



Updates To Student Loan Forgiveness and Repayments

Student loans have been at top of mind for many Americans lately, as Biden's executive order to forgive up to \$20,000 in student loans for over 40 million people was deemed by the Supreme Court last month to be an illegal stretch of power. It has also recently been announced that the pause on student loan payments and **interest accruals** which was initially implemented by Trump in 2020 as a response to COVID will be ending on August 31, 2023, meaning that **student loan borrowers will need to begin making payments again soon.**

This news may seem daunting, but loan forgiveness can still be a reality for a portion of borrowers due to new legislation, and we will be sharing some tax-smart strategies below to help soften the blow to your wallet.

Debt Cancellation for Income-Driven Repayment Plans

Although Biden's initial plan would have made a much larger number of Americans eligible for some amount of student loan relief, ***new legislation was enacted this month that will forgive \$39 billion of debt for over 804,000 borrowers.*** This legislation will fix issues with the existing income-driven repayment (IDR) program, which will provide immediate forgiveness to qualified individuals who have been making student loan payments for at least 2 decades.

IDR plans, such as the Revised Pay as You Earn Repayment Plan (REPAYE), Pay As You Earn Repayment Plan (PAYE), Income-Based Repayment Plan (IBR), and the Income-Contingent Repayment Plan (ICR), can allow you to lower your monthly loan payments, since it is tied to a percentage of your discretionary income (usually 10%). Any debt still outstanding after 20-25 years is automatically forgiven. Although this debt forgiveness was built into these plans, poor recordkeeping at the Department of Education caused a failure to keep track of some borrowers' progress towards forgiveness. The 804,000+ borrowers who will receive automatic forgiveness under the recently announced legislation are those who fell victim to this inaccurate reporting.

If you qualify for immediate debt forgiveness under an IDR, you should be alerted to this by the Department of Education within the next few weeks, and then official loan cancellation should occur in a few months. For those under this program who do not yet qualify for full forgiveness, they should feel some relief in the fact this broken system will be remedied and their forgiveness will take place at the proper time in the future.

Tips to Prepare for Student Loan Repayment

If you are not one of the 804,000 who are receiving this instant relief, you will need to begin making loan and interest payments again this fall. ***The first payment due date after the loan pause ends***

will be in October of 2023. You should review your payment history and required monthly payments now so that you have adequate time to prepare financially.

You should first ***begin by preparing a monthly budget*** and ensuring that you can afford to make loan payments. You may need to find new ways to save or cut spending in other areas to allow for this. If you need help making a budget, we recommend you read through Chapter 1 of John Sr.'s book *Financial Independence (Getting to Point X)*, titled "Committing to Living Within Your Means."

If you are still struggling to afford payments, you should ***look into an IDR plan***. You can also save 0.25% on your interest rate by ***signing up for automatic payments*** on your loans, which is an easy, risk-free way of lowering your payments a bit. ***Be very cautious if you are considering debt consolidation or refinancing***, however, since current high interest rates may actually cause you to pay more than you were previously. ***Refinancing with a private lender will also cause you to lose all federal loan protections and make you ineligible for IDRs.***

If you do not believe that you will qualify for any of the IDR programs, then you should make it a priority to pay down your highest rate student loans first and then work your way down until they have been paid in full. ***For many student loan borrowers that do not qualify for an IDR, paying down these loans should be viewed as the best investment you can make in your financial future.***

With some careful planning, you can ease the burden of student loan repayment. ***For specific questions about your loan and for further advice on your repayment options, you should reach out to your loan servicer to help make the best decision for your particular case.***

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