August 2013

Public Service & Student Debt

Analysis of Existing Benefits and Options for Public Service Organizations

Consumer Financial Protection Bureau

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Introduction: Managing Student Loan Debt

It has become the norm for seniors to graduate from America's four-year colleges and universities with student debt. The average debt load for graduating seniors has grown substantially over the past decade.[1] However, new graduates are not necessarily earning more than graduates 10 years ago. In fact, wages for college graduates have actually declined when adjusting for inflation.[2]

Many young consumers are concerned about their ability to manage their private student loan debt. Some borrowers say they are drastically reducing consumption or living with their parents to save on housing costs to avoid delinquency on private student loans.[3]

Borrowers also describe the impact of their student debt on their career choices.[4] In effect, student debt may be driving young graduates away from lower-paying public service careers in favor of more lucrative work in the private sector. Some have raised concerns that student debt is exacerbating existing workforce shortages in public schools, hospitals and in rural communities.

One important way that private student loan borrowers can better manage their overall financial burdens is to take advantage of available loan repayment programs on their federal student loans. Reducing payments on federal student loans frees up cash to put toward other obligations including higher-rate private student loans. In this report, we discuss some of these student loan repayment programs.

Recognizing that many graduates are seeking to pay off student loans, many employers have established loan repayment programs over the past decade to attract and retain talent. In 2007, Congress created an additional loan forgiveness program for those pursuing careers in public service.

Some of these programs have overlapping benefits and provisions. Existing programs designed to provide benefits to borrowers working in public service may force borrowers to make trade-offs between smaller, immediate benefits and the prospect of larger, all-or-nothing benefits after a fixed period of compliance with specified program requirements. This complexity can cause confusion and uncertainty for borrowers pursuing public service.

Based on our analysis of various labor data, we find that the portion of the labor force employed in positions meeting the statutory definition of "public service" is substantial – more than a quarter of the workforce may be engaged in public service as defined by Congress. Public service employers can play a critical role in ensuring borrowers maximize these benefits by serving as a trusted source of information for their employees and assisting borrowers in navigating various programs.

These benefits may prove to be valuable tools to help borrowers manage their debt. In addition, employers with existing loan repayment programs can achieve a higher impact if they tailor their programs to complement existing benefits.

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[1] Trends in Student Aid 2012, The College Board (2012). See http://trends.collegeboard.org/student-aid/figures-tables/average-debt-levels-public-sector-bachelors-degree-recipients-over-time.
[2] National Center of Education Statistics: Digest of Education Statistics, Table 395, Median annual earnings of year-round, full-time workers 25 years old and over, by highest level of educational attainment and sex: 1990 through 2010 (2011).
[3] Consumer Financial Protection Bureau, *Report on Student Loan Affordability* (2013).
[4] Ibid.

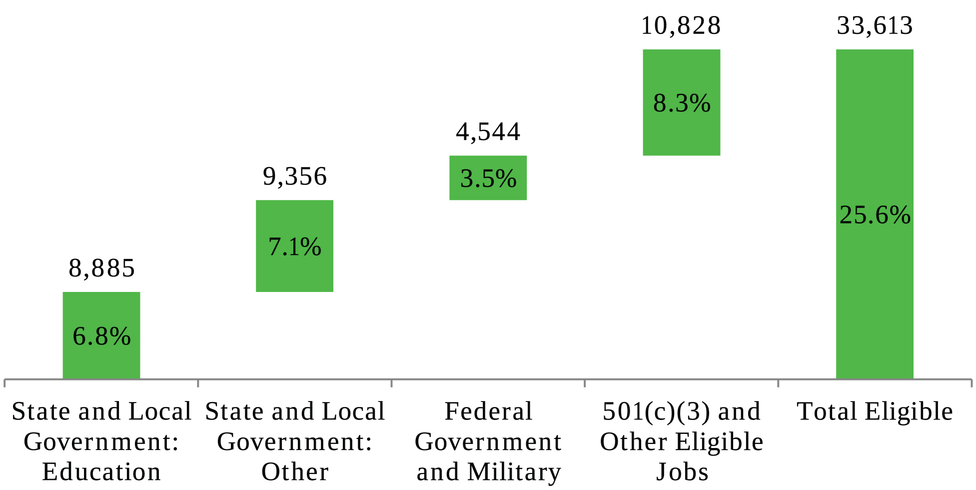
Part One: Much of the Labor Force is Working in "Public Service"

The popular conception of public service may be much narrower than Congress prescribed when establishing student loan repayment programs for public service employees. The American economy has changed significantly over the last decade, with employment growth in the service sector far outpacing that in the manufacturing sector. For example, the share of private workforce employment in the health and education sectors has grown 9.3 percent in the last decade.[5]

For the purpose of one federal loan forgiveness program,[6] Congress defines an eligible employee as one who is employed with a federal, state, or local government agency, entity or organization, or a non-profit that has been designated as a 501(c)(3) tax-exempt organization.[7] In other words, the type of employer – not the type of work – determines eligibility.

Because the definition is tied to the type of employer, tens of millions of people are working in public service. We estimate that over 25 percent of the labor force is engaged in "public service" as defined by Congress.[8]

CFPB ESTIMATES OVER 25% OF LABOR FORCE IN PUBLIC SERVICE
Workers in Thousands, Percent of Total Labor Force, July 2010



Source: Bureau of Labor Statistics, JHU Nonprofit Economic Data Project, Department of Defense

Consider a social worker graduating with $50,000 in loans and an income of $35,000. If he is working as at a local government social services agency, he will benefit from various assistance programs assuming he meets the other program requirements. If he carries the same debt load and earns a similar salary as a social worker at a small private practice, he would likely not qualify

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[5] Bureau of Labor Statistics, Current Employment Statistics Survey (National), Establishment Data, July 2010.
[6] 20 USC §1087e(m).
[7] Congress stipulates that time spent participating in religious instruction, worship services, or any form of proselytizing, or employed at a labor union or a partisan political organization is not considered full time public service employment for the purposes of Public Service Loan Forgiveness.
[8] See Appendix.

for the Public Service Loan Forgiveness program or other repayment assistance offered to social workers working in public service.

It is important to note that the 10 years of public service required under the Public Service Loan Forgiveness program need not be consecutive. A borrower who works for a public service employer for five years, then leaves for a position in the private sector but returns to a public sector employer and completes another five years of public service would still meet the public service work requirement.

No data indicating level of indebtedness by sector is currently publicly available. It is worth noting that millions of public service workers are employed in sectors – such as education, public safety, and healthcare – that require some form of post-secondary education.

Part Two: Loan Repayment for Public Service Employees

Special Benefits for Servicemembers, Teachers, First Responders and Other Public Servants

Over time, lawmakers have created a number of specific benefits designed to assist student loan borrowers who pursue certain public service professions.

For members of the armed forces serving on active duty, the Servicemembers Civil Relief Act (SCRA) permits a servicemember to request an interest-rate reduction to six percent for financial obligations incurred prior to entry onto active duty.[9] While this provision has always applied to private student loans, the Higher Education and Opportunity Act of 2008 extended it to federal student loans.

To qualify for the benefit, a servicemember must have entered into the financial obligation prior to entry onto active duty. The request for the rate reduction may be submitted at any time during a servicemember's active-duty service, and up to 180 days after completion of active duty. After receiving a valid request, the servicer must refund any interest charges in excess of the six-percent rate cap, dated from the servicemember's receipt of orders calling her onto active duty.

For borrowers with loans made under the federal Perkins Loan program, a range of specified benefits exists depending on the type and duration of public service performed.[10] Generally, following the completion of each year of service, a certain percentage of outstanding Perkins Loan debt is reduced. As a borrower continues to pursue a specified public service occupation, additional debt is cancelled. In general, a borrower will have his or her full Perkins Loan balance forgiven after five years.

Congress also established a separate benefit for certain "highly qualified" teachers working in schools where more than 30 percent of students receive a free- or reduced-price lunch.[11] These teachers may receive $5,000 in loan forgiveness after the completion of five consecutive years of service. For certain secondary school teachers, this benefit increases to $17,500.

At the state level, a broad array of student loan repayment incentives has been established to attract and retain certain types of public service professionals, including physicians practicing in rural areas, nurses, social workers, teachers and others.[12] These benefits may be made directly to the borrower or made to the borrower's loan servicer on his or her behalf. The size of these awards varies by state.

In some cases, these benefits may be able to work in concert with each other and with other federal benefits. In the following sections, this report discusses some of the opportunities and obstacles for borrowers seeking to navigate the benefits available through these programs.

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[9] For a detailed discussion of specific benefits for servicemembers, see Consumer Financial Protection Bureau, *The Next Front: Student Loan Servicing and the Cost to our Men and Women in Uniform* (2012).
[10] 20 USC §1087ee.
[11] 20 USC § 1078-10.
[12] See, for example, the Mississippi Teacher Loan Repayment Program (Mississippi), the Janet L. Hoffman Loan Assistance Repayment Program (Maryland), Physicians for Rural Areas Assistance Program (Georgia).

Benefits for All Employees in Public Service

The College Cost Reduction and Access Act of 2007 established the Public Service Loan Forgiveness program, providing for forgiveness of unpaid loan balances on federal Direct Loans after 10 years of public service.[13]

Unlike some other programs, this benefit is "all or nothing." In other federal loan programs, Congress offers benefits for specific activities, generally on an annual basis. For example, teachers employed in schools serving underserved populations can get a partial principal reduction each year for certain types of loans. Borrowers employed with a public service entity for fewer than 10 years will not receive loan forgiveness.

Private student loans and many federal student loans are not eligible for forgiveness under this program. There are also significant payment program requirements.

Type of loan. Only federal Direct Loans – that is, those originated by the Department of Education – qualify for forgiveness under the program. However, a borrower with other federal student loans can become eligible for the benefit by taking additional action.

For example, federally guaranteed student loans originated under Federal Family Educational Loan (FFEL) and the Perkins Loan programs are not eligible for loan forgiveness. Borrowers with these loans must refinance ("consolidate") these federal loans into a new Direct Loan to qualify.

Prior to 2010, many federal student loans were originated by private lending institutions (banks) under the FFEL Program. Due to a recent change by Congress, all new federal student loans are made through the Direct Loan program. In effect, millions of new federal student loan borrowers now hold loans eligible for loan forgiveness.

Type of payment program. Most federal student loan borrowers can choose from a number of available repayment plans.

The standard repayment plan amortizes the borrower's unpaid principal and interest over 120 months. Generally, payments under the 10-year standard repayment plan qualify for loan forgiveness, but, alone, will not allow a borrower to realize any savings.[14]

For example, a registered nurse graduates with $20,000 in federal Direct Loans and accepts a position at a public hospital. As an employee at a public hospital, she could be eligible for Public Service Loan Forgiveness after 120 qualified, on-time monthly payments. Unless she specifies otherwise, she will automatically be placed in a standard 10-year repayment plan when she enters repayment. Assuming she pays her bill on-time and in full each month, she will have satisfied the minimum requirements for loan forgiveness after 10 years. She will also have repaid her loans in full, leaving no remaining balance to be forgiven.

This program generally produces savings for the borrower when used in concert with one of the alternative payment plans that limit a borrower's monthly payment based on their income. The Income-Based Repayment plan will generally produce the greatest benefit for most borrowers.[15]

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[13] P.L.110-84.

[14] Any monthly payment remitted can also qualify when the payment amount equals or exceeds what a borrower would pay under 10-year standard repayment plan.

[15] Borrowers who enroll in Income-Based Repayment (IBR) or Income-Contingent Repayment (ICR) can cap their monthly payments at a percentage of their income. IBR and ICR payments qualify toward the 120 payments needed for loan forgiveness. For recent borrowers who are eligible, Pay As You Earn (PAYE) may be an even better option, providing lower monthly payments than the other income-driven options.

Income-Based Repayment allows a borrower to lower her monthly payment by capping the payment amount at a percentage of discretionary income.

In effect, each lower monthly payment made under Income-Based Repayment reduces the short-term burden caused by student debt and produces a remainder – the difference between the income-based payment amount and the standard payment amount. It is this remainder – which grows with each income-based payment – that is eligible for forgiveness after 10 years (120 qualifying payments).[16]

It is important to remember that some borrowers can also lower their monthly payment through the "extended" or "graduated" repayment plans; however, payments made under these plans are not considered qualifying payments.

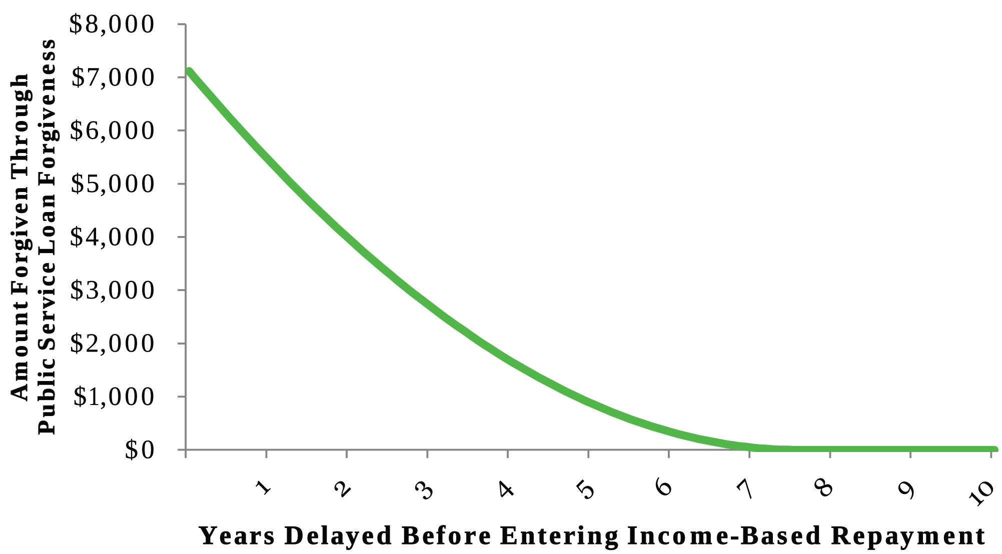
The Connection to Income-Based Repayment

If borrowers work in public service but are enrolled in the standard 10-year repayment plan, they will not have any remaining balance to be forgiven. In general, only borrowers who are on a qualified payment plan paying *less* than the standard payment will have a remaining balance.

If a borrower's salary increases over time, this increases the importance of enrolling in Income-Based Repayment as soon as possible. Consider a teacher with a master's degree in education and $25,000 in graduate Stafford loans. This teacher works for a school district serving middle-income families and makes an average salary with average wage growth.

As the chart below illustrates, the total savings realized by the teacher after 10 years of qualified, on-time monthly payments is substantially higher when she enrolls in Income-Based Repayment earlier in her career – in effect, each month prior to enrollment in Income-Based Repayment is a missed opportunity to maximize public service student loan repayment benefits.

PUBLIC SERVICE LOAN FORGIVENESS BENEFIT OVER TIME
Based on Date of Income-Based Repayment Enrollment



Note: Assumes $34,000 starting salary, starting debt of $25,000 and 4.0% wage growth

[16] Private student loans do not qualify for federal loan repayment options, like IBR. A borrower's private student loan debt is not taken into account when IBR eligibility or payments are determined.

Timing is important for borrowers seeking forgiveness under the program, as are the type of loan and the type of payment plan. Student loan borrowers who work in public service making payments on an ineligible loan or on an ineligible payment plan will effectively eliminate their potential benefit under the program.

Potential Dilemmas for Perkins Loan Borrowers

Congress established a number of principal reduction benefits for the federal Perkins Loan program. As described above, most of these benefits impact employees working in specific types of public service occupations, such as teachers, education service providers, servicemembers, firefighters, law enforcement and corrections officers, nurses, public defenders, librarians and peace corps volunteers. For example, teachers with Perkins Loans working for school districts in underserved areas can receive annual principal reduction at the completion of each school year. In contrast, active-duty servicemembers serving in an "area of hostility" are eligible for principal reduction at the completion of a full calendar year of service.

Perkins loans borrowers who are eligible for these benefits face a dilemma when considering Public Service Loan Forgiveness. For example, a servicemember can choose to refinance ("consolidate") his Perkins Loan with his other federal student loans in order to obtain a qualifying Direct Loan, and then enroll in Income-Based Repayment and progress toward Public Service Loan Forgiveness.

However, consolidating his Perkins loan precludes that servicemember from realizing any principal reduction for which he might be eligible. If the borrower is concerned that he will not meet the 10-year public service requirement under Public Service Loan Forgiveness, he can keep making payments on the Perkins Loan and apply for annual principal reduction.

Other Considerations for Teachers in Low-Income Schools

Some teachers in certain schools may face a similar dilemma. Receipt of a benefit under the teacher loan forgiveness program described above disqualifies borrowers from counting the same period of service under Public Service Loan Forgiveness. Teachers that qualify must make a choice between an immediate, defined benefit at the completion of this required period of service and a potentially greater amount of loan forgiveness after 10 years.

Although some teachers may be forced to choose between two benefits worth thousands of dollars, they need not make this decision until the point-in-time at which they are eligible to receive the benefit – a minimum of five consecutive years of service for teacher loan forgiveness.

Unlike the dilemma faced by public servants with Perkins loans, all teachers may take the first steps toward qualifying for Public Service Loan Forgiveness without impacting their eligibility for this other benefit.

These are just illustrative examples of this potential dilemma. Borrowers serving in other public service professions face the same uncertainty when choosing between multiple, mutually exclusive public service benefits.

Part Three: Loan Repayment Programs Offered by Employers and by Schools

There are a number of loan repayment programs established by employers to assist borrowers with student loan repayment. Loan Repayment Assistance Programs (LRAPs) vary in size and scope and are distinct from other benefits for student loan borrowers. The terms and conditions of a given LRAP are set by the entity offering assistance, rather than through a government program available to all borrowers. Below, we discuss some attributes commonly associated with these benefits.

Employer Programs

While many employers in the private sector provide for some sort of loan repayment assistance, public sector programs are particularly noteworthy. Some public service employers offer loan repayment assistance incentives as a way to recruit and retain candidates to positions with low compensation relative to those in the private sector or to a candidate's outstanding student debt.

Benefits may be awarded either directly to the borrower as additional cash compensation or may be paid directly to the student loan servicer, either on a monthly basis or upon completion of an agreed-upon period of public service.

Employers cite that student loan repayment programs can help differentiate their organizations from other employers. Generally, employers do not receive a tax advantage by providing additional compensation through student loan repayment when compared to cash compensation.

Active-duty servicemembers

The Department of Defense offers a number of student loan repayment programs, typically offered as a recruitment incentive. These benefits vary depending on the branch of service and the assigned occupation of an individual servicemember. Generally, each branch is authorized to offer up to $65,000 in total federal student loan payments to active-duty, enlisted servicemembers.

Payments are usually disbursed as a lump-sum cash benefit at the completion of each year of eligible service. Only enlistees without prior military service are eligible for this benefit, and, usually, they must serve on active duty for at least one year before this benefit is awarded.

Some military loan repayment programs only allow payments to be applied to the principal amount at origination. Borrowers are responsible for working with their servicer to certify the original principal balance before receiving any benefits.

National service through the AmeriCorps Program

Upon successful completion of national service through AmeriCorps, volunteers are eligible to receive a lump-sum benefit to assist in repaying qualified student loans or a future educational expense.[17] Through this program, a lump-sum payment of a fixed amount tied to the maximum Pell grant award during the applicable period of service is set aside for employees to be received upon successful completion of their service commitment. Volunteers can elect to have this award disbursed at a future date of their choosing, either as a cash benefit remitted directly to

[17] "Segal AmeriCorps Education Award" AmeriCorps. See http://www.americorps.gov/for_individuals/benefits/benefits_ed_award_use.asp.

their loan servicer or as a continuing education benefit to pay for tuition, fees or other qualified expenses.

Civilian employees of the federal government

Some federal employees may be able to enroll in a student loan repayment program administered by their agency, subject to guidance by the Office of Personnel Management.[18] Federal agencies may offer eligible employees up to $10,000 annually in student loan repayment assistance.[19] These payments are made directly to the student loan servicer in installment or lump-sum payments. Each borrower must commit to serve a minimum of three years at the agency.

Funds may be clawed back if the employee does not meet this commitment; however, agencies have discretion to waive this requirement on a case-by-case basis.[20]

School Programs

The administration and alumni of some institutions of higher education have also established programs to assist students accruing significant debt relative to the income they might earn in the private market.

These programs vary, but the forgivable loan model is the most noteworthy. In general, the borrower applies to his or her school's program, certifying that he or she is employed in a qualified public service field and requests student loan repayment assistance. The school awards the borrower a new loan, paid to the borrower directly, and the borrower can use these funds to repay his or her existing student debt.

After successful completion of an agreed-upon period of public service, the school forgives the new loan, along with any outstanding interest or fees. Many programs permit a qualified borrower to repeat this process on a regular basis, with a cap on total assistance.

Some graduate programs advertise that expanded federal borrowing options for graduate students, coupled with targeted school-based repayment benefits and existing federal programs, can enable their alumni to avoid student loan repayment entirely. Although these arrangements may be consistent with the program requirements for existing federal benefits, these practices raise questions about whether they may indirectly contribute to rising cost of attendance, if tuition increases are used to fund these programs and if schools elect to offer similar options to a growing share of indebted graduates.[21]

Tax Consequences of Loan Repayment Programs

Generally, the cancellation of debt is treated as ordinary income and subject to federal income tax liability.[22] However, certain types of debt discharge may be excludable for tax purposes. Student loan debt forgiven through the Public Service Loan Forgiveness program is considered excludable, and participants do not face federal tax liability when a student loan is forgiven under this program.[23]

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[18] "Student Loan Repayment Assistance Program" US Office of Personnel Management. See http://www.opm.gov/oca/pay/studentloan/HTML/5USC5379.asp.
[19] The maximum lifetime benefit is $65,000 per agency, per employee.
[20] 5 USC §5379.
[21] It is worth noting that this may be particularly true for programs where the distribution of graduates' expected compensation is bi-modal. In effect, schools may be tempted to raise costs for all students, knowing that a large cluster of highly-compensated graduates will have a high tolerance for tuition inflation and that the remaining graduates will have access to a combination of benefits that may insulate them from these costs.
[22] 26 USC §61(a)(12).
[23] Publication 970, § 5, Internal Revenue Service (2012).

Employer-based programs that award a cash benefit to a borrower – such as the loan repayment programs for federal employees – are treated as ordinary income and are subject to federal income tax. These benefits may also be subject to payroll taxes paid by both the employer and employee. It is the economic equivalent of a private-sector bonus in that it provides no special tax advantage to the employer or employee.[24]

School-based forgivable loans have more favorable tax consequences for borrowers. These benefits are structured differently from the more common employer-based cash benefit and, as a result, the tax consequences for recipients differ significantly. In the case of a school-based forgivable loan, the Internal Revenue Code (IRC) allows borrowers working for government employers or for non-profit 501(c)(3) organizations that are working to meet community needs to have the forgiven amount excluded from their taxable income.[25]

The tax consequences of loan repayment programs may vary widely. Benefits that are disbursed as a lump sum tend to have a portion of the benefit withheld for tax payment. Tax withholding for programs that pay benefits in installments are usually handled in one of two ways. Borrowers may see a decrease in their after-tax wages to cover the tax on additional repayment assistance income or may have taxes withheld from their payment amount before it is sent to the loan servicer.

[24] Public sector employers offering defined contribution or defined benefit retirement plans generally exclude awards and special payments for the purposes of employer contributions to these plans.
[25] 26 U.S.C. §108(f).

Part Four: Commentary

The following section offers analysis and recommendations[26] to stakeholders, including public service employers, student loan borrowers and policymakers.

Many borrowers, particularly private student loan borrowers, face difficulties managing student loan debt. In a recent report analyzing borrower complaints, we found that many borrowers are struggling to find refinancing options to lower payments on private student loans for which they are in good standing. Those already in default on a private student loan cited challenges seeking a loan modification with their private student lender or servicer.

Student loan borrower distress may have spillovers into other parts of the economy, including the housing market. In addition, student loan default can have painful personal consequences for a young consumer seeking to progress economically.

In the context of the critical workforce shortages in education, healthcare and other public service professions and the breadth of the existing federal benefits described in this report, it is possible that the complexity of program requirements may act as a deterrent for many borrowers weighing careers in public service.

There remains a need for market participants to move with greater alacrity to address these challenges. While many financial institutions may face significant challenges in implementing solutions, other participants can make simple changes to their existing policies and programs to benefit both borrowers and themselves.

School Districts and Other Public Service Employers

Public service employers can magnify their repayment program benefit by tailoring it to complement the program established by Congress.

Like the private sector, school districts and other employers serving the public must compete for talent. A school district or other entity with a loan repayment program might be able to increase the effectiveness or reach of its benefits, at the same cost, if the program is designed to complement the Public Service Loan Forgiveness program.

There are several attributes of employer programs which may reduce a borrower's total benefit on student loans eligible for Public Service Loan Forgiveness. For example, employers making large annual lump-sum payments directly to a servicer might be making one "qualifying monthly payment" rather than twelve.

Rather than large lump sum payments remitted directly to an employee's servicer, employers might provide employees directly with one or multiple payments roughly equal to the employee's expected income-based monthly payments. The employee could remit monthly, income-based payments to his or her servicer and each of these payments would be a "qualifying payment."

This process can be relatively simple and should produce little additional administrative burden for public service employers. The employer can estimate an Income-Based Repayment benefit with no additional information, using existing resources.

[26] The commentary expressed in this section is that of the CFPB's Student Loan Ombudsman.

By tying a loan repayment assistance benefit to the maximum monthly payment a borrower would make under Income-Based Repayment, employers and schools can eliminate onerous benefit calculations and ensure that the most borrowers with the greatest need can take advantage of these benefits. This might help target finite benefit resources more efficiently. Of course, employers wishing to make payments above and beyond the income-based payment can do so with cash awards.

Employers can facilitate borrower enrollment in programs like Income-Based Repayment and Public Service Loan Forgiveness.

Public service employers can take several proactive steps to ensure their eligible employees benefit from loan forgiveness programs. Early involvement can maximize forgiveness and alleviate any distress that borrowers might face.

First, employers that meet the definition of a public service employer[27] can advise employees that they might qualify for forgiveness of certain loan types. The employer can direct borrowers to the appropriate resources if they need to refinance ("consolidate") an ineligible federal loan into a Direct Loan, as well as enroll in Income-Based Repayment.

Second, employers can also provide partially-completed certification forms to each employee annually and upon separation. Employers might request that their payroll processing provider generate these forms when sending IRS W-2s annually. If not automated, employers might train and designate specific employees to complete these forms for their eligible colleagues.

Third, employers in certain fields such as education and public safety might educate their employees about other repayment programs, such as those offered by state and local governments, or through the federal Perkins Loan program.

The CFPB has released a toolkit for public service employers in order to better equip employers to facilitate these steps.[28]

Borrowers and Borrower Assistance Organizations

Early enrollment in Income-Based Repayment can help teachers and others in public service avoid distress and potentially benefit from forgiveness programs.

Student loan borrowers may be hesitant to take a lower-paying job at a public service organization because of looming, high monthly student loan payments. These borrowers may not realize that enrolling in Income-Based Repayment will reduce their short-term obligation and allow them to benefit from Public Service Loan Forgiveness. Borrowers who cap their monthly payment at a percentage of their discretionary income through Income-Based Repayment can make manageable monthly payments on their loans while continuing to progress toward the 120 qualifying payments required to obtain forgiveness.

Even if a borrower's discretionary income increases, and he or she no longer benefits from a reduced payment through Income-Based Repayment, the early enrollment may produce substantial savings when the borrower becomes eligible for forgiveness after 10 years. By enrolling in Income-Based Repayment early, borrowers employed in public service will ensure that they obtain the maximum benefit.

[27] 20 USC §1087e(m).

[28] Public service employers can learn more about how to help their employees tackle student debt by visiting www.consumerfinance.gov/pledge.

If borrowers are uncertain about their anticipated longevity in a public service employment, enrolling in Income-Based Repayment can still put them on the path to loan forgiveness. All borrowers, regardless of their employer type, can have the remainder of their loans forgiven after 25 years in Income-Based Repayment.

Borrowers who qualify for a reduced payment through Income-Based Repayment, but who are able to make a larger payment, are faced with a dilemma: if they make larger-than-required payments, they might pay down forgivable balances. Borrowers in this situation might consider making additional payments only after accumulating emergency savings, paying off higher-rate private student loans and credit card debt, and making contributions to tax-deferred retirement plans.

Policymakers

Policymakers might assess whether loan repayment benefits for public service can be simplified.

There are many federal programs that provide incentives to student loan borrowers employed in public service professions. Some of these programs are discussed above, but there are other specialized benefits for doctors, teachers, nurses, servicemembers and a range of other public service professionals. Congress also funds separate programs available to federal employees and servicemembers.

At times, these benefits might conflict with one another, creating a legitimate dilemma for borrowers. The example of the Perkins Loan dilemma discussed in this report is the most confusing. Policymakers might consider a holistic evaluation of available public service benefits in order to more effectively leverage taxpayer funds and to ensure that individual student loan borrowers pursuing qualifying careers in public service can utilize benefits without unnecessary administrative burden and confusion.

In addition, the current structure of Public Service Loan Forgiveness sometimes treats the remittance of a large, lump-sum payment as a single qualifying monthly payment, regardless of the size of the payment. In effect, this requirement places a substantial administrative burden on employers seeking to maximize the benefit offered to employees. If an employer sought to make direct payments to an employee's student loan servicer, the employer would be required to make these payments on a monthly basis in order to comply with the terms of the program.

Agencies have recognized the administrative burden this procedure places on employers when creating special procedures for the benefit offered to volunteers under the AmeriCorps program.[29] For these public service employees, a lump-sum benefit may be remitted directly to a student loan servicer in lieu of monthly payments. For AmeriCorps volunteers, the number of "qualifying" monthly payments covered by this lump-sum benefit is determined by dividing the total benefit amount by the individual borrowers' minimum payment, not to exceed 12 qualified monthly payments.

Beyond the changes discussed above, there may be additional opportunities to further simplify the process for borrowers.

[29] 34 CFR §685.219.

Policymakers might assess the tax treatment of student loan repayment programs.

In comments submitted to the CFPB in various Requests for Information, many borrowers discussed the role of taxes in the student loan repayment process.[30]

In many cases, student loan repayment assistance is treated like ordinary compensation for the purposes of federal tax assessment. Current federal tax policy exempts many types of income from employer and employee payroll tax withholding. For example, certain employer-provided fringe benefits may be fully or partially excluded from federal taxation. [31]

For workers commuting on mass transit, employers may provide a limited public transit subsidy.[32] The first $240 of any public transit subsidy fringe benefit is nontaxable; however, any additional benefit beyond this cap would be taxable. In contrast, qualified health plan benefits have generally been nontaxable, up to the full value of the fringe benefit.[33] In both cases, the employer is not required to pay matching payroll taxes on the value of the excludable portion of the fringe benefit – an incentive for employers to provide these benefits in lieu of increasing wages.

As policymakers embark upon a close examination of the long-term federal fiscal position, it may be prudent to determine whether current policy discourages employer engagement in addressing high levels of student indebtedness among young workers.

[30] Consumer Financial Protection Bureau, *Request for Information Regarding an Initiative to Promote Student Loan Affordability,* Docket ID CFPB-2013-0004, Federal Register (February 27, 2013).

[31] Taxable Fringe Benefit Guide, Internal Revenue Service (2012), http://www.irs.gov/pub/irs-tege/fringe_benefit_fslg.pdf.

[32] 26 U.S.C. §132.

[33] 26 U.S.C. § 105.

Appendix

TABLE 2: DETAILED LABOR FORCE ELIGIBILITY BREAKDOWN

Sector	(in thousands)	% of Total
Total Labor Force	**131,082**	**100%**
"Public Service" Sectors	*33,613*	*25.6%*
Federal Government (civilian)	3,086	2.4%
State Government (non-education)	2,781	2.1%
State Government (education)	2,069	1.6%
Local Government (non-education)	6,575	5.0%
Local Government (education)	6,816	5.2%
Active-duty Military	1,458	1.1%
Nonprofit: Health Care	5,940	4.5%
Nonprofit: Educational Services	1,837	1.4%
Nonprofit: Social Assistance	1,368	1.0%
Nonprofit: Professional Services	505	0.4%
Nonprofit: Arts	314	0.2%
Nonprofit: Other Services	864	0.7%
All Other Sectors	*97,469*	*74.4%*

To arrive at this statistic, we rely on Establishment Data from the Bureau of Labor Statistics,[34] which tracks workers by employer industry rather than by employee occupation, similar to how the Public Service Loan Forgiveness program determines borrower eligibility. We also examine third party estimates[35] of data on employment in private, nonprofit establishments as organized under Section 501(c)(3) of the Internal Revenue Code. We also considered the labor force employed as active-duty servicemembers.[36]

[34] Bureau of Labor Statistics, Current Employment Statistics Survey (National), Establishment Data, July 2010
[35] Johns Hopkins Nonprofit Economic Data Project, Holding The Fort: Nonprofit Employment During a Decade of Turmoil, Lester M. Salamon, S. W. Sokolowski, S. L. Geller, January 2012
[36] U.S. Department of Defense, Active Duty Military Strength and Personnel Statistics, July 2010

Contact Information

TO REACH THE CFPB'S OFFICE FOR STUDENTS:

Webpage:	http://www. consumerfinance. gov/students
Email:	students@cfpb. gov
Mailing Address:	
	Consumer Financial Protection Bureau 1700 G Street NW Washington, DC 20552

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