NASFAA ISSUE BRIEF

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

OCTOBER 2017

KEY TAKEAWAYS

1. PUBLIC SERVICE LOAN FORGIVENESS (PSLF), AS INTENDED, ENCOURAGES FEDERAL STUDENT LOAN BORROWERS TO PURSUE VITAL PUBLIC SERVICE CAREERS.
2. WITH THE ABSENCE OF DATA SUPPORTING THE ELIMINATION OF PSLF FOR BUDGETARY REASONS, THERE REMAIN OPTIONS FOR POLICYMAKERS LOOKING TO ENSURE THE LONG-TERM FINANCIAL HEALTH OF THE PROGRAM.

139

Borrowers who had amassed between 97-120 qualifying payments as of December 2016.

669,426

Cumulative number of borrowers who have submitted at least one employer certification form.

THE PUBLIC SERVICE LOAN FORGIVENESS PROGRAM

The Public Service Loan Forgiveness (PSLF) program was created by Congress to provide an incentive for talented individuals to enter and remain in public service positions by forgiving their federal student loans after a certain period of time. Eligible public service employees include teachers, police officers, firefighters, and nurses, among a variety of other professions. The goal of the program is to encourage students, through promised loan forgiveness, to enter fields that are crucial to society but lack the compensation found in the private sector.

HOW PSLF WORKS

To qualify for forgiveness under PSLF, borrowers who enter full-time employment at qualifying public service organizations must make 120 on-time monthly payments–which total 10 years of payments–while enrolled in a qualified repayment plan.[1] Qualifying payments under PSLF need not be consecutive, so students who make an occasional late payment or who exit and re-enter public service can still qualify for PSLF with only those non-qualifying payments excluded.

Because most of the qualified repayment plans are income-driven, borrowers in low-paying fields will likely have a loan balance remaining after the 120th payment. To receive forgiveness of the remaining balance, a borrower must have verified their qualifying public service employment via an employment certification form (ECF) and be currently employed by a qualifying employer.

A CLOSER LOOK AT PSLF

Enacted in 2007 through the College Cost Reduction and Access Act (CCRAA), PSLF will see its first cohort of eligible borrowers receive forgiveness after October 1, 2017. Certain lawmakers, policy analysts, and writers have criticized the program over its first decade for the potential number of unintended beneficiaries and the possibility of a large hit to the federal ledger. However, limited data prevent a full understanding of the true cost of the program.

At the December 2016 Federal Student Aid (FSA) Training Conference for Financial Aid Professionals, the Department of Education (ED) indicated only 139 borrowers had submitted at least one ECF and had amassed between 97 and 120 qualifying payments toward forgiveness.[2] Borrowers who have submitted at least one ECF reached 669,426 through June 30, 2017.[3]

[1] 20 U.S.C. 1087e(m)

[2] "Public Service Loan Forgiveness," presentation from ED, 2016 FSA Training Conference for Financial Aid Professionals, December 2016, http://fsaconferences.ed.gov/conferences/library/2016/2016FSAConfSession18.ppt

[3] Public Service Loan Forgiveness Employment Certification Forms through June 30, 2017, from FSA Data Center, https://studentaid.ed.gov/sites/default/files/fsawg/datacenter/library/ECFReport.xls

...it remains more important than ever to advocate for the value this program brings to both students and society, while also considering options for ensuring the program's effectiveness and financial viability moving forward.

While the first borrowers are beginning to be eligible to receive loan forgiveness, both President Trump's fiscal year (FY) 2018 budget proposal and the FY 2018 House Budget Resolution propose eliminating PSLF altogether for new borrowers. Beginning in his FY 2015 budget, President Obama proposed capping forgiveness under PSLF at the aggregate loan limit for independent undergraduate borrowers, which is $57,500. Similarly, a 2014 NASFAA Task Force developed a proposal to strengthen the program by also introducing caps on forgiveness. With Higher Education Act (HEA) reauthorization pending, it remains more important than ever to advocate for the value this program brings to both students and society, while also considering options for ensuring the program's effectiveness and financial viability moving forward.

WHAT CONGRESS CAN DO

Preserve PSLF. PSLF encourages students in a visible way to pursue and commit to careers in public service like social work, teaching, and law enforcement without fear that their student loan payments will follow them for decades.

Consider options to solidify the program. There have been several proposals to eliminate PSLF entirely, but NASFAA urges Congress to remember that there are thoughtful alternatives to ending the program. NASFAA suggests instituting limits on the amount of forgiveness with 100 percent forgiveness up to $57,500 and 50 percent forgiveness of any remaining balance up to $138,500. A cap on the maximum amount of forgiveness combined with proportional forgiveness may ensure that students are discouraged from over-borrowing.

Make PSLF data public. ED should publicize additional information about PSLF, and Congress should encourage the Department to do so. Questions regarding the cost, effectiveness, or integrity of PSLF can only be answered with additional publicly available data from ED. An October 2016 NASFAA letter to the Department asking for additional data about the program remains unanswered.[4]

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Keep PSLF 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.

[4] NASFAA PSLF letter to ED, October 2016, https://www.nasfaa.org/uploads/documents/NASFAALetteronPSLF.pdf

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

1801 PENNSYLVANIA AVENUE, NW, SUITE 850
WASHINGTON, DC 20006-3606
202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG