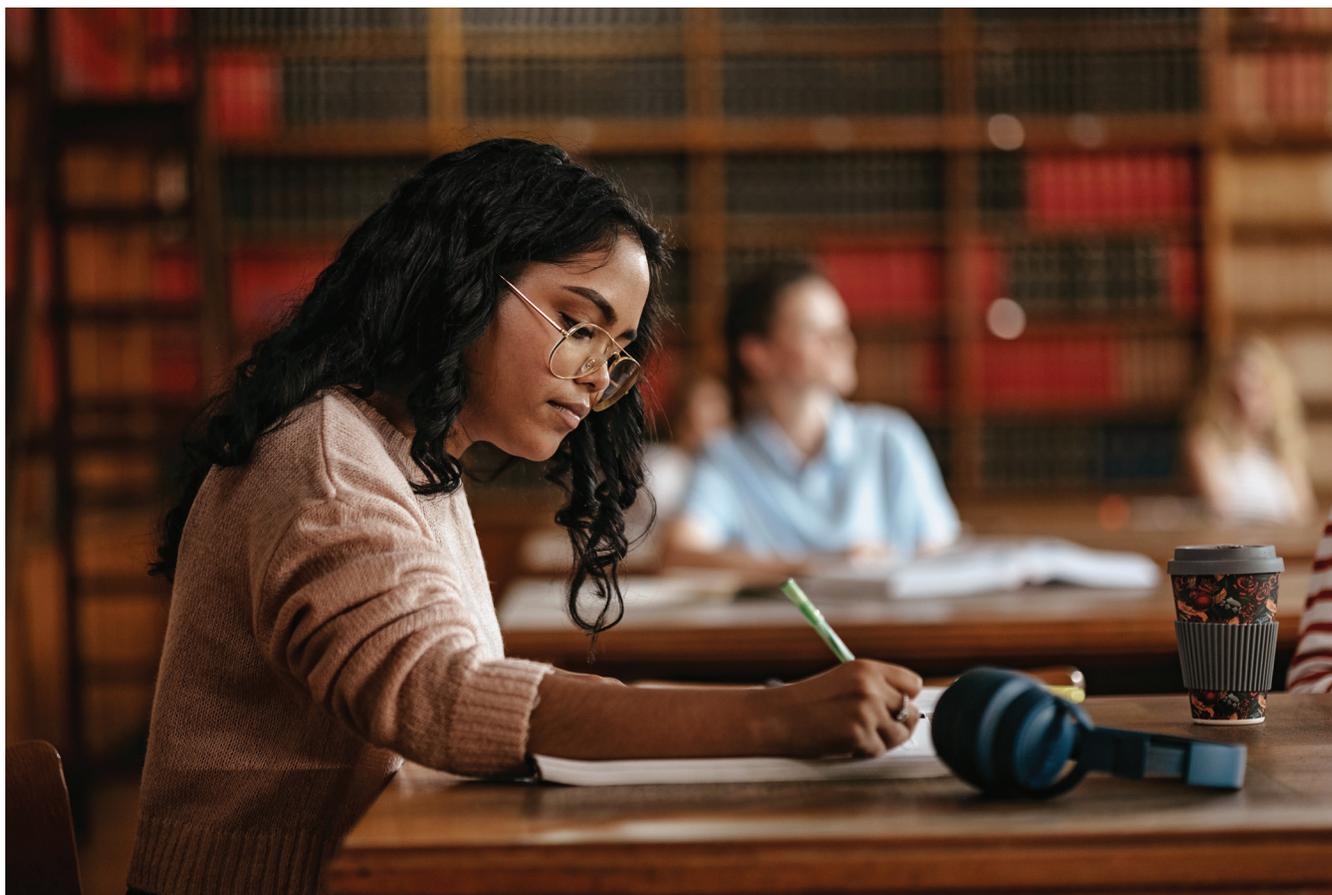


Key Wealth Institute

Higher Education Changes in Recent Years

Tina A. Myers, CFP®, CPA/PFS, MTax, AEP®, Director, Planning and Advice Center

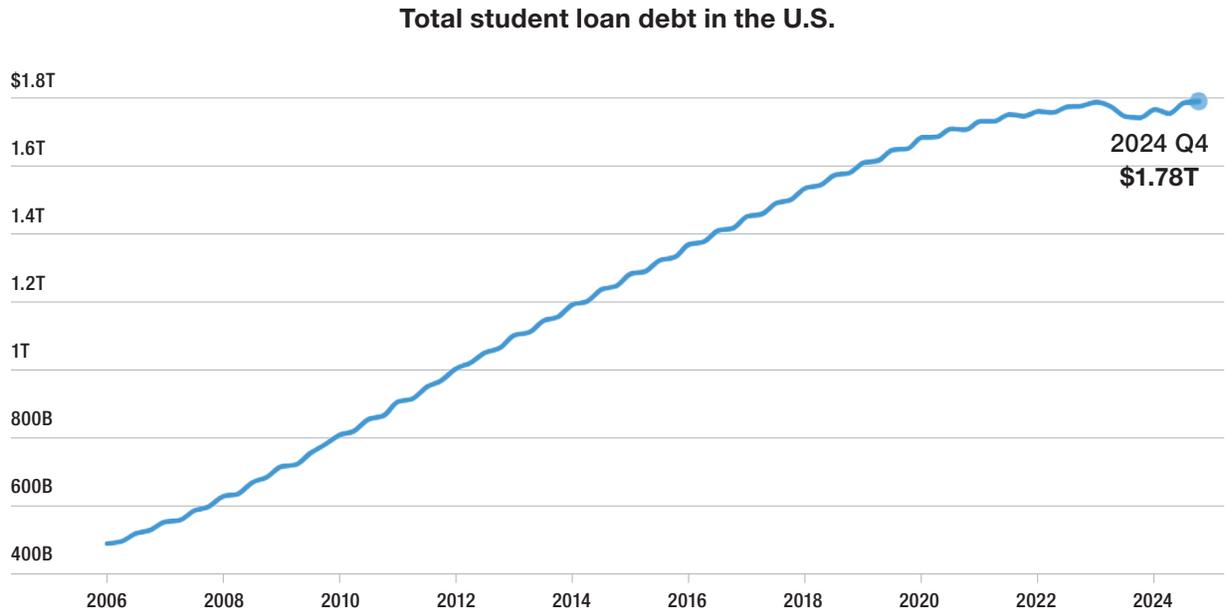


There have been a number of recent changes to provisions that affect higher education. Changes include such things as borrowing limits for students and parents under federal loan programs, streamlined student loan repayment plans, stricter rules on the ability of borrowers to pause student loan repayment, the promotion of workforce training programs, expanded qualified expenses for 529 plans, and an increased endowment tax on wealthy colleges and universities, among other items. Some changes have increased institutional accountability and scrutiny on “gainful employment” and career outcome reporting.

Higher Education Changes in Recent Years

Caps on some new loans

Total student loan debt has steadily increased over the past few decades, reaching over \$1.7 trillion in 2025.



Source: Federal Reserve Board of Governors via FRED. Data as of Feb. 7, 2025.

Tuition costs for college and graduate schools have jumped significantly in recent decades, outpacing inflation. This has raised concerns about the ability of borrowers to repay their loans and the potential negative impact on their financial well-being. Defaults occur, and this could damage borrower credit scores. In response, policymakers have set new loan caps.

The One Big Beautiful Bill Act (OBBBA or H.R 1) changes for student loan borrowers will reshape the availability of federal student loans under the Parent PLUS, Graduate PLUS, and Graduate Unsubsidized Direct Loan programs.

For dependent undergraduate students taking on their own debt, borrowing limits will remain unchanged. The aggregate federal cap will continue to be \$27,000 over four academic years (up to \$31,000 when taken over more than four years), split between subsidized and unsubsidized direct loans.

Higher Education Changes in Recent Years

Beginning July 1, 2026, there will be new borrowing caps for graduate and parent borrowers. There is a new lifetime student loan borrowing cap of \$257,000 — this limit applies to undergraduate and graduate federal loan programs (excluding Parent PLUS Loans). Previously, no such cumulative cap on federal loan programs existed. The chart summarizes several federal loan program changes in caps for parents and graduate students.

	Old Rules	New Rules (Effective July 1, 2026)
Parent PLUS Loans	Can borrow up to the full cost of a child’s undergraduate education, minus any financial aid received.	\$20,000 annual limit and a \$65,000 total limit per dependent student. However, there is a 3-year grace period for those who have borrowed under this program before June 30, 2026 — essentially allowing parents of current undergraduate students to continue borrowing up to the full cost of college if needed.
Grad PLUS Loans (Graduate loans)	Allow graduate students to borrow up to the full cost of their education, minus any aid received.	Terminated. Students who have already borrowed from the Graduate PLUS program before the changes take effect in July of next year will be grandfathered and reportedly still have access to their loans.
Direct Unsubsidized Loans	All graduate and professional students were capped at \$20,500 per academic year or \$138,500 total. Limits do not include undergraduate loans.	This now will be the sole option available for graduate and professional students. New borrowing caps: Graduate students: \$20,500 per year and \$100,000 total Professional students (e.g., medicine, law): \$50,000 per year and \$200,000 total These new limits do not include undergraduate loans.
Pell Grants	Federal aid for low-income students. Offered to undergraduates with significant financial need and do not need to be repaid.	Makes students completing workforce training programs eligible.



Higher Education Changes in Recent Years

Loan repayment and forgiveness reforms

Student loan borrowers have had many options for loan repayment plans in the past. Income-Driven Repayment (IDR) plans eventually qualified the borrower for loan forgiveness after 20 or 25 years of qualifying repayments, depending on the plan. The Biden Administration attempted to make changes to loan repayment and forgiveness programs. However, the Biden era's most generous repayment plan — the Savings on a Valuable Education (SAVE) plan — has been in legal limbo and was paused without interest accruing or required monthly payments.

As of August 1, 2025, SAVE borrowers started accruing interest again. The Biden administration also attempted to implement a one-time debt-cancellation program, offering those under a certain adjusted gross income (AGI) up to \$20,000 in federal student loan forgiveness for Pell Grant recipients and \$10,000 for non-Pell recipients. Forgiveness was intended to be federally tax-free through 2025 under the American Rescue Plan (ARPA), though state tax treatment could vary. However, the U.S. Supreme Court blocked implementation of this initiative in 2023.

The landscape for federal student loan repayment programs has been altered significantly. Repayment options have been streamlined. IDR options have been whittled down from four current plans to two options. In essence there will be a standard repayment plan with fixed monthly payments and a brand-new income-based repayment plan, which tailors what is owed each month based on income. The SAVE plan will be eliminated. Borrowers under the SAVE plan will have to change to a new plan by July 1, 2028. More information should be available from the Department of Education in the coming months.

It's also important to note that IDR-based forgiveness via income-driven repayment plans will once again be considered taxable income beginning January 1, 2026, unless future legislation changes this rule. This is a potential tax bomb waiting.

	Old Rules	New Rules (Post-2025)
Repayment plans available	<ol style="list-style-type: none"> Savings on a Valuable Education (SAVE) Pay as You Earn (PAYE) Income Based Repayment (IBR) Income Contingent Repayment (ICR) 	<ul style="list-style-type: none"> SAVE, PAYE, ICR phased out and eliminated by July 1, 2028. IBR is modified. Standard Plan still available. New after July 1, 2026: Repayment Assistance Plan (RAP).
Forgiveness Terms	<ul style="list-style-type: none"> SAVE: 20–25 yrs. PAYE: 20 yrs. IBR: 20–25 yrs. 	RAP: Forgiveness after 30 yrs. (360 payments).
Deferment	Borrowers facing economic hardship or unemployment could apply for deferment.	Starting July 2027, the economic hardship deferment and the unemployment deferment will be eliminated.
Forbearance	Borrowers could request forbearance for many reasons with a 12-month pause and often did so repeatedly.	Starting July 2027, forbearance will be limited to a single 9-month pause every 24 months.
Transition deadlines	N/A	Must choose a new plan by July 1, 2028.



Higher Education Changes in Recent Years

New plans post-2025

Standard repayment plan

Under this plan, borrowers pay a fixed amount each month over a fixed period of time ranging from 10 – 25 years depending on how much is owed. Before July 1, 2026, payments were spread over 10 years. Under the Standard Repayment Plan, the amount of time a borrower has to repay a student loan is balance-based:

- Less than \$25,000 — 10 years
- \$25,000 to less than \$50,000 — 15 years
- \$50,000 to less than \$100,000 — 20 years
- \$100,000 and over — 25 years

There is no prepayment penalty; borrowers can pay off their loans early.

This program has the potential of reducing monthly payments for borrowers with higher balances.

Repayment Assistance Plan (RAP)

After OBBBA, the only IDR repayment options will be:

- Modified Income-Based Repayment (IBR plan)
- Repayment Assistance Plan (RAP)

The Repayment Assistance Plan (RAP) is a new income-driven repayment (IDR) plan that bases monthly loan payments on a borrower's adjusted gross income (AGI), with the monthly payment calculated as an increasing percentage of AGI, and a flat \$10 minimum for very low-income borrowers. In addition to the AGI-based formula, borrowers receive a \$50/month reduction in their required payment for each dependent claimed on their tax return. This will become the default for many borrowers. This plan is only available to undergraduate and graduate students, not parents.

Payments are applied first to interest, then fees, then principal. If the required payment is less than any new interest that accrues, the extra interest is waived.

This means no negative amortization when monthly payments don't cover interest. Additionally, RAP guarantees that loan balances will drop by a minimum of \$50 each month, even if the borrower's payment does not fully cover the monthly interest amount. After 30 years of on-time payments, all remaining debt is forgiven and considered taxable income under current law. (Current income-based plans forgive remaining debt after 20 or 25 years.)

Required repayment amounts under RAP will generally be higher than they would have been under the now-paused SAVE plan. However, they will often be lower than payments required under IBR — especially for borrowers with dependents or modest incomes.

Expanded workforce training focus

A few of the provisions seek to encourage career-focused workforce training.

Workforce Pell Grant expansion

Starting with the 2026–2027 school year, a new Workforce Pell Grant will be available to students who are enrolled in accredited, short-term (eight to 15 weeks' duration) job-focused programs, such as certificate programs at community colleges. These programs must be of high quality and focus on high-demand occupations with strong job placement outcomes. Funding will be pro-rated based on the program's length, meaning a Workforce Pell Grant will be less than a standard Pell Grant (the maximum standard Pell Grant for the 2025 – 2026 year is \$7,395). This expands Pell Grant eligibility beyond traditional higher education programs, making workforce training more accessible and affordable.

529 Plan eligible expense expansion for workforce credentialing programs

529 Plan eligible expenses have been expanded to include expenses for workforce credentialing programs (described in the law as a "recognized post-secondary credential program"). This includes programs that may not have fit under the existing vocational or apprenticeship allowed use cases.

Higher Education Changes in Recent Years

Additional adjustments to rules for 529 accounts

Starting with the 2026 tax year, the OBBBA broadens the list of qualified 529 plan expenses to include tuition; curriculum and curricular materials; books or other instructional materials; online educational materials; tuition for tutoring or classes outside the home; fees for nationally standardized tests, advanced placement exams, and college admission exams; fees for dual enrollment at higher education institutions; and educational therapies for students with disabilities provided by a licensed or accredited professional.

In addition, starting in 2026, the limit on K-12 qualified expenses has increased from \$10,000 to \$20,000 per year.

OBBBA also permanently allows rollovers from a 529 plan to an ABLE account (a tax-advantaged savings account for individuals with disabilities).

Endowment and business tax changes

The OBBBA increases the excise tax on the endowments of wealthier colleges and universities. Currently, private schools with at least 500 tuition-paying students and an endowment of at least \$500,000 per student pay a 1.4% excise tax on net investment income from their endowments. This tax was enacted in the Tax Cuts and Jobs Act of 2017.

Under OBBBA, starting in tax year 2026, colleges with more than 3,000 tuition-paying students will pay excise tax on net investment income from their endowments based on an “endowment dollars per student” model as follows:

- \$500,000 to \$750,000 endowment per student — 1.4%
- \$750,001 to \$2,000,000 endowment per student — 4%
- Over \$2,000,000 endowment per student — 8%

Implication

Many colleges rely on income from their endowments to fund student financial aid programs, so colleges and universities impacted by this new endowment tax could potentially reduce their aid under these programs.

Education credit tax changes

There are updates and tighter documentation rules for the American Opportunity Tax Credit (AOTC) and Lifetime Learning credits. Starting with the 2026 tax year, taxpayers who claim either of these education tax credits on their federal income tax return must include their Social Security number and, where applicable, the college’s employer identification number (EIN). The OBBBA now limits the use of a taxpayer identification number (TIN) to a Social Security Number. Previously, if an individual had an individual taxpayer identification number (ITIN) (e.g., a nonresident alien), they could claim the AOTC.

Employer education tax policy update

There currently is an exclusion of employer payments for student loans. This was slated to expire for payments made after December 31, 2025. The legislation permanently extends the \$5,250 tax-free employer-provided student loan repayment assistance starting with the 2026 tax year. The \$5,250 threshold will be indexed for inflation starting in 2027.

Higher Education Changes in Recent Years

Strengthening accountability in higher education

The U.S. Department of Education finalized the Financial Value Transparency and Gainful Employment (FVT/GE) regulations in October 2023. These rules provide students, institutions, and the public with the most detailed information ever available about what students and families can anticipate paying for college and the financial outcomes they can expect to achieve. The rules also include the most effective requirements ever to protect students and taxpayers from career-training programs that fail to provide sufficient financial value.

Institutional data reporting for the 2025 cycle required by the FVT/GE began on July 1, 2025, and runs through October 1, 2025. The deadline was extended from an earlier date to allow institutions additional time to ensure the data was reliable and accurate.

The Department will publish the FVT/GE metrics, offering public-facing accountability and tools to evaluate career-training programs.

The key impact of these changes include:

- Better transparency since institutions must disclose whether their programs lead to gainful employment in recognized occupations.
- Accountability because programs that fail to meet financial value thresholds may face penalties or lose access to federal aid.
- Student empowerment due to access to clearer data on expected earnings and debt levels.

Considerations for students and financial plans

The revisions on the new federal loan caps could make it more difficult for students, especially those from low-income backgrounds, to afford certain programs like medical school, which may exceed the new federal limits. Families may need to rethink how they'll pay for college.

Students and parents under current federal student loan repayment plans will have to navigate transitioning between repayment plans.

When reviewing your financial plan, consider adjusting goals for tuition and reevaluate debt and grant aid as a result of recent changes. This may also encourage discussions regarding education gifting strategies and the use of various education savings vehicles.

And finally, discussions should factor in institutional risk in college planning. Some schools rely on federal funding as a significant source of funding. With these changes, some schools may be at greater risk of maintaining their sustainability.

For more information, please contact your advisor.

Key takeaways

- Stricter rules on student loan repayment and limitations on borrowers' ability to pause payments.
- Promotion of workforce training programs to align education with employability.
- Expanded qualified expenses for 529 plans, making education savings more flexible.
- Increased endowment tax on wealthy institutions, which may indirectly affect financial aid availability.
- Enhanced scrutiny on "gainful employment" and career outcome reporting, signaling a push for transparency in how well institutions prepare students for the workforce.

Higher Education Changes in Recent Years



About the Author

In her role, Tina Myers is responsible for managing the Central Planning Team and overseeing the Key Wealth Institute and any financial planning content distributed. She works with our Key Private Client Directors of Planning and Investments and our Key Private Bank Directors of Wealth & Estate Planning to help facilitate our best thinking and advice delivery to clients.

Before joining Key, Tina worked in the public accounting industry, where she focused on taxes, specifically individual, trust, estate, and gift tax planning. She also held roles at a small public accounting firm, a regional firm, and the private client group of a large multi-national firm.

Tina earned an M.Tax from Virginia Commonwealth University and holds several industry-standard licensures. She received the Circle of Excellence Award for Key Private Bank in 2016 and 2018. She was selected to attend the 2024 Key Wealth Education Symposium, which recognizes top performance and extraordinary commitment to serving our clients and growing our business.

The Key Wealth Institute is a team of highly experienced professionals representing various disciplines within wealth management who are dedicated to delivering timely insights and practical advice. From strategies designed to better manage your wealth, to guidance to help you better understand the world impacting your wealth, Key Wealth Institute provides proactive insights needed to navigate your financial journey.



The Key Wealth Institute is comprised of financial professionals representing KeyBank National Association (KeyBank) and certain affiliates, such as [Key Investment Services LLC \(KIS\)](#) and KeyCorp Insurance Agency USA Inc. (KIA).

Key Wealth, Key Private Bank, Key Family Wealth, KeyBank Institutional Advisors and Key Private Client are marketing names for KeyBank National Association (KeyBank) and certain affiliates, such as [Key Investment Services LLC \(KIS\)](#) and KeyCorp Insurance Agency USA Inc. (KIA).

Any opinions, projections, or recommendations contained herein are subject to change without notice, are those of the individual author(s), and may not necessarily represent the views of KeyBank or any of its subsidiaries or affiliates.

This material presented is for informational purposes only and is not intended to be an offer, recommendation, or solicitation to purchase or sell any security or product or to employ a specific investment or tax planning strategy.

KeyBank, nor its subsidiaries or affiliates, represent, warrant or guarantee that this material is accurate, complete or suitable for any purpose or any investor and it should not be used as a basis for investment or tax planning decisions. It is not to be relied upon or used in substitution for the exercise of independent judgment. It should not be construed as individual tax, legal or financial advice.

The summaries, prices, quotes and/or statistics contained herein have been obtained from sources believed to be reliable but are not necessarily complete and cannot be guaranteed. They are provided for informational purposes only and are not intended to replace any confirmations or statements. Past performance does not guarantee future results.

Investment products, brokerage and investment advisory services are offered through KIS, member FINRA/SIPC and SEC-registered investment advisor. Insurance products are offered through KIA. Insurance products offered through KIA are underwritten by and the obligation of insurance companies that are not affiliated with KeyBank.

Non-deposit products are:

NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL OR STATE GOVERNMENT AGENCY