



Student Debt: Help's on the Way

A new plan provides debt relief to millions of Americans who have taken out federal loans for college.

An estimated 40 million borrowers will be eligible for student debt relief.*

The numbers on student debt are grim. More than 45 million borrowers owe \$1.6 trillion in student loans.¹ The average bachelor's degree graduate owes almost \$29,000, and the average graduate degree recipient racks up over \$70,000 in loans.² Paying back that debt can take years, posing a significant burden on anyone trying to start a career, raise a family, or save for retirement. Many can't manage it -- about a third of federal student loan borrowers have experienced a default.³

The good news is, relief is on the way. In late August, the Biden administration announced a plan whereby Pell Grant recipients with loans held by the U.S. Department of Education (DOE) may qualify to have up to \$20,000 of their student loans cancelled. Non-Pell Grant recipients may be eligible for up to \$10,000 in debt cancellation.

Who is Eligible

Eligibility for loan cancellation depends on income. To qualify, annual income must be less than \$125,000 (for individuals) or \$250,000 (for married couples). Borrowers who are dependent students will be eligible for relief based on parental income rather than their own income.

Nearly 8 million borrowers may be eligible to receive relief automatically because their relevant income data is already available to the DOE. If the DOE does not have your income data, you will need to apply (see below). Once you complete the application, it will take four to six weeks to receive relief.

Other Related Proposals

The relief plan also calls for a final extension of the pause on federal student loan repayments through December 31, 2022. Additionally, the DOE proposes the following steps in order to make the student loan system more manageable for current and future borrowers:

- Capping monthly payments for undergraduate loans at 5% of a borrower's discretionary income, half the rate that borrowers currently must pay under the most recent income-driven repayment plan.
- 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.
- Forgiving loan balances after 10 years of payments, instead of 20 years, for borrowers with original loan balances of \$12,000 or less.
- Covering 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 monthly payments are made (even when that monthly payment is \$0 because income is so low).

The DOE also will make time-limited changes to the current Public Service Loan Forgiveness (PSLF) program. The temporary changes, which end on October 31, 2022, provide an easier path to forgiveness of all outstanding debt for eligible federal student loan borrowers who have served at a nonprofit, in the military, or in federal, state, tribal, or local government for at least 10 years (even if not consecutive). They also make it easier for individuals who have served less than 10 years to get credit toward eventual loan forgiveness.

Points to Remember

- Relief only applies to federal loans that are not owned by private entities. Private (non-federal) loans made by banks, credit unions, and online lenders do not qualify.
- Only loans taken out before June 30, 2022, qualify for forgiveness.
- Apply by November 15 at [StudentAid.gov](https://studentaid.gov). If you miss that deadline, you may not receive relief before payments resume in January.
- The DOE will keep the application open until the end of 2023.
- The relief will not count as taxable income on your federal tax return. But some states may choose to treat it as taxable on state income tax returns, so check with your state tax authority.
- More information is available at <https://studentaid.gov/debt-relief-announcement/>

*The White House, [Briefing Room](#), September 21, 2022.

¹Fact Sheet: [President Biden Announces Student Loan Relief for Borrowers Who Need It Most. The White House](#), August 24, 2022.

²NerdWallet, [What Is the Average Student Loan Debt for Graduate School?](#), February 24, 2022.

³Pew, [Government Hits Reset on Student Loan Defaults. But Many Could Experience Default Again](#), June 14, 2022.