

Public Service Loan Forgiveness: How It Works, How It Doesn't Work, and How It Might Evolve

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American Student Assistance
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About ASA

- Private nonprofit
- Public purpose mission = empower students and alumni to successfully manage and repay their college loan debt
- Provides student loan education
- Develops financial competencies through innovative web-based tools and trusted, neutral advice
- All free of charge to students and alumni

What Is Public Service Loan Forgiveness?

PSLF forgives the remaining balance on your **DIRECT LOANS** after you have made 120 qualifying payments under a qualifying repayment plan while working **FULL-TIME** for a qualifying employer after 10/1/2007

Operative words in the previous description:

- Direct Loans
- Qualifying payment; qualifying repayment plan
- October 1, 2007

Federal Direct Loans

- Subsidized
- Unsubsidized
- PLUS (Parent or Graduate)
- Consolidated; which may include
 - FFELP
 - Perkins
 - Health
 - Nursing Loans

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

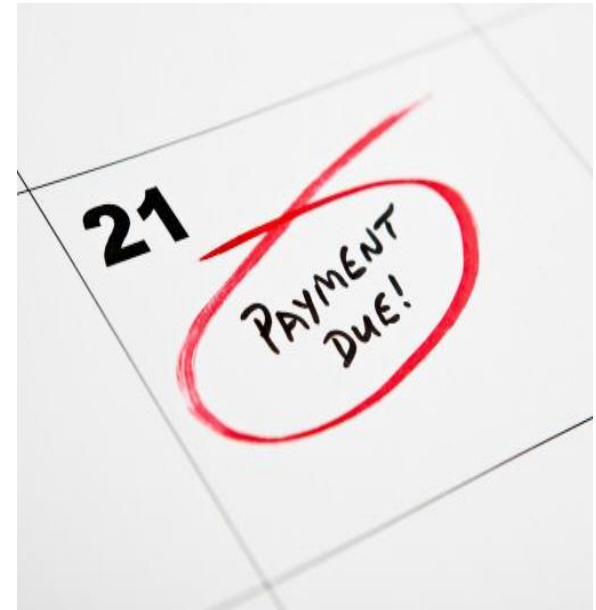
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Choose a repayment plan, pay on time, avoid default, and get help with problems.

120 Qualifying Payments

- Must have been made AFTER October 1, 2007
- Must be ON TIME
 - No later than 15 days
- Must be made EACH MONTH
 - Satisfying monthly installment
 - Monthly installment of ZERO still counts as payment
- Must be made when loan is in good standing



Qualifying Repayment Plans

- Income Based Repayment (IBR)
- Income Contingent Repayment (ICR)
- Pay As You Earn (PAYE) and REPAYE
- 10 Year Standard Repayment or any other Direct Loan Repayment Plan (Graduated; Standard w. Consolidated)
 - Seems counterintuitive, but is included as an eligible repayment plan for PSLF purposes so borrowers may receive credit toward required 120 for payments made under this plan before switching to IBR, Pay As You Earn, or ICR.

How PSLF Works

Intended to encourage individuals to enter and maintain employment in the public sector regardless of debt

Important points and questions to consider:

- PSLF enacted under the previous administration
- Student debt = bipartisan issue
- How many college students know what they want to do after graduation?
- What happens when people change their minds?

Qualifying Employment

- Federal government
- State government
- Local government
- AmeriCorps
- Peace Corps
- Most non-profits



The specific job you perform (teacher, nurse, custodian, administrator) within the organization does not matter, as long as you are employed by an eligible public service organization

Qualifying Employment

- Full time = 30 hours a week
- 2 part time positions works if they total 30 hours
 - For example, one job averages 10 hours per week; another job averages 20 hours per week. $10+20=30$
- Employer vacation or leave = hours worked
 - This includes leave taken under FMLA of 1993

Implementation Begins October 2017

- Borrowers need to keep track of their eligibility
- Employment Certification Form for PSLF
 - <https://studentaid.ed.gov/sa/sites/default/files/public-service-employment-certification-form.pdf>
- Can complete form annually or every other year
- Not required, but better to submit forms as you progress through 120 qualifying payments instead of submitting form TEN YEARS LATER

Case Study - Chelsea

- In-State College graduate
- \$30,000 yearly income
- Family Size = 1
- \$45,000 in FEDERAL student loan debt

- Currently wrestling with how to repay her loans:
- Standard repayment = \$518/month
- Income-based repayment = \$166/month

Q: Which repayment plan should she choose?

Should IBR Be Automatic?

	Standard Repayment	Income-Based Repayment
Monthly Payment	\$518	\$166
Repayment Term	10 years	25 years
Total Interest	\$17,143	\$65,854
Total Paid	\$62,143	\$95,564

Source: Texas Guaranteed Student Loan Corporation (TGSLC)

What About Public Service Loan Forgiveness?

	Income-Based Repayment	IBR With Public Service
Monthly Payment	\$166	\$166
Repayment Term	25 years	10 years
Total Interest	\$65,854	\$26,342
Total Paid/Forgiven	\$95,564	\$75,261

How PSLF Doesn't Work

- Unintended Consequences
 - Provides benefit to high earners who may not need similar safety net that lower earners might need
- Problems with recertification for IBR
- Only one loan servicer for all PSLF
- Delays in processing paperwork
- Incorrect information given out by servicers

Unintended Consequences

- Provides windfall benefits to borrowers with graduate and professional degrees who don't need same safety net as borrowers with more modest incomes.



STOP WASTING YOUR MONEY ON STUDENT LOAN PAYMENTS

In 2010 the average indebted graduate from Cal Western School of Law owed more than \$145,000 *

- Monthly Loan payments after graduating average more than \$1,690.

On October 25, 2011 the Obama Administration introduced a new program that could allow a graduate with a starting salary of \$70,000 to:

- Reduce monthly payments to \$448 a month.
- Have over \$100,000 of debt forgiven.

Source: The Advantage Group [<http://www.ibrloan.com/student-debt/schools/cwsol.html>]

Benefits For High Earning Borrowers

\$65k

Starting
Loan
Balance

6%

Interest
Rate on
Loan

Repayment Year	1	5	10	15	20	25		
Income	\$45,000	\$58,986	\$82,731	\$116,034	\$162,744	\$228,257		
Old IBR							Total Payments	Forgiven
Monthly Payment	\$291	\$259	\$472	\$713	\$722	-	\$132,459	\$0
Loan Balance	\$65,410	\$67,112	\$63,815	\$46,187	\$12,993			
New IBR							Total Payments	Forgiven
Monthly Payment	\$194	\$173	\$315	\$475	\$694	-	\$88,045	\$55,817
Loan Balance	\$66,574	\$72,908	\$77,210	\$73,241	\$55,817			

Source: Adapted from *Safety Net or Windfall*, New America 2012

Note: Loan balance reflects principal and accrued unpaid interest at the end of the repayment year indicated. Borrower's income increases at 7 percent annually. Income reflects total income, but payments are calculated off of Adjusted Gross Income which is reduced by an assumed amount explained in endnote 19. The exemption is calculated for a household size of one for the first three years and a size of two each year thereafter to reflect a spouse.

What Is Recertification?

Each year, borrowers in income-driven plans are required to submit information proving that they still qualify for an affordable monthly payment

Form 1040 Department of the Treasury—Internal Revenue Service (99)		2013		OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2013, or other tax year beginning				, 2013, ending , 20	
Your first name and initial		Last name		Your social security number	
If a joint return, spouse's first name and initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.				Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).				▲ Make sure the SSN(s) above and on line 6c are correct.	
Foreign country name		Foreign province/state/county		Foreign postal code	
Filing Status Check only one box.		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child	
Exemptions 6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse		c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)		Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶	
If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>		d Total number of exemptions claimed		<input type="text"/>	
Income Attach Form(s) W-2 here. Also attach Forms		7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a b Qualified dividends 9b		7 8a 9a	

If Borrowers Do Not Recertify In Time

- Payments will go back to what they would have owed under a 10-year standard repayment plan
- Jump of hundreds of dollars per month in most cases
- According to ED, 60% of borrowers missed recertification deadline and had payments jump sharply



Only One Servicer – Complaint to CFPB

- Submitted required documentation 8 weeks before expiration of previous IBR application
- Due to servicer's delays, IBR application was not processed timely
- Monthly payment jumped from \$200/month to \$1400/month, causing checking overdraft
- Servicer failed to process application timely even though application was complete
- No documentation was missing; servicer failed to communicate the huge increase in payment

How PSLF Might Evolve

- What's the current political climate?
- Will student loan debt remain a bipartisan issue?
- What are the projections for number of eligible borrowers in 2017, 2018 and 2019?
- Will more colleges market it aggressively?

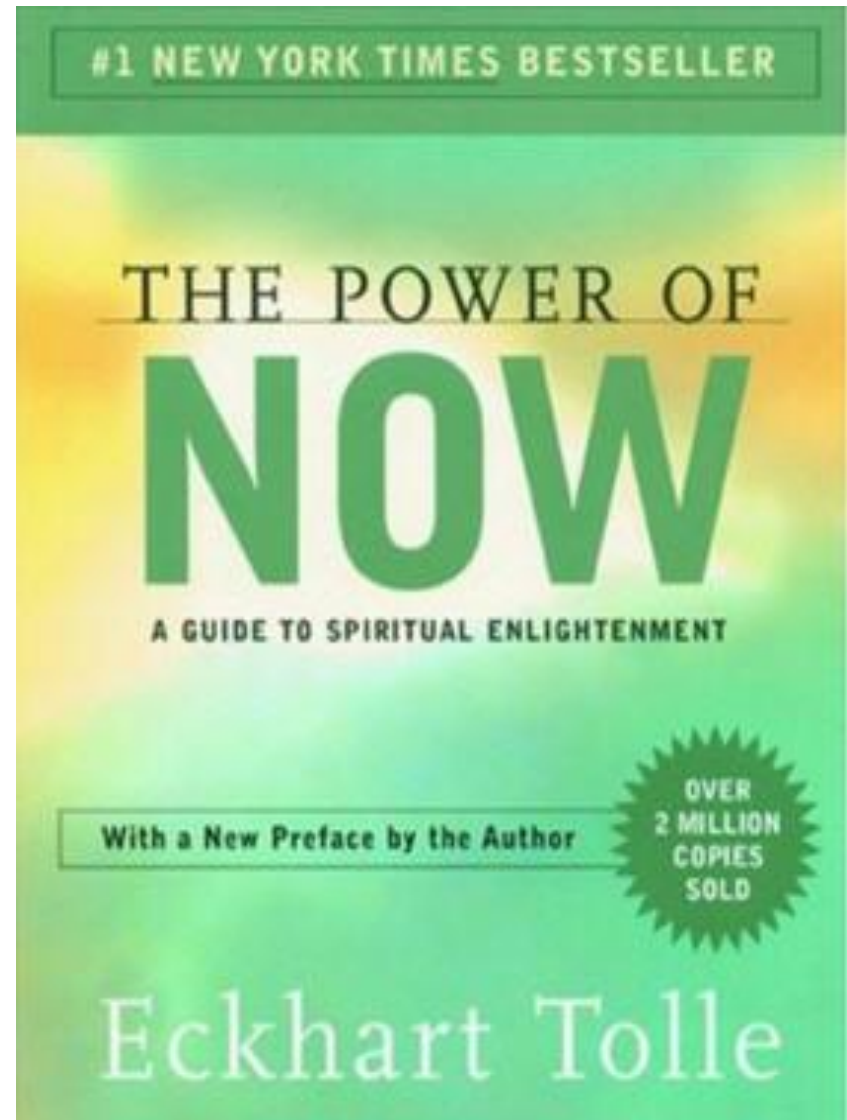
How PSLF Might Evolve

- Reduce the amount of payments from 120?
- Stricter income limits to lessen unintended consequences?
- Open contract up to more than one servicer to reduce delays in processing?



What You Can Do Now To Help Students

- What does the student want to do after school?
- Do they understand repayment options?
- Stress the importance of recertification
- Stress the importance of on-time payments



Resources For Students and FA Professionals

- Income Based Repayment – www.ibrinfo.org
- Public Service Loan Forgiveness – www.studentaid.ed.gov
- Explore potential tuition reimbursement and/or loan forgiveness employer benefits
- Connect with your school's career planning office and/or government relations office

Takeaways

- Through federal policy and state budget priorities, as a nation we have chosen debt as the primary means of funding higher education
- There is unlikely to be a seismic shift in the way higher education is funded in the coming years
- College costs are unlikely to be significantly reduced from their current levels
- PSLF will remain intact; perhaps enhanced
- People may still recoil at increased cost of college – what's the tipping point?

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