TICAS Proposal to Create One Improved Income-Driven Repayment Plan

All federal student loan borrowers should be able to choose the assurance of manageable payments and forgiveness after 20 years of payments. We propose one new and improved repayment plan to replace the four existing income-driven plans: Income-Based Repayment as currently available (IBR), IBR for new borrowers starting in 2014 (2014 IBR), Pay As You Earn (PAYE), and Income-Contingent Repayment. Borrowers already enrolled in these plans could stay in them or switch to the new plan.

The new plan would combine the best of PAYE and 2014 IBR with two adjustments to better target benefits to borrowers who need help the most, while capping payments at 10% of a borrower's income and providing forgiveness after 20 years. Specifically, we propose phasing out the income exclusion for borrowers with high incomes and eliminating the standard-payment cap on monthly payment amounts. For all borrowers, monthly payments would never be greater than 10% of their total income.

- **Current law:** The monthly payment for IBR and PAYE is calculated as a proportion of the borrower's "discretionary income" (up to 10% for PAYE and 2014 IBR, and up to 15% for IBR), up to but not exceeding the 10-year standard payment (also known as the "permanent standard") amount.
    - Discretionary income is defined as the borrower's adjusted gross income (AGI) minus an "income exclusion." Under current law, the income exclusion is 150% of the poverty level for the borrower's household size.
    - The permanent standard amount is the monthly amount the borrower would have had to repay had she entered a 10-year standard repayment plan when she entered IBR, PAYE, or 2014 IBR. The permanent standard functions as a cap on the monthly payment amounts in those plans.

- **Proposed Changes:**
    - **Income exclusion phase-out**:
        - Proposal: Gradually phase out the income exclusion for higher income borrowers. The income exclusion would remain 150% of poverty up to an AGI of $100,000. At an AGI of $101,000, the percentage of poverty used to calculate the income exclusion would decrease by 1 percentage point and continue decreasing by 1 percentage point for each $1,000 of AGI above $100,000 until it reaches 0% at an AGI of $250,000. For example, at an AGI of $101,000, the income exclusion would be 149% of poverty; at an AGI of $102,000, the income exclusion would be 148% of poverty; and so forth. The AGI level at which the income exclusion phase-out begins would be indexed to inflation, so it begins at the same level after adjusting for inflation.
        - Justification: Borrowers with very high incomes can spend a larger share of total income on loan payments and still have sufficient funds left over to cover basic necessities, such as food and housing.

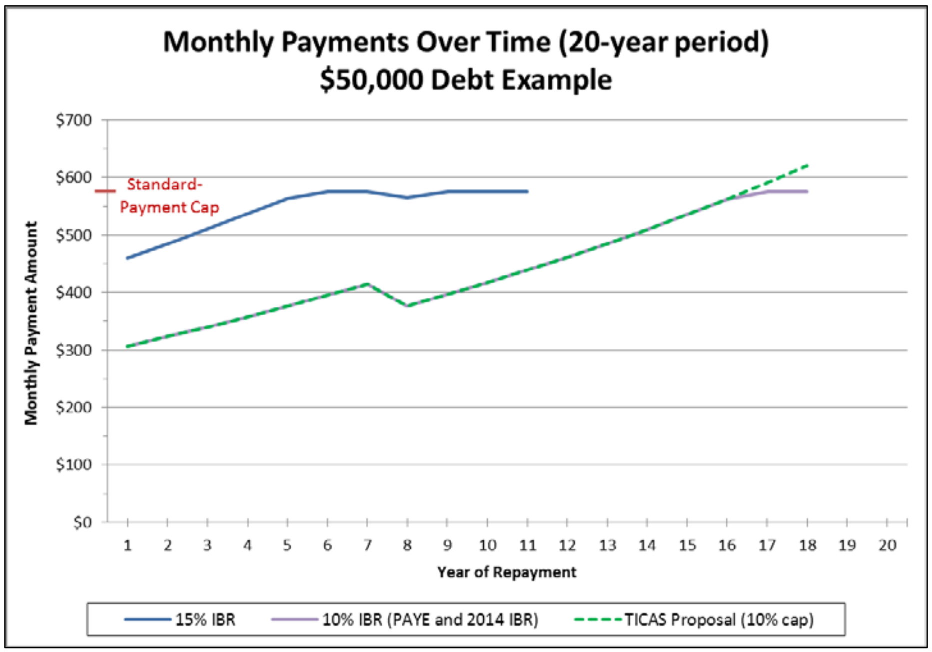
    - **Remove standard-payment cap**:
        - Proposal: Set the monthly payment cap at 10% of discretionary income (calculated with the phase-out described above) rather than at the permanent standard amount (defined above).
        - Justification: The permanent standard cap on monthly payments in IBR, PAYE, and 2014 IBR results in some higher income borrowers making payments that are less than 10 percent of their income. By having borrowers with high incomes make larger monthly payments, it better targets benefits and prevents high-debt, high-income borrowers from receiving substantial loan forgiveness when they could have afforded to pay more.

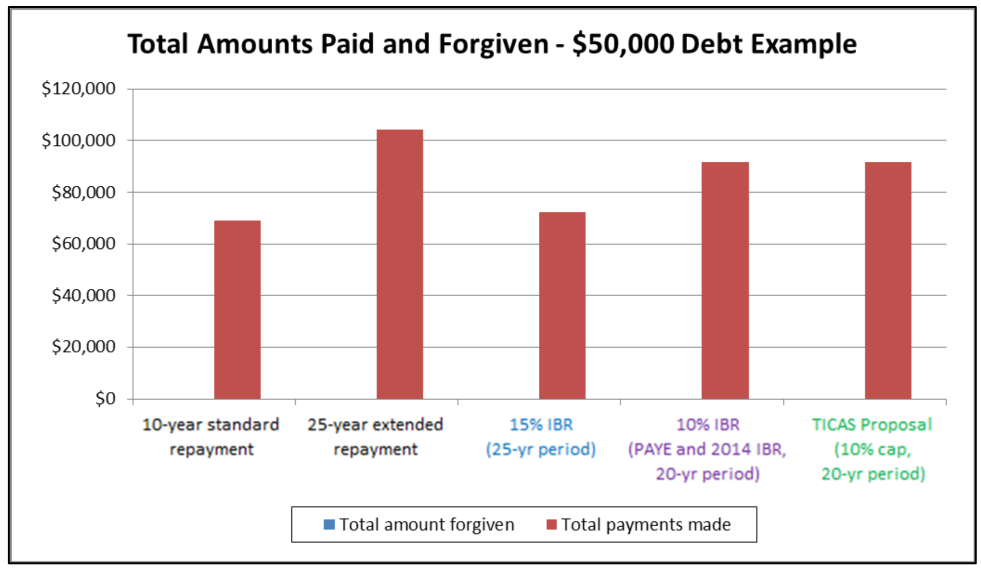
See examples on the following pages and methodology notes on page 5. For additional recommendations on improving federal student loans, see TICAS' white paper, *Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success*.

Married couple, have a child in year 8, $50,000 in combined loans, earn $60,000 in first year, income increases 4% a year.

- They pay *more* in total under PAYE, 2014 IBR, and the TICAS proposal than under IBR, but their monthly payments are more manageable.
- They repay in full under all plans.

	10-year standard repayment	25-year extended repayment	15% IBR (25-yr period)	10% IBR (PAYE and 2014 IBR, 20-yr period)	TICAS Proposal: PAYE with income exclusion phase-out, no std-pmt cap
Monthly payments	$580	$350	$460 to $580	$310 to $620	$310 to $620
Total payments made	$69,050	$104,100	$72,300	$91,700	$91,650
Total amount forgiven	n/a	n/a	$0	$0	$0
Years in repayment	10	25	11.1	17.7	17.6



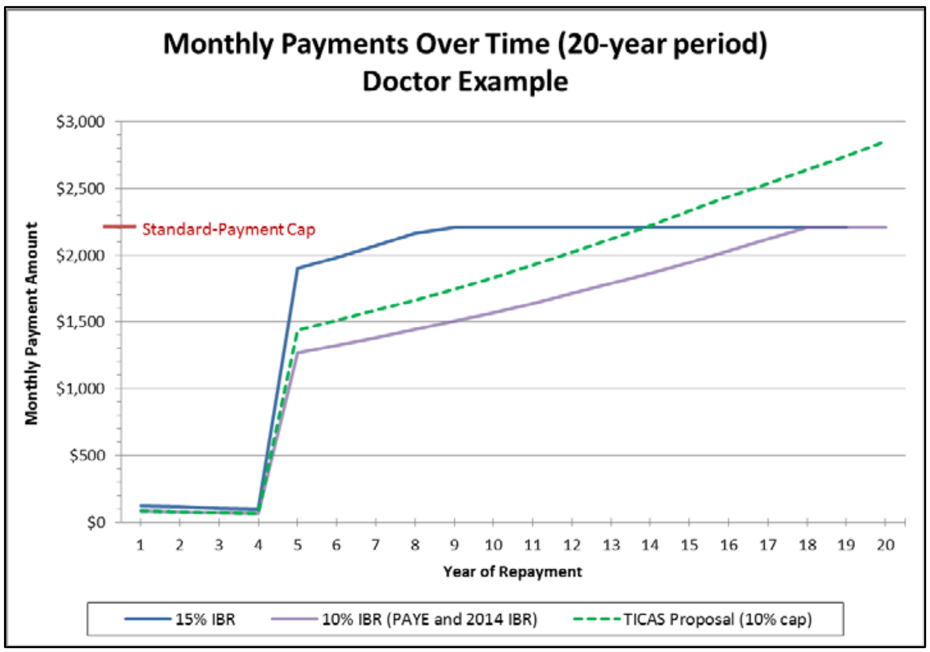


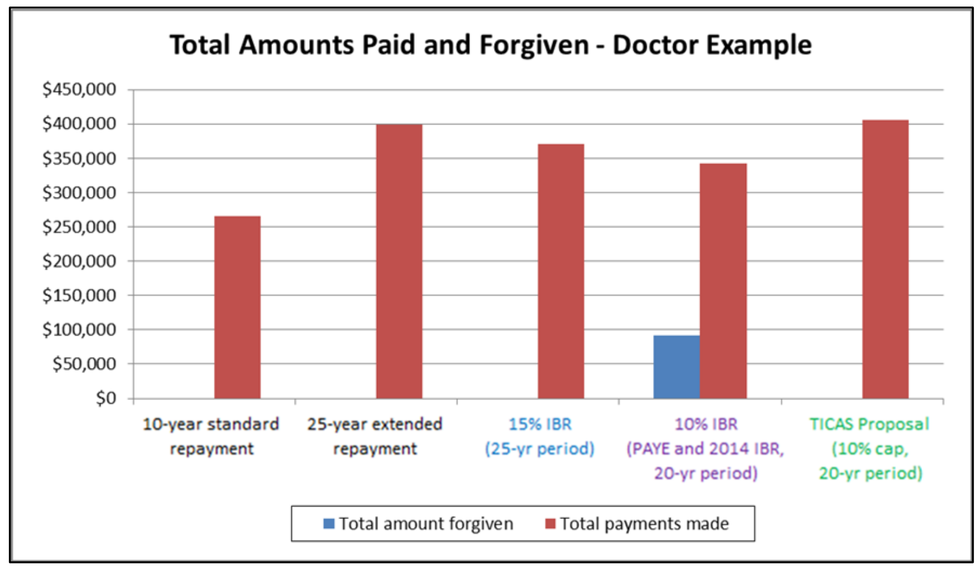
Note: The line graph above displays the monthly payment amount at the beginning of each year. Generally, the borrower pays the same monthly payment amount for the entire year, unless the loan is repaid during that year. The line stops at the year when the borrower pays off his/her loan (if applicable). In 15% IBR, the borrower would make one last payment of $343 (the remainder of her loan balance) at the beginning of year 12 (not depicted in chart).

OB/GYN, married with two children, has $192,000 in loans, earns $45,000 during 4-year residency and then $190,000 in private practice, increasing 4% a year.

- Repays in full under IBR
- Pays less in total under PAYE and 2014 IBR than under IBR and receives nearly $92,000 in loan forgiveness.
- Under the TICAS proposal, pays more in total than in IBR, PAYE, or 2014 IBR, and receives no loan forgiveness.

	10-year standard repayment	**25-year extended repayment**	**15% IBR (25-yr period)**	**10% IBR (PAYE and 2014 IBR, 20-yr period)**	**TICAS Proposal: PAYE with income exclusion phase-out, no std-pmt cap**
Monthly payments	$2,210	$1,330	$120 to $2,210	$80 to $2,210	$80 to $2,850
Total payments made	$265,150	$399,800	$371,400	$342,000	$405,550
Total amount forgiven	n/a	n/a	$0	$91,500	$0
Years in repayment	10	25	18.2	20.0	20.0



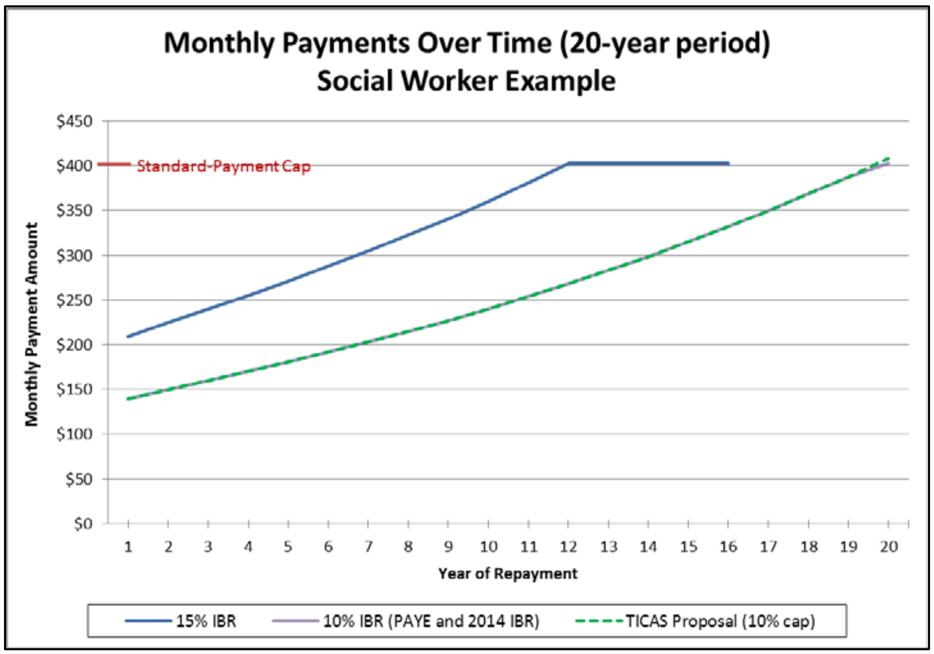


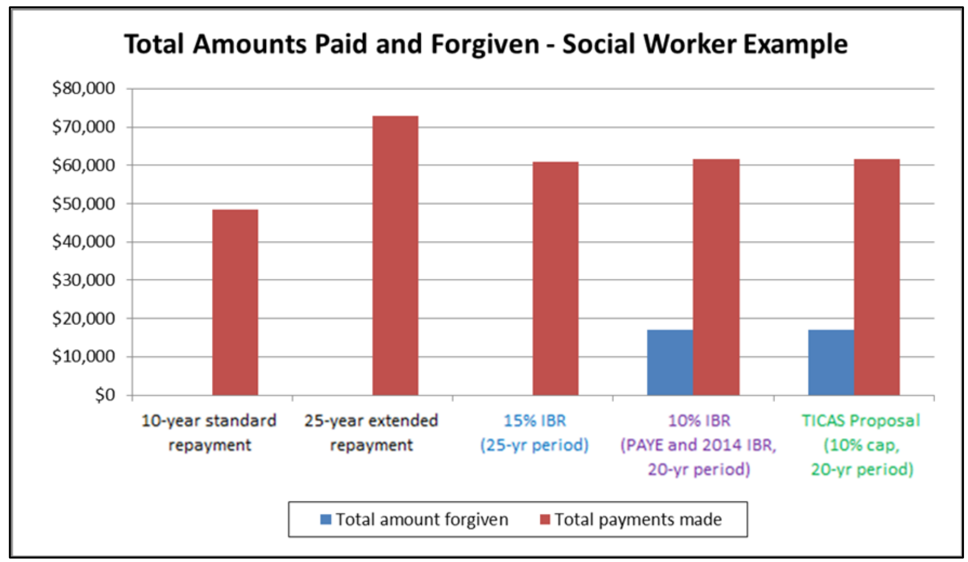
Note: The line graph above displays the monthly payment amount at the beginning of each year. Generally, the borrower pays the same monthly payment amount for the entire year, unless the loan is repaid during that year. The line stops at the year when the borrower pays off his/her loan (if applicable).

Social worker, divorced with one child, $35,000 debt from undergraduate and graduate school, earns $40,000 as a contractor for a state agency (doesn't qualify for Public Service Loan Forgiveness), income increases 4% a year

- Pays about the *same amount in total* under IBR, PAYE, 2014 IBR, and the TICAS proposal, but monthly payments are more manageable under PAYE, 2014 IBR, and the TICAS proposal than under IBR.
- Receives no forgiveness under IBR and receives $17,000 in loan forgiveness under PAYE, 2014 IBR, and the TICAS proposal.

	10-year standard repayment	25-year extended repayment	15% IBR (25-yr period)	10% IBR (PAYE and 2014 IBR, 20-yr period)	TICAS Proposal: PAYE with income exclusion phase-out, no std-pmt cap
Monthly payments	$400	$240	$210 to $400	$140 to $400	$140 to $410
Total payments made	$48,350	$72,900	$60,800	$61,650	$61,700
Total amount forgiven	n/a	n/a	$0	$17,100	$17,050
Years in repayment	10	25	15.7	20.0	20.0





Note: The line graph above displays the monthly payment amount at the beginning of each year. Generally, the borrower pays the same monthly payment amount for the entire year, unless the loan is repaid during that year. The line stops at the year when the borrower pays off his/her loan (if applicable).

Methodology notes:

- Calculations for the TICAS proposal add the income exclusion phase-out and remove the standard-payment cap from PAYE. Calculations assume that interest capitalizes if/when the borrower no longer has a partial financial hardship (PFH), consistent with current rules for IBR and PAYE.
- Calculations are based on 2013 poverty levels and assume that the poverty level increases annually at the rate of inflation.
- Calculations assume an interest rate of 6.8% on all loans.
- Monthly payments are rounded to the nearest $10, total payments to the nearest $50.
- These example borrowers end up having the same monthly payment amounts, total amounts paid, and total amounts forgiven in both PAYE and 2014 IBR, though other borrowers may end up paying less in total under PAYE because of its cap on interest capitalization. Additionally, there are other procedural and eligibility differences between PAYE and 2014 IBR.