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Industry Briefing

The State of Student Loan Debt Under the Trump Administration

Since the election, many employers and benefit advisors we work with have asked our opinion on the state of Student Loan Debt under the incoming Trump administration. In light of the many articles debating loan forgiveness programs, pending litigation on the SAVE plan, and expectations for bold policy actions under the Trump administration, we are not surprised there is uncertainty! This briefing shares our point of view on how macro trends and the new administration are likely to impact 1) the burden of student loans on employees and their families, and 2) employer-sponsored student loan assistance programs.

Macro dynamics are heightening the value and relevance of employer-sponsored education assistance benefits.

- **Consequences of Student Loan delinquency are back on.** The "on-ramp" period for repayment ended on September 30, 2024. This means that government wage garnishment actions will begin in June 2025 (a known catalyst of employee turnover) and tax refund offsets will hit during the 2025 refund season. Less transparent to employers, borrowers who are delinquent on their payments will be reported to credit agencies, which can lead to higher borrowing costs, decreased ability to buy a home, and other financial consequences.

- **Delinquent borrowers represent a meaningful segment of the workforce.** An analysis by the *Consumer Financial Protection Bureau* showed 47% of student loan borrowers entering repayment for the first time were not actively repaying at the end of last year. By comparison pre-pandemic, 36% of borrowers were delinquent on their student loan payments.

- **Many employees are starting to face more financial hardship *right now*.** Before the forbearance period ended, 88% of full-time employees were already worried about basic living expenses, and 44% said they live paycheck to paycheck[1]. Add an incremental student loan payment, and meeting daily living expenses for a majority of people just got even harder.

- **Gen Z employees may be hardest hit.** Employees that joined the workforce in the last four years have <u>never</u> had to make a student loan payment on federal loans until now. This means that their monthly budget and current lifestyle was established without the obligation of student loan payments. With the average student loan payment ~$400/month, it'll feel comparable to adding a second car loan payment for Gen Zs.

- **College costs and student loan debt will continue to grow.** College tuition continues to outpace inflation, state funding is on a long, slow decline, and we now expect federal support to stagnate or decrease. As a result, even more financial responsibility will shift to individuals and in turn create more reliance on student loans. Total U.S. student loan debt just surpassed $1.77 trillion and is trending up.

[1]Willis Tower Watson, 2024 Global Benefits Attitudes Survey.

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Core Federal Loan Forgiveness Programs will remain intact, but the need for objective, expert support is rising.

- **Public Service Loan Forgiveness (PSLF) will continue** for all non-profit healthcare, public education and government employees. It would take a Congressional Act to change these long-standing programs, and these programs have strong bipartisan support.

- **Blanket student loan forgiveness is off the table**, nor do we expect to see any expansion of Loan Forgiveness to new segments of the workforce.

- **Income-driven repayment plans will continue to be in flux.** It's in the best interest of borrowers to reevaluate their loan positions with each change to regulated repayment plans. Gen Zs that are paying student loans for the first time are likely paying a maximum monthly payment, and more likely to qualify for an income-driven repayment plan.

> *~50% of employees that use Tuition.io's Strategy Finder learn that their best option is to switch to a lower monthly payment.*

- **Federal education oversight and funding will decline.** The tone of the new administration is to shift responsibility to state authorities and individuals. Unfortunately, there's no evidence that states will step up to replace withdrawn federal funding based on behavior over the last decade, leaving individuals to shoulder the gap. Furthermore, as the Department of Education's role diminishes, expect service levels to deteriorate further (increased backlogs, more paperwork errors, and reduced human support).

Favorable tax treatment for employer-sponsored Education Assistance Benefits will continue to have support.

- The Employer Participation Repayment Act (H.R. 9164/S. 4778) is likely to pass. This bipartisan legislation would make tax-free student loan contributions permanent under IRC Section 127.

- 2024's new Secure 2.0 Retirement Match benefit usage is growing exponentially, following an initial "wait and see" approach by most employers. In practice, the programs we administer have enabled thousands of employees to start saving for retirement or to realize their full retirement match in 2024, and 2025 enrollments are up.

- A 2024 IRS Private Letter Ruling permitted the sponsoring employer to offer its employees flexible allocations of contributions to a 401(k), HSA, HRA, FSA, student loan payments, or tuition assistance, without tax consequences. Industry experts believe that the IRS will expedite the formal codification of this ruling into the tax code as other employers file their own PLRs to build benefit packages that better serve the evolving needs of their workforce.

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Taken together, several conclusions are clear:

1. Federal student loan debt policies are predictable again (payments are back on, no more forbearance, no proposed expansion of loan forgiveness).
2. The financial well-being of most working individuals and their families will decline as a direct consequence of this evolving state of student loan debt.
3. There's a large need for guidance to borrowers to mitigate consequences of delinquency, reassess repayment plans, and navigate new processes.
4. There's a growing need for expert college planning support to optimize education decisions and tuition funding strategies.
5. Employers have more tax incentives and plan options to provide student loan assistance and other education-related benefits to their employees.

ADDITIONAL RESOURCES AVAILABLE TO YOU
For guidance on how these dynamics may impact the financial wellness of your workforce and benefit plan, please reach out for a complimentary consultation:

- Partners, please contact your Partner Success representative.
- Schedule time with a solutions expert
- Email us

Read the full reports:
Willis Towers Watson: Highlights from the 2024 Global Benefits Attitudes Survey

Consumer Financial Protection Bureau, Nov 2024: "An analysis of the first seven months of the federal student loan return to repayment"

Tuition.io is dedicated to providing guidance and solutions to help employers build a skilled, engaged and stable workforce. Our Industry Briefings are intended to help employers, benefit brokers and advisors, record keepers, and other workforce professionals be informed about trends in the dynamic areas of student loan debt, higher education, and their impact on the U.S. workforce. Visit Tuition.io and subscribe.

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