

IMPORTANT UPDATE: Restart of Debt Collection and Wage Garnishment on Student Loan Debt In Default

Last week, the Trump Administration announced the restart of debt collections on federal student loans beginning May 5, 2025. Specifically, the Treasury Offset Program will be reinstated, allowing the federal government to withhold tax refunds, Social Security payments and other federal benefits to recover defaulted student loans. This carries significant implications for employers, as the Dept. of Education will begin sending wage garnishment notices later this summer.

This briefing provides critical information for employers to mitigate and prepare for disruptions to the workforce due to wage garnishment.

FEDERAL STUDENT LOAN DEBT COLLECTION AND WAGE GARNISHMENT

The Treasury Offset Program allows the government to collect on defaulted federal student loans via tax refund intercepts, withholding of social security and other federal benefits, and wage garnishment through employers.

Federal student loans have not been subject to collections since March 2020 when payments and interest accrual was paused during the pandemic. On May 5th, federal collections under the Treasury Offset Program will resume for all federal student loans that are in default. More than 5.3 million borrowers are in default, and another 4 million are in late-stage delinquency. Collectively, these borrowers represent \$250+ billion in delinquent debt, a historical record.

Current Student Loan Delinquency and Default Rates

62% of borrowers Not currently paying their student loans	Over 25 million borrowers are delinquent, in default, in forbearance or deferment, or in a grace period.
29% 60+ days delinquent ~12 million borrowers	When a borrower misses a required student loan payment, the loan is marked “delinquent”.
23% 90+ days delinquent ~10 million borrowers	At 90 days delinquent, reporting to credit agencies starts.
12% IN DEFAULT 5.3 million borrowers	At 270 days delinquent, “default” is triggered. Unlike all other consumer debt, the government can force repayment of student loans that are in default without a court order.

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KEY DATES FOR CONSEQUENCES OF DELINQUENCY AND DEFAULT

REPORTING TO CREDIT BUREAUS re-started December 30, 2024

- Historically has resulted in 150+ point average decline in credit score¹
- For those impacted, it is now harder to buy a home, rent an apartment, buy a car, or get a loan
- In most states, also decreases availability or increases the cost of insurance

GOVERNMENT COLLECTIONS on student loans in default will resume May 5, 2025

- The federal government will automatically divert tax refunds and social security benefits to pay federal student loans that are in default
- This early date impacts those that were already in default pre-pandemic AND have not made any payments recently (5.3M borrowers)
- Borrowers in default will receive email notifications from the Federal Student Aid (FSA) office in the next 2 weeks, outlining repayment options and urging them to take action to avoid collections

WAGE GARNISHMENT through employers will start “later this summer”

- June 28 is the earliest date for collections and wage garnishment for borrowers that were not in default before the pandemic
- Wage garnishment requires 30-day notice to borrowers
- Employers are legally required to comply with these orders, which involve garnishing up to 15% of disposable income

WAGE GARNISHMENT MECHANICS FOR EMPLOYERS

Employers should expect and be prepared for an increase in wage garnishment orders and understand their responsibilities in this process.

BORROWER NOTIFIED FIRST

- Administrative Wage Garnishment for federal student loans typically happens after a borrower is 270+ days late on payments.
- The Dept. of Education is required to send the borrower a notice 30 days prior to the start of garnishment.
- Borrowers have the right to request a hearing to dispute the debt or claim financial hardship.

A WAGE GARNISHMENT ORDER IS THEN ISSUED TO THE EMPLOYER

- After the 30-day notice period passes without resolution, the Dept. of Education will issue a wage garnishment order to the employer.
- **Employers are required to begin withholding the specified amount from the employee's wages immediately.**
- The order will specify how the employer must remit payments — usually to a centralized payment processing center or specific collection agency contracted by the Dept. of Education.
- Employers must follow the instructions on the order exactly
- Employers must continue these withholdings until they receive official notification to stop.
- **Garnishment continues until the defaulted loan is paid in full or the default status is resolved.**

¹ New York Fed Consumer Credit Panel/Equifax analysis of actual Credit Score reductions of a new delinquency (90 or more days past due). Point reduction by Credit Score band are: Less than 620 = -87; 620-659 = -143; 660-759 = -165; 760 or higher = -171.

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WAGE GARNISHMENT MECHANICS FOR EMPLOYERS (Cont.)

EMPLOYER OBLIGATIONS / EMPLOYEE RIGHTS

- Employees shall not be discharged from employment, refused employment, or subjected to disciplinary action due to wage garnishment.
- Employees can initiate legal action against their employer if the employer discharges, refuses to hire, or takes disciplinary action based on garnishment.
- Employees do not have to provide any information to the employer about the garnishment other than what is necessary for the employer to comply with the withholding order.

REQUIREMENTS FOR TERMINATED EMPLOYEES

- If an employee whose wages are being garnished terminates, employers are required to promptly notify the Dept. of Education or designated collection agency.
- This lets the Dept. of Education stop expecting further payments from that employer and track the borrower's employment status for future collection efforts.
- Failure to notify can expose employers to penalties.

LIMITED PATHWAYS FOR EMPLOYEES TO RESOLVE WAGE GARNISHMENT

Once wage garnishment starts, it is very difficult for a borrower to get out.

Loan Rehabilitation is a primary method:

- Requires nine consecutive, on-time monthly payments based on the employee's income.
- Garnishment does not stop until the fifth payment—meaning borrowers may need to double-pay for months.
- Many employees will find the financial lift of rehabilitation burdensome or impossible.

Bankruptcy is not an option. Federal student loans are treated differently than most other debts as they are normally not eligible to be discharged by declaring bankruptcy.

The best approach is to avoid default and wage garnishment. The complication for borrowers in distress is that there are very limited public resources available right now:

- Key resources at the Department of Education were let go in February or have quit in protest.
- Loan servicers are currently overwhelmed, with average wait time cited at a major servicer at over 2 hours.
- There's already a backlog of 1.9 million applications by borrowers seeking to move to an Income-Driven Repayment plan.

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- Support with **proactive employee communications**
- **Dedicated employee webinars**

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ACTION STEPS FOR EMPLOYERS

- 1. Prepare for an increase in Wage Garnishment Orders.** Garnishments can begin with as little as 30 days' notice from the Dept. of Education, with no court involvement required. Payroll departments must be equipped to handle these deductions accurately and in compliance with federal law.
- 2. Anticipate increased financial stress and disruption in your workforce.** The resumption of aggressive debt collection also comes at a time of rising living costs. Many employees are struggling to reallocate funds for student loan payments. The added pressure of garnishment can increase stress, reduce workplace productivity, and heighten turnover risk.
- 3. Proactively communicate with employees.** Equip employees with guidance before garnishment begins. Employees who understand their options early are more likely to take proactive steps and avoid default.
- 4. Consider adding Student Loan benefits.** Especially now, student loan assistance and support can be an impactful pillar of a broader Total Rewards strategy and can help mitigate workforce degradation. To see our turnkey platform, [schedule time with us now](#).

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