King/Burr Simplified Income-Driven Repayment Plan
Discussion Draft

General: Today, graduates have many federal student loan repayment programs from which to choose that each vary in eligibility requirements, benefits, and terms. This confusing array of options may lead students to choose loan repayment and/or forgiveness programs that aren't best suited to their needs, causing them to leave money on the table and heightening the chance to fall behind on payments or default. As a result, few eligible students avail themselves of these opportunities, limiting the benefit these programs provide in creating affordable monthly payments and preventing the likelihood of default.

The King/Burr Discussion Draft consolidates many of the benefits of current maze of repayment programs into a single, simplified income-based repayment option, enabling prospective borrowers to have the choice of either a 10-year repayment plan or a single, income-driven plan. This discussion draft draws from President Obama's Fiscal Year 2015 Budget and proposals from the Gates Foundation's Reimagining Aid Design and Delivery (RADD) Project.

Summary:
Section 1 – Bill Title
Section 2 – Creates a new Simplified Income-Driven Repayment plan that—

- Streamlines loan term and forgiveness schedule:
  - For borrowers with loan balances of up to $57,500 prior to repayment, 20 years of repayment before loan forgiveness;
  - For borrowers with loan balances over $57,500 prior to repayment, 25 years of repayment prior to loan forgiveness.
- Creates a simple monthly calculation rate that ensures borrowers never pay more than 15% of their monthly discretionary income through the life of repayment; and
- Calculates loan payments for households based upon household income.

Section 3 – Provides for a new set of simplified repayment options, as created by the King/Burr draft, that take effect July 1, 2015. This provision requires the Secretary of Education to make clear to graduates they have the option of a 10-year standard repayment option that fully amortizes their loan balances (as provided under current law) or a Simplified Income-Driven Repayment option that caps payments at a percentage of their income and provides the option of loan balance forgiveness after 20 or 25 years (10 years if eligible for Public Service Loan Forgiveness).
Section 4 – Tax Provisions

- Under section 464 of the Higher Education Act, individuals exhibiting total and permanent disabilities, defined as likely leading to death and/or complete unemployment, are eligible for student loan forgiveness. With that, however, comes the expectation of tax liability for the amount forgiven, leading to large tax bills for these disadvantaged individuals. <u>The King/Burr draft would provide complete tax forgiveness for individuals exercising the Total Permanent Disability (TPD) discharge of their student loans.</u>

Section 5 – Instructs the Secretary of Education to direct federal student loan servicers to notify borrowers about the repayment plans available to them, outline the financial impact of switching to alternative repayment plans, and offer to enroll individuals in such plans, if eligible.

If you have any questions or would like to comment, please contact Aisha Woodward in Senator King's office at 4-5344, or Christopher Toppings in Senator Burr's office at 4-3154.