Term life insurance & student loans

An unexpected sales opportunity

The United States is in the midst of a student loan crisis. Many Americans have substantial student loan debt, and it often follows them into middle age and beyond. When borrowers die with debt, their loved ones may be financially impacted. Life insurance provides important protection.

Surprising facts:

Total U.S. student loan debt reached $1.766 trillion in the second quarter of 2023.[1]

Borrowers over age 35 report the highest levels of student loan debt.[2]

91% of private, undergraduate loans have cosigners.[3]

Life insurance can protect loved ones from financial fallout

Families and cosigners may owe a significant tax debt or even the entire loan amount after a student borrower dies.[5] Life insurance provides protection, and Legal & General America has new guidelines designed to be more accommodating to people with student loans.

Undergraduate students under age 30 can qualify for up to $250,000.

Individuals aged 30 and older can qualify for up to $100,000.

Coverage is available regardless of income.

Parental payment of premiums is accepted.

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Legal & General

Many borrows rely on private loans

Although federal loans make up the majority of student loans, private loans are also common.

- Total U.S. private student loan debt has reached $128.8 billion.[1]
- 23% of borrowers have education debt from credit cards.[1]

Most private loan borrowers have cosigners

Most borrowers can't qualify for private loans on their own, so they need cosigners.

- The percentage of private loans with cosigners rose from 73% in academic year 2008/2009 to 88% in academic year 2022/2023.[3]
- 91% of all private undergraduate loans were cosigned in academic year 2022/2023.[3]

What occurs when a student loan borrower passes away?

When the unthinkable happens to a student loan borrower, it can have financial implications for their loved ones.

- Federal student loans are discharged once proof of death is submitted.[4] Private lenders may cancel the debt, but this is not always the case.
- When student loans are discharged, the forgiven debt may be taxed. Although the Tax Cuts and Jobs Act of 2017 exempts forgiven loans from federal income tax until 2025, federal taxes may apply to loans forgiven after this rule expires.[5] Additionally, some states may tax forgiven loans.
- For private loans with cosigners, the cosigner may be responsible for the debt. A new law requires lenders to release a cosigner from debt when the student borrower dies, but this only applies to loans taken out after November 20, 2018.[6]
- Some private loans include a clause that says the debt is due immediately upon the student borrower's death. If the cosigner can't pay in full, the debt goes into default, impacting the cosigner's credit score and ability to secure loans or credit.

If you have questions about how term life can benefit your clients, or if you have a case you'd like to discuss, reach out to the LGA distribution team for assistance.

Sources: 1. Education Data Initiative 2. Investopedia 3. Enterval 4. Federal Student Aid 5. Student Loan Borrow Assistance 6. Nerd Wallet

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