

The Fiscal Cost of Income-Driven Repayment (IDR)

Marc Goldwein

Committee for a Responsible Federal Budget

July 2023

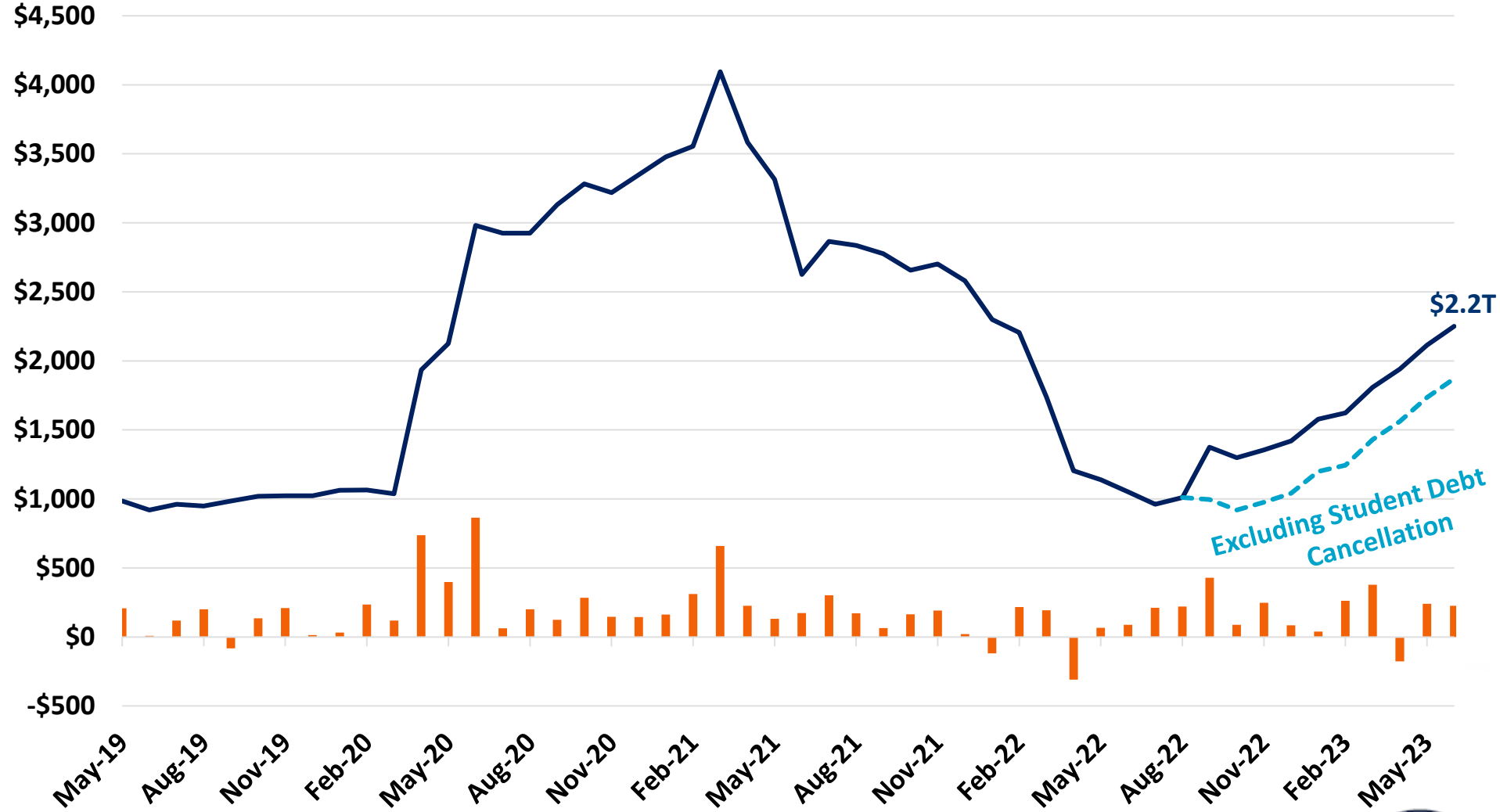


**COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET**

CRFB.org

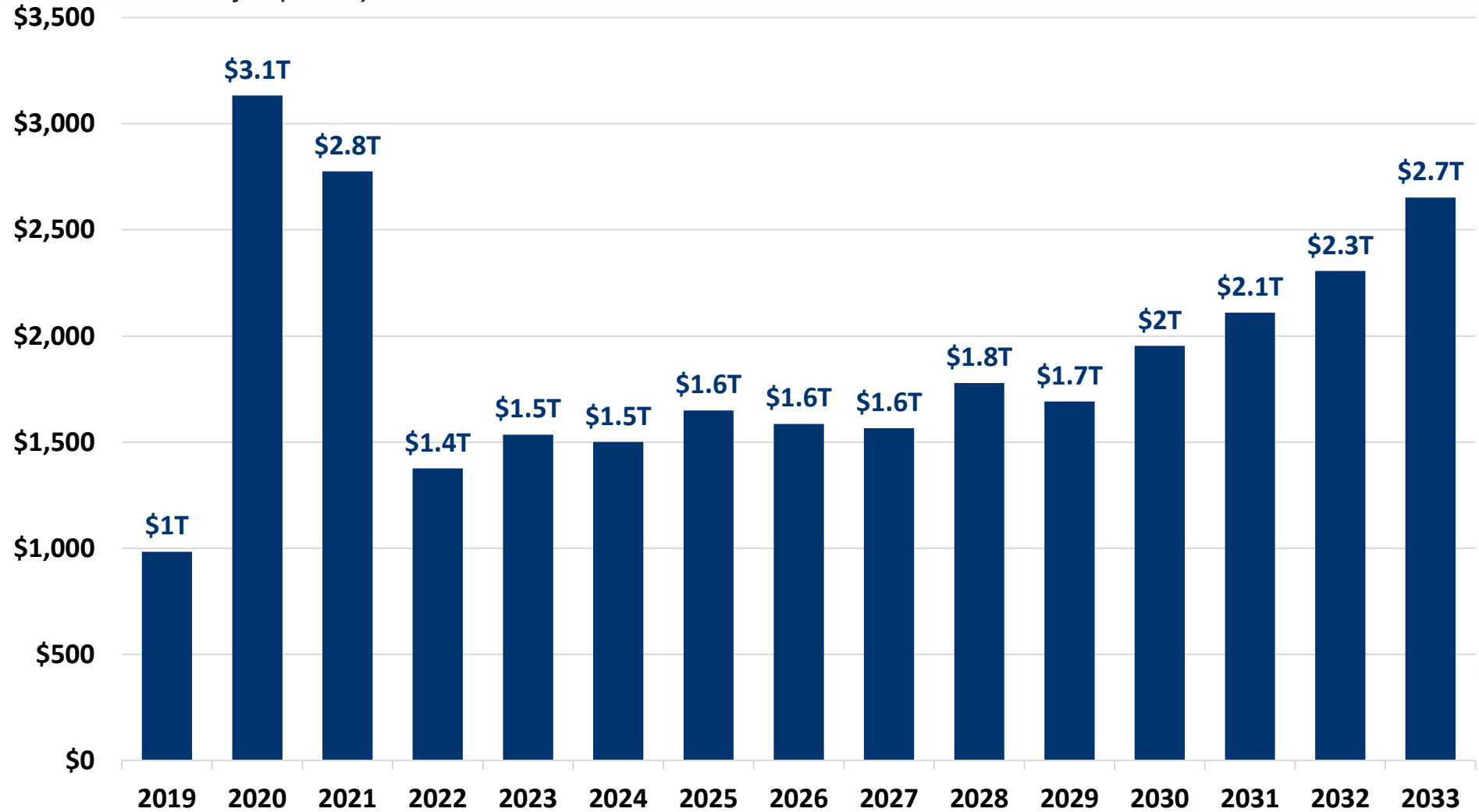
Budget Deficits Are Rising...

Budget deficit in current and prior 11 months (billions)

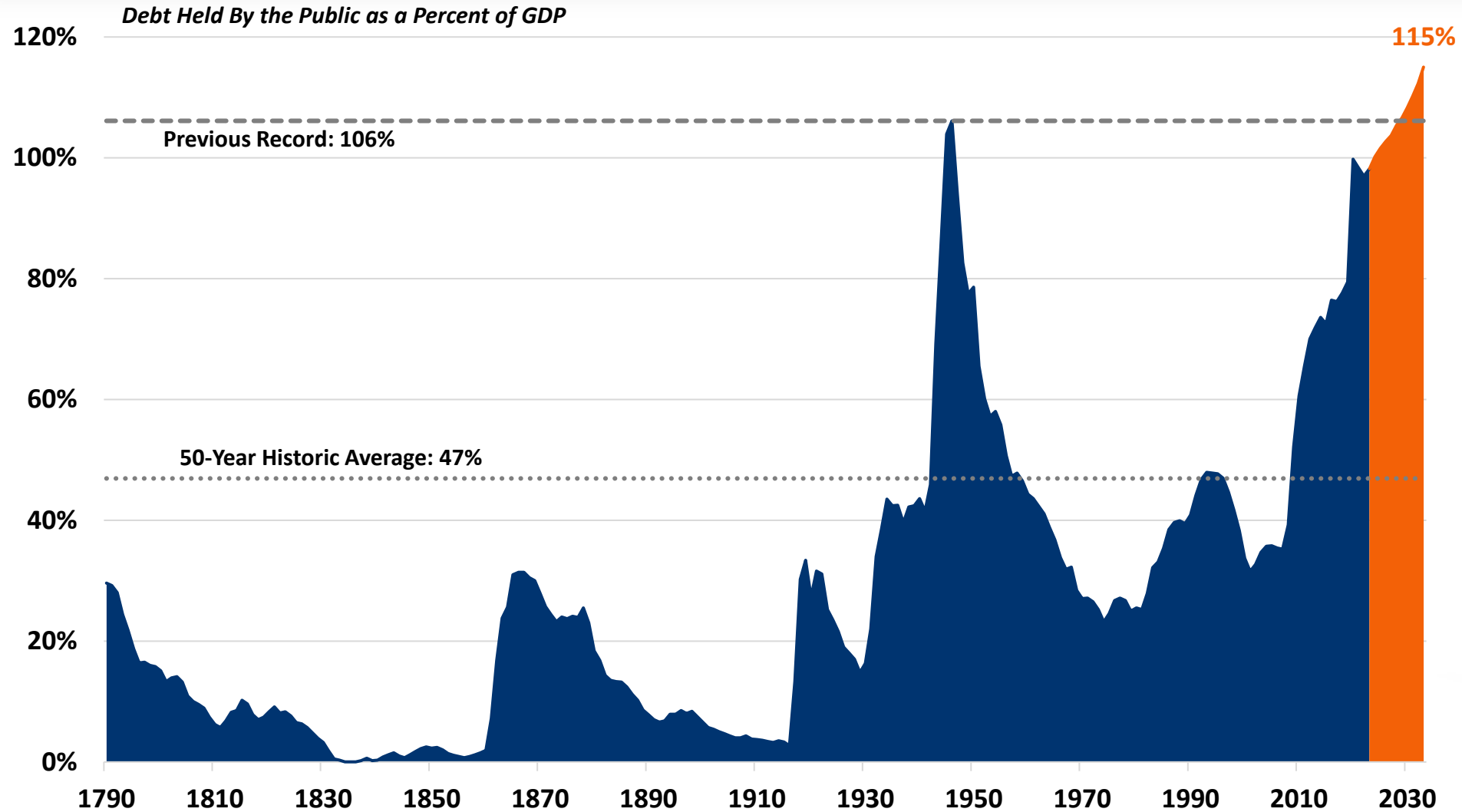


...And Will Continue to Grow Over the Decade

Annual Deficit (billions)

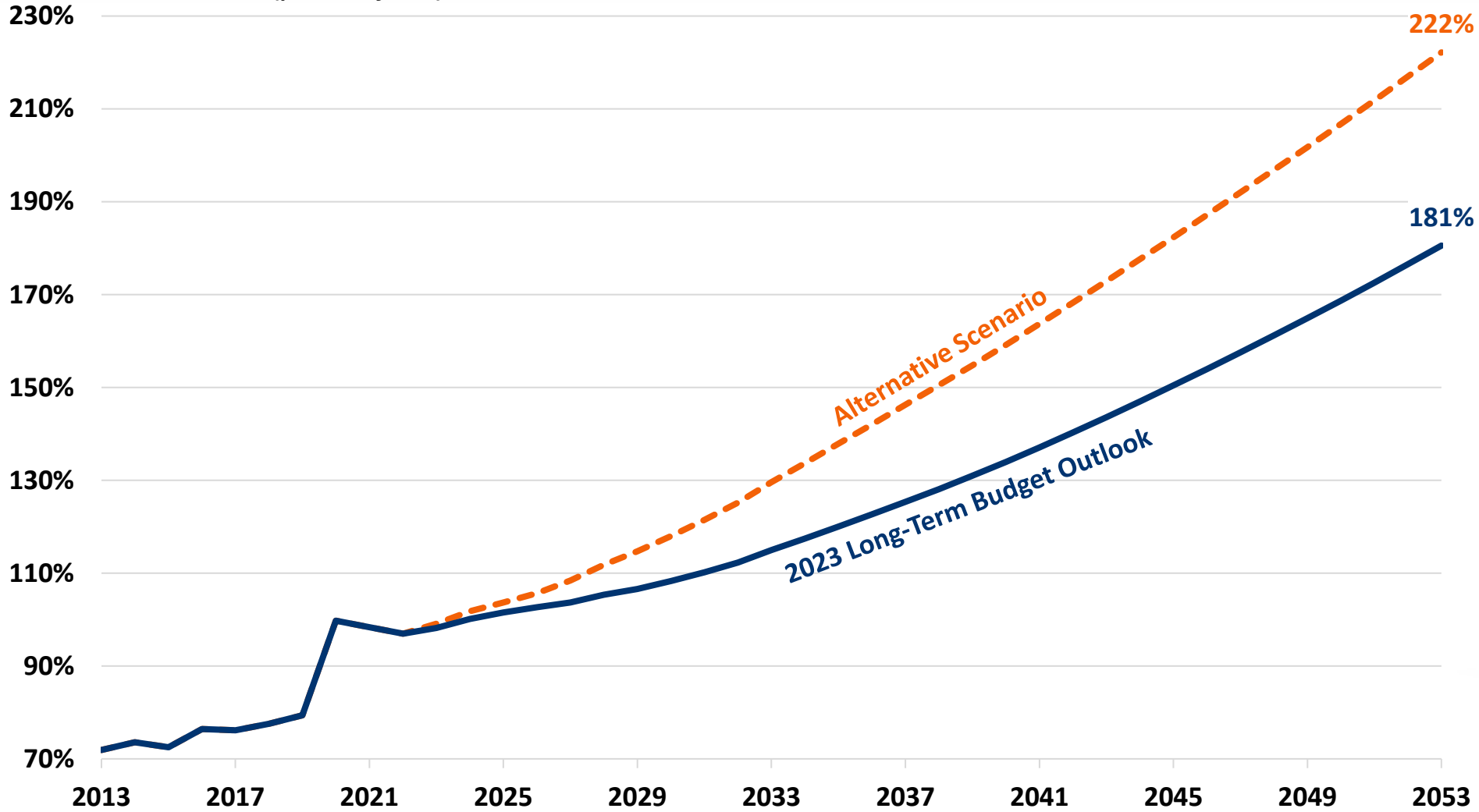


The National Debt is Approaching Record Levels...

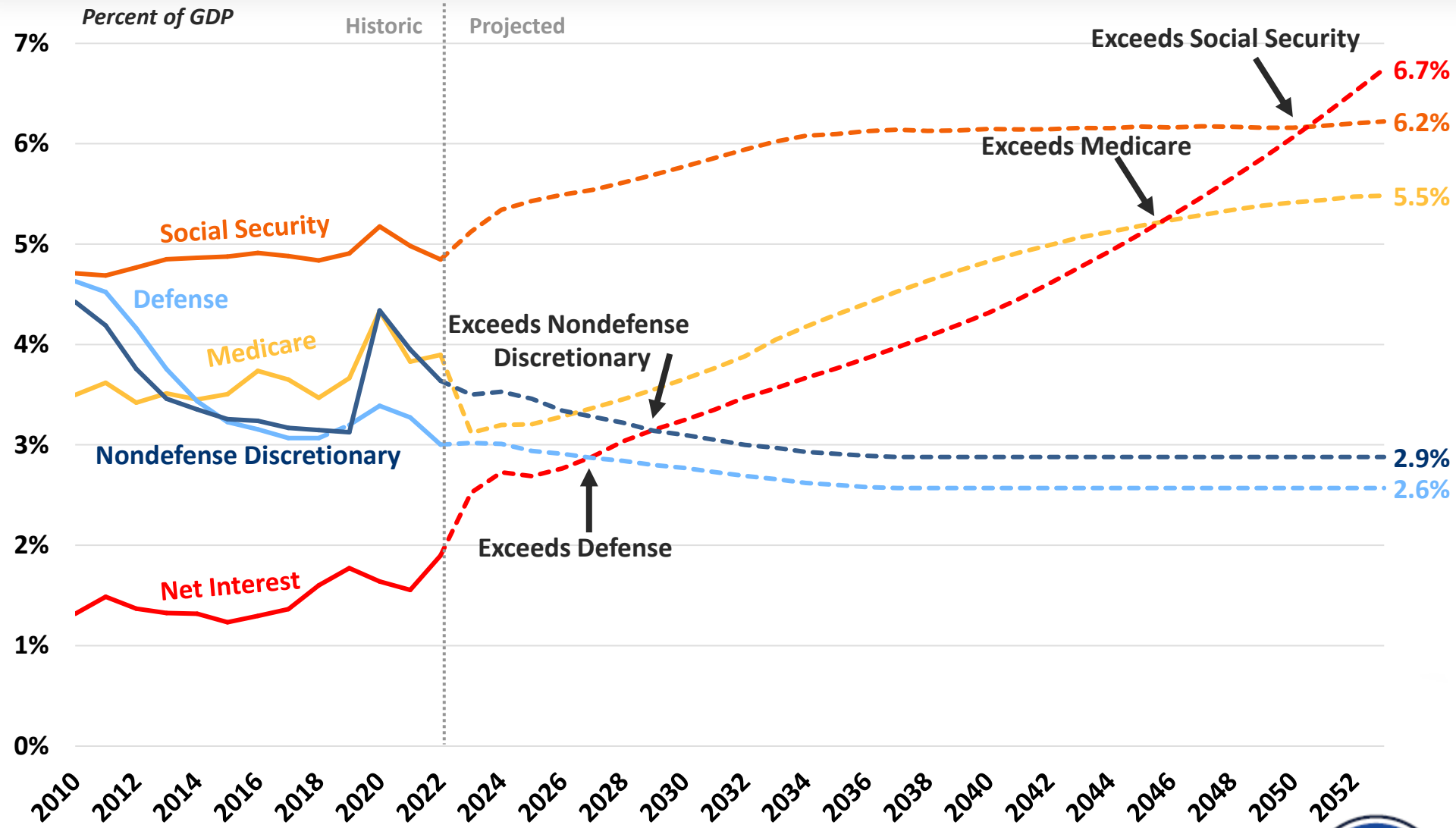


...And Is Growing Rapidly

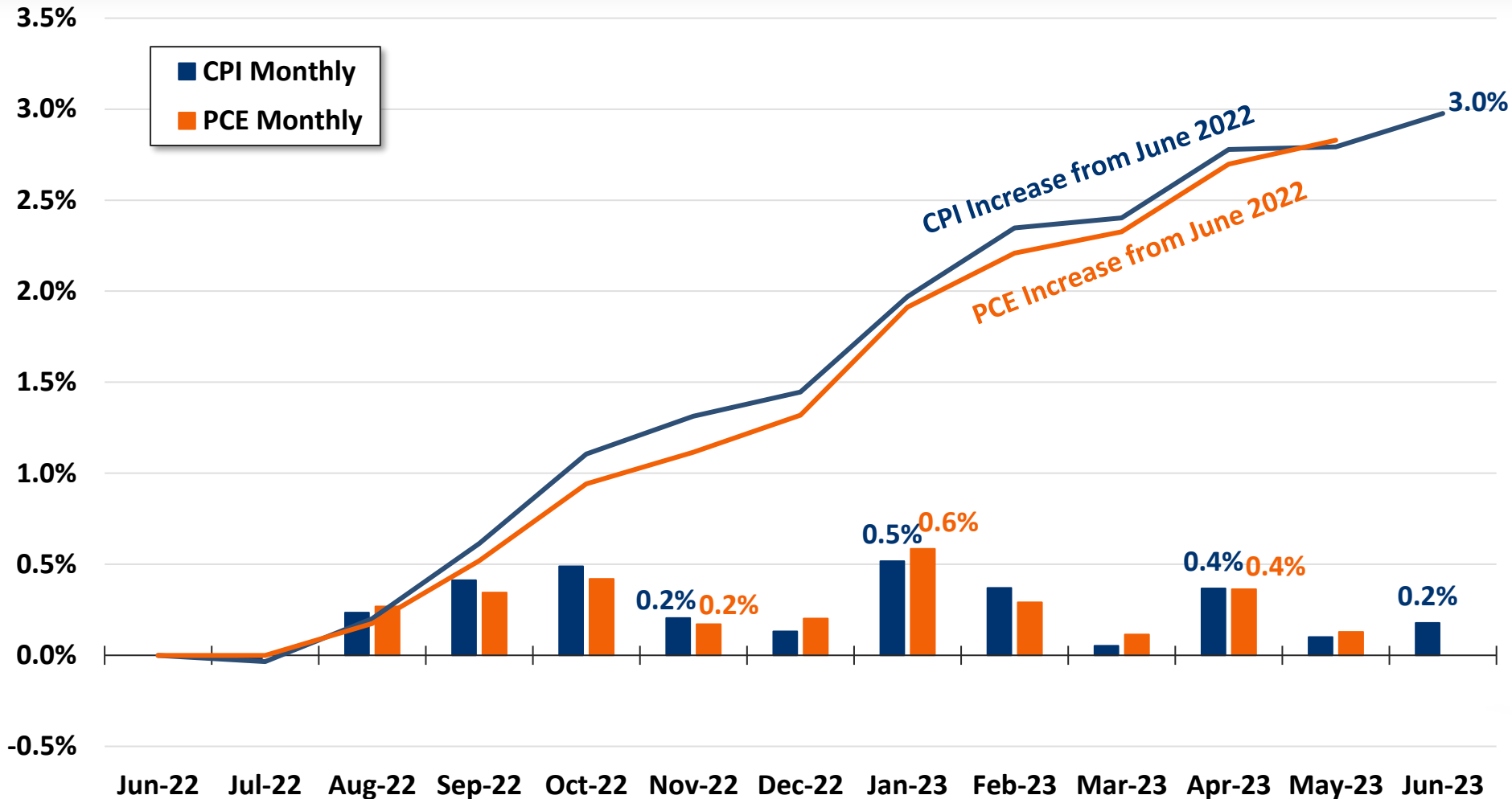
National Debt (percent of GDP)



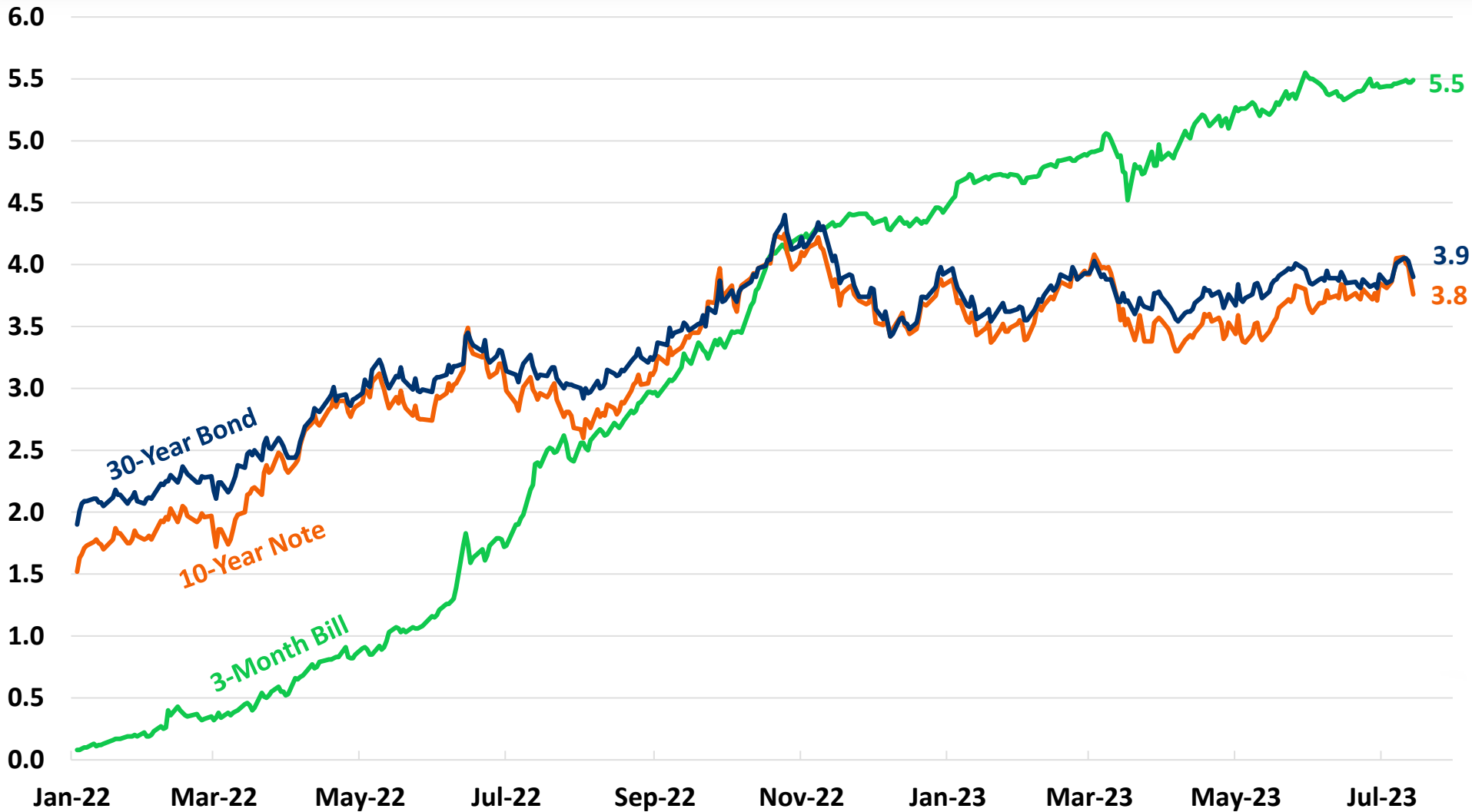
Interest Costs Are Exploding



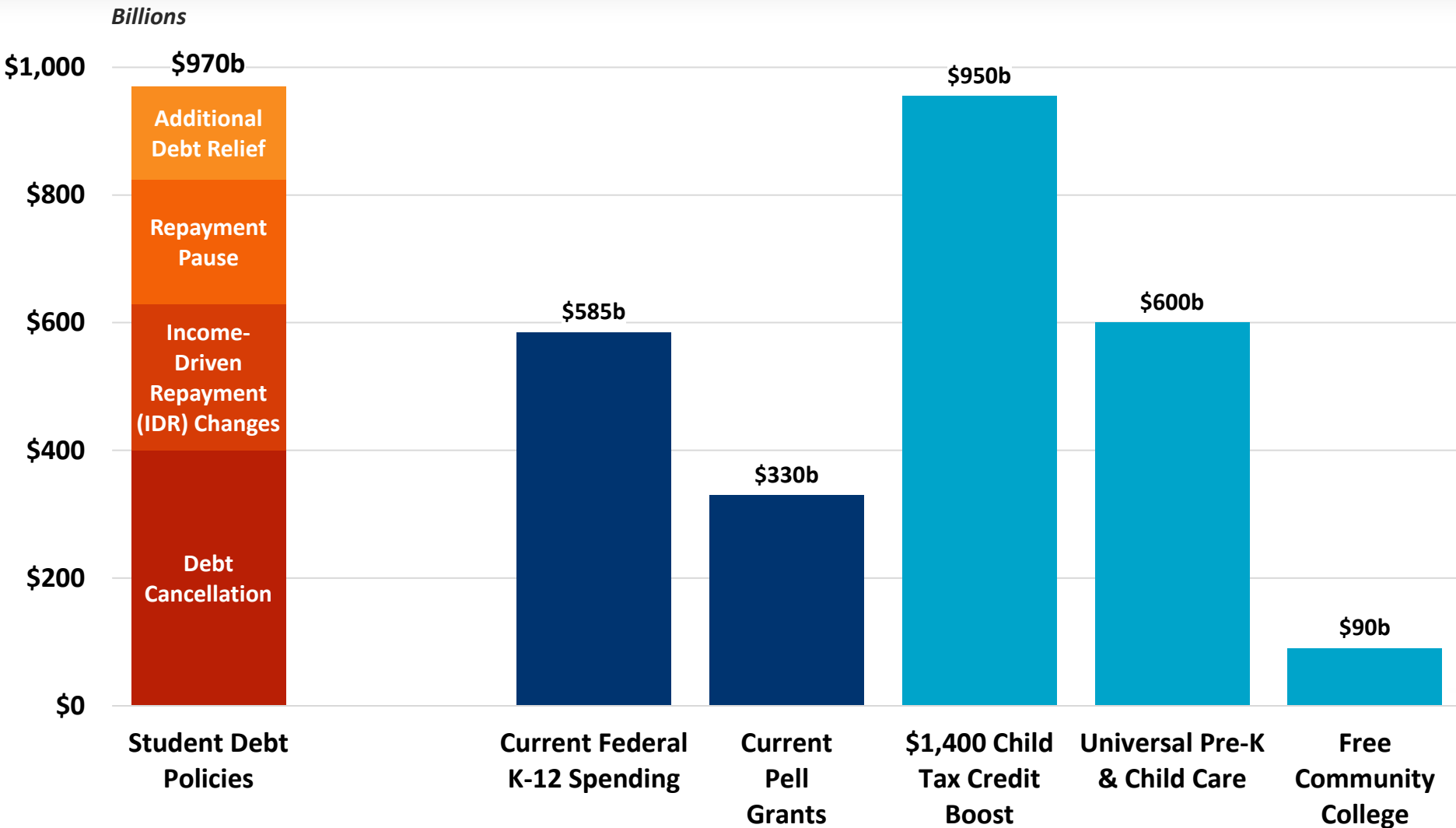
Remember: Inflation Isn't Fixed...



...And Interest Rates Are Rising



Absent SCOTUS, Recent Student Debt Actions Would Cost \$1 Trillion

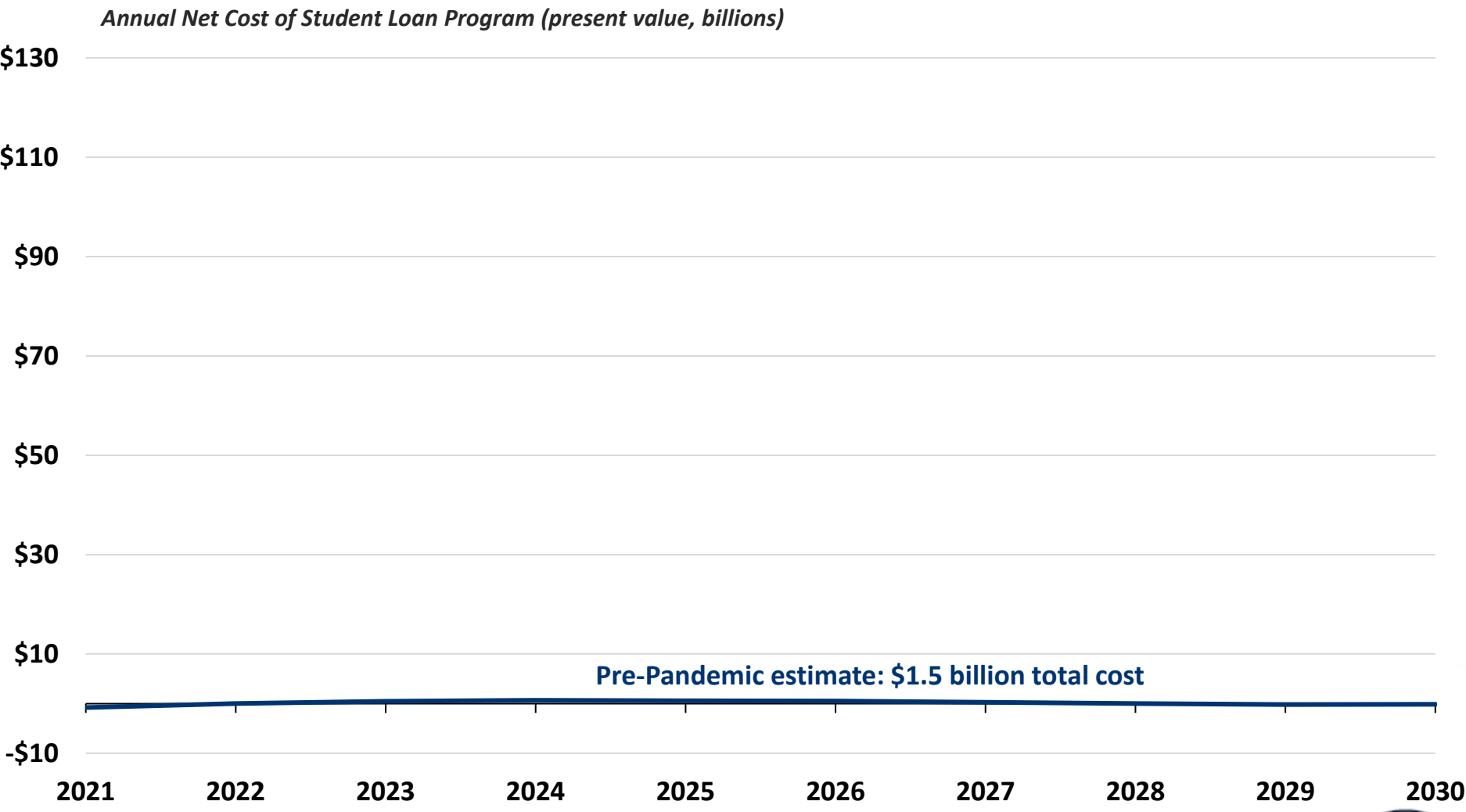


Sources: Committee for a Responsible Federal Budget, Office of Management and Budget, Congressional Budget Office

CRFB.org



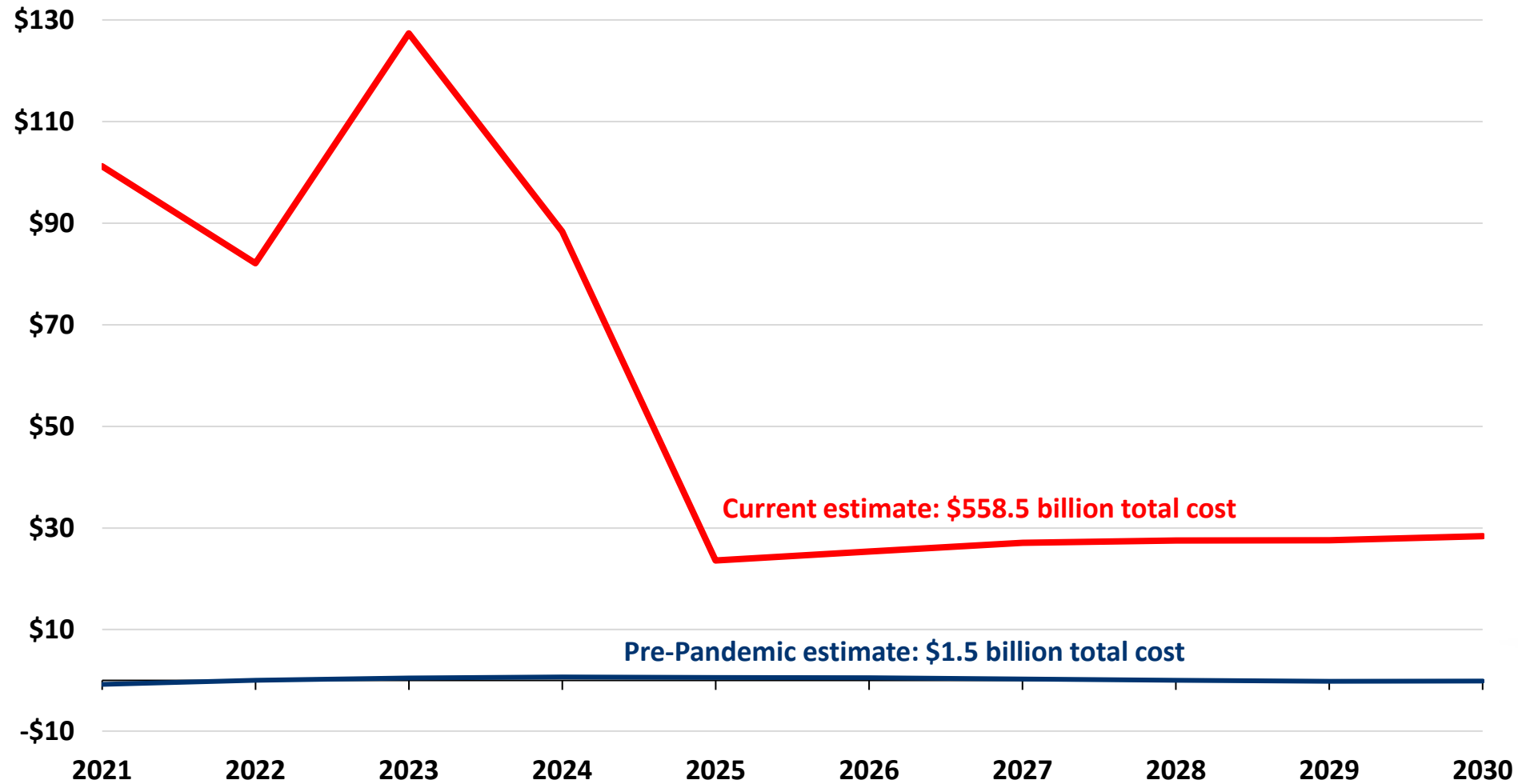
Student Debt Programs Were Low-Cost, Historically...



Source: Congressional Budget Office

...But Now, They are Very Costly

Annual Net Cost of Student Loan Program (present value, billions)



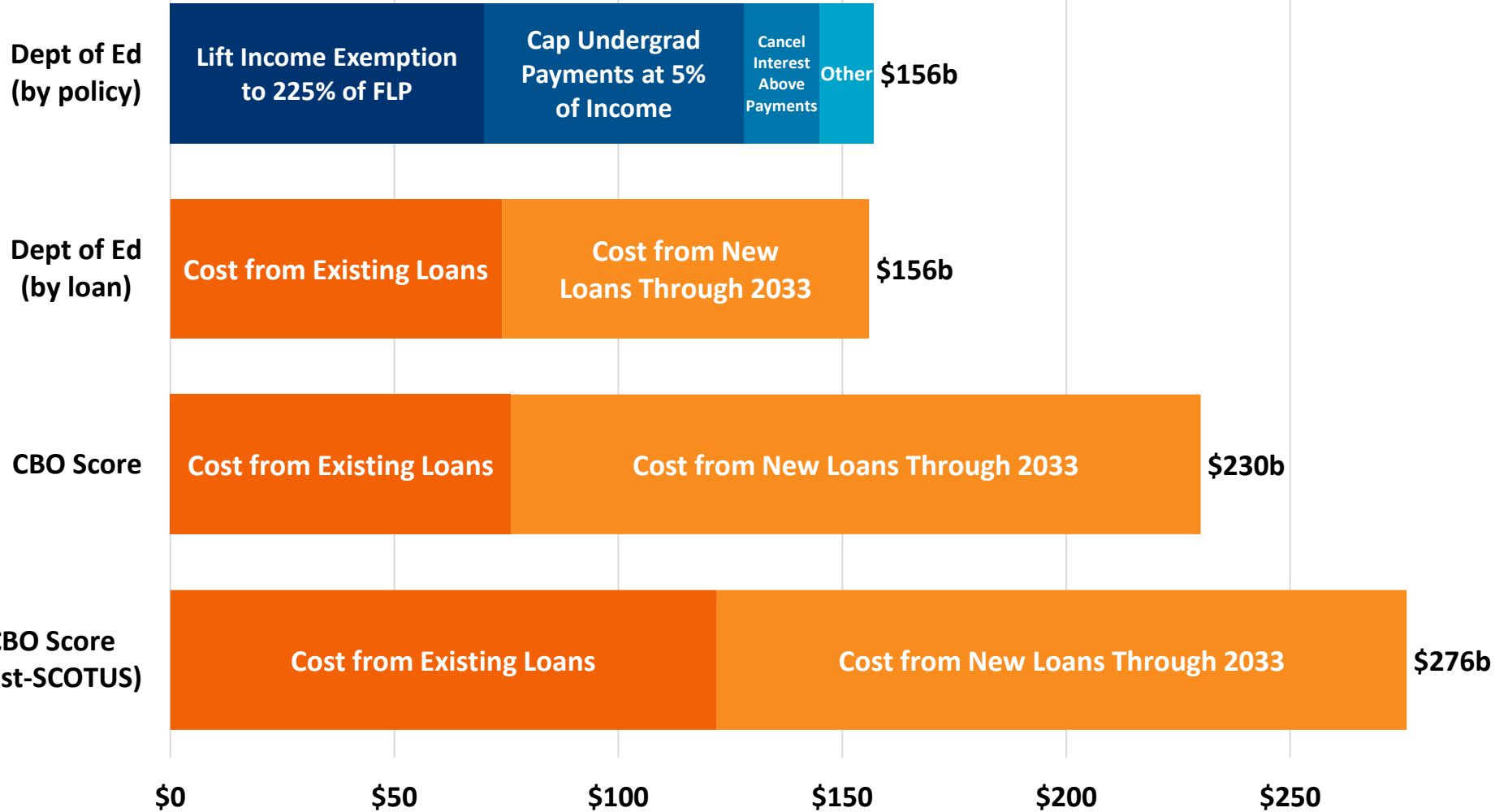
Current estimate: \$558.5 billion total cost

Pre-Pandemic estimate: \$1.5 billion total cost

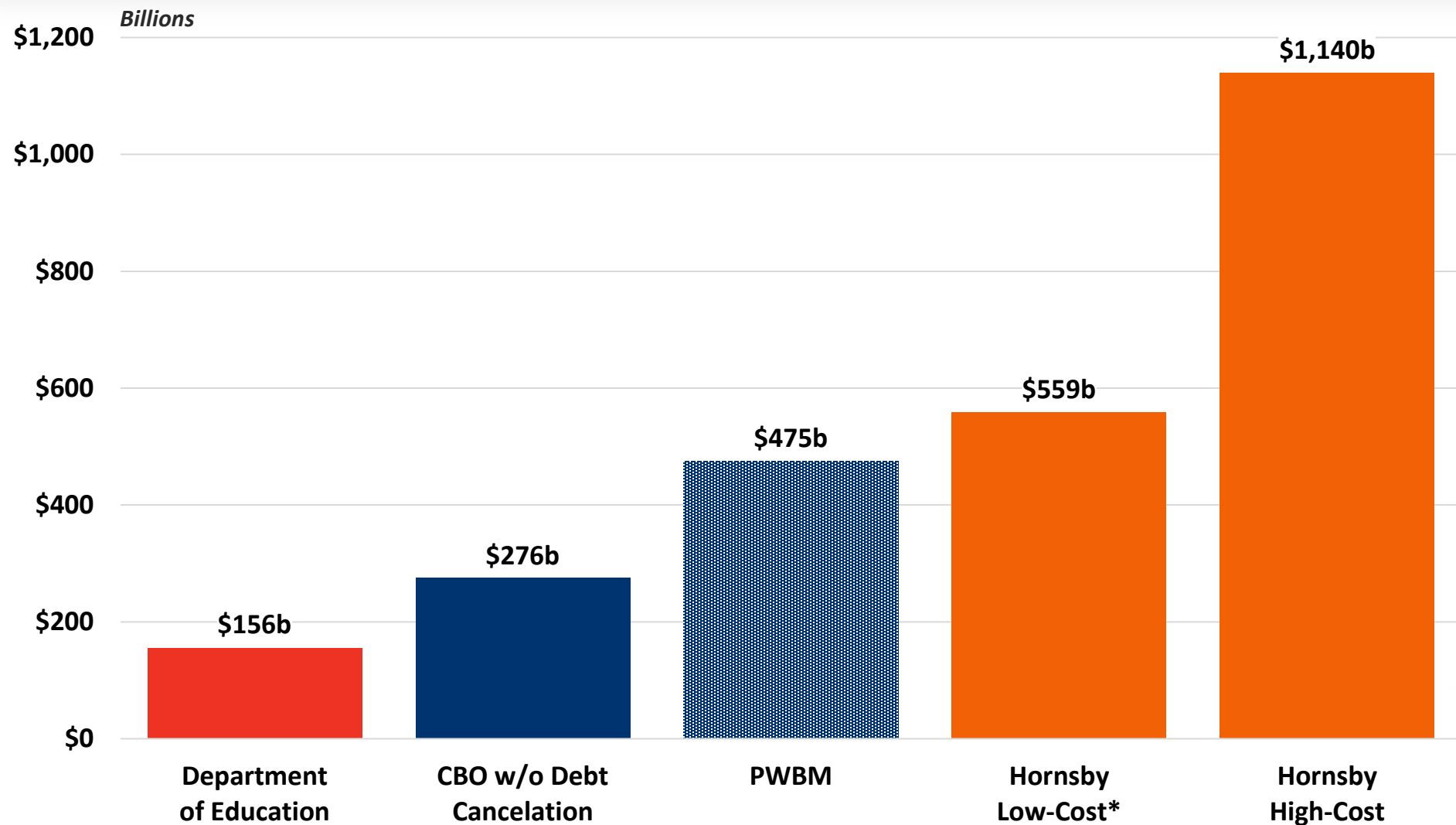


Debt Cancellation Was Cancelled, But IDR Is Expensive

Billions



IDR Could Cost Way More than Scored

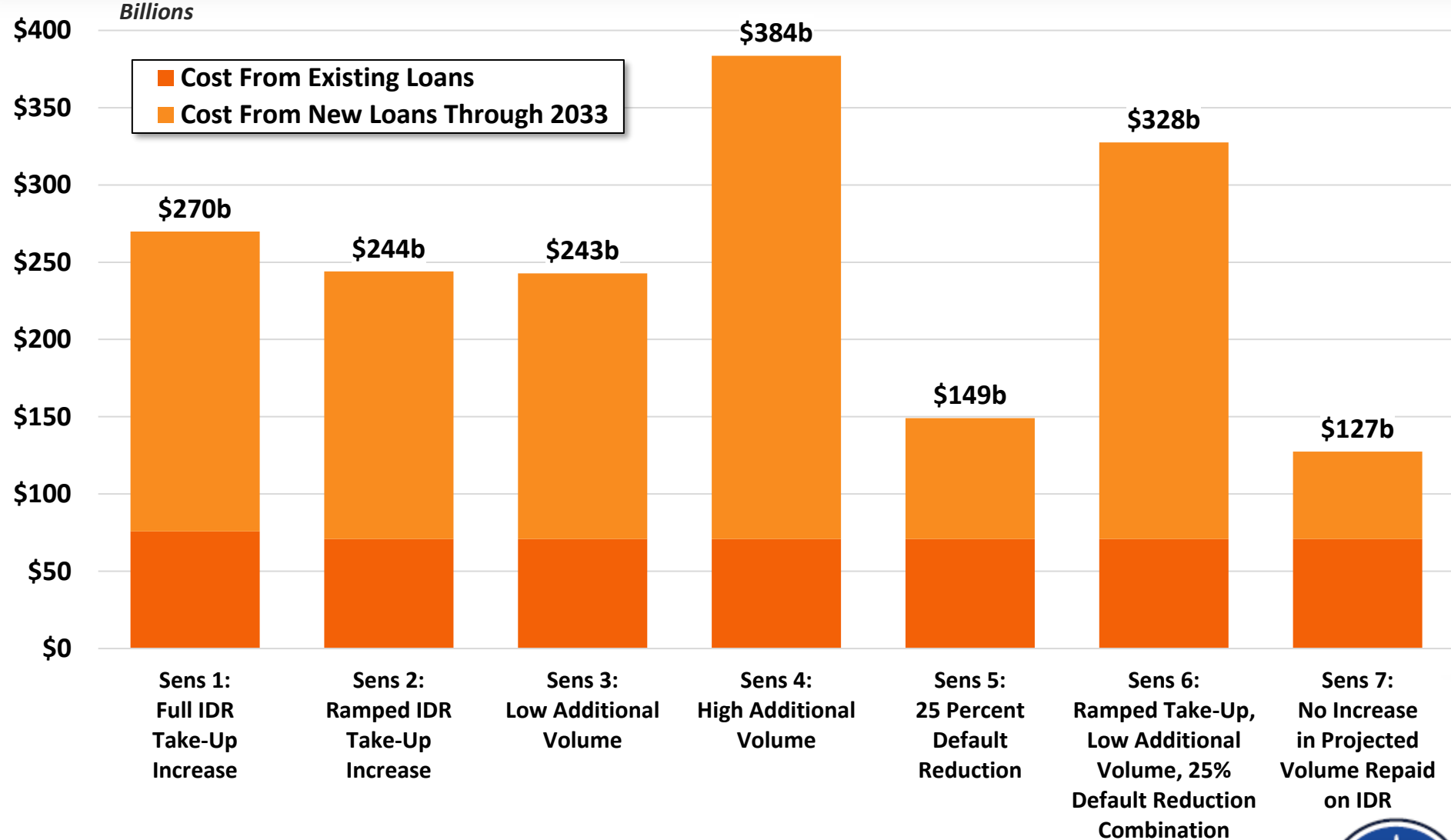


Note: * Represents Hornsby's low-cost estimate, minus the effects of the plan on additional borrowing and higher inflation

Sources: Department of Education, Penn Wharton Budget Model, Student Loan Planner, Congressional Budget Office



IDR Could Cost Way More than Scored



Why So Costly?

- **Greater generosity:** PWBM estimates a 20% higher subsidy rate under the new IDR plan
- **Higher enrollment:** CBO estimates two-thirds of current borrowers and three-quarters of new borrowers will enter the new IDR, up from half currently
- **More borrowing:** CBO estimates borrowing will increase 12 percent (\$10b/year) – in part due to higher tuition
- **Broader eligibility:** PWBM finds that students at lower-performing community colleges will be eligible to borrow, as IDR artificially lowers the "cohort default rate."

IDR Proposal Is Also Highly Problematic

- **Distributes arbitrary, unequal, and unfair benefits** – turns student loans into *tuition roulette*; a quasi-grant based on amount of debt, marital status, and timing of income
- **Increases borrowing** – half of available debt isn't borrowed
- **Supports low-quality, low-value programs** – programs with the highest debt-earnings ratios get the largest subsidy
- **Creates greater potential for abuse** – loans aren't only used for tuition, and 'free money' is hard to turn down
- **Generates tuition inflation** – research shows loans and grants both boost tuition, especially for graduate school



Past IDR Proposals *Saved* Money

Policy	Prior Law	Obama FY17	Trump FY18
Number of IDR Plans	Five IDR Plans	Consolidated into a single plan	
Loan Payment Cap as a % of Discretionary Income	10%, 15%, or 20%	10%	12.5%
Undergraduate debt forgiveness	After 20 or 25 years	After 20 years	After 15 years
Graduate debt forgiveness	After 20 or 25 years	After 25 years	After 30 years
Standard Repayment Cap	All payments capped	No cap for standard repayments	
Subtotal IDR Savings		\$17 billion	\$53 billion
Public Service Loan Forgiveness	After 10 Years	Capped at \$57,500 (savings: \$7 billion)	Ended prospectively (savings: \$24 billion)
Other Policies	Numerous additional subsidies and rules	Reformed Perkins Loans (savings: \$3 billion)	Repealed In-School Interest Subsidy (savings: \$25 billion)
Total Savings		\$26 billion	\$100 billion

Note: Obama score uses the 2017-2026 budget window; Trump score uses 2018-2027. All savings could be lower if scored using fair-value methods.

Sources: Department of Education, Congressional Budget Office, Brookings Institution



CBO Has Released Numerous Reform Options

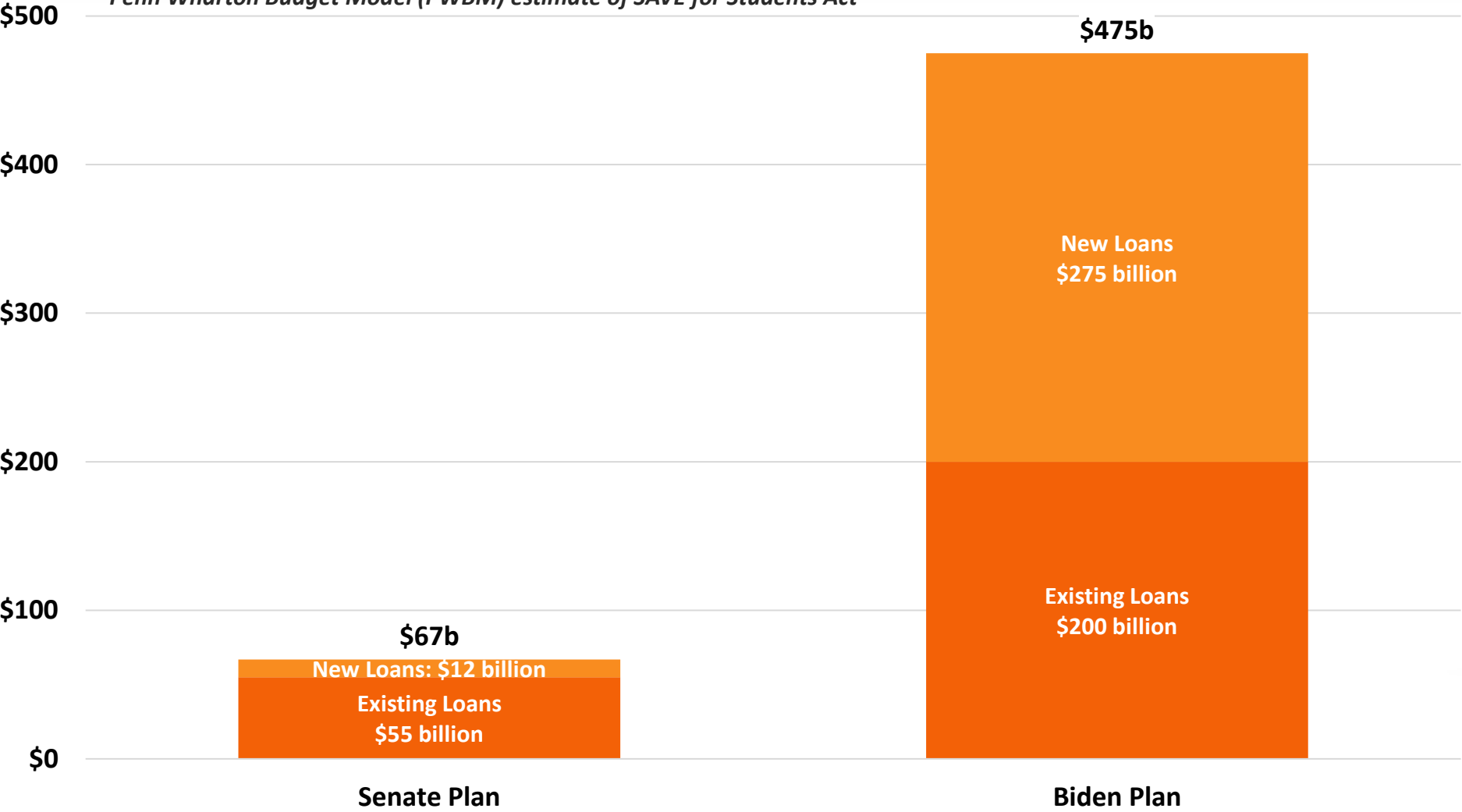
Policy	Undergraduate Borrowers' Loans	Graduate Borrowers' Loans
Make REPAYE the Only Income-Driven Repayment Plan	-\$4 billion	-\$18 billion
Make REPAYE the Only Repayment Plan	+\$16 billion	+\$18 billion
Eliminate All Income-Driven Repayment Plans	-\$25 billion	-\$97 billion
Increase Share of Discretionary Income Used to Calculate Monthly Payments to 12 Percent	-\$4 billion	-\$15 billion
Decrease Share of Discretionary Income Used to Calculate Monthly Payments to 8 Percent	+\$6 billion	+\$21 billion
Adjust the Definition of Discretionary Income by Excluding AGI Under 125 Percent of the Federal Poverty Guideline	-\$4 billion	-\$9 billion
Adjust the Definition of Discretionary Income by Excluding AGI Under 175 Percent of the Federal Poverty Guideline	+\$4 billion	+\$12 billion
Delay Loan Forgiveness by Five Years	-\$3 billion	-\$14 billion
Accelerate Loan Forgiveness by Five Years	+\$6 billion	+\$23 billion

*Note: All figures represent total costs or savings over the ten-year window from FY 2020 through FY 2029
Source: Congressional Budget Office*



Senate IDR Bill Costs ***WAY*** Less than Biden's Plan

Penn Wharton Budget Model (PWBM) estimate of SAVE for Students Act



Sources: Penn Wharton Budget Model

The Lowering Education Cost and Debt Act Would Likely Lower Overall Costs

- **Streamlining Accountability and Value in Education (SAVE) for Students Act** – A bill that would replace the President’s IDR plan and streamline existing repayment options to one standard ten-year repayment plan and one reformed IDR plan. The new IDR plan would generally limit payments to 10 percent of discretionary income for 20 to 25 years while reducing the number of years for low balances and prohibiting loan disbursements for the lowest performing institutions. This bill would also prohibit new loans for low performing institutions (based on income).
- **Graduate Opportunity and Affordable Loans (GOAL) Act** – A bill to limit federal lending to \$65,000 (and \$20,500 per year) for ordinary graduate school degrees and \$130,000 (and \$40,500 per year) for professional degrees. Recent research has found that eliminating the lending cap in 2006 led to a massive increase in net tuition without any meaningful impact on access. Under the GOAL Act, borrowers could take out private loans in excess of the public caps.



The Lowering Education Cost and Debt Act Would Likely Lower Overall Costs

- **College Transparency Act** – A bipartisan bill to improve data collection and reporting to increase transparency around student outcomes such as completion rates, enrollment, and post-college success, including through a new user-friendly website for policymakers, employers, and prospective students and their families.
- **Understanding the True Cost of College Act** – A bipartisan bill that requires clear and uniform college financial aid offer presentations so that prospective students can effectively understand and compare the cost of their options.
- **The Informed Borrowing Act** – A bill to provide prospective students with information on the costs of borrowing for school and information regarding school quality while requiring students to read loan material or participate in active student loan counseling.