



Ensuring Value in Higher Education:

Simplifying Loans, Controlling Costs,
and Demanding Results



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Introduction

For decades, federal student aid programs have opened doors of opportunity for millions of Americans. Yet the rising cost of college — particularly for graduate degrees — without commensurate increases in labor market returns and the bureaucratic morass of student loan repayment have left too many students saddled with debt and too many taxpayers footing the bill for programs that don't deliver a sufficient return. Institutions with poor outcomes continue receiving federal dollars, while complex or poorly targeted repayment plans leave borrowers confused about how to manage their debt.

The reforms in this report aim to address these challenges head-on. By consolidating federal loan repayment into two simpler plans, establishing reasonable limits on graduate borrowing, and introducing basic performance standards for Title IV funding, policymakers can safeguard taxpayers' investments in higher education while ensuring students see real value for the debt they take on. These changes will help higher education dollars flow to effective institutions and programs, encourage accountability, and protect borrowers from misaligned incentives.

Enacting these reforms would help put students on a better path to real-world success and to restore confidence that federal higher education spending is efficient and responsible. As outlined in Arnold Ventures' wider report on [*20 Proposals to Reduce Wasteful Spending, Close Tax Loopholes, and Save up to \\$4 Trillion*](#) they can also generate substantial budget savings. Through well-designed updates to lending and oversight, Congress can empower students, hold low-value programs to account, and reinforce the principles that make higher education a true engine of upward mobility.

Simplify Student Loan Repayment

Background: Approximately [43 million Americans](#) currently have a federal student loan, according to data from the U.S. Department of Education. The federal government offers *seven* different repayment plans, including standard repayment plans, graduated plans that begin with lower monthly amounts, and extended repayment plans.

Income-Driven Repayment (IDR) plans, introduced in 1995, aim to make federal student loan repayment more manageable. These plans determine monthly payments based on a borrower's income and family size, often resulting in lower payments compared to the standard repayment plan. Additionally, any remaining balance after 20 or 25 years of qualifying payments is forgiven.

[Research](#) suggests that income-driven repayment largely meets the goal of lowering the risk of delinquency and default for many borrowers, though issues remain. Today, about 30% of federal student loan borrowers are enrolled in an IDR plan.

Problem: The number of repayment plans leads to confusion among student loan borrowers. At the same time, millions of borrowers fall behind on their loans every year and even default. Furthermore, some repayment plans, like the Biden SAVE plan, give the most benefits to well-off graduates of medical and law schools—not the students who need support the most.

Solution: Policymakers can streamline those seven plans into just two, creating a more consumer-friendly repayment program and incentivizing higher repayment rates.

One repayment plan would be a 10-year, fixed payment plan. The second would be an income-driven repayment plan that caps payments at 10% of borrowers' incomes for up to 25 years for graduate borrowers and that provides earlier forgiveness for low-income, low-balance, undergraduate borrowers. A simplified repayment system would reduce the potential for waste, fraud, and abuse from borrowers who may intentionally try to game the system and take out needless loans for worthless graduate degrees.

Different versions of this idea can be found in (1) Rep. Virginia Foxx's (R-NC) College Cost Reduction Act and (2) Senators Bill Cassidy's (R-LA) and John Cornyn's (R-TX) Streamlining Accountability and Value in Education (SAVE) for Students Act.

10-YEAR SAVINGS: Up to \$210 billion, assuming the SAVE IDR plan has not been invalidated by the courts ([Congressional Budget Office \(CBO\)](#)).

Reform Grad PLUS Loans

Background: A distinguishing feature of federal lending for graduate and professional education is that, unlike undergraduate student loans, there are currently no statutory or regulatory limits for Grad PLUS loans. The only limit is that these loans cannot exceed a student's cost of attendance, which is determined by the institution.

Problem: The price of graduate programs is directly influenced by the availability of federal loan subsidies. The more federal aid has become available, the higher the cost of a typical graduate program has [soared](#) even though the value of the degree has not.

Solution: Congress can address this out-of-control pricing while still ensuring opportunity for students to access a graduate program of their choice by following the lead of Rep. Virginia Foxx's (R-NC) College Cost Reduction Act and establishing reasonable limits for graduate student loans. For example, setting a lifetime cap of \$100,000 for Graduate Stafford loans for non-professional degree programs and \$150,000 for professional degree programs, while eliminating Grad PLUS loans, would still cover the expenses of [95%](#) of today's Grad PLUS borrowers, while forcing the priciest graduate programs to address their high costs of attendance and prove their worth to students.

10-YEAR SAVINGS: \$40 billion ([CBO](#)).

Create Performance Standards for Title IV Funding

Background: Title IV of the Higher Education Act authorizes programs that provide financial assistance to students to aid them in obtaining a postsecondary education at qualifying institutions of higher education. Title IV financial assistance is the largest source of federal aid to postsecondary students, and the Title IV eligibility and participation requirements for institutions establish a framework of federal oversight for a significant portion of postsecondary schools.

Problem: Overall, just 6 in 10 students graduate within 6 years of entering school — and even when they graduate, some students find that the credential they earned is scarcely worth the paper on which it was printed. While the primary penalty for institutions that have outcomes like high student loan default rates is the loss of federal financial aid eligibility, there are no real incentives for higher performance.

Solution: Congress can use reconciliation to create a simple but effective accountability system by prohibiting undergraduate or certificate programs from receiving federal student aid if most of the program's former students are unable to earn a salary higher than a typical high school graduate. It can also prohibit graduate programs from receiving federal student loans if most of the program's former students are unable to earn more than a typical bachelor's degree graduate. This reform is included in Senators Bill Cassidy's (R-LA) and John Cornyn's (R-TX) Streamlining Accountability and Value in Education (SAVE) for Students Act. Another approach would be to expand the existing Gainful Employment regulation, which sets performance requirements for some programs, to all programs and institutions.

10-YEAR SAVINGS: Likely between \$5 billion and \$20 billion ([derived from CBO estimates](#)).¹

¹ CBO estimates current Gainful Employment rule to save \$9 billion over 10 years. Given this only applies to a subsection of programs, applying this savings across all programs could save somewhere in that range in additional savings.

