

## WHAT IF THE GOVERNMENT BAILS ON ITS STUDENT LOAN FORGIVENESS PROGRAM?

There is no clear answers for what happens to borrowers if the Public Service Loan Forgiveness program gets the ax.



By: Maryalene LaPonsie - September 8, 2017

Despite having a master's degree and nearly nine years of professional experience, Stephanie Morgan still earns only \$47,000 a year. However, the 33-year-old social worker from Newaygo, Michigan, isn't complaining. She figures low pay comes with the territory in her line of work. Prior to her current position serving Medicaid-eligible children through a community mental health agency, she made \$36,000 as a supervisor with a nonprofit social services organization.

While the pay isn't good, there is a consolation prize for those who work in the public sector. That is the promise of having their student loan balances paid off after 10 years thanks to the Public Service Loan Forgiveness program.

Initiated by former President George W. Bush in 2007, the program provides an incentive for people to work in government and nonprofit jobs. The first round of students should be eligible to wipe out their student loan balances this fall, but it's an option that may not be available for future graduates. President Donald Trump's 2018 budget recommends eliminating the PSLF program.

**Program helps fill needed jobs.** By some estimates, more than a half million college graduates are currently working toward having their student loan balances forgiven under the PSLF program. "The public service program is phenomenal for attracting quality workers to low-paying jobs," says Joe D'Angelo, partner with Carl Marks Advisors in New York City.

Those jobs, like Morgan's work, may be through government agencies or at nonprofits. Either way, D'Angelo wonders how some positions could attract candidates from top-tier educational institutions without the perk of loan forgiveness.

However, there is more to the PSLF program than having the right job. Getting a loan balance forgiven requires a long-term commitment and financial

stability. "You have to make payments for 10 years, on time," says Galen Bargerstock, president of Government & Civil Employee Services, LLC in Indiana, Pennsylvania.

### Questions remain for current borrowers.

For borrowers in the midst of their 10 years of service, the government has been sending mixed messages. During a May call with reporters, the Department of Education stated current workers would be grandfathered in and the budget proposal, if enacted, would only apply to borrowers taking out loans on or after July 1, 2018.

Meanwhile, a motion filed by the department in a lawsuit brought by the American Bar Association seems to indicate otherwise. In that case, the ABA asserts the government has retroactively deemed its workers ineligible for PSLF after previously certifying their employment as meeting program requirements. In its response, the Department of Education said confirmation notices sent to borrowers are "interim, non-binding, individualized determinations."

In other words, the department says people who believe they are working in qualifying positions could later find they aren't actually eligible for loan forgiveness. The office of Education Secretary Betsy DeVos did not respond to a request for comment on this story.

### Impact of program elimination unclear.

When Morgan heard the program may be eliminated, she wasn't surprised. "I feel like there's always been a chance it could be," she says. "Ten years is a long time."

For her, losing loan forgiveness would increase the overall cost of her student loans. In order to participate in the program, she had to change from the standard 10-year repayment plan to an income-based one. That dramatically reduced her monthly payment, but the interest has been compounding. "We'll have to pay more in the long run," she says.

Morgan is relatively calm about the prospect of losing the PSLF program, but Bargerstock says its effects nationwide could be "catastrophic." He likens mounting student loans to the housing bubble that preceded the last recession.

Failing to provide some way for students to minimize debt could have far-reaching implications for the nation's economy if young adults' purchasing power is stifled. "It's such an overwhelming amount of debt," D'Angelo says. "When do they buy their first house?"

When do they buy a new car?"

**Don't make rash decisions.** However, all this is speculation until the president's budget proposal is implemented. Until then, Bargerstock has a message for all current borrowers. "Hold tight. Don't listen to a rumor," he says. "You will drive yourself crazy with the what-ifs."

For now, that means borrowers should continue to pay their loans and complete their PSLF program paperwork as they always have. Should someone later find they are ineligible for the program, meeting with a financial planner may be the best option to address the unexpected debt expense. An advisor can look at overall household assets and income and help devise a plan to quickly pay off the outstanding balance.

On the other hand, current and future students who are planning their career path with the intent of using the PSLF program to reduce costs may want to consider a Plan B. That could be a different occupation, a different school or a different timeline to minimize the need for loans. "There's always a chance it could be eliminated," Morgan says of the PSLF program. "I always hope not."



Galen Bargerstock, president of Government & Civil Employee Services, LLC (GCES), is concentrated on navigating federal and state employees through financial and retirement planning. Galen holds a Pennsylvania Life, Health and Annuity License, as well as Series 6 and 63 licenses.

To contact Galen, call 800-985-3272 or visit [gces.us](http://gces.us).

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