# Appendix B

Table B.1

## Options for Reforming Income-Driven Repayment Plans

Each approach contains pros and cons for policymakers to consider

| Key problem | Principles for reform | Option for reform | Details | Major pros and cons | Additional data/ research needed |
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| Some struggling borrowers are not enrolled in IDR | **Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default** | Streamline the multiple existing IDR plans into one IDR option* | An income-driven option could be provided alongside a fixed repayment plan, or it could be the only repayment plan available. | • Streamlining the existing IDR plans into one IDR option would simplify the program for borrowers, loan servicers, and the Department of Education.<br><br>• Making IDR the only repayment plan available would ensure that struggling borrowers are enrolled in IDR, but it would take away borrowers' ability to choose a fixed repayment plan (where they could end up paying less in total, over a shorter period of time), increase costs to the government, and may raise concerns about "moral hazard" and cost-shifting (potentially leading to higher college costs for students and their families). | • Modeling and data to determine how to design the streamlined plan (e.g., effects on the amounts paid and forgiven by different types of borrowers)<br><br>• Qualitative data on borrower preferences for repayment, to determine whether a fixed payment option should remain available |
| | **Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default** | Automatically enroll borrowers in IDR* | If a fixed payment option still exists, some or all borrowers could be automatically enrolled in an IDR plan unless they opt out. This change could be targeted toward certain borrowers, such as those who are severely delinquent and at high risk of default. | Would increase the likelihood that struggling borrowers are enrolled in IDR, while preserving borrowers' ability to choose a fixed repayment plan. However, it would increase costs to the government and may still raise concerns about "moral hazard" and cost-shifting. | • Data on amounts paid and forgiven in IDR vs. the fixed payment option, for different types of borrowers<br><br>• Qualitative data on borrower preferences for repayment |

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| **Some struggling borrowers are not enrolled in IDR** | **Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default** | Allow defaulted borrowers to directly enroll in IDR* | Borrowers could be allowed to enroll in IDR to repay their defaulted loans, without needing to first exit default through rehabilitation or consolidation. | Would make it easier for defaulted borrowers to access affordable payments in IDR and avoid defaulting again. | • Data on monthly payment amounts under rehabilitation, compared to what they would be in an IDR plan<br>• Research on the repayment pathways of borrowers who try to exit default (e.g., how particular factors may affect their likelihood of defaulting again) |
| | **Increase enrollment of borrowers who are most likely to benefit from IDR's protections against delinquency and default** | Improve communication and outreach about IDR plans | Department of Education can provide guidance on best practices and set clear standards for servicing that focus on borrower outcomes. | Would increase enrollment in IDR, but may be less effective than structural changes to the program. | • Data on servicers' current performance in implementing IDR (e.g., application, recertification, borrowers' risk of delinquency/default)<br>• Research into best practices and how to establish standards |
| **Some borrowers still find IDR payments unaffordable** | **Ensure that payments are affordable, especially for low-income and low-resource borrowers** | Reduce monthly payment amounts | Options include lowering the percentage of discretionary income that borrowers are required to repay or increasing the percentage of federal poverty guidelines that is withheld from income-driven repayment calculations. Changes can be applied to some or all borrowers (e.g., they can be targeted based on the borrower's income or debt amount). | Would help ensure that payments are affordable, but would also extend some borrowers' time in repayment (as their balances get paid down more slowly), lead to increased balance growth, and could increase the total amount they repay. It would also increase government costs and could raise concerns about moral hazard and cost-shifting. | • Data on monthly payment amounts for different types of borrowers<br>• Modeling on different options |
| | **Ensure that payments are affordable, especially for low-income and low-resource borrowers** | Consider borrowers' income volatility or expenses in the monthly payment calculation | As precedent, borrowers who seek to rehabilitate their defaulted loans can ask their loan holders to calculate a monthly payment based on their income and expenses. | Would more fully account for borrowers' financial circumstances, but would add substantial complexity to program implementation. | Data on monthly payment amounts for different types of borrowers, as well as their income volatility and expenses |

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| **Some borrowers still find IDR payments unaffordable** | **Ensure that payments are affordable, especially for low-income and low-resource borrowers** | Permanently prevent debt forgiven as part of an IDR plan from being treated as taxable income | The American Rescue Plan Act of 2021 temporarily prevents forgiven student debt from being treated as taxable income. | Would prevent borrowers from facing unaffordable tax burdens but would increase costs to the government. | Data on the actual amount that IDR borrowers have forgiven, and their tax liability |
| **IDR borrowers often experience balance growth and may pay more over the life of their loans** | **Reduce the growth of their loan balances in IDR** | Cap the amount of unpaid interest that can accrue each month | Some existing IDR plans include interest subsidies that cover part of the remaining interest, in cases where a borrower's monthly payment does not cover their accruing interest. Details vary by plan. | Would reduce balance growth, but may be complicated to communicate to borrowers and increase costs to the government. | • Data on interest accrual in IDR for different types of borrowers<br>• Modeling to examine options for the interest accrual cap |
| | **Reduce the growth of their loan balances in IDR** | Waive interest for low-income borrowers | For borrowers below a certain income threshold or debt-to-income ratio, interest could be set to 0%. | Would reduce balance growth and target the neediest borrowers, but may increase costs to the government and add program complexity. | • Data on interest accrual in IDR for different types of borrowers (particularly by income and debt-to-income ratio)<br>• Modeling to examine options for setting the income threshold |
| | **Reduce the growth of their loan balances in IDR** | Eliminate interest capitalization within IDR plans | Existing IDR plans vary in which situations trigger interest capitalization. In all plans, interest capitalizes at the end of certain forbearances and deferments, for certain types of loans. | Would reduce balance growth, but may be complicated to communicate to borrowers and increase costs to the government. | Data on interest capitalization in IDR for different types of borrowers |
| | **Reduce the growth of their loan balances in IDR** | Pause interest accrual during periods of deferment or forbearance when borrowers are enrolled in IDR | Interest accrual varies based on the type of loan (subsidized vs. unsubsidized) and the type of forbearance (e.g., interest does not accrue during the forbearance offered due to the COVID-19 emergency). | Would reduce balance growth, but may increase costs to the government. | Data on the use of deferment and forbearance by borrowers in IDR, and the amount of interest that accrues during that time |

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| IDR borrowers often experience balance growth and may pay more over the life of their loans | **Reduce the growth of their loan balances in IDR** | Shorten the amount of time that borrowers make payments in IDR, before receiving forgiveness of any remaining balances | Options include shortening the maximum repayment period in IDR for some or all borrowers, providing incremental forgiveness, and counting payments made before loan consolidation toward loan forgiveness. | Would reduce the total amount that borrowers repay, but would increase costs to the government and may raise concerns about moral hazard and cost-shifting. | • Data on repayment period length for different types of borrowers and the amount of forgiveness they receive<br>• Modeling on how incremental forgiveness could be operationalized |
| Many borrowers encounter barriers to accessing and retaining affordable payments in IDR plans | **Make it easier for borrowers to enroll and remain in income-driven plans** | Promptly and effectively implement the federal FUTURE Act | The 2019 FUTURE Act directs the IRS and the Department of Education to securely share relevant borrower tax return data, so that borrowers do not have to proactively send their income data to loan servicers for IDR enrollment or annual recertification. | Would make it easier for borrowers to enroll in IDR and complete their annual recertification. | None |
| | **Make it easier for borrowers to enroll and remain in income-driven plans** | Automatically withhold student loan payments from borrowers' paychecks or have borrowers make payments through the tax system | Some other countries withhold student loan payments from borrowers' paychecks, though their systems of higher education financing, taxation, and social safety nets fundamentally differ from those in the U.S. | Paycheck withholding would simplify payments for some borrowers, but complicate them for others and require borrowers to prioritize student loan payments over other expenses. Involving employers in student loan payments may raise privacy concerns among borrowers, and automatic paycheck withholding may make it more difficult for policymakers to suspend payments during national crises. | • Quantitative and qualitative data on how borrowers would be affected by the forced prioritization of student loan payments over expenses like housing, utilities, food, and health care<br>• Data on the share of borrowers with unstable employment, multiple jobs, or gig economy employment<br>• Research on how the IDR formula could work with paycheck withholding (e.g., would employers have to know about borrowers' other income, their spouse's income, family size, etc.?) |

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| **Many borrowers encounter barriers to accessing and retaining affordable payments in IDR plans** | **Make it easier for borrowers to enroll and remain in income-driven plans** | Improve the current IDR application form to be more user-friendly | Options include introducing more skip-logic and pre-filling information, particularly for borrowers completing their annual recertification. | Would help borrowers navigate the process of enrolling and recertifying in IDR, but may not be necessary after the FUTURE Act is fully implemented. | • Data on how much income volatility IDR borrowers experience, and the problems caused by the time lag in income data<br>• Qualitative data on borrowers' perspectives on this change (e.g., privacy concerns<br>• Research into which parts of the form are confusing for borrowers |

Notes: Asterisks signify reform options that could also make it easier for borrowers to enroll and remain in income-driven plans.

Source: Pew analysis of research and governmental data sources discussed and cited throughout this report



*Appendix B outlines the key challenges with income-driven repayment, as identified in the research, principles for reform to address those problems, and potential options for solutions. This table includes a summary of potential benefits and drawbacks for each reform option, given considerations raised by stakeholders. In many cases, more data and research are needed to fully assess the effects of each potential reform on different types of borrowers. But in some cases, existing research points toward promising solutions that could be undertaken by Congress and the Department of Education.*

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