Facts & Myths about Public Service Loan Forgiveness

BACKGROUND:
- Public Service Loan Forgiveness (PSLF) was created with bipartisan support under the College Cost Reduction and Access Act of 2007 (CCRAA)
- PSLF was created to help public sector employers fill chronically vacant positions that require a professional license; the chief obstacle to filling these jobs is the lower pay offered in light of the student debt incurred to obtain the degree necessary for licensure
- PSLF addresses the problem by offering partial student loan forgiveness once a borrower has served for a minimum of 10 years in public service while making timely payments on their Federal Direct Loans
- To benefit from the program, borrowers must make these payments through a federal income-driven repayment program, under which monthly payments will be 10-20% of net income
- Qualifying public service includes jobs in government (including the military) or with qualifying non-profit organizations
- There is inadequate data collected to draw hard conclusions, but surveys and anecdotal reports confirm that PSLF successfully attracts and retains employees in low-paying jobs serving the public, including those in rural or other underserved communities

FACTS & MYTHS:

MYTH: PSLF leads to rising tuition.

FACTS: There is no evidence that PSLF leads to rising tuition. Statistics demonstrate that the rates of increase of law school tuition slowed following enactment of PSLF in 2007. Tuition did increase at a slightly higher rate at public law schools, but this was due to declining state subsidies (GAO-15-151). In fact, tuition is driven by supply and demand in a marketplace of competing institutions.

MYTH: Income-Driven Repayment plans provide public service incentives comparable to PSLF.

FACTS: Income-Driven Repayment (IDR) plans do make payments affordable for many borrowers, yet the public service employment gap grew despite the availability of the Income-Contingent Repayment option (ICR) since the 1990s. Student debt grows under IDR programs, and repayment is guaranteed to last 20-25 years – chief reasons cited by borrowers as to why they were not utilizing the ICR to take public service jobs. PSLF was knowingly designed to complement ICR in order to make public service a more viable option for borrowers. Most of the praise and criticism of PSLF is over how successful the program will be in contrast to IDR plans, alone. Even so, there is inadequate data on which to draw conclusions to base a call to end the program when it is only now beginning to pay any benefits.
MYTH: PSLF encourages graduate and professional students to over-borrow to fund lavish lifestyles.

FACTS: The most graduate and professional students can borrow is the cost of attendance as determined by their school minus any financial assistance. There is no evidence that they borrow more than they need to support reasonable expenses while in school. There is also no evidence that the availability of PSLF actually has led to or encouraged over-borrowing.

MYTH: PSLF is too costly.

FACTS: Prelimnarily, there is no enrollment process or reliable usage data available for PSLF, so cost projections have been based on hypotheticals and conjecture—a problem highlighted by the U.S. Government Accountability Office in its evaluation of the program in 2016. Current estimates by the Congressional Budget Office are only 25% of what was indicated a little over a year ago, and even then, the CBO did not explain their assumptions or formulae. Some such assumptions include that PSLF is expensive because it will cover a quarter of the total job market (the size of the public sector), but in reality, only a fraction of public service workers have qualifying student loans, only a fraction of those involve balances warranting a special repayment plan, and only a fraction of those will complete the PSLF’s lengthy required period of service.

In addition, the cost of PSLF is dwarfed by projected profits from federal student loans. The CBO estimates that the United States will earn $184 billion in interest from student loans made between 2013 and 2023, much of that from graduate school borrowers. In contrast, it estimates that a proposal to control costs by capping the PSLF at $57,500 (maximum undergraduate borrowing limit) would only save $6.9 billion—four percent of that $184 billion in profits—from 2017 to 2026.

The cost of the program also must be weighed against its economic benefits. PSLF ensures the delivery of critical services to America’s workforce, reducing reliance on government assistance and stabilizing the local economy. Yet, there is no projection or contemplation of the economic harm that removing PSLF would have on these communities.

MYTH: PSLF unduly benefits “well-off” graduate and professional students.

FACT: Graduate borrowers do have higher debts than undergraduates, but they also provide the greatest savings to the federal government, e.g., they are not eligible for subsidized loans (savings that were passed on to fully fund Pell Grants), pay higher interest rates, and are more likely to repay their loans than others. For many, pursuing an advanced degree is a minimum requirement for professional licensure, and according to one study, the average graduate or professional student who earns PSLF will have paid back ninety-one percent of the amount they borrowed.

MYTH: It is unfair to provide more rapid forgiveness to public sector employees than to private sector employees doing similar work.

FACT: PSLF was enacted to address an identified inequity between public and private sectors that was having a direct impact on the American people. Supporting the public sector is important because while the private sector will always play the largest role in economic development, the nonprofit and government sectors—public service jobs—are what bring solutions to public problems. Even with PSLF, however, those in long-term public service careers will make less over their lifetime than their private sector counterparts. Borrowers pursuing PSLF who take low-paying public service jobs also risk not completing the full 10 years, which would likely leave them with as much debt or more as when they first entered repayment.

1 In a November 2016 report (available at http://www.gao.gov/products/GAO-17-22) the GAO questioned the Department of Education’s own PSLF cost projections and its methodology for calculating those costs.