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New Income-Driven Repayment Plan to Make Student Loan Payments More Affordable

As payment pause ends, here's what borrowers need to know about the federal government's SAVE program

By Brian Denten and Shelbe Klebs

Overview

Student loan payments resumed this October, but repayment will not look the same as it did before the pause put in place in response to the pandemic. Borrowers will have access to a new income-driven repayment (IDR) plan—known as Saving on a Valuable Education (SAVE)—that will lower payments for most and prevent balances from growing.

Borrowers can enroll in SAVE now. And that's important because interest started to accrue again as of Sept. 1.

So, what is IDR? These plans tie borrowers' monthly payment amounts to their income and family size. They typically generate lower payments than borrowers would be required to make under the standard repayment plan. Yet research finds that past IDR plans have sometimes missed the mark in providing borrowers relief because some borrowers still found IDR payments unaffordable and expressed frustration with balance growth.

SAVE directly addresses several of these concerns and can provide many borrowers with a more affordable way to manage their student loans.

Here is what borrowers need to know about SAVE as payments resume:

Q. Am I eligible for SAVE?

- Most borrowers with federal student loans are eligible to enroll in the IDR program. You can confirm your eligibility by logging in to StudentAid.gov and checking your loan type to see if you can save on student debt. Although borrowers with Parent PLUS loans are not officially eligible for SAVE, they may be able to still access the plan in certain circumstances.
- Borrowers who had been enrolled in the federal Revised Pay as You Earn (REPAYE) plan will be automatically enrolled in SAVE, but others must act. Those interested in enrolling can use options on StudentAid.gov and servicer websites to avoid the long wait times that have resulted from shortened call center hours. You can confirm who your servicer is and safely proceed to their website through StudentAid.gov. You will need to set up an account on both the government site and with your servicer to make any changes to your enrollment.

Q. How does SAVE calculate my monthly payment?

SAVE makes several important changes to how payments are calculated compared with other IDR plans, which result in more affordable payments. These changes will be implemented in full by summer 2024. This program protects more of borrowers' incomes than other plans, which will decrease monthly payments. For borrowers who enroll, here's how it works:

- Single borrowers will not be required to make payments on the first $32,800 of their income, compared with about $21,000 in other plans. This higher protected amount increases depending on a borrower's family size. Those earning less than this amount annually are eligible for what are known as $0 payments. That status would keep them current and count toward eventual forgiveness.
- Borrowers who enroll now can take advantage of this change. To get a sense of what their monthly payment might be under SAVE, borrowers can use Federal Student Aid's loan simulator.

Q. How will these calculations shift once SAVE is fully in place?

In addition to protecting a larger share of borrowers' incomes from the start, SAVE will halve the percentage of undergraduate borrowers' income that they are required to make payments on beginning in summer 2024, further lowering monthly payment amounts for many. Here's how that works:

- Borrowers enrolled in SAVE with only undergraduate loans will repay 5% of their unprotected income, compared with 10% in current IDR plans.
- Borrowers with both undergraduate and graduate loans will repay a percentage determined by their share of undergraduate versus graduate loans, again compared with 10% in current IDR plans.
- Borrowers with only graduate loans will continue to repay 10% of their unprotected income.

Because these income protections are delayed until next year, borrowers will owe payments of 10% of their income above the protected amount until the 5% goes into effect. If borrowers enroll now, this and other expected changes will be applied to their bill automatically as the components of SAVE are rolled out.

Q. Won't lower payments cause borrowers' balances to increase over time?

- Borrowers enrolled in SAVE **will not** see their balances increase if they make their monthly payment. That's a substantial change from other IDR plans, where balance growth proved both common and discouraging.
- Here's how that will work: Depending on borrowers' income levels, their monthly SAVE payment could be

too low to cover the amount of interest due each month, leaving a certain amount "unpaid." SAVE will cover any of the "unpaid interest" that remains after borrowers make their payments, including $0 payments, ensuring that their balances will not increase. This is an important distinction from other IDR plans, where balances could increase over time.

Q. What else should borrowers know about SAVE as repayment resumes?

- **Enrollment will be easier.** Borrowers enrolled in SAVE or other IDR plans can have their monthly payments automatically calculated each year. That will remove the need for manual recertification, which can be frustrating and prone to error. To access this, borrowers must consent to having their tax return information shared with the Department of Education. They can provide this consent during the SAVE enrollment process.
- **Married borrowers filing separately may have lower payments.** SAVE changes how spousal incomes are considered in the repayment calculation. Unlike other plans, SAVE excludes spousal incomes from the calculation for borrowers who are married but file their taxes separately. For some borrowers, filing separately could generate a lower monthly payment that may be more affordable than one that considers their full household income.
- **Better chances of earlier forgiveness.** SAVE will significantly shorten the timeline to forgiveness for borrowers with lower balances. Those enrolled in SAVE who originally borrowed $12,000 or less for undergraduate education will receive forgiveness after making the equivalent of 10 years of loan payments; the forgiveness timeline would increase by one year for every additional $1,000 borrowed. Those with larger balances will receive forgiveness after the equivalent of 20 years of loan payments for undergraduate loans and 25 years for graduate loans. That's the same forgiveness timeline for most other IDR plans. To help borrowers, the American Rescue Plan Act of 2021 exempts student loan balances forgiven under IDR from federal taxation through 2025. Borrowers should watch out for changes to the taxable status of forgiveness after that year.
- **Expect possible processing delays.** The restart of federal student loan payments is an unprecedented event for the repayment system. Many borrowers have already reported experiencing long wait times when contacting their servicer because of reduced call center hours. These reductions may also contribute to delays in processing times for SAVE applications. If servicers are unable to process a borrower's SAVE application before the first payment is due, they will place borrowers in a short-term forbearance until processing is complete.

The new SAVE plan will make payments more affordable for most borrowers and help them avoid the severe consequences of student loan default.

This primer is the second in a series providing need-to-know information for borrowers to help ensure that they have a smooth transition into repayment. Other pieces will cover specific topics—such as the return to repayment, servicing, delinquency, and default—in more depth.

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