the institute for college access & success

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CONTACTS: Shannon Serrato, 510-318-7915
Emily Hecker, 202-371-1999

Make it Simple, Keep it Fair: New Report Provides Roadmap for Streamlining and Improving Income-Driven Repayment for Federal Student Loans

The Institute for College Access & Success (TICAS) today released a practical roadmap for designing an income-driven repayment (IDR) plan that works better for both students and taxpayers. With rising college costs and student debt, IDR is a critical option for students who have to borrow to afford college. In addition to longstanding bipartisan support for IDR, there is agreement on the need to simplify and improve it, but not on how best to proceed. Some approaches to IDR reform could harm the lowest income borrowers or have unintended consequences for college costs and debt.

The report, *Make it Simple, Keep it Fair: A Proposal to Streamline and Improve Income-Driven Repayment of Federal Student Loans*, recommends drawing on the best features of the existing five IDR plans to create one improved plan that is fair and well targeted. This single, streamlined IDR plan would cap monthly payments at 10% of income, provide tax-free loan forgiveness after 20 years of payments, and focus benefits on borrowers who need help the most. The report also analyzes and illustrates the trade-offs involved in different ways to design IDR.

"Income-driven repayment is already helping millions of borrowers and has broad, bipartisan support, but there are key ways that it needs to be improved," said **Jessica Thompson**, TICAS policy and research director and report co-author. "To better serve both students and taxpayers, we recommend dramatically streamlining the federal loan repayment system and improving income-driven repayment so that it's easier to use and targets benefits where they're needed most."

TICAS recommends that all federal student loan borrowers be able to make a simple choice between two repayment options. As detailed in the report, while IDR is beneficial for many borrowers, it is not the best choice for everyone, and some will pay more in total in IDR than they would in a fixed-payment plan. Borrowers should have a choice between one fixed-payment plan with longer repayment periods for larger amounts borrowed, and one improved IDR plan with the following key features:

- It is available to all federal loan borrowers, regardless of their debt or income level, when they borrowed, or whether their loans are through the Direct or Federal Family Education Loan (FFEL) program;
- Payments never exceed 10% of taxable income;
- Any remaining debt is forgiven after 20 years of payments;
- Benefits are better targeted to those who need help the most, and the plan prevents borrowers with high incomes and high debt from receiving loan forgiveness through IDR when they could have afforded to pay more;
- There are limits on the growth of accumulated interest, to restrain ballooning balances for borrowers with low incomes relative to their debt;
- Borrowers can easily keep their income information up to date; and
- Forgiven debt is not treated as taxable income.

"Improving income-driven repayment so that more students can successfully repay their loans will help the American economy as well as borrowers and their families," said **Diane Cheng**, TICAS associate research director and report co-author. "Student debt – even low debt when paired with low earnings – can hold borrowers back from starting a family, buying a home, saving for retirement, starting a business or farm, or saving for their children's education. And there are severe consequences for those who default on federal student loans, including ruined credit, garnished wages, and seized tax refunds."

The report includes additional recommendations to help prevent delinquency and default, such as automatically enrolling severely distressed borrowers in IDR and improving loan servicing and counseling. Noting that even the best-designed loan repayment system will not solve rising college costs and debt, the report also includes recommendations for complementary policy reforms including increased need-based grant aid, more accessible and comparable consumer information by college and program, and greater college accountability.

Make It Simple, Keep It Fair is available online at http://ticas.org/content/pub/make-it-simple-keep-it-fair. For more information about income-driven repayment, visit our IDR Resources Page.

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An independent, nonprofit organization, The Institute for College Access & Success (TICAS) works to make higher education more available and affordable for people of all backgrounds. Our Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see www.ticas.org or follow us on Twitter and Facebook.