BPC Action

Restructuring Public Service Loan Forgiveness

The Public Service Loan Forgiveness program, or PSLF, offers loan forgiveness on borrowers' remaining balances after 10 years of payments. Eligibility is limited to borrowers who are employed by the government or qualifying nonprofits.

THE PROBLEM

In its current form, PSLF provides a disproportionate subsidy to borrowers with large loan balances, who also tend to have higher earnings. Furthermore, the program does nothing to support borrowers at the beginning of their careers, when incomes tend to be at their lowest. Additionally, complex requirements have led to a 99% rejection rate among borrowers expecting to have their remaining balances forgiven.

RECOMMENDATION

We recommend restructuring PSLF so that it provides eligible borrowers with a flat benefit of $300 per month for up to five years (60 months). For those whose monthly loan payments are less than $300, the remaining balance would be used to pay down principal and interest accruals.

This proposal would best be paired with increased data sharing between the IRS and Department of Education. Data sharing would allow for back-end employment and income verification, reducing compliance burdens and enabling the borrower's loan servicer to receive payment directly from the Department of Education.

RATIONALE

Compared to high-balance borrowers, those with less than $5,000 in debt are the most likely to default during their first four years of repayment. A flat monthly benefit would support workers at the start of their careers, when earnings are at their lowest and borrowers often struggle the most. The new approach would also be more progressive than the current system, as it would no longer disproportionately subsidize high-balance borrowers. This reformed benefit would cover the entire monthly loan payment for up to five years for eligible borrowers on income-driven repayment who earn less than $54,000 a year (regardless of their level of outstanding debt). Finally, the back-end verification from data sharing would reduce the complexity and red tape that characterize the current system. Income and employment for eligible borrowers could be automatically verified, resulting in higher levels of program uptake.

@BPCAction
facebook.com/BPCAction

BPC Action

bpcaction.org | 202 - 204 - 2400
1225 Eye St NW, Suite 900 | Washington, DC 20005