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A Closer Look at Income-Based Repayment, the Centerpiece of Donald Trump's Unexpected Higher-Ed Speech

Evan Vucci, Associated Press

At a rally Thursday in Columbus, Ohio, Donald Trump proposed a version of an income-based repayment plan for borrowers who are paying back federal student loans. Expanding such plans has been a key part of President Obama's higher-education agenda.

By Beckie Supiano OCTOBER 15, 2016

On Thursday Donald J. Trump broke his near-silence on the higher-education policies he'd pursue if elected president, laying out a variety of ideas at a rally in Columbus, Ohio.

If the speech itself was a surprise, more surprising still was the issue Mr. Trump discussed in the greatest detail: income-based repayment plans for student-loan borrowers. Those plans have broad bipartisan support and have been embraced by the Republican nominee's Democratic foils. Hillary Clinton's campaign has said she

would "simplify, expand, and develop options for automatic enrollment" in income-based programs, and President Barack Obama has made them more generous.

Mr. Trump's plan appears to be more generous still. Under his proposal, borrowers' loan payments would be capped at 12.5 percent of their income, and any remaining student-loan balances would be forgiven after 15 years. Mr. Trump also said he would "simplify this confusing maze" of various repayment options "into a single income-based repayment program."

Mr. Trump's remarks provide a good occasion to take stock of income-based repayment plans. Let's dive in:

What is income-based repayment?

For borrowers with federal student loans, the default option for paying them back is called standard repayment. That's a mortgage-style plan in which borrowers repay their loans over a period of 10 years, with the size of their payments based on how much debt they have.

But as Mr. Trump pointed out, the government offers a whole menu of different repayment plans for which borrowers might qualify. These include income-based plans, in which payments depend not on what borrowers owe, but on how much money they're making.

The goal is to prevent borrowers from facing payments they simply couldn't afford. The details of these plans vary, but loan forgiveness is generally offered to borrowers who still have debt outstanding after making payments for a set period of time, like 20 or 25 years.

Where did the idea come from?

The economist Milton Friedman is often credited for thinking up income-based repayment back in the '50s, though what he actually proposed was a bit different, says Jason Delisle, a resident fellow at the American Enterprise Institute. Mr. Friedman argued that, in theory, the market won't allow people to borrow for education the way they can for say, a car, because they do not have any collateral. His idea was that students' future earnings could be used as that collateral.

Mr. Friedman wasn't really suggesting making traditional loans at all, Mr. Delisle says. Instead, "he was proposing income-share agreements" — in which investors cover all or part of a student's college expenses in return for a percentage of that student's future earnings. Still, his thinking has informed the development of income-based repayment plans.

How has income-based repayment entered the realm of public policy?

The federal student-loan system has had an income-driven repayment option since the early '90s, Mr. Delisle says. That's when direct lending — in which federal loans come right from the government without going through a bank — was introduced. At the time the government added a repayment option called Income-Contingent Repayment. That plan still exists. But it's only available to borrowers with direct loans, it isn't all that generous, and it has never been very popular, he says.

Then, about a decade ago, student advocates argued that there should be a more-generous income-driven plan, Mr. Delisle says. The idea was drafted and passed by a Democratic Congress and signed into law by President George W. Bush. The new program, Income-Based Repayment, was made available to borrowers in both of the government loan programs that existed then. (One of those programs, bank-based lending, has since been eliminated.)

Since then, the Obama administration has offered even more-generous income-based plans that reduce the percentage of their income borrowers must pay and shorten the time period before their loans are forgiven. The administration has also worked to increase enrollment in the program, which many borrowers appeared to be unaware of.

While new income-driven plans have been added over time, old ones still exist, leading to the complex list of options that Mr. Trump mentioned.

What do people make of income-based repayment?

College is usually a sound investment, but it comes with risk, says Beth Akers, a senior fellow at the Manhattan Institute. While Democrats and Republicans may disagree on the best way to set up a safety net, she says, "there seems to be pretty broad agreement that we don't want people to bear the full risk of making an investment in higher education that doesn't pay off." Income-based repayment has been received warmly on both sides of the aisle.

"I have heard very few people argue against the existence of income-based repayment," says Mark Huelsman, a senior policy analyst at Demos.

Who does it help?

Income-based repayment is intended to help students who went to college but never saw the expected boost in their income, says Robert Kelchen, an assistant professor of higher education at Seton Hall University.

But the way the programs have been designed, "the people who borrow the most are the people who benefit the most from income-based repayment," Mr. Delisle says. And the people who borrow the most tend to hold graduate degrees.

How does it work now?

The details vary depending on the income-driven plan in which a borrower has enrolled. But the basics are fairly consistent. "Generally you pay, depending on the plan, 10 to 15 percent of income above 150 percent of the poverty line, up to about 20 years or you repay your loan," Mr. Kelchen says.

What would be different under Mr. Trump's proposal?

Mr. Trump said his plan would ask borrowers to pay 12.5 percent of their income, but he didn't specify a key detail — whether "income" refers to discretionary or total income.

His plan would further reduce the time borrowers have to make payments before their remaining loans can be forgiven. That period has already been shortened under President Obama.

Reducing the time borrowers are in repayment means that borrowers with the highest debt burden — usually those with graduate degrees — get even bigger subsidies. That makes the program more expensive. And upping the percentage of income borrowers pay to 12.5 percent from the 10 percent they owe under Mr. Obama's plans, Mr. Delisle says, is not enough to make up the difference. "Trump's plan actually makes the problems Obama introduced into the program worse," he says.

What do people think of Mr. Trump's idea of offering just one income-based repayment plan?

The number of income-driven plans available is the accidental result of years of tweaks to the program, not an intentional policy choice. And the laundry list of options can be confusing to borrowers. "Everybody thinks there should be one plan," says Sandy Baum, a senior fellow at the Urban Institute. "It's absurd we have all of these different plans and no one can figure them out."

There is some disagreement, she adds, on whether there should only be one plan for everybody repaying loans, which would be income-based, or whether there should be one income-based plan on top of standard repayment. It is not clear which of these possibilities Mr. Trump is proposing.

If the government did move to streamline the options into one plan, Ms. Baum adds, it would have to figure out what to do about all of the borrowers currently enrolled in older plans.

What else would we need to know to evaluate Mr. Trump's plan?

In his recent speech, Mr. Trump went into much more detail about his higher-ed proposals than he has done before. Still, policy experts would need more specifics to really evaluate his income-based repayment plan. Among the unanswered questions, says Matthew M. Chingos, a senior fellow at the Urban Institute: Would borrowers' eventual loan forgiveness still be taxable? And would the Public Service Loan Forgiveness program — which wipes away remaining loans for borrowers after they spend 10 years working in a broadly-defined class of public-service jobs — still exist? Or would it be folded into Mr. Trump's version of income-based repayment?

Of course, those details would only come into play if Mr. Trump pulls out another surprise by winning the election. But whatever happens in November, income-based repayment will remain a fixture — and further changes will probably be on the horizon.

Beckie Supiano writes about college affordability, the job market for new graduates, and professional schools, among other things. Follow her on Twitter @becksup, or drop her a line at beckie.supiano@chronicle.com.

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