

Fact Sheet: Transforming Income-Driven Repayment

President Biden believes that higher education should be a ticket to the middle class, not saddle individuals with student debt that becomes a lifelong financial burden. But far too many borrowers face unmanageable student loan payments, forcing them to choose between making their unaffordable monthly payments or the opportunity to buy a home, start a business, or save for retirement. The Department of Education's (Department's) new proposed regulations will help student loan borrowers access more manageable monthly student loan payments. These proposed regulations would substantially reduce the monthly and total cost of repaying Federal student loan debts for low- and middle-income borrowers, while simplifying the program and eliminating common pitfalls that have historically delayed borrowers' progress toward forgiveness.

This proposal delivers on President Biden's commitment to [fix](#) the student loan repayment system, as part of the debt relief announcement in August, and is a key step in the Biden-Harris Administration's broader effort to make higher education more affordable. These steps to make student loan repayment more equitable and affordable for borrowers must also ensure greater accountability from the institutions that also benefit from these programs through a focus on delivering value to students.

Rather than creating a new repayment plan, these proposed regulations would amend the Revised Pay As You Earn (REPAYE) plan, which first [became available in 2016](#). This improved version of the REPAYE plan would be the most generous income-driven repayment (IDR) option for the vast majority of student loan borrowers, making it easier for them to access a repayment plan that works without being overwhelmed by any additional complicated repayment options. To further simplify repayment, the Department would phase out new enrollments for student borrowers in the Pay As You Earn (PAYE) and Income-Contingent Repayment (ICR) plans and limit the circumstances where a borrower can later switch into the Income-Based Repayment (IBR) plan.

These changes to REPAYE would substantially reduce monthly debt burdens and lifetime payments, especially for low and middle-income borrowers, community college students, and borrowers who work in public service because of the combination of their earnings and borrowing amounts. In particular, the Department estimates that under the updated REPAYE plan:

- Future borrowers would see lifetime payments per dollar borrowed fall by 40 percent, on average, compared to the current REPAYE plan.¹ On average, Black, Hispanic, American Indian and Alaska Native borrowers would see their lifetime payments per dollar borrowed cut in half.
- Lifetime payments per dollar borrowed would fall by 83 percent on average for borrowers in the bottom 30 percent of earnings, compared to just 5 percent for those in the top 30 percent.²
- A student borrower with an income below \$30,500 per year would not be required to make monthly payments on their loans.

¹ Lifetime payments equal the present discounted value of total payments until the loan is repaid or forgiven. Lifetime payments are expressed on a per dollar borrowed basis to make it easier to compare savings across borrowers that may borrow different amounts. Lifetime payments under current and proposed REPAYE plans based on models of future borrowers' employment, income, marriage (including spousal income and debt), and family size over the lifetime of repayment.

² In their first 10 years of repayment, borrowers in the bottom 30 percent of lifetime earnings are in families with earnings less than \$29,000, on average while borrowers in the top 30 percent of lifetime earnings are in families with earnings exceeding \$90,000, on average.

- A typical graduate of a four-year public university would save nearly \$2,000 a year through lower monthly payments compared to the current REPAYE plan.³
- A teacher with a bachelor’s degree just starting in the classroom would save more than \$17,000 in total payments while pursuing Public Service Loan Forgiveness (PSLF) over the first 10 years of his or her career—two-thirds less than what they would pay under the current REPAYE plan.⁴
- 85 percent of community college borrowers would be debt-free within 10 years of entering repayment.⁵

The Department developed this proposal with the input of its stakeholders and other affected constituencies through its negotiated rulemaking process. The Department will formally publish the proposal in the Federal Register for public comment tomorrow before finalizing the later this year. The Department anticipates implementing parts of this plan throughout 2023.

Protecting more low-income borrowers from unaffordable student loan payments

Currently, borrowers on the REPAYE plan must make payments equal to 10 percent of their “discretionary” income—defined as income in excess of a protected amount set at 150 percent of the Federal poverty guidelines. That means a single borrower starts making payments on income above approximately \$20,400. This results in lower-income borrowers still having to make payments, while middle income borrowers may find their payments unaffordable.

**Lowering Lifetime Payments
for Those Who Need it Most**

BOTTOM 30% OF EARNERS	TOP 30% OF EARNERS
Lifetime payments per dollar borrowed drop by 83%	Lifetime payments per dollar borrowed drop by 5%
<p><i>These proposed changes focus on working & middle-class families who need the relief.</i></p>	

The proposed regulations would increase the amount of income protected from repayment to 225 percent of the Federal poverty guidelines—about the annual equivalent of a \$15 hourly wage for a single borrower working full-time based upon the 2022 guidelines. As a result, borrowers with family income under this threshold will not have to make monthly payments on their student loans. This would help protect more borrowers from having to choose between making a loan payment and covering basic needs, such as paying rent or buying groceries. More specifically, a single borrower who makes less than \$30,500 and a borrower in a household of four with income below \$62,400 would make \$0 monthly payments. By contrast, the most generous existing IDR plans only protect income up to 150 percent of the Federal poverty guidelines, which is about \$20,400 for a single individual and just above \$41,600 for a family of four.

³ This example assumes that the borrower is earning \$50,000 per year after graduating.

⁴ This assumes typical debt of \$24,425 (the average debt in bachelor’s degree in education programs, according to the College Scorecard), and a starting salary of \$43,596 with annual increases of 1.5% per year, both of which are from Table 211.20 in the Digest of Education Statistics. Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.

⁵ This example is based on the borrowing patterns and amounts of recent cohorts.

Cutting undergraduate loan payments in half

Under the new plan, borrowers would only be required to pay 5 percent of their discretionary income (calculated as income above 225 percent of the Federal poverty guideline) on loans borrowed for their undergraduate studies. This is half the rate charged on the most generous existing IDR plans, including the current REPAYE plan.

Under this proposal, a borrower who has only undergraduate loans would pay 5 percent of their discretionary income toward those loans. Borrowers who have only graduate school related loans would still pay 10 percent. In addition, borrowers who have loans for both types of programs would pay between 5 and 10 percent— based upon a weighted average calculated from the share of their original loan balances borrowed for undergraduate versus graduate study. For example, a borrower who has \$20,000 in loans from their undergraduate education and \$60,000 in loans from their graduate study would pay 8.75 percent of their income. A borrower who has \$30,000 in loans from each would pay 7.5 percent.⁶ These percentages would not be recalculated unless a borrower takes on new loans.

Stopping unpaid interest accumulation

The Department estimates that as many as 70 percent of borrowers on existing IDR plans have seen their balances grow after entering those plans. In many cases, even borrowers making all required payments see their balances grow because the payment they can afford is lower than the accrued interest. Under the Department's proposed regulations, borrowers won't see their balances balloon while they're making regular payments, including those who have a \$0 payment.

Under the proposed plan, a borrower would continue to have their monthly payment first applied to interest, but if it is not sufficient to cover that amount, any remaining interest would not be charged. This would extend existing interest benefits under the current REPAYE plan, in which borrowers have at least half of their unpaid interest waived each month.

A fair path to forgiveness

The proposed regulations also contain several provisions that would help borrowers make progress to forgiveness and shorten the time spent in repayment for borrowers with smaller balances.

Lowering the number of monthly payments required to receive forgiveness for borrowers with smaller loan balances

The Department is concerned that borrowers with small balances are discouraged from using existing IDR plans – even if they would benefit from lower monthly payments – because of the length of time required to receive loan forgiveness. Existing IDR plans provide forgiveness to borrowers with remaining balances after 20 or 25 years of payments, regardless of the amount borrowed. For example, a borrower who attended a community college, even for only a semester, and never experiences high earnings will not receive forgiveness for 20 years, only 5 years sooner than a borrower with debt from a professional degree.

⁶ In the first example, the borrower's total loan balance is \$80,000, of which one quarter is undergraduate and three-quarters is graduate. The calculation is thus $(25\% \times 5\%) + (75\% \times 10\%) = 8.75\%$. In the second example, the borrower has \$60,000 in total debt, half of which is undergraduate and half is graduate. The calculation is thus $(50\% \times 5\%) + (50\% \times 10\%) = 7.5\%$.

Under these regulations, the Department proposes a shortened timeframe for receiving loan forgiveness for borrowers based upon their original principal balance. Those who borrowed \$12,000 or less would receive loan forgiveness after making the equivalent of 10 years of payments. Every additional \$1,000 borrowed above that amount would add 1 year of monthly payments to the required time a borrower must pay before receiving forgiveness.

This shortened path to forgiveness will be particularly beneficial for the typical community college borrower. With this change, the Department estimates that 85 percent of community college borrowers would be debt free within 10 years of entering repayment. It will also help increase the likelihood that lower balance borrowers who are currently at a high risk of default will enroll in an IDR plan, which includes millions of borrowers who did not finish their programs, a group that commonly has low debt and the worst loan outcomes. As in the current REPAYE plan, no borrower would be required to make payments for more than 20 years if they only have undergraduate loans or 25 years for borrowers with any graduate loans.

Making Sure Community College Doesn't Lead to a Lifetime of Student Loan Debt

COMMUNITY COLLEGE BORROWERS

85% of borrowers would be debt-free within 10 years



Eliminating pitfalls to forgiveness by giving borrowers credit for certain deferments and forbearances and not resetting the clock to forgiveness when consolidating loans

There are too many ways for borrowers who make well-intentioned choices to lose progress toward forgiveness under current IDR options. The Department proposes to eliminate many of these pitfalls and traps through several changes. These actions build upon [steps announced in April](#) to ensure that borrowers have accurate counts of their progress toward IDR forgiveness and address longstanding concerns about the use of deferments and forbearances.

First, the Department proposes to give borrowers credit toward loan forgiveness for certain periods of deferments or forbearances that were not previously counted. Currently, economic hardship deferments (including Peace Corps service deferments) are the only type of deferment or forbearance that can be counted toward forgiveness under IDR. The Department proposes allowing forgiveness credit for the same deferments and forbearances that are now eligible for credit toward PSLF as a result of a separate final rule published on November 1. This includes: cancer treatment deferments, military service deferments, post-active-duty deferments, national service forbearances, National Guard Duty forbearances, Department of Defense student loan repayment program forbearances, and certain administrative forbearances. The Department also proposes to provide credit toward forgiveness for rehabilitation training deferments and unemployment deferments, which are not eligible for PSLF because neither allows for the borrower to be working full time as required under PSLF.

Second, borrowers in other types of deferments and forbearances would have some opportunity to make catch-up payments to help them get back on track toward loan forgiveness. This provides borrowers a path to receive credit for other periods in deferment or forbearance that are not being credited automatically, including months where a borrower would have had a \$0 required monthly

payment. Finally, borrowers would not see their progress toward forgiveness fully reset after they consolidate their student loans, as is currently the case. They would instead receive a weighted average of credit for prior payments.

Protecting at-risk borrowers

The plan includes several provisions that would help struggling borrowers access the benefits of IDR.

Automatically enroll delinquent borrowers into an IDR plan

Far too often, borrowers struggle with repayment and end up in default, even when they would have qualified for a lower or even \$0 payment on an IDR plan. To help struggling borrowers avoid default, the Department proposes automatically enrolling borrowers who are at least 75 days behind on their payments into the IDR plan that provides them the lowest monthly payment. This change would apply to borrowers for whom the Department has the necessary approval to obtain their income information from the Internal Revenue Service.

Grant borrowers in default access to an IDR plan

These proposed rules would also for the first time give borrowers currently in default access to an IDR plan. This will allow those who are unable to exit default to gain access to more affordable monthly payments and a path to loan forgiveness.

Simplifying access to equitable repayment

Borrowers consistently report that the number of repayment options is an impediment to finding and enrolling in a plan that meets their needs. The Department believes the proposed changes to the REPAYE plan would make it the best IDR option for nearly all student borrowers because it offers borrowers the lowest required payments. Borrowers could still voluntarily choose to pay their loans down more quickly if they choose. While the Department cannot force borrowers to switch from their existing plans or eliminate plans created by statute, these regulations would simplify repayment options for borrowers going forward. The Department also proposes to sunset new student borrower enrollment in the PAYE and original ICR plans.⁷

The new plan will benefit working and middle-class borrowers

The Department also analyzed what would happen to borrowers' lifetime payments if all future borrowers signed up for the proposed REPAYE plan compared to the current REPAYE plan, modeling variation in borrower employment, income, marriage (including spousal income and debt), and family size – all factors that may affect payments in IDR.

We estimate that borrowers' average lifetime payments per dollar borrowed would fall by 40 percent in the new REPAYE plan compared to average lifetime payments per dollar borrowed in the current REPAYE plan.⁸ Borrowers in the lowest 30 percent of projected lifetime earnings would see the greatest benefit with average lifetime payments per dollar borrowed 83 percent less than under the current

⁷ Borrowers who consolidated a Parent PLUS loan would not see any changes in their eligibility to enroll in the existing Income-Contingent Repayment plan.

⁸ Lifetime payments equal the present discounted value of total payments until the loan is repaid or forgiven. Lifetime payments are expressed on a per dollar borrowed basis to make it easier to compare savings across groups that may borrow different amounts.

REPAYE option.⁹ By contrast, borrowers in the top 30 percent will see average lifetime payments per dollar borrowed fall by less than 5 percent compared to the current REPAYE plan.¹⁰

Benefits will reach a diverse range of borrowers across all racial groups. Where differences exist in earnings, unemployment, and other factors for borrowers of different races and ethnicities, these groups may also experience differences in average benefits received from the new REPAYE plan for borrowers in these groups. For Black, Hispanic, American Indian and Alaska Native borrowers, the Department estimates that lifetime payments per dollar borrowed would be around 50 percent of what they would be on the current REPAYE plan. White borrowers' projected lifetime payments per dollar borrowed would be 37 percent less than under the current REPAYE plan. Asian and Pacific Islander borrowers would see average lifetime payments per dollar borrowed fall by approximately 33 percent.

Significant savings for borrowers in public service

Improvements to REPAYE would also provide significant monthly savings for borrowers as they seek PSLF.¹¹ We estimate that the typical teacher who has a bachelor's degree and is seeking PSLF would save more than \$17,000 in total payments over 10 years—a two-thirds reduction in what they would pay in total under REPAYE.¹² A teacher who obtains a master's degree after 5 years of work would see their total payments fall by about 45 percent compared to their total payments on the current REPAYE plan.¹³

⁹ In their first 10 years of repayment, borrowers in the bottom 30 percent of lifetime income are in families with earnings less than \$29,000, on average.

¹⁰ In their first 10 years of repayment, borrowers in the top 30 percent of lifetime income are in families with earnings exceeding \$90,000, on average.

¹¹ The IDR rules apply equally to workers in and out of the public sector worker. The savings illustrated here result from the lower monthly payments public servants would make on their loans until they qualify for forgiveness under PSLF.

¹² This assumes typical debt of \$24,425 (the average debt in bachelor's degree in education programs, according to the College Scorecard), and a starting salary of \$43,596 with annual increases of 1.5% per year, both of which are from Table 211.20 in the Digest of Education Statistics. Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.

¹³ This assumes typical debt of \$24,425 from a bachelor's degree in education and an additional \$35,030 in debt from a master's degree in education (calculated from College Scorecard data), a starting salary of \$43,596 with annual increases of 1.5% per year for the first 5 years of teaching and a salary of \$53,897 with annual increases of 1.7% per year after receiving a master's degree for the 6th through 10th years of teaching (Table 211.20 in the Digest of Education Statistics). Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.