Student Loans in 2023

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

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Introduction

While 2023 looks to be similar to 2022 in a few ways, there are some interesting things ahead in the area of student loans. There are many unknowns for borrowers around topics like the return to repayment for federal loans and potential loan forgiveness. That said, one thing is certain – student loan benefits continue to grow in popularity and effectiveness.

Employers continue to have greater incentive to offer student loan benefits – and more options for how to structure them.

Student Loan Data – The Big Picture

According to the Federal Reserve, the total amount of outstanding student loan debt in the U.S. surpassed $1.76 trillion dollars in 2022, and that debt is held by 45 million Americans.[1] The vast majority, more than 93%, is debt owned or guaranteed by the federal government, leaving the other 7% as private student loans.[2]

While the majority of federal student loan debt is held by those under age 50, those older than 50 still make up 19.8% of all federal student loan borrowers.[3] Americans hold more student loan debt than either credit card debt or auto debt. Student loan debt is second only to mortgage debt in the U.S.[4]

2022 Outstanding U.S. Student Loan Debt

$1.76 Trillion[1]

45 Million Americans
Have Student Loan Debt[1]

$37,574 Average
Student Loan Debt[3]

Owned or Guaranteed by the Federal Government	93%
Private Student Loans[2]	7%

Non-Housing Debt in the U.S.[4]

Student Loan Debt	34.8%
Auto Loan Debt	33.7%
Credit Card Debt	20.6%
Other	10.9%

CARES Act and Student Loan Debt Relief – Repayment and Forgiveness

The CARES Act student loan payment pause and the Biden-Harris Administration's student debt relief plan are now effectively intertwined. The Department of Education is leaving federal loans on pause while the debt relief plan works its way through the courts. The Supreme Court will hear the case around the Biden-Harris Administration's Debt Relief Plan on February 28, 2023.

Under the proposed plan, the Department of Education would provide up to $20,000 in debt relief to Pell Grant recipients with loans held by the Department and up to $10,000 in debt relief to non-Pell Grant recipients. Borrowers are eligible for this relief if their individual income is less than $125,000 or their household income is less than $250,000. Borrowers employed by nonprofits, the military, or Tribal, federal, state, or local government may be eligible to have all of their student loans forgiven through the Public Service Loan Forgiveness program.

The decision of the case will be announced months after the oral arguments. The Department of Education has said that federal loan repayment will restart 60 days from a decision around the case or 60 days after June 30, 2023 – whichever comes sooner. This effectively sets the date for the return to student loan repayment at September 1, 2023.

Student Loan Debt Relief – Changes to Repayment

The Department of Education and Federal Student Aid are also proposing significant changes to the plans available for repayment, specifically around different types of income-based repayment plans. These plans use calculations based on a borrower's income to determine their monthly payment amount.

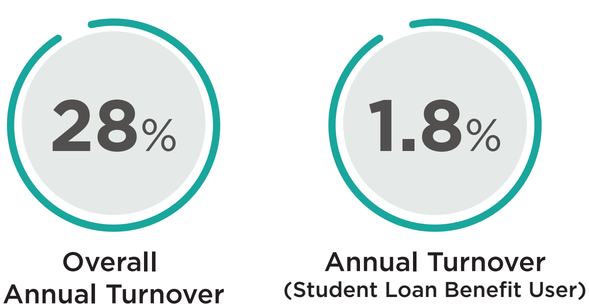
With a proposed new income-driven repayment plan, the way in which that calculation is done would change – reducing the percentage of discretionary income that would need to be paid monthly. The proposed new plan would cover the borrower's unpaid monthly interest as long as they continue to make monthly payments. For borrowers with balances of $12,000 or less, the plan would also forgive loan balances after 10 years – rather than 20 years – of consecutive monthly payments made.

Increase in Employers Offering Student Loan Benefits

Even with all the uncertainty around federal student loans, one thing is clear: the number of employers offering student loan repayment benefits continues to increase dramatically. A survey released by the Employee Benefit Research Institute in October 2021 showed that 48% of employers offered or planned to implement student loan debt assistance – up from just 32% of employers in 2018 providing the benefit or planning to do so.[5]

Much of this increase is due to the tax-free nature of student loan benefits as part of Section 127 education benefits, which were introduced in the CARES Act and which currently extend through the end of 2025. Many employers have found the tax-free status of student loan benefits intriguing and are offering plans for this reason. However, the student loan benefit also offers a crucial competitive recruiting edge and proves to be an effective retention tool in today's active job market.

Healthcare Employer With 6,000 Employees



BenefitEd works with clients to track their retention rates of employees, which can help assist them in determining a return on the investment of this benefit. To provide an example, one of BenefitEd's healthcare clients has just under 6,000 full-time employees.

This employer's annualized turnover of employees is around 28%. The turnover of the employees taking advantage of their robust student loan benefit is annualized at 1.8%! With this staggering difference, the value to the client is clear; this benefit is helping them retain a key demographic of employees. Other quantitative and qualitative data provided by the employer indicates that the student loan benefit has also given them a competitive recruiting edge.

SECURE Act 2.0 – Impact on Student Loan Borrowers and College Savings

In the waning hours of 2022, an Omnibus Spending bill passed the federal legislature and was signed by the President to keep the government funded, among many other things. This bill contained what was previously known as the SECURE Act 2.0 bill. SECURE Act 2.0 has 92 provisions that will affect the future of the retirement plan industry and the employers they work with.

With regard to student loans, there is one particular provision that will potentially have a lasting impact for borrowers and their employers. Starting in 2024, employers can amend their retirement plans to recognize an employee's student loan payments the same as they would an elective deferral to the plan. This means an employer would provide matching retirement contributions based on an employee's student loan payments.

For many employees who aren't contributing at all – or who aren't maximizing the benefit of their employer's retirement match – due to having student loan payments, this can be a game changer. Depending on various factors, employees could potentially save hundreds of thousands more dollars by retirement age as a result of this opportunity to be able to start saving sooner.

In addition, that same bill has a provision that allows 529 account owners to roll their 529 account into a Roth IRA. By eliminating the risk that some parents may feel about contributing to a 529 plan that could go unused if their child doesn't attend college or doesn't need the funds, the new provision may encourage more parents to use 529 plans to save for education costs.

1 https://www.nerdwallet.com/article/loans/student-loans/student-loan-debt
2 Calculated using data from Federal Reserve Statistical Release: Consumer Credit and the Federal Student Loan Portfolio.
3 https://www.bestcolleges.com/research/average-student-loan-payment/#fn-1
4 https://www.newyorkfed.org/microeconomics/hhdc
5 https://www.cnbc.com/2022/01/21/companies-raise-perks-to-repay-employees-student-loans.html

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About BenefitEd

BenefitEd offers customized employer-assisted student loan repayment programs, tuition reimbursement, 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.

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