



Revamping the Republicans' RAP Repayment Plan

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Among the sweeping changes Republicans are pursuing via budget reconciliation are major reforms to student loans, and especially to the repayment plans the federal government offers to student borrowers. Both the House and Senate have coalesced around a loan repayment system with just two plans going forward: a standard mortgage-style repayment plan with fixed payments over a specified term, and a plan linking payments to borrowers' incomes, called the "Repayment Assistance Plan" (RAP).

Broadly, the Republican higher education reconciliation proposals each would cut hundreds of billions of dollars in spending, with the lion's share coming from changes to student loan repayment plans that reduce loan forgiveness to borrowers. Ending the Biden Administration's SAVE income-driven repayment (IDR) plan accounts for much of the savings, but RAP would go further, generating savings even relative to long-standing IDR plans.

As we detail below, the design of RAP is innovative relative to prior IDR plans, offering more flexibility to target loan payment relief to low-income borrowers, while controlling the overall costs of the plan. It is unfortunate, then, that RAP would be more punitive to low-income borrowers than earlier IDR plans, undermining the core purpose of income-driven repayment: to act as a safety net for borrowers with lower-than-expected returns on their educational investment. Notably, the plan would eliminate \$0 payments for the lowest-income borrowers, and increase the time until remaining balances are forgiven to 30 years, up from 20 years in several existing plans. Additionally, key parameters are not adjusted for inflation, making the plan less and less generous over time.

This brief details these drawbacks, and illustrates how the RAP framework could be tweaked to ensure the plan serves as a safety net for truly struggling borrowers, even while ensuring full loan repayment for most borrowers.

OVERVIEW OF PROPOSED IDR PLANS

The House and Senate proposed nearly the same two repayment plan options for new borrowers. The proposed new "standard repayment plan" would allow borrowers to make equal monthly payments that fully repay the principal and accumulated interest over a set number of years. Unlike the existing standard plan that spreads repayment over 10 years for all borrowers, the new version would lengthen repayment terms for borrowers with larger balances. Borrowers with an original principal balance of less than \$25,000 would still repay over 10 years on the new standard plan, but those with a balance of \$25,000 to \$50,000 would repay over 15 years, those with \$50,000 to \$100,000 over 20 years, and those with more than \$100,000 over 25 years. While there are some flaws with this plan, such as sudden drops ("cliffs") in monthly payment amounts and increases in lifetime loan costs at each debt threshold, they are not the focus of this brief.

Borrowers who want to instead pay according to their income would have access to a single income-driven plan called the Repayment Assistance Plan (RAP). These borrowers would pay a set percentage of their adjusted gross income each month: 1 percent if they make between \$10,000 and \$20,000, 2 percent if they make between \$20,000 and \$30,000, and so on, up to a maximum of 10 percent if they make over \$100,000. Fifty dollars a month (\$600 per year) would be subtracted from the

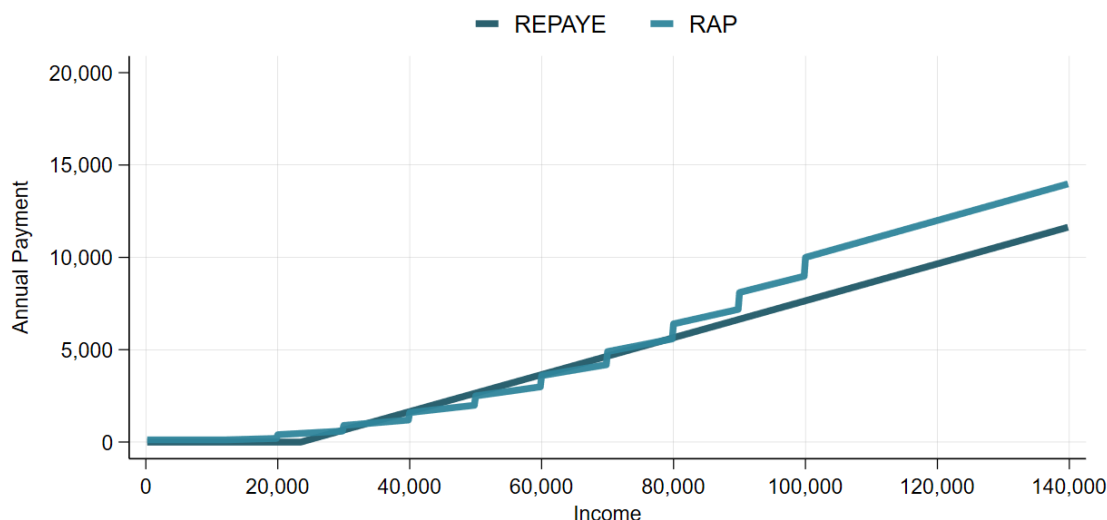
payment amount for each of the borrower's dependent children.¹ But regardless of borrowers' incomes or the number of children they have, all borrowers would have to pay at least \$10 a month (\$120 a year). Borrowers who make their scheduled payments for 30 years would have any remaining balance forgiven.

RAP would also include two types of ongoing forgiveness that would help borrowers bring their balance to zero before 30 years. One is an interest subsidy: If a borrower's scheduled payment does not cover the accrued interest in a given month, the unpaid interest would be waived. Another is a principal subsidy: If a borrower makes a monthly scheduled payment that does not reduce the principal by at least \$50, a principal subsidy would "top up" the payment so that principal is reduced by at least \$50.

REPAYE was the most widely used IDR plan prior to SAVE, and we refer to it throughout this piece. Under REPAYE, borrowers owe 10 percent of their income above 150 percent of the poverty line for their household size. If they make less than 150 percent of the poverty level, borrowers owe no payments, but still accrue credit towards forgiveness. Remaining balances are forgiven after 20 years for undergraduate borrowers, and 25 years for borrowers with any graduate debt. REPAYE offers less forgiveness along the way than RAP—only a smaller interest subsidy. If borrowers make their scheduled payments, the plan forgives half of any unpaid accrued interest for most borrowers, and 100 percent for borrowers with subsidized loans in their first three years for repayment.

Figure 1 below shows how RAP would set annual payments for borrowers with different income levels compared to REPAYE. The figure compares annual payments under RAP and REPAYE for a single borrower. From this bird's-eye view, the amount due each year would be similar between RAP and REPAYE for middle-income borrowers (i.e., between around \$40,000 and \$80,000), but for higher-income borrowers (i.e., above around \$80,000), payments would be significantly higher on RAP.

Figure 1. Annual Amounts Due in REPAYE and RAP for a Single Borrower, By Income



RAP'S DESIGN ENABLES MORE FLEXIBLE TARGETING OF LOAN RELIEF

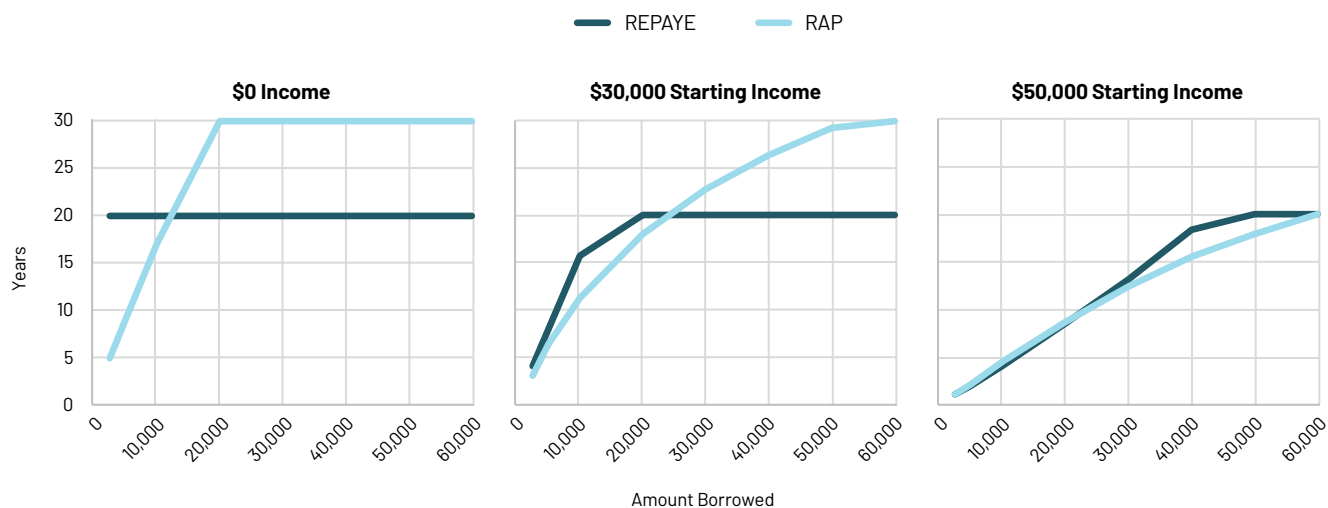
RAP is clearly an effort to rein in the costs of IDR plans, which, through a combination of the generous SAVE plan and Public Service Loan Forgiveness (PSLF), have resulted in taxpayers subsidizing the *average* loan in IDR, not just loans held by low-income borrowers. In 2024, the Congressional Budget Office projected that each \$1,000 loan in an IDR plan would cost the government between \$300 and almost \$500. RAP would result in a much lower subsidy to the typical enrolled borrower, and it would encourage more borrowers to choose the standard plan.

An important feature of RAP's design is that it is flexible enough to provide relief to borrowers with poor labor market outcomes, while controlling costs overall. In current IDR plans, borrowers with incomes below a certain threshold had no payments due, and borrowers with higher incomes owed a fraction (usually 10 or 15 percent) of their income above that threshold. In those plans, the primary lever to reduce payment burdens for low-income borrowers is to increase the income threshold below which borrowers qualify for \$0 payments; for example, SAVE raised this threshold from 150 of the poverty line in REPAYE to 225 percent. While this allows for borrowers with incomes between 150 and 225 percent of the poverty line) to no longer owe any loan payments, it also reduces payments for *every* borrower with incomes over 225 percent of the poverty line, by more than \$1,000 per year on SAVE.² Under RAP, the share of income that borrowers owe is instead set independently for each income band. In principle, this allows low-income borrowers to be treated more generously without automatically lowering payments for higher-income borrowers who may not need assistance. As we note below, the benefit of this structure is not realized—in practice, RAP would be more punitive toward low-income borrowers than existing plans—but this could be addressed by tweaking the repayment schedule.

RAP includes provisions to help low-income borrowers that make regular payments to make more progress in paying down their debts. Focus groups find that people get discouraged when they see ever-growing balances despite continually making payments. Reflecting growing bipartisan consensus on the importance of helping borrowers make progress, RAP contains both interest and principal subsidies that would be more generous than those in IDR plans introduced before SAVE. The interest subsidy, for instance, would forgive all of a borrower's accumulated interest each month in cases where scheduled payments do not cover the full amount. For borrowers who were going to have their loans forgiven eventually, this subsidy makes no financial difference, but would likely be a psychological relief and perhaps could keep borrowers better attached to repayment.

RAP also offers a principal subsidy that could result in faster forgiveness for low-income, low-balance borrowers. The subsidy—which applies to borrowers whose scheduled monthly payments do not cover at least \$50 of principal—can be up to \$600 per year, or \$12,000 over 20 years. Low-income borrowers who have relatively low debt loads (in the ballpark of \$12,000, depending on interest rates) would pay more on RAP relative to REPAYE, but they would become debt-free sooner thanks to the principal (and interest) subsidies—even without explicit early forgiveness provisions like those in the SAVE plan. Figure 2 shows the time until being debt-free for borrowers with different starting incomes (across the three panels) and different amounts borrowed (on the x-axes).³

Figure 2. Time Until Debt-Free in REPAYE and RAP, By Debt Amount



RAP FALLS SHORT AS A SAFETY NET FOR THE LOWEST-INCOME BORROWERS

Despite its innovative structure, though, RAP has key design flaws that would likely cause large increases in loan defaults and material hardship for low-income borrowers relative to existing IDR plans.

RAP's Higher Payments for Low-Income Borrowers Will Result in More Defaults

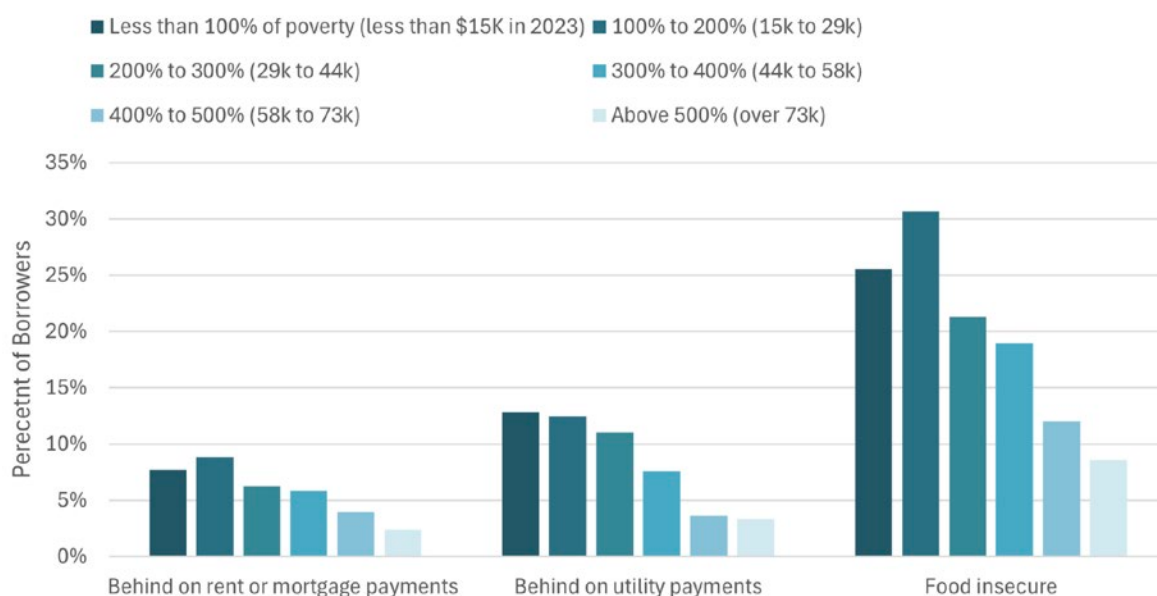
While all existing IDR plans permit borrowers to make \$0 payments each month if their income is low, RAP would require \$10 payments from even the lowest-income borrowers. Some policy thinkers have latched onto a 2024 research paper by Tomás Monarrez and Lesley Turner to justify introducing a minimum monthly payment. Monarrez and Turner found that borrowers whose incomes are low enough to just qualify them for \$0 IDR payments (i.e., just below 150 percent of the federal poverty line) are less likely to default after initially applying for IDR than those with incomes barely higher such that they are required to small monthly payments. But these borrowers also are less likely to recertify their incomes after a year in IDR. (Recertifying income annually is required to remain in IDR, and borrowers who do not recertify usually face higher monthly payments.) As a result of suddenly facing higher payments, borrowers who had been making \$0 payments were more likely to newly enter delinquency and default a year or more after initially applying for IDR than those who had low non-\$0 payments. Some conservatives have used these findings to argue that keeping borrowers engaged with the repayment system using minimum payments would help low-income borrowers avoid default.

But this is a misinterpretation of the research. Monarrez and Turner found that \$0 dollar IDR payments reduce the probability of default by nearly half while borrowers remain enrolled. That effect does fade and may even mildly reverse as borrowers fail to complete annual recertification processes to remain on IDR: Three years later, borrowers who had a \$0 minimum payment were only slightly less likely to have ever missed three months of payments, and about as likely as other low-income IDR applicants to have ever defaulted. The authors are clear, however, that this finding is created by the annual income certification requirements of IDR. In the authors' own words: "Our results suggest that policies that reduce the cost of inattention—either through longer recertification periods or policies that increase the salience of recertification requirements—may provide substantial benefits to borrowers."

The Department is already working on implementing a 2020 legislative change that will help: allowing borrowers to share their tax records automatically with the Education Department. The Department of Education will use this information to adjust borrowers' IDR payment amounts automatically each year, without requiring any further action from borrowers. Borrowers with a \$0 payment will continue to have a \$0 payment in the next year (unless their incomes rise), whether or not they submit paperwork on time, keeping them out of default. These changes will likely create an environment where \$0 payments will shield borrowers from default, without causing the disconnection that leads to missed recertification of eligibility and increases in default a year after enrolling. To help those who do shift to a non-\$0 payment after their payments are recalculated, the Department should also invest in improving communication and borrower outreach.

Requiring payments from borrowers with very low levels of income, even above the minimum \$10 monthly payment, will further increase hardship among families already living in poverty. RAP requires borrowers earning over \$10,000 a year to pay 1 percent of their incomes, with a minimum payment of \$10 per month (\$120 a year). While this is a small amount, requiring payments from those in poverty—who, by definition, lack the income necessary to cover necessary expenditures on food, shelter, and other necessities—is punitive and likely counterproductive in increasing repayment. For context, the poverty level is \$15,650 for a single person and \$21,150 for a family of two. Figure 3, based on the 2023 Survey of Income and Program Participation, shows that among those with incomes below 200 percent of the poverty line for a single person (around \$29,000 in 2023), nearly one in 10 are behind on rent or mortgage payments, and more than one in four is food insecure. Once a borrower's income exceeds 200 percent of poverty for a single person, their chances of experiencing food insecurity decline sharply, and their odds of being behind on their housing or utility bills also decline, though more slowly.

Figure 3. Rates of Material Hardship Among Student Loan Borrowers, by Income



Note: Estimates from the 2023 Survey of Income and Program Participation. Percent of poverty in this chart is based on the federal poverty line for a single person, regardless of the number of people in the borrower's household. Income is an estimate of Adjusted Gross Income, the measure used to determine IDR payments.

Rather than requiring payments from extremely low-income borrowers, the plan should shield them from loan payment burdens and begin charging a positive percentage of income at higher income levels. This is the approach used by other countries with longstanding income-driven repayment plans, such as Australia, which does not charge payments until borrowers make above around \$35,000 in U.S. dollars, and the U.K., which does not require payments for borrowers earnings less than around \$30,000.⁴ Canada's Repayment Assistance Program—whose name matches the one adopted by U.S. lawmakers—sets payments at \$0 for borrowers earning less than the equivalent of about \$32,000 in U.S. dollars, and increases that income threshold for larger households.

Other countries with longstanding income-driven repayment plans, like the U.K., Australia, and Canada, all set payments at \$0 for low-income borrowers.

RAP Attempts to Squeeze Money Out of Low-Income Borrowers for Too Long

On top of requiring payments from indigent borrowers, RAP would collect on student loans for as long as 30 years (compared with 20 years for undergraduates and 25 years for graduate borrowers under REPAYE, and as little as 10 years for low-balance borrowers under SAVE). Extending the time until forgiveness only harms borrowers with low incomes relative to their debts. Repayment trajectories are unchanged for borrowers with relatively high incomes, who will repay their loans well before they hit the 30-year mark anyway.

For example, consider an undergraduate borrower who takes out \$30,000 in student loans. If she makes \$50,000 in her first job, and her income grows modestly over time, she would repay her loan fully after about 13 years in both REPAYE and RAP—making RAP's longer forgiveness timeline irrelevant to her. But if she started off making \$20,000, her income would be too low to repay her loans in full. As a result, she would be required to make payments for an extra 10 years under RAP. During those extra years, she would owe an additional \$11,600,⁵ and have more exposure to the risk of default and the resulting consequences for her credit score and financial life.

RAP also misses an opportunity to build on an emerging consensus—reflected in both the Biden administration’s SAVE plan and the Lowering Education Costs and Debt Act, introduced by Senate education committee chair Sen. Bill Cassidy (R-LA) and fellow Republican lawmakers in 2023—that low-balance borrowers should receive forgiveness earlier. Establishing a shorter forgiveness timeline for low-balance borrowers would ensure that those who leave college with debt but no degree are not left struggling to repay small debts for decades. According to estimates by the Education Department, the costs of doing so would be relatively small, especially relative to other repayment changes that make loans more generous to borrowers.

RAP Is Less Family-Friendly than Existing IDR Plans

Although RAP offers a monthly payment reduction for borrowers with dependents, that reduction is less generous to families than that under REPAYE. That’s because REPAYE offers a larger reduction in the amount due for each of the borrower’s children than RAP. Under the 2025 poverty guidelines, each additional household member increases the amount of exempted income (150 percent of the poverty threshold, for the borrower’s family size) by \$8,250—and therefore decreases a borrower’s loan payment by \$825 per year (assuming their income is high enough that their payment can be reduced further). In contrast, RAP reduces the payment to \$600 per year per child, and does not increase with inflation.

REPAYE, unlike RAP, also reduces the loan amount for other people in the household. So a married couple with one child would owe \$825 less than a single parent with one child at the same income level. Meanwhile, RAP does not lower the payment amount for additional adults in the household—only dependents.

RAP Will Become Less Generous Over Time, Because It Fails to Adjust for Inflation

A key flaw with the RAP as proposed is that its parameters would not be adjusted for inflation at all. This has big implications for the fraction of income borrowers must pay. For a simple illustration, imagine a borrower making \$88,000 in the first year after RAP is in effect. That borrower would pay 8 percent of his income, or \$7,040 annually. Suppose his wages rise exactly at the same rate as inflation—say, 3 percent—so the next year his salary increases to \$90,640. Even though his income is unchanged in real terms, in the next year he must now pay 9 percent of his income, or \$8,157—an increase of \$1,084 annually in real terms. This example illustrates that the lack of inflation adjustment of the income ranges corresponding to different payment percentages in RAP causes borrowers to pay a higher share of their incomes over time, even when those incomes are unchanged in real terms.

The overall impact of failing to adjust for inflation is that each of RAP’s income tiers would apply to lower and lower income levels over time. This would not only press borrowers who get their first loan many years from now; it would make loan repayment harder even for the very first borrowers who would repay under RAP, since inflation will push their incomes into higher assessment brackets above and beyond the increase in buying power enabled by increases in their real (inflation adjusted) incomes. Note this lack of inflation-adjustment affects only borrowers with incomes under \$100,000 (for single borrowers), since borrowers with high incomes (over \$100,000) would never pay more than 10 percent of their income on RAP, regardless of inflation. Moreover, the impact of this lack of inflation adjustment can be substantial: For example, a graduate borrower who has \$60,000 in debt and starts off making \$30,000 would owe *twice as much* over the lifetime of the loan as they would if RAP were inflation-adjusted.⁶

Families would also owe higher monthly payments as time goes on because the monthly payment reduction for dependents will lose value. In 2025, a mom of one child would get \$600 off her annual loan payments (\$50 per month), but by 2050, that \$600 would be worth only \$287 in today’s dollars. The same fraying will occur for the value of the up-to-\$600 per year (\$50 per month) RAP principal subsidy, which will lengthen the time until forgiveness especially for low-balance, low-income borrowers.

A RAP REVAMP

Recommended Changes to RAP

With modest changes, RAP could become a much stronger safety net, while still controlling costs by requiring higher payments from higher-income borrowers. Modeling each of these changes for an undergraduate borrower, we found the biggest impact would be for the lowest-income borrowers—those making \$20,000 or less.

1. **Adjust key parameters of the plan for inflation**, which would ensure the share of income that borrowers are required to pay maintains the same relationship to real incomes for future borrowers, and that the principal subsidy and dependent payment reductions keep their value as time goes on.
2. **Allowing \$0 payments for the lowest-income borrowers**, which would protect borrowers from making payments when they lack income for even life's necessities, and prevent many from defaulting on their loans.
3. **Making the income tiers more progressive**, so that the lowest-income borrowers pay less. To recoup the costs of making the plan more generous to low earners, lawmakers could slightly raise the percentage of income due at higher income levels.
4. **Granting forgiveness at 20 or 25 years, instead of 30 years**, to protect persistently low-income borrowers from prolonged repayment.
5. **Providing earlier forgiveness for low-balance borrowers**, since collecting for years on small amounts of debt often harms struggling borrowers likely to have dropped out before earning a degree.
6. **Raising the monthly payment reduction for each dependent**, so that RAP is as family-friendly as current IDR plans.

An Example of a Modified RAP

Lawmakers have flexibility in how they could adopt each of our considerations for strengthening RAP's safety net function. One option is to tie payment tiers to income measured as a percent of the federal poverty line. This automatically adjusts for inflation, because the poverty line is adjusted each year.

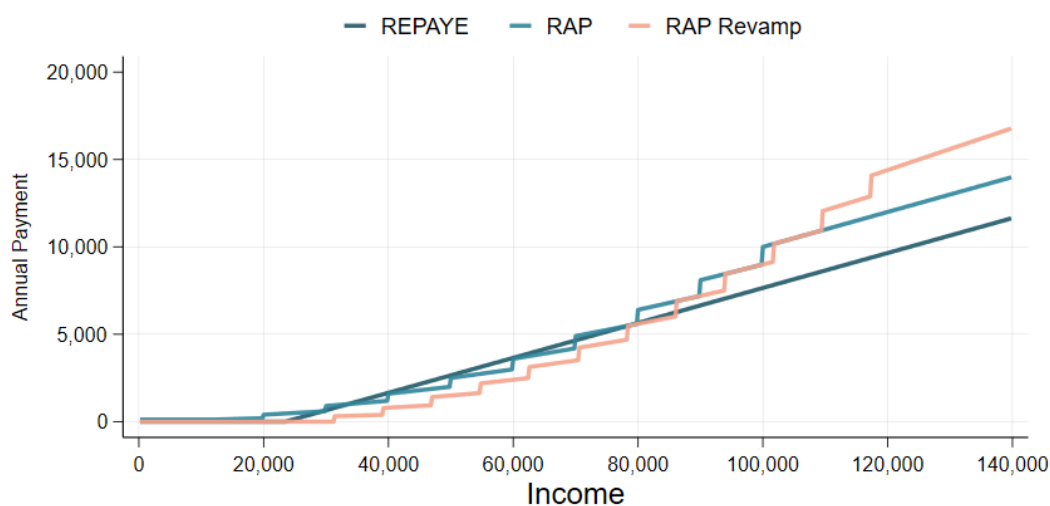
Figure 4. Annual Amounts Due from Single Borrowers in RAP Revamp, By Income Relative to the Poverty Line

Percent of the Federal Poverty Line	Dollar Thresholds for a Single Person in 2025 (\$)	Suggested Payment Rate (%)
Less than 150%	Less than 23,475	0
150% to 200%	23,475 to 31,300	0
200% to 250%	31,300 to 39,125	1
250% to 300%	39,125 to 46,950	2
300% to 350%	46,950 to 54,775	3
350% to 400%	54,775 to 62,600	4
400% to 450%	62,600 to 70,425	5
450% to 500%	70,425 to 78,250	6
500% to 550%	78,250 to 86,075	7
550% to 600%	86,075 to 93,900	8
600% to 650%	93,900 to 101,725	9
650% to 700%	101,725 to 109,550	10
700% to 750%	109,550 to 117,375	11
750% and above	117,375 and above	12

To illustrate modifications to RAP that would address several of our recommended changes, we propose a schedule in which borrowers with incomes under 200 percent of the poverty level (about \$31,000) would owe no monthly payments. Borrowers making between 200 and 250 percent of the federal poverty line would pay 1 percent of their total income, those making between 250 to 300 percent would pay 2 percent, etc., all the way up to 12 percent for borrowers earning over 750 percent of the poverty line (about \$117,000). Increasing the maximum rate from 10 to 12 percent would help offset costs, because fewer high-income borrowers—especially those pursuing Public Service Loan Forgiveness—would receive large subsidies from IDR enrollment.

As Figure 5 shows, this proposed payment schedule closely tracks RAP, but would require larger payments for borrowers earning over around \$100,000.

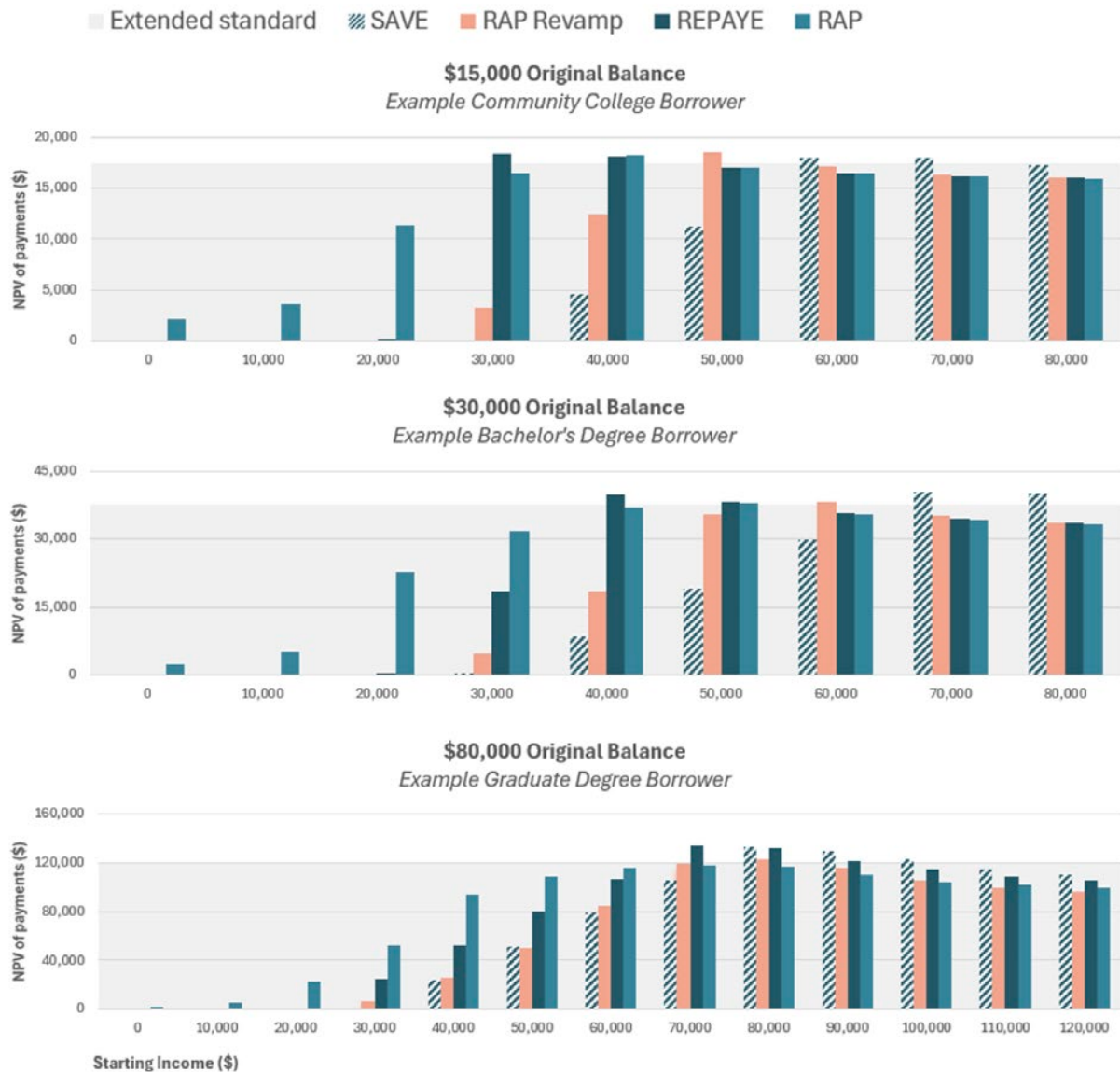
Figure 5. Annual Amounts Due For Single Borrowers in REPAYE, RAP, and RAP Revamp, By Income



The revamp we modeled also includes inflation adjustments for the principal subsidy and dependent payment reduction, and a reduced time to forgiveness. To incorporate a reduced time to forgiveness, we used the policy from the Lowering Education Costs and Debt Act, which was introduced by Senate Republicans in the summer of 2023. That legislation proposed offering IDR forgiveness after 25 years for graduate students, and 20 years for undergraduate students with over \$20,000 in debt. Undergraduate borrowers with low balances could get earlier forgiveness, after just 10 years for those with \$10,000 or less in student loans, and increasing by a year per each \$1,000 in debt, before reaching 20 years at \$20,000.

Figure 6 shows the projected lifetime payments for an undergraduate under RAP, REPAYE, SAVE, and a RAP revamp that includes all of these changes: inflation adjustments for both the payment schedule and the principal and dependent-child subsidies; a payment structure that allows the lowest-income borrowers to pay nothing and then extends payments up to 12 percent of income; a maximum of 20 or 25 years in repayment, with shorter times for low-debt undergraduate borrowers; and an increased reduction in payments per dependent. The revamp does a better job of protecting low-income borrowers over time, but still ensures middle-income borrowers would pay their loans in full. The plan would be substantially less generous than SAVE, which protects lower-income borrowers, but also grants large subsidies to borrowers higher in the income distribution.

Figure 6. Total Scheduled Payments for Single Borrowers, by Initial Income



Note: We assume a borrower's income grows at 4 percent per year, inflation and the discount rate are both 3 percent annually, undergraduate borrowers have a 6.5 percent interest rate and graduate borrowers a 8.08 percent interest rate.

Thanks to RAP's flexibility relative to previous plans, lawmakers can adjust these payment tiers as needed to achieve a fair and cost-effective repayment plan. But no matter the final details, adjustments like these could ensure RAP lives up to the promise of income-driven repayment plans.

ENDNOTES

- 1 The Senate would define this as any dependent of the borrower, which has the advantage of matching the dependent definition used for taxes, whereas the House proposed a less-easily-implemented definition of dependent children under 17.
- 2 In 2025, the difference between 150 percent and 225 percent of the poverty line for a single person was \$11,737. Since borrowers pay 10 percent of their income minus the protected income amount, their annual payments are reduced by 10 percent of \$11,737. The payment reduction is even higher for borrowers who live with others.
- 3 For this and other analyses, we assume a borrower's income grows at 4 percent per year, and inflation and the discount rate are both 3 percent annually. Here we model undergraduate borrowers with an interest rate of 6.5 percent.
- 4 For this calculation, we calculate the payment threshold for 2024–2025. In the U.K., there are different thresholds for different loan types, the highest of which is around \$35,000 USD.
- 5 Unless otherwise noted, lifetime payments amounts are in net present value terms, meaning the dollar amounts are put into 2025 dollars.
- 6 For all of our modeling, we assume the borrower's income grows at 4 percent per year, and inflation and the discount rate are both 3 percent annually. For undergraduates, we model an interest rate of 6.5 percent, and for graduate borrowers, an interest rate of 8.08 percent.