Biden's New Student Loan Repayment Plan Is Open. Here's How to Enroll.

The income-driven plan, SAVE, will reduce payments for millions of borrowers, and more will qualify for $0 payments.


The new payment option will become a permanent piece of the student loan machinery and be available to current and future borrowers. Credit...Shuran Huang for The New York Times

By Tara Siegel Bernard   NY Times Aug. 22, 2023

Borrowers who are buckling under the pressure of their federal student loans have a new option to significantly cut their payments, eventually by as much as half.

The Biden administration's new income-driven repayment plan, known as SAVE, opened for enrollment on Tuesday, providing millions of borrowers with a more affordable way to pay their monthly student loan bills, which will become due again in October after a three-year pause.

"With the SAVE plan, we are making a promise to every student," Education Secretary Miguel Cardona said during a call with reporters on Monday afternoon. "Your payments will be affordable. You're not going to be buried under a mountain of interest, and you won't be saddled with a lifetime of debt."

In the coming days, more than 30 million borrowers will be invited to enroll in the plan, which was initially proposed in January and bases monthly payments on income and family size.

Unlike the White House's former plan to cancel up to $20,000 in federal debt — struck down by the Supreme Court in June — this payment option will become a permanent piece of the student loan machinery and be available to current and future borrowers. It also creates a new safety net, automatically enrolling certain borrowers into the SAVE plan after they have fallen behind on their payments.

Borrowers who want to sign up for the SAVE — or Saving on a Valuable Education — plan should move quickly: You can expect to wait roughly four weeks for your application to be processed, senior Education Department officials said. By enrolling now, you can have your paperwork processed with enough time before your first payment becomes due, officials added.

Borrowers won't receive the full benefits of the plan until next summer, because some features won't immediately take effect. Here's a rundown on how the plan will work:

Who is eligible for the new repayment plan?

Those with federal undergraduate or graduate loans. Borrowers with undergraduate debt are eligible for lower payments than graduate borrowers.

Who is excluded?

Parents who borrowed to pay for their children's schooling using Parent PLUS loans cannot enroll in the new plan.

If parent borrowers cannot afford to make their payments, they generally have access to only the most expensive income-driven repayment plan — known as income-contingent repayment — which requires borrowers to pay 20 percent of their discretionary income for 25 years; anything remaining is forgiven.

How does the new SAVE plan work?

All income-driven repayment plans generally operate the same way. Payments are based on your earnings and household size, and are readjusted each year. After monthly payments are made for a set number of years, usually 20, any remaining balance is forgiven. (The balance is taxable as income, though a temporary tax rule exempts balances forgiven through 2025 from federal income taxes.)

The SAVE plan — which replaced the Revised Pay as You Earn program, or REPAYE — is more generous in several ways. To start, it would reduce payments on undergraduate loans to 5 percent of discretionary income, down from 10 percent in REPAYE (and 15 percent in other plans).

Graduate debt is also eligible, but borrowers would pay 10 percent of discretionary income on that portion. If you hold both undergraduate and graduate debt, your payment will be weighted accordingly.

The new rules also tweak the payment formula by protecting more income for basic needs, which in turn reduces payments overall. That change will also allow more low-income workers to qualify for $0 payments.

What is discretionary income?

Once you pay for basic needs like food and rent, any leftover income is considered discretionary; income-driven repayment plans require borrowers to pay a percentage of that discretionary income.

The SAVE plan tweaks the payment formula so that more income is shielded for those basic needs, generating less discretionary income and a lower payment.

SAVE increases the amount of income protected from repayment to 225 percent of the federal poverty guidelines, roughly equivalent to $15 an hour for a single borrower. If you earn less than that, you won’t have to make a monthly payment.

Put another way, a single person who makes less than $32,805 a year would make $0 monthly payments. The same goes for someone in a household of four with income below $67,500. That should help an additional one million low-income borrowers qualify for a zero-dollar payment, the Education Department said.

Under the old REPAYE program, less income was shielded, or up to 150 percent of the federal poverty guidelines.

Will the way interest is treated change?

Yes. This is one of the most attractive features of the new plan. If a borrower’s monthly payment does not cover the interest owed, the Education Department will cancel the uncovered portion.

In other words, if a borrower owes $50 in interest each month but the payment covers only $30, the remaining $20 will disappear as long as the payment is made. And monthly interest will be canceled for those who are not required to make payments because their income is too low.

This new rule will provide relief to those who made payments but saw their balances balloon because they didn’t pay enough to cover the interest owed.

Demonstrators marched from the Supreme Court to the White House in June as they called for the cancellation of student debt.Credit...Kenny Holston/The New York Times

Does the plan go into effect right away?

Three big components of the plan are available now, including shielding more income from the repayment formula, which will reduce more borrowers' payments to zero. The new treatment of unpaid interest is also in effect. Lastly, married borrowers who file their taxes separately will no longer be required to include their spouse's income in their monthly payment calculation. (They will also have their spouse excluded from their family size.)

But other benefits — including cutting payments to 5 percent from 10 percent of discretionary income on undergraduate loans — won't take effect until July.

Once the plan is in full swing next summer, many borrowers' monthly bills, per dollar, will drop 40 percent compared with the REPAYE plan. But the lowest earners may see their payments fall 83 percent, while the highest earners would receive only a 5 percent reduction.

Are there any changes for borrowers with small loan balances?

Yes, but this feature takes effect next summer.

People who took out smaller loans — or those with original balances of $12,000 or less — would make monthly payments for 10 years before cancellation, instead of the more typical 20-year repayment period in other income-driven repayment plans. Every $1,000 borrowed above the $12,000 amount would add one year of monthly payments before the balance was forgiven, up to a maximum of 20 or 25 years.

Will the new plan always be the best option?

The SAVE plan is expected to provide the lowest payment for most borrowers and will probably be the best option for most. The loan simulator tool at StudentAid.gov can help you analyze which repayment plan makes the most sense given your circumstances and goals.

When you sign in, it should automatically use your loans in its calculations. (You can add other federal loans if any are missing.) You can also compare plans side by side — how much they'll cost over time, both monthly and in total, and if any debt would be forgiven.

What about borrowers who were in default before payments were paused?

Borrowers who fell into default before the payment pause — which happens when you're at least 270 days behind — have received a fresh start and are considered current on their payments. That means they can enroll in SAVE or any other repayment plan.

But they need to take certain steps to do so — and complete them before September 2024 to keep their loans out of default for the long term.

Here's how: Contact the Education Department's Default Resolution Group — by phone, online or mail — and ask to take your loans out of default through the "Fresh Start" program. The default group can also help you enroll in an income-driven repayment plan, including SAVE.

The group will transfer your loans to a regular loan servicer and wipe the record of default from your credit report.

"Their new servicer will then put them into the I.D.R. plan with the lowest monthly payment they are eligible for," a spokesman for the Education Department said. "For most borrowers, this is SAVE."

Can delinquent borrowers enroll?

Borrowers who fell behind on their monthly student loan bills before the payment pause have also received a fresh start and will be permitted to enroll in the SAVE program, just like any other borrower.

Going forward, borrowers who go 75 days without making a payment will be automatically enrolled in the SAVE plan — as long as they have provided approval to disclose their federal tax information to the Education Department. This policy will take effect next July.

How do I sign up?

You can sign up online at StudentAid.gov/SAVE; borrowers will be able to see their payment amount before signing up. Administration officials said the process shouldn't take more than 10 minutes. After applying, you can check the status of your application by visiting your account dashboard.

And for the next few months, loan servicers will also be able to help borrowers enroll and "self-certify" their income without needing tax documentation, either through the servicer's website or over the phone, said Scott Buchanan, the executive director of Student Loan Servicing Alliance, an industry trade group.

Those who were already enrolled in REPAYE don't have to do anything — they will be automatically transferred into SAVE, and their payment amounts will be adjusted. It's also possible to switch from another income-driven repayment plan into SAVE, without resetting the clock on your payments.

What happens if I try to enroll, but my application cannot be processed in time for my first payment?

You will be placed in forbearance, meaning no payment will be due, for the next billing cycle.

Do I have to do anything to remain enrolled?

Your payment size adjusts each year based on your earnings, and your income needs to be updated annually.

But if you give the Education Department permission to access your income information through the Internal Revenue Service (something you can do now during the sign-up process), you will not need to recertify your income each year because it will be done automatically.

Tara Siegel Bernard covers personal finance. Before joining The Times in 2008, she was deputy managing editor at FiLife, a personal finance website, and an editor at CNBC. She also worked at Dow Jones and contributed regularly to The Wall Street Journal.