Income-Driven Repayment Plans: Is One Right for You?

The U.S. Department of Education offers four student loan repayment plans that are based on your income, family size, and student loan balance: Revised Pay As You Earn, Pay As You Earn, Income-Based, and Income-Contingent. Below is an overview of each, including the factors you should consider when deciding if one of these plans is right for you.

Revised Pay As You Earn (REPAYE)

How do I qualify?

- You must have a loan that was disbursed under the Federal Direct Loan Program

What are the key points?

- There is no income requirement to enter this plan
- Your monthly payment will be no more than 10% of your discretionary income
- Your payments will change as your income and family size change
- You don't have to pay the accrued interest on subsidized loans for the first three consecutive years of repayment on REPAYE
- You only have to pay 50% of accrued interest not covered by your regular monthly payment amount after your first three consecutive years on subsidized loans
- You may be eligible for loan forgiveness after 20 years if you have undergraduate loans and 25 years if you have at least one graduate or professional loan
- Payments can be as low as $0, depending on eligibility
- Any unpaid interest is capitalized when you are removed from the plan for failing to recertify annually, or if you leave the plan

What should I consider before choosing this plan?

- Your monthly payments will be lower than they would be under the 10-year Standard Repayment Plan
- You'll typically pay more in interest on your loans over time than you would have under the 10-year Standard Repayment Plan
- Any forbearance or deferment applied while on REPAYE will follow normal capitalizing guidelines
- If you haven't paid your loan in full after 20 years of qualifying payments, the remaining balance will be forgiven
- You may have to pay income tax on any amount that is forgiven
- Any subsidy period used on a different income-driven repayment plan will count toward the subsidy period of the new plan when transferring to a different plan that offers subsidy
- If you do not recertify your income and family size annually, your monthly payment amount will change to what would have been required under a 10-year Standard Repayment Plan for the balance at the time you entered REPAYE

Which loans are eligible?

- Direct Subsidized and Unsubsidized Stafford Loans
- Direct PLUS Loans made to students
- Direct Consolidation Loans (except for those that repaid a Parent PLUS Loan)

Pay As You Earn (PAYE)

How do I qualify?

- You must have received a new Direct Loan disbursement on or after October 1, 2011
- You must not have had an outstanding loan balance on a Direct Loan or FFELP Loan as of October 1, 2007, or no outstanding balance on a Direct Loan or FFELP Loan when you received a new loan on or after October 1, 2007
- You must qualify for a reduced payment amount[4]

What are the key points?

- Your monthly payment will be no more than 10% of your discretionary income[4]
- Your payments will change as your income and family size change
- Any unpaid interest (due to payment amount) is capitalized when you no longer have a partial financial hardship[3] or leave the plan
- The capitalization amount is limited so that your new balance will be no more than 10% greater than the loan amount at the time you entered this plan
- Interest will be subsidized for the first three years of the repayment plan for any Subsidized Stafford Loans

What should I consider before choosing this plan?

- Any forbearance or deferment applied while on the PAYE Plan will follow normal capitalizing guidelines
- You'll typically pay more in interest on your loan over time than you would have under the 10-year Standard Repayment Plan
- If you haven't paid your loan in full after 20 years of qualifying payments, the remaining balance will be forgiven
- You may have to pay income tax on any amount that is forgiven
- Your partial financial hardship status must be renewed annually through your loan servicer
- Any subsidy period used on a different income-driven repayment plan will count toward the subsidy period of the new plan when transferring to a different plan that offers subsidy
- If you do not recertify annually, your monthly payment amount will change to what would have been required under a 10-year Standard Repayment Plan for the balance at the time you entered PAYE

Which loans are eligible?

- Direct Subsidized and Unsubsidized Stafford Loans
- Direct PLUS Loans made to students
- Direct Consolidation Loans (except for those that repaid a Parent PLUS Loan)

[1]You are a new borrower for the IBR Plan if you had no outstanding balance on a Direct Loan or FFELP Loan as of July 1, 2014, or have no outstanding balance on a Direct Loan or FFELP Loan when you obtain a new loan on or after July 1, 2014. [2]Discretionary income is defined as the difference between your adjusted gross income and 150% of the poverty guideline for your family size and state of residence. Other conditions apply. [3]Partial financial hardship requires that the amount you would be required to pay on your eligible loans under this plan is lower than the amount you would be required to pay on your eligible loans under a 10-year Standard Repayment Plan. [4]To qualify for a reduced payment amount on the plan, the amount you would be required to pay on your eligible loans under this plan must be lower than the amount you would be required to pay on your eligible loans under a 10-year Standard Repayment Plan.

Income-Based Repayment (IBR)

Which loans are eligible?
- Direct Loans, FFELP Loans, and Subsidized and Unsubsidized Stafford Loans
- Direct Loans and FFELP PLUS loans made to students
- Direct Loans and FFELP Consolidation Loans (except for those that repaid a Parent PLUS Loan)

What are the key points?
- Your monthly payment will be no more than 15% (or 10% if you are a new borrower)[1] of your discretionary income[2]
- Your payments will change as your income and family size change
- Interest will be subsidized for the first three years of the repayment plan for any Subsidized Stafford Loans
- Any unpaid interest is capitalized when you longer have a partial financial hardship[3], or when you leave the plan

How do I qualify?
- You must apply and submit required documentation
- You must have a qualify for a reduced payment amount[3]

What should I consider before choosing this plan?
- Your monthly payments will be lower than they would be under the 10-year Standard Repayment Plan
- You'll typically pay more in interest on your loan over time than you would have under the 10-year Standard Repayment Plan
- If you haven't paid your loan in full after 25 years of qualifying payments, the remaining balance will be forgiven
- You may have to pay income tax on any amount that is forgiven
- You can request to change to a different repayment plan at any time. However, you will need to make a payment upon exiting either for the amount you would pay under the Standard Repayment Plan (taking into account the remaining maximum repayment period), or on a Reduced Payment Forbearance, before you can be placed into a different repayment plan
- Any forbearance or deferment applied while in the IBR Plan will follow normal capitalizing guidelines
- Your partial financial hardship status must be renewed annually through your loan servicer
- Any subsidy period used on a different income-driven repayment plan will count toward the subsidy period of the new IDR when transferring to a different plan that offers subsidy
- If you do not recertify annually, your monthly payment amount will change to what would have been required under a 10-year Standard Repayment Plan for the balance at the time you entered IBR

Income-Contingent Repayment (ICR)

Which loans are eligible?
- Direct Subsidized and Unsubsidized Stafford Loans
- Direct PLUS Loans made to students
- Direct Consolidation Loans (except for those made prior to July 1, 2006, which repaid a Parent PLUS Loan)

What are the key points?
- Payments are based on family size, adjusted gross income (AGI), and total balance of all Direct Loans
- Your payments will change as your income and family size change
- Any unpaid interest (due to payment amount) is capitalized annually
- The annual capitalization amount is limited so that your new balance will be no more than 10% greater than the original loan principal amount at the time you entered this plan

How do I qualify?
- You must apply and submit required documentation
- Any borrower with an eligible loan type (listed above) can qualify

What should I consider before choosing this plan?
- You'll typically pay more in interest on your loan over time than you would have under the 10-year Standard Repayment Plan
- If you haven't paid your loan in full after 25 years of qualifying payments, the remaining balance will be forgiven
- You may have to pay income tax on any amount that is forgiven
- This plan must be recertified annually
- Any subsidy period used on a different income-driven repayment plan will not count toward the subsidy period of the new IDR when transferring to a different plan that offers subsidy
- If you do not recertify, your monthly payment amount will change to what would have been required under a 10-year Standard Repayment Plan for the balance at the time you entered ICR

Sample Payment Amounts

Repayment Plan	Initial Payment	Final Payment	Time in Repayment	Total Paid	Loan Forgiveness
Standard	$258	$258	10 years	$30,947	N/A
Graduated	$145	$435	10 years	$32,446	N/A
Extended-Fixed	Ineligible	-	-	-	-
Extended-Graduated	Ineligible	-	-	-	-
REPAYE	$58	$333	21 years, 5 months	$42,330	$0
PAYE & IBR (new borrowers)	$58	$333	20 years	$36,453	$0
IBR	$86	$258	17 years, 2 months	$38,310	$0
ICR	$147	$188	18 years, 9 months	$37,400	$0

Repayment Plan	Initial Payment	Final Payment	Time in Repayment	Total Paid	Loan Forgiveness
Standard	$666	$666	10 years	$79,935	N/A
Graduated	$381	$1,143	10 years	$85,272	N/A
Extended-Fixed	$387	$387	25 years	$115,974	N/A
Extended-Graduated	$300	$582	25 years	$126,173	N/A
REPAYE	$161	$894	24 years, 6 months	$129,856	$0
PAYE & IBR (new borrowers)	$161	$653	20 years	$88,005	$41,796
IBR	$242	$666	19 years, 1 month	$88,005	$0
ICR	$493	$587	12 years, 8 months	$86,442	$0

[1]You are a new borrower for the IBR Plan if you had no outstanding balance on a Direct Loan or FFELP Loan as of July 1, 2014, or have no outstanding balance on a Direct Loan or FFELP Loan when you obtain a new loan on or after July 1, 2014. [2]Discretionary income is defined as the difference between your adjusted gross income and 150% of the poverty guideline for your family size and state of residence. [3]To qualify for a reduced payment amount on the plan, the amount you would be required to pay on your eligible loans under this plan must be lower than the amount you would be required to pay on your eligible loans under a 10-year Standard Repayment Plan. [5]Discretionary income is defined as the difference between your adjusted gross income and 150% of the poverty guideline for your family size and state of residence. Other conditions apply. [6]You are a new borrower for the IBR plan if you have no outstanding balance on a Direct Loan or FFELP Loan as of July 1, 2014 or have no outstanding balance on a Direct Loan or FFELP Loan when you obtain a new loan on or after July 1, 2014.

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