The Pew Charitable Trusts' Project on Student Borrower Success

Policy Recommendations to Improve Income-Driven Repayment

Since 2018, Pew's Project on Student Borrower Success has provided research and evidence-based policy recommendations to improve the student loan repayment system. Our project has laid out research-based principles for reform of income-driven repayment (IDR) that include:

- **Increasing affordability for low-income borrowers**
- **Limiting balance growth**
- **Decreasing complexity of enrollment**

Focusing on each of these issues is important to ensure a holistic effort to address the student loan repayment crisis for millions of Americans like Taylor, a struggling borrower from Phoenix, AZ, who told a Pew focus group that engaging with the repayment system to pay back her loans is "not as user-friendly…It's like so many steps, and it's so much over-whelming information."

Delinquency and default rates for borrowers in income-driven plans have been consistently found to be substantially lower than those of borrowers in fixed-payment plans. According to the CBO, borrowers enrolled in IDR have about half the default rate as borrowers in other plans. However, despite offering affordable payments and reduced risk of default, Pew research suggests that borrowers enrolled in existing IDR plans often report unaffordable payments, growing balances, and confusing enrollment requirements.

Increasing affordability for low-income borrowers

According to a Pew survey, nearly half of borrowers previously or currently enrolled in IDR plans reported that they felt their monthly payment was still too high. Pew modeling has found that the Department of Education's proposal in the fall 2021 negotiated rule-making session for a new IDR plan would lead to significant improvements in monthly affordability for many borrowers.

Limiting balance growth

The department's proposal could go further in preventing the balance growth often experienced with IDR plans – growth that may discourage borrowers from repaying. Although the current proposal would subsidize the cost of interest payments for borrowers making a $0 payment, it would not provide interest relief to lower-income borrowers who owe small amounts just above $0. Extending an interest subsidy to these borrowers would help limit balance growth and ameliorate the negative psychological effects of mushrooming loan balances.

Decreasing complexity of enrollment

Pew survey work finds that 44 percent of IDR borrowers said that the application process was somewhat or very difficult to navigate. Reducing the number of plans available could help simplify the decision-making process for borrowers. Also, the Department can prioritize implementation of the Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act, which enables the Internal Revenue Service to automatically share income data for borrowers who authorize it. Fully implementing the FUTURE Act would lessen the burden on borrowers of the annual recertification process for income-driven plans, making it easier for borrowers to enroll and remain in these plans.

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