42. Biden for President, "The Biden Plan for Education Beyond High School."

43. See Catherine and Yannelis, "The Distributional Effects of Student Loan Forgiveness," Table 2.

44. Looney and Yannelis, *Borrowers with Large Balances*.

45. Preston Cooper, "A Borrower-Centered Plan for Student Loan Relief," Foundation for Research on Equal Opportunity, December 2, 2020, https://freopp.org/a-borrower-centered-plan-for-student-loan-relief-3999ed8d08e8.

46. American Rescue Plan Act of 2021, Pub. L. No. 117-2.

47. Congressional Budget Office, *Options for Reducing the Deficit: 2021 to 2030*, December 2020, https://www.cbo.gov/system/files/2020-12/56783-budget-options.pdf.