How the Gainful Employment Rule Will Affect Student Loan Repayment

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The Biden administration is pursuing two higher education policies through a series of rulemaking processes that aim to make higher education more affordable and less risky for students. One policy focuses on the system's back end by helping students repay their loans, and the other focuses on the front end by cutting off access to federal aid for educational programs where graduate earnings are consistently low. The administration's new income-driven repayment (IDR) plan for student loans is the back-end policy, and the gainful employment (GE) rule is the front-end policy. The administration is reviewing public comments for the GE rule and could finalize it as early as this year. The new IDR plan has been finalized and will become fully available to borrowers July 1, 2024 (US Department of Education, n.d.).[1]

The Biden IDR plan and the GE rule are distinct policies that can exist independently, and the administration is advancing each in separate rulemaking processes, but the policies could complement each other. The GE rule aims to reduce the number of programs where students take on unaffordable debt, while IDR provides a safety net in case they do. Although it is not the stated purpose, the GE rule can also reduce the cost of the loan forgiveness benefit in the IDR program by screening out educational programs where earnings are low relative to what students borrowed. That frees up budgetary resources that allow policymakers to provide an even more generous safety net through IDR. A GE rule can also guard against colleges that rely heavily on the IDR system to support their programs, which could indicate their programs are not aligned with labor market needs, are of poor quality, or are predatory. Although IDR is available on federal loans issued at all types of institutions, the GE rule applies only to for-profit institutions and certificate programs at public and private nonprofit institutions.

In this brief, we estimate how much the Biden administration's GE and IDR policies might complement one another by estimating repayment rates for loans repaid in IDR before and after the GE

rule goes into effect. This approach gauges how well the two policies align and can show how much the GE rule screens out programs where typical borrowers' debt and earnings profiles are likely to lead to loan forgiveness in IDR. The approach also can reveal how much debt will be left unpaid under the Biden IDR plan in programs that are currently exempt from GE. That information can help policymakers consider whether additional quality assurance policies may be necessary and whether loan forgiveness benefits in the Biden IDR plan should be targeted differently.

We find that GE will reduce the amount of forgiven debt in IDR by screening out programs with low earnings and high debt-to-earnings ratios. But the rule's effects are limited by two factors. First, to identify low-earning credentials and unaffordable debts, the GE rule uses thresholds that are lower than the affordability standards in the Biden IDR plan. As a result, IDR will substantially reduce payments for borrowers in programs that pass the GE rule. Second, the GE rule does not apply to degree programs at public and private nonprofit institutions, and it therefore cannot screen out any programs that result in unpaid loans in IDR. We find that for many degree programs at these institutions, particularly associate's degree programs, borrowers' earnings are too low to fully repay their loans under the Biden IDR plan.

Measuring Interaction between the Biden IDR Plan and the GE Rule

The federal government has provided broad access to an IDR plan for federal student loans since 2009, and subsequent plans have been added since. About half of all outstanding federal student loans are being repaid in IDR.[2] During the 2020 campaign, President Biden proposed to reduce borrowers' payments in IDR, arguing the changes would make student debt more manageable for low- and middle-income borrowers and would encourage those who could benefit from IDR to enroll. The changes were also meant to ensure community college borrowers were "debt-free within 10 years" and that borrowers earning less than a $15 hourly minimum wage would not need to make loan payments.[3] In 2023, the administration published the final version of this new IDR plan in the Federal Register and will make some terms of the plan available to borrowers in 2023, but borrowers will not qualify for all of the new terms until July 1, 2024 (US Department of Education, n.d.).[4]

The Biden IDR plan will set borrowers' payments as a lower share of their income than existing plans and provide earlier loan forgiveness, cutting many borrowers' monthly and total payments. Specifically, undergraduate borrowers' payments will be set to 5 percent of their income (currently 10 percent) above 225 percent of the federal poverty level (currently 150 percent), and remaining balances will be forgiven after 10 to 20 years, depending on the amount borrowed (currently 20 years, regardless of amount borrowed). Under existing IDR plans, borrowers can see their balances grow if their payments do not cover monthly interest, but under the Biden IDR plan, any unpaid interest will be forgiven monthly.

The Biden administration released a draft GE rule in 2023 in a separate rulemaking package.[5] The rule is meant to protect students from unaffordable debt or insufficient earnings from career training

programs and to ensure students receive a sufficient return on their and the government's investment.[6] The Higher Education Act requires that all nondegree programs offered by public and private nonprofit institutions, and all nondegree and degree programs offered at private for-profit institutions, prepare students for "gainful employment in a recognized occupation" to participate in federal student loan and grant programs.[7] The Biden administration's GE rule defines whether a program meets this gainful employment standard: graduates must meet one of two debt-to-earnings tests, and their typical earnings must exceed those of workers with only a high school diploma (about $25,000 a year nationally) in their respective state.[8] The administration published the proposed details of this GE rule in the Federal Register for public comment in May 2023 and is now working to finalize the rule.

The IDR plan and the GE rule can have complementary effects because both policies establish earnings and debt thresholds. In IDR, those thresholds determine how much of their original balance borrowers must repay. In GE, the thresholds determine whether a program can participate in the federal grant and loan programs. Thus, GE should screen out programs with low earnings and relatively high debts, which are many of the same programs where borrowers are likely to see the largest payment reductions if they repay in IDR. Loan repayment in the aggregate should, in theory, be higher under IDR once programs that fail the GE rule are no longer eligible to participate in the aid programs.

To examine these interactive effects, we use the median debt among borrowers and the median earnings of completers for each undergraduate program in the College Scorecard to estimate the average amount a cohort of borrowers would repay on their loans if they use the Biden IDR plan.[9] We then generate two statistics for each program that measure the share of the original loan disbursement that would be repaid if the typical borrower used IDR.[10] Because of data limitations, we cannot estimate the share of borrowers in each program fully repaying, only the amount paid on the typical debt based on typical earnings for a program. We include only undergraduate programs because they are most affected by both the Biden IDR plan and the GE rule.

After establishing these metrics for loan repayment under IDR, we then exclude programs that are likely to fail the Biden administrations' GE rule.[11] The results simulate how much the GE rule would reduce unpaid loans.

GE Will Improve Repayment Rates but with Major Limitations

We find that the GE rule will reduce the amount of debt forgiven through the Biden IDR plan, but those effects are limited by certain features of the GE rule. Across all undergraduate programs, we estimate that the typical borrower in 55 percent of programs earns enough to fully repay what they borrowed, and 45 percent have at least some of their debt forgiven if using IDR. If we exclude programs that fail the GE rule, 60 percent of borrowers are likely to fully repay. When measured as a share of the balance repaid, we estimate that the typical borrower would repay 85 percent of their original disbursement if using IDR. After programs that fail the GE test are excluded, that increases to 92 percent (table 1).[12]

TABLE 1

Repayment Estimates for the Biden IDR Plan

	Share of Programs Where the Typical Borrower Fully Repays Loan Disbursement		Share of Loan Disbursement Repaid by the Typical Borrower	
	Before the GE rule	After the GE rule	Before the GE rule	After the GE rule
Certificates				
Public[b]	41%	44%	76%	81%
Private nonprofit[a]	24%	46%	40%	73%
Private for-profit	14%	31%	29%	63%
Associate's degrees				
Public (GE exempt)	34%	34%	69%	69%
Private nonprofit[b] (GE exempt)	36%	36%	60%	60%
Private for-profit[b]	50%	70%	78%	98%
Bachelor's degree				
Public (GE exempt)	66%	66%	99%	99%
Private nonprofit (GE exempt)	69%	69%	97%	97%
Private for-profit	43%	55%	83%	97%
All undergraduate programs	**55%**	**60%**	**85%**	**92%**

Source: Urban Institute calculations using data from the College Scorecard and the US Department of Education.
Notes: GE = gainful employment; IDR = income-driven repayment. Estimates are weighted by the number of borrowers in each program and assume all borrowers use IDR. Full repayment is when borrowers repay the full loan disbursement in present-value terms when using IDR. Payment estimates use median earnings one and four years after completion for the 2017–18 and 2018–19 pooled cohort and the 2014–15 and 2015–16 pooled cohort and median federal student loan disbursement among borrowers for the 2018–19 and 2019–20 pooled cohort of completers. We exclude programs for which data on debt or earnings are suppressed because of small sample sizes. We cannot estimate the share of borrowers in each program fully repaying, only the amount paid on the typical debt based on typical earnings for a program.
[a] Represents less than 1 percent of undergraduate borrowers.
[b] Represents less than 5 percent of undergraduate borrowers.

One reason that GE does not have a larger effect on IDR repayment rates is that the GE rule uses thresholds to identify low-earning credentials and unaffordable debts that are lower than those that determine whether students must fully repay their loans when using IDR. Specifically, the GE rule considers earnings below those of workers with only a high school diploma to be insufficient. Nationally, this annual income is around $25,000. But the new IDR plan exempts borrowers from payments while their income is below 225 percent of the federal poverty level (i.e., their income is below $32,805), substantially higher than the GE rule's earnings threshold. So if a program's typical borrower earns $30,000, the program would pass the GE rule's earnings test, even though that borrower has earnings too low to be required to make any payments in the Biden IDR plan.

Further, the IDR plan requires borrowers to pay 5 percent of their income above this exemption level, but the GE rule considers a debt to be unaffordable according to a different standard: the median borrower's annual loan payment under a fixed, 10-year repayment plan cannot exceed 20 percent of income above 150 percent of the federal poverty level. For example, if a program's typical borrower earns $35,000 (which is $13,130 above 150 percent of the federal poverty level but only $2,195 above IDR's exemption level) and has a loan with a $1,313 annual payment using the 10-year repayment plan,

the program would pass the GE rule's debt-to-earnings test.[13] The IDR plan, however, would deem this to be an unaffordable loan and would reduce that borrower's annual payment by more than 90 percent to $110.

Because of the different thresholds, *most* programs that are covered by GE and pass the test result in earnings that are still insufficient to fully repay loans in IDR. This is not to say the thresholds within the two policies should be perfectly aligned. Requiring higher payments in IDR could compromise the valuable safety net IDR can provide to borrowers who may need it, even if they graduate from high-quality programs. But so long as the thresholds are different between the two policies, GE's effects on loan repayment will be limited for programs it covers.

The mismatch between the thresholds in each policy is most pronounced among certificate programs at private for-profit institutions. Although the GE rule would increase the share of programs where borrowers are likely to fully repay their loans, from 14 percent to 31 percent, earnings would still be insufficient to fully repay debts in most programs. Among programs that pass the GE rule, we estimate that the typical borrower in a certificate program at a for-profit institution would repay only 63 percent of the original loan disbursement, though that is a substantial increase from what it would be without GE in effect (29 percent) (table 1).

GE's effects on IDR repayment rates are also limited by the fact that many programs with earnings too low for borrowers to fully repay their debts under IDR are not covered by the rule. This effect is most notable for associate's degrees provided at public and private nonprofit institutions. We estimate that only about a third of these programs generate earnings high enough that borrowers will fully repay their loans if using the Biden IDR plan. On average, borrowers in these programs will repay less than 70 percent of their original loan balances when using the Biden IDR plan, only slightly higher than borrowers earning certificates at for-profit institutions that pass the GE rule (table 1). Some of these programs would not pass GE's earnings threshold if they were subject to it, particularly programs at private nonprofit institutions, where one-third of associate's degree programs produce earnings below the GE threshold.

Among programs that are either exempt from GE or that pass it, we find that the lowest rates of full repayment in IDR are spread across programs in a broad range of fields of study. These include programs in allied health and medical assisting (predominantly certificates and associate's degrees), liberal arts and sciences (predominantly associate's and bachelor's degrees), teacher education (predominantly bachelor's degrees), health and medical administration (all undergraduate levels), and psychology (predominantly bachelor's degrees).

Additional Quality Assurance Rules Will Limit and Target Loan Forgiveness

The Biden IDR plan will make student loans more affordable for many undergraduate borrowers and strengthen this important safety net. But shifting the risk of unaffordable debt from students and

colleges to the government can pose challenges for the loan program. Degree and certificate programs with earnings too low to cover students' debts are set to receive large subsidies from the government, which could make it easier for colleges to operate programs where prices are out of line with earnings potential.

Some observers may argue this is the intended effect: graduates with credentials in fields with lower earnings—but that policymakers consider socially valuable, such as early childhood education—will find their loans more affordable with a more generous IDR plan. But the plan could just as easily enable colleges to operate programs where graduates' earnings are low and their loans are unaffordable because the program is of poor quality or not well aligned with labor market needs. The IDR program as it is designed cannot distinguish between these two reasons borrowers would use the program.

Quality assurance policies, such as the GE rule, can help address that issue. But as we have shown, its effects are limited. The GE rule would substantially increase the share of programs where borrowers are likely to fully repay among the programs the rule covers, but there are still many that pass or are exempt from the GE rule that consistently leave students with earnings too low to repay their debts. Although those subsidies may help support socially valuable credentials, they could just as easily subsidize poorly performing or even predatory programs. If policymakers want to guard against subsidizing these programs equally, they could consider enacting additional quality assurance rules for federal loans. They could also consider further scrutinizing the types of programs and credentials that are unaffected by the GE rule but where earnings will not be sufficient to repay debts under the Biden IDR plan. That will help ensure that the subsidies provided in IDR in the form of loan forgiveness are in line with the goals policymakers intended for the program.

Notes

[1] See also Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program: Final Regulations, 88 Fed. Reg. 43820 (Jul. 10, 2023).

[2] Phillip L. Swagel, "Costs of the Proposed Income-Driven Repayment Plan for Student Loans," letter to Virginia Foxx and William Cassidy, March 13, 2023, https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf.

[3] White House, "FACT SHEET: President Biden Announces Student Loan Relief for Borrowers Who Need It Most," press release, August 24, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/.

[4] See also Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program: Final Regulations, 88 Fed. Reg. 43820 (Jul. 10, 2023).

[5] Financial Value Transparency and Gainful Employment (GE), Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit (ATB), 88 Fed. Reg. 32300 (May 19, 2023).

[6] US Department of Education, "Department of Education Releases Proposed Rules on Accountability for Certificate and For-Profit Programs and Transparency into Unaffordable Student Debt," press release, May 17, 2023, https://www.ed.gov/news/press-releases/department-education-releases-proposed-rules-accountability-certificate-and-profit-programs-and-transparency-unaffordable-student-debt.

[7] Definition of Institution of Higher Education for Purposes of Student Assistance Programs, 20 U.S.C. §1002(b)(1)(A).

[8] Graduates' median loan payments must not exceed 8 percent of earnings or 20 percent of earnings above 150 percent of the federal poverty level for any two of three consecutive years.

[9] Throughout this analysis, we assume 3 percent annual inflation of the 2023 federal poverty level used for the exemption in IDR, a 5 percent interest rate on loans, and that borrowers make all payments on time with no early payments. We do not incorporate any other repayment dynamics, such as forbearances, deferments, or discharges. We do not incorporate any loan forgiveness that borrowers eligible for Public Service Loan Forgiveness would receive under that program. We assume the borrower's household size is a single person. See "Data Home: Download the Data," US Department of Education College Scorecard, accessed June 27, 2023, https://collegescorecard.ed.gov/data.

[10] We discount a borrower's estimated lifetime payments using a 3 percent discount rate and compare them with the original balance. We assume the loan has a fixed 5 percent interest rate. Because the discount rate is lower than the interest rate, small forgiven balances are counted as fully repaid in our estimates.

[11] Programs likely to fail the proposed GE rule were published by the US Department of Education as part of the rulemaking process, and we use those data here. See "Negotiated Rulemaking for Higher Education 2021–22," US Department of Education, last updated October 31, 2022, https://www2.ed.gov/policy/highered/reg/hearulemaking/2021/geinforattedata.xlsx.

[12] These estimates reflect a higher repayment rate than the repayment rates reflected in budget estimates for the IDR program, as calculated by the Department of Education. We use data on the median program completer to estimate repayment rates, whereas the Department of Education's subsidy rates for loans repaid in IDR reflect the fact that borrowers with lower incomes and higher debts than the average borrower tend to use IDR. Our estimates include only undergraduate students, whereas the Department of Education estimates include graduate and professional students, a group that tends to receive the largest benefits from IDR. The subsidy rates calculated by the Department of Education also include other repayment dynamics that we exclude, such as forbearances, deferments, defaults, Public Service Loan Forgiveness, and loan discharges, all of which would lead to lower repayment rates (and higher subsidy rates) than we estimate. See White House (n.d.).

[13] The borrower's annual loan payment is based on a balance of approximately $10,300.

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