

The Biden Administration's Student Loan Debt Relief Plan

For borrowers with federal student loan debt: an extension of the repayment pause, up to \$20,000 may be cancelled, and a new income-driven repayment plan is proposed

On August 24, 2022, the Biden Administration announced a three-part plan to assist borrowers with federal student loan debt. First, the pause on repayments that initially started because of the COVID-19 pandemic has been extended through December 31, 2022. Second, some borrowers may see up to \$20,000 of their federal student loan debt cancelled. And third, the White House has proposed a new income-driven repayment plan to simplify the student loan system for current and future borrowers.

“Final” extension of student loan repayment pause with 0% interest

All payments for federally held student loans (defined below) have been paused with 0% interest since March of 2020. Payments were set to begin again on August 31, 2022, **but the pause is now extended to December 31, 2022**. The White House has stated that this will be the **final** extension of the pause.¹

Student loan pause eligibility

The payment pause with 0% interest has applied, and will continue to apply, to the following loans:

- All loans through the Direct Loans Program (defaulted and nondefaulted)
 - The Direct Loan Program includes Subsidized loans, Unsubsidized loans, parent PLUS loans, grad PLUS loans, and Direct Consolidation Loans.
- Federal Family Education Loan (FFEL) Program loans held by the Department of Education (defaulted and nondefaulted),
- Federal Perkins Loans held by the Department of Education (defaulted and nondefaulted),
- Defaulted FFEL Program loans *not* held by the Department of Education; and
- Defaulted Health Education Assistance Loans (HEAL).

Private student loans, nondefaulted FFEL Program loans not held by the Department of Education, federal Perkins Loans not held by the Department of Education (defaulted and nondefaulted), and nondefaulted HEAL loans, are not eligible for the pause.²

¹ How final is the White House's use of the word “final”? It is unclear. The repayment pause has been extended seven times since it originally began in March 2020.

² For more information, see the Office of Federal Student Aid's page, “COVID-19 Loan Payment Pause and 0% Interest”: <https://studentaid.gov/announcements-events/covid-19/payment-pause-zero-interest>. Accessed September 9, 2022.

One-time student loan debt relief of up to \$10,000 for non-Pell Grant recipients, and up to \$20,000 for Pell Grant recipients

If borrowers are below certain income thresholds, they can have up to \$10,000 of eligible loans cancelled if they were *not* Pell Grant recipients and up to \$20,000 cancelled if they *were* Pell Grant recipients.

The phrase “up to” is used because borrowers will only receive relief to the extent that their outstanding eligible loan balances are less than the amount of relief for which they are eligible (e.g. – if a non-Pell Grant recipient is eligible for \$10,000 of relief but only has \$7,000 of eligible loans outstanding, she will only receive \$7,000 of relief through cancellation).

Eligible Loans

The cancellation will only apply to loans that were disbursed prior to July 1, 2022.

The following loans are eligible:

- All loans through the Direct Loan Program, including:
 - Subsidized loans,
 - Unsubsidized loans,
 - Parent PLUS loans,
 - Graduate PLUS loans; and
 - Consolidation loans.³
- Federal Family Education Loan (FFEL) Program loans held by the Department of Education or in default at a guaranty agency,
- Federal Perkins Loan Program loans held by the Department of Education; and
- Defaulted loans (includes Department of Education held or commercially serviced Subsidized Stafford, Unsubsidized Stafford, parent PLUS, and graduate PLUS; and Perkins loans held by the Department of Education).⁴

Private, non-federal loans are *not* eligible for this debt relief. Federal loans that were refinanced with a private lender are considered private loans and will not be eligible.

Income Threshold

Borrowers are eligible if their **federal adjusted gross income (AGI)** was less than:

- **\$125,000** with tax filing status of (1) individual, or (2) married filing separately; or
- **\$250,000** with tax filing status of (1) married filing jointly, or (2) head of household.

³ Direct Consolidation loans are eligible only if all of the underlying loans were first disbursed before July 1, 2022.

⁴ This list is taken directly from the Office of Financial Aid's page, "One-Time Student Loan Debt Relief": <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>, accessed September 9, 2022. It is *nearly* identical to the list of loans eligible for the payment pause, but it is organized differently with a few omissions. HEAL loans are not included, Direct Consolidation loans are not part of the list of included *defaulted* loans (although the Office may not have intended it to be an exhaustive list).

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Borrowers with income below the threshold in ***either 2020 or 2021*** are eligible for the cancellation. The Department of Education will use the year with lower income to determine eligibility.⁵

Pell Grant recipients can receive up to \$20,000 of debt relief

Federal Pell grants are typically awarded to undergraduate students with exceptional financial need. These grants are *not* loans and do not need to be repaid.⁶

- If a borrower has eligible loans, was under the income threshold, and **was a Pell Grant recipient**, the borrower can get up to **\$20,000** of debt relief.
- If a borrower has eligible loans, was under the income threshold, and **was not a Pell Grant recipient**, the borrower can only get up to **\$10,000** of debt relief.

How can borrowers receive this debt relief?

Some borrowers will automatically receive the debt cancellation, while others will need to file an online application.

- **If the Department of Education already has a borrower's income data for 2020 or 2021, the borrower may automatically receive debt relief.**
 - The Department may already have this data from the Free Application for Federal Student Aid (FAFSA) or if the borrower is in an income-driven plan.⁷ If that is the case, the department will send the borrower a confirmation email and/or text message. The Department has stated that they currently have income information for approximately 8 million potentially eligible borrowers.
- **If the Department of Education does *not* have a borrower's income data for 2020 and 2021, the borrower will need to file an online application.**
 - The Department has stated that this application will be available by **early October 2022**.
 - The deadline to file this application will be **December 31, 2023**.
 - If borrowers want to receive the relief *before* payments resume in January 2023, the Department of Education advises them to apply before **November 15, 2022**.⁸

Borrowers are encouraged to routinely check back in with the Office of Financial Aid for updates about the online application: <https://studentaid.gov/debt-relief-announcement/one-time-cancellation> (accessed September 9, 2022).

Debt relief will *not* be subject to federal income tax, but *may* be subject to state income tax

Any student debt cancelled through this plan will not be subject to *federal* income tax.⁹

⁵ See the answer to "How will I know if I automatically qualify for debt relief?" in the above link.

⁶ For more information, see the Office of Financial Aid's page "Federal Pell Grants are usually awarded only to undergraduate students". <https://studentaid.gov/understand-aid/types/grants/pell>. Accessed September 9, 2022.

⁷ Current income-driven plans include Income Contingent Repayment (ICR), Income-Based Repayment (IBR) both new and old, Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE).

⁸ See the Office of Financial Aid's page "The Biden-Harris Administration's Student Debt Relief Plan Explained": <https://studentaid.gov/debt-relief-announcement/>. Accessed September 9, 2022.

⁹ I.R.C. § 108(f)(5). See also the answer to "Will my debt relief be taxed?" on the Office of Financial Aid's page "One-Time Student Loan Debt Relief": <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>. Accessed September 9, 2022. Please note that the cited section of the Tax Code excludes discharged student debt through December 31, 2025. Similar relief plans implemented after that date are not guaranteed to be tax free at the federal level.

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Whether cancelled student debt will be subject to *state* income tax depends on the state in question.¹⁰ Most states *probably* will not tax the cancelled debt, but a handful *might*. They include (but are not limited to) Arkansas, California, Indiana, Minnesota, Mississippi, North Carolina, and Wisconsin.¹¹ This is an evolving issue and is subject to change. **Regardless of the state, borrowers should consult a tax advisor.**

New income-driven plan proposed for current and future borrowers

The White House is proposing a new income-driven repayment plan that is *significantly* different from the income-driven repayment plans which currently exist. It is far more favorable to borrowers than these plans have been in the past.

Under the **current income-driven plans for federal loans**,¹² borrowers typically pay 10-20% of their discretionary income towards their student loans. Discretionary income is found by taking a borrower's Adjusted Gross Income and subtracting 150% of the Federal Poverty Line. Borrowers submit income information annually to determine monthly payments. If a borrower's monthly payments are not enough to cover accruing interest, a *limited portion* of that interest would be subsidized by the Department of Education. After making these payments for 20 to 25 years, any remaining balance is discharged.¹³

The newly proposed income-driven plan:

- Borrowers would pay only **5% of their discretionary income** every month.
- Discretionary income would be calculated by taking AGI and subtracting **225% of the Federal Poverty Level**.
 - This results in smaller monthly payments.
 - 225% of the Federal Poverty Level for a single person in 2022 is \$30,577.50, which is roughly equivalent to a single person working full time for \$15/hour.
- If a borrower's monthly payments are not enough to cover accruing interest, **all of the interest would be subsidized** by the Department of Education.
 - Loan balances would never increase as long as monthly payments are made, even if those monthly payments are \$0 because of low income.
- Loan balances would be discharged after only **10 years** of payments for borrowers with original balances of \$12,000 or less.¹⁴ Other borrowers would receive a discharge after 20 years.
- Borrowers would not have to resubmit their income information every year. Instead, the Department of Education would be authorized to automatically pull their income information, presumably from the IRS.

Example:

Borrower has \$175,000 of federal student debt with an interest rate of 5%. Borrower is single with no children and has an adjusted gross income of \$55,000 in 2022.

¹⁰ Many state tax laws conform to the Internal Revenue Code, including § 108(f)(5) which says the cancelled debt will be tax free at the federal level. However, some states do *not* follow the I.R.C., or adopt some version that does not include the changes made by the American Rescue Plan Act of 2021 that added § 108(f)(5) to the I.R.C.

¹¹ Please see "States That Might Tax Student Loan Debt Cancellation" from the Tax Foundation: <https://taxfoundation.org/student-loan-debt-cancellation-tax-treatment/>. Accessed September 9, 2022. The Tax Foundation is a 501(c)(3) think tank that researches U.S. tax policies at both the federal and state levels.

¹² See footnote 7.

¹³ This would normally be considered taxable income unless it happens prior to January 1, 2026.

¹⁴ This may still be income taxable if occurring on January 1, 2026 or later, unless new tax legislation is signed into law.

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- **Under one of the current income-driven plans (REPAYE)**
 - Borrower would pay \$289 per month.
 - Interest is \$730 per month, of which \$441 goes unpaid. The Department of Education will cover 50% of that, which is \$220.50. The remaining \$220.50 still accrues every month and the loan balance is increasing (even if not capitalized and added to principal).
 - After 20 years (when the balance can be forgiven), the balance will be \$227,920.¹⁵
 - This would be taxable income unless the tax law changes before 2042.
- **Under the proposed income-driven plan**
 - Borrower would pay \$102 per month.
 - Interest is still \$730 per month, of which \$628 goes unpaid. However, the Department of Education would cover *all* of that unpaid interest, so nothing accrues, and the loan balance would not increase.
 - After 20 years (when the balance can be forgiven), the balance would be \$175,000.
 - This would be taxable income unless the tax law changes before 2042.

New income-driven plan *may* be implemented by summer 2023

The new income-driven plan is merely a proposal that needs to be implemented by the Department of Education. The White House has stated that they would like to see this new repayment plan available for borrowers by the summer of 2023.¹⁶

So what now?

- Make sure that your contact information is up to date with the Office of Federal Student Aid as well as your loan servicer so you can receive updates.
 - Log in to the Office of Federal Student Aid at <https://studentaid.gov/fsa-id/sign-in/landing>.
- Keep an eye out for the application for debt relief sometime in **early October 2022**.
 - Updates should be found here: <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>
- Contact your loan servicer with questions about eligibility.
- Contact your tax advisor with questions about potential taxation of debt relief.

¹⁵ This is assuming that there are absolutely no changes. In reality the Federal Poverty Line may increase due to inflation, the borrower's salary may change, etc...

¹⁶ For more information about the new income-driven plan, see the White House briefing's fact sheet: <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>. Accessed September 9, 2022. Additionally, see the Office of Financial Aid's page, "The Biden-Harris Administration's Student Debt Relief Plan Explained": <https://studentaid.gov/debt-relief-announcement>. Accessed September 9, 2022.

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