Public Service Employment and Student Loan Repayment

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Background Information

College Cost Reduction and Access Act (CCRAA)

- Creates Income-Based Repayment (IBR) program for federal student loan borrowers
- Creates Public Service Loan Forgiveness program for those who are employed in qualifying public service jobs
- Signed into law in 2007
- These provisions were effective July 1st, 2009

Pres. Obama Executive Order

- Created the Pay As You Earn (PAYE) repayment plan, to reduce payments for many recent graduates and current students.
- Signed October 25th, 2011
- Changes took effect on December 22nd, 2012
Denver Law Public Service Employment Statistics

Employment statistics for 2013 Denver Law graduates

- About 44% were employed in public service#
  - $50,000: average salary*
    - $38,325: estimated take-home pay^  
      - Monthly: $3,194
  - $40,000: 25th percentile*
    - $31,428: estimated take-home pay^  
      - Monthly: $2,619

Avg. Loan Debt, 2014 Graduate:
$132,000

Loan Debt, if borrowing full COA:
~$180,000

# Includes Public Interest (3%), Government (19%), Academia (6%) and Judicial Clerkships (16%)
* Based on 74 reported full-time salaries (out of 267 graduates)
^ Based on a single person working in Denver, with no pre- or post-tax deductions
Income Driven Repayment Plans

- Monthly loan payments can be reduced significantly for borrowers selecting an income driven plan
  - Payments are based on annual income & family size
  - Payments can be as low as $0
  - Payments don’t have to cover accruing interest
- Pay until balance is repaid OR until you reach the end of the repayment term (20-25yrs)
  - Remaining balance at end of repayment term is cancelled
  - For those working in public service, debt can be forgiven after 120 payments (10 years)
Income Driven Repayment Plans

- **Income Contingent Repayment (ICR)**
  - Highest payment amount (20% of discretionary income*)
  - only plan available for Parent PLUS loans
  - 25-year repayment term (300 payments)

- **Income Based Repayment (IBR)**
  - Middle payment amount (15% of discretionary income*)
  - Available to all federal student loan borrowers (except Parent PLUS Loans)
  - 25-year repayment term (300 payments)

- **Pay As You Earn Repayment (PAYE)**
  - Lowest payment amount (10% of discretionary income*)
  - Available only to borrowers who did not borrow a Stafford or PLUS loan prior to October 1, 2007.
    - Also must have at least 1 loan issued after Oct. 1, 2011
  - Only **Direct Loans** are eligible
  - 20-year repayment term (240 payments)

*Discretionary income is AGI minus 150% of the poverty line for your family size and location*
Income Driven Repayment Plans (cont’d)

- Payments are determined by:
  - Adjusted Gross Income & family size, not loan balance
    - Monthly Payment = \((10\% \text{ or } 15\%) \times (\text{AGI} – 150\% \text{ of federal poverty level}^\uparrow)\) / 12
      
      * 10% is for PAYE and 15% for IBR
      ^ For 2015, 150% of the federal poverty level for a family of 1 in the 48 contiguous states is: $17,655, for each additional family member, add $6,240.

- To qualify for IBR and PAYE, a borrower must have a partial financial hardship, meaning:
  - IBR/PAYE Monthly Pymt < Monthly Pymt on Standard 10-yr Repayment Plan
    - Generally speaking, a single borrower qualifies for IBR if their AGI is less than their loan debt upon entering repayment
    - Borrowers qualify for PAYE at higher incomes – for a single borrower, as long as AGI less than 150-160% of loan debt
# Income Driven v. Fixed Payment Plans

## Table

<table>
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<tr>
<th>AGI</th>
<th>IBR 1</th>
<th>IBR 2</th>
<th>IBR 3</th>
<th>IBR 4</th>
<th>PAYE 1</th>
<th>PAYE 2</th>
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</table>

## Debt Level Repayment

<table>
<thead>
<tr>
<th>Debt Level</th>
<th>10 Year Repayment</th>
<th>25 Year Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Denver Law Grad Debt - $132,000</td>
<td>$1,559</td>
<td>$966</td>
</tr>
<tr>
<td>Full 3yr COA - $180,000</td>
<td>$2,136</td>
<td>$1,330</td>
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</table>
For married borrowers, the AGI used to calculate the monthly payment is whatever is reported to the IRS
  ▪ This could be significantly higher than the borrower’s income alone
  ▪ A borrower can file “married filing separately” to use only his/her income
    ▪ However, this may have other tax implications (increased tax rate, limited deductions, etc.)

Under current tax laws, any amount forgiven at the end of 300 IBR/240 PAYE payments is considered **taxable income**

You have to submit documentation (typically your tax forms) to your loan servicer every year, to qualify for IBR/PAYE
Borrowers paying under IBR/PAYE may repay more, in the long run, because of accumulated interest

- Interest that accumulates on the loans is not capitalized, unless a borrower exits the IBR/PAYE plan
  - Under PAYE, there is a cap on how much interest is capitalized (20% of the original loan amount)

If income increases significantly, payment will too.

- However, borrowers will never be required to pay more than the amount calculated on a Standard 10 year repayment plan, even if their IBR/PAYE payment is calculated to be higher

This is not the best plan for everyone.

- Borrowers with higher incomes or lower debt levels may benefit more from an extended repayment plan, especially if they are not pursuing public service employment
In order to qualify for PAYE and PSLF, you must have **Direct Loans**.

**How do I know what type of loans I have?**
- All loans borrowed after the 2009-10 academic year are **Direct** loans (except Perkins).
- Loans borrowed in 09-10 and earlier could either be borrowed through the **Direct** loan program or the **FFEL** (Federal Family Educational Loan) program.
  - FFEL loans were borrowed from private organizations/banks (Wells Fargo, CollegeInvest, etc).
  - Many FFEL loans borrowed in 08-09 and 09-10, were sold to the Department of Education, **but they are not Direct loans**.
- Check [www.NSLDS.ed.gov](http://www.NSLDS.ed.gov) or [www.StudentLoans.gov](http://www.StudentLoans.gov) to see what types of loans you have

**If you have FFEL or Perkins loans, you can consolidate them to turn them into a **Direct** loan.**
Public Service Loan Forgiveness

- Established by the CCRAA in 2007

- Individuals working full-time in public service, and repaying their eligible loans under specific repayment plans can qualify to have their remaining debt (interest and principal) forgiven after 120 payments (10 years).

*What does that mean...?*
Public Service Loan Forgiveness

What does that mean…?

- **Working full-time**
  - The greater of:
    - 30 or more hours per week, or
    - whatever your employer considers full-time
  - Can work in more than one job to meet 30 hr. requirement

- **in public service**
  - Government (local, state, federal)
    - Government contractors DO NOT QUALIFY
  - Organization that is tax exempt under 501(c)(3) of the tax code
Public Service Loan Forgiveness

What does that mean…?

- Repaying eligible loans
  - Federal Direct Stafford loans (subsidized and unsubsidized)
  - Federal Direct PLUS loans
  - Federal Direct Consolidation loans
  - Loans may be from undergrad or grad/ law school

Students who borrowed Perkins loans or loans through the bank-based FFEL program (ended in 09-10), must consolidate those loans to make them eligible for PSLF.
Public Service Loan Forgiveness

What does that mean...?

- **under specific repayment plans**
  - Standard 10-Year Plan
  - Income Contingent Repayment Plan (ICR)
  - Income Based Repayment Plan (IBR)
  - Pay As You Earn Repayment Plan (PAYE)

- **after 120 payments**
  - 120 payments do not need to be consecutive
  - Payments must be on-time (within 15 days of the due date)
  - Each payment must be made while meeting all the above requirements
  - Payments must be separate, monthly payments (i.e. paying double one month would not count as 2 payments, only 1)
Public Service Loan Forgiveness

- You must be able to **prove** that you qualify for forgiveness
  - The Dept of Ed has created an **Employment Certification Form** that borrowers can use to track their eligible payments:
    - Available at [www.studentaid.ed.gov/publicservice](http://www.studentaid.ed.gov/publicservice)
    - Can be filed annually
    - It is not mandatory – but we strongly recommend you use it!
  - When you fill out the Certification Form for the first time, your eligible loans will be transferred to FedLoan Servicing (if they are currently with another servicer).
    - FedLoan Servicing will inform you of how many qualifying payments you have made during the last year
- Be sure to keep copies of **everything** you send in!
To qualify for forgiveness, you must also be working full-time in public service when:

- You apply for forgiveness
- Your forgiveness is granted

Amounts forgiven under PSLF **do not** count as taxable income

Forgiveness is only granted after 120 qualifying payments are made

- **No** partial cancellations
- Your 10 years of service doesn’t have to be consecutive, you can take breaks but any payments made while not employed full-time in public service sector don’t count toward 120 required for forgiveness
Consider filing taxes in your last year of law school, even if you don’t have any/much income

- IBR/PAYE Application will ask for most recently filed taxes, first, as a way of establishing your income

Make sure you have the “right” loans

- Go to www.NSLDS.ed.gov
  - Any loans labeled as “Direct...” qualify for PSLF
  - Any loans labeled not labeled as Direct, need to be consolidated before they will qualify
  - All loans borrowed after July 1st, 2010 are Direct loans (except Perkins loans)

- Because many loans were sold to the Department of Education by private lenders, it is quite possible that you have eligible and non-eligible loans serviced by the same loan servicer.
What you Need to Do:

- Consolidate, if necessary
  - You can consolidate after you finish school
  - Go to www.StudentLoans.gov to consolidate
  - Consolidation takes at least 6-8 weeks to process
    - Once you consolidate, your grace period ends and repayment begins
      - May graduates should consolidate in no later than October
      - December graduates should consolidate no later than May
  - If you apply for consolidation earlier than the above months, be sure to indicate on the application that you are in your grace period. If you do, the application will not be processed until about 45 days prior to the end of your grace period.
What you Need to Do:

- **Sign up for IBR/PAYE**
  - Application is available online at [www.StudentLoans.gov](http://www.StudentLoans.gov)
    - You can import your most recent tax return directly from the IRS
    - If your income is different from last return or you didn’t file a return, additional documentation will be needed (paystubs, etc).

- **Keep documentation of your qualifying employment**

- **Submit the Employment Certification Form annually**
  - Or, at minimum, anytime you switch employers
  - Available at [www.StudentAid.gov/PublicService](http://www.StudentAid.gov/PublicService)

- You don’t sign up for PSLF, you apply for it once you have met all the requirements
Perkins Loans have their own cancellation provisions

- Up to 100% of the loan can be cancelled for those employed in/as:
  - Law Enforcement (including District Attorneys)
  - Public Defenders
  - Some forms of education
  - Military (service in area of hostilities)
  - Peace Corps or Americorps
  - Certain other professions (see the Cancellation form below for a full list)

- Loans will have a certain percentage forgiven for each year of service. For full cancellation, you need to complete 5 years of service.

- Loans are deferred (no payment is due), while you complete your eligible service.

- You can submit Postponement/Cancellation Form to the school from which you received your Perkins Loan
  - For DU borrowers: [www.du.edu/bursar/forms.html](http://www.du.edu/bursar/forms.html)

If you consolidate your Perkins Loan, you lose these benefits

- But, you would make the Perkins loan eligible for IBR, PAYE and PSLF
Purpose:
- To enable and encourage committed students to accept lower paying public interest legal positions by providing forgivable loans to help repay those students’ law school debt.

Requirements:
- 501(c) (3); government
- Must be position that utilizes grad’s legal skills
- AGI of $75,000 or less
- Graduated after May 2003
Awards are renewable for up to 5 years, if still in qualifying employment

Awards are competitive and an application must be submitted

Application is available each January online

Deadline is the 4th Friday of January each year

Applicants are encouraged (though not required) to be enrolled in IBR/PAYE
  - Annual award amount will typically not exceed your annual IBR/PAYE payment
    - If your payment is $200/month, your LRAP award would not exceed $2400/year.
    - In recent years LRAP awards have covered between 15-75% of a graduate’s loan payments.

Website:
  - www.law.du.edu/financial-aid/du-loan-repayment-assistance-program
In addition to those scholarships offered at admission, continuing students have the opportunity to apply for our Named Scholarships.

- 2 Application periods – February (most awards available) and September/October
- For the 2014-15 academic year, we had over $750,000 to award in supplemental scholarships
  - About $200,000 of this went to students who have a demonstrated interest in public service

Scholarship criteria vary based on donor requirements but include: need, merit, interest in a particular field of law, participation in community, etc.
Upcoming Financial Management Sessions

- Loan Repayment and Consolidation
  - Tuesday, April 14th, 12-1pm, LAW 180
  - Tuesday, April 14th, 5-5:45pm, LAW 125
  - Wednesday, April 15th, 12-1pm, LAW 190

- Additional sessions next year as well, look for a schedule in August.

- For event info go to: www.law.du.edu/financial-aid
Helpful Websites

Student Financial Management:
- www.law.du.edu/financial-aid

Perkins Loan Cancellation
- www.du.edu/bursar/forms.html

Loan Repayment Calculators:
- www.finaid.org/calculators
- www.direct.ed.gov/calc.html
- www.studentloans.gov

Income-Driven Repayment Plan Application:
- www.StudentLoans.gov

Income-Based Repayment, Pay As You Earn & Public Interest Forgiveness:
- www.StudentAid.gov/PublicService
- www.StudentAid.gov/PayAsYouEarn
- www.StudentAid.gov/ibr
- www.equaljusticeworks.org
- www.askheatherjarvis.com

Loan Consolidation:
- www.StudentLoans.gov

Federal Student Loan History:
- www.StudentLoans.gov
- www.nslds.ed.gov
- www.pin.ed.gov
Questions?

Contact us:

- Email: FinancialManagement@law.du.edu
- Phone: 303.871.6557
- Web: www.law.du.edu/financial-aid
- Location: Law 115

- Hours: Monday – Friday, 8:15am – 4:30pm

Appointment Scheduling:

- Go to the “Law Student” tab in PioneerWeb
- Look under the “Calendars and Announcements” section
- Click on “Schedule an Appointment with Law School Financial Management”