The Fiscal Cost of Income-Driven Repayment (IDR)

Marc Goldwein
Committee for a Responsible Federal Budget
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Budget Deficits Are Rising...

Budget deficit in current and prior 11 months (billions)

Source: Committee for a Responsible Federal Budget, U.S. Department of Treasury, Congressional Budget Office
...And Will Continue to Grow Over the Decade

Source: Congressional Budget Office
The National Debt is Approaching Record Levels...

Debt Held By the Public as a Percent of GDP

- Previous Record: 106%
- 50-Year Historic Average: 47%

Source: Committee for a Responsible Federal Budget, Congressional Budget Office
...And Is Growing Rapidly

National Debt (percent of GDP)

Sources: Committee for a Responsible Federal Budget, Congressional Budget Office
Interest Costs Are Exploding

Sources: Committee for a Responsible Federal Budget, Congressional Budget Office.
Remember: Inflation Isn’t Fixed...

Source: Committee for a Responsible Federal Budget, Bureau of Labor Statistics, Bureau of Economic Analysis
...And Interest Rates Are Rising

Source: Department of the Treasury
Absent SCOTUS, Recent Student Debt Actions Would Cost $1 Trillion

- Additional Debt Relief: $970b
- Repayment Pause: $585b
- Income-Driven Repayment (IDR) Changes: $330b
- Debt Cancellation: $950b
- Universal Pre-K & Child Care: $600b
- Free Community College: $90b

Sources: Committee for a Responsible Federal Budget, Office of Management and Budget, Congressional Budget Office
Student Debt Programs Were Low-Cost, Historically...

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

Pre-Pandemic estimate: $1.5 billion total cost

Source: Congressional Budget Office
...But Now, They are Very Costly

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

Pre-Pandemic estimate: $1.5 billion total cost

Current estimate: $558.5 billion total cost

Source: Congressional Budget Office
Debt Cancellation Was Cancelled, But IDR Is Expensive

**Costs:**
- **Dept of Ed (by policy):**
  - Lift Income Exemption to 225% of FLP: $156b
  - Cap Undergrad Payments at 5% of Income
  - Cancel Interest Above Payments
  - Other

- **Dept of Ed (by loan):**
  - Cost from Existing Loans
  - Cost from New Loans Through 2033: $156b

- **CBO Score:**
  - Cost from Existing Loans
  - Cost from New Loans Through 2033: $230b

- **CBO Score (post-SCOTUS):**
  - Cost from Existing Loans
  - Cost from New Loans Through 2033: $276b

**Source:** Department of Education
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

Sens 1: Full IDR Take-Up Increase
Sens 2: Ramped IDR Take-Up Increase
Sens 3: Low Additional Volume
Sens 4: High Additional Volume
Sens 5: 25 Percent Default Reduction
Sens 6: Ramped Take-Up, Low Additional Volume, 25% Default Reduction Combination
Sens 7: No Increase in Projected Volume Repaid on IDR

Sources: ????????????
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

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

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

- **Existing Loans**
  - Senate Plan: $55 billion
  - Biden Plan: $200 billion
- **New Loans**
  - Senate Plan: $12 billion
  - Biden Plan: $275 billion

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 disbursals 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.