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April 1, 2022

The Honorable James Kvaal
Under Secretary
United States Department of Education
400 Maryland Avenue, SW
Room 7E300
Washington, DC 20202

Dear Under Secretary Kvaal:

During the week of December 6th, 2021, the U.S. Department of Education held its third and final negotiated rulemaking session on affordability and student loans. As it had for prior sessions, the Department released a series of issue papers containing questions and proposed regulatory language for negotiators to consider beforehand. Among the committee's topics of discussion, one issue paper focused on a proposed design for a new income-driven repayment (IDR) plan for federal student loans, called the Expanded Income-Contingent Repayment (EICR) plan.

Pew research has found that despite offering affordable payments and reduced risk of delinquency and default to many borrowers, those currently enrolled in existing IDR plans often report unaffordable payments, growing balances, and confusing enrollment requirements. As demonstrated below, we find that EICR as envisioned by the Department would lower payments for many borrowers, particularly those with the income and balance size of a typical borrower with a bachelor's degree. However, this shorter-term affordability comes at the cost of increased balance growth over time for some borrowers. Our research has found that borrowers frequently report that growing balances are frustrating and may discourage them from staying current on loan payments. This underlines the importance of ensuring borrowers can successfully remain in IDR and reach the number of qualifying payments for forgiveness. Borrowers who drop out of IDR may face higher monthly payments in the Standard Repayment Plan than they would otherwise. It also raises the question of whether additional measures addressing balance growth should be implemented to assist borrowers.

In addition to the importance of plan design, recent Pew research highlights several ongoing implementation challenges, especially for enrollment and reenrollment in IDR plans, that would not be remedied solely with the introduction of a new plan. Further, we are concerned that EICR's more complex eligibility criteria and payment calculations may be harder to understand than existing IDR plans, which could result in borrower confusion and difficulty for servicers in communication and administration of the plan. For this reason, improving student loan servicing through the Department's recently announced plans for the Unified and Data Solution (USDS) will be a necessary complement to plan design improvements.

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Building upon the findings of a previous analysis, this document analyzes several common borrower scenarios in EICR compared to their outcomes under REPAYE, the most recently designed IDR plan, to better understand how the new proposed plan could affect payment affordability and growing balances.

Under REPAYE:

- Borrowers with federal undergraduate and graduate loans are eligible to enroll.
- Payments are set at 10% of discretionary income over 150% of income relative to the Federal Poverty Level (FPL).
  - For a single borrower with no dependents, payments would begin above $19,320. This threshold increases with family size.
- 50% of unpaid interest is forgiven each month of repayment for unsubsidized borrowers.
- Payments are required for 240 months for undergraduate borrowers and 300 months for graduate borrowers if borrowers do not pay off their loans earlier.
- The remainder of loan balances are forgiven.

Under the proposed plan, EICR:

- Borrowers with federal undergraduate loans are eligible to enroll; graduate loans do not qualify.
- Payments are calculated using a tiered system of marginal rates.
  - 0% of discretionary income under 200% of the FPL.
    - A single borrower with no dependents would make no payments if making less than $25,760 annually. As above, this threshold increases with family size.
  - 5% of discretionary income amounts over 200% and under 300% of the FPL.
    - A single borrower with no dependents would make this level of payment on income between $25,760 and $38,640 each year. This threshold increases with family size.
  - 10% of discretionary income amounts over 300% of the FPL.
    - A single borrower with no dependents would make this level of payment on income above $38,640 each year. This threshold increases with family size.
- 100% of interest is forgiven each month for borrowers qualifying for a $0 payment.
- Payments are required for 240 months if borrowers do not pay off their loans earlier.
- The remainder of loan balances are forgiven.

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Estimate assumptions

As with our previous estimates, we created a set of example borrowers, with income, debt, and annual increases in income estimated for borrowers without a degree, an associate degree, a bachelor's degree, and a graduate degree. Though graduate borrowers would not be eligible for EICR under the current proposal, they are included in some estimates below for the sake of comparison.

Median incomes for these example borrowers were produced using the 2016 American Community Survey; median federal loan balances were produced using the 2016 National Postsecondary Student Aid Study and 2012/2017 Beginning Postsecondary Students Longitudinal Study. To reflect realistic repayment scenarios, borrowers are assumed to have dependents, with marital status and number of dependents for each example borrower produced using the 2016 American Community Survey. The interest rates used are the rates for loans disbursed during the current academic year. The FPL is assumed to increase by 2.42% each year, in keeping with the increase assumed by the Office of Federal Student Aid's Loan Simulator. See the attached methodology for an explanation of our assumptions related to borrowers' starting income, income growth, balance size, and family size.

Due to data limitations, graduate borrower examples are for single borrowers, rather than reflecting an estimated family size. For context, single borrowers have a smaller amount of income protected by the FPL guideline than borrowers with families. This may make their monthly payments, and total amount paid, larger over time.

Comparing borrower outcomes in REPAYE and EICR

We simulate repayment outcomes for borrowers at each level of degree attainment over the course of repayment in both REPAYE and EICR. Payments are shown in ranges from lowest to highest monthly payments. Decreasing amounts in EICR compared to REPAYE are noted in green and increasing amounts are noted in red. For total amounts paid, increases or decreases refer to borrower cost; for remaining forgivable balances, they refer to changes to that balance.[1]

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[1] These figures are not intended to compare the government cost of IDR forgiveness, given that cash flows in net present value determine cost, rather than the remaining balance at the end of repayment.

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1. Repayment Outcomes for Single Borrowers (Median Income, Median Debt)[2]

	No Degree			AA			BA		
	REPAYE	EICR	Difference	REPAYE	EICR	Difference	REPAYE	EICR	Difference
Payment Range	$0-0	$0-0	$0	$0-15	$0-0	-$15	$119-194	$33-55	-$139
Total Amount Paid	$0	$0	$0	$1,081	$0	-$1,081	$36,831	$10,331	-$26,500
Principal	$0	$0	$0	$0	$0	$0	$22,184	$0	-$22,184
Interest	$0	$0	$0	$1,081	$0	-$1,081	$14,647	$10,331	-$4,315
Remaining Forgivable Balance	$11,677	$8,512	-$3,166	$22,721	$16,957	-$5,764	$5,606	$38,248	$32,641
Principal	$8,485	$8,485	$0	$16,904	$16,904	$0	$5,589	$27,773	$22,185
Interest	$3,192	$26	-$3,166	$5,817	$53	-$5,764	$17	$10,474	$10,457
Repayment Period	240	240	0	240	240	0	240	240	0

First, we compare single borrowers with median income and debt in REPAYE and EICR as a baseline comparison. Under REPAYE, borrowers with no degree would never be required to make payments, due to the combination of income and family size used to calculate monthly payments; these borrowers would still make no payments under EICR. However, they would have a lower forgivable balance at the end of the repayment period due to the 100% interest subsidy for months when a borrower qualifies for a $0 payment. This borrower would have a lower remaining forgivable balance at the end of the repayment term, as they would never have accrued interest throughout the course of repayment.

For the borrower with an associate degree, payments are sometimes required under REPAYE, but under EICR, this borrower would now not be required to make any payments, given this borrower's combination of income and family size. As with the borrower with no degree, this borrower qualifies for the full $0 payment interest subsidy under EICR, resulting in a lower forgivable amount at the end of repayment.

Payment relief under EICR appears particularly concentrated for the example borrower with a bachelor's degree. Payments are lowered substantially throughout repayment, resulting in $26,500 less repaid by the borrower. The lowered payments shift this amount to the forgivable balance at the end of repayment, increasing that amount nearly $33,000 over what would have been forgiven under REPAYE. However, the borrower in this scenario would now never make progress towards the principal during repayment. The borrower would see their balance increase throughout repayment, which could pose issues if the borrower is unable to remain in IDR successfully. Though the

[2] In this example, a borrower with no degree begins repayment with a $13,160 income (which increases by 0.5% annually) and $8,330 in debt. A borrower with an associate degree begins repayment with a $20,970 income (which increases by 1.5% annually) and $16,595 in debt. A borrower with a bachelor's degree begins repayment with a $33,405 income (which increases by 2.5% annually) and $27,265 in debt. All loans have a 3.73% interest rate.

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American Rescue Plan temporarily prevents forgiven balances from counting as taxable income through December 2025, tax bills on future forgiven balances could be significant for borrowers with who experience significant balance growth.

2. Repayment Outcomes for Borrowers with Dependents (Median Income, Median Debt)[3]

	No Degree			AA			BA		
	REPAYE	EICR	Difference	REPAYE	EICR	Difference	REPAYE	EICR	Difference
Payment Range	$0-0	$0-0	$0	$1-52	$0-0	-$52	$118-196	$4-12	-$184
Total Amount Paid	$0	$0	$0	$7,116	$0	-$7,116	$36,950	$1,876	-$35,074
Principal	$0	$0	$0	$0	$0	$0	$4,652	$0	-$4,652
Interest	$0	$0	$0	$7,116	$0	-$7,116	$32,298	$1,876	-$30,422
Remaining Forgivable Balance	$12,714	$9,268	-$3,446	$27,562	$22,684	-$4,877	$40,191	$76,341	$36,151
Principal	$9,239	$9,239	$0	$22,614	$22,614	$0	$40,066	$44,719	$4,652
Interest	$3,475	$29	-$3,446	$4,948	$70	-$4,877	$125	$31,623	$31,498
Repayment Period	240	240	0	240	240	0	240	240	0

To observe potential effects on borrowers with families, who may have additional financial constraints, we compare REPAYE and EICR outcomes of those with dependents according to typical family size by degree attainment. The trends observed for single borrowers remain consistent for borrowers with dependents. The lower amounts paid and higher forgivable amount for BA borrowers are due to higher starting debt amounts for borrowers with dependents compared to single borrowers.

[3] In this example, a borrower with no degree begins repayment with a $26,725 income (which increases by 0.5% annually) and $9,070 in debt; they are unmarried and have two dependents. A borrower with an associate degree begins repayment with a $38,780 income (which increases by 1.5% annually) and $22,200 in debt; they are unmarried and have two dependents. A borrower with a bachelor's degree begins repayment with a $53,450 income (which increases by 2.5% annually) and $43,900 in debt; they are married and have two dependents. All loans have a 3.73% interest rate.

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3. Repayment Outcomes for Single Borrowers (High-Balance and Graduate Borrowers Included)[4]

	No Degree			AA			BA			Graduate		
	REPAYE	EICR	Difference	REPAYE	EICR	Difference	REPAYE	EICR	Difference	REPAYE	EICR	Difference
Payment Range	$0-0	$0-0	$0	$0-15	$0-0	-$15	$119-194	$33-55	-$139	$392-906	$286-788	-$118
Total Amount Paid	$0	$0	$0	$1,081	$0	-$1,081	$36,831	$10,331	-$26,500	$168,203	$150,081	-$18,122
Principal	$0	$0	$0	$0	$0	$0	$16,647	$0	-$16,647	$91,372	$42,313	-$49,059
Interest	$0	$0	$0	$1,081	$0	-$1,081	$20,185	$10,331	-$9,853	$76,831	$107,768	$30,937
Remaining Forgivable Balance	$21,371	$15,578	-$5,794	$35,800	$26,491	-$9,309	$16,184	$47,004	$30,821	$0	$49,268	$49,268
Principal	$15,529	$15,529	$0	$26,409	$26,409	$0	$16,134	$32,780	$16,647	$0	$49,059	$49,059
Interest	$5,842	$48	-$5,794	$9,391	$82	-$9,309	$50	$14,224	$14,174	$0	$209	$209
Repayment Period	240	240	0	240	240	0	240	240	0	274	300	26

During the negotiated rulemaking session, negotiators mentioned particular concern for effects on higher-balance borrowers and the inability of graduate borrowers to enroll in the proposed version of EICR. Here, we estimate the outcomes of borrowers with median incomes and balances at the 75th percentile and include graduate borrowers in the comparison. Payments are lowered the same amount as for borrowers with median debt, as income remains the same. While payments and the amount paid would decrease significantly for graduate borrowers, they would now have a remaining forgivable balance at the end of the repayment term, while they would have fully repaid their loans under REPAYE. In this example, the difference in forgiveness from REPAYE to EICR would be even larger than a BA borrower would receive.

Additional IDR Recommendations

While EICR would significantly improve payment affordability for borrowers, additional improvements to IDR are needed to ensure its benefits reach borrowers who would most benefit from them. If borrowers are unable to remain in IDR for the length of the repayment term, they could be left with an unaffordable payment, and may be significantly delayed from reaching the forgiveness threshold if they successfully reenroll in IDR.

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[4] In this example, a borrower with no degree begins repayment with a $13,160 income (which increases by 0.5% annually) and $15,245 in debt. A borrower with an associate degree begins repayment with a $20,970 income (which increases by 1.5% annually) and $25,925 in debt. A borrower with a bachelor's degree begins repayment with a $33,405 income (which increases by 2.5% annually) and $32,180 in debt. A borrower with a graduate degree begins repayments with a $66,220 income (increasing 3.5% annually) and $89,100 in debt. All loans have a 3.73% interest rate except for graduate loans, which have a 5.10% interest rate.

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The Department should consider the following recommendations to build on the strength of the initial EICR plan design and address concerns around balance growth and enrollment:

- While the current EICR interest subsidy is strong for low-income borrowers, some form of interest subsidy for borrowers with a >$0 payment would deliver monthly interest relief. This relief may help ameliorate the negative psychological effects of balance growth on long-term repayment for more borrowers. An interest subsidy for borrowers with higher than $0 payments would also protect them from large payment increases in the event they fall out of IDR and have their payments re-amortized under the Standard Plan.
- Some borrowers have expressed uncertainty that their balance will be forgiven even after they complete the appropriate number of qualifying income-driven payments. To address these concerns and increase portfolio transparency, the Department should consider building tools for borrowers to track their progress towards forgiveness in real time. As part of the Department's upcoming procurement process for student loan servicing contracts (Unified Servicing and Data Solution), such tools could be made available through the web portal borrowers already use to make payments and access information about their loans.
- In addition to providing tools to track progress towards forgiveness, the Department may also consider whether forms of "incremental" forgiveness are administratively feasible for future and current IDR plans. Forgiving a portion of borrowers' balance at intervals occurring before the current thresholds may help incentivize borrowers to stay engaged with repayment and could act as an ongoing audit to ensure payments are being accurately counted.
- In addition to these new measures, progress on the following policies will also help the promise of IDR reach more borrowers by:
    - Streamlining the multiple existing IDR plans into fewer options. Research finds that the high number of avaliable plans can be confusing. Streamlining plans would simplify the program for borrowers, servicers, and the Department. Whenever possible, streamlined plans should be made available to both undergraduate and graduate borrowers to reduce confusion about eligibiltiy requirements.
    - Allowing defaulted borrowers to enroll directly in IDR. This would make it easier for defaulted borrowers to access affordable IDR playments without having to proceed through rehabiliation or consolidation.
    - Improving federal student loan servicing. In addition to the potential forgiveness-related tool described above, the Department should also consider using the new procurement to impel servicers to enroll more borrowers at risk of delinquency and default into IDR plans. While IDR has helped many stay current on their loans, research finds that many borrowers with very low incomes are still not enrolled.
    - Permanently exempting forgiven student debt amounts from being taxed as income. As mentioned above, the American Rescue Plan temporarily exempts forgiven balances from counting as taxable income through December 2025. Many borrowers who reach the forgiveness threshold are likely to have had low incomes relative to their debt for a long period of time and may not have the resources to pay the tax liability resulting from their forgiven balance. This change would

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protect borrowers from facing unaffordable expenses due to their IDR enrollment. This policy would require additional action from Congress to be implemented.

- Continuing progress towards effectively implementing the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act. Once implemented, the FUTURE Act will make it easier for borrowers to enroll and remain in IDR. by allowing the IRS and the Department to securely share relevant income data for borrowers that opt-into data sharing. This data will be used to automatically calculate borrowers' payments in IDR plans without requiring the current annual verification process.

  The success of the FUTURE Act's eventual implementation could be used as a baseline for further improvements to the repayment system, such as automaticallly enrolling severely delinquent borrowers into IDR plans. However, broadly implementing automatic enrollment in income-driven plans would require the Department of Education to have access to borrowers' income data, such as through data-sharing with the Treasury Department and IRS, without borrowers first needing to opt into the data-sharing. This policy change would also require additional action from Congress.

As the Department's process continues towards a Notice of Proposed Rulemaking on a new IDR plan sometime later this year, Pew hopes to work closely with you to address the needs of borrowers, especially those at risk of delinquency and default, in improving the repayment system. Please be in contact with Regan Fitzgerald, Manager of the Project on Student Borrower Success, rfitzgerald@pewtrusts.org, if we can provide more calculations such as those demonstrated above, or any other data or information from our project.

Sincerely,

Regan Fitzgerald

Regan Fitzgerald, Manager

Lexi West

Lexi West, Senior Associate

Brian Denten

Brian Denten, Senior Associate