ACADEMIX Upshot

REVITALIZING PSLF: WHAT'S NEXT AFTER THE WAIVER

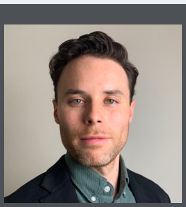
THE UPSHOT

For workers in the public and non-profit sectors, the Public Service Loan Forgiveness (PSLF) program offers forgiveness of remaining federal student loans after 10 years of full-time work experience and qualifying payments. Looking back at the first 15 years of the program, implementation challenges and poor administration dramatically limited take-up and benefit receipt. The Department of Education (Department) issued a year-long waiver in 2021, combined with other systemic reforms, to address these problems and fulfill the potential of the PSLF program.

The magnitude of the take-up problem should not be ignored. It is estimated that nearly 3.5 million borrowers holding over $100 billion in student loans were eligible for full loan relief (while millions more should receive an expedited path to relief in future years). Yet issues of administrative burden and incomplete information persisted. The waiver required action on the part of borrowers, and not all eligible borrowers opted in. The beneficiaries who did so appear to have disproportionately come from the pool of eligible borrowers with high incomes and graduate degrees.

Considering the historical challenges of PSLF and subsequent implementation of the waiver, barriers to access have likely inhibited the promise of the program. PSLF has the potential to narrow racial student debt gaps and alleviate substantial financial obligations for struggling borrowers—many of whom are employed in vital but often lower-paid public service occupations. The waiver period addressed crucial administrative and servicing barriers, leading to a substantial increase in loan forgiveness through PSLF. And while it remains unclear whether the program has

THIRD WAY



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successfully provided relief to middle income borrowers or reduced racial gaps in student debt, valuable lessons were learned that highlight areas for policy improvements to help borrowers access PSLF relief.

Since the waiver expired in October 2022, administrative changes have streamlined the basic process and offer better tools for eligible borrowers. Yet opportunities for greater efficiency and improved communication still exist, particularly through increased coordination between eligible employers, the Office of Federal Student Aid (FSA), and the Department. These improvements have the potential to make public service jobs more appealing and enhance the financial security of individuals pursuing careers in fields facing supply shortage concerns, such as nursing, teaching, and social work.

NARRATIVE

The origins of employment-based student loan forgiveness programs in the United States can be traced back 65 years to the *National Defense Education Act*.[1] These programs intend to encourage enrollment and persistence in occupations deemed to have high social benefits. Historically, this included relatively narrow groups, such as public elementary and secondary school teachers, Head Start employees, or those serving in an area of hostility while in the Armed Forces.[2]

In 2007, the creation of the PSLF program brought an unprecedented shift in the scope of borrowers eligible for employment-contingent loan discharge with the definition of "public service" based solely on an employer's government (local, state, federal, or tribal) or 501(c)(3) non-profit status. Some occupations that might be thought of as "public service," such as teaching, are concentrated nearly entirely among public and non-profit institutions. For other fields such as law or medicine, individuals may choose to pursue career trajectories in public service (such as legal aid or public defenders) or in the private sector, with the latter typically paying higher salaries. In principle, about 23% of jobs in the United States are covered—ranging from careers commonly associated with public service such as teaching, social work, and protective services to occupations like accounting or other administrative services for which there are positions with similar skill requirements in both public and private sectors.

By statute, PSLF offers public service workers full forgiveness of outstanding federal loan balances after 10 years of full-time employment and qualifying payments, with payment accrual beginning in 2007.[3] Eligible borrowers are required to make 120 payments towards their Direct Loans balance under a qualifying repayment plan while working full-time at a qualifying employer, and this employment must be certified by an authorized official.

The PSLF program's budget implications have been poorly understood since its inception, with cost concerns remaining unclear. This uncertainty is partly due to the concurrent introduction of the Graduate Plus loan program in 2006, which allowed graduate students to borrow substantial amounts for their education. Graduate student borrowing subsequently increased, and many borrowers across various professions could expect some debt forgiveness through PSLF, creating a situation where additional borrowing incurred zero marginal cost for them.[4] This led to concerns about rising debt levels and calls for reform, including proposals to cap forgiveness amounts, as the program's budget implications became a topic of discussion.[5] However, with very few borrowers finding PSLF relief in 2017, policy discussion shifted away from potential budget liability to the identification of administrative problems that inhibited take-up.

In the first year of program eligibility in 2017, only 96 borrowers claimed benefits, and by the end of 2018, only 338 had received relief. PSLF is not unique in this regard: incomplete take-up of benefit programs is pervasive across government programs.[6] Fewer than 15% of households with federal student loans in the bottom 20% of the income distribution are enrolled in income-driven repayment (IDR) plans, despite their potential to provide substantial relief for distressed borrowers.[7] For PSLF, the unique combination of policy design and program administration resulted in a gap between the theoretical promise of forgiveness and the practical difficulties faced by borrowers.

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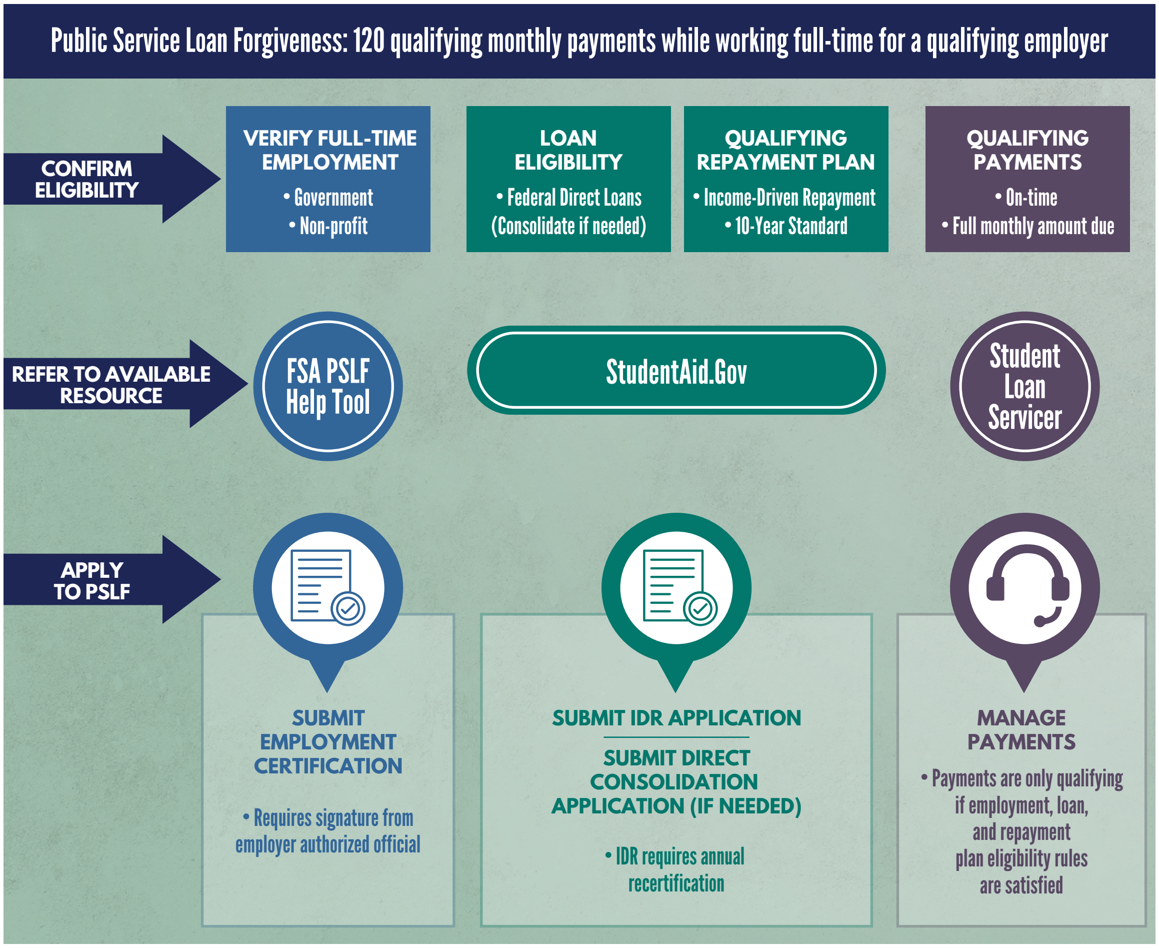
THE PSLF CERTIFICATION PROCESS FOR BORROWERS—AND ITS CHALLENGES

A burdensome administrative process made it difficult for borrowers to navigate applications to the PSLF program. Too often, borrowers were informed after many years of qualifying employment that they were in the wrong repayment program, had the wrong type of loans, or the wrong person had signed (with the wrong color pen) on the employer verification form. Compounding these problems were the well-documented dysfunction and mistakes among loan servicers, including forbearance or deferment steering. At times, servicers would automatically take borrowers out of their IDR plans when borrowers went back to school for graduate education, thus stalling borrowers' progression to the 120 qualifying payments.[8]

Figure 1. *The Public Service Loan Forgiveness Application Process*



Source: Author's synthesis of StudentAid.gov *information.*

Note: While payments made under the 10-year Standard Repayment Plan are qualifying payments, borrowers might have to change to an IDR plan to benefit from PSLF. More information here.

The outcome was a notable disparity in participation: in 2017, the Department reported that 86% of the over 500,000 borrowers who expressed their intent to pursue PSLF had incomes below $75,000.[9] However, by October 2021, more than 30% of those who received PSLF had incomes above $100,000—and 83% had graduate-level debt—suggesting that many of the early beneficiaries of the program were well-resourced to navigate the process.[10]

With the limited take-up of PSLF evident in 2017, Congress passed the Temporary Expanded Public Service Loan Forgiveness (TEPSLF) program, which widened the range of repayment plans eligible for forgiveness. However well-intentioned, this effort did not resolve basic problems of administration, nor did it address the issue that many potentially eligible borrowers held the "wrong kind" of federal loans (guaranteed loans rather than Direct Loans).

The Department's October 2021 waiver more dramatically changed eligibility. Most student loan borrowers not in default and employed full-time in public service occupations were able to retroactively "count" payments on any repayment plan and during periods of forbearance as qualifying payments toward PSLF. Those who had accrued 10 years of full-time public service employment became eligible for immediate full forgiveness, while those with a shorter employment history were able to receive additional qualifying payments, shortening the time to forgiveness.

Even as FSA continues to process waiver applications submitted by the October 2022 deadline, the waiver has already become the primary driver of all forgiveness under the PSLF program. By June 2023, nearly $45 billion held by more than 647,000 borrowers had been forgiven under the waiver.[11] Still, this represents only 19% of the estimated borrowers who could have received immediate forgiveness.

Nearly 3.5 million borrowers owing $137 billion of student debt potentially stood to gain immediate full forgiveness under the PSLF waiver (while millions more would receive an expedited path to relief in future years). A majority of the immediate benefits—approximately $77 billion—would have accumulated to those public service workers with annual incomes between roughly $44,000 and $89,000. Although the PSLF program and the waiver are race-neutral in design, they have the potential to narrow racial gaps in student debt. Black Americans are more likely than other racial groups to hold student debt and be employed in the public sector. In the context of debt per capita, the Black-white gap in student loan debt was predicted to drop from $2,066 to about $1,470 if all eligible recipients of the waiver took up benefits.

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Why haven't more eligible borrowers taken part in the PSLF program? A key issue is that PSLF and benefits under the waiver are not automatic, nor are they as simple as opting-in to the waiver program. The Department encourages potentially eligible individuals to submit a certification and application form annually or when changing employers. Applicants must provide certification for each qualifying employer they worked for while making the 120 payments. The good intentions of providing retroactive access to loan forgiveness under PSLF through the waiver process have not overcome the administrative hurdles of government bureaucracy. The waiver application was a PDF form which required hand-written signatures from both the borrower and the employer for employment certification, while those with older vintage loans from the Federal Family Education Loan program must have also successfully consolidated loans. Most borrowers were required to submit their PSLF applications by fax or paper mail—further complicating an already challenging process.

Some policy changes from the waiver have been carried beyond the October 2022 deadline, and certain challenges of the waiver process itself have been rectified—allowing potential beneficiaries to navigate application submissions more easily. For example, employment certification forms can now be submitted electronically, and "hand-drawn" digital signatures are now acceptable. FSA's PSLF FAQ webpage demonstrates the breadth of eligibility rules and processes that are now active, and importantly, provides a more comprehensive troubleshooting resource for applicants that was sorely lacking prior to the waiver.[12]

Available data show that the 647,000 borrowers who have successfully discharged their loans likely differ from the potential beneficiaries we would see under full take-up. The realized average balance forgiven under the waiver—$68,944—is well above the average among all potential beneficiaries at $39,604. This signals that many of the beneficiaries of the waiver could have been similarly drawn from the well-resourced population that was observed to be taking full advantage of PSLF in 2021 prior to the waiver's implementation. If so, our modeling predicts that 91% of the waiver relief dollars would be directed to those borrowers with graduate degrees relative to 64% under full waiver take-up, and the proportion of benefits to the top 10% of earners would double. While the waiver has substantially increased access to PSLF, it is still an open question whether the potential promise of addressing racial inequities and providing significant relief for middle-income borrowers was achieved.

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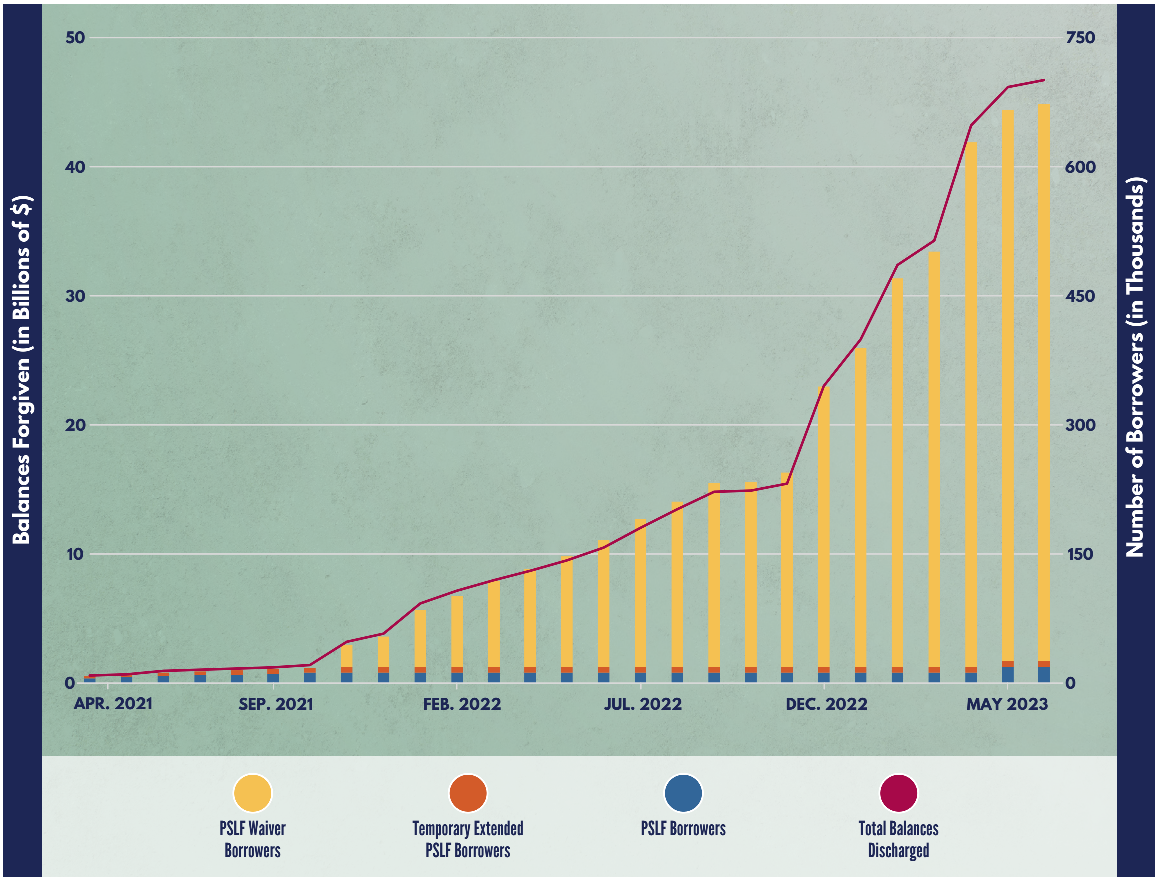
PSLF UPTAKE: CONDITIONS PREVENTING HIGHER PARTICIPATION AND SUCCESS

Figure 2. *Cumulative Number of Borrowers Receiving Forgiveness and Amount Forgiven Through the PSLF Program: April 2021 – June 2023*



Source: Federal Student Aid Public Service Loan Forgiveness Report, *2019–2023*

Note: Although rare, borrowers may receive PSLF forgiveness through multiple channels. Thus, the cumulative bar height is a duplicate count of borrowers receiving forgiveness. In June 2023 (the most recent report month at the time of writing), the total unique count of borrowers receiving forgiveness was 670,264 and the duplicated count was 673,077. See the FSA PSLF reports for more information on data and variable definitions.

In the context of increasing national attention on student debt, the PSLF program has a major role to play. With more than 34 million workers employed in public service and 22% of these laborers holding student debt, the program offers relief to a substantial number of borrowers with long-standing public service careers. Issues of Black-white student debt gaps and financial struggles touted as policy priorities can also be addressed for a large group of workers through the PSLF program. Even as the waiver contributed to the substantial growth in the number of borrowers receiving PSLF relief, take-up has remained incomplete, and the beneficiaries appear to have been drawn disproportionately from among the eligible borrowers with high-income and high education levels.

The unique circumstances of the period from the start of the COVID-19 pandemic in March 2020 to September 2023 created a convergence of challenges for borrowers and action on student debt. Notably, this time frame included a pause on student loan payments precipitated by the pandemic emergency and the subsequent calls for loan cancellation, both of which may have impacted take-up of PSLF. Regardless, issues of limited information and administrative burden in navigating the application process likely also contributed. Taken together, these conditions presented an ongoing challenge in effective policy design to target vulnerable student borrower populations, while also offering clear examples of policy improvements needed to better the PSLF program.

There are a host of systemic questions about the incentives and long-term viability of the PSLF program beyond the waiver uptake, including the broad array of income-based repayment programs. There is good reason for concern that unconstrained potential loan forgiveness through both PSLF and IDR programs could contribute to problems of overborrowing, moral hazard, and tuition inflation, particularly at the graduate level.[13] Going forward, the PSLF program remains an important benefit for public service employment which could be used to increase the attractiveness of socially valuable careers and the financial security of those who choose careers in fields like teaching, social work, and healthcare.

POLICY RECOMMENDATIONS

PSLF combines two onerous recertification processes in the student loan system: income-driven repayment and employment certification (EC). The frequent failure of borrowers to remain on IDR plans due to the need to annually recertify their income is well-documented.[14] Discussions of design changes around the IDR recertification should also translate to improvements to PSLF's additional EC requirement.

The Department of Education recommends annual submissions of borrowers' EC forms, requiring an authorizing employee at the employing government or nonprofit organization to certify a borrower's employment. Like IDR, the EC form can be completed online through the Department—a recent, welcomed improvement to the PSLF system. The added wrinkle of identifying the employer's signing official with EC, however, is likely to compound issues of adherence.

Policymakers should consider improvements that can be made to streamline and troubleshoot the EC and IDR processes. The following are potential areas of focus:

Leveraging existing information on borrowers with certified employment. For those who already certified their employment in prior years, the Department of Education should consider avenues for semi-automatic renewal. Email contact information should be added to the Department's existing PSLF employer database that could be used by both borrowers just beginning the EC process and those who are switching employers. Communicating directly with employers—to remind them of cases the Department has received from them in the last year—may also encourage employers to be a more active participant in the EC process.

Encouraging employers to be more active participants in helping connect borrowers to PSLF. For some public service borrowers, information gaps in whether their employment qualifies for loan forgiveness are a hindrance to take-up. Employers should consider incorporating existing PSLF FAQ and Help Tool resources into their human resource management processes. Organizations may see this as an effective recruitment and retention tool for college graduates with student debt. Some employers, such as public university medical schools, successfully implemented this tool prior to the waiver period.[15] A symbiotic PSLF relationship between the Department of Education, employers, and servicers also incorporates the provision of guidance and updates on program rules for employers. Some employers that already provide guidance on PSLF have outdated eligibility elements listed on their resource pages, hindering access to an important program for borrowers. Resources and guidance already provided to servicers should similarly be available to employers and actively communicated to those already in the PSLF employer database.

Reminding borrowers about annual requirements to increase salience. The primary PSLF eligibility rules concern qualifying loans, full-time work status at a qualifying employer, and qualifying payments under an IDR plan. Action to ensure the qualifying loans requirement is met is likely only needed once, such as with existing FFEL loan holders consolidating to a Direct Loan. Policymakers should acknowledge that eligibility for PSLF can fluctuate due to changing employment and payment situations. Therefore, it is crucial to continually remind borrowers of these requirements. Policymakers should encourage loan servicers, especially MOHELA as the newly exclusive servicer of the PSLF program, to incorporate EC reminders into their communication strategies—particularly during annual income recertification for IDR plans. Other loan servicers should also adopt this practice, with the added note that PSLF-eligible borrowers will be transferred to MOHELA. Similarly, Federal Student Aid's EC submission hub, the PSLF Help Tool, should explicitly remind borrowers about the IDR requirement. This might be incorporated through branching logic on the interactive form that first asks whether a borrower is aware of and/or enrolled in an eligible repayment plan (or was during their reported period of public service employment) and provides appropriate information and resources to those responding "No" or "I'm not sure." A more sophisticated version of this would autofill responses by integrating FSA IDR records, making it more convenient for borrowers.

METHODOLOGY

This brief draws on research from [Briones, Ruby, and Turner (2022)] where we estimate the population of public service workers that were potentially eligible for immediate full forgiveness under the PSLF waiver using the first wave of the 2018 Survey of Income and Program Participation.[16] The Department of Education lacks data on borrower work histories, and thus, is unable to estimate the group of eligible borrowers. The SIPP is the most readily available, nationally representative dataset on individuals that captures information about government and non-profit employment, along with student debt. We use information on individuals' age, sector of employment, education level, and student loan borrowing status to predict eligibility for the waiver.

We use those predicted eligible respondents in the SIPP to determine the distribution of benefits (dollars forgiven) by race, income, education, and occupation if every individual took-up the waiver. Income and education data from the Department of Education on PSLF beneficiaries before the waiver are then used to simulate how the distribution of benefits might differ if those who took-up the waiver benefits were more likely to have higher incomes and/or graduate education.

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