



AFSCME Facts

President Biden's Student Loan Forgiveness and Relief Program September 6, 2022

Updated October 7, 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 you ever received Pell grants. Borrowers must have individual incomes below \$125,000 or a 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 your 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 you 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.
- *Update:* as of September 29, 2022, individuals who newly consolidate Perkins loans or Federal Family Education Loan (FFEL) program debt (the predecessor to direct loans, now phased out) **will likely not qualify for any forgiveness**. However, if such loans were consolidated prior to September 29, Department policy remains that they would qualify for forgiveness. Like many facets of the plan, the details are fluid; the Department provides updates here: <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>
- Given this situation, until further guidance emerges, individuals should be careful and weigh the pros and cons of consolidating for purposes of the Public Service Loan Forgiveness (PSLF) waiver. The PSLF waiver is set to end on October 31, 2022, and will generally allow borrowers to receive credit for past public service towards loan forgiveness through PSLF.

How do I know if I am eligible for loan forgiveness?

If you earn below \$125,000 or are married and your joint earnings are below \$250,000, then you are eligible to receive \$10,000 in forgiveness. There is no eligibility phase-out; you are either eligible or not. You do not need to have completed a degree program to be eligible for forgiveness. Likewise, you will be eligible for up to \$20,000 in forgiveness if you ever received a Pell grant (and meet the income limits).

Parents who took out federal loans for a 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?

If you have your recent income on file with the Department of Education (e.g., if you are using an income-driven repayment plan) you should expect 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, you should not assume that if your current salary exceeds the limits that you do not qualify.

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

If your debt balance falls below the applicable level being forgiven (i.e., depending on whether you received Pell grants), your entire balance will be forgiven. However, you will receive no additional funds on top of that. For example, if you are an income eligible individual who did not receive Pell grants, with a balance of \$7,500, you will receive loan forgiveness of \$7,500.

Will I 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 from 2021-2025.

Some states, however, might tax the amount you have 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 initial 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, New York, Pennsylvania, South Carolina, Virginia and West Virginia. However, the situation is changing quickly and some of these 12 states have been releasing statements that they will not attempt to collect taxes on amounts forgiven.

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

An official with the Department of Education has stated that your monthly payments (if you use the standard payment plan) will be re-calculated after applying forgiveness in the most advantageous manner. This means, for example, that they will apply forgiveness first to loans with higher interest rates.

If you are enrolled in an income-driven repayment (IDR) plan, you will generally not see changes to your monthly payment, since payments are based on your income rather than your 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 I have to start repaying loans again?

The pandemic pause in student loan repayment will extend through the end of 2022. Though it remains possible the pause could be extended, you should prepare for the possibility of restarting 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 your income rather than your 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 your discretionary income has been calculated, a certain percentage of discretionary income is set as your 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 your 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 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, you must 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.