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Sweeping Changes to Student Loans: What This Means for Borrowers and Employers

The One Big Beautiful Bill Act contains substantial changes to student loans, and, as a result, employers may wish to consider revising their current employee benefits plans to attract new employees and assist current employees with their student loan obligations.

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The One Big Beautiful Bill Act (Act) was signed into law on July 4, 2025. In addition to a host of provisions affecting tax, benefits, and healthcare laws, the Act contains sweeping changes to student loans. These changes will impact how families and students pay for their educations, and how employers can help individuals repay their loans upon entering the work force. In this column, we will discuss some of the Act's changes to federal student loans and explore ways employers can attract and retain top-tier talent.

According to data from earlier this year, one in six American adults has federal student loan debt—with the federal student loan portfolio totaling more than $1.6 *trillion* dollars. [Congressional Research Service,

Snapshot of Federal Student Loan Debt (February 19, 2025)]. This is not surprising given tuition costs. For example, the University of California's undergraduate tuition for California residents in the 2026-2027 academic year is more than $15,000 and exceeds $50,000 for non-California residents. For those attending a University of California law school, tuition for the 2025-2026 academic year for a California resident is approximately $60,000 (or more) per year. These figures illustrate how vital student loans are for those seeking an education in the United States.

The Act's Changes to Federal Student Loans

The Act generally imposes a limit on Federal Direct Unsubsidized Stafford Loans for graduate students beginning on July 1, 2026. [Act § 81001] Non-professional graduate students may borrow $20,500 during each academic year, and professional students (for example, MD or JD) may borrow up to $50,000 each academic year. [*Id.*] The Act also imposes new aggregate limits on the amount of Federal Direct Unsubsidized Stafford loans graduate students may borrow over their lifetime—$100,000 for non-professional graduate students, and $200,000 (subject to adjustments) for professional students. [*Id.*] Similarly, beginning on July 1, 2026, the amount of Federal Direct PLUS Loans parents can borrow for each of their dependent students is also capped at $20,000 annually, with an aggregate limit of $65,000 for each dependent. [*Id.*] Aside from Federal Direct PLUS Loans, beginning on July 1, 2026, nearly all new federal student loan borrowers will be subject to an annual lifetime limit of $257,500. [*Id.*]

In addition to limiting loan amounts, Sections 82001-82005 of the Act also make changes to federal student loan repayment provisions. Generally, for loans made on or after July 1, 2026, borrowers will be required to choose whether to repay loans under a standard repayment plan or the income-based Repayment Assistance Plan. [Act § 82001] This selection will apply to all of a borrower's outstanding loans unless an exception applies. [*Id.*] Borrowers failing to make a selection will be automatically slotted into the standard repayment plan which does not take the borrower's income into consideration. [*Id.*]

The United States Department of Education, Office of Postsecondary Education held its first session of the 2025 Negotiated Rulemaking Reimagining and Improving Student Education (RISE) Committee from September 29–October 3, 2025. The meeting's agenda included discussion of draft regulations related to the loan limits, repayment provisions, and other items related to federal student loans. So, proposed regulations regarding the Act's changes to federal student loans are on the horizon.

Given these changes and the steep price of a higher education, there are steps employers can take to entice well-qualified applicants and retain members of their current workforce.

What Employers Can Do

Adopt or Amend a Qualified Educational Assistance Program

As the Internal Revenue Service (IRS) reminded employers in Tax Tip 2025-59, employers can adopt a qualified educational assistance program that allows employees to receive up to $5,250 annually in employer provided "educational assistance" on a tax-free basis. Section 70412 of the Act indexes the amount employees may receive on a tax-free basis in tax years beginning in 2027. The Act also amends Internal Revenue Code (Code) Section 127 to permanently expand it to apply to an employer's payment of principal or interest on a "qualified education loan"—whether the payment is made to the employee or directly to the employee's lender. [Act § 70412] For purposes of Code Section 127, "qualified education loan" is defined as debt solely to pay for qualified higher education expenses:

(i) Which are incurred on behalf of the employee, the employee's spouse, or an employee's dependent;
(ii) Paid within a reasonable period of time before or after the debt is incurred; and
(iii) Which are attributable to education provided when the recipient was an eligible student. [Code § 221(d)(1)].

For example, loans incurred to pay the tuition for most undergraduate and graduate programs will be considered a "qualified education loan," and to be considered an "eligible student," an individual must be carrying at least ½ of the normal full-time course load for their course of study. [Code § 221(d)(2)-(3)] The employee's course work is not required to be job related. However, educational assistance programs cannot be used for courses involving sports, games, or hobbies—unless there is a reasonable relationship to the employer's business, or the courses are required as part of a degree program. [26 CFR § 1.127-2(c)(3); IRS Tax Tip 2025-59] Further, pursuant to Code Section 127(c)(1)(C), an employer may not provide

employees tools or supplies that the employee may keep after completing a course, meals, lodging, or transportation on a tax-free basis.

To adopt a qualified educational assistance program, an employer must adopt a separate written plan which meets the requirements of Treasury Regulation Section 1.127-2. [26 CFR § 1.127-2] A qualified educational assistance program cannot be offered as part of a cafeteria plan, but it can be offered in connection with a more comprehensive plan that gives employees a choice between *non-taxable* benefits. [26 CFR § 1.127-2(b); Code § 125(f)] The separate written plan must only provide benefits that are considered "educational assistance." [26 CFR § 1.127-2(a), (c)] To implement the provision of Code Section 127, which allows the repayment of "qualified education loans" on a tax-free basis, employers should review and amend their qualified educational assistance programs if necessary. Like other types of employee benefits plans, employees must be given reasonable notice of the qualified educational assistance program and its terms. [26 CFR § 1.127-2(g)]

Qualified educational assistance programs cannot discriminate in favor of principal shareholders or owners. [Code § 127(b)(3)] In general, this means no more than 5 percent of employer paid educational assistance amounts paid during the year can benefit shareholders or owners (or their spouses or dependents) if they own more than 5 percent of the employer's stock, capital, or profits interest. [*Id.*] The Treasury Regulations outline detailed rules for the eligibility for benefits test and factors considered to determine if the educational assistance program is discriminatory. [26 CFR §§ 1.127-2(e), (f)]

Matching Retirement Plan Contributions Based on an Employee's "Qualified Student Loan Repayments"

In light of the Act's changes to federal student loans, employers may also wish to revisit Section 110 of the SECURE 2.0 Act of 2022 (SECURE 2.0). This provision allows employers to make matching contributions to a Code Section 401(k) plan, Code Section 403(b) plan, SIMPLE IRA plan, or governmental Section 457(b) plan based on a participating employee's "qualified student loan payment." A "qualified student loan payment" is defined as a payment for qualified higher education expenses which has the same definition as a "qualified education loan" for purposes of Code Section 127. [*See*, IRS Notice 2024-63]

Consider Contributions to "Trump Accounts" for Employees' Children

Section 70204 of the Act created new tax-deferred savings accounts for children (Accounts). In their most simplistic form, the Accounts generally are subject to the same rules as an individual retirement account under the Code. Children normally cannot access the funds in their Accounts until they turn 18. [Act § 70204] These accounts can begin receiving contributions on July 4, 2026. [*Id.*] Contributions to the Accounts are capped at $5,000 per year (indexed for inflation after 2027), with employers having the ability to make contributions towards that cap of up to $2,500 (also indexed for inflation after 2027). [*Id.*] Employer contributions are excluded from employees' gross income. [*Id.*] While amounts in the Accounts can grow on a tax-deferred basis, they are subject to tax upon withdrawal. Because the Accounts' funds cannot be withdrawn until a child turns 18, many view them as a mechanism to save for college.

Conclusion

Employers interested in assisting employees in paying for education costs should review their current employee benefits plans and contact their advisors to discuss what changes are necessary. ■

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