

Reducing College Expenses for Government and Nonprofit Workers



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NO, IT'S NOT A POLITICAL PROMISE. And maybe it's a stretch depending on how much student debt you have. But there is an existing federal program designed to relieve some of the burden of student debt on those providing public service as part of their career. If you are a public worker, have a child or family member who is one or have a child attending a school where public service is a part of their education, the Public Service Loan Forgiveness (PSLF) program is something to consider in planning how to deal with student debt.

Whether you already have student loans or you are just beginning to plan for a child's education, it is important to understand your resources as well as your goals. The PSLF could help you alleviate a substantial part of college debt. Note that this is a process run by a government entity, the U.S. Department of Education, so in other words, expect red tape, delays and a lot of follow-up on your part. It's not easy, but going through the process could make loan forgiveness possible.

A LITTLE HISTORY

The PSLF program was created in 2007 under the College Cost Reduction and Access Act. The intent was to help public and nonprofit workers satisfy their student debt after 10 years of service. The thinking was that, generally, these are long-term employees earning a modest wage and providing a needed public service. Many of those positions, often requiring degrees, do not offer incomes with much financial room for satisfaction of student loan debt.

As of June 2019, the program had received 2,345,584 employment certification forms (ECF). Sixty-two percent of those were submitted by government employees, the other 38 percent by non-profit employees. Almost half — 1,090,314 — were rejected. Most of the rejections were because of missing information, but there were a fair number of people submitting for the wrong types of loans, as not all student loans qualify for the program. The approved ECFs — not paid out, just certifying they are appropriate and should ultimately be forgiven — account for \$102 billion of student loans, an average outstanding balance of \$90,272 per approved worker.

While more than two million individuals have submitted an ECF to request eligibility for inclusion in the PSLF program, only 102,051 people have submitted applications for

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actual loan forgiveness. Of that number, 8,677 are pending processing and 1,216 have been approved by the service providers. A total of \$52,045,282 has been doled out to approved applicants. The numbers suggest that while the process is working, it is incredibly slow.

THE APPLICATION PROCESS

To apply for student loan forgiveness under the PSLF program:

- Complete an employment certification form (ECF). You must work full time for a qualifying employer; the form confirms that your employer qualifies. Qualifying employers include government organizations, 501(c)(3) nonprofits, and AmeriCorps or Peace Corps. They can also be a nonprofit organization that doesn't have 501(c)(3) status but provides a qualifying public service as its primary purpose, though we are unaware of any submitted applications from employees of such organizations. Full-time employment consists of at least 30 hours per week, but if you work part time for two qualifying employers, you could be eligible. To ensure your application remains under consideration, be sure to submit a new ECF annually, especially if your job changes.
- Transfer all your student loans to FedLoan for management. The program only works with the Federal Direct Loan Program; hence the need to consolidate. You can consolidate loans there rather easily, but not all loans qualify, so be sure you have a qualifying loan or loans. A Perkins loan cancellation program offers forgiveness after five years of service, but consolidating under Perkins, if you are eligible, would extend your payments another five years.
- Establish an income-driven repayment plan. Not all repayment options are eligible for forgiveness — graduated and extended repayment plans, for example, are not. Payment options that qualify include the Income-Based Repayment (IBR), Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE) and the Income Contingent Repayment (ICR). Note that a 10-year standard loan is also eligible, but you will have paid it off in 10 years, which negates the forgiveness.
- Make 120 monthly (10 years) loan payments in full and on time. Only payments made after October 1, 2007, qualify. Payments do not need to be consecutive. You must be employed with qualifying employers during this time and at the time of your application, though not consecutively. In other words, you could work with a qualifying employer for six years, go to the private sector for two, then work four more years as a public servant. Apply for forgiveness using the public service loan forgiveness application after your 120th payment.

TAXABILITY

Most debt forgiveness is a taxable event — as if someone paid you the forgiven amount. That looks a lot like income to the IRS. But the PSLF, per the Department of Education, is not considered income for tax purposes.

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CAVEATS

- The PSLF is currently in place, though subject to change or even elimination.
- Even if you do not qualify for the PSLF, your loans will be forgiven after 20 or 25 years, depending on the plan, if you continue with an income-driven repayment plan. The IRS will consider the forgiven amount taxable.
- Federal Perkins Loans and Federal Family Education Loans are not eligible for the PSLF program but could become eligible as a direct consolidation loan. However, the repayment period starts at the date of consolidation.
- The PSLF process is complicated by many unanswered questions, especially when applying for the forgiveness. Even if done correctly, it can take months and a tremendous amount of follow up and clarifications.

TURNUED DUN?

You get a second round, so put the gloves back on.

On the heels of a massive outcry from thousands of borrowers — teachers, social workers, nurses, public servants — who were denied eligibility, the U.S. Congress expanded the program as “Temporarily Expanded Public Service Loan Forgiveness” via the Consolidated Appropriations Act of 2018. One common complaint addressed by the new provision was that when borrowers consolidated their loans, the servicer they were required to use gave them options for other repayment plans not knowing or explaining that some were not PSLF-qualified. For some individuals, that led to 10 years of unwittingly making the wrong payments.

It appears that even the more streamlined “expanded” program is not resolving the program’s issues. For example, there are reports of applicants whose initial applications had been declined having to go through the application process again to prove they were declined. A key takeaway: SAVE YOUR RECORDS, EVERY STEP OF THE WAY.

As of June 2019, 16,740 applications were received for TEPSLF, but only 726 were approved. The rejections generally were for not making enough payments or making payments that didn’t qualify for reimbursement. Those that were paid — 681 loans — averaged \$41,368. While the 726 approved applicants are likely grateful for this program, the other 16,000 may be questioning its value.

AN ADVISOR’S VIEW

Consider college from the perspective of the expected return on your investment. The cost of a college education is a major consideration with lasting effects. If the debt for an out-of-state school will come to \$200,000, and the graduate’s subsequent annual income will be \$75,000, it might be best to stay in state where you might run up only \$20,000 of student debt. You must compare cost and return on investment of the intended the career path.

Someone who has piled up hundreds of thousands of dollars of student debt to attend their dream college then didn't get a like return on their investment is left with a huge financial burden and a lot of stress and anxiety. Parents, children and advisors need to have these conversations early — very early — before a particular college gets stuck in someone's mind as the only option.

CONCLUSION

The PSLF — and now the TEPSLF — are useful and valuable to public and nonprofit workers. But those entering the program should be prepared for a long journey replete with declines. It is incredibly important to be persistent. If done correctly, the program can provide a major financial difference in a person's financial life.

HELPFUL WEBSITES

- <https://myfedloan.org/borrowers/special-programs/pslf>
- <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service>

OTHER PROGRAMS FOR LOAN FORGIVENESS *(not necessarily a complete list)*

- Perkins Loan Cancellation program (5 year)
- Income Based Repayment Forgiveness (20-25 year)
- Teacher Loan Forgiveness
- Total & Permanent Disability

Sources:

Federal Student Aid, An Office of the US Department of Education (www.studentaid.ed.gov)

Fedloan Servicing (www.myfedloan.org)

StudentLoans.gov (www.studentloans.gov)

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