



Public Service Loan Forgiveness

February 2009




College Cost Reduction and Access Act

- Public Service Loan Forgiveness
- Income-Based Repayment



Public Service Loan Forgiveness

- The balance of principal and interest on eligible Federal Direct Loans is canceled by the federal government after:
 - 120 qualifying loan payments while working full-time in a qualifying public service position after October 1, 2007.



**Example: Typical Recent Graduate
IBR with Loan Forgiveness for
10 Years in Public Service**

- \$100,000 eligible debt - \$40,000 starting salary with 4% annual increases.

– IBR monthly payment year 1:	\$305
– IBR monthly payments year 10:	\$457
– Total paid over 10 years:	\$45,211
– Total forgiven by federal government:	\$122,789



Qualifying Employment



**What is Qualifying
Public Service Employment?**

- a full-time job in emergency management, government, military service, public safety, law enforcement, public health, public education (including early childhood education), social work in a public child or family service agency, public interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at an organization that is described in section 501(c)(3) of the IRS Code and exempt from taxation, or teaching as a full-time faculty member at a Tribal College or University and other faculty teaching in high-needs areas, as determined by the Secretary



What Counts as a Government Job?

- Government employment includes work for:
 - local, State, Federal, and Tribal governments
 - government organizations, agencies, and entities
 - but **not** service as a member of the U.S. Congress



What Counts as a "Public Service Organization"?

- The organization provides specific listed services including "public interest law services" **and**:
 - gets at least *some* government funding **and**;
 - is not "a business organized for profit, a labor union, a partisan political organization, or an organization engaged in religious activities..."



What is Qualifying Public Service Employment?

- Full-time, paid work for:
- the government,
 - a 501(c)(3) non-profit,
 - in an AmeriCorps position,
 - in the Peace Corps, or
 - for a private "public service organization"



Definition of "Full-Time"

- Working in qualifying employment in one or more jobs for the greater of—
 - An annual average of at least 30 hours per week, or
 - For a contractual or employment period of at least 8 months, an average of 30 hours per week; or
 - Unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time.



Eligible Loans



FFEL and Federal Direct Loans

Students borrow:

- Stafford Loans, subsidized and unsubsidized
- GradPlus Loans
- Federal Consolidation Loans

From either of the two major federal student loan programs:

- Federal Family Education Loans (FFEL)
- Federal Direct Loans



Public Service Loan Forgiveness for Federal Direct Loans ONLY

- Borrowers with FFEL Loans **MUST** consolidate with Direct Loans to earn PSLF.
- Borrowers with FFEL Consolidation Loans have a new right to reconsolidate into Federal Direct in order to participate in PSLF (effective July 1, 2008).
- <http://loanconsolidation.ed.gov/borrower/bapply.shtml>



Commercial and Alternative Student Loans Are NOT Eligible

- Loans made by a state or private lender that are not FFEL Loans are not eligible for Income-Based Repayment or Public Service Loan Forgiveness.
- Graduates borrowing before 2006 are likely to have commercial loans.



How Do People Find Out What Kinds of Loans They Have?

- National Student Loan Data System:
<http://www.nslds.ed.gov/>
- Federal Student Aid Information Center:
1-800-4-FED-AID
- AnnualCreditReport.com



Perkins Loans are Special

- Federal Perkins Loans are only eligible when part of a Federal Consolidation Loan, and borrowers are urged to seek advice about the pros and cons regarding consolidating Perkins loans.



Parent PLUS Loans are Excluded

- Parent PLUS loans are not eligible for Income-Based Repayment or Loan Forgiveness for Public Service.
- Beware of including Parent PLUS loans in a Federal Consolidation Loan.




Which Loans Are Eligible for Public Service Loan Forgiveness?

- Any outstanding loan made to a borrower under the Direct Loan program except:
 - a defaulted loan,
 - a Direct PLUS Loan made to a parent borrower, or
 - a Direct Consolidation Loan that repaid a FFEL or Direct PLUS Loan made to a parent borrower.




Qualifying Payments




What is a Qualifying Loan Payment?

- A person must be working **full-time** in an eligible public service position AND making monthly loan payments for 120 months on eligible Federal Direct Loans as part of:
 - Income Contingent Repayment (ICR) plan, or
 - Income Based Repayment (IBR) plan (available July 2009), or
 - A standard 10-year repayment plan, or
 - At least the monthly amount required under Standard Repayment over a 10-year repayment period.



What is NOT a Qualifying Loan Payment?

- These payments do NOT count toward the 120-month requirement:
 - Payments made under a fixed term repayment plan with a term of more than 10-years
 - Payments made while not working in full-time qualifying public service employment
 - Payments made on non-qualifying loans (e.g., FFEL loans, commercial loans, Parent PLUS loans)



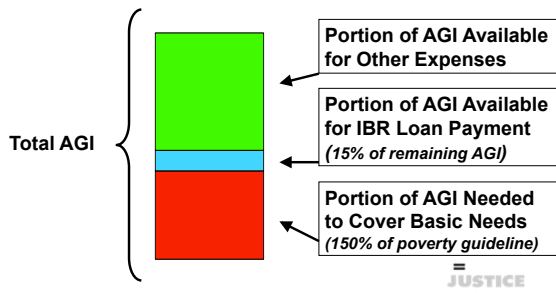
Income-Based Repayment (IBR)

A new repayment plan in which annual payments are capped at 15% of "discretionary income."

"Discretionary income" is defined as the amount by which adjusted gross income (AGI) exceeds 150% of poverty.



Portion of AGI Available for IBR Loan Payment



Source: Jeffrey E. Hanson, PhD, Director, Borrower Education Services, Access Group Inc.



Income-Based Repayment (IBR)

- IBR becomes available on July 1, 2009.
- IBR will be available for people with a "Partial Financial Hardship".



Who Has a Partial Financial Hardship?

	Eligible Debt		Eligible Debt
	\$15,951		\$64,830
	\$21,382		\$70,261
	\$26,813		\$75,692
	\$32,244		\$81,123
	\$37,675		\$86,554
	\$43,106		\$91,985
	\$48,537		\$97,416
	\$53,968		\$102,847
	\$59,399		\$108,278

Source: Jeffrey E. Hanson, PhD.
 Director, Borrower Education Services
 Access Group, Inc.



What If You're Married?

- A married borrower **must file a separate Federal income tax return** for IBR payment amount to be calculated on the basis of the *borrower's* adjusted gross income, rather than on the combined income of the borrower and the spouse.
- There are disadvantages to filing separately:
 - Ineligibility for credits and deductions related to child and dependent care, tuition, and student loan interest payments.
 - Higher tax rate



Income-Based Repayment (IBR)

- If a borrower chooses to leave IBR or no longer qualifies, his required payments will not exceed the amount he would have paid each month under a standard plan before he chose IBR.
- IBR has its own forgiveness provision after 25 years.



Tax Consequences

- 10-year Public Service Loan Forgiveness
 - The amount cancelled is **not** taxable income.
 - Clarified by letter from the Department of Treasury to Members of Congress on September 19, 2008.
- 25-year Income-Based Repayment Loan Forgiveness
 - Taxable under current law.



Higher Education Reauthorization and College Opportunity Act of 2008: P.L. 110-315

- **The John R. Justice Prosecutors and Defenders Incentive Act**
\$10,000 per year in exchange for a one time renewable three-year commitment for state and local prosecutors and public defenders.
- **The Legal Assistance Loan Repayment Program**
\$6,000 per year in renewable three year commitments to a maximum of \$40,000 for civil legal assistance lawyers.




Beware of Anti-Double Benefit Provision

- The Legal Assistance LRAP for civil lawyers (but not the prosecutor/defender LRAP) states:

(g) Ineligibility for Double Benefits- No borrower may, for the same service, receive a reduction of loan obligations under both this section and section 428K or 455(m).
 - Loan Forgiveness for Service in Areas of National Need 428(k)
 - CCRAA Public Service Loan Forgiveness 455(m)




Real World Examples




Example: Hypothetical 1998 Graduate

- \$65,000 starting eligible debt. Paid \$455 fixed monthly payments for first 10 years
- Has paid \$54,554 principle and interest so far, has \$51,049 remaining eligible debt
- \$69,266 estimated current salary (\$40,000 with 4% annual increases)
- Ineligible for IBR. Will make \$455 monthly payments for 15 more years – no loan forgiveness



Example: Hypothetical 2003 Graduate
IBR with Loan Forgiveness for 10 More Years in Public Service

- \$65,000 starting eligible debt. Paid \$455 fixed monthly payments for first 5 years.
- Has paid \$27,277 principle and interest so far, has \$59,556 remaining eligible debt.
- \$48,666 estimated current salary (\$40,000 with 4% annual increases).
 - IBR monthly payment year 1: \$413
 - IBR monthly payments year 10: \$611
 - Total paid over next 10 years: \$60,818
 - Total forgiven by federal government: **\$32,646**



**Example: Hypothetical 2009 Graduate
IBR with Loan Forgiveness for
10 Years in Public Service**

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More Information

- These slides and more from Heather at: EqualJusticeWorks.org
- Schrag, Philip G., "Federal Student Loan Repayment Assistance for Public Interest Lawyers and other Employees of Governments and Nonprofit Organizations". Hofstra Law Review, Vol. 36, Fall 2007.
- Calculators available at: IBRinfo.org and Finaid.Org/calculators





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