

INCOME-DRIVEN REPAYMENT

With over 8.5 million borrowers currently enrolled, income-driven repayment (IDR) plans have become a critical safety net for student loan borrowers since the first widely available plan was created in 2007. For many borrowers, the monthly payment amount they would be required to make under a standard repayment plan is too high. IDR plans address this situation by allowing borrowers to instead make monthly payments in an amount based on their income and family size.

Because these lower monthly payments can extend a borrower's repayment term, IDR plans also provide a key protection: Instead of requiring borrowers to pay off their loans in full (regardless of how long it would take), IDR plans discharge any debt that remains after a set number of income-based monthly payments (20 or 25 years' worth, depending on the plan).

Many borrowers who enroll in IDR will end up repaying their loans in full within the 20–25-year repayment window and will therefore not have any debt discharged. However, IDR is still a key safety net for such borrowers, as it enables them to manage their loans and stay out of default, which may not have been possible if they were required to make higher monthly payments under a standard plan.

Research shows that borrowers enrolled in IDR plans default at [much lower rates](#) than those in non-IDR plans. However, despite being enrolled in an IDR plan—and despite significant improvements to program design and generosity over time—too many borrowers continue to struggle with repayment, with some even defaulting.

Students from low-income households; Black and Latino students; students who do not complete their programs; and students who attend for-profit colleges are disproportionately likely to borrow to attend school and to struggle to repay that debt.

The current IDR landscape is beset by several major challenges:

- ❖ Many borrowers encounter challenges enrolling and staying enrolled in an IDR plan, and servicers are not properly incentivized to mitigate these challenges.
- ❖ Under the current formula, income-driven payments can still be too high for some borrowers.
- ❖ While a low income-based payment can be more affordable month to month, many borrowers watch their balances grow significantly while enrolled in IDR if their payments do not cover interest. Facing a ballooning debt balance even while making regular monthly payments is a financial and psychological burden that likely discourages IDR uptake.

In creating a new IDR plan, the Department must address both bureaucratic hurdles and broader design flaws to create a plan that is more generous, fairer, and simpler. This new plan must:

- ❖ Build from and improve upon the baseline of the existing REPAYE plan (the newest and most generous existing IDR plan, which was created during a 2015 negotiated rulemaking process);

- ❖ Be easy for borrowers to access and understand;
- ❖ Provide a truly affordable monthly payment that better accounts for a borrower's financial circumstances;
- ❖ Restrain interest accumulation and prevent ballooning balances; and
- ❖ Provide real and automatic relief after a reasonable number of payments.

A Note on Regulatory vs. Legislative Action

Even if the Department creates a new IDR plan, the existing array of plans will remain, absent further action. The Department should work with lawmakers to address this complication. One option would be to fully sunset the existing repayment plans after a transition period. Such a sunset provision would be the easiest for the Department to administer and for borrowers to understand.

However, if any borrowers (potentially higher-income borrowers) are asked to pay more under a new IDR plan, it may be difficult to remove existing benefits. One way to address this challenge is to give borrowers a small incentive, such as an interest rate reduction, to switch into the new plan, while still retaining some or all the existing options.

Further Reading

- [*The Debt is in the Details: A Review of Existing Proposals to Streamline Income-Driven Repayment*](#)
- [*Chart Summarizing Existing IDR Plans*](#)
- [*Tax Consequences of Student Loan Discharges for Borrowers in Income-Driven Repayment Plans*](#)
- [*Students at Greatest Risk of Loan Default*](#)