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COMPLEX BY DESIGN: REFORMING PUBLIC SERVICE LOAN FORGIVENESS

Statement of

Matthew M. Chingos*

Vice President for Education Data and Policy, Urban Institute

before the

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United States House of Representatives

BROKEN PROMISES: EXAMINING THE FAILED IMPLEMENTATION OF THE PUBLIC SERVICE LOAN FORGIVENESS PROGRAM

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500 L'Enfant Plaza SW
Washington DC 20024
urban.org

Chair Davis, Ranking Member Smucker, and members of the committee, thank you for the opportunity to testify today about the Public Service Loan Forgiveness (PSLF) program.

I direct the Center on Education Data and Policy at the Urban Institute here in Washington, DC. My colleagues and I work to support evidence-based education policymaking by conducting original research, creating policy analysis tools, and democratizing data. Over the past two years, we have developed resources aimed at helping Congress elucidate the trade-offs involved in proposals to reauthorize the Higher Education Act.

I am proud of the work we do at the Urban Institute, but I should emphasize that the views expressed in this testimony are my own and should not be attributed to any organization with which I am affiliated, its trustees, or its funders.

My testimony will provide an overview of PSLF and the Temporary Expanded Public Service Loan Forgiveness (TEPSLF) program, with a focus on how the complex design of these well-intended programs has led to confusion among borrowers, how we can evaluate the success of programs like TEPSLF, and how these programs might be reformed to better accomplish their goals.

I am not an expert on student loan servicing, but I believe that the design of PSLF and TEPSLF plays an important role in the challenges faced both by borrowers in navigating the programs and by the federal government in administering them. A research lens can help elucidate the trade-offs policymakers face as they seek to improve both the design and implementation of loan forgiveness programs.

My testimony today is rooted in three principles:

> First, federal grant and loan programs are critical for promoting college access and completion, especially for students from disadvantaged backgrounds. There is ample evidence that subsidizing college costs leads to increases in college enrollment and persistence, especially among low-income students.[1]
>
> Second, student aid and loan repayment programs should be straightforward, so that all students who are eligible can access funds to go to college and navigate flexible repayment options that protect them from having to make unaffordable payments afterward.
>
> Finally, federal student aid programs should be designed to accomplish well-defined goals—whether increasing access to college or encouraging students to enter public service—as efficiently as possible, so taxpayer dollars are used to maximum effect.

Public Service Loan Forgiveness

PSLF sounds like a simple program: it promises loan forgiveness to borrowers who work in public service for at least 10 years. But the program Congress designed is complicated, and subsequent changes made by both the Obama administration and Congress have made it even more complex.

[1] David Deming and Susan Dynarski, "Into College, Out of Poverty? Policies to Increase the Postsecondary Attainment of the Poor," Working Paper 15387 (Cambridge, MA: National Bureau of Economic Research, 2009).

First, to reduce the cost of PSLF, Congress limited the program to borrowers who took out loans under the Direct Loan program, which was relatively small in 2007 (approximately 20 percent of new loan volume) but became the primary source of new federal student loans beginning in 2010.[2] Borrowers with older loans can consolidate their loans into the Direct Loan program, but only payments made after consolidation qualify for PSLF. Thus, borrowers who make payments but then consolidate their debt can lose progress toward PSLF, as consolidation resets the payment count. Currently, 13 million borrowers have loans from the previous program, compared with 35 million who have Direct Loans.[3]

Second, borrowers need to correspond with previous employers, who need to complete paperwork to prove the borrower worked full time in public service, which the federal government defines based on the legal status of the employer, not the job being done. Nurses at nonprofit hospitals are eligible, but nurses doing the same work at for-profit hospitals are not (a fact that may not be obvious to employees). PSLF defines public service to include jobs for any government or 501(c)(3) organization, which encompass about 25 percent of the workforce.[4]

Third, borrowers need to be in certain loan repayment plans to be eligible for forgiveness. By default, borrowers are placed into the standard (10-year) plan upon entering repayment. Payments made under the 10-year plan are eligible for PSLF, but they would not leave any balance to forgive after 10 years unless the borrower later switches to an income-driven plan. All the income-driven plans are eligible for PSLF, and once borrowers make 120 on-time payments under any combination of income-driven plans and the standard plan, they can apply for forgiveness. Any payments made under other plans, such as graduated or extended repayment plans, are ineligible for PSLF. Periods spent in deferment and forbearance also do not count.

Currently, across all Direct Loan borrowers, 45 percent are on income-driven plans, 30 percent are on the standard plan, and 21 percent are on ineligible plans.[5] Borrowers can switch to any plan for which they are eligible, and the income-driven plans require annual recertification. The income-driven plans are an important safety net for borrowers but are confusing to navigate and have failed to stop millions of defaults.[6]

When PSLF was created in 2007, the most generous income-driven repayment plan available was income-based repayment, which generally allows borrowers to pay 15 percent of their discretionary income toward their loans. But later legislation and executive action created more generous income-driven repayment plans that allow borrowers to pay 10 percent of their discretionary income. Reducing monthly payments by one-third increased the amount of potential forgiveness for borrowers (and the cost of the program to taxpayers); it also increased the stakes for borrowers to pick the plan that maximizes the size of

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[2] Jason Delisle, *Private in Name Only: Lessons from the Defunct Guaranteed Student Loan Program* (Washington, DC: American Enterprise Institute, 2017).

[3] Portfolio summary is at https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[4] Erica Blom, "Who Does the Public Service Loan Forgiveness Program Really Benefit?" *Urban Wire* (blog), Urban Institute, October 27, 2017, https://www.urban.org/urban-wire/who-does-public-service-loan-forgiveness-program-really-benefit

[5] Portfolio by repayment plan is at https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[6] Susan Dynarski and Daniel Kreisman, *Loans for Educational Opportunity: Making Borrowing Work for Today's Students* (Washington, DC: Brookings Institution, 2013).

their benefit.[7] Payment reduction also made PSLF available to higher-income borrowers, who are more likely to have a balance remaining to be forgiven if they pay 10 percent of their income rather than 15 percent.

To summarize, to receive PSLF, borrowers must have the right kind of student loan, make 120 on-time payments in an eligible repayment plan, and work at least 35 hours a week for the right type of employer.[8] Given the complexity of the program, it is not surprising that many borrowers are confused about whether they are eligible. For example, a 2018 GAO report found that more than 150,000 borrowers who did not have eligible loans attempted to have them certified for PSLF. The same report found that, of the borrowers who applied for forgiveness, only half had any qualifying employment and loans, and less than 1 percent had made 120 qualifying payments.[9]

Confusion about student loans is not limited to PSLF. A 2014 study I coauthored found that 28 percent of federal loan borrowers in their first year of college did not know they had a federal loan, and 14 percent did not know they had any kind of student loan. More generally, less than one-third of students could provide a reasonably accurate estimate of how much they had borrowed.[10]

In 2018, Congress attempted to address borrower concerns about access to PSLF by creating the Temporary Expanded PSLF program, a first-come, first-served pot of money ($700 million) for borrowers who met all the requirements for PSLF except they were in the wrong repayment plans. To restrict eligibility to borrowers who would have been eligible had they been in the right plan, Congress required that borrowers either have been in an income-driven repayment plan for the past year or document that they made payments at least as large as they would have made under such a plan. Without this requirement, more high-income borrowers would be eligible for TEPSLF if they were in a graduated or extended plan with a term greater than 10 years. This is likely Congress's attempt to insert a means-testing element into TEPSLF to ensure that the funds go to the neediest borrowers.

Measuring the Success of TE/PSLF

The high denial rates of both TEPSLF and PSLF have generated headlines, but the denial rates alone don't tell us whether these programs have reached the borrowers they were intended to reach. To judge success, we need to know how many borrowers who are actually eligible under the terms of the programs are applying, and how many are being approved.

It is impossible to precisely estimate how many borrowers are eligible for TEPSLF or PSLF because they only become known once they identify themselves to their servicers by taking steps to certify their

[7] Jason Delisle, *The Coming Public Service Loan Forgiveness Bonanza* (Washington, DC: Brookings Institution, 2016).

[8] A payment can also be disqualified if it was used toward another loan forgiveness program, such as the Teacher Loan Forgiveness Program (https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/teacher#both-tlf-pslf).

[9] *Public Service Loan Forgiveness: Education Needs to Provide Better Information for the Loan Servicer and Borrowers,* GAO-18-547 (Washington, DC: GAO, 2018), https://www.gao.gov/assets/700/694304.pdf.

[10] Elizabeth J. Akers and Matthew M. Chingos, *Are College Students Borrowing Blindly?* (Washington, DC: Brookings Institution, 2014).

employment and loans. The lack of any reasonable estimation method has left the press and Congress to focus on the fact that 99 percent of applications were rejected, and not on why they were rejected.

A review of the program's requirements suggests that the number of borrowers who are currently eligible for forgiveness may be small. To be eligible, borrowers would have had to be in repayment by 2009 (and have either only borrowed Direct Loans or consolidated them into one), work more or less continuously in the public sector for 10 years, maintain enrollment in an income-driven or standard plan for this period (or a different plan and meet TEPSLF's payment requirements), and make consistent on-time payments. All of this is determined retroactively, potentially sowing confusion among borrowers who can spend years thinking they are eligible before learning they are not.

The available data suggest relatively few borrowers would meet this requirement. Data that are regularly published by the Department of Education indicate that just over 600,000 borrowers have made qualifying payments under PSLF, and two-thirds of those have 24 or fewer months of qualifying payments.[11] As time passes, more borrowers will surely meet the 120 qualifying payment requirement and become eligible for PSLF or TEPSLF.

A 2019 GAO report accessed useful servicer data on TEPSLF applications but focused on the share of applications approved (1 percent) rather than attempting to estimate the share of eligible borrowers who were able to access the program.[12]

Seventy-one percent of TEPSLF applications were denied because the borrower had not yet submitted an application for PSLF (although, with an average of TEPSLF 1.35 applications per borrower in the GAO data, it is likely that some applicants tried again after being denied for PSLF). No additional information is made available on these applicants, although the servicer data may contain information that would be useful to measure the success of the program, such as whether applicants have been in repayment for 10 years and whether they made at least 120 on-time payments.[13]

The GAO report provides useful data on why most TEPSLF applications were denied. Of the 16,116 TEPSLF applications that did meet the requirement of first applying for PSLF, 35 percent had not been in repayment for 10 years, 19 percent failed to meet the payment size criteria set by Congress, 13 percent made less than 120 qualifying payments, 11 percent did not have eligible federal loans, 8 percent did not provide requested income information, 8 percent had less than 120 months of qualifying employment, and 2 percent were rejected for other reasons. Only 4 percent of these applicants were approved for TEPSLF.

[11] "Public Service Loan Forgiveness (PSLF) and Temporary Expanded PSLF (TEPSLF)," Deck 22 from the 2018 FSA Training Conference for Financial Aid Professionals, Atlanta, November 26–30, available at https://fsaconferences.ed.gov/2018sessionlist.html.

[12] *Public Service Loan Forgiveness: Improving the Temporary Expanded Process Could Help Reduce Borrower Confusion*, GAO-19-595 (Washington, DC: GAO, 2019), https://www.gao.gov/assets/710/701157.pdf.

[13] It would also be useful to know, of the applicants initially deemed potentially eligible for TEPSLF, how many were already in IDR (for the last 12 months) versus how many needed to submit income information to assess their eligibility. One might expect that borrowers would be more likely to be eligible if they were currently in IDR but had made some payments under a noneligible plan in the past. But a bounding exercise based on the data in the GAO report suggests that no more than 13 percent of applicants who met the initial set of requirements (being denied for PSLF) were in IDR for at least the past 12 months.

Servicing errors may mean that some number of these applicants are in fact eligible, but the bottom line is that, based on the findings in the GAO report, most borrowers who are applying for TEPSLF are most likely ineligible. The data analyzed by GAO show rampant confusion among borrowers about their eligibility for TEPSLF, consistent with the 2018 GAO report on PSLF. Some TEPSLF applicants who did not first apply for PSLF are likely eligible. But even if the eligibility rate for this group is twice that of the group of borrowers who followed the requirement of first applying for PSLF (8 percent versus 4 percent), the overall eligibility rate would only rise to 7 percent.[14]

Reforming PSLF for Future Borrowers

The GAO report on TEPSLF makes some recommendations for how to better communicate about the program to borrowers. But the hard truth is that a program as complex as TEPSLF is likely to continue to be confusing, as evidenced by borrower confusion about the PSLF program, which has been in place for much longer.

In addition to creating confusion, PSLF is likely to distribute large sums of money—an average of $59,000 forgiven per borrower—in a poorly targeted manner. [15] The largest benefits do not necessarily go to the neediest borrowers or those who contribute most to the public good, but to borrowers with the largest debts (typically from graduate school)[16] who know how to navigate the system by obtaining the right kind of loan (consolidating at the right time), picking the right repayment plan, working for the right employer, and even filing their taxes the right way.[17] What's more, borrowers expecting to go into public service face strong incentives to take on significant amounts of debt, even if they do not need to.[18]

A program like PSLF/TEPSLF could be more effectively administered if the onus was on the government rather than borrowers to measure eligibility. For example, Congress could consider modifying the program to simplify eligibility rules and provide forgiveness using administrative data rather than a cumbersome application process that is expensive to administer and only rewards borrowers who can navigate it (and provides additional benefits to those who misrepresent their income or family size).[19]

IRS data could be used to forgive a set percentage or amount of debt (e.g., 10 percent or $5,000) each year a borrower has W-2 wage income with an eligible employer and total income under a chosen threshold.

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[14] Over time, the approval rate may increase as borrowers learn about program requirements and more pass the threshold of 120 qualifying payments and months of employment.

[15] Taken from the March 2019 PSLF report, available at "Public Service Loan Forgiveness Data," US Department of Education, Office of Federal Student Aid, accessed September 17, 2019, https://studentaid.ed.gov/sa/about/data-center/student/loan-forgiveness/pslf-data. The average balance forgiven per borrower in TEPSLF is about $41,000. See Government Accountability Office, *Improving the Temporary Expanded Process Could Help Reduce Borrower Confusion* (Washington, DC: Government Accountability Office, 2019), https://www.gao.gov/assets/710/701157.pdf.

[16] *Higher Education: Characteristics of Graduate PLUS Borrowers,* GAO-18-392R (Washington, DC: GAO, 2018), https://www.gao.gov/assets/700/691308.pdf.

[17] Under some income-driven plans, married borrowers make different payments depending on whether they file jointly or separately.

[18] Jason Delisle and Alexander Holt, *Zero Marginal Cost: Measuring Subsidies for Graduate Education in the Public Service Loan Forgiveness Program* (Washington, DC: New America, 2014), https://na-production.s3.amazonaws.com/documents/zero-marginal-cost.pdf.

[19] *Federal Student Loans: Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans,* GAO-19-347 (Washington, DC: GAO, 2019), https://www.gao.gov/assets/700/699968.pdf.

All borrowers would be eligible, regardless of loan type or repayment plan (the income data on tax returns would be used for targeting in place of the complicated loan repayment system), and the program would help borrowers reduce their balance each year they are in public service.[20] Congress could keep the current expansive definition of public service or more narrowly target the program, as in existing programs for public-interest lawyers and nurses in high-need areas.[21]

There would be significant start-up costs to put such a program in place, but it could treat similarly situated borrowers equally and might cost less to administer over time. Rather than borrowers submitting paperwork to their servicer over a decade and having payments manually counted, the benefit would be provided automatically to all eligible borrowers—including those who cannot figure out how to navigate the current system.

An alternative that preserves the current structure of the program is to further expand eligibility for the program to additional loan types and repayment plans. But this would be unlikely to make the program easier to navigate for most borrowers (as the TEPSLF experience shows), and would likely make it much more expensive and tilted toward higher-income borrowers (e.g., if borrowers were not required to have made payments at least as great as they would have made in an income-driven plan).

A third option is to shift the resources currently dedicated to PSLF—as much as $5 billion per year—to alternative policies aimed at the same goal.[22] In my view, a student loan forgiveness program is a poor vehicle for incentivizing public service. Efforts to reward socially valuable employment such as social work or teaching would likely be better accomplished through carefully tailored wage subsidies, or through targeted scholarship programs that reduce students' need to borrow in the first place.

A targeted grant program can have a larger effect on whether students go into public service than a loan forgiveness program. A 2009 study found that law students who received a scholarship in exchange for agreeing to go into public service were 36–45 percent more likely to take a public-interest job than students who received a financially equivalent offer of loan forgiveness (instead of tuition assistance).[23] Such a program could also be targeted to students from disadvantaged backgrounds, but prior experience with the

[20] Forgiving some debt each year would be less targeted than forgiving more debt after 10 years of public service to the extent that some borrowers would qualify in earlier years before going on to make high incomes in later years (e.g., doctors who obtain loan forgiveness while they are in residency). An alternative approach would be for servicers to gather borrowers' income and employment data from the IRS and then provide forgiveness after multiple years of working in public service at low or modest income.

[21] These are the John R. Justice Program (https://www.bja.gov/ProgramDetails.aspx?Program_ID=65#horizontalTab2) and the Nurse Corps Loan Repayment Program (https://bhw.hrsa.gov/loans-scholarships/nurse-corps/loan-repayment-program/determine-eligibility-and-apply).

[22] The president's 2020 budget estimates savings of $53 billion over 10 years from eliminating PSLF. See Executive Office of the President, *A Budget for a Better America* (Washington, DC: Government Printing Office, 2019), https://www.whitehouse.gov/wp-content/uploads/2019/03/msar-fy2020.pdf. The Congressional Budget Office estimates total savings of $23 billion. See Congressional Budget Office, "Federal Education Program—CBO's Estimate of the President's Fiscal Year 2020 Budget" (Washington, DC, Congressional Budget Office, 2019), https://www.cbo.gov/system/files/2019-05/55207-education.pdf.

[23] Erica Field, "Educational Debt Burden and Career Choice: Evidence from a Financial Aid Experiment at NYU Law School," *AEJ: Applied Economics* 1, no. 1 (2009): 1–21, https://www.doi.org/10.1257/app.1.1.1.

TEACH grant program suggests it may be best to trust that recipients will go into public service rather than convert their grant into a loan if they do not.[24]

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In conclusion, many of the challenges of implementing PSLF and TEPSLF stem from the complex design of these programs. Discussions of how to improve the administration of PSLF/TEPSLF should be accompanied by careful consideration of how the underlying programs might be reformed to reduce confusion and make them work better for both borrowers and taxpayers.

The Department of Education should continue to work with servicers to improve the implementation of these programs and better communicate information to borrowers. But it is important to acknowledge the real constraints imposed by the program's design and take steps to address them for future borrowers.

Thank you for the opportunity to testify today. I look forward to answering any questions.

[24] Jason Delisle and Alexander Holt, "The Tangled World of Teacher Debt," *EducationNext* 17, no. 4 (2017): 42–48.