NEW AMERICA

YOUNG INVINCIBLES
together, invincible

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

PROMISE AND COMPROMISE

A CLOSER LOOK AT PAYROLL WITHHOLDING FOR FEDERAL STUDENT LOANS

OCTOBER 2015

EDCENTR.AL/PROMISEANDCOMPROMISE
#PROMISEANDCOMPROMISE

About the Consortium

This paper is the second in a body of work on the viability of Income-Based Repayment and payroll withholding for federal student loans. The three primary authors on the report are **New America**, **Young Invincibles**, and the **National Association of Student Financial Aid Administrators**. The **Urban Institute** and **U.S. Chamber of Commerce Foundation** provided significant support as technical advisors. Financial support for this research was provided by a grant from the **Bill & Melinda Gates Foundation** through the **Reimagining Aid Design and Delivery (RADD)** project.

Acknowledgments

We would like to thank the **Bill & Melinda Gates Foundation** for their generous support of this important research. Thank you to the numerous organizations and individuals who provided thoughtful contributions and reviews for this report. The conclusions reached in this report are those of the authors alone.

Contents

INTRODUCTION

Most students use federal student loans to finance at least a part of their postsecondary educations, and these loans are likely to remain a major source of financing for future students. For the majority of borrowers, these loans work well. They are easy to obtain and have terms that are far better than any private lender would offer, and most borrowers repay them on time. Still, an alarmingly high share of borrowers default. The U.S. government estimates that over a fifth of the loans it issues to undergraduate students will default at some point during repayment. Currently, seven million borrowers are in default on their federal student loans.[1]

We have argued that an automatic income-based repayment (IBR) plan with payroll withholding could help decrease loan defaults.[2] Others have suggested the same. Academics, think tanks, and Nobel-prize winning economist Joseph Stiglitz all support income-based repayment for student loans coupled with payroll withholding.[3] But most arguments in favor of payroll withholding are light on details about how the program would actually work. Two of the more prominent papers released on the issue devote less than three paragraphs to the topic.[4]

In the abstract, the promise of automatic IBR with employer withholding is enticing (assuming that most student loan borrowers have relatively stable jobs and are paid through a payroll system). Students would be automatically enrolled, the process would be simple, payments would be deducted automatically from borrowers' paychecks, and borrowers would never have to pay back more than an affordable percentage of their incomes, thus creating a simple insurance mechanism that is more efficient for the government and ensures borrowers never have to make ruinously high monthly payments.

But with so few details worked out on how an automatic payroll withholding system would actually function, it is difficult to determine if such proposals are feasible and desirable compared to the current system. For those who believe a payroll withholding system for federal student loans is a worthwhile policy to consider, more information and analysis is needed.

To address this dearth of analysis, our consortium drafted and presented a technical paper (included as the body of this paper) detailing the tradeoffs involved in a payroll withholding system. Our report started with the premise that the IBR formula would look similar to how it currently exists (i.e., there would be interest rates and loan forgiveness).[5] In July, we convened a group of experts and stakeholders comprised of advocates, academics, employers, loan servicers, and government officials.[6] The lively, five-hour meeting was designed to solicit feedback and impressions, but there was no attempt to achieve consensus.

Separately, Young Invincibles, a member of our consortium, presented the idea of employer withholding to groups of borrowers (both in and out of school) and asked for their impressions and concerns.[7] The borrowers' perspective will appear throughout this report.

In order to create sound policy, it is best to know what problem a policy is attempting to solve. Yet in the meeting, there were divisions between participants even in characterizing the problem that employer withholding would solve. Some argued that IBR is an insurance mechanism designed to protect low-income borrowers and treat borrowers of similar income levels equally, but because of the unique requirements of IBR, only employer withholding could fulfill this ideal. Others said that employer withholding was intended to prevent defaults by automatically enrolling low-income borrowers into an affordable payment plan and by automatically collecting those dollars from the borrower; some mentioned this automatic mechanism as a downside of employer withholding. Still others argued that the main advantage of employer withholding was to gain administrative efficiency for the government over the current loan servicing system.

The disagreements over what problem automatic IBR with employer withholding is trying to solve revealed broader disagreement and confusion over how and whether such a proposal could be implemented. A contingent of participants rejected the idea that universal withholding was desirable, arguing that imposing such a system would be a burden on some (including struggling) borrowers. Other participants worried about the burden this would place on employers and whether small firms especially would have the capacity to take on the responsibility of administering a complex withholding system in addition to their day-to-day operations. Some

participants thought that withholding made more sense as an optional benefit, similar to a flexible health care spending account, but this is different than the universal withholding that exists in the United Kingdom and Australia and which is often touted as a policy solution in the U.S. Indeed, we fashioned our work for this paper around the idea of a universal system, rather than an optional one, because it seems most likely to address policy problems.

For those amenable to the idea of universal IBR withholding, disagreements arose over how targeted and complex the program should be, including questions over what types of income should be included in calculating amounts owed and how to treat married borrowers. Participants also demonstrated varying levels of concern over the difficulty of implementing such a plan and the potential additional burdens placed on borrowers, employers, and the government. For some, since simplicity was the overarching goal, the more targeted and complicated the proposal became, the less desirable and worthwhile it seemed.

In terms of whether or not employer withholding was worth the political and monetary costs, one group of participants believed that while there were real hurdles to implementing withholding, they were clearly worth it in order to achieve the promise of automatic IBR. Another group, however, argued that in order to implement withholding, IBR would need to be fundamentally redesigned by, for instance, changing how loan forgiveness works. Some argued that, upon examining implementation issues, money could be better spent elsewhere in the system to achieve goals such as reducing defaults and simplifying the existing loan system.

The borrowers that our consortium spoke with also had a variety of reactions to the idea of withholding. While the discussions were high level, as opposed to technical (nor was the technical report provided), the overall idea of such a system was explained and these borrowers were asked questions about certain tradeoffs. Many were amenable to the idea of withholding and thought that money being automatically withheld from their paychecks could make their lives easier and make it less likely that they would become delinquent. Still, questions and concerns arose. Overall, borrowers worried that a withholding system would not be able to effectively deal with unexpected life events that required forbearance or deferment; they were concerned that the system might not be flexible enough. Many wanted to be involved in the process of withholding. They wanted to be the ones filling out paperwork to notify (or not) their employers that they had a loan to be repaid. This was both because they thought it was important to be responsible and they did not necessarily trust their employers to do it correctly. Still other borrowers preferred to not have conversations about student debt with their employers, and therefore did not want to initiate withholding. A number of borrowers said they liked their current servicers—how easy the websites are to navigate, access to customer service representatives at any time—and expressed skepticism that the government was up to the task of creating a smoothly-functioning withholding system.

Many of the experts we convened left the meeting with skepticism about employer withholding for student loans. This is not an indictment against the idea. Rather, it highlights the fact that such a proposal is more complicated than often presented, and that the tradeoffs involved are real and difficult. The disagreement and discussion also highlighted another important point: many of the biggest hurdles involved in implementing automatic IBR have to do with how IBR is currently designed, and so the path forward may involve tailoring a new IBR program that better matches the complexities of employer withholding. This report aims to help policymakers begin to think through these design issues and the circumstances under which employer withholding might make sense as the automatic option for student loan repayment.

GUIDING PRINCIPLES AND ASSUMPTIONS OF OUR REPORT

Readers should understand that certain principles and assumptions were necessary to this report in order to have a coherent policy discussion. In order to ground options for policymakers, we started with two broad principles to guide the options presented. First, any withholding system would make repayment for the majority of borrowers no more difficult than under the current one, and ideally even easier. Second, it would make repaying federal student loans automatic, or passive, whereby the borrower pays what is owed without having to send in payments each month or navigate an overly complex system to stay current. We also assumed that the terms of IBR would look relatively similar to how they look in the current system, which is something we discuss more below. Our report brings to light the following technical hurdles to attaining these goals:

- A payroll withholding system would need a way for employers to know which of their employees had student loans and how much to withhold.
- It would rely on an annual reconciliation process, which could result in over- and under-payments each year.
- Some people who have student loans earn income outside of a payroll system, so payroll withholding for student loans would not fully capture their incomes and loan payments. Additional steps would have to be put in place for these borrowers.
- Borrowers with two jobs or those with a spouse who earns income but does not have a student loan complicate the withholding process, and special steps are needed to address this issue. (Understanding whether student loan repayment is based on an individual's earnings or tax unit is critically important to decide.)
- A payroll withholding system is made more administratively simple and feasible by excluding some sources of a borrower's income from loan payments, such as a spouse's earnings, investment income, and the like. But excluding these sources of income can make the amounts borrowers repay less equitable and can also incentivize the non-reporting of income.
- Policymakers would likely need much of the existing student loan repayment system to operate alongside a payroll withholding system to accommodate an opt-out feature, loan origination tasks, and deferment and forbearance benefits.

While we do not delve into the different ways to structure how much a borrower should repay (i.e., 10 percent of income or 15 percent of income, consideration of family size, loan forgiveness, etc.), no discussion of payroll withholding can ignore such details. Repayment terms interact with a payroll withholding system in important ways, increasing or reducing complexity and burden. This report includes boxes with more details on these issues. However, in order to keep it a manageable length, we must make some assumptions about the repayment terms. Our assumptions are not proposals for an "ideal" repayment system. Rather, we made them because readers are most familiar with the current system and because some assumptions make a discussion about payroll withholding easier to follow. These assumptions also helped ground the discussion in our meeting in Washington.

Assumptions About Repayment Terms for Borrowers

- Borrowers repay based on their incomes, not traditional loan payment schedules like a mortgage. A payroll withholding system where employers must collect an amount based on information about the borrowers' loans rather than their incomes would be complicated and difficult for employers to administer. An employee earning $60,000 with a $10,000 loan at six percent interest would have one payment amount withheld, while another employee at the same salary with the same loan and a four percent interest rate would have a different amount withheld. Income-based repayment allows the employer to withhold based

solely on the borrower's income, and the employer does not know how much the employee owes.

- All borrowers make payments on their loans equal to the same percentage of their incomes after deducting a standard exemption, similar to how the current IBR formula in the federal loan program operates. If borrowers paid different percentages of income based on their total incomes (as in a progressive income tax), the system becomes more complicated for borrowers and employers. For example, it would be harder for a borrower to have her payment accurately withheld if she earned non-wage income outside the withholding system or if she held two part-time jobs.

- Unlike the current IBR plan, we assume the program does not provide borrowers with larger income exemptions for larger families. Instead, borrowers' payments are calculated using a flat income exemption. An exemption that varied with family size would require borrowers to report that information to their employers who would then withhold different amounts for different employees. This adds complexity and burden for both parties and introduces the opportunity for withholding error.

- We assume that all borrowers are eligible for loan forgiveness after they make income-based payments for a certain number of years. However, loan forgiveness makes it more important that the payroll withholding system accurately capture all of a borrower's income. Lower payments increase the chance that a borrower has debt forgiven and it increases the amount he would have forgiven. Eliminating loan forgiveness makes capturing all income less important in terms of cost to the government because eventually the borrower will likely repay the entire outstanding balance, including accrued interest.

- We assume that the loans accrue interest while borrowers are in repayment.

- We assume that automatic payroll withholding based on income would apply to all new federal loan borrowers moving forward. Existing borrowers would see no differences unless they opt into the new system.

- Reconciliation of payments and income would occur at the end of the calendar year, similar to the process in place for federal income and payroll taxes.

HOW WILL EMPLOYERS KNOW TO WITHHOLD STUDENT LOAN PAYMENTS?

Not everyone has a student loan, and employers do not automatically know which employees have borrowed for school. In the case of Social Security taxes, the employer pays the wages and therefore knows it has to withhold payments. With very few exceptions, everyone with a paycheck pays the same percentage of income. Not so with payroll withholding, which would place the responsibility for indicating that an employer must withhold payment on the borrower, the employer, or the government. Each one of those options entails trade-offs.

The Borrower Fills Out Paperwork

The borrower could initiate withholding by informing her employer that she had student loans. This is similar in concept to a borrower informing her employer about how much to withhold for income taxes by filling out Internal Revenue Service Form W-4. Perhaps the W-4 would include the question, "Do you have a federal student loan?" If the borrower checked, "Yes," then the employer would be required to withhold a percentage of income and then submit that money to a government agency.

This is the least complicated way to initiate withholding because the borrower should already know that he has a student loan. But it is not fool-proof and may not improve on the current loan program's design, nor would it eliminate defaults and delinquencies. The borrower may not check the box, either because she misreads the form, does not know she has a student loan, does not know what type of loan she has, forgets, or decides she cannot or will not repay it. It also means repayment would not be automatic or passive. The borrower must opt in. Failing to do so for whatever reason means she is delinquent or in default, but it simplifies the process.

The Employer and Government Initiate Withholding

The other approach is for the government to initiate withholding. This avoids the possibility of a borrower erroneously reporting his loan status and makes withholding automatic from the borrower's perspective. But it is more complicated than simply asking a borrower to check a box on a form. A new system that involves databases and information transmitted between government agencies and employers must be developed for this approach.

There are two ways for the employer to be informed that an employee has a student loan. The government could make a database of federal student loan borrowers (such as the existing National Student Loan Data System) available to employers who could enter each new hire's information into the database. Upon entering the information, the database could return one of two results: "Withhold," or "Do not withhold." While an existing Department of Education database already includes this information, opening it to employers could raise privacy concerns. This approach shifts the burden away from the borrower to the employer.

Alternatively, the government could use a new or existing database and notify the employer directly to withhold student loan payments. For instance, when an employer makes a new hire today, it must submit that information to the National Directory of New Hires. The Department of Education could build a data link to the NDNH that scans every new hire to see if that individual has a student loan. If the new hire has a loan, then the Department could send a notice to the employer. This shifts the responsibility for accurately determining if an employee's payments should be withheld to the government.

Feedback from Meeting: Concern Over Employers Initiating Withholding

A vocal contingent of participants rejected the idea of the employer taking the lead in determining whether to withhold an employee's payments for student loans through, for instance, querying a database. Participants thought this shifted responsibility and liability too much onto employers and were concerned such an approach would face strong opposition from them. Participants were also concerned about the government initiating this process for privacy reasons; they thought that borrowers should have the choice to not inform their employers they had loans and instead pay the government directly. Some participants also supported the idea of borrowers filling out a form, as that would keep them at least somewhat engaged in the payment process.

Feedback from Borrowers

Many borrowers wanted to be actively involved in the withholding system, and felt that they should be the ones informing their employers of a loan. Some felt loans were important and so they should be involved on principle. Others felt that being involved decreased the likelihood that employers would incorrectly withhold pay. Still others dreaded the idea of having to tell their employers they had loans, and so preferred the government and employer figure it out. Other borrowers expressed worry about the government being involved in the process at all, and were focused on having the option to opt out of this system.

How Do Employers Know to Stop Withholding?

Just as the payroll withholding system must inform employers to withhold loan payments, it must incorporate a process to inform them to stop when borrowers either repay the loan in full or qualify for loan forgiveness. These issues do not arise in the current student loan system. A loan servicer simply stops billing a borrower immediately after the balance is paid off. There are no perfect design options for this task in a payroll withholding system.

The borrower could be responsible for informing his employer that his loan has been repaid, but that would require him to gauge with some precision in which pay period that would occur. He might under- or over-pay as a result, possibly triggering refunds or past-due payments. This reconciliation could be done as part of the tax return system, whereby if the loan amount is finished, the borrower is given a refund and a form to submit to his employer to stop withholding. Or the government could inform the employer to stop withholding, but like the other option, this would be imprecise. It would be difficult for the government to gauge which pay period should be the last one for which loan payments would be withheld. It also means that the government would need to engage with employers regularly, sending orders to stop withholding for certain employees at various points throughout the year.

WHERE DO EMPLOYERS SEND LOAN PAYMENTS AND WHO SERVICES THE LOAN?

Another design challenge in a payroll withholding system is determining where the employer would send withheld loan payments and how those payments would be tracked and displayed to the borrower. These questions are not easily resolved by modeling the system on payroll or income tax withholding. Unlike taxes, payments withheld for a student loan must be applied to a loan balance that accrues interest daily. Ideally the borrower would be able to check the balance on her loan, see payments credited to it, gauge progress toward loan forgiveness, and make periodic prepayments. Under a payroll withholding system the role for loan servicing would look more like the current loan program, different than the role of a tax collecting agency.

An agency would have to administer the loans, along with the school, when they are made to the borrower, not just when the loans are in repayment. This includes determining school eligibility for the loans, disbursing the loan funds to the institution, tracking the loan balance and remaining loan eligibility, and providing information to the borrower and school while the student is enrolled.

Policymakers would need to address whether a new agency would take over those roles from the Department of Education. If it does, there may be considerable inefficiencies in reinventing the loan origination operations that already exist. If it does not, then two federal agencies would need to coordinate administering the loan program, likely adding costs, and potentially increasing confusion among students who would interact with two agencies.

Various proposals have envisioned the Department of Treasury, the Internal Revenue Service, the Social Security Administration, the Department of Education, or some new agency receiving the payments and servicing the loan. We briefly examine the pros and cons of these options.

Internal Revenue Service (IRS)

In some ways, the IRS seems best suited to the task of receiving loan payments withheld by employers. After all, this is the role the IRS already plays for taxes. But there

are a number of significant issues to consider when it comes to collecting student loan payments.

Some may argue that the IRS is struggling to administer its current set of responsibilities, which policymakers recently expanded to include delivering benefits and enforcing rules under the Affordable Care Act. Public confidence in the IRS is low, given budget constraints and recent scandals. The IRS also has little experience in administering loans, which is not part of its mission. The agency would have to create entirely new systems to track loan balances, payments, and interest, as well as design portals for prepayments, and online tools for tracking and displaying loan information.

There is also a timing problem. The IRS does not track withheld taxes in real time. Employers submit lump sum payments for employees' withheld income taxes each quarter, but the IRS does not actually know how much any particular employee has contributed or owes until payments are reconciled long after the end of the tax year. That means the IRS cannot track loan payments in real time, complicating interest calculations and preventing borrowers from assessing their loan payment and balance histories. Determining when withholding should end is also problematic when an agency cannot track payments in real time.

Social Security Administration (SSA)

Others have proposed that employers send payments to the Social Security Administration. In many ways, the SSA suffers from the same issues as the IRS, namely that it does not track tax payments in real-time and has no previous experience in administering loans. Thus, the agency would need to design a new loan tracking system that calculates interest accrual and balances while also allowing borrowers to check payments and balances. The SSA also does not track or collect taxes on non-wage income, such as investment income or unemployment benefits. Presumably those sources of income would need to be counted in student loan repayment.

An Entirely New Student Loan Agency

Still others have proposed that the federal government set up a new agency to administer payroll withholding for federal student loans.[8] This is an appealing

More Progressive Repayment Plan Complicates Payroll Withholding

The current IBR plan for federal student loans sets payments at a uniform percentage of income (after factoring in an income exemption). For example, new borrowers make payments equal to 10 percent of income over an exemption for "discretionary income." There are, however, advantages to an IBR plan that has borrowers pay larger shares of their incomes as they earn more, like a progressive income tax. Such a system would reduce the chances that a borrower with a higher income has debt forgiven while ensuring that lower-income borrowers can make the lowest possible payments.

There are also advantages to an alternative design under which borrowers pay larger shares of their incomes if they borrow more. This design can create more equity in an income-based repayment system as it ensures borrowers with higher balances repay under different terms than those with low balances. Indeed, without such a system, there would need to be limits on the overall level of borrowing allowed.

Using these designs in a payroll withholding system, however, complicates matters. It might be difficult for employers to implement different repayment terms for employees with student loans. Under a progressive repayment rate, borrowers in a two-earner household or those who have two jobs or significant non-wage income will likely under-withhold on their student loans throughout the year. A plan that varies repayment rates by debt levels would require the borrower or government to inform the employer to withhold at a different rate, which adds complexity for both parties. Another disadvantage of this approach is that it raises privacy concerns. It could force an employee to reveal to his employer that he is heavily indebted.

alternative because it allows the government to start from scratch, and the new agency would not have an overlapping mission of tax collection. Indeed, the United Kingdom seems to have had some success by creating the Student Loan Company to administer loans from payroll withholding. But the UK created the agency at the same time it created its loan program. Some might argue that a new agency could be more efficient and open to the changes and workarounds needed for a new system than the Department of Education. But it might also add substantial new costs compared to placing the responsibilities with an existing agency.

Department of Education

The Department of Education would have an advantage over other agencies in administering a payroll withholding system because it has significant experience administering the current student loan program. The agency has negotiated contracts with private companies to service the loans and built several web-based portals to help students track their loans, all of which would still be major parts of the loan program under a withholding system. It would also likely continue issuing loans, which could make it impractical to have a different agency collect the loans.

However, the Department of Education does not have the type of experience in implementing withholding systems as do the IRS and SSA. While the Department occasionally sends orders for wage garnishment to employers, it is not at a scale equivalent to interacting with every employer in the country to collect loan payments. Furthermore, some argue that the Department of Education and the private contractors it oversees do a poor job of administering the current loan portfolio.

Feedback from Borrowers

Some borrowers expressed satisfaction with their current loan servicers, especially with the ability to easily navigate the websites and get a real person on the phone to help them. Some borrowers also expressed a lack of trust of the government administering the withholding process, as borrowers were skeptical of the government's ability to correctly implement the plan and provide useful consumer features.

HOW WILL LOAN PAYMENTS BE COLLECTED ON NON-WAGE INCOME?

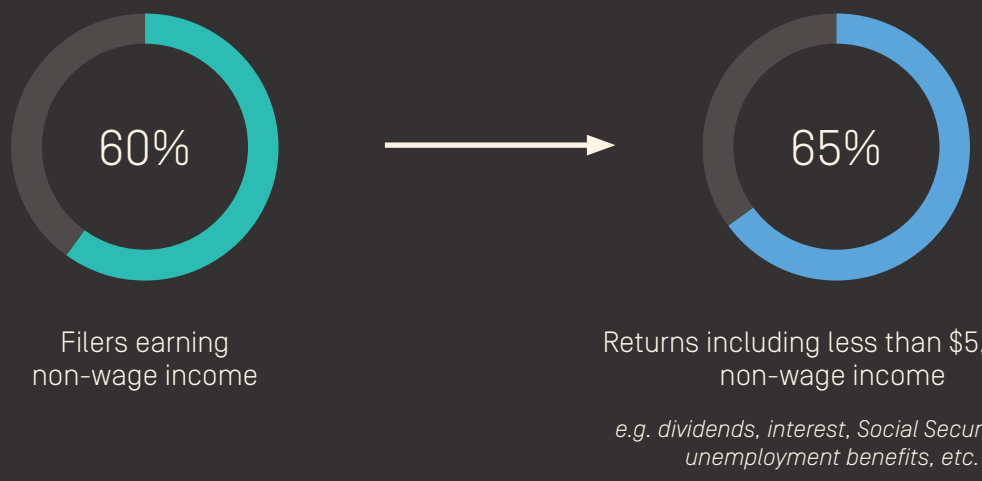
The existing IBR program for federal loans uses a borrower's federal income tax return to assess income and set monthly payments. The advantage of this approach is that it captures many forms of income earned outside of a payroll system. The disadvantage is that loan payments are not based on current income because the tax return reflects income the borrower earned a year or even two years in the past. While an employer withholding system is better suited to capture and withhold current wage income, it cannot do the same for other income, such as business income, payments for contract work, investment income, or unemployment benefits.

According to 2008 tax returns (the latest data available), while 60 percent of filers earn some non-wage income, 65 percent of those returns include less than $5,000 in non-wage income. This includes tax returns with Social

Figure 1

Non-Wage Income for 2008 Filers Who Claimed the Student Loan Interest Deduction

All Filers



Filers Claiming Student Loan Interest Deduction

Security benefits, unemployment, and other non-wage earnings and may reflect a sizable part of the population that is not likely to have outstanding student loans. If we examine tax returns for filers who claimed the student loan interest deduction (for which households earning less than $160,000 are eligible), we find that 61 percent have some non-wage income, but for over 80 percent of these returns, it is less than $5,000.

Policymakers would need to decide whether to include this income as part of student loan repayment, and if so, how. They likely will want to include most or all of it, as it would be unfair to require borrowers with similar incomes earned from different sources to make significantly different loan payments. There is some precedent for excluding certain types of income, as the current IBR plan uses a borrower's Adjusted Gross Income, not her total income. It may be best to exempt $5,000 earned outside of payroll withholding from the loan repayment calculation, because it may not be worth the administrative burden required to collect those payments. That would exclude most borrowers, but about one in five would still have non-wage income in excess of that amount to factor in.

The federal tax system offers some ideas for collecting payments on non-wage income, but as we discuss below, there is no perfect solution in the case of student loans. Many proposals for payroll withholding point to Social Security and Medicare taxes as a good model for student loans, but those taxes are not levied on many forms of non-wage income and are not automatically collected on wages earned as a non-employee.[9] The federal tax system collects on non-wage income when the individual reports it through quarterly or annual tax filings. For example, taxes on investment income are not withheld, but a brokerage company and the investor report that income to the IRS. The individual determines the tax he owes on it at the end of the year and pays when he files his return.

Why Loan Forgiveness Affects How Withholding is Designed

This paper assumes that payroll withholding and IBR would provide loan forgiveness after a certain number of payments, as is the case currently. Including loan forgiveness in payroll withholding increases the importance of including non-wage income in the payment calculation. Otherwise, a borrower's payments could be artificially low compared to his actual income, increasing the likelihood that some of his debt would be forgiven. Borrowers with high incomes could also unintentionally qualify for loan forgiveness.

If the program does not provide loan forgiveness, the question of whether some income should be included or excluded from the payment terms is less important. Underpaid loans will accrue interest, and the borrower will extend her loan term, meaning underpaying the loan does impose a cost on her.

Approaches to Reporting and Paying Non-Wage Income

For non-wage income in excess of any exemption the program provided, a payroll withholding system would need to maintain a separate system by which borrowers self-reported, calculated, and remitted loan payments on this income. In other words, borrowers might have some payments withheld at work and then would need to follow another process to make additional payments. Or they might be self-employed and need to make payments entirely outside of a payroll withholding system. There are a number of ways that payroll withholding could accomplish this.

In one approach, these borrowers would be excluded entirely from the payroll withholding system and repay their federal student loans under the existing system. But such a tack would undermine the simplicity, purpose, and goal of a universal and automatic payroll withholding system. In another approach, policymakers would require that entities issuing non-wage income withhold student loan payments. That would, however, add considerable burden for those entities, particularly since in many cases they are not required to withhold federal income taxes, and also because they would need to know which of their payees had an outstanding federal student loan, how much to withhold, and what other possible employment the borrower has.

Feedback from Meeting: Disagreement Over Importance of Non-Wage Income

Many panelists agreed that non-wage income posed challenges for a payroll withholding system, and ideally this income would be included in a borrower's payment calculation. But some argued that creating a complicated process to collect payments from a relatively small population might not be worth the time and costs. Additionally, some argued that wealthy participants, who are most likely to have substantial non-wage income, would likely opt out of payroll withholding anyway in order to pay off their loans as quickly as possible. However, other panelists thought the collection of non-wage income was important for three reasons. First, they argued that the program would come under criticism if wealthy individuals earning substantial non-wage income were making low student loan payments. They argued that it was important to capture many forms of income to ensure that people who were able to pay did not receive loan forgiveness. Lastly, it was important to capture income from those in a growing sector of the workforce (sometimes called the "gig" economy) who live on contract payments, as opposed to wages.

Use the Existing Tax Filing for Non-Wage Income

Those who earn significant non-wage income are supposed to make quarterly payments or take other steps to ensure they do not underpay their taxes during the year or face penalties. In practice, the amount of tax withheld is often just calculated when taxes are filed, so if payments are made by the end of the year penalties are avoided. Individuals earning income in addition to an annual salary through an employer, for instance, estimate their taxes on that income and submit payments via a website.[10] Others may opt to over-withhold through their employers to cover the taxes on income earned from other sources. Exact amounts owed and paid are reconciled at the end of the year, at which point underpayments are due or refunds are issued.

Since the government already requires these additional steps in the tax system for individuals earning non-wage income, these processes may be the best way to collect student loan payments on non-wage income. Individuals would estimate and submit their payments in the same way and payments would be credited to the loan by the agency servicing it. However, while feasible, this approach would make repayment more complicated and less predictable for borrowers than the current system does. It would require borrowers to estimate their student loan payments, whereas the current loan repayment program provides them with an exact amount owed. In that regard, borrowers could end up facing large payments each year if their estimates are off and, depending on how interest is accrued, could owe additional interest or other penalties.

Pay Based on Non-Wage Income Through a Separate Portal

No matter how policymakers set up a payroll withholding system, borrowers will need a consumer-facing portal to check the status of their loans, gauge if payments are accurate, anticipate underpayments, and make additional prepayments to supplement amounts an employer may be withholding. Borrowers earning non-wage income could use this system to make estimated payments. Alternately, the borrower could use a fixed payment method. The Department of Education or other agency could offer an online tool (and a paper form) that allowed borrowers to estimate how much they should submit in loan payments on a quarterly or monthly basis.[11] At the end of the year or after taxes were filed, the agency would reconcile those payments with what was owed and bill the borrower for underpayments. Like the other method discussed, this approach would make repayment more complicated and less predictable than the current system does because the affected borrowers would need to make estimated payments and could end up owing large sums at the end of the year. Allowing borrowers to opt out and keep in a system like the current one could ease these complications.

HOW WOULD ANNUAL RECONCILIATION OF PAYMENTS AND INCOME OPERATE?

The difficulty in designing a system to capture non-wage income means that a payroll withholding system would likely rely heavily on an annual reconciliation process to accurately calculate a borrower's total income and loan payments. Later sections of this paper discuss how married borrowers and those with two jobs demonstrate the need for an annual reconciliation process.

Reconciliation in this case would serve the same purpose as the annual federal income tax filing process that individuals undertake each year, but it need not be part of that process or look anything like it. As anyone who has filed income taxes knows, reconciling income and taxes once a year is not necessarily an easy process, leading many Americans to employ an accountant or use software.[12] However, many of the complications in the income tax system have to do with the presence of credits or deductions for specific activities. Once income is calculated, reconciliation for a student loan system should be more straightforward and could piggyback on this work.

Feedback from Meeting: Questioning the Need and Purpose of Reconciliation

Participants voiced many different viewpoints on the role and ideal operation of the reconciliation process. One group argued that reconciliation (matching the amount a borrower paid throughout the year to the amount that he actually owed once his annual income was tallied) was only relevant if he might eventually qualify for loan forgiveness. Many felt high-income borrowers should not qualify for loan forgiveness. However, if loan forgiveness benefits were eliminated from the program, borrowers would then have an incentive to pay off their loans faster, not slower, because of accruing interest, and therefore reconciliation may not be needed at all. These participants further argued that reconciliation was only important if many borrowers were projected to receive loan forgiveness. They also raised the idea of delaying forgiveness based on underpayment. That is, instead of requiring borrowers pay a lump sum at the end of the year, their forgiveness term would instead be extended. For example, under current IBR, a borrower receives loan forgiveness after twenty years of on-time payments: 240 payments. Under the alternative plan, if at the end of the year a borrower had paid $1,100 towards her loan, but actually owed $1,200 based on her income, then her forgiveness period should extend to 241 payments because she would have effectively missed a payment. That way there is no issue of "underpayment" nor is a lump sum payment due. Interest would continue to accrue on the unpaid amount, and forgiveness would be extended out in time. Other participants found this approach too lenient, and thought it created odd incentives. Those participants thought a person's annual obligation was just that—an obligation. They further argued that owing more at the end of the year would apply to a relatively small subset of borrowers who earned high levels of non-wage income.

On the burdensome nature of reconciliation, participants were split. Some were not worried by the idea that borrowers might have to fill out some extra forms at the end of the year with their taxes or that they might owe a lump sum each year for underpayments. To summarize the view of one participant: it is the government's money and we already make people fill out paperwork for taxes, so we can make people fill out paperwork for federal loans. Additionally, participants argued, those finding it particularly burdensome could always opt out and pay on a traditional amortization schedule. Others worried that borrowers owing lump sum payments at the end of the year due to underpayment would not able to pay.

Some proponents of payroll withholding imply that including student loan payments in this process is not a large burden or has no downside.[13] Yet in one sense it could be more burdensome than the current loan repayment system for most borrowers because it would require them to calculate how much they owe (by themselves, by hiring accountants, or by buying tax preparation software), while the current system tells them exactly what they owe. However, if they are already doing this to file their taxes the additional cost might be marginal. Any reconciliation process, no matter how it is designed, means that borrowers can end up under- or over-withholding on their student loans just as they do on their income taxes, a topic we discuss later.

A payroll withholding system would not necessarily require the vast majority of borrowers to reconcile payments themselves as they do with income taxes. Most of the work could be done by a government agency instead, although that might mean that efficiencies and cost savings for the government under a payroll withholding system would not be as large as some have theorized.[14]

For the majority of borrowers who earn all of their income through wages (or not enough non-wage income to trigger additional withholding), the reconciliation process could be made automatic or passive using their federal tax returns. Once a borrower files her annual return and the IRS receives and verifies the information, the Department of Education could reference the return to check withheld loan payments against the reported income. It would then inform her whether she over- or underpaid in the past year.

It is important to understand that while government agencies could theoretically administer the reconciliation process for borrowers, this would happen many months after a calendar year. Federal income tax filing is due months after the calendar year is over (April 15th) and many individuals file for an extension. For borrowers who file taxes on time, it may be months before the IRS and/or the Department of Education could reconcile loan payments with income. That delay has implications for borrowers who end up owing additional payments at the end of the year. Underpaying a loan would add to the interest they owe on the loan, either increasing their loan balances or increasing the size of the underpayments if the back interest is due immediately. (See "The Issue of Accrued Interest and Annual Underpayments.")

The Issue of Accrued Interest and Annual Underpayments

Because a payroll withholding system that uses income-based repayment creates the opportunity for borrowers to underpay their loans over the course of a year, policymakers need to decide how to treat the interest that has accrued on the loans as a result.

Underpayment means that the borrower has delayed payment on the loan balance and interest has therefore accrued more than it otherwise would have if he had paid the amount due in 12 equal monthly payments. Should that interest be 1) retroactively cancelled when the annual underpayment is paid? 2) added to the amount of the underpayment and due as part of the one-time payment? or 3) simply rolled into the loan balance as unpaid accrued interest, to be repaid at whatever rate the borrower makes future payments on his income?

The first option is the most beneficial to the borrower but comes at a fiscal cost to the government in cancelling the accrued interest retroactively. The second option is disadvantageous to the borrower because it increases what she must pay to retire the underpayment, but it most accurately reflects what she owes. The third option is a middle-ground approach. The interest is technically still due, but it does not affect her immediate payments, as those are based on income. The unpaid interest, however, will cause her to pay for longer or it will increase the amount of debt that will ultimately be forgiven.

HOW WILL WITHHOLDING TREAT THE INCOMES OF MARRIED BORROWERS?

The current IBR program for federal student loans uses a household's combined income to establish the repayment obligation of married borrowers who file joint tax returns. For married borrowers who file separate tax returns, the repayment obligation is based on only the borrower's income. However, some policymakers, including those in the Obama administration, agree that the latter option is not equitable and that payments should be based on household income.[15]

Either way, a payroll withholding system would have difficulty accommodating an IBR program that used either combined household income or allowed for a separate tax filing option to establish a payment obligation. Without a special design, payroll withholding would fail to withhold the accurate amount or it might not withhold at all in cases where only one spouse in a couple has a loan. Payroll withholding by design captures only an individual's earnings, and payments must be adjusted to reflect a spouse's earnings so that his earnings contribute to repaying the loan. If the borrower files separate taxes—which is somewhat rare—then the employer would need to know not to adjust withholding and the employee should be made aware of other potential costs or limits to him or his spouse of filing separately. (For example, both partners must either take the standard or itemized deduction and they may be ineligible for some credits.)

The income tax system addresses these issues in two ways: first, the filer chooses the number of exemptions or extra amount withheld on the W-4 she files with her employer, and second, through the annual reconciliation (i.e., tax filing) process. We have already established that any payroll withholding system for student loans would need a similar year-end reconciliation process. However, the discrepancy between what should be withheld and what actually is withheld may be quite large in some circumstances, such as when a low-earning borrower files a joint return with a high-earning non-borrower spouse. Borrowers could end up owing in a lump sum 100 percent or more of what they already had withheld as a result of the reconciliation process.

To mitigate that effect, the payroll withholding system might require that an employee instruct his employer to withhold a greater percentage or dollar amount, similar to tax filers lowering their number of exemptions, so that withheld loan payments take a spouse's income into account. The downside to this approach is that it places

Feedback from Meeting: Married Borrowers Pose a Difficult Challenge

There is no easy answer to the issue of married borrowers. Participants acknowledged that the simplest thing to do would be to treat incomes individually—borrowers' obligations would be based on their individual wages. But participants were quick to point out how that could be seen as unfair. Some thought it unfair to burden someone with her spouse's loan, but because people file joint income taxes, it is difficult to determine how to account for non-wage income. When people file jointly, it is impossible to fully determine who earned the non-wage income. In that case, non-wage income could either be excluded or only 50 percent of the household non-wage income could be included to calculate how much a borrower owes. Others suggested that because married couples figure out how to reconcile total earnings with withholding on taxes, it is not insurmountable for them to reconcile wage earning with the amount due on loans at the end of the year.

the responsibility of approximating the correct amount to withhold on the employee, which somewhat defeats the purpose and promise of simplification for the borrower.

Alternatively, the non-borrower spouse could tell his employer that he has a spouse with a student loan, so his employer should initiate withholding. This would require voluntary enrollment on the part of the non-borrowing spouse, which is not ideal, but would not require either spouse to estimate the correct amount to withhold. This option also presents the challenge of "connecting" the dollars withheld from a non-borrowing employee to the loan account of his spouse. This approach is further complicated if IBR provides an exemption, as we assume it would. Withheld payments would need to be adjusted to ensure that the exemption was not double-counted when the spouse has income withheld. Otherwise, payments would be under-withheld. This would argue for the process to be initiated by the employee. For example, if someone has a new job she can report on her W-4 (or whatever form is used) both the loan number and the fact she has a student loan. This would involve consolidating the loans of individuals or somehow linking them for repayment, a process that could make changes in marital status even more complicated.

The complications with married borrowers could be mitigated if the repayment rules were changed to treat loan debt as only an individual, rather than a joint, obligation. However, there is no widespread support for such a change, since it raises fundamental fairness issues. Even if the debt was treated as an individual obligation, many other factors discussed throughout this paper demonstrate why the borrowers would still be subject to annual reconciliation and could owe additional payments at the end of the year. One compromise option would be that the borrower not only owes on his individual income, but on half of the household's non-wage income, as reported on the couple's taxes.

There is no easy answer to the issue of married borrowers... Some thought it unfair to burden someone with her spouse's loan, but because people file joint income taxes, it is difficult to determine how to account for non-wage income.

WHAT ABOUT BORROWERS WITH MORE THAN ONE JOB?

A payroll withholding system that includes an exemption can result in borrowers with two jobs significantly under-withholding since, by default, both employers would include the exemption in their withholding calculations, thus causing the borrower to underpay.

To address this issue, one employer would ideally incorporate the exemption into its withholding calculation and the other would not. The borrower could answer a supplemental question or form and the employer could adjust the withholding accordingly. Or if the government is responsible for initiating the process, it could notify the employer that an employee is working two jobs. This complicates the process for individuals who work many short-term jobs either concurrently or consecutively.

It is difficult to imagine a system whereby the government would know and could report to employers which individuals with student loans were working more than one job. However, having the borrower answer a question on the W-4 (i.e., "Check this box if this is not your primary employer") or request a supplemental form to fill out to notify the employer could be error-prone.

If all new employees were required to fill out a form that stated whether or not they had student loans (or if loan payments were to be made on household income, whether or not a spouse had student loans), they could indicate that another employer was already withholding. This would not add paperwork in a system where the borrowers already initiated withholding using a form. But in a system where the government initiated withholding, this form would mean borrowers would have to complete paperwork to start this process. It may not be worth requiring every new employee fill out a form to serve a small subset of borrowers who have more than one job.

Feedback from Meeting: Privacy and Liability Concerns for Borrowers with Two Jobs

Participants acknowledged the problems borrowers with more than one job pose for a payroll withholding system, but certain solutions appeared better than others. Few, if any, were in favor of the employer or government taking the lead to adjust a borrower's withholding in this instance. Others pointed out that many employees may not want their employers to know they have another job. Some participants argued that one way to address the issue of multiple jobs would be to have the withholding system err on the side of over-withholding. That way, borrowers with more than one job would not end up owing a lump sum payment at the end of the year if they held two jobs while others with only one job would be refunded an overpayment. However, others were concerned that this approach would result in borrowers having too much money taken out of their paychecks. Most participants did agree, however, that the borrower should have control over whether an employer knows if he has another job.

Why a Family Size Adjustment for Loan Payments Complicates Withholding

The current IBR formula exempts some income from a borrower's payment calculation based on the borrower's family size. The exemption for 2015 is $17,655 for a single person, with an additional $6,240 exempted for a spouse and each child. This provision allows borrowers with more dependents to make lower loan payments.

In a withholding system, adjusting an exemption for family size adds complexity. First, it would necessitate an additional process by which the borrower declared a family size to his employers and the government. It would also make it more difficult for employers to automatically withhold payments because they would first need family size information from the borrower. (This information cannot be accurately transferred from the IRS form W-4 because individuals claim additional or fewer exemptions for many reasons other than to reflect their household sizes.) Lastly, the employer would have to withhold different amounts from employees depending on family size.

SHOULD BORROWERS BE ABLE TO OPT OUT OF WITHHOLDING?

Though much of the appeal of a payroll withholding system is that it is automatic and universal, there are many reasons why policymakers will likely want to let borrowers opt out. For instance, the burden associated with accounting for non-wage income may drive a significant subset of borrowers to pine for a straightforward loan system that can be paid on an auto-debit plan. Some borrowers opt not to repay their student loans in order to have extra flexibility to pay for other outstanding debts, obligations, and priorities. Opting out of payroll withholding would let them preserve that flexibility, though they would be in default and a question would need to be raised about the length of time for any repayment once they began. Other borrowers might have privacy concerns or simply feel uncomfortable with employers having anything to do with their student loan payments.

Feedback from Borrowers

Borrowers repeatedly mentioned their desire to opt in and out of the system. This had central importance because some borrowers did not want employers involved with their loans, and others just wanted to be "involved" in the process. There was thus an emphasis on making opting in and out of withholding available and as easy as possible.

Policymakers need to decide if opting out means the borrower still repays on an income-based repayment plan or a standard repayment plan with fixed payments based on the loan balance and interest rate. They must also decide whether there should be more than one additional option. Either way, policymakers will need to set up a parallel process separate from wage withholding for repayment that would likely look similar to the current student loan system. Additionally, they will need to decide when the borrower can make the decision to opt out. Should the borrower have the opportunity when she takes out the loan or would it be best to provide it as an option after she has left school and the loan is about to come due? The more prominent and early the opt-out feature is the less automatic and universal the payroll withholding system becomes. Policymakers would also need to decide whether borrowers can shift between the two systems and if so, what that would mean for any loan forgiveness.

CAN BORROWERS DEFAULT? WHAT HAPPENS IF THEY DO?

One of the promises of payroll withholding for student loans is that it will make default rare, if not impossible. For borrowers who make little to no income, it is theoretically impossible to default because they owe nothing and need not take any further action on their loans. That is a tremendous advantage over the current system, which still requires that they file paperwork to suspend loan payments if they are earning little income. However, a payroll withholding system that includes a reconciliation process as part of filing federal income taxes may still require a borrower to fill out a form indicating he was not required to make payments on the loan.

As was discussed earlier, there are situations, even in a well-designed payroll withholding system, where borrowers must make payments on the loan outside of that process. That creates the opportunity for default. Just as there are people who do not pay their taxes in a payroll withholding system for federal taxes, so too will there be people who do not, or feel that they cannot, pay their student loans in a payroll withholding system. The question for policymakers is: what should the consequences be for late or non-payment in a payroll withholding system?

Incidental or Small Underpayment

A payroll withholding system could include a safe-harbor policy where small amounts of annual underpayments do not trigger penalties or additional payments (although they would still be reflected in the fact that a borrower has a higher loan balance than if she had made the required payments). Borrowers might be allowed a one-time underpayment without penalty, but two consecutive underpayments could result in fines.

As an alternative, the government could prorate the underpayment plus any additional interest from the delayed payments into 12 monthly payments and add them to the subsequent year's payments that the employer would withhold. This is similar to how underpayments for escrowed property taxes and insurance are handled on home mortgages. However, there are two problems with this approach when applied to student loans and payroll withholding. First, with the added payment amount, a borrower's monthly payments would no longer be based on current income and hence might no longer be "affordable," undermining one of the virtues of payroll withholding. Even more problematic, the government would have to promptly inform employers about the extra payments they must withhold, which would be different for each employee and would change each year. That would be complicated and burdensome for employers, not to mention for the government, which would have to send out the notifications each year.

There is also the question of how the program should treat small underpayments left unresolved for long

Should Existing Borrowers be Able to Use Payroll Withholding?

Most changes to the federal loan program apply to new borrowers going forward. Indeed, the Master Promissory Note for federal loans protects borrowers from retroactive changes.[16] But policymakers need to decide whether borrowers whose loans predate a new payroll withholding system should be able to voluntarily participate in it. Making the option available to them would add complexity to the withholding program. Borrowers would likely have to forfeit their existing options with respect to repayment plans and would need to notify their current loan servicers and employers that they would use the withholding system. Given the complexities involved, policymakers may determine only new borrowers would be able to participate in a withholding system.

periods of time. Should they be turned over to collections agencies and reported to credit bureaus? Policymakers will also need to determine how to treat the additional accrued interest on the loan as a result of the underpayment. (See "The Issue of Accrued Interest and Annual Underpayments" on page 14 for a discussion.)

Substantial Underpayment

If the borrower significantly under-withholds, the program could be designed to address the underpaid amounts in a number of ways. First, the government could make the difference due immediately following the reconciliation process. Some policymakers may want to add penalties to the amount due, as is the case for income taxes, to discourage underpayment. Second, the federal tax system might require that a filer who severely under-withheld make quarterly estimated tax payments in the subsequent year. Policymakers could do the same for underpaid student loans. Third, they might also opt to have the borrower put into default status immediately. The program would also have to include the existing set of processes for discouraging underpayment and collecting on a severely delinquent underpayment, such as reporting the debt to a credit bureau, turning it over to a collections agency, seizing tax refunds, or garnishing wages.

ARE DEFERMENT AND FORBEARANCE BENEFITS STILL NECESSARY?

The federal student loan program offers deferment and forbearance benefits for a range of circumstances. The borrower elects or applies for these benefits, and his payments are reduced or suspended for a limited amount of time. Whether these should exist in a payroll withholding system, and how long a borrower could use them, is an open question. Even though borrowers would make payments on a share of their incomes under a payroll withholding system, borrowers may still need temporary relief from payments due to extenuating circumstances. In these cases, the loan program may need to offer a forbearance benefit that lets borrowers suspend payments even though they are still earning an income. The program may also need to offer automatic deferments for borrowers in school, as it does currently.

While there may be good arguments in favor of some deferment and forbearance benefits, it is worth noting that the government does not provide those benefits in the case of payroll and income taxes. Under a similar system to set and collect student loan payments, one could argue that a forbearance benefit is unnecessary. At a minimum, the fact that payroll withholding tracks a borrower's income on a more real-time basis should reduce the role forbearance or deferment plays in the program. A borrower's payments would automatically be suspended if she were not earning income. Moreover, adding the benefits to a payroll withholding system adds administrative complexity to the loan program, as a mechanism for granting forbearance and deferments must be established and employers must be notified to suspend withholding.

Feedback from Meeting: Some Level of Deferment Still Necessary

Participants generally agreed that a payroll withholding system should still include a forbearance or deferment benefit for cases of unforeseen economic hardship, what they called lumpy payments, such as if one's car breaks down. In that case, even if a borrower is earning an income, he still might not be able to pay. Other participants thought that forbearance coupled with auto IBR would have more integrity, because people would only use it in cases of serious economic stress, as opposed to using it simply to delay repayment. However, some participants were concerned that deferments and forbearances under a payroll withholding system would likely involve employers. They worried about how an employee would be perceived if he notified his employer to suspend or reinstate his loan payments regularly. The size of the employer may matter too, insofar as smaller employers are more likely to notice such changes. Participants also noted that employers already know private and sensitive information by administering other benefits, such as flexible spending accounts.

Feedback from Borrowers

Borrowers emphasized the need for flexibility in the loan program. Many had concerns that at some point in their repayment process, an unexpected expense could come up that would make the loan unaffordable. Thus, borrowers were clear that some form of deferment and forbearance would still be necessary under a payroll withholding system.

CONCLUSION

Our previous papers have argued that income-based repayment is a sound policy option for federal student loans because it acts as an insurance mechanism to protect borrowers from income shocks and more fairly ensures that those who can pay back do so, and those who cannot are excused. But implementing a true version of automatic IBR based on present income works best with payroll withholding. Indeed, it may not be possible otherwise.

This report is meant to spur further discussion within the policy community on the tradeoffs involved with implementing automatic IBR and employer withholding. Some participants from our meeting on the viability of payroll withholding walked away with a newfound appreciation for the difficulties involved, others restated their opposition to such a plan, and still others confirmed their belief that any challenges were surmountable and worth the effort in order to fulfill the promise of automatic IBR. Borrowers we spoke with were generally positive towards the idea, but worried about specific aspects of the program, such as how it would work, whether it would work well, if their privacy would be protected, and if the program would be flexible enough to allow them to delay payments in times of hardship. Some meeting participants also believed that the report demonstrated that grafting the current IBR formula onto a payroll withholding system would lead to unnecessary complications, and that should it be implemented, the contours of IBR's design (i.e., how payments are calculated, if/when forgiveness occurs) should be redesigned to best interact with withholding. This insight is key in moving the debate forward. When we talk about universal or automatic IBR, we need to be specific about what goals we want to achieve, what IBR ought to look like, and how best to implement it.

NOTES

[1] "Federal Student Loan Portfolio," U.S. Department of Education, **https://studentaid.ed.gov/about/data-center/student/portfolio**. Available data suggest that virtually all borrowers who default lack a bachelor's degree, meaning they either never completed or obtained a certificate or associates degree. Clare McCann and Jason Delisle, "Student Loan Defaulters Aren't Who You Think They Are," *EdCentral*, October 23, 2014. **http://www.edcentral.org/defaulters/**.

[2] New America, NASFAA, and Young Invincibles are the primary authors of this report and have previously coauthored two other paper on Automatic Income-Based Repayment. *Automatic for the Borrower* (March 2014) argues in favor of such a system and presents possible formulas and accountability measures for a universal IBR system. *The Case for Payroll Withholding* (December 2014) explains why automatic IBR can only work when coupled with payroll withholding.

[3] Tom Ashbrook, "Joseph Stiglitz on Student Debt and the American Dream," *On Point With Tom Ashbrook*, WBUR, May 16, 2013, **http://onpoint.wbur.org/2013/05/16/joseph-stiglitz-on-debt**.

[4] Susan Dynarski and Daniel Kreisman, *Loans for Educational Opportunity: Making Borrowing Work for Today's Students* (Washington, DC: The Hamilton Project, October 2013) and Elizabeth Baylor and David Bergeron, *Increasing Postsecondary Attainment Through Smarter Student-Loan Repayment* (Washington, DC: Center for American Progress, March 26, 2015).

[5] It is worth noting at that payroll withholding could be simpler (and more easily tied to the tax process) were the formula to look different, especially if loan forgiveness were treated differently, which is something several participants made clear during the meeting.

[6] The rollcall at our meeting at New America: Ben Miller, Elizabeth Baylor, and Rohit Chopra, Center for American Progress; Jennifer Wang, Young Invincibles; Jesse O'Connell, Lumina Foundation; Nick Lee and Ed Pacchetti, Bill and Melinda Gates Foundation; Kim Reuben, Urban Institute; Karen McCarthy, National Association of Financial Aid Administrators; Jaimie Francis, U.S. Chamber of Commerce Foundation; Jan Kruchoski, CliftonLarsonAllen; Kathleen Shanahan, Uretek Holdings; Kevin James, American Enterprise Institute; Lauren Asher, The Institute for College Access and Success; Persis Yu, National Consumer Law Center; Carlo Salerno, Education Economist; Katherine Sydor, U.S. Department of Education; Jason Delisle, New America; Alexander Holt; New America. Sue Dynarski, University of Michigan and Scott Miller, Pennsylvania Higher Education Assistance Agency were not present, but both submitted comments prior to the meeting.

[7] Young Invincibles spoke with four groups of borrowers in September 2015 regarding initial reactions to a proposed reform on Income-Based Repayment through payroll withholding. These discussions took place in the DC metropolitan area, and drew a total of 14 participants. These participants were a mix of men and women that self identified as African-American/Black, Afro-Latina, Latina, multi-racial, and white. Two discussions consisted of borrowers who were professionals and currently paying back their student loans ranging from the ages of 25-41. The other two groups were current undergraduate students from American University and the University of Maryland, a majority whom were seniors. All participants reported having federal student loans and no private loans.

[8] Susan Dynarski and Daniel Kreisman, *Loans for Educational Opportunity: Making Borrowing Work for Today's Students* (Washington, DC: The Hamilton Project, October 2013).

[9] Erin Dillon, "Affordable at Last: A New Student Loan System," *Education Sector*, 2011, **http://www.educationsector.org/sites/default/files/publications/AffordableAtLast_RELEASE.pdf**. Dynarski and Kreisman (2013).

[10] "Payments," Internal Revenue Service, May 20, 2015, www.irs.gov/payments.

[11] If the payment were submitted on a quarterly basis, interest could be calculated as if it were distributed evenly on a per-month basis.

[12] Jonnelle Marte, "Stop Paying So Much for Tax Help," *Washington Post*, January 26, 2015, **http://www.washingtonpost.com/news/get-there/wp/2015/01/26/stop-paying-so-much-for-tax-help/**.

[13] Jordan Weissman, "Forget Elizabeth Warren," *Slate*, June 10, 2014, **http://www.slate.com/articles/business/moneybox/2014/06/elizabeth_warren_student_debt_crisis_it_s_actually_tom_petri_who_has_the.html**.

[14] Elizabeth Baylor and David Bergeron, *Increasing Postsecondary Attainment Through Smarter Student-Loan Repayment* (Washington, DC: Center for American Progress, March 2015).

[15] "Fiscal Year 2015 Budget Summary and Background Information," U.S. Department of Education, 2014, 54, **http://www2.ed.gov/about/overview/budget/budget15/summary/15summary.pdf**.

[16] The current MPN states: "If you do not choose a repayment plan, we will place you on the Standard Repayment Plan." "Federal Direct Stafford/Ford Loan, Federal Direct Unsubsidized Stafford/Ford Loan Master Promissory Note," William D. Ford Federal Direct Loan Program, 8, **http://www.direct.ed.gov/pubs/dlmpn.pdf**.

@NEWAMERICAED | NEWAMERICA.ORG | 740 15TH ST NW, SUITE 900, WASHINGTON DC 20005