Few College Students Will Repay Student Loans under the Biden Administration's Proposal

An Essay for the Learning Curve by Matthew Chingos, Jason Delisle, and Jason Cohn

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The new student loan repayment plan formally proposed by the Biden administration last week would let borrowers make lower payments and have remaining loans forgiven sooner than under current plans.[1] This pending change to federal student loans has the potential to be more significant in the long run than President Biden's broad-based forgiveness plan that is now on hold by the courts. Under the proposed income-driven repayment (IDR) plan, most undergraduate borrowers with typical debt levels—and nearly 90 percent of those with certificates and associate's degrees—would have at least some of their loans forgiven if they enroll in IDR.

Last year, the Biden administration announced that it would implement a new IDR plan for federal student loans using a 1993 law that gives the secretary of education broad discretion to design such plans.[2] This plan, which has now been formally proposed in the Federal Register for public comment, would change the parameters of the Revised Pay as You Earn (REPAYE) plan, including by letting undergraduate borrowers make lower payments (5 percent of their income above 225 percent of the federal poverty level instead of 10 percent of their income above 150 percent of the federal poverty level) and providing loan forgiveness earlier than any of the existing plans (as soon as 10 years instead of 20 years).

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[1] Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023).

[2] US Department of Education, "Issue Paper #10: Creating a New Income-Driven Repayment Plan" (Washington, DC: US Department of Education, Office of Postsecondary Education, 2021). The authority to design and implement IDR plans was provided in the Omnibus Budget Reconciliation Act of 1993.

The administration's stated goals for this new IDR plan are to make student loan payments more manageable for low- and middle-income borrowers and to encourage more borrowers who could benefit from IDR to enroll. The changes are also meant to ensure community college borrowers are "debt-free within 10 years" and that borrowers earning less than a $15 hourly minimum wage would not need to make payments on their student loans.[3] President Biden proposed cutting monthly payments in the IDR program for undergraduates as part of his 2020 campaign platform, and the plan announced on January 10 aligns with that proposal but goes further by providing earlier loan forgiveness for low-debt borrowers and by applying some of the new terms to graduate borrowers.[4]

Under the newly announced plan, most undergraduates who take on typical debt loads would have at least some of their loans forgiven if they use the plan. Borrowers with certificates or associate's degrees would benefit the most, with 89 percent receiving some forgiveness and 38 percent paying nothing.

Historically, IDR plans have provided a safety net to borrowers for whom college has not paid off, albeit a safety net with holes that many borrowers fall through (leading to loan default). Under the Biden plan, taking on debt for college would provide larger benefits than Pell grants for many students. This means students will have strong incentives to borrow, especially at community colleges, where students who take on $12,000 of debt can expect to repay only $1,000 under the new plan.

The proposed IDR plan is the most generous yet, but it will make the student loan program significantly more expensive and risks encouraging students to take on more debt, which could have implications for their personal finances even if it is eventually forgiven.

Comparing the Biden Plan with Current IDR

All IDR plans share three basic components: an income exemption, which is the amount of income that is excluded from the payment calculation (borrowers with low incomes make no payments); an assessment rate, which is the share of (nonexempt) income paid; and a time period until loan forgiveness.[5]

Relative to the most generous IDR plan currently available (Pay as You Earn, or Income-Based Repayment for new borrowers as of 2014), the Biden plan reduces payments by increasing the

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[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] President Biden's 2020 campaign proposal for IDR would have maintained the current 20-year loan forgiveness threshold. But the proposed plan announced in 2022 and later published in the Federal Register allows for loan forgiveness as early as 10 years after a borrower begins repayment. See "The Biden Plan for Education Beyond High School," JoeBiden.com, accessed January 17, 2023, https://joebiden.com/beyondhs/#.

[5] In all cases, income is defined as adjusted gross income, which excludes items such as pretax payments for health insurance premiums and retirement plan contributions, as well as "above the line" tax deductions, including student loan interest payments (see "Definition of Adjusted Gross Income," Internal Revenue Service, accessed January 12, 2023, https://www.irs.gov/e-file-providers/definition-of-adjusted-gross-income).

exemption and reducing the assessment rate (table 1).[6] The Biden plan also reduces time to forgiveness for undergraduate borrowers who take on relatively small amounts of debt.

TABLE 1

Details of Current and Proposed Income-Driven Repayment Plans

	Current IDR	Biden plan
Income exemption	150% of the federal poverty level ($20,385 for an individual, $41,625 for a family of four)	225% of the federal poverty level ($30,578 for an individual, $62,438 for a family of four)
Assessment rate	10%	5% of income for undergraduate debt and 10% for graduate debt; weighted rate based on combined balance
Time to forgiveness[a]	20 years	10 years if borrowed $12,000 or less, plus 1 year for each additional $1,000 borrowed; maximum of 20 years for borrowers with only undergraduate loans and 25 years for borrowers with graduate debt
Interest subsidy	Unpaid interest forgiven only at 20-year point, except in limited circumstances; balance can increase	Unpaid interest forgiven monthly; balance cannot increase
Loans eligible[b]	Undergraduate and graduate	Undergraduate and graduate

Sources: "Income-Driven Repayment Plans," US Department of Education, accessed January 18, 2023, https://studentaid.gov/manage-loans/repayment/plans/income-driven; and Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023).

Notes: Current IDR = Pay as You Earn; IDR = income-driven repayment. See the appendix for assumptions.

[a] Under both plans, all borrowers can receive forgiveness after 10 years if they are eligible for the Public Service Loan Forgiveness program.

[b] 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.

The Biden plan also introduces a new feature: preventing all unpaid interest from accumulating when borrowers' monthly income-based payments cannot cover it. Borrowers' loan balances can therefore never increase while repaying.

The terms of the Biden plan would be available on all undergraduate loans. Loans for graduate education would qualify for some of the new terms, including the higher income exemption and forgiveness of unpaid interest. This analysis focuses only on undergraduate borrowers.

[6] For undergraduates, the Income-Based Repayment and Pay as You Earn plans are similar to the REPAYE plan, another income-driven repayment plan that enrolls fewer borrowers than the other two plans combined. Monthly payments are based on the same exemption and assessment rate. The results in this analysis would be the same if we used the REPAYE plan as the comparison. The REPAYE plan is less generous than these plans, however, because borrowers with graduate school debt qualify for loan forgiveness after 25 years of payments, not 20. And borrowers' monthly payments in REPAYE are not capped at the 10-year standard plan amount when their incomes increase as they are in the other plans.

Most Undergraduates Would Have Some Debt Forgiven

We estimate repayment rates under the Biden plan and the most generous version of IDR currently available using data for a cohort of undergraduate borrowers who enrolled in the 2011–12 academic year and completed their degrees by 2017 (findings are similar for noncompleters; see appendix figure A.1).

We estimate how much borrowers with typical debt levels ($13,000 for certificates and associate's degrees and $31,000 for bachelor's degrees) would pay back if they enrolled in the plan, which depends in part on their starting income. We make several assumptions (detailed in the appendix) that likely produce a conservative estimate of the generosity of the Biden plan, including that all borrowers are in single-person households (because multiperson households have a larger income exemption).[7]

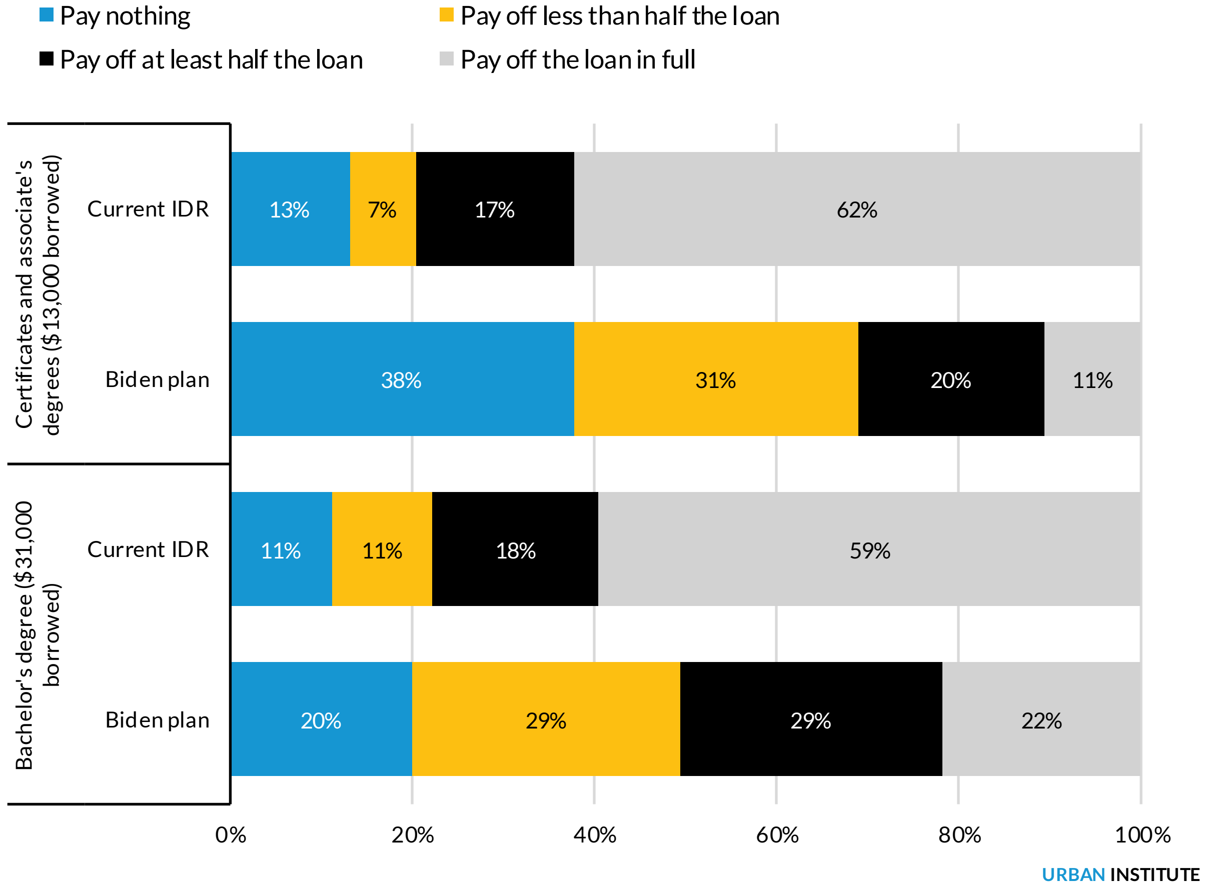
If all certificate and associate's degree recipients were enrolled in current IDR, we would expect 62 percent to fully repay their loans (assuming typical debt levels). Under the Biden plan, only 11 percent would fully repay before reaching forgiveness (figure 1). Sixty-nine percent of borrowers would repay no more than half, rather than 20 percent of borrowers. The Biden plan would have a similar effect for bachelor's degree recipients. The share fully paying off their loans would fall from 59 percent under current IDR to 22 percent, and the share repaying no more than half of what they borrowed would increase from 22 percent to 49 percent.

[7] A 2019 Government Accountability Office report that analyzed IDR applications in 2016 and 2017 shows that that average household size of enrollees was 2.4 people. See Government Accountability Office, *Federal Student Loans: Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans* (Washington, DC: Government Accountability Office, 2019).

FIGURE 1

Few Undergraduate Borrowers with Typical Debt Levels Would Repay Their Loans under the Biden Administration's IDR Proposal

Estimated loan repayment amounts under current IDR and the Biden IDR plan, by credential completed



Source: Urban Institute calculations based on the 2012/17 Beginning Postsecondary Students Longitudinal Study.
Notes: Current IDR = Pay as You Earn; IDR = income-driven repayment. "Pay off less than half the loan" and "Pay off at least half the loan" refer to half the original amount borrowed. Estimates are for borrowers at each credential level with typical debt levels; amount repaid varies only based on differences in starting income. See the appendix for assumptions.

Loan Forgiveness Will Exceed Pell Grants for Undergraduate Borrowers

Another way to estimate the effects of these IDR changes is to determine how the generosity of the new plan compares with an existing aid program, which we can do for Pell grant recipients. The typical Pell grant recipient who takes on debt for a certificate or associate's degree borrows $12,000 and earns an initial annual income of $28,000 after completing their program. This borrower would have $0 monthly payments for the first 5 years of repayment, when their income is below the exemption level. After 10 years and $357 of total payments, they would have their remaining balance forgiven under the terms of the proposed plan. Of this borrower's $12,000 loan, they would not repay $11,643, which is higher than

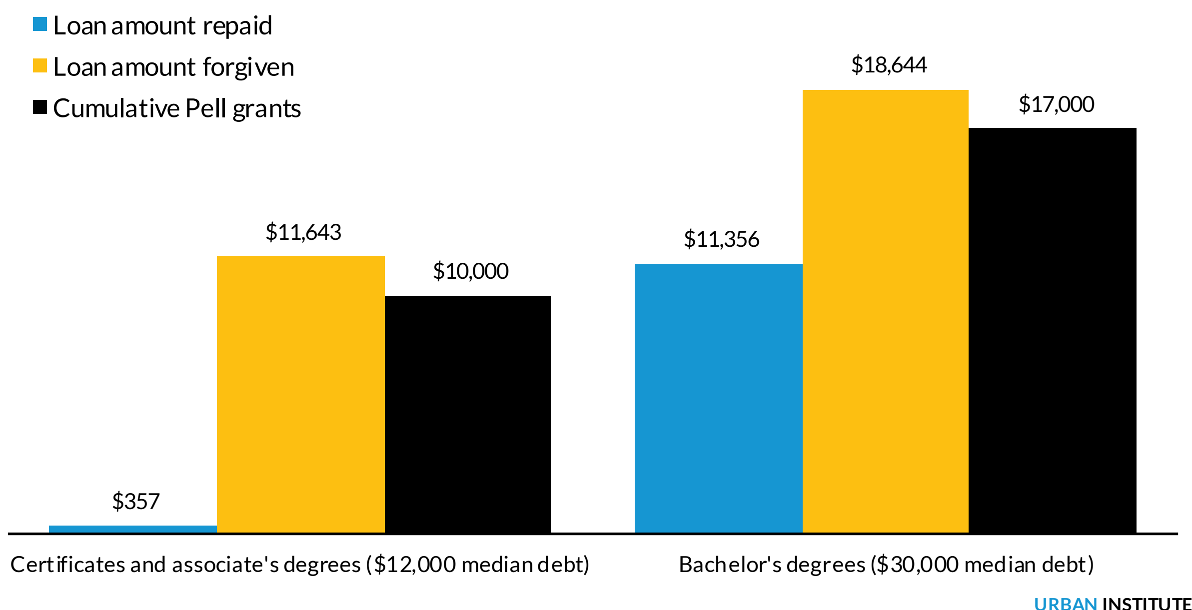
the typical cumulative amount of Pell grant aid received by Pell-eligible borrowers who earn certificates and associate's degrees (figure 2).

The typical Pell recipient who borrows for a bachelor's degree borrows $30,000 and earns an initial annual income of $35,000 after completing their credential. This borrower would start repayment with an $18 monthly payment requirement. After 20 years and $11,356 of total payments, they would have the rest of their balance forgiven. The $18,644 of the original $30,000 loan that is forgiven is higher than the median Pell grant among recipients ($17,000).[8]

FIGURE 2

Typical Forgiveness Amounts under the Biden Plan Will Be Larger Than Pell Grants

Loan amount repaid and forgiven under the new income-driven repayment proposal for borrowers who receive Pell grants, compared with the median amount of cumulative Pell grants received, by credential completed



Source: Urban Institute calculations based on the 2012/17 Beginning Postsecondary Students Longitudinal Study.
Notes: Loan repayment estimates are based on typical incomes among graduates with the stated degree who received a Pell grant and borrowed; Pell grant amounts are medians for students who received the grant and borrowed. "Loan amount forgiven" is an estimate of the original loan amount that will not be repaid. See the appendix for our explanation and assumptions.

Nonborrowers Will Have Strong Incentives to Take on Debt under the Biden Plan

Though those who borrow for certificates and associate's degrees would see substantial reductions in their loan payments, these benefits could also encourage students who do not currently borrow for their education to take on debt. This may be particularly salient at community colleges, where nearly

[8] At both credential levels, Pell grant recipients with typical borrowing and income levels would fully repay their loans under current IDR.

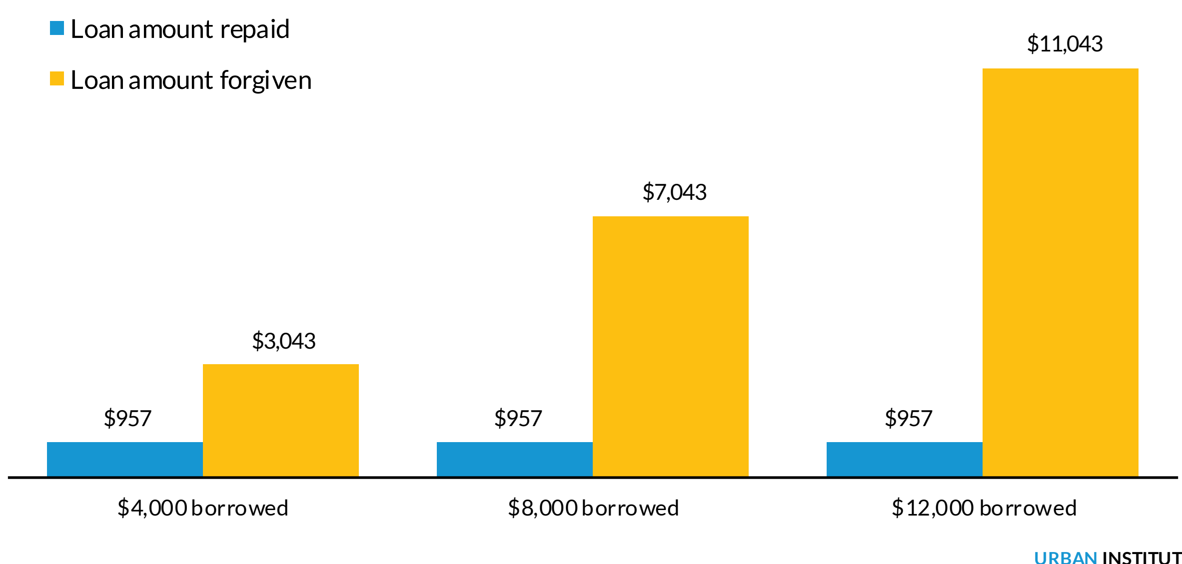
half of students currently do not take on any debt.[9] Under the Biden plan, these nonborrowers may find that they can take out a loan and expect to repay only a small percentage of it.

The incentive to borrow will be especially strong for amounts of up to $12,000 because, under the Biden plan, any amount of debt up to this amount can be forgiven after 10 years of payments. We find that the typical community college student who borrows $12,000 would pay back only $957, which is exactly the same as what they would pay back if they borrowed only $8,000 or $4,000 (figure 3).

FIGURE 3

Community College Students Who Do Not Currently Borrow May Have an Incentive to Take on Debt

What the typical community college graduate who currently does not borrow would pay if they borrowed and repaid under the Biden income-driven repayment plan



Source: Urban Institute calculations based on the 2012/17 Beginning Postsecondary Students Longitudinal Study.
Note: See the appendix for explanation and assumptions.

Taking on federal student debt is not possible for the 9 percent of community college students attending an institution that does not participate in the federal student loan program.[10] Given the large new benefit community college students could receive from the Biden plan, these institutions may now opt to participate in the program. That may have a positive effect on enrollment and completion for some students, but it could also increase overall levels of student debt and expose more students to the risks of nonrepayment.[11]

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[9] Authors' calculations using the National Postsecondary Student Aid Study.

[10] Debbie Cochrane and Laura Szabo-Kubitz, "States of Denial: Where Community College Students Lack Access to Federal Student Loans" (Washington, DC: The Institute for College Access and Success, 2016).

[11] Benjamin M. Marx and Lesley J. Turner, "Evidence on Borrowing and Educational Attainment," *American Economic Journal: Economic Policy* 11, no. 2 (May 2019), 108; Sandra E. Black, Jeffrey T. Denning, Lisa J. Dettling, Sarena

Policy Implications

The Biden plan will transform IDR from a safety net that supports borrowers with low incomes into a substantial subsidy for most undergraduate students who take on debt. Under current IDR plans, most borrowers can expect to repay some or all their debt. If the Biden plan is implemented as proposed, fully repaying a student loan will be the exception rather than the rule. For typical Pell grant recipients, the additional loan forgiveness will be larger than the total Pell grants they receive while in college.

Our findings are broadly consistent with the Biden administration's analysis, which finds that undergraduate borrowers would see the amount repaid per $10,000 of debt fall from $10,956 to $6,121 for undergraduate borrowers (compared with a decrease from $12,506 to $11,645 for graduate borrowers).[12]

This large increase in generosity for borrowers will come at a substantial cost to taxpayers. The US Department of Education estimates that the proposed changes will cost $138 billion over the next 10 years, which is likely an underestimate because it does not account for the increases in borrowing that are likely to occur as the loan program becomes more heavily subsidized or for borrowers switching into IDR plans from non-IDR plans.[13]

Weighing the plan's substantial costs to taxpayers against the broader social benefits and potential harms is more challenging. The Department of Education states that a key goal of its plan is to help "borrowers avoid delinquency and default, which are loan statuses that create additional challenges, costs, and administrative complexities for collection, as well as carry additional consequences for borrowers."[14]

Several of the proposed changes are directly targeted at reducing delinquency and default, including placing some borrowers in IDR automatically, allowing defaulted borrowers to enroll in IDR, and reducing complexity in plan choice by sunsetting existing plans (leaving the new plan as the best IDR option for most borrowers).

But these changes are not the primary cost drivers of the $138 billion plan. The rough price tags (over 10 years) of the individual components of the Biden proposal (relative to the full package of

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Goodman, and Lesley J. Turner, *Taking It to the Limit: Effects of Increased Student Loan Availability on Attainment, Earnings, and Financial Well-Being* (Cambridge, MA: National Bureau of Economic Research, 2020).

[12] Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023).

[13] Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023). The department's analysis notes the likely existence of such effects but argues that it is too difficult to credibly forecast them. The department's estimates also assume that President Biden's broad-based cancellation will be implemented, which will not be the case if the Supreme Court finds against the administration.

[14] Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023).

changes) are $74 billion for the 225 percent income exemption, $59 billion for the 5 percent assessment rate, $15 billion to forgive unpaid monthly interest, and $4 billion for reducing the time to forgiveness.[15]

Increasing the number of borrowers eligible for $0 payments could reduce delinquency and default, especially as the FUTURE Act allowing borrowers to authorize transmission of their income data from the Internal Revenue Service to the Department of Education is implemented in the coming years, but the size of this impact is uncertain. Reducing payment size for borrowers with nonzero payments could make the borrowers more likely to make those payments; the typical bachelor's degree borrower would see their initial monthly payment fall from $147 to $31.[16] Forgiving unpaid interest every month could provide a psychological benefit to borrowers, but they would still see their balance remain the same even if they are making payments.

For future students, the large benefits to borrowers embedded in the new plan may turn out to be a double-edged sword. The promise of taking on debt that will likely not be repaid may push more students into the loan program, which could reduce their financial pressures while in college and help them complete credentials in a timely fashion.

But is important to note that in order to receive the benefits of IDR, most borrowers have to sign up for an IDR plan and successfully navigate the repayment system for 10 to 20 years. Historically, this system has not worked well for borrowers who try to use it, and there are significant resource limitations at the agency charged with implementing this new plan for a potentially much larger number of borrowers.[17]

Evidence suggests about one-third of borrowers in IDR do not recertify their incomes on time, and the Biden plan will require many borrowers to spend more time in repayment than borrowers in IDR currently do.[18] The administration's proposal aims to address some of these concerns by designing and implementing a new system to automatically enroll delinquent borrowers in IDR, but the system might not be implemented for several years and will require borrowers to allow the department to access their tax information.

As the Biden administration revises its plan following a 30-day public comment period, it will have to weigh the potential costs and benefits of the various components of its proposal not just for current

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[15] Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program, 88 Fed. Reg. 1894 (January 11, 2023), table 6. These numbers do not add up to $138 billion because the program provisions interact with each other.

[16] FUTURE Act, H.R. 5363, Pub. L. No. 116-91 (2019); and Urban Institute calculations based on the 2012/17 Beginning Postsecondary Students Longitudinal Study.

[17] Stephanie Hughes, "Federal Student Aid Office Has a Big To-Do List in 2023, but the Same Budget," Marketplace, December 29, 2022, https://www.marketplace.org/2022/12/29/federal-student-aid-office-has-a-big-to-do-list-in-2023-but-the-same-budget/.

[18] Thomas Conkling and Christa Gibbs, *Data Point: Borrower Experiences on Income-Driven Repayment* (Washington, DC: Consumer Financial Protection Bureau, Office of Research, 2019); and Kristin Blagg, "Changes to Income-Driven Repayment Plans Would Reduce Payment Amounts and Extend Payment Timelines," *Urban Wire* (blog), Urban Institute, September 1, 2022, https://www.urban.org/urban-wire/changes-income-driven-repayment-plans-would-reduce-payment-amounts-and-extend-payment.

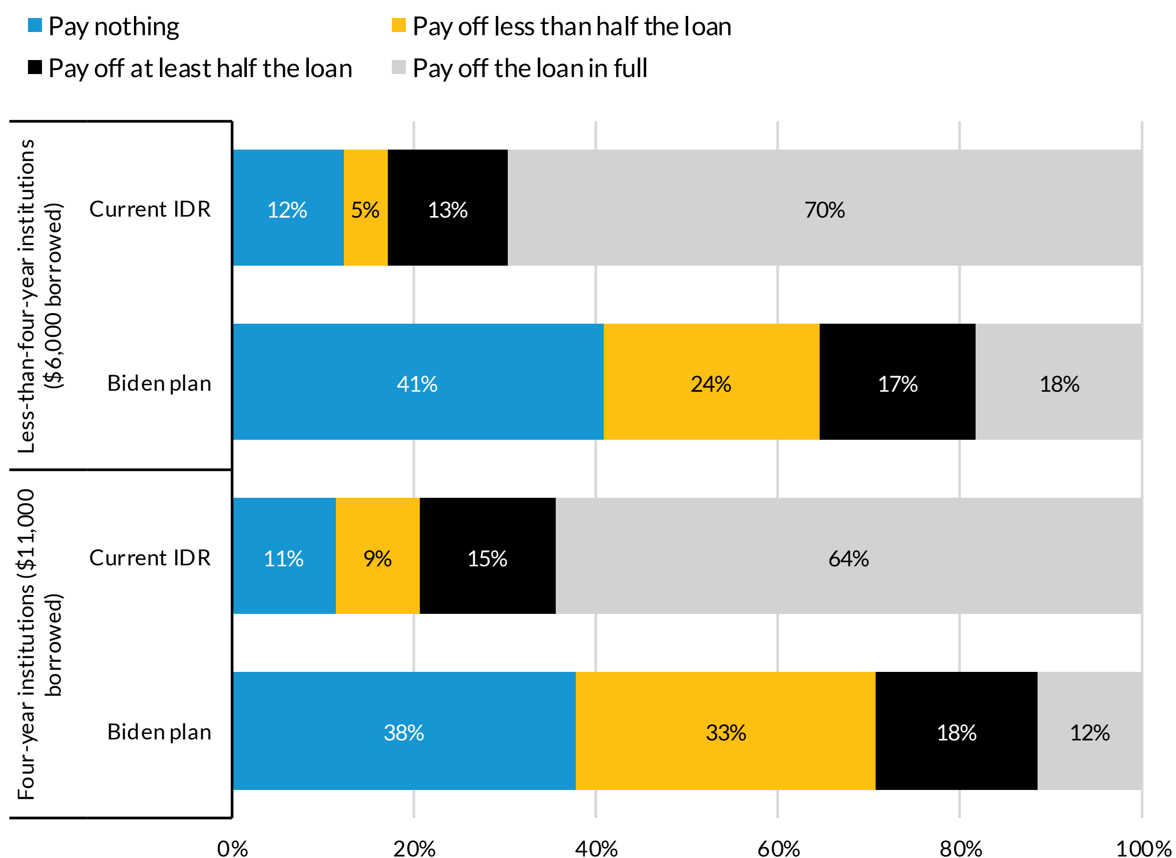
borrowers but for future students, taxpayers, and the Department of Education's ability to manage its $1.6 trillion student loan portfolio.

Appendix

FIGURE A.1

Few Borrowers Who Do Not Complete a Credential Would Repay Their Loans under the Biden Administration's IDR Proposal

Estimated loan repayment amounts for noncompleters under current IDR and the Biden IDR plan, by level of starting institution



Source: Urban Institute calculations based on the 2012/17 Beginning Postsecondary Students Longitudinal Study.
Notes: Current IDR = Pay as You Earn; IDR = income-driven repayment. "Pay off less than half the loan" and "Pay off at least half the loan" refer to half the original amount borrowed. Estimates are for borrowers without a credential at each institution level with typical debt levels; amount repaid varies only based on differences in starting income. See below for assumptions.

Data and Assumptions for Repayment Calculations

Throughout this analysis, we assume 3 percent annual inflation of the 2022 federal poverty level used for the exemption in IDR, 5 percent annual earnings growth, a 5 percent interest rate on undergraduate

loans, and that borrowers make all payments on time with no early payments. Using these assumptions, we calculate how much a borrower in a single-person household will pay over the life of their loan for a given loan size and starting income, reported in present dollars using a 3 percent discount rate (which matches the assumed inflation rate for consistency). We calculate the amount forgiven as the difference between this amount and the initial amount borrowed. We assume the borrower remains in IDR for their entire repayment period, makes all required payments on time, and does not pay down the loan earlier than required. Because of data limitations, we cannot include interest that accrues on borrowers' loan balances while enrolled.

A borrower's payment is capped at what payments would be under a 10-year fixed payment plan in current IDR, even if their income-based payment would result in a higher payment than that amount. This is a benefit provided to borrowers using Income-Based Repayment and Pay as You Earn (but not REPAYE), as it reduces what they would otherwise pay on the loan. The Biden plan does not include this benefit and allows payments to increase above what they would be under the standard 10-year plan if a borrower's income increases. This difference affects repayment for some high-income borrowers but not those with the typical income levels considered in our analysis.

To estimate the share of borrowers who repay each amount in figure 1, we use a constant initial loan balance equal to the median amount borrowed in federal student loans (excluding Parent PLUS loans) for each respective degree level according to the 2012/17 Beginning Postsecondary Students Longitudinal Study (BPS), inflated to 2022 dollars. While holding the loan amount constant, we then identify the initial incomes at which a borrower with that loan amount would fall into each repayment category. We use the 2017 income distribution of borrowers in the BPS who completed their degrees and were employed, inflated to 2022 dollars, to estimate the share of borrowers in each group. We use the same methods for figure A.1, though we limit the BPS sample to borrowers who did not complete a credential and were not enrolled in 2017.

We estimate the repayment amounts in figure 2 using the median debt among borrowers who received Pell grants for each respective degree level according to the 2012/17 BPS, inflated to 2022 dollars. For the initial income in repayment under IDR, we use the 2012/17 BPS. Specifically, we use the median income in 2017 (inflated to 2022 dollars) for borrowers who received Pell grants and completed each degree or program type at any point after enrolling in 2011–12 and who were working after completing their educations and not currently enrolled or planning to reenroll. The median income in 2022 dollars of the combined certificate and associate's degree group is $28,000, which is the initial income we use to estimate how much borrowers will repay under the proposed plan.[19] The Pell grant statistics are also from the 2012/17 BPS and reflect the median, cumulative Pell grant (inflated to 2022 dollars) for students who received Pell grants, borrowed for their degree or program, and completed a credential by 2017.[20]

[19] PowerStats table yucjrk, https://nces.ed.gov/datalab/powerstats/table/yucjrk.

[20] PowerStats table xtgvxm, https://nces.ed.gov/datalab/powerstats/table/xtgvxm.

In figure 3, we calculate repayment amounts using initial incomes reported in the 2012/17 BPS. Specifically, we use the median income in 2017 (inflated to 2022 dollars) for nonborrowers who completed an associate's degree at a public two-year institution after enrolling in 2011–12 and who were working after completing their educations and not currently enrolled or planning to reenroll.[21] The initial income during loan repayment, in 2022 dollars, for this group is $30,000.

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[21] PowerStats table puqfbc, https://nces.ed.gov/datalab/powerstats/table/puqfbc.

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