https://www.wsj.com/personal-finance/student-loan-save-plan-income-driven-repayment-95b256a7

PERSONAL FINANCE

New Student-Loan Plan Promises to Lower Payments. Should You Switch to SAVE?

Up to 20 million borrowers could benefit from Biden's income-driven repayment plan

By Julia Carpenter Follow *and Gabriel T. Rubin* Follow

Updated Sept. 18, 2023 10:43 am ET

SAVE has the potential to be less expensive than prior income-driven student-loan repayment plans. PHOTO: CATHERINE MCQUEEN/GETTY IMAGES

Millions of borrowers are signing up for a new program that can halve their monthly student-loan repayments and put some on a path to loan forgiveness.

The Saving on a Valuable Education plan, or SAVE, is a new income-driven repayment plan. Those enrolled in SAVE get their monthly loan payments calibrated according to a formula that takes into account family size and discretionary income.

More than four million student-loan borrowers have so far enrolled in the Biden administration plan. Whether millions more sign up will determine the success of the administration's goals: cut the nearly $1.6 trillion of outstanding federal student-loan debt and make debt payments more affordable for low- and middle-income students.

Not all of the SAVE features will be available until next July, but the plan has the potential to be less expensive than prior income-driven, or IDR, plans. The Biden administration estimates that up to 20 million borrowers could benefit from SAVE.

Still, some are skeptical of SAVE's benefits, in part because many prior IDR plans have led to some borrowers paying more in interest and for longer. The Biden administration recently forgave $39 billion in debt held by more than 800,000 borrowers who "fell through the cracks of a broken system that failed to keep accurate track of their progress," said Education Secretary Miguel Cardona.

As borrowers adjust to having hundreds of dollars less in their budget each month, they should consider whether SAVE makes sense for them. Here's how the plan works:

How much will I have to pay monthly if I enroll in SAVE?

Like past IDR plans, SAVE requires borrowers to pay a portion of their discretionary income. Yet, SAVE calculates discretionary income above 225% of the federal poverty level, whereas previous regulations limited it to 150%. SAVE thus protects more income from repayment.

For example, if a family of two earns an annual income of $75,000, their discretionary income would be $45,420 under prior IDR plans and $30,630 under SAVE. Less money counted as discretionary income translates into smaller monthly payments for borrowers.

With SAVE, individuals making $32,800 or less a year—or roughly $15 an hour—and families of four making $67,500 or less annually would pay $0 in minimum monthly payments.

Borrowers earning more can also take advantage of the plan, which sets no qualifying income limit. The higher-earning borrowers who apply might have their monthly payments reduced by as much as 5%, according to the Education Department.

"This plan is targeted to help the lowest-income borrowers and undergrad borrowers, but it also benefits others," said Heather Jarvis, a lawyer who educates people on student loans.

Are graduate loans treated the same as undergraduate loans?

As of next July, SAVE borrowers will have to pay undergraduate loans at 5% of their discretionary income, and graduate loans at 10% of their discretionary income.

Those with both undergraduate and graduate-student loans will pay a weighted average between 5% and 10% of their discretionary income.

Additionally, graduate and professional loans are paid off on a longer timeline—25 years, instead of a standard 20 years for undergraduate loans.

What happens if I miss a payment?

In the past, borrowers who missed a payment for more than 90 days were considered delinquent. Continued delinquency on payments could then lead to loan default, garnished wages and long-term effects on one's ability to borrow.

Earlier this year, the Biden administration announced a 12-month on-ramp period to ease borrowers back into repayment as of October 2023. During this time, missed payments won't have an impact on your credit score or cause loan defaults, according to the Education Department. Interest will continue to accrue on your loans during this time, so make sure to calculate what it will cost you if you wait to start making payments.

Applying for an IDR plan such as SAVE is often a better long-term solution than taking advantage of the on-ramp, said Meagan McGuire, a consultant at Student Loan Planner, a financial-advisory firm.

"If you're going towards loan forgiveness, the on-ramp does not make sense because it's not going to be counting towards that forgiveness threshold," McGuire said.

Does interest continue to accrue while I'm enrolled in SAVE?

Those enrolled in SAVE who make monthly payments on time will see another benefit: Their loan balances won't grow due to unpaid interest.

As of July 2024, if a student-loan borrower pays their required monthly amount but that doesn't fully cover the interest that accrues, the borrower won't be charged any more interest than what their payment covers.

For example, if a monthly payment is $50, and after you make your payment the interest left unpaid is $10, that $10 in interest isn't added to a borrower's remaining balance.

What if I have less than $20,000 in debt?

Starting July 2024, SAVE will speed up the path to forgiveness for borrowers with loan balances of $12,000 or less, so long as they continue making regular payments on time. After 10 years, their remaining debt balances will then be wiped out.

If the student-debt balance exceeds $12,000, the maximum repayment before forgiveness will increase by a year for every $1,000 borrowed. For example, someone with a balance of $15,000 will be forgiven the rest of the remaining debt after making consistent, on-time payments for 13 years. Three years of payment are added for the extra $3,000 on the balance.

The maximum number of years in repayment is still capped at 20 or 25 years depending on whether the loans were for undergraduate or graduate study.

How do I enroll in SAVE?

If you were enrolled in REPAYE, a previous IDR plan, you will be automatically rolled over to the SAVE plan.

Otherwise, visit studentaid.gov to enroll or sign up for a webinar offered by the Education Department. Borrowers could expect a wait of up to four weeks before their application is processed.

Loans made to parents, including direct PLUS loans, are ineligible.

Write to Julia Carpenter at julia.carpenter@wsj.com and Gabriel T. Rubin at gabriel.rubin@wsj.com

Appeared in the September 18, 2023, print edition as 'New Student Plan Likely to Lower Loan Repayments'.