



Income-Driven Repayment and Student Loan Affordability

Findings from a survey of Navient customers

Income-driven repayment (IDR) plans are important tools to help students keep their federal student loan payments affordable. By taking advantage of Income-Based Repayment (IBR), Pay As You Earn (PAYE), or Income-Contingent Repayment (ICR), borrowers can benefit from meaningful reduction in their monthly payment compared with standard repayment plans. IDR plan participants may also be eligible for loan forgiveness, including individuals who pursue careers in public service.

Income-driven repayment plans were first established in 1994 with Income-Contingent Repayment (ICR) then expanded in 2009 with the introduction of Income-Based Repayment (IBR) which dropped the monthly payment amount from 20 percent to 15 percent of monthly discretionary income. IBR also added a partial financial hardship requirement and excluded those consolidation loans that included Parent PLUS. In 2012, Pay As You Earn (PAYE) dropped the monthly payment amount from 15 percent to 10 percent of monthly discretionary income, and reduced the maximum loan repayment term from 25 years to 20. With the revised Pay As You Earn (REPAYE) plan available beginning December 2015, the projection is that an additional five million Direct Loan borrowers will be eligible for the 10 percent monthly payment amount cap and 20-year maximum loan repayment term allowed by PAYE plans. For all IDR plans, any remaining loan balance at the end of the maximum repayment term is forgiven.

More borrowers are selecting income-driven repayment plans

According to the Department of Education, some 4.2 million federal Direct Loan borrowers were enrolled in one of three IDR plans as of September 2015.¹ That figure represents growth of 166 percent in the number of borrowers choosing IDR since June 2013. One in five Direct Loan borrowers who have left school—representing 36 percent of the Direct Loan portfolio are now enrolled in an IDR plan (versus 10% of borrowers and 20% of dollars in June 2013). Growing familiarity as programs expand and greater awareness are significant reasons for the growth in the use of IDR. The Department of Education and its servicers have made it a priority to alert borrowers to the availability of IDR and provide them with information to help them select the plan that best meets their needs.

Executive summary

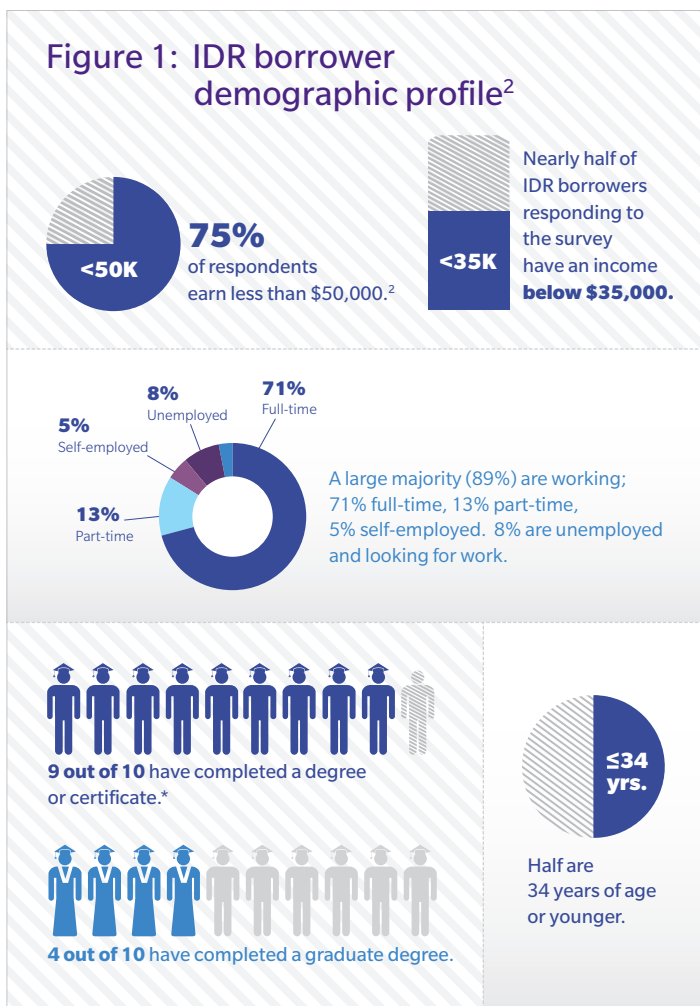
The IDR plans are relatively new, but as evidenced by the increase in participation, awareness of these options is growing. These plans are helping borrowers with low income transition from school to repayment. IDR borrowers are nearly unanimous in assessing as important the availability of income-driven repayment options, with many providing testimonials to the importance of these repayment options as part of their survey responses. The large majority of plan participants have completed their degrees and are employed; many of them have completed advanced degrees.

¹ National Student Loan Data System (NSLDS). See Table 1 in Appendix.

IDR is benefiting the student loan borrowers it is intended to help

To gain a better understanding of who is using IDR and how they are benefiting from it, Navient conducted more than 12,000 online interviews with borrowers enrolled in either IBR or PAYE whose loans it services. The survey found that income-driven repayment is largely serving its purpose to provide relief for low-to-moderate-income individuals making the transition from school to repayment.

While most individuals on an IDR plan are working (89%), most also report household incomes under \$50,000 (75%). Highly educated, with 42 percent having completed a master’s degree or other advanced degree, it is likely that these IDR borrowers will experience income growth as they progress in their careers.



IDR helps recent graduate follow passion for sustainable agriculture

James, 25, graduated from college in 2013 with a degree in sustainable living, and is currently working on a nonprofit organic farm. He began his college career majoring in philosophy and leadership studies, and became passionately engaged in the issues surrounding the health and integrity of the food system.

James notes that his degree in sustainable living helped him understand how to go beyond conventional agricultural models so that water is cleaned instead of being polluted and topsoil is built up instead of being lost. “It’s really important work, and that’s why I’m in it,” James says, adding that he would like to start his own farm someday.

James knew that to attend college, he would have to borrow and that upon graduating, he would need to take advantage of repayment flexibility. During his exit interview, his financial aid counselor outlined the process for enrolling in IDR. Then, when it was time to start the process, he called his loan servicer to make sure that he was doing everything properly. “They [Navient] helped me find the forms online and told me what to do,” said James. James is enrolled in a PAYE plan.

The availability of IDR had a big influence on the decisions James made regarding his future:

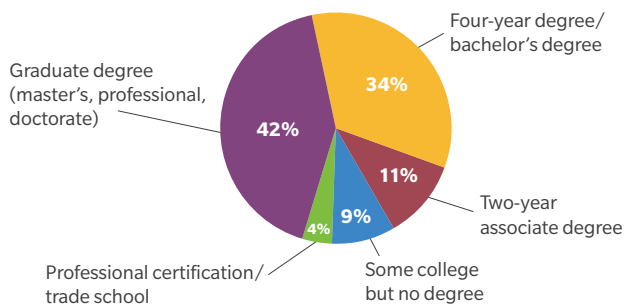
“[IDR] was a game-changer for me. It allowed me to follow my dreams. Without [IDR], I wouldn’t be able to be as committed to serving the greater good.”

² Navient survey of IDR borrowers, 2015; see also Figures 2, 3; Appendix Tables 2, 3, 4.
*includes professional certification and trade school programs; associate, bachelor’s and graduate degrees

Borrowers who are in their first year of IDR have a somewhat different profile than the overall population of IDR borrowers. (Figure 4) New IDR borrowers, for example, have lower incomes—57 percent have annual incomes below \$35,000 compared with 45 percent for those in IDR more than one year. In addition, as compared with borrowers in IDR more than one year, these new IDR borrowers:

- Are employed full time at a lower rate and are more likely to be unemployed.
- Have a lower level of educational attainment.
- Have a lower total remaining loan balance—one out of four new IDR borrowers owe less than \$25,000 total, compared with fewer than one in five borrowers in their second year or more of an IDR plan.³

Figure 2: Educational attainment of IDR participants



The survey found that IDR was successful in helping keep these borrowers' monthly payments manageable, especially as only 5 percent indicated that they expect help from a family member such as a parent or spouse with their student loan payments.⁴

- More than nine in ten IDR borrowers are current on their loan payment,⁵ indicating that the payment program helps IDR participants contribute to a positive credit track record.
 - 90 percent of borrowers whose minimum monthly payment is more than \$0 are current on their loan payment.
- Half of respondents who were in their first year of the IDR plan qualify for a minimum monthly payment of \$0, compared to one-third of borrowers who have been in an IDR plan longer than a year. (Figure 5)
- More than half of all the respondents pay less than \$75 monthly.
- For those making reduced payments on IDR, nearly half (48%) pay less than 25 percent of what their payment would be with a standard repayment plan; 31 percent pay between

25 and 49 percent of standard payment; 14 percent pay between 50 and 74 percent of the standard payment. Seven percent have a reduced monthly payment on IDR within 75 percent of what their standard payment would be.

IDR helps cleric balance finances, career of service

Father Alexandros, 29, is a Greek Orthodox priest with a wife and two children. Both he and his wife financed their education with student loans. Having grown up in a priest's family, Fr. Alexandros knew the financial sacrifices that came with the job. IDR helped him make his finances work within the limitations of the profession to which he was called.

While in seminary, Fr. Alexandros met and married his wife and they started a family. Even before finishing school, Fr. Alexandros knew that his prospective salary would not cover the family's living expenses as well as payments on his and his wife's student loans.

"I didn't want to get behind in the payment process, so I went online, read what the government had to say, and then called my servicer [Navient]," said Fr. Alexandros. "They explained the [IDR] process to me. I really look at this repayment option [IDR] as allowing us to pay our loans sequentially—first hers and then mine."

He adds, *"I took out these loans and I want to repay them. I feel like it's important to support ourselves without relying on the government if we can, so others who do need help can get it."*

When their children are old enough to be in school full-time, Fr. Alexandros' wife plans to resume her teaching career, which will enable them to expedite their student loan repayment.

Fr. Alexandros was succinct about the importance of IDR to him and his family:

"Without IDR, we couldn't live—couldn't make ends meet."

³ Appendix Table 5

⁴ Appendix Table 6

⁵ Appendix Table 7

Figure 3: Household income of IDR participants

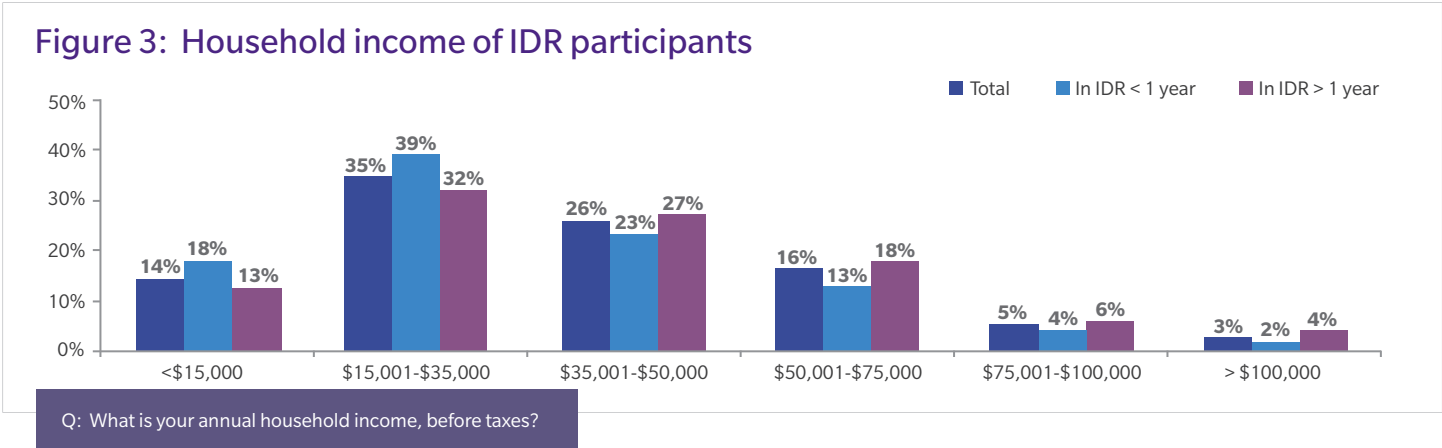


Figure 4: Newly enrolled borrowers are more likely to need help

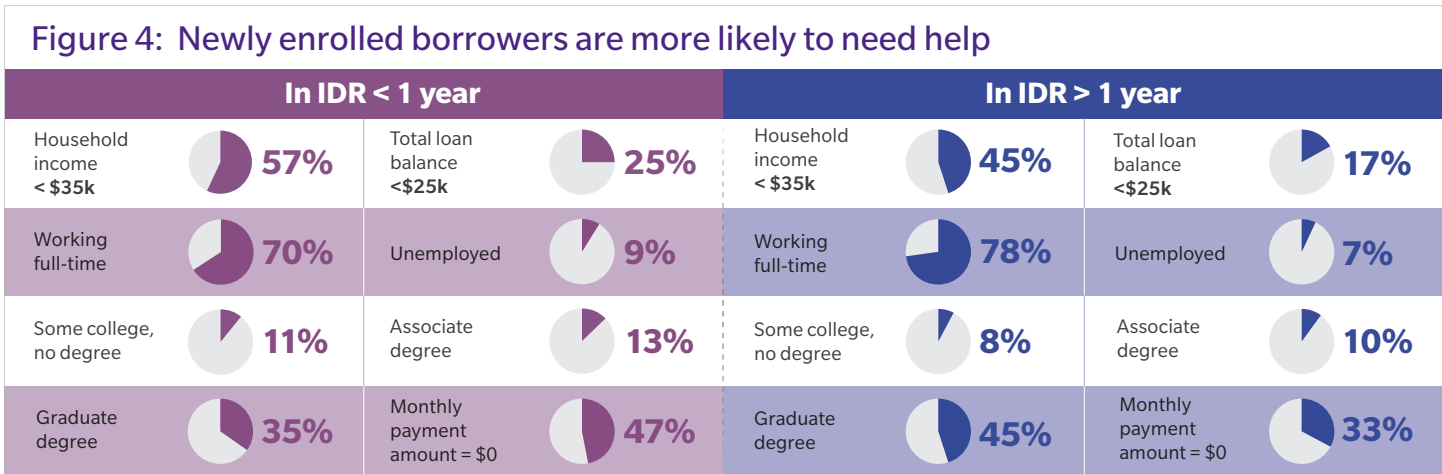
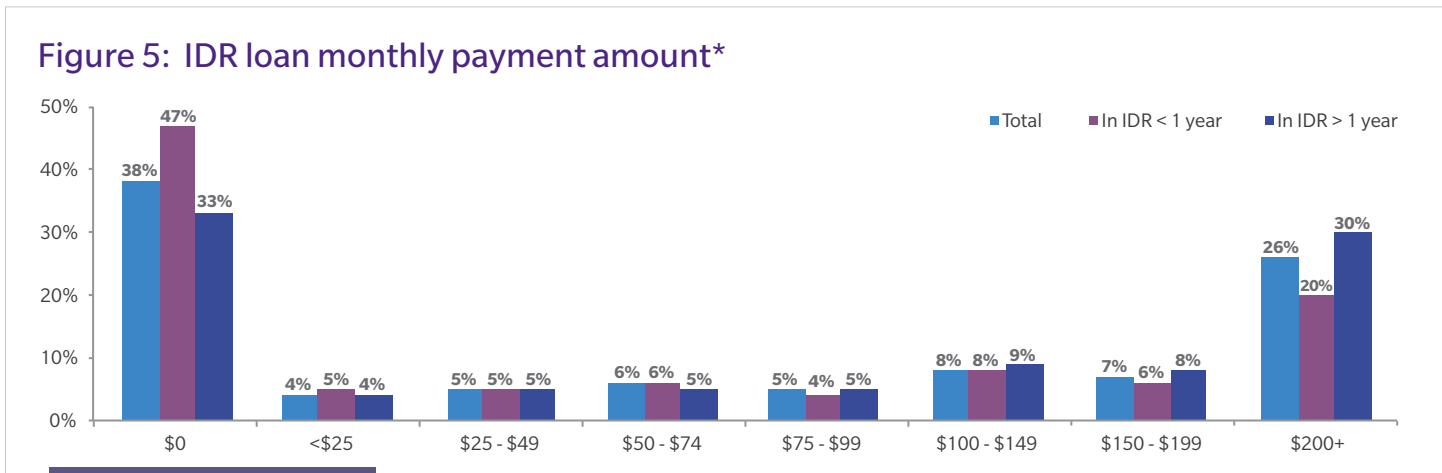


Figure 5: IDR loan monthly payment amount*



Note: Data on monthly payment amount from Navient customer records.

*Many borrowers who qualify for a payment amount that does not cover interest under one of the income-driven repayment plans receive interest subsidy, for a period of three consecutive years for subsidized loans. However, for borrowers with unsubsidized loans or subsidized loans that have reached the maximum three-year interest subsidy limit, a payment amount that does not cover interest means their loan balance may be growing each month. More research is needed to understand how this “negative amortization” effect may impact borrowers’ perception of their loans and their long-term plans. Note: Effective with the implementation of the REPAYE plan, all borrowers will receive an interest subsidy benefit during periods of negative amortization, either at 100% or 50% while they remain in this plan.

Borrowers using IDR consider the repayment option important, even essential

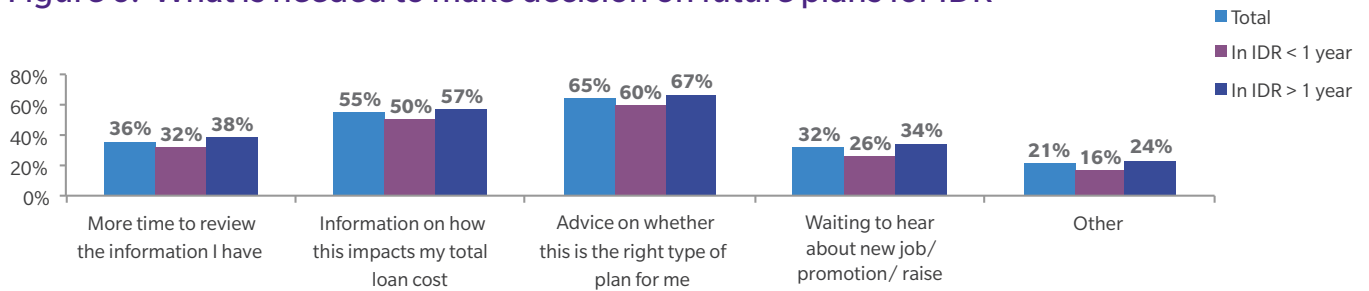
Nine out of 10 survey respondents said that it was “very important” to have an income-driven repayment plan available, ranking the importance a 5 on a scale of 1-5. More than half of IDR borrowers strongly agreed—and another one in five agreed—with the statement that “having my loans in a repayment plan based on my income has helped me better manage my student loan debt.”⁶ Only one in 10 disagreed with this statement.

IDR borrowers are clear on short-term plans; future is uncertain

While borrowers who enter into an income-driven repayment plan overwhelmingly cite its importance for their current situation (97% rate IDR plans as somewhat or very important⁷), they are less certain about the future. The most frequent response to the question of how long they expect to keep their loans on this plan was “I’m not sure” (36%).⁸ These undecided borrowers are looking for advice tailored to their situation, especially information that helps them view the long-term impacts of this type of payment plan. (Figure 6)

Only slightly fewer—about one-third of IDR borrowers—said they would stay in the plan until they paid off their loan. The remaining IDR borrowers foresee staying in IDR over a few or number of years. One in 10 say they will stay in one to two years; another one in 10 say three to five years, and the rest foresee staying in over a longer period of time (six to 20 years). (Figure 7)

Figure 6: What is needed to make decision on future plans for IDR

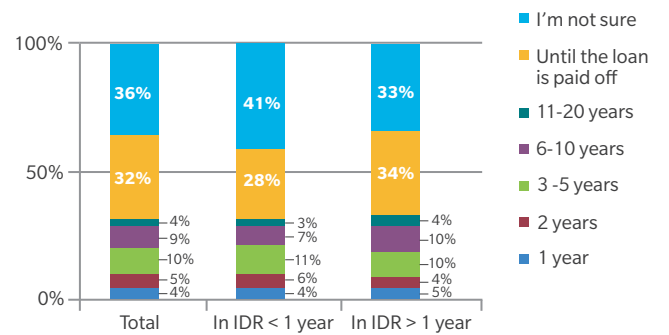


Q: What do you need to know in order to make that decision? Please check all that apply. Note: Question was asked of all those who were not sure how long they expect to stay in an IDR plan.

While one-third expect loan forgiveness, half aren't sure

- 37 percent expect to receive some form of loan forgiveness, with those in an IDR plan more than one year more likely to have that expectation. (Figure 8)
- Half of IDR borrowers are not sure if they will have a remaining balance on their loans to be forgiven.
- Borrowers new to the program are even more likely to indicate uncertainty regarding loan balance forgiveness.
- Navient analysis projects that approximately 30 percent will have a remaining balance eligible for forgiveness.

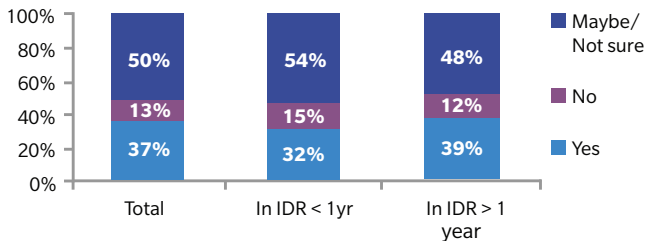
Figure 7: Future plans for staying in IDR



Q: How long do you expect to stay on your current income-driven repayment plan?

⁶ Appendix Table 8
⁷ Appendix Table 9
⁸ Appendix Table 10

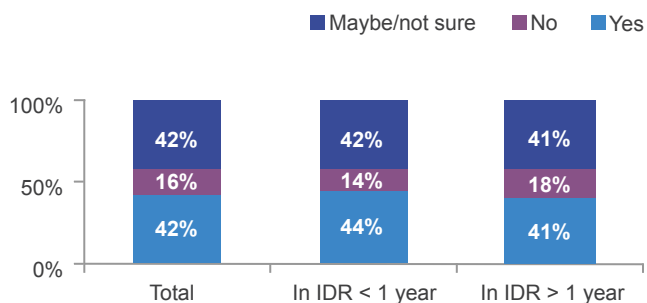
Figure 8: Do you expect that there will be a remaining balance on your loan that will eventually be forgiven?



New IDR borrowers are more likely to expect that they will make additional payments above the minimum required

- Many plan to make payments above the minimum required; just as many say they aren't sure if they will or not. (Figure 9)
- The majority of respondents said they planned to increase their payments in the future when they are able to afford to pay more.⁹
- A significant share (32%) of respondents reported that they would take extra steps (live frugally or work overtime) to pay their loans off faster. Only one in four reported that they wanted to minimize their payments to stretch payments out as long as possible.

Figure 9: Do you intend to make additional payments as your budget allows?



Communications from FSA, servicers are vitally important

When asked where they received their information about IDR prior to enrollment, most customers cited several sources, reinforcing the benefit of multiple channels of communication. Communications sent by servicers inform student loan customers that applying online at studentloans.gov¹⁰ will enable the application process to proceed more quickly and easily, and those communications appear to be effective: one in four loan customers citing the Department of Education's website as an information source also said they learned of IDR plans from their servicer's website or communications.

- 39 percent of IDR borrowers accessed information through the Department of Education's website or their email (30% from the website and 12% from an email, with some overlap).¹¹
- 34 percent of IDR borrowers cited information sources from their servicers (24% website, 10% email, and 7% phone call, with some overlap).
- 12 percent of IDR borrowers learned about their repayment options from their school's financial aid office.
- Fewer than one in 10 learned about IDR from a news story.

Most of the survey respondents felt that the information provided to them about the various repayment plans was easy to find and to understand. They felt the enrollment process went smoothly and quickly.¹² Overall, the trends are positive with new IDR borrowers rating their enrollment experience more positively than those who initially enrolled more than a year ago. However, more than half agreed with the statement that repayment plan options for student loans are very confusing. As one student loan borrower noted: *"Please consider simplifying the forms, too many terms are used on the form for the average person to understand."*

Seventy-four percent of all respondents who are new to IDR are aware of the need to recertify their income each year. For those who have gone through the process at least once, that awareness increases to 91 percent. (Figure 11)

⁹ Appendix Table 6

¹⁰ Borrowers can apply online for income-driven repayment plans through studentloans.gov. In 2015, an average of 17,000 monthly website visitors went to studentloans.gov from a link provided on the Navient website.

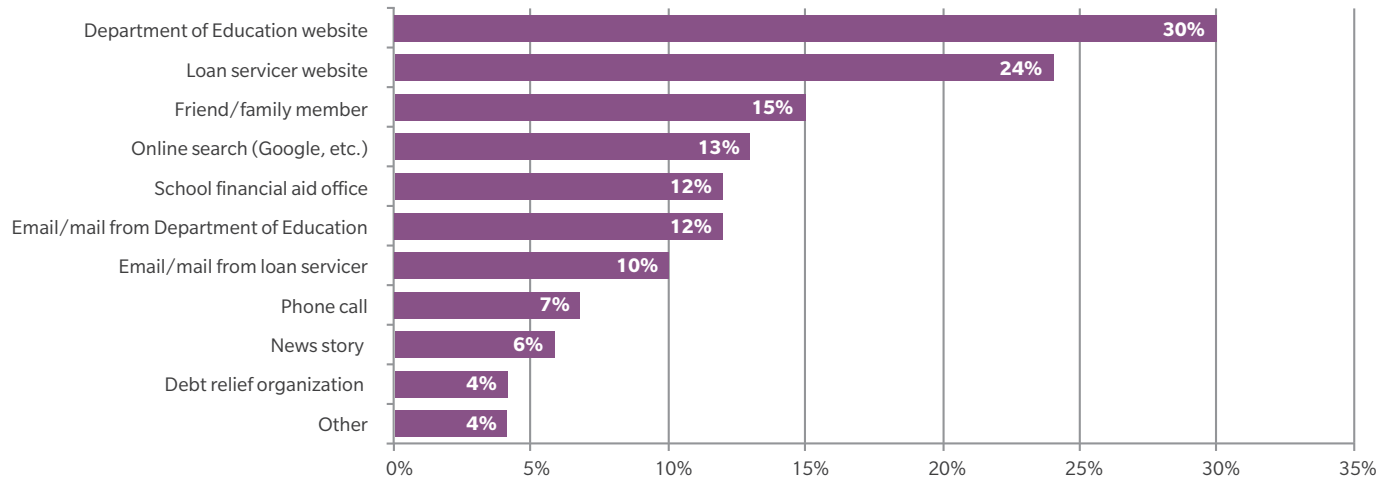
¹¹ Borrowers could cite multiple sources; see Figure 10 and Appendix Table 11.

¹² Appendix Table 12

IDR borrowers rely heavily on their loan servicer when it comes to annual recertification, with 62 percent citing contact with their servicer as their source for information regarding the annual paperwork requirement (49% email, 21% website, and 21% phone conversation, with some overlap).¹³ Comments from borrowers

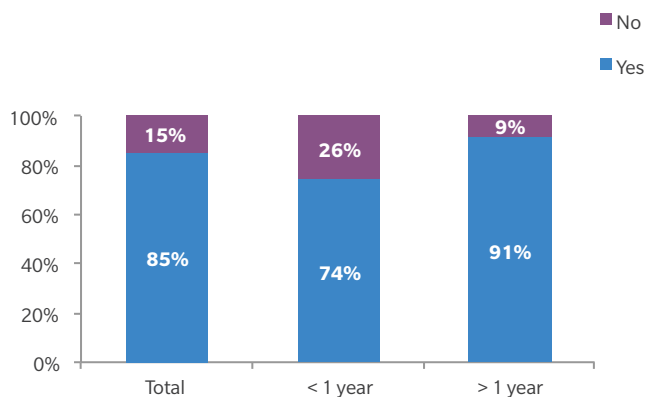
indicate that some recall being notified of the annual certification requirement during the initial enrollment process: “I was told by the person who helped me get everything done to set this up. He was very helpful.” Others in their first year of IDR credit their own common sense: “Based on tax returns, seemed it would need to be done yearly.”

Figure 10: Information sources



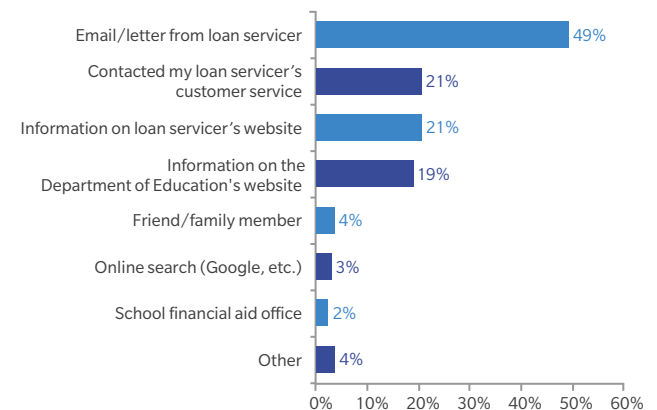
Q: Think back to when you first enrolled in your current repayment plan. How did you learn of the options available to you? Please select all that apply.

Figure 11: Aware of annual recertification requirement



Q: Are you aware that you will need to update your paperwork every year in order to stay on your current income-driven repayment plan?

Figure 12: Sources of information for recertification



Q: How did you learn you would need to update your paperwork? Please select all that apply.

¹³ Borrowers could cite multiple sources; see Figure 12 and Appendix Table 13.

Conclusion

These survey results show that income-driven repayment plans are serving borrowers who need repayment relief and, more recently, reaching more borrowers who have not traditionally used IDR as much (lower educational attainment, less income). The program appears to be serving both borrowers in transition from school to work and those who expect to have a long-term mismatch between their debt and their income. The uncertainty among borrowers about forgiveness and how long they plan to be in an income-driven repayment plan reflects the relative newness of the program and the fact that most borrowers have not been in the program for long. It is expected that some of the uncertainty will decrease the longer borrowers are in the program.

Methodology

The results of this study are drawn from an online survey of Navient Federal Family Education Loan Program borrowers and Direct Loan borrowers whose loans Navient services on behalf of the U.S. Department of Education. The survey was sent to borrowers enrolled in Income-Based Repayment, Pay As You Earn, and Income-Contingent Repayment. If they were in their first year of an IDR plan, they were within 90 days of annual recertification of their plan. Of the 12,500 individuals who completed the survey, 3,860 were in their first year of an IDR plan.

Appendix

Tables

Table 1 - Student loan portfolio by repayment plan

Includes outstanding principal and interest balances of Direct Loan borrowers in Repayment, Deferment, and Forbearance
Data Source: National Student Loan Data System (NSLDS)

Federal Fiscal Year		Level: 10 Yrs or Less		Level: > 10 Yrs		Graduated: 10 Yrs or Less		Graduated: > 10 Yrs		Income-Contingent		Income-Based*		Pay As You Earn*		Alternative		Other	
		Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)
2013	Q3	\$139.9	9.84	\$62.1	1.63	\$27.8	1.27	\$17.5	0.45	\$20.1	0.63	\$50.9	0.91	\$1.3	0.04	\$4.4	0.23	\$37.3	0.76
2013	Q4	\$143.2	10.00	\$63.6	1.58	\$35.0	1.52	\$11.9	0.30	\$19.1	0.59	\$58.0	1.04	\$2.0	0.06	\$5.6	0.30	\$33.5	0.58
2014	Q1	\$169.5	10.88	\$65.7	1.61	\$39.1	1.66	\$11.5	0.28	\$19.2	0.58	\$67.9	1.21	\$4.1	0.11	\$5.9	0.31	\$30.5	0.46
2014	Q2	\$168.5	10.81	\$65.5	1.60	\$41.8	1.77	\$11.3	0.27	\$20.0	0.60	\$80.6	1.44	\$7.4	0.19	\$6.1	0.31	\$37.8	0.54
2014	Q3	\$175.8	11.11	\$66.1	1.61	\$44.8	1.89	\$11.3	0.27	\$20.3	0.60	\$91.2	1.65	\$9.8	0.26	\$6.4	0.32	\$38.6	0.50
2014	Q4	\$169.8	10.82	\$67.2	1.61	\$48.2	2.02	\$11.4	0.27	\$20.4	0.60	\$102.5	1.85	\$12.2	0.32	\$6.7	0.34	\$39.3	0.54
2015	Q1	\$192.1	11.44	\$70.9	1.66	\$53.6	2.18	\$11.7	0.27	\$20.9	0.60	\$116.0	2.07	\$16.9	0.41	\$6.7	0.34	\$34.5	0.40
2015	Q2	\$188.4	11.26	\$70.9	1.66	\$56.7	2.29	\$11.9	0.27	\$21.4	0.60	\$130.6	2.33	\$21.8	0.53	\$6.5	0.32	\$44.2	0.57
2015	Q3	\$191.3	11.36	\$70.5	1.66	\$59.1	2.38	\$12.1	0.28	\$21.8	0.61	\$145.2	2.61	\$26.4	0.66	\$6.1	0.31	\$42.3	0.42
2015	Q4	\$183.9	11.08	\$70.1	1.64	\$60.7	2.43	\$12.2	0.27	\$22.1	0.61	\$157.7	2.83	\$30.5	0.77	\$6.1	0.31	\$42.6	0.45

Published in the FSA Data Center, data as of September 2015.
<https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

Table 2 - Employment status

	Total	In IDR < 1 year	In IDR > 1 year
Employed full-time	71%	66%	73%
Employed part-time	13%	15%	12%
Unemployed, looking for work	8%	9%	7%
Retired	2%	3%	2%
A full-time student	2%	3%	2%
A part-time student	3%	3%	3%
Self-employed	5%	4%	5%
Not working outside of the home	2%	2%	2%
Other	5%	6%	5%
Subtotal: Employed	89%	85%	90%

Q: Are you currently...? Note: respondents were able to select more than one category.

Table 3 - Age

	Total	In IDR < 1 year	In IDR > 1 year
21 – 22	0%	1%	0%
23 – 24	4%	6%	3%
25 – 34	46%	42%	48%
35 – 44	25%	25%	25%
45+	24%	26%	23%

Q: What is your age?

Table 4 - Educational attainment

	Total	In IDR < 1 year	In IDR > 1 year
Some college but no degree	9%	11%	8%
Two-year associate degree	11%	13%	10%
Four-year degree/ bachelor's degree	34%	36%	33%
Professional certification	2%	2%	2%
Trade school program	2%	2%	1%
Master's degree	30%	27%	32%
Professional degree (law, MD, etc.)	6%	4%	8%
Doctorate	5%	4%	5%
Postdoctorate	0%	0%	0%
Subtotal: Advanced degree	42%	35%	45%

Q: Currently, what is the highest degree you have earned?

Table 5 - Total outstanding loan balance

	Total	In IDR < 1 year	In IDR > 1 year
< \$10,000	5%	7%	4%
\$10,000 - \$24,999	14%	18%	13%
\$25,000 - \$49,999	28%	29%	28%
\$50,000 - \$74,999	22%	22%	22%
\$75,000 - \$99,999	10%	9%	11%
> \$100,000	20%	15%	23%

Note: Data on total outstanding loan balance obtained from Navient customer records.

Table 6 - Loan repayment strategies

	Total	In IDR < 1 year	In IDR > 1 year
Pay them off in a set amount of time	17%	16%	17%
Work overtime/extra jobs so that I can put as much money as possible toward my loan payments	15%	15%	15%
Live frugally so that I can pay my loan off faster	25%	24%	26%
Pay less now but more later as my income increases and I can afford to increase the payments	55%	56%	54%
Minimize my monthly payments by stretching out my payments as long as possible	26%	25%	27%
Have help from a family member (parent, spouse, etc.)	5%	5%	4%
None of the above	11%	11%	11%

Q: When it comes to paying back my loans, I plan to:
(Please select all that apply).

Table 7 - Loan payment status

	Total	Total (Excludes monthly payment of \$0)
Current	93%	90%
<30 days	4%	5%
30 – 59 days	1%	2%
60 – 89 days	0%	1%
90 – 119 days	0%	0%
120 – 179 days	0%	0%
180+ days	1%	1%

Note: Data on loan payment status obtained from Navient customer records.

Table 8 - IDR has helped me manage my student loan debt

	Total	In IDR < 1 year	In IDR > 1 year
Strongly disagree	7%	6%	8%
Somewhat disagree	6%	5%	6%
Neither agree nor disagree	11%	11%	11%
Somewhat agree	21%	20%	21%
Strongly agree	55%	58%	53%
Subtotal: Agree	76%	78%	75%

Q: Please indicate your level of agreement with the following statement:
Having my loans in a repayment plan based on my income has helped me better manage my student loan debt.

Table 9 - Importance of IDR plans

	Total	In IDR < 1 year	In IDR > 1 year
Not at all important	0%	0%	0%
Not very important	0%	0%	0%
Neither important nor unimportant	2%	1%	3%
Somewhat important	7%	7%	8%
Very important	90%	91%	89%

Q: How important was it to you to be able to have this type of repayment plan available?

Table 10 - Future plans for IDR

	Total	In IDR < 1 year	In IDR > 1 year
1 year	4%	4%	5%
2 years	5%	6%	4%
3 – 5 years	10%	11%	10%
6 – 10 years	9%	7%	10%
11 – 20 years	4%	3%	4%
Until the loan is paid off	32%	28%	34%
I'm not sure	36%	41%	33%

Q: How long do you expect to stay on your current income-driven repayment plan?

Table 11 - Source of information

	Total	in IDR < 1 year	in IDR > 1 year
Department of Education website	30%	28%	30%
Loan servicer website	24%	25%	24%
Friend/family member	15%	15%	15%
Online search (Google, etc.)	13%	13%	14%
School financial aid office	12%	12%	13%
Email/mail from Department of Education	12%	12%	11%
Email/mail from loan servicer	10%	11%	9%
Phone call	7%	8%	7%
News story	6%	4%	6%
Debt relief organization	4%	4%	4%
Other	4%	4%	3%

Q: Think back to when you first enrolled in your current repayment plan. How did you learn of the options available to you? Please check all that apply.

Table 12 - Rating the enrollment process

	Total	In IDR < 1 year	In IDR > 1 year
The information on the different options available to me was easy to find	54%	56%	53%
The information on the different repayment options was easy to understand	51%	53%	50%
The enrollment process took a reasonable amount of time to complete	64%	66%	63%
Repayment plan options for student loans are very confusing	54%	51%	55%

Q: Please indicate your level of agreement with the following statements about that initial enrollment process: Note: Percentages represent combined responses "Strongly agree" and "Somewhat agree."

Table 12A - Rating the enrollment process

	Strongly disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Strongly agree
The information on the different options available to me was easy to find	10%	17%	19%	33%	20%
The information on the different repayment options was easy to understand	11%	21%	18%	34%	17%
The enrollment process took a reasonable amount of time to complete	7%	11%	19%	36%	27%
Repayment plan options for student loans are very confusing	10%	16%	20%	31%	23%

Q: Please indicate your level of agreement with the following statements about that initial enrollment process: Note: Percentages represent total.

Table 13 - Source of information for annual certification requirement (if aware of that requirement)

	Total	In IDR < 1 year	In IDR > 1 year
Email/letter from loan servicer	49%	48%	51%
Information on loan servicer's website	21%	23%	19%
Information on the Department of Education website	19%	20%	18%
Online search (Google, etc.)	3%	3%	3%
School financial aid office	2%	2%	2%
Friend/family member	4%	4%	3%
Contacted my loan servicer's customer service	21%	20%	22%
Other	4%	3%	4%

Q: How did you learn you would need to update your paperwork?
Please select all that apply.

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