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President Biden's Student Debt Relief Plan Explained With FAQs

This August, President Biden, Vice President Harris, and the U.S. Department of Education (DOE) announced a three-part plan to help low and middle-income families deal with the increasingly burdensome cost of paying for college, while also making the student loan system more efficient and easier for borrowers to manage. The most dramatic part of the plan includes the cancellation of up to \$20,000 in student loan debt, which would benefit an estimated 43 million borrowers, and completely cancel the debt for 20 million.

How We Got Here

Since 1980, the cost of both public and private colleges has nearly tripled, yet federal assistance hasn't kept pace with the increased expense. Indeed, Pell Grants once covered roughly 80% of the cost of a four-year public college degree, but today they cover just one third. This has forced many students to rely on student loans, and today's typical undergraduate student leaves college with nearly \$25,000 in debt, according to the DOE. <https://www.masslive.com/news/2022/08/pell-grants-explained-and-how-they-are-impacted-by-president-bidens-debt-forgiveness-program.html?outputType=amp>

With the cost of college booming and more students relying on loans, starting in 1978, Congress passed a series of laws making it progressively more difficult for borrowers to discharge student loan debt in bankruptcy. For several decades, borrowers could discharge student loan debt if repayment presented an **"undue hardship,"** and the loan had come due five years prior to the bankruptcy filing. But in 1998, Congress got rid of that option, effectively making it nearly impossible to discharge student loan debt in bankruptcy. <https://www.studentloanborrowerassistance.org/bankruptcy/>

The Student Debt Relief Plan

In the wake of the aforementioned conditions, there are now some 45 million American borrowers who owe a total of nearly \$1.6 trillion in student loan debt. This plan will offer the biggest break those debtors have seen from the government in decades. Specifically, under the plan, the Biden-Harris Administration authorizes the DOE to take the following three actions:

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Part 1: Extend the student loan repayment pause until the new year.

In response to the hardships created by the pandemic, then-President Trump paused repayment of federal student loans starting in early 2020. Biden previously extended that pause multiple times, with the latest adjustment extending the deadline until August 31st.

Biden's new plan extends the pause a final time through December 31, 2022, with payments resuming in January 2023. This final pause in repayment will occur automatically, and borrowers are not required to do anything to take advantage of it.

Part 2: Provide targeted debt relief to low and middle-income borrowers.

To help borrowers at the highest risk for default ease the transition back to repayment, the Biden-Harris Administration authorized the DOE to provide up to \$20,000 in debt cancellation to Pell Grant recipients, and up to \$10,000 in debt cancellation to non-Pell Grant recipients. To be eligible for this relief, individual borrowers must have an income of less than \$125,000 or \$250,000 for married households.

Additionally, borrowers employed by nonprofits, the military, or federal, state, tribal, or local government may be eligible to have *all of their student loans forgiven* through the Public Service Loan Forgiveness (PSLF) program. This relief is due to changes that waive certain eligibility criteria in the PSLF program, but *these changes expire on October 31, 2022, so if you are eligible, apply as soon as possible*. For more information on eligibility and requirements, visit the Public Service Loan Forgiveness homepage:

https://www.whitehouse.gov/publicserviceloanforgiveness/?utm_source=pslf.gov

Frequently Asked Questions Regarding Loan Forgiveness

Q: How do I know if I am eligible for debt cancellation?

A: To be eligible, your annual income must have fallen below \$125,000 (for individuals) or \$250,000 (for married couples or heads of households). Those who received a Pell Grant in college and meet the income threshold are eligible for up to \$20,000 in debt cancellation.

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If you did not receive a Pell Grant in college and meet the income threshold, you will be eligible for up to \$10,000 in debt cancellation. Your eligibility is capped at the amount of your outstanding debt, so you will not receive any money in excess of your total debt.

Q: How do I apply for loan forgiveness?

A: If you think you are eligible, you should file an application with the DOE. That said, nearly 8 million borrowers whose relevant income data is already available to the DOE will receive relief automatically.

Q: When will applications be available?

A: A simple application will be available by early October.

Q: How can I get an application?

A: If you would like to be notified when the application is open, please sign up at the Department of Education subscription page: <https://www.ed.gov/subscriptions>

Q: How long will it take to process my application?

A: Once a borrower completes the application, they can expect relief within 4 to 6 weeks.

Q: When should I apply to ensure the best chance of repayment?

A: Borrowers should apply before November 15, 2022 in order to receive relief before the payment pause expires on December 31, 2022. However, the DOE will continue to process applications as they are received, even after the pause expires on December 31, 2022.

Q: What is the Public Service Loan Forgiveness Program?

A: The PSLF is a program that offers certain individuals, namely those who worked with nonprofits, the military, or federal, state, tribal, or local governments, the possibility to have their entire student loan debt canceled.

Q: How do I know if I am eligible for the PSLF?

A: If you have worked in public service (federal, state, local, tribal government or a non-profit organization) for 10 years or more (even if not consecutively), you may be eligible to have all your student debt canceled.

Q: How do I apply for the PSLF program, and what is the deadline for applying?

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A: To be eligible, you must apply before October 31, 2022. Enrollments received on or after Nov. 1, 2022 will not be eligible. To learn more or apply, visit the Public Service Loan Forgiveness Program homepage: https://www.whitehouse.gov/publicserviceloanforgiveness/?utm_source=pslf.gov

Q: Is any of the debt relief offered by this program taxable?

A: None of the relief offered by the plan is subject to federal income tax. State and local income tax implications may vary.

Part 3: Enhance the ease and manageability of the student loan system for current and future borrowers.

The current system for loan forgiveness has proven too complex and limited, and this has significantly impacted its effectiveness. As an example, most forgiveness plans cancel a borrower's remaining debt once they make 20 years of monthly payments. Yet, due to issues with the system, millions of borrowers who might benefit from such plans fail to sign up, and the millions who do sign up are often left with unmanageable monthly payments.

To improve this system, the Biden-Harris Administration is reforming student loan repayment plans, so both current and future low and middle-income families will have smaller and more manageable monthly payments. Specifically, the Biden-Harris Administration is working with Congress to pass legislation that would make the following changes:

- **Require borrowers to pay no more than 5% of their discretionary income monthly on undergraduate loans.** This is down from the 10% 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.
- **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.

Additionally, the DOE will make it easier for borrowers enrolled in this new plan to stay enrolled and avoid the hassles of recertification. As part of this effort, starting in the summer of 2023, borrowers will be able to allow the DOE to automatically pull their income information on an annual basis, instead of recertifying their income annually, as the current program requires.

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Here's How To Get Started

The information provided here was based on data offered by the DOE as of August 24, 2022. To access the latest information and be notified when the program has officially opened, sign up at the Department of Education subscription page. Note, borrowers have until Dec. 31, 2023 to apply for assistance under the Student Debt Relief Plan, so don't wait to act. <https://www.ed.gov/subscriptions>

Meanwhile, for more extensive information and instructions on the various elements of the plan, visit the Student Debt Relief Plan resource page. Of course, don't hesitate to contact us, your Personal Family Lawyer® and/ or CPA if you need our support with your efforts. <https://studentaid.gov/debt-relief-announcement/one-time-cancellation>

We're Here For Your Family

With the deaths and hospitalizations from the pandemic steadily decreasing and inflation finally showing signs of easing, it appears we may be finally returning to more normal times. And for those with student loan debt, this means a return to your scheduled repayments. However, for those who qualify, President Biden's Student Debt Relief Plan may offer you significant relief with those payments—and in some cases, totally cancel your debt.

If you or someone you love is one of the millions carrying significant student loan debt, we encourage you to investigate your options under this plan, and enlist our support if needed to ensure you receive the maximum benefit possible. We're here for your family—because you and your loved ones are worth it.

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