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Student Loans in 2021

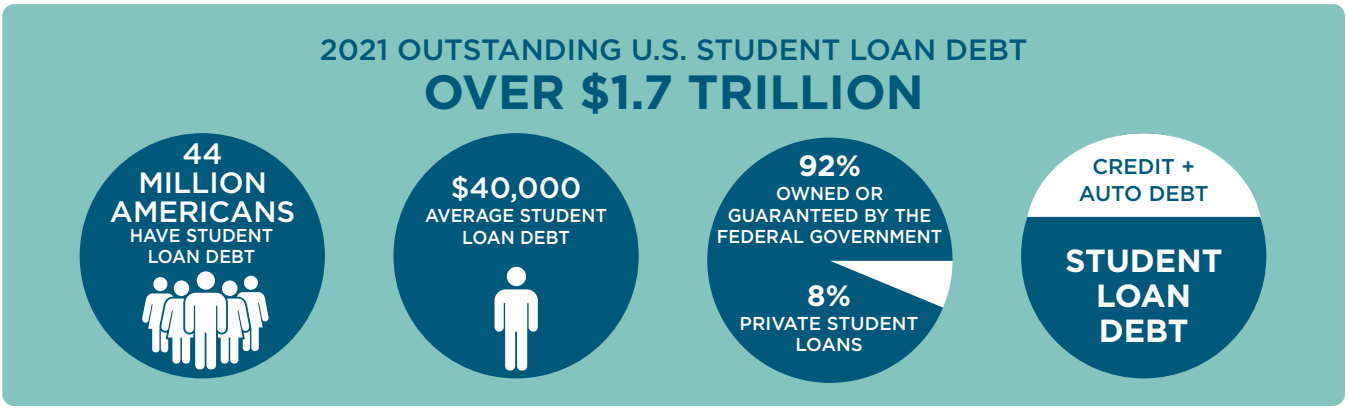
What's happening regarding the student loan industry, tax changes, employer benefits, and more.

The student loan landscape is constantly changing as the U.S. navigates the pandemic and the transitions to a new presidential administration and Congress. This student loan update will cover many of the relevant areas for borrowers.

Student Loan Data - The Big Picture

According to the Federal Reserve, the total amount of outstanding student loan debt in the U.S. surpassed $1.71 trillion dollars and is held by 44.7 million Americans. The vast majority, more than 92%, is debt owned or guaranteed by the federal government, leaving the other 8% or nearly $139 billion as private student loans.

While the majority of debt, according to Federal Student Aid is held by those under age 50, those older than 50 still hold over $290 billion in student loan debt. Americans hold more student loan debt than credit card debt and auto debt. It is second only to mortgage debt in the U.S.



CARES Act - Payment Suspensions

2020 brought many changes and other news regarding student loans, but arguably nothing more impactful than the CARES Act changes to federal direct student loans. On March 20, 2020 Federal Student Aid accounted temporary relief for all ED-owned federal student loans by suspending payments, stopping collections on defaulted loans and moving interest rates to 0%. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was passed by Congress and signed into law by President Trump on March 27, 2020, codified the borrower relief. Borrowers were still able to make payments, and in most situations the entire amount would be applied to principal.

Originally, the relief provisions delayed required payments through Sept. 30, 2020, then was twice extended by the Trump administration. Shortly after inauguration day, the Biden administration pushed the date out to Sept. 30, 2021. A study in October 2020, concluded that less than 11% of borrowers were actively making payments.

The CARES Act was specifically for federal direct loans and Federal Family Education Loan Program (FFELP) loans owned by the Department, meaning that FFELP loans owned by a non-governmental entity, as well as the billions in private student loans were not impacted, and are still subject to the terms of repayment with their lender.

Many private loan borrowers have seen some relief from student loan refinancing.

Billions of dollars in student loans get refinanced every year, and 2020 was no different. After the CARES Act passed, borrowers who already carried private student loans that didn't benefit from the payment freeze were more likely to benefit from student loan refinancing. The big opportunity in 2020, and still in 2021, is to refinance with historically low interest rates, hovering around 2% for some borrowers.

Student Loan Forgiveness



For many years, advocates, candidates, and elected officials have been calling for student loan forgiveness. The idea here is that the federal government, as the loan holder, has the unique ability to forgive loans if they so decide. Most plans have been targeted to forgive anywhere from $10,000-$50,000 in federal Direct loan debt, and are sometimes accompanied by an income restriction. There are various arguments in this space about why student loan debt should be forgiven as opposed to other types of debt, how it legally can be accomplished, and how large-scale loan forgiveness would impact the economy in the short and long term.

The American Rescue Plan is the third COVID stimulus bill passed by Congress.

This $1.9 trillion relief bill doesn't include student loan forgiveness. There are many sides to the discussion and the potential impact on the cost of higher education, on existing borrowers, and on future borrowers, as the government lends $140 billion in new funding each year, but the path forward with any loan forgiveness is uncertain.

The legislation did include a provision to make any future student loan forgiveness tax-exempt, a sign that loan forgiveness proposals will continue to be debated.

Employee Benefits

In 2015, the idea of offering a student loan benefit to employees started to gain traction in the employer market. Thousands of employers have added a student loan benefit since then. Arguably the biggest drawback for employers was that the benefit was a fully taxable fringe benefit. This caused many employers and their employees to either decide against offering, or utilizing it and feeling a sense of punishment for taking advantage of a benefit that is then taxed.

Giving a boost to employer-sponsored student loan benefits, the CARES Act allowed the benefit to be tax-free. The CARES Act added student loan benefits to Section 127 of the Internal Revenue Code (IRC) on educational assistance benefits. Since the 1980s, Section 127 has given a tax preference to tuition assistance benefits. This change allows employers to now offer multiple types of educational assistance, tax-free up to $5,250 per employee per calendar year. Originally, the CARES Act included this tax preference only through Dec. 31, 2020. The Coronavirus Relief Act passed and signed into law at the end of 2020 extended this provision for at least five more years. This extension gives employers a high comfort level that the tax-free status of the benefit will be around well into the future.



The other trend appearing in 2021 is state tax incentives.

Historically, some states like Colorado have provided a tax credit for employers who contribute to their employees' 529 plans associated with that state. 2021 has seen nearly 10 states propose a tax credit for employers who make contributions to their employees' student loans. In some cases, the entire contribution becomes a state credit, making an extremely strong case for repayment benefits in that state. Starting in the 2022 tax year, Connecticut will begin a first of its kind tax credit for employers who contribute to employees' loans held by Connecticut Higher Education Supplemental Loan Authority (CHESLA).

It will be interesting to watch the evolution of student loan benefits for the next few years if the economy fully recovers, unemployment goes back to pre-COVID numbers, and the need for talent remains high. There are likely other ways that student loan benefits will change to meet the needs of employers and employees. Some of this may also be driven by the federal government, because a few sections of the Coronavirus Relief Act require parts of the federal government to assess the viability of student loan repayment programs in areas like the intelligence community.



As the vast majority of borrowers return to repayment at the same time, which is currently scheduled for September 30, 2021, the need for student loan benefits, both contributions and others, will dramatically increase. Many employers are preparing for that return to repayment through a benefit for their employees.

BenefitEd helps you recruit and retain employees with education benefits programs that reduce the time it takes to pay back student loans and make it easier to contribute to a 529 savings account.

Learn how to put BenefitEd to work for your employees by visiting youbenefited.com, calling 844-358-5707, or emailing support@youbenefited.com.



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About BenefitEd

BenefitEd offers customized employer-assisted student loan repayment programs and college savings programs to employers looking to build highly competitive, differentiated benefits packages. We offer these programs direct to employers, through benefit brokers, and white label solutions.

BenefitEd™

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