



Biden Student Loan Update August 2022

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In *The Tragedy of Hamlet, Prince of Denmark*, Polonius advises his son, Laertes (who is ready to leave home for college) “...neither a borrower nor a lender be...”

President Biden, perhaps taking Shakespeare up on this famous advice, announced on August 24th regulatory action on a sweeping package of student debt relief. While final implementation of this relief package is likely to be seen in the coming weeks, the most important details appear settled.

Here is what Choreo clients should know:

Student debt relief has three major pillars for Federal student loan debtors: (1) broad based, limited debt relief; (2) a final extension of the student loan repayment pause; and (3) introduction of new, lower-cost debt repayment plans.

1. **One-Time, Limited Federal Student Debt Forgiveness:** Borrowers earning less than \$125,000 (if single) or \$250,000 (if married/head of household), can expect \$10,000 of student debt relief on qualifying federal student loans. Borrowers who meet these income qualifications and who also received Pell Grants during their time in college will receive \$20,000 of student debt relief.
 - o Many types of federal loans disbursed before June 30, 2022 should qualify for this forgiveness. This should include Direct loans, Direct PLUS loans for graduate students and parent borrowers, and Direct Consolidation loans. Some Perkins loans Federal Family Education Loan (FFEL) loans are also included. Private student loans do not qualify, even if they were originally disbursed as qualifying federal loans and later consolidated or refinanced privately.
 - **Action Item:** Borrowers can check the status of their student loans to confirm qualification for debt relief by logging into their accounts [here](#).

- It is expected that borrowers will qualify on the basis of either 2020 or 2021 adjusted gross income and that some qualifying student loan balances will be automatically updated. Parent PLUS loan borrowers and current, dependent students with qualifying loans will qualify (or not) based on parent income. Note that for this purpose, the definition of “dependence” is that determined by the Department of Education, not the IRS (FAFSA vs. Form 1040).
 - **Action Item:** Borrowers who think they will qualify for relief should confirm that their loan servicer already has their 2020 or 2021 income information. An online tool should be available soon for borrowers to confirm that their income information is in the system. The Biden Administration advises registering for updates on the status of this online tool [here](#).
 - **Action Item:** It is believed that qualified borrowers who do not receive automatic debt relief will have until December 31, 2023 to apply for forgiveness. When the online tool opens, Borrowers should try to apply before November 15th in order to receive relief before the payment pause (discussed below) expires on December 31, 2022.
 - Under the American Rescue Plan Act of 2021, student loan forgiveness granted from 2021 through the end of 2025 does not constitute cancellation of debt income for Federal income tax purposes.
 - **Action Item:** Borrowers should check with their tax advisor on whether their state is in “conformity” with the Internal Revenue Code. If not, they may owe state income taxes on any debt forgiveness.
 - The Biden Administration has leveraged the most recent debt relief package to further publicize changes made last year to the Public Service Loan Forgiveness program (PSLF). PSLF generally allows for student loan forgiveness if a borrower has made qualifying loan payments for 10 years and has worked in qualifying public service roles.
 - **Action Item:** Borrowers who may qualify for PSLF are **strongly encouraged** to enroll in the program prior to October 31, 2022 (enrollment after this date will lose added flexibility and looser qualification standards). Certain PSLF program modifications which make borrower qualification easier will only extend to enrollments prior to this date. More information on qualification and enrollment can be found [here](#).
2. **Final Extension of Pause on Repayment of Federal Student Debt:** The Biden Administration announced a final extension of the repayment pause on Federal student loans to December 31, 2022. Borrowers will again begin loan repayment in January, 2023. The repayment pause, which began under the Trump Administration in March, 2020, also saw interest rates set at 0%.

- **Action Item:** Although the repayment pause will automatically be extended one final time, borrowers should check in with their loan servicers to ensure their payment information is updated and that no interest was capitalized into their outstanding loan balance since March, 2020.
 - **Action Item:** Borrowers who paid on their Federal student loans which were eligible for the repayment pause from March, 2020 through August, 2022 can request a refund of amounts paid. Borrowers interested in requesting a refund should contact their loan servicer directly.
3. **New, Lower-Cost Income-Driven Repayment Plans:** Finally, the Biden Administration announced the creation of a new income-based repayment plan for qualifying Federal student loans. Qualifying borrowers will be eligible to pay no more than 5% of discretionary income toward their student loan balances each month with loan forgiveness generally after 20 years. Other benefits, including early forgiveness of loan balances under \$12,000 and new income floors for lower-earning borrowers may also apply.
- **Action Item:** Borrowers who might benefit from this new income-driven repayment plan or other modifications to the income-driven repayment plan system should update their information with their servicer in advance of the end of the repayment pause in January, 2023.

If you have any questions about how the Biden Administration's action on student loan relief affects you or your family, please contact your Choreo advisor.

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