NASFAA TASK FORCE REPORT

PUBLIC SERVICE LOAN FORGIVENESS

NASFAA ADVOCACY

NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

The National Association of Student Financial Aid Administrators (NASFAA) provides professional development for financial aid administrators; advocates for public policies that increase student access and success; serves as a forum on student financial aid issues, and is committed to diversity throughout all activities.

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1101 CONNECTICUT AVENUE NW, SUITE 1100
WASHINGTON, DC 20036-4303
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG

Introduction

The NASFAA Public Service Loan Forgiveness Task Force was convened to develop recommendations to improve the forgiveness program and strengthen its potential for long-term viability. The purpose of the Public Service Loan Forgiveness Task Force was to:

• Examine potential participation rates in the Public Service Loan Forgiveness (PSLF) program;

• Discuss the role of high-earning professional degree students in the program;

• Identify needed data elements to more accurately assess the program;

• Examine consumer information disclosures related to PSLF, particularly the impact such disclosures have on program participation rates;

• Consider modifications and improvements to PSLF, including but not limited to, incremental forgiveness; and

• Discuss the applicability and continued need for PSLF in the case of universal automatic income-based repayment.

The guiding principles of the Public Service Loan Forgiveness Task Force included a thorough review of the forgiveness program with special attention to:

• Promoting fairness and equity for students across all sectors of postsecondary education;

• Promoting accountability;

• Encouraging simplicity;

• Providing schools with flexibility to respond to the specific needs of students;

• Promoting the use of technology wherever possible; and

• Supporting recommendations with research and data analysis wherever possible.

The convened task force thus evaluated the various aspects of the PSLF program and has provided several recommendations for consideration by lawmakers and the policy community. These recommendations are made with the intention of providing a framework for the PSLF program that exemplifies the ideals of encouraging access to higher education with a particular focus on fairness and inclusion of underserved populations in advanced degree programs, incenting talented individuals to work in public service to meet societal needs, discouraging over-borrowing, and reducing program costs. The recommendations include a focus on duty to the taxpayer by establishing forgiveness limits which ensure that borrowers, especially those with high earning potential, have a reasonable expectation of repayment.

The task force conducted its work between March 2014 and June 2014, and its recommendations were accepted and approved by the NASFAA Board of Directors in June 2014.

Executive Summary

The National Association of Student Financial Aid Administrators (NASFAA) Public Service Loan Forgiveness Task Force was convened by the NASFAA Board of Directors to develop recommendations to improve the forgiveness program and strengthen its potential for long-term viability. The task force comprised a geographically diverse group of NASFAA members from all types of postsecondary institutions, with a particular emphasis on the inclusion of members representing graduate and professional institutions.

Based on the research and discussions the task force developed, and the NASFAA Board accepted and endorsed, the recommendations detailed in this report:

1. Continue the Public Service Loan Forgiveness Program

Concern over the potential cost of PSLF has generated uncertainty for the continuation of the program among higher education professionals and students. In this environment, the task force feels it is important to reiterate a commitment to supporting the forgiveness program and the students it will serve.

2. Retain the Eligibility Criteria to Qualify for Public Service Loan Forgiveness

In the absence of robust and readily available data about the potential participation in the PSLF program, the definitions of: qualifying full time work, qualifying employment, qualifying monthly payments, qualifying loan types, and length of service should remain unchanged.

3. Institute Limits on the Amount of Forgiveness

Allow forgiveness of up to 100 percent of a qualifying loan balance that does not exceed the undergraduate aggregate Stafford Loan limit (currently $57,500) and allow additional forgiveness of 50 percent of any remaining qualifying loan balance, conditioned that total forgiveness cannot exceed the graduate aggregate Stafford Loan limit (currently $138,500). Additionally, borrowers with a balance remaining after receiving PSLF forgiveness should be allowed to continue utilizing an income-based repayment plan to pay their remaining balance, and potentially could qualify for additional loan forgiveness under the income-based repayment plan.

Structuring the forgiveness cap in this manner will create "skin in the game" while also addressing concerns about borrowers potentially receiving excessive forgiveness for the pursuit of multiple advanced degrees, or for an extreme amount of debt incurred pursuing a single degree. A cap on the maximum amount of forgiveness will ensure that students are discouraged from over-borrowing.

4. Keep Public Service Loan Forgiveness Untaxed

Taxing borrowers on the amount of forgiveness received is counterintuitive, as it both provides a disincentive for high-debt borrowers to take advantage of the program and creates a sudden financial hardship for borrowers receiving forgiveness. At the moment they should finally be emerging from their debts, they are abruptly faced with a significant lump-sum cost. It could be argued that in certain cases, this is a more calamitous financial event than simply remaining in repayment. It is likely that many borrowers would need to pay this cost in installments, meaning they will have simply moved from making monthly payments to a student loan servicer to making monthly payments to the IRS, who does not offer the borrower protections and benefits found in the student loan program.

5. Make Public Service Loan Forgiveness Program Data Public

The designated PSLF servicer should make public, data and information collected in the administration of the PSLF program. Analysis of such data would allow interested constituencies the opportunity to more accurately evaluate the forgiveness program, its effectiveness as an incentive to pursue public service work, and the cost of the program.

6. Strongly Encourage Annual Submission of Employment Certification Forms

Borrowers may complete an employment certification form at any time during their public service employment. There are several possible negative consequences if borrowers wait until the end of the 10 years of qualifying employment to begin providing employment certification. As such, strongly encouraging borrowers to complete the employment certification form annually will ensure that the designated PSLF servicer can monitor an eligible borrower's repayment and employment.

7. Increase Communication about Public Service Loan Forgiveness

The PSLF program should be more widely publicized by the Department of Education and the loan servicers as an incentive for borrowers and those considering enrollment in higher education to enter public service work. Owing to the broad nature of the program, communication about the program should be increased and the type and timing of information made available to the public should be expanded to ensure awareness of the program.

The NASFAA Public Service Loan Forgiveness Task Force

Task Force Members:

Candi Frazier, West Virginia University (Chair)

John Ahlers, Duke University School of Law

Heather Gaumer, Simpson College

Tony Lubbers, Friends University

Rebekah Melville, Yale University School of Management

Patricia Scott, University of Maryland Baltimore

Tony Sozzo, New York Medical College

Dennis Tominaga, University of California, Berkeley School of Law

Virginia Tucker, New Mexico State University

NASFAA Staff Liaisons:

Justin Draeger, NASFAA President

Joan Berkes, Senior Policy Analyst

Karen McCarthy, Senior Policy Analyst

Megan McClean, Managing Director of Policy & Federal Relations

Jesse O'Connell, Assistant Director for Federal Relations

About NASFAA

The National Association of Student Financial Aid Administrators (NASFAA) is a nonprofit membership organization that represents more than 20,000 financial aid professionals at nearly 3,000 colleges, universities, and career schools across the country. NASFAA member institutions serve nine out of every ten undergraduates in the United States. Based in Washington, DC, NASFAA is the only national association with a primary focus on student aid legislation, regulatory analysis, and training for financial aid administrators. For more information, visit www.nasfaa.org.

Recommendations

1. Continue the Public Service Loan Forgiveness Program

Recommendation:
• Continue to provide borrowers working in public service with the benefit of loan forgiveness under the PSLF program.

Rationale:
The PSLF program provides an incentive for talented individuals to enter and remain in the public service sector serving the needs of society. Moreover, PSLF provides fairness and access for underserved populations to enroll in academic programs of study that will lead to public service employment.

Media criticism over the potential cost of PSLF has generated uncertainty for the continuation of the program among higher education professionals and students. In this environment, NASFAA feels it is important to reiterate a commitment to supporting the forgiveness program and the students it will serve.

2. Retain the Eligibility Criteria to Qualify for Public Service Loan Forgiveness

Recommendation:
• Retain the current eligibility criteria to qualify for PSLF. Specifically, the Task Force recommends that the following definitions remain:

- **qualifying full time work;**
- **qualifying employment;**
- **qualifying monthly payments;**
- **qualifying loan types; and**
- **length of service.**

Rationale:
A change to any of these definitions would likely increase the administrative burden on the designated servicer and restrict borrower access to PSLF. Operating from the belief that the intent of PSLF is to incent borrowers to enter and remain in public service work so the ten year length of qualifying service should not be shortened and forgiveness should not be provided incrementally.

Critically, in the absence of data about key elements integral to PSLF, further restrictions to eligibility could not be established. Data elements that would have permitted a comprehensive review and analysis for the purpose of making recommendations on eligibility criteria were not readily available.

3. Institute Limits on the Amount of Forgiveness

Recommendation:

- **Institute limits on the amount of possible forgiveness a borrower may receive. The amount of forgiveness should be tied to the aggregate Stafford Loan limits. Forgiveness amounts would be calculated as follows:**
    - **Forgiveness of up to 100% of a qualifying loan balance that does not exceed the undergraduate aggregate Stafford Loan limit (currently $57,500); AND**
    - **50% of any remaining qualifying loan balance, conditioned that total forgiveness cannot exceed the graduate aggregate Stafford Loan limit (currently $138,500).**
- **Borrowers with a balance remaining after receiving forgiveness through PSLF should be allowed to continue utilizing the Income Based Repayment Plan and/or the Pay As You Earn (PAYE) repayment plan to pay the remaining balance, and would remain eligible for the forgiveness provisions after 25 or 20 years in repayment, respectively.**

Rationale:

The recommended limits will allow both undergraduate and graduate level borrowers to benefit from PSLF, and also address concerns about borrowers potentially receiving forgiveness for the pursuit of multiple advanced degrees, or excessive forgives for an extreme amount of debt incurred pursuing a single degree. In implementing a cap on the maximum amount of forgiveness will ensure that students are discouraged from over borrowing. A cap on the amount of forgiveness will reduce the cost of the program by ensuring that borrowers, especially those with high earning potential, have an increased responsibility in repayment.

Additionally, a defined limit on the amount of forgiveness that is tied to aggregate loan limits is easily understandable and explainable to borrowers. The designated servicer and higher education professionals will be able to counsel borrowers and provide accurate disclosures on the amount of forgiveness and potential interest accrual on loan balances for those considering public service work and the repayment plans utilized to pursue PSLF.

Many federal loan forgiveness programs administered by the U.S. Department of Education (ED) have a maximum amount of forgiveness; either a defined maximum dollar amount (ex. Federal Teacher Loan Forgiveness Program) or the amount of forgiveness is limited due to aggregate loan limits (ex. Federal Perkins Loan Cancellation). Providing a similar framework for PSLF will allow the Office of Management and Budget and other constituencies to more accurately project the cost of the program.

By structuring the cap in the manner described above, it creates "skin in the game" above the first threshold of $57,500. Additionally, the absolute cap of $138,500 addresses concerns that graduate students with unlimited access to PLUS could continue to borrow or pursue additional degrees and effectively have all borrowing above a certain marginal level forgiven. At the same time $138,500 seems sufficiently high to balance the higher cost of professional degrees and still provide ample incentive for those borrowers to participate in the program. In choosing the undergraduate graduate aggregate Stafford loan limits as the forgiveness benchmarks, we are able to point to existing values as a basis for this determination, rather than choose arbitrary values. The forgiveness benchmarks are not intended to be restricted to any specific loan type (subsidized, unsubsidized, or Grad PLUS) or borrowing at specific academic levels (undergraduate versus graduate). For example, a student who borrowed only at the graduate level would be eligible for 100% forgiveness of graduate level loans up to the $57,500 threshold, and then 50% of the remaining loan balance, up to the $138,500 overall threshold.

The chart below outlines the difference in forgiveness amounts between the current program, the limits suggested by President Obama in his FY15 Budget Request, and the NASFAA Task Force:

	Starting Loan Balance	Amount Repaid in IBR Plan	Current PSLF Forgiveness	Obama Plan	NASFAA Plan
Abe	$75,000	$26,829	$96,004	$57,500	$76,752
Becky	$50,000	$27,247	$52,753	$52,753	$52,753
Carl	$100,000	$50,837	$112,913	$57,500	$85,206
Danielle	$175,000	$100,461	$201,693	$57,500	$129,596

Abe is a K-12 teacher earning at the 75th percentile; Becky is a social worker (MSW) earning at the 75th percentile; Carl is a lawyer earning at the 50th percentile; Danielle is a doctor with a starting salary of $125,000 after 3-yr residency.

Sources: New America Foundation; Association of American Medical Colleges; NASFAA analysis

For full details on the borrower profiles, including salary progression and monthly payment amounts, please refer to the appendix.

4. Keep Public Service Loan Forgiveness Untaxed

Recommendation:

- **Loan amounts forgiven as a result of PSLF should remain untaxed. Additionally, a borrower that received forgiveness under PSLF and continues making payments on any remaining balance utilizing the Income Based Repayment plan, or the Pay As You Earn (PAYE) repayment plan should not be taxed for any additional forgiveness as a benefit of those specific repayment plans.**

Rationale:

Taxing borrowers on the amount of forgiveness received is counterintuitive, as it both provides a disincentive for high-debt borrowers to take advantage of the program and creates a sudden financial hardship for borrowers receiving forgiveness. At the moment they should finally be emerging from their debts, they are abruptly faced with a significant lump-sum cost. It could be argued that in certain cases, this is a more calamitous financial event than simply remaining in repayment. It is likely that many borrowers would need to pay this cost in installments, meaning they have simply moved from making monthly payments to a student loan servicer to making monthly payments to the IRS, who does not offer the borrower protections and benefits found in the student loan program. Additionally, a borrower may be inclined to leave public service work in pursuit of higher earning potential after receiving PSLF because taxable forgiveness on an income related repayment plan would be financially detrimental.

5. Provision of Data from the Public Service Loan Forgiveness Servicer

Recommendation:

- **The designated PSLF servicer should make public, data and information collected in the administration of the PSLF program. These data should be information related to, but not limited to, borrower demographics, borrower employment history, balance forgiven, balance remaining after forgiveness, borrower credential level, amount borrower repaid during the qualifying employment period, borrower income or adjusted gross income, and other information that will help describe the first cohort of PSLF recipients in 2017 and 2018.**

Rationale:

Currently, very little data exists to determine the cost and potential participation rates for PSLF. There is no data available to determine how PSLF incentivizes individuals to pursue higher education degrees and careers in public service work.

Data collection and analysis would allow interested constituencies the opportunity to more accurately evaluate the forgiveness program, its effectiveness as an incentive to pursue public service work, and the cost. The availability of this type of data will allow NASFAA and others the opportunity to more thoroughly assess PSLF and make further recommendations on the various aspects of the program.

6. Employment Certification Process

Recommendation:

- **Strongly encourage borrowers to complete and submit the employment certification form annually to the designated PSLF servicer.**

Rationale:

Borrowers may complete an employment certification form at any time during their public service employment. There are several consequences that could inhibit forgiveness or timely forgiveness under the PSLF program if borrowers wait until the end of their qualifying employment to begin providing employment certification. Some of these issues include a borrower not adequately being counseled or monitored by a servicer to ensure that the correct repayment plan is utilized, payments made have been qualifying payments or whether the employer is a qualified employer.

In some circumstances, it could be impossible for a borrower to provide proof of qualifying employment if they wait until the end of the required length of public service. An example would be when an agency closes and employment records are unattainable. If a borrower is strongly encouraged to complete the employer certification form annually the likelihood of these circumstances may be limited.

If the designated PSLF servicer accepts an employer certification form submitted by the borrower, , the borrower's loan balance is transferred from the existing servicer to the designated PSLF servicer. Because the non-PSLF servicers lose loan volume, and therefore revenue, when loan balances are transferred to the designated PSLF servicer, there is little incentive for them to encourage borrowers to complete the employment certification form. Strongly encouraging borrowers to complete the employment certification form annually will ensure that the designated PSLF servicer can monitor an eligible borrower's repayment and employment.

7. Increase Servicer and ED Communications about Public Service Loan Forgiveness

Recommendation:

- **The designated PSLF servicer, the other loan servicers, and ED should provide and make available additional information about the availability and qualifying criteria of PSLF. Specifically, the Task Force recommends four areas for improved communication:**
    - **All contracted federal loan servicers should be required to prominently display information about PSLF and the process on how to qualify for PSLF on their web sites. Servicers should be required to strongly encourage borrowers to complete the employer certification form annually.**
    - **Information about PSLF should be expanded upon in ED's online exit counseling. The information provided during exit counseling should include the details on how to qualify for PSLF and strongly encourage borrowers to complete the employer certification form annually.**
    - **The servicers should be required to include information about PSLF with the initial repayment plan selection disclosure provided to borrowers during the grace period.**
    - **ED, or other designated entity, should compile, publish and maintain a listing of all qualifying employers for PSLF.**

Rationale:

The PSLF program should be more widely publicized as an incentive for borrowers and those considering enrollment in higher education to enter public service work. Owing to the broad nature of the program, communication about the program should be increased and the type and timing of information made available to the public should be expanded to ensure awareness of the program.

Currently, the designated PSLF servicer maintains an internal listing of qualifying employers. This list is primarily compiled of employers that have been deemed qualifying as borrowers submit employment certification forms. The designated PSLF servicer, the other servicers, and/or ED or some other appropriate agency should maintain a listing of all qualifying employers that borrowers and higher education professionals can easily reference to determine whether employment would qualify. Once created, a process should be put in place to ensure that the list is maintained and updated in an ongoing and timely fashion to ensure the accuracy of the information.

Appendix: Borrower Profiles

Abe: K-12 teacher, 75th percentile earnings

New America IBR Calculator

	Loan Balance	Interest Rate
Unsubsidized Stafford	$50,000	6.00%
Grad PLUS	$25,000	7.00%
Total	**$75,000**	**6.375%**

Repayment Options	Total Payments	Forgiven
PSLF for New IBR	$26,809	$96,004

Repayment Year	1	2	3	4	5	6	7	8	9	10
Annual Income ($)	18,000	43,541	46,126	48,812	51,604	54,505	57,519	60,558	63,713	66,988
Adjusted Gross Income ($)	16,200	39,187	41,513	43,931	46,444	49,055	51,767	54,502	57,342	60,289
New IBR Monthly Payment ($)	**-**	**179**	**195**	**211**	**228**	**246**	**265**	**283**	**303**	**323**
Loan Balance ($)	79,781	82,411	84,852	87,096	89,136	90,963	92,568	93,949	95,097	96,004

Source: New America Foundation, Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans, © October 2012

Becky: Social worker, 75th percentile earnings

New America IBR Calculator

	Loan Balance	Interest Rate
Unsubsidized Stafford	$50,000	6.00%
Grad PLUS	$0	7.00%
Total	**$50,000**	**6.00%**

Repayment Options	Total Payments	Forgiven
PSLF for New IBR	$27,247	$52,753

Repayment Year	1	2	3	4	5	6	7	8	9	10
Annual Income ($)	10,000	37,955	42,269	46,774	51,478	56,389	61,512	64,330	67,250	70,276
Adjusted Gross Income ($)	9,000	34,160	38,042	42,097	46,331	50,750	55,361	57,897	60,525	63,248
New IBR Monthly Payment ($)	**-**	**137**	**166**	**196**	**227**	**260**	**295**	**312**	**329**	**348**
Loan Balance ($)	53,000	54,351	55,358	56,005	56,275	56,151	55,614	54,875	53,924	52,753

Source: New America Foundation, Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans, © October 2012

Carl: Lawyer, 50th percentile earnings

New America IBR Calculator

	Loan Balance	Interest Rate
Unsubsidized Stafford	$65,000	6.00%
Grad PLUS	$35,000	7.00%
Total	**$100,000**	**6.375%**

Repayment Options	Total Payments	Forgiven
PSLF for New IBR	$50,837	$112,913

Repayment Year	1	2	3	4	5	6	7	8	9	10
Annual Income ($)	25,000	59,065	66,031	73,308	80,908	88,842	97,123	102,786	108,672	114,788
Adjusted Gross Income ($)	22,500	53,159	59,428	62,312	68,772	75,516	82,554	87,368	92,371	97,570
New IBR Monthly Payment ($)	**44**	**296**	**344**	**365**	**415**	**467**	**521**	**557**	**595**	**634**
Loan Balance ($)	105,849	108,674	110,918	112,918	114,319	115,093	115,213	114,901	114,141	112,913

Source: New America Foundation, Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans, © October 2012

Danielle: Doctor, 3-yr Residency, starting salary of $125k

New America IBR Calculator

	Loan Balance	Interest Rate
Unsubsidized Stafford	$0	6.00%
Grad PLUS	$175,000	7.00%
Total	**$175,000**	**7.00%**

Repayment Options	Total Payments	Forgiven
PSLF for New IBR	$100,461	$201,693

Repayment Year	1	2	3	4	5	6	7	8	9	10
Annual Income ($)	0	0	0	125,000	137,500	151,250	166,375	183,013	201,314	221,445
Adjusted Gross Income ($)	0	0	0	118,750	130,625	143,688	158,056	179,352	197,287	217,016
New IBR Monthly Payment ($)	**-**	**-**	**-**	**835**	**930**	**1,035**	**1,150**	**1,324**	**1,469**	**1,629**
Loan Balance ($)	187,250	199,500	211,750	213,982	215,072	214,904	213,349	209,714	206,766	201,693

Source: New America Foundation, Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans, © October 2012

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1101 CONNECTICUT AVENUE NW, SUITE 1100
WASHINGTON, DC 20036-4303
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG