



Examining the Biden Administration's Proposed Income-Driven Repayment Plan for Student Loans

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February 2022

Last year, the Biden administration announced it would implement a new income-driven repayment (IDR) plan for federal student loans using a 1993 law that gives the secretary of education broad discretion to design such plans (OPE 2021a).¹ This action would add a fifth IDR plan to the existing four, all of which let borrowers make payments based on a share of their income rather than fixed payments based on their loan balance and interest rate, and offer loan forgiveness after a specified period. This new plan would let borrowers make lower payments than any of the existing plans, but advocacy groups have argued it does not reduce debt burdens enough. To help inform this debate, we analyze and compare three IDR plans: the most-generous IDR plan currently available (Pay As You Earn or income-based repayment for new borrowers as of 2014), the Biden administration's proposal as published in a 2021 discussion draft, and an IDR plan that reflects several of the terms that advocacy groups who participated in a negotiated rulemaking session suggested instead.

The federal government offered the first IDR plan for federal student loans in the 1990s, but few borrowers used it. Enrollment in IDR has increased dramatically in recent years, however, partly because policymakers have increased the benefits these plans provide by reducing how much borrowers must pay monthly and shortening the time to loan forgiveness. Across the loan program today, 33 percent of borrowers are repaying 47 percent of balances under an IDR plan.² That is up from just 10 percent of borrowers repaying 10 percent of balances in IDR plans in 2013, the earliest year for which data are available.³

The administration has yet to release an official draft of its new IDR plan in the Federal Register but did release a discussion draft last year in a negotiated rulemaking process where a committee of industry stakeholders and advocacy groups (negotiators) provided feedback on the proposal.⁴ The plan proposed in the discussion draft reduces monthly payments by a maximum of about \$100 for low- and middle-income borrowers compared with the most generous existing IDR plan (i.e., produces the lowest

monthly payments) currently available but maintains the current loan forgiveness time period at 20 years. It is restricted to undergraduate borrowers only. These terms were met with disappointment by many negotiators, who said the administration should have reduced payments further, shortened the time to forgiveness, and offered the plan to graduate borrowers in addition to undergraduates.⁵ The Biden administration maintained in the committee meetings, however, that the plan was designed to target benefits to low-income borrowers and that adopting the terms that negotiators proposed would provide benefits beyond that limited scope.⁶

The administration has several opportunities to revise its discussion draft before finalizing it later this year. As the next step in that process, the administration must publish an official proposal in the Federal Register (which may differ from the discussion draft) and solicit public comments, which it is expected to do in the coming months.

Three Income-Driven Repayment Alternatives

All three IDR plans in this analysis contain the same three basic components: an income exemption, an assessment rate, and eventual loan forgiveness. Each is explained more below. Table 1 compares these components among the three IDR plans and shows the monthly payment that a typical borrower with an associate degree (AA) or a bachelor's degree (BA) makes under each.

Current IDR

Under the most generous IDR plan currently available (Pay As You Earn or income-based repayment for new borrowers as of 2014), the exemption is 150 percent of the federal poverty level by household size. This means all income up to 150 percent of the federal poverty level is exempt from the payment calculation. Therefore, a borrower in a one-person household has \$19,320 excluded from their income for their payment calculation. Borrowers with income below this amount make no payments. The assessment rate is 10 percent, meaning the borrower's annual payments (divided by 12 for monthly payments) are equal to 10 percent of income above the exemption.⁷ Principal and interest that remain after 20 years of enrollment in IDR, or 10 years under the Public Service Loan Forgiveness (PSLF) program, is forgiven.⁸ Borrowers can repay undergraduate and graduate school loans in the plan.⁹

The Biden Plan

The Biden administration's IDR proposal ("Biden plan") would be restricted to undergraduate loans only. The plan reduces payments for these loans relative to current IDR by increasing the exemption and reducing the assessment rate. Specifically, the proposal increases the exemption to 200 percent of the federal poverty level (\$25,760 for a one-person household) and creates a two-tiered assessment rate. Income above the exemption but below 300 percent of the federal poverty level (\$38,640) is assessed at 5 percent. For example, a borrower earning \$35,000 would have the first \$25,760 of their income excluded from the calculation, and the remaining \$9,240 of their income would be assessed at 5 percent to calculate their payment, which would be \$462 annually or \$39 monthly. Income above 300 percent of

the federal poverty level is assessed at 10 percent, the same assessment rate as in current IDR.¹⁰ The loan forgiveness period remains at 20 years, or 10 years under PSLF.

The Negotiators' Plan

The negotiators were not unanimous in suggesting terms for a single IDR plan and made myriad recommendations for a new plan in the committee meetings last year. Using documents and comments negotiators provided at these meetings, we synthesized the recommendations into a single IDR plan to make an analysis feasible. In nearly every case, negotiators favored terms that would have reduced payments further than the Biden proposal. Where there was disagreement among negotiators, we generally opted for the less-generous term (i.e., higher payments and less loan forgiveness).

We consider the negotiators' plan to be the following: an exemption of 300 percent of the federal poverty level (though some negotiators suggested 400 percent), a 10 percent assessment rate (there was little discussion about a preferred assessment rate, so we opted for current policy), and loan forgiveness after 15 years of enrollment (though some negotiators suggested 10 years) or 10 years under PSLF.¹¹ Borrowers can repay undergraduate and graduate school loans in the plan.

TABLE 1
Details of Income-Driven Repayment Plans

	Current IDR	Biden plan	Negotiators' plan
Income exemption	150% of FPL	200% of FPL	300% of FPL
Assessment rate	10%	5% for income between 200% and 300% of FPL; 10% for additional income	10%
Time to forgiveness	20 years	20 years	15 years
Loans eligible	Undergraduate/graduate	Undergraduate only	Undergraduate/graduate
Monthly payment for median BA borrower	\$264	\$157	\$103
Monthly payment for median AA borrower	\$139	\$43	\$0

Source: Urban Institute calculations.

Notes: AA = associate degree; BA = bachelor's degree; FPL = federal poverty level; IDR = income-driven repayment. Current IDR is Pay As You Earn. The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. See the appendix for assumptions.

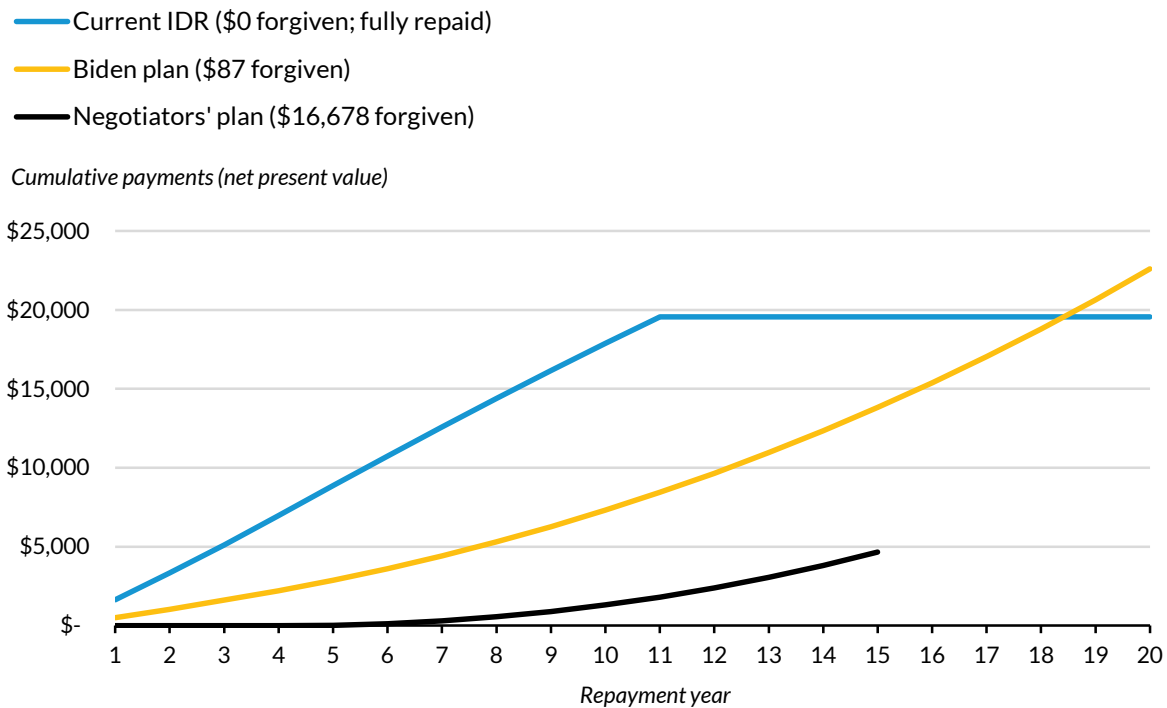
How the Different IDR Plans Affect Undergraduate Borrowers

To see how the three plans differ, we first examine the repayment effects for two undergraduate borrower profiles. In the first, we show the effects for a single borrower with a starting income of \$36,000, the median income for a 25-to-34-year-old with an AA, and debt of \$17,000, the median debt upon completion for an AA recipient who borrowed. In the second, we show the effects for a single borrower with a starting income of \$51,000, the median for a 25-to-34-year-old with a BA, and a debt of

\$30,000, the median debt upon completion for a BA recipient who borrowed.¹² Appendix figures A.1 and A.2 show the three plans' effects for borrowers with these debt levels but across a wider range of incomes.

Figures 1 and 2 show the repayment trajectory for the AA borrower and the BA borrower, respectively. Throughout this analysis, total payments and loan forgiveness amounts are present values calculated using a 2 percent discount rate, which matches the assumed inflation rate in this analysis for consistency. Based on these results, we can make several observations about the three plans.

FIGURE 1
Loan Repayment for an Associate Degree Recipient on \$17,000 Borrowed for a Borrower with a \$36,000 Starting Income



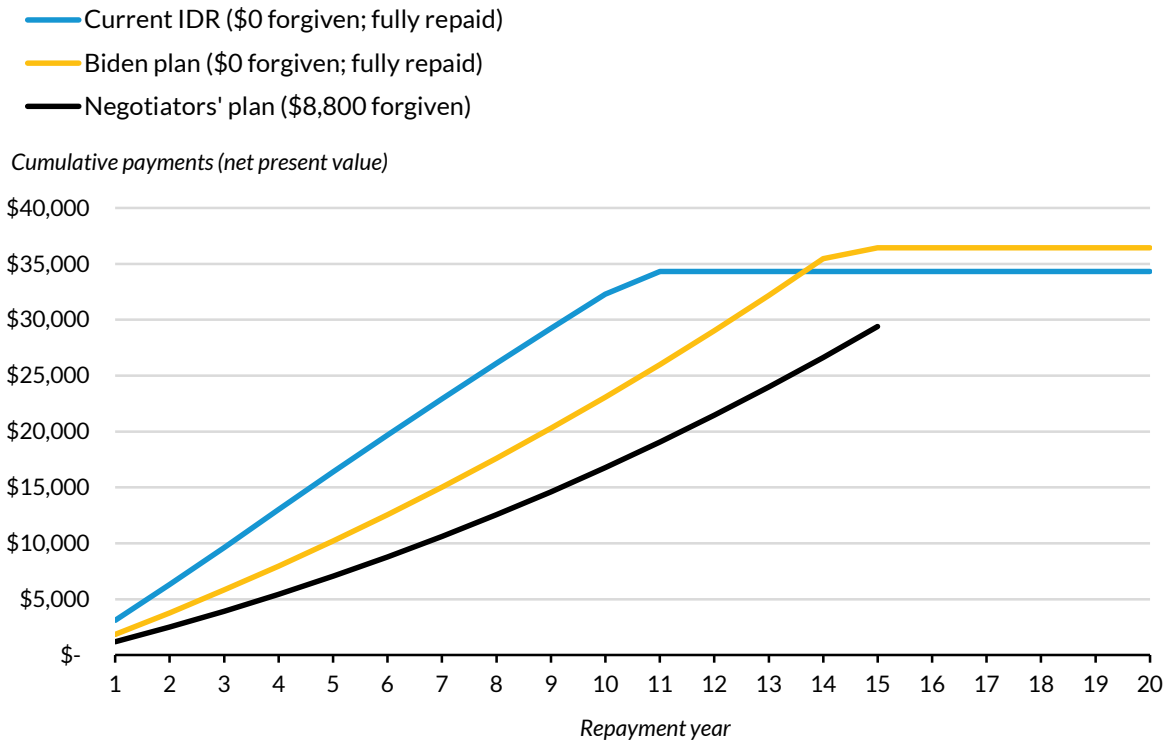
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Source: Urban Institute calculations.

Notes: IDR = income-driven repayment. Current IDR is Pay As You Earn. The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. See the appendix for assumptions. Amount borrowed and starting income are based on the median borrower for an associate degree.

FIGURE 2

Loan Repayment for a Bachelor's Degree Recipient on \$30,000 Borrowed for a Borrower with a \$51,000 Starting Income



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Source: Urban Institute calculations.

Notes: IDR = income-driven repayment. Current IDR = Pay As You Earn (PAYE). The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. See the appendix for assumptions. Amount borrowed and starting income are based on the median borrower for a bachelor's degree.

First, the Biden plan requires that the borrowers pay slightly more in total compared with current IDR, in present-value terms. That said, the Biden plan significantly cuts their monthly payments compared with current IDR and thus causes borrowers to stretch out the time they are in repayment and pay slightly more in total. This does not mean, however, that the Biden plan is less beneficial than current IDR. In fact, it is more beneficial because it lets borrowers make lower monthly payments in exchange for a longer repayment term but with no interest rate increase, and the borrower would still have the flexibility to make higher payments at any point to reduce their total payments.

Specifically, the AA borrower pays \$22,591 over 20 years under the Biden plan compared with \$19,551 over 11 years under current IDR. The BA borrower pays \$36,438 over 15 years instead of \$34,334 over 11 years under current IDR. The borrowers make lower monthly payments over the course of their repayment terms, increasing the loan's monthly affordability despite borrowers having to pay slightly more over a longer period compared with current IDR.

For these borrower profiles, there is no notable increase in the amount of debt forgiven after 20 years in repayment. The borrowers fully repay their debts under either plan, except for a nominal amount forgiven for the AA borrower under the Biden proposal. There is, however, a notable increase in loan forgiveness for these borrowers under the Biden plan if they qualify for PSLF (appendix table A.1) because their monthly payments are significantly lower during the 10 years they repay while making progress toward loan forgiveness under PSLF.

Loan forgiveness at the 20-year point under the Biden plan would be significantly larger relative to current IDR for borrowers with lower initial incomes than those in our profiles (table 2). For example, if the BA borrower’s initial income were \$35,000 instead of \$51,000, forgiven debt jumps from \$0 under current IDR to \$20,280 under the Biden plan. If these borrowers had larger debts, they would also qualify for more loan forgiveness under the Biden plan, but we do not estimate those effects. Such an effect would, however, be limited by annual and lifetime borrowing caps for undergraduates.¹³

In summary, for these median borrower profiles, the Biden plan results in lower monthly payments but longer terms, producing slightly higher total payments but no notable increase in loan forgiveness except under PSLF. But for borrowers with lower initial incomes than these median profiles, total payments are significantly lower and loan forgiveness significantly larger compared with current IDR.

TABLE 2
Forgiven Debt in Present Dollars, by Amount Borrowed, Repayment Plan, and Starting Income

Starting income	\$17,000 Borrowed (AA)			\$30,000 Borrowed (BA)		
	Current IDR	Biden plan	Negotiators’ plan	Current IDR	Biden plan	Negotiators’ plan
\$20,000	\$13,134	\$21,107	\$21,063	\$29,669	\$37,642	\$37,169
\$25,000	\$1,254	\$17,599	\$21,063	\$19,649	\$34,134	\$37,169
\$30,000	N/A	\$11,851	\$20,991	\$7,322	\$28,386	\$37,098
\$35,000	N/A	\$2,510	\$17,779	N/A	\$20,280	\$33,885
\$40,000	N/A	N/A	\$11,173	N/A	\$9,162	\$27,308
\$45,000	N/A	N/A	\$2,171	N/A	N/A	\$19,780
\$50,000	N/A	N/A	N/A	N/A	N/A	\$10,759
\$55,000	N/A	N/A	N/A	N/A	N/A	\$852
\$60,000	N/A	N/A	N/A	N/A	N/A	N/A

Source: Urban Institute calculations.

Notes: AA = associate degree; BA = bachelor’s degree; IDR = income-driven repayment; N/A = not applicable. Current IDR is Revised Pay As You Earn (REPAYE). The negotiators’ plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. We use the REPAYE plan here because the plan does not require that the borrower pass a certain debt-to-income test to enroll and thus allows us to show repayment along a sliding scale of income. See the appendix for assumptions.

We estimate the negotiators’ plan would reduce monthly and total payments and increase loan forgiveness relative to both current IDR and the Biden plan for the two “typical” borrower profiles. Those effects are modest for the BA borrower but extreme for the AA borrower.

The BA borrower makes lower monthly and total payments under the negotiators’ plan than the Biden plan (table 1; figure 2). Their initial monthly payments drop from \$157 in the Biden plan to \$103

in the negotiators' plan (they are \$264 in current IDR). And when combined with the shorter time to loan forgiveness under the negotiators' plan at 15 years, the BA borrower has \$8,800 forgiven.

For the AA borrower, the larger exemption at 300 percent of the federal poverty level in the negotiators' plan is high enough that the borrower makes no payments on the loan until some five years into repayment. In contrast, under current IDR and the Biden plan, the borrower must make payments at the outset—initial monthly payments are \$139 and \$43, respectively (table 1).

Though the AA borrower would fully repay their loan under current IDR and almost fully repay under the Biden plan, the borrower has \$16,678 forgiven under the negotiators' plan (figure 1). That is approximately the same amount as the original loan balance because payments are so low under the negotiators' plan that they do not cover the accruing interest and the balance increases for the first 12 years of repayment.

In short, the larger exemption in the negotiators' plan, combined with the earlier loan forgiveness term, results in lower monthly and total payments for both BA and AA borrowers when compared with current IDR and the Biden plan. As a result, both borrowers would qualify for loan forgiveness under the negotiators' plan, whereas they would fully (or nearly fully) repay under the other plans.

Effects for Graduate School Borrowers

Though borrowers may repay undergraduate and graduate loans in current IDR, the Biden plan would apply to undergraduate loans only, making it the first IDR plan with such a restriction. But negotiators advocated allowing borrowers to repay graduate loans in any new IDR plan. To help inform that debate, we analyzed how borrowers would be affected if they could repay both types of debt as a combined balance in the Biden plan just as they can in current IDR. We then compare the effects of all three plans for a borrower with larger debts from graduate school and a typical initial income for a master's degree recipient, \$61,000.¹⁴

Figure 3 shows the total amount borrowed and repaid for three levels of combined undergraduate and graduate school debt: the median debt, the 75th percentile of debt, and the 90th percentile of debt for a master's degree recipient who borrowed.¹⁵ We treat the loan balance as a single combined sum, which is typically how borrowers repay different loan types in IDR.¹⁶

For a graduate borrower with median debt, there is little difference between the Biden plan and current IDR. Like the BA and AA examples, the Biden plan requires slightly more payments in total relative to current IDR, but there is no increase in loan forgiveness. Under the negotiators' plan, however, the median graduate school borrower makes much lower total payments (\$46,305) than under the Biden plan (\$71,245) and has \$23,680 forgiven.

For debts at the 75th percentile (\$87,000), however, the Biden plan diverges from current IDR. Total payments are considerably lower relative to current IDR (\$81,604 versus \$106,859), and the amount forgiven is notably higher (\$59,498 versus \$24,216). These large effects may be why the Biden

administration excluded graduate students from its new IDR plan. The provision is broader than is necessary to avoid forgiving large balances, however, because graduate borrowers are excluded even if they have low debts.

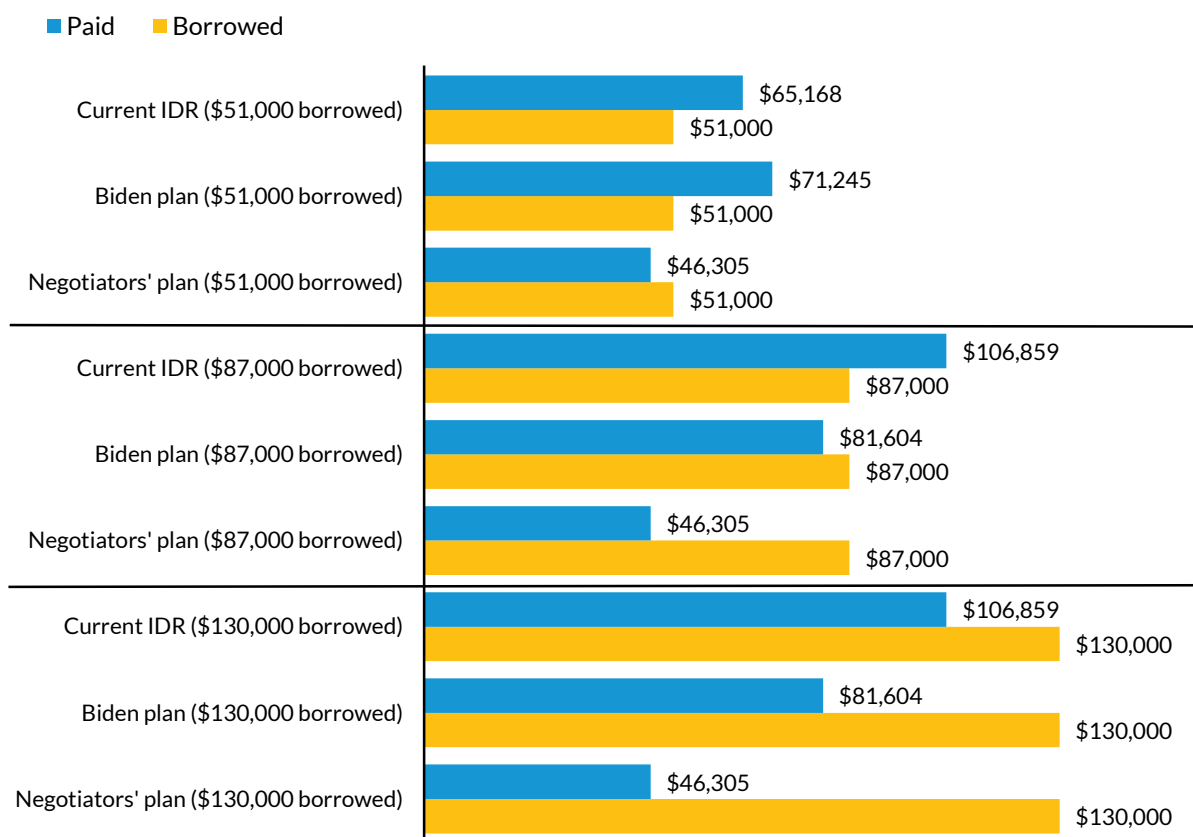
Under the negotiators' plan, the total payments a borrower must make are actually unchanged as debt increases between the median and the 75th percentile. The only change is the amount they have forgiven, which increases from \$23,680 to \$69,182. In other words, under the negotiators' plan, a borrower with debt at the 75th percentile is not required to pay more than a borrower with debt at the median under our example. The additional debt and interest are all forgiven because the negotiators' plan provides loan forgiveness after 15 years of payments, 5 years earlier than the other plans.

Turning to the highest-debt borrowers, those with \$130,000 of debt (the 90th percentile), we find that total payments are the same as for debts at the 75th percentile within the same IDR plan. Put another way, within each plan, the borrower makes the same payments for the lower and the higher amount of debt, which reflects the fact that the additional debt and interest is forgiven under each plan.

Despite this similarity, there are considerable differences between the plans for borrowers with such high levels of debt. Under current IDR, a borrower with debt at the 90th percentile would pay \$106,859 before having the remaining debt forgiven. Under the Biden plan, total payments drop to \$81,604. Under the negotiators' plan, total payments fall to just \$46,305, meaning the borrower would make total payments equal to about a third of the original \$130,000 balance.

FIGURE 3

Comparing Repayment Amounts for a Master’s Degree Borrower with a \$61,000 Starting Income, by Repayment Plan and Amount Borrowed



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Source: Urban Institute calculations.

Notes: IDR = income-driven repayment. Current IDR is Pay As You Earn (PAYE). The current Biden plan includes only undergraduate loans, but we include the plan here to illustrate the outcomes of including graduate loans, for which negotiators have advocated. Borrowing amounts include combined undergraduate and graduate debt. The negotiators’ plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. See the appendix for assumptions. Amounts borrowed are based on the 50th, 75th, and 90th percentile borrowers for a master’s degree. Repayment estimates are in present dollars.

Policy Implications

This analysis offers several insights into the Biden administration’s proposed IDR plan and IDR generally. The Biden administration signaled during meetings with negotiators that the proposed new IDR plan aims to provide additional benefits to the lowest-income borrowers and avoid providing new benefits to high-income borrowers and those with graduate degrees.¹⁷ Based on this limited analysis, the plan appears well designed to meet those goals.

Monthly payments for borrowers with median incomes and AA and BA degrees and typical debt levels would drop by about \$100, but the 20-year repayment term is long enough that they are likely to

fully repay their loans. Borrowers with initial incomes below the median would see a reduction in monthly and total payments, as more of their debt would be forgiven. And as these borrowers' initial incomes increase above the median, their total payments move closer to what they would be under current IDR (appendix figures A.1 and A.2), illustrating that the Biden plan targets the new benefits to low-income borrowers. Finally, by limiting the new benefits to undergraduates, the Biden plan prevents high-debt borrowers with higher incomes from benefiting from an increase in loan forgiveness benefits.

An underappreciated effect of the Biden plan, however, is that loan forgiveness under PSLF will increase significantly even for borrowers with median incomes and AA or BA degrees (appendix table A.1). The same is true under the negotiators' plan, but the effect is even larger. There has been little discussion about this effect in debates about the proposal.

In contrast to the Biden plan's targeted benefits, the negotiators who provided feedback to the administration argued for a broader expansion of benefits. The terms they suggested would make loan forgiveness a routine feature for borrowers with typical earnings and debts for their degree programs. Our estimates suggest the negotiators' plan may even convert the loan program into a de facto grant program for large swaths of undergraduates, given that our estimates suggest a borrower with typical debt and earnings for an AA degree would likely repay less than a third of the original loan disbursement.

The negotiators' plan would also greatly expand loan forgiveness benefits for graduate school borrowers, largely because of its 15-year loan forgiveness term. For example, we estimate that under the negotiators' plan, a borrower with median earnings for master's degree recipients makes the same total payments on a \$51,000 debt as on a \$87,000 debt or even on a \$130,000 debt; the additional balances, plus all interest, would be fully forgiven. This would create incentives for students to borrow more (and universities to charge more) even if it would not otherwise be efficient to do so.

The Biden plan has not yet been published in the Federal Register, and the administration has the chance to make revisions before it becomes available to borrowers as early as this year. Feedback from industry stakeholders and advocacy groups who participated in committee meetings at the US Department of Education suggests the administration will face pressure to reduce payments and increase loan forgiveness further. As this analysis suggests, however, the Biden plan in its current form strikes a balance between current IDR and what the negotiators proposed. It allows many undergraduate borrowers to make lower monthly payments, generally restricts increases in loan forgiveness to the lowest-income borrowers, and excludes high-income and graduate school borrowers from the new benefits altogether.

Appendix

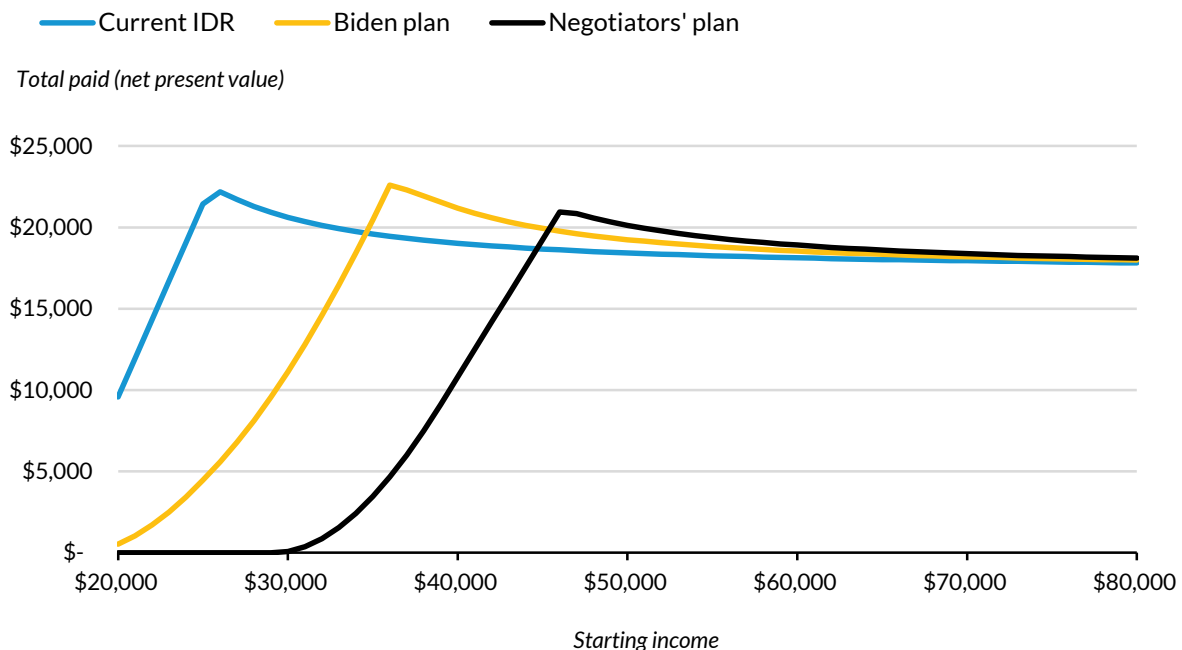
Assumptions for Repayment Calculations

Throughout this analysis, we assume 2 percent annual inflation of the federal poverty level used for the exemption, 4 percent annual earnings growth, a 4.45 percent interest rate on undergraduate loans, and a 5.45 percent interest rate on graduate loans. Repayment estimates are based on borrowers making all payments on time with no early or additional payments. Results are in present dollars using a 2 percent discount rate, which matches the assumed inflation rate for consistency. We assume a single-person household for the federal poverty level. We do not show the effects of the various interest waivers for borrowers with unpaid accruing interest using IDR plans, but the effects of those policies are negligible across all three plans. We do not capitalize accrued unpaid interest at any point in repayment, which deviates slightly from the capitalization rules, but this has a negligible effect on the results in all plans in our analysis. A borrower's payment is capped at what payments would be under a 10-year fixed payment plan in current IDR but not under the Biden plan or the negotiators' plan.

FIGURE A.1

Amount Paid on \$17,000 Borrowed, by Repayment Plan and Starting Income

Associate degree recipients



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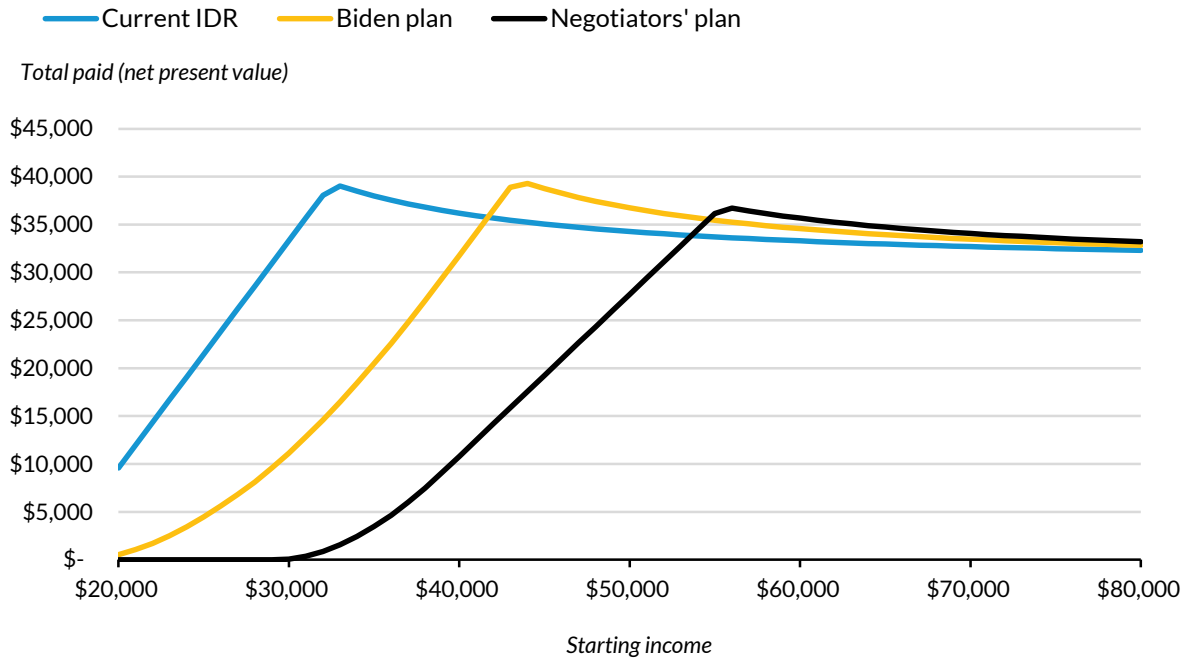
Source: Urban Institute calculations.

Notes: IDR = income-driven repayment. Current IDR is Revised Pay As You Earn (REPAYE). The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. We use the REPAYE plan here because the plan does not require that the borrower pass a certain debt-to-income test to enroll and thus allows us to show repayment along a sliding scale of income. See the above text for assumptions. Amount borrowed is based on the median borrower for an associate degree.

FIGURE A.2

Amount Paid on \$30,000 Borrowed, by Repayment Plan and Starting Income

Bachelor's degree recipients



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Source: Urban Institute calculations.

Notes: IDR = income-driven repayment. Current IDR is Revised Pay As You Earn (REPAYE). The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. We use the REPAYE plan here because the plan does not require that the borrower pass a certain debt-to-income test to enroll and thus allows us to show repayment along a sliding scale of income. See the above text for assumptions. Amount borrowed is based on the median borrower for a bachelor's degree.

TABLE A.1

Forgiven Debt for Borrowers Eligible for Public Service Loan Forgiveness, by Amount Borrowed, Repayment Plan, and Starting Income

Present dollars

Starting income	\$17,000 Borrowed (AA)			\$30,000 Borrowed (BA)		
	Current IDR	Biden plan	Negotiators' plan	Current IDR	Biden plan	Negotiators' plan
\$20,000	\$17,808	\$20,152	\$20,152	\$33,218	\$35,562	\$35,562
\$25,000	\$12,835	\$19,367	\$20,152	\$28,293	\$34,778	\$35,562
\$30,000	\$6,961	\$16,948	\$20,152	\$23,322	\$32,358	\$35,562
\$35,000	\$1,008	\$14,128	\$19,437	\$17,491	\$29,538	\$34,848
\$40,000	N/A	\$9,139	\$15,464	\$11,538	\$25,089	\$30,874
\$45,000	N/A	\$3,186	\$10,212	\$5,585	\$19,665	\$25,949
\$50,000	N/A	N/A	\$4,274	N/A	\$13,715	\$20,721
\$55,000	N/A	N/A	N/A	N/A	\$7,762	\$14,804
\$60,000	N/A	N/A	N/A	N/A	\$1,809	\$8,851
\$65,000	N/A	N/A	N/A	N/A	N/A	\$2,898
\$70,000	N/A	N/A	N/A	N/A	N/A	N/A

Source: Urban Institute calculations.

Notes: AA = associate degree; BA = bachelor's degree; IDR = income-driven repayment. Current IDR is Revised Pay As You Earn (REPAYE). The negotiators' plan is a synthesis of terms negotiators proposed in the 2021 rulemaking session. We use the REPAYE plan here because the plan does not require that the borrower pass a certain debt-to-income test to enroll and thus allows us to show repayment along a sliding scale of income. See the above text for assumptions.

Notes

- ¹ The authority to design and implement IDR plans was provided in the Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66 (1993).
- ² "Portfolio by Repayment Plan," US Department of Education, Office of Federal Student Aid, accessed February 8, 2022, <https://studentaid.gov/sites/default/files/fsawg/datacenter/library/IDRPortfolio-by-Debt-Size.xls>. Figures are for the Direct Loan Program only. Loans made in the defunct Federal Family Education Loan Program are excluded from the numerator and denominator. Those loans make up a declining share of all federal student loans and account for just 14 percent of outstanding balances today.
- ³ "Portfolio by Repayment Plan," US Department of Education, Office of Federal Student Aid, accessed February 8, 2022, <https://studentaid.gov/sites/default/files/fsawg/datacenter/library/IDRPortfolio-by-Debt-Size.xls>. Figures are for the Direct Loan Program only. Loans made in the defunct Federal Family Education Loan Program are excluded from the numerator and denominator. Those loans make up a declining share of all federal student loans and account for just 14 percent of outstanding balances today.
- ⁴ For the discussion draft of the IDR plan, see OPE (2021b).
- ⁵ For the comments from negotiators and the Biden administration officials, see the December 7 transcript at "Negotiated Rulemaking for Higher Education 2021–22," US Department of Education, last updated February 4, 2022, <https://www2.ed.gov/policy/highered/reg/hearulemaking/2021/index.html?src=rn>.
- ⁶ See the December 7 transcript at "Negotiated Rulemaking for Higher Education 2021–22," US Department of Education.
- ⁷ Current IDR includes another feature that limits borrowers' payments to what they would pay under a 10-year fixed-amortization schedule on their original loan balance. This feature serves as a secondary cap such that if a

borrower's income-based payment would be higher than the 10-year payment, the payment is capped at the 10-year payment.

- ⁸ Under current tax law, the forgiven amount is considered taxable income (except under PSLF), but many policymakers have indicated interest in changing this law.
- ⁹ Parent loans for undergraduates are not eligible, and we exclude them from this analysis. Parents may currently repay Parent PLUS loans through the least generous IDR plan (Income-Contingent Repayment) if they hold those loans as a consolidation loan in the Direct Loan Program that was issued later than July 1, 2006.
- ¹⁰ The Biden plan does not include a 10-year payment cap like in current IDR, under which payments are capped at what the borrower would have paid on their loans under a fixed 10-year payment plan if their income-based payments would result in a higher payment.
- ¹¹ We assumed that, like the Biden plan, the negotiators' plan does not include a 10-year payment cap like in current IDR, under which payments are capped at what the borrower would have paid on their loans under a fixed 10-year payment plan if their income-based payments would result in a higher payment. But the negotiators did not mention a preference for this feature.
- ¹² Statistics for earnings and debt levels are taken from Baum (2021). See the appendix for assumptions.
- ¹³ Annual loan limits range from \$5,500 to \$12,500 for undergraduates. The lifetime limits range from \$31,000 for dependent undergraduates and \$57,500 for independent students. For more details, see the How Much Can I Borrow section at "Subsidized and Unsubsidized Loans," US Department of Education, Office of Federal Student Aid, accessed February 8, 2022, <https://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized#how-much-can-i-borrow>.
- ¹⁴ US Census Bureau, Current Population Survey, 2020 Annual Social and Economic Supplement.
- ¹⁵ Debt levels are based on Urban Institute calculations using 2016 National Postsecondary Student Aid Study data and reflect borrowers' combined undergraduate and graduate debt. We cannot accurately assess the precise breakdown between the two types of debt in the data for this analysis, and we therefore treat the balances as a combined sum as it would normally be treated during repayment in IDR. Approximately \$20,000 to \$30,000 of the debt was borrowed for undergraduate educations in the statistics we use for graduate borrowers. Our repayment estimates are based on borrowers making all payments on time with no early or additional payments. We assume the borrower is in a one-person household for calculating the exemption, the borrowers' earnings increase 4 percent annually, the poverty exemption increases at a 2 percent inflation rate annually, and the interest rate on the debt is 5.45 percent for graduate students. All results are reported in present dollars using a 2 percent discount rate. Initial monthly payments for a borrower earning \$61,000 under current IDR, the Biden plan, and the negotiators' plan are \$347, \$240, and \$186, respectively.
- ¹⁶ Borrowers could, in theory, repay their undergraduate and graduate loans separately in each IDR plan, but it is unclear whether this would be advantageous. Borrowers would have to make two full payments each based on their income and the terms for each plan, resulting in approximately double payments each month. Policymakers could change the terms of IDR such that borrowers repaying under two plans—one for undergraduate loans and one for graduate loans—may make prorated payments across the two plans, removing any penalty for splitting loans between plans. We are, however, unaware of any efforts to adopt such a policy in conjunction with the Biden plan.
- ¹⁷ See the December 7 transcript at "Negotiated Rulemaking for Higher Education 2021-22," US Department of Education.

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Acknowledgments

This brief was supported by the Bill & Melinda Gates Foundation and Arnold Ventures. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

The authors would like to thank Kristin Blagg for her contributions to the analysis in this brief.



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