

# One-Time Student Debt Relief



On August 24, 2022, the President through the U.S. Department of Education (USDOE) announced a new three-part plan “to address the financial harms of the pandemic on low- and middle-income borrowers.” As described by USDOE, the plan will provide one-time student debt relief of up to \$20,000 to qualifying individuals, extend the pause on student loan repayments for a final time through December 31, 2022 and make the student loan system more manageable for current and future borrowers.

More details will be available in the coming weeks as USDOE works to quickly implement this latest one-time student debt relief plan. Borrowers will have until December 31, 2023 to apply. To learn more about the loan cancellation process and to sign up to be notified when the application process has officially opened, visit [www.studentaid.gov/debtrelief](http://www.studentaid.gov/debtrelief).

## Final Extension of the Federal Student Loan Repayment Pause

As part of the plan, the moratorium on federal student loan repayments put in place as part of COVID-19 relief has been extended for a final time through December 31, 2022, with payments resuming in January 2023. No action is required by borrowers to qualify for this extended pause.

## Student Loan Debt Cancellation

USDOE will provide up to \$20,000 in student debt cancellation for Pell Grant recipients and up to \$10,000 in student debt cancellation for non-Pell Grant recipients. Cancellation benefits are available to individuals with loans held by USDOE (not private lenders) and will be capped at the amount of their outstanding debt.

### *Eligibility of Borrowers*

Borrowers are eligible for debt cancellation if their individual income is less than \$125,000 or \$250,000 for married couples or heads of households. Eligibility will be based on a borrower's adjusted gross income for either tax year 2020 or 2021. Adjusted gross income can be lower than your total wages because it considers tax deductions and adjustments, like contributions made to a 401(k)-retirement plan.

### *Types of Loans that Qualify*

Most federal student loans with an outstanding balance as of June 30, 2022 will qualify for one-time student debt relief, including:

- Undergraduate and graduate direct loans
- Parent PLUS and Graduate PLUS loans
- Consolidation loans
- Federal Family Education Loan Program loans (USDOE-held or in default)
- Federal Perkins Loan Program loans (USDOE-held)
- Defaulted loans (USDOE-held or commercially serviced)

Private student loans are not eligible for forgiveness. Generally, borrowers whose payments were paused during the COVID-19 public health emergency period will qualify for this one-time student debt relief.

Borrowers who are employed by nonprofits; the military; or federal, state, Tribal or local government may be eligible to have all their student loans forgiven through the Public Service Loan Forgiveness (PSLF) program. Temporary changes to the PSLF program are in place through October 31, 2022. Visit [www.PSLF.gov](http://www.PSLF.gov) to learn more about this type of loan forgiveness and how to apply.

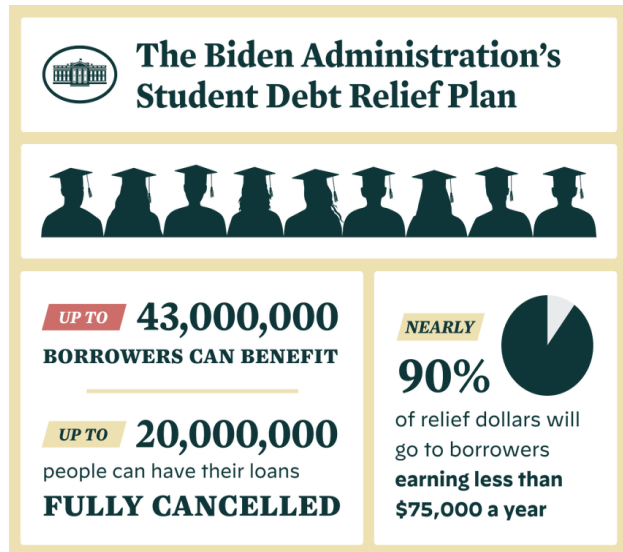
### Potential Impact on Borrowers

USDOE estimates that the agency's student loan debt relief plan would:

- Provide nearly 43 million borrowers with some amount of loan cancellation;
- Grant up to \$20,000 in cancellation benefits to 27 million student loan borrowers;
- Ensure the full balance of loans cancelled for 20 million borrowers.

In addition, the USDOE's analysis of who will benefit from the policy found the following:

- 21% of eligible borrowers are 25 years old and under, 44% are ages 26-39 and 33% are ages 40 and up, including 5% who are senior citizens;
- Only individuals earning in the bottom 95% of incomes in the United States (not earning in the top 5% of incomes) will receive loan cancellation benefits; and
- 87% of loan cancellation benefits (in terms of dollar amount cancelled) will go to individuals earning less than \$75,000 annually.



### How To Apply

Nearly 8 million student loan borrowers may be eligible to receive loan cancellation automatically, based on relevant income data already available to USDOE.

For those borrowers for whom the department does not have relevant income data, USDOE says it will announce additional details on how borrowers may claim loan cancellation in the coming weeks and launch an application for such borrowers, which will be available by early October. Once a borrower completes the application, they can expect relief within 4 to 6 weeks.

USDOE is encouraging all eligible federal student loan borrowers to fill out the application. Borrowers are advised to apply before November 15th in order to receive debt cancellation benefits before the moratorium on federal student loan repayments expires on December 31, 2022.

The department will continue to process applications as they are received, even after the payment pause expires on December 31, 2022.

## Reforms to Income-Driven Repayment Plans

USDOE is proposing a rule to make the federal student loan program more effective and manageable for borrowers with income-driven repayment plans. The rule would:

- Require borrowers to pay no more than 5 percent of their discretionary income monthly on undergraduate loans (This is down from the 10 percent available under the most recent income-driven repayment plan);
- Raise the amount of income that is considered non-discretionary income and therefore is protected from repayment, guaranteeing that no borrower earning under 225% of the federal poverty level—about the annual equivalent of a \$15 minimum wage for a single borrower—will have to make a monthly payment;
- Forgive loan balances after 10 years of payments, instead of 20 years, for borrowers with loan balances of \$12,000 or less; and
- Cover the borrower's unpaid monthly interest, so that unlike other existing income-driven repayment plans, no borrower's loan balance will grow as long as they make their monthly payments—even when that monthly payment is \$0 because their income is low.

### Potential Impact on Workers

USDOE estimates that the agency's proposed changes to the student loan system would simplify loan repayment and result in savings to low- and middle-income borrowers. On the right is a list of examples of the potential impact of these reforms on workers.

In addition, USDOE will make it easier for borrowers to stay enrolled in these new plans should they choose to do so. Beginning summer 2023, borrowers will have the option to allow USDOE to automatically pull their annual income information so that borrowers can avoid the hassle of needing to recertify their income year after year.

### These reforms would simplify loan repayment and deliver significant savings to low- and middle-income borrowers:



For example:		
Career and background	Lower monthly payments	Annual savings
A typical single construction worker making \$38,000 a year with a construction management credential	\$31 a month, compared to the \$147 they pay now	Nearly <b>\$1,400</b>
A typical single public school teacher with an undergraduate degree making \$44,000 a year	\$56 a month, compared to the \$197 they pay now	Nearly <b>\$1,700</b>
A typical nurse with a bachelor's degree who is married with two kids making \$77,000 a year	\$61 a month, compared to the \$295 they pay now	More than <b>\$2,800</b>

## Frequently Asked Questions

### Can I get a refund if I made payments during the federal student loan repayment moratorium?

Yes. USDOE says it will provide a refund for any payment, including auto-debit payments, made during the pause in student loan repayment pause (beginning March 13, 2020). Individuals should contact their loan servicers to request that their payment be refunded. A list of federal student loan servicers can be found [here](#).

However, individuals are advised to wait until more details are released from USDOE to understand how the pandemic-era student loan payments will affect their eligibility for debt cancellation and overall student loan balances.

*Will I have to pay taxes on the amount of debt canceled?*

No. Borrowers will not be subject to federal income tax on student loan debt that is forgiven. A provision in the American Rescue Plan Act exempts student loan forgiveness from taxes until 2025. However, individuals living in 13 states, which includes Hawai'i, may be required to pay state income tax on their canceled student loan debt. Visit <https://tax.hawaii.gov/> or speak with a tax professional to find out how student loan debt relief could affect your state tax bill.

*How do I know if I have received a Pell Grant?*

Even if an individual has received a partial Pell Grant or only had it for one year, the recipient can qualify for up to \$20,000 of forgiveness. Individuals can verify whether if they have received a Pell Grant by logging into their account on the Federal Student Aid website (<https://studentaid.gov/>). To view the loans and grants you have received, click on the "Aid Summary" page of the site and any Pell Grants should appear in this section.

*Am I eligible for forgiveness even if I never graduated or am still in school?*

Yes. Individuals who have not finished their degree or are still in school can still qualify for loan forgiveness as long as their loans were disbursed by June 30, 2022.

*What if my student loans are in default?*

Individuals can still likely qualify for forgiveness, even if their loans are in default. If collection activities were halted on their debt during the federal student loan payment pause, then their loans would likely be eligible for forgiveness. Additionally, borrowers have the opportunity to return defaulted federal loans to good standing through USDOE's Fresh Start program. You can learn more about the program [here](#).

For more information, including a list of FAQs, on USDOE's one-time student loan relief plan, please visit <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>.