101: INCOME DRIVEN REPAYMENT (IDR)

higher learning ADVOCATES

WHAT IS INCOME-DRIVEN REPAYMENT?

Income-driven repayment (IDR) is a federal student loan repayment program that allows students to repay their loans based on their income, family size, and loan balance. Since 1994, the federal government has offered income-driven repayment plan options to help borrowers with lower earning power repay loans at a slower pace without penalty. IDR helps many borrowers manage their federal student loans by offering affordable loan repayment options tailored to their current income levels. The number of borrowers enrolled in IDR has increased 16 percent from September 2016 to September 2017.[1] In the third quarter of 2018, the number of Direct Loan and Federal Family Education Loan borrowers enrolled in income-driven repayment plans is as follows: **650,000 in ICR; 2.85 million in IBR; 1.24 million in PAYE; and 2.34 million in REPAYE.**[2]

FEDERAL POLICY PROPOSALS RELATED TO INCOME-DRIVEN REPAYMENT

While IDR is already provided, future changes can be expected. Federal policymakers and analysts are considering adjustments to IDR in three primary areas:

1. **POLICY SIMPLIFICATION:** Since there are six IDR plans on the books, each with their own eligibility requirements, income-driven repayment can be overwhelming and confusing for today's students with outstanding student loans. Borrowers may be confused by the complexity of different IDR plans, and understanding which plans they may qualify for and which plans best suit their needs. Policy proposals to address this concern include simplifying and streamlining the number of IDR plans by eliminating or sunsetting (such as allowing existing borrowers to participate, but not allowing new borrowers in) some existing plans.

2. **CORRECT TERMS FOR IDR PLANS:** With enrollment increasing, some are concerned about the cost of providing a generous program, while others argue that the current terms are not generous enough. Policy proposals to address these concerns include adjusting the percent of income required to be paid, the maximum number of years in repayment, and level of forgiveness (if any).

3. **VERIFICATION:** Currently borrowers in IDR plans must, at a minimum, annually verify their income to set their payment for the upcoming year, usually through a manual form submitted to their servicer. Failing to do this process on time or correctly can result in consequences for the borrower, such as reverting to a higher standard payment. Fifty-seven percent[3] of borrowers fail to recertify their income on-time, and about 18 percent of borrowers who missed their recertification date went into a hardship-related forbearance or deferment.[4] Only about eight percent of borrowers successfully recertified their income one month after the deadline.[5] Policy proposals to address this concern include lengthening the time between required verification, automating the process, and working through employer payroll system.

[1] https://www.nasfaa.org/news-item/14014/FSA_Report_Finds_Increase_in_IDR_Borrowers_PSLF_Candidates
[2] https://studentaid.ed.gov/sa/about/data-center/student/portfolio
[3] https://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.pdf
[4] Ibid.
[5] Ibid.

WHAT TYPES OF INCOME-DRIVEN REPAYMENT PLANS EXIST?

Current federal policy places all federal student loan borrowers into the standard repayment plan when they begin repaying their federal student loans. In the standard repayment plan, a borrower's monthly payment is a fixed amount, and borrowers make payments for up to ten years. In the second quarter of 2018, there were 11 million borrowers enrolled in the standard repayment plan with a total of $205 billion dollars in outstanding federal student loan debt. Students must complete additional paperwork to exit the standard repayment plan and enroll in an IDR plan.

	WHO'S ELIGIBLE?	TERMS	LOAN FORGIVENESS
Revised Pay As You Earn Repayment (REPAYE)	Any borrower with eligible federal student loans (Parent PLUS Loans or Federal Family Education Loans which haven't been consolidated into Direct Loans are not eligible).	• 10% of discretionary income. • No cap on monthly payment amount	20 years for undergraduates and 25 years for graduate and professional.
Pay As You Earn Repayment (PAYE)	Any new borrower as of 10/1/07 who received a Direct Loan disbursement on or after 10/1/11.	• 10% of discretionary income. • Capped at 10-year Standard Repayment Plan amount. • Requires the borrower to prove partial financial hardship.	after 20 years of repayment.
Income-Based Repayment (IBR): New	Those with no outstanding balance on Direct or Federal Family Education Loan (FFEL) loans, and their first Direct Loan received on or after 7/1/14.	• 10% of discretionary income. • Capped at 10-year Standard Repayment Plan amount. • Requires the borrower to prove partial financial hardship.	after 20 years of repayment.
Income-Based Repayment (IBR): Old	Existing federal student loan borrowers prior to 7/1/14.	• 15% of discretionary income. • Capped at 10-year Standard Repayment Plan amount. • Requires the borrower to prove partial financial hardship.	after 25 years of repayment
Income-Contingent Repayment (ICR)	Any borrower with eligible Direct federal student loans.	The lesser of 20% of discretionary income or a 12-year fixed payment.	after 25 years of repayment.
Income-Sensitive Repayment	Available to low-income borrowers with FFEL loans. Direct loans are not eligible.	Monthly payment increases or decreases based on the borrowers' annual income.	payments are made for a maximum period of 10 years.

For more information about Higher Learning Advocates' work on income driven repayment, please contact **Emily Bouck West**, Deputy Executive Director at **ebouckwest@higherlearningadvocates.org**, and **visit www.higherlearningadvocates.org** to learn more about our work.