

# AMERICAN PAYROLL ASSOCIATION

June 25, 2019

The Honorable Lamar Alexander  
Chair, Health, Education, Labor, and Pensions Committee  
United States Senate  
455 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Patty Murray  
Ranking Member, Health, Education, Labor, and Pensions Committee  
United States Senate  
154 Russell Senate Office Building  
Washington, DC 20510

Re: Proposals on student loan repayments through payroll, including Sen. Lamar Alexander's public comments and S. 1002, Affordable Loans for Any Student Act

Dear Senators Alexander and Murray:

In February, Chairman Alexander offered some concepts in a presentation at the American Enterprise Institute's (AEI) Higher Education Event. These ideas have been published in many media outlets. Similar ideas can be found in Senator Jeff Merkley's Affordable Loans for Any Student Act, S. 1002.

As a professional association representing the interests of payroll professionals across the United States, the American Payroll Association (APA) offers the following comments on various proposals before the Senate Health, Education, Labor, and Pensions Committee regarding student loan reform. APA's focus is on repayment of loans through wage withholding.

Under these proposals, borrowers would have two repayment options:

1. An income-driven repayment plan with monthly payments of 10% of a borrower's discretionary income (defined as the difference between adjusted gross income and 150% of the poverty line based upon the borrower's family size). The proposals would retain current federal loan policy intended to forgive any remaining debt

after 20 years of payments. If no wages are earned, no payments would be made, and this would not reflect negatively on a borrower's credit.

2. A standard repayment plan using level amortization over a 10-year repayment plan. Essentially, this option would function like a 10-year mortgage with equal monthly payments withheld from a borrower's wages.

## **COMMENTS**

The presumption with these proposals is that an automatic income-based repayment plan with withholding through payroll will significantly reduce national student debt and is a more efficient approach to managing federal student loans. APA does not take a position on this presumption. Instead, APA is offering feedback on the issues to consider regarding a wage withholding approach.

APA recommends that the Senate abandon the idea of using a borrower's "discretionary income" based on the difference between "adjusted gross income" (AGI) and "150% of the poverty line based on the borrower's family size" to determine the amount to withhold. There are too many variables in this approach because the poverty line calculation can change as family size changes and AGI changes each year. In addition, payroll systems used by U.S. companies and third-party payroll vendors currently calculate wage withholding and determine withholding maximums based on a percentage of "disposable earnings" as defined in the Consumer Credit Protection Act (CCPA).

## **Administration**

Processes and procedures for student loan repayments through wage withholding must consider:

- One clearly identified federal government agency with jurisdiction and responsibility to manage federal student loan repayments through wage withholding.
- A standardized notice to employers with a withholding order provided by the designated federal agency.
- The standardized notice should include sufficient information to clearly identify the employer and employee, the amount owed, frequency of payments, and address or e-payment information for submitting payments.

- An electronic means for employers to receive notices, respond to notices, and make payments, including an option for batch processing for larger employers with multiple employees owing student loan repayments.
- A tracking system by the responsible federal agency to monitor payments and disclose to borrowers their repayment status.

### **Priority of Withholding**

Payroll departments will need to know the priority order of student loan repayments to ensure accurate calculation of wage withholding, remittance, reporting, and recordkeeping.

Senator Alexander's AEI talk described student loan repayment through wage withholding as "just like taxes." This could imply a priority for student loan repayments below taxes and higher than child support, healthcare coverage, retirement savings, and creditor garnishments. The proposals before the Senate Health, Education, Labor, and Pensions Committee do not include language on the intended priority of student loan repayments.

If student loan repayments are treated as a type of garnishment and therefore subject to the withholding limits in the CCPA, the priority may shift. For example, if an employee has a student loan debt collected at 15% of disposable earnings, under the CCPA, only 10% would remain available for creditor garnishments. However, if the student loan repayment is treated like taxes (i.e., an "amount required by law" to be deducted), then the full CCPA limit of 25% of disposable earnings could be garnished by creditors in addition to income tax, student loan, and child support withholding.

### **Wage Withholding and Understanding the 20-Year Cancellation Policy**

The 20-year repayment and cancellation policy raises questions regarding how the 20 years will be measured:

- If an employee makes regular payments, but misses a few or cannot pay the full 10% on a monthly basis, when will the 20-year period end?
- As employees move from job to job, what process will be used to identify the 20-year period?

- If an employee works at multiple jobs, will wage withholding be required at all of the jobs and, if so, how will the 10% be calculated, how will the payments be tracked, and when will the 20-year period end?

### **About the American Payroll Association**

The APA is a nonprofit professional association representing more than 20,000 payroll professionals and the needs of their employers in the United States. The APA's primary mission is to educate its members and the payroll industry regarding best practices associated with paying America's workers while complying with applicable federal, state, and local laws. In addition, the APA's Government Relations Task Force (GRTF) works with the legislative and executive branches of government to find ways to help employers satisfy their legal obligations, while minimizing the administrative burden on government, employers, and individual workers.

APA would be pleased to discuss wage withholding, payroll systems, and student loan repayment further with the U.S. Senate.

Sincerely,



Corrinne Flores  
Chair, GRTF Child Support and  
Other Garnishments Subcommittee



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