The Coalition to Preserve **PSLF**

Facts & Myths about Public Service Loan Forgiveness

BACKGROUND:

- Public Service Loan Forgiveness (PSLF) was created by the bipartisan College Cost Reduction and Access Act of 2007 (CCRAA).

- It allows borrowers to earn forgiveness on the remaining balances of eligible Federal Direct Loans only after they have worked full-time in a qualifying public service position (a government or a Section 501(c)(3) organization) while making 120 full, on-time monthly loan payments.

- To benefit from the program, borrowers must first repay part of their loans by paying at least 10% of their discretionary incomes, for those 120 months, through an income-driven payment plan or a plan requiring even more rapid repayment.

- PSLF has succeeded in attracting and retaining employees in critical jobs that support society's well-being, including police, firefighters, social workers, teachers, prosecutors, local government workers, nurses, the military and many more. This is especially true for employees who need post-graduate education to perform their jobs, such as teachers and prosecutors.

- In the public sector, retention of qualified employees is critically important. Because salaries are relatively low, many public sector employees leave for higher-paying private sector jobs within two or three years, just when they have received enough training for peak performance.

- Eliminating PSLF would result in fewer borrowers seeking public employment. It would also disproportionately affect Black and Hispanic students, as they commit in greater percentages to long-term careers in all levels of government.

FACTS & MYTHS:

MYTH: *PSLF leads to rising tuition.*

FACTS: There is no evidence that PSLF leads to rising tuition. For example, a study of the average rate of increase of law school tuition shows it has been lower on average since PSLF went into effect in October 2007 before PSLF was created. School tuition is driven by supply and demand in a marketplace of competing institutions. Tuition increases have occurred predominantly at public schools and have resulted from declining state subsidies.

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

FACTS: Income-Driven Repayment plans do make payments affordable for many borrowers. However, they do not provide any particular incentive for borrowers to commit to long-term public interest careers or increase the ability of public sector employers to recruit talented employees. Instead, their long repayment terms (20 to 25 years), the taxability of their cancellation provisions, and the increased amount many borrowers must pay compared to a standard ten-year repayment plan are incentives for borrowers to repay their loans as soon as possible by maximizing their earnings in the private sector. The Income-Contingent Repayment plan was created with a 25-year repayment period, but in 2007, Congress determined that a shorter period of repayment was necessary to enable public employers to attract and retain the most talented borrowers, including those with graduate and professional degrees.

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 lifestyles while in school. There is also no evidence that the opportunity to earn PSLF only after ten years of public service work (which usually pays less than comparable private sector work) encourages over-borrowing or overcomes debt aversion.

MYTH: *PSLF is too costly.*

FACTS: There is no enrollment process for PSLF and so, until October 2017 when borrowers begin to earn forgiveness, there is no reliable information on how many may participate. As a result, current estimates of the cost of PSLF rely on hypotheticals and conjecture.1 Proposals relying on the size of public sector (roughly one quarter of the job market) are particularly unreliable. Only a fraction of these workers have qualifying student loans, and only a fraction of those will remain in public service for 10 years and still owe money on their loans. 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 would only save $6.9 billion—four percent of that $184 billion in profits—from 2017 to 2026. The cost of the program also has to be weighed against its benefits. PSLF ensures the delivery of critical services for the health, safety, and stability of communities across the country and helps reduce reliance on federal, state, and local assistance programs.

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

FACT: Graduate borrowers do have higher debts than undergraduates, but many of them (e.g. social workers and prosecutors) must incur those debts in order to obtain necessary state licenses and to serve the public effectively. In addition, graduate and professional borrowers already provide the greatest savings to the federal government. 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 and less likely to go into delinquency or default than other groups of borrowers. According to one study, the average graduate or professional student who earns PSLF will pay back ninety-one percent of the amount they borrowed. Finally, graduate and professional students overall take larger cuts to their potential earning potential in order to enter into long-term public service careers.

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

FACT: The vast majority of public sector employees earn less than their private sector equivalents. 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.