



AFSCME Facts

President Biden's Student Loan Forgiveness and Relief Program August 30, 2022

On Aug. 22, 2022, President Biden announced that he was making major changes to the federal student loan relief programs. This fact sheet summarizes those changes based on currently available information. More details are expected in the coming weeks.

What are the key parts of Pres. Biden's announcement on student loan forgiveness?

- Borrowers with federal student loans will receive one-time forgiveness of up to \$10,000, or up to \$20,000 if they ever received Pell grants. Borrowers must have individual income below \$125,000 or household income below \$250,000.
- The pandemic payment pause will be extended one final time through the end of 2022.
- A new, more generous income-based repayment plan will make monthly payments more affordable, particularly for undergraduate loans.

What types of loans are eligible for forgiveness?

The forgiveness will only apply to federally held student loans. These make up the vast majority of outstanding education debt. If an individual ever re-financed or took out student loans with a private lender, like a bank, those loans are generally not eligible for forgiveness. The situation can be confusing, however, because the federal government contracts out collection to private loan servicers. What ultimately matters is who holds the debt.

Federal loans are often referred to as direct loans. Here are some key things to know about which loans qualify:

- Direct loans include subsidized, unsubsidized and Stafford loans.
- Parent PLUS Loans and PLUS Loans for Graduate/Professional students also qualify.
- It is unclear if all Perkins loans or Federal Family Education Loan (FFEL) program debt (the predecessor to direct loans, now phased out) will qualify, since only a portion of these loans are federally held. In general, borrowers should be able to consolidate these types of loans into a direct consolidation loan to qualify for forgiveness. However, we are awaiting more guidance on the matter.

Who is eligible for loan forgiveness?

Individuals earning below \$125,000 and married couples earning below \$250,000 are eligible to receive \$10,000 in forgiveness. There is no eligibility phase-out; an individual is either eligible or not. Individuals do not need to have completed a degree program to be eligible for forgiveness. Likewise, individuals will be eligible for up to \$20,000 in forgiveness if they ever received a Pell grant (and they meet the income limits).

Parents who took out federal loans for their child's education (such as Parent PLUS loans) are also eligible based on their income, not their child's income. Additionally, parents who took out loans could receive up to \$20,000 in forgiveness if the parent had ever received a Pell grant when they attended college.

Current students are eligible to receive forgiveness. However, the loans must have been disbursed before July 1, 2022 (this applies to all borrowers, regardless of student status). Income eligibility for current students will generally be based on their parents' income, though details remain unclear (for example: treatment of older graduate students).

What is the process to have loans forgiven?

Individuals who have their recent incomes on file with the Department of Education (e.g., those using an income-driven repayment plan) are expected to receive forgiveness automatically.

All other individuals will need to submit a short application form showing that their income falls below the maximum level. The application is expected to be available in October and processing the relief should take four to six weeks.

NOTE: The Department of Education will very likely determine income eligibility using reported adjusted gross income (AGI) from 2020 or 2021 tax filings. Therefore, individuals should not assume that if their *current* salary exceeds the limits that they do not qualify.

What if borrowers hold less than \$10,000 (or \$20,000) in federal student loan debt?

For those whose debt balances fall below the applicable level being forgiven (i.e., depending on whether they received Pell grants), their entire balance will be forgiven. However, they will receive no additional funds on top of that. For example, if an eligible individual who did not receive Pell grants has a balance of \$7,500, they will receive loan forgiveness of \$7,500.

Will borrowers have to pay any taxes on amounts forgiven?

Although forgiven debt usually is taxed as income, there is no federal tax on the amounts forgiven under this program. That is due to a 2021 law Pres. Biden signed exempting forgiven student debt from taxation in 2021-2025.

Some states, however, might tax the amount forgiven. For example, the Wisconsin Department of Revenue has stated that some individuals will face a state tax bill on loan forgiveness unless the legislature intervenes and changes state law. According to one analysis, 12 other states also have laws on the books that could potentially result in this money being taxed unless the state laws are changed: Arkansas, Hawaii, Idaho, Kentucky, Massachusetts, Minnesota, Mississippi, Minnesota, New York, Pennsylvania, South Carolina, Virginia and West Virginia.

Will monthly payments be re-calculated based on their lower balance post-forgiveness?

An official with the Department of Education has stated that monthly payments under the standard payment plan will be re-calculated after applying forgiveness in the most advantageous manner to the borrower.

Individuals enrolled in income-driven repayment (IDR) plans will generally not see changes to their monthly payment, since their payments are based on income rather than their loan balance.

What about the high interest rates on outstanding federal student loans?

Nothing in the August announcement changes the interest rate on any federal student loans. Changing the interest rate likely would require an act of Congress.

When will borrowers have to start repaying loans again?

The pandemic pause in student loan repayment will extend through the end of 2022. Though it is possible the pause could be extended, borrowers should prepare for the possibility of restarting their loan payments beginning in January.

What is the new IDR plan and when will it be available?

The new IDR plan appears to offer more generous terms for all borrowers. IDR plans, in general, base monthly payments off borrower income rather than their loan balance. Current rules base payments off what is deemed “discretionary income,” which is simply defined as income that exceeds a certain percentage of the federal poverty level (FPL). The current level is 150% FPL, while the new IDR plan will instead protect income up to 225% FPL (\$30,578 for an individual in 2022) in determining monthly payments.

Once an individual has their discretionary income calculated, a certain percentage of discretionary income is set as the monthly payment. Current rules are typically 10% or 15% depending on the plan. The new IDR plan will set payments at 5% of discretionary income (however, it appears that this will only apply to undergraduate loans). Additionally, borrowers with loan balances below \$12,000 will be eligible to have outstanding loans discharged after 10 years of payments on the new IDR plan, compared to 20 or 25 years under current IDR rules.

The new IDR plan is expected to be available beginning July 1, 2023.

Did the announcement address the PSLF waiver?

No, the Public Service Loan Forgiveness (PSLF) waiver is currently set to expire at the end of October.

That waiver allows borrowers who have worked in public service to get credit towards PSLF for payments that may previously have not counted for technical reasons or because of poor advice from loan servicers. To receive credit, borrowers have to submit an application before the deadline.

The PSLF program allows individuals working in qualifying public service to have their federal student loans discharged after making qualifying payments for 120 months.