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WEALTH MANAGEMENT



Monthly Insight

Public Service Loan Forgiveness Program: Could It Help Someone You Love?

The Public Service Loan Forgiveness (PSLF) Program was created in 2007 to provide financial relief for persons employed by “a U.S. federal, state, local, or tribal government or not-for-profit organization” (<https://studentaid.gov>). If you or someone in your family — perhaps a child who has graduated from college in the past

ten years or so — is employed as a teacher or staff member at a college or university, as a state or federal government employee, or works for a 501(c)3 nonprofit organization, and the individual has federal direct student loan balances on which payments are being made, it's possible that the PSLF could help get rid of a significant amount of student loan debt without incurring tax or other negative consequences.

However, the PSLF Program is hardly simple to navigate. It requires careful attention to several factors, including the exact type of loans outstanding, the schedule and timing of payments, the employment status of the borrower, the borrower's income level, and the specific repayment plan being used. Let's take a look at a few key terms and factors of the PSLF to determine whether the program could provide significant benefits for persons you know who may be still repaying federal student loans.

First, it's important to understand that the PSLF only applies to direct federal student loans. Private loans not backed by any federal loan program are not eligible for forgiveness under the program. Types of direct federal student loans included in the PSLF are:

- Direct Subsidized Loans: made to eligible undergraduate students who demonstrate financial need to help cover the costs of higher education at a college or career school;
- Direct Unsubsidized Loans: made to eligible undergraduate, graduate, and professional students, but eligibility is not based on financial need;
- Direct PLUS Loans: made to graduate or professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Eligibility is not based on financial need, but a credit check is required. Borrowers who have an adverse credit history must meet additional requirements to qualify;
- Direct Consolidation Loans: allow you to combine all of your

eligible federal student loans into a single loan with a single loan servicer. (Source: <https://studentaid.gov>).

If the payor is making payments on one of these types of loans and meets other requirements, qualifying loan balances may be considered for loan forgiveness under the program.

The next consideration is whether the borrower is employed by a qualifying employer. As mentioned above, the PSLF program covers persons working for federal, state, local, or tribal governments, nonprofit organizations, and other qualifying employers. You can learn more about the specific types of qualifying employers by visiting the StudentAid.Gov website's information page for the PSLF Program. The main point to keep in mind is that in order to qualify for the program, you must be a full-time employee of a qualifying employer, and your payments on the loan must be made while you are working for that employer.

Another major consideration in qualifying for the program involves the type of repayment plan being used to make payments on the loan. To qualify, borrowers must be using some form of income-driven repayment (IDR) plan. The types of IDR plans that qualify under the program include:

- Income-contingent repayment (ICR);
- Income-based repayment (IBR);
- Income-based repayment (IBR) for new borrowers;
- Pay as you earn (PAYE);
- Revised pay as you earn (REPAYE).

Each of these plans bases the required monthly payment on some percentage of the borrower's income. It's important to understand that in order to qualify for loan forgiveness, 120 qualifying payments must have been made, using one of the qualifying repayment plan types. One of the main requirements for a payment to be considered as

“qualifying” is that the payment must be on time, must be for the amount required, and must be according to the regular payment schedule. In other words, extra payments, early payments, or payments made during a period of deferral or a grace period are not considered “qualifying payments” for purposes of loan forgiveness. For more information on qualifying payments, [click here](#) and navigate to the "Qualifying Payments" tab.

A special note for 2020: the CARES Act, passed to provide relief during the coronavirus pandemic, specifically includes provisions that impact student loans and qualification for the PSLF Program. Specifically, the CARES Act stipulates a moratorium on federal student loan payments and also 0% interest accrual on those loans until September 30, 2020. For purposes of the PSLF program, each suspended monthly payment is treated as if the borrower makes a qualifying, \$0 payment, so borrowers should not make any voluntary payments within this window — doing so decreases PSLF forgiveness benefits.

As you can see, there’s a lot to think about for those hoping to have federal student loan balances forgiven! The program is complex, and the requirements can seem less than intuitive. But for those who can negotiate the narrow path, having a remaining loan balance forgiven while incurring no tax consequences can be a major payoff.

Fortunately, the StudentAid.Gov website offers a number of helpful tools to make the process a little easier to navigate. There’s also an Employer Certification Form that helps you track your employer’s qualification status as well as your progress toward making the required 120 qualifying payments.

Education has never been more important to success than in today’s economic environment. The Public Service Loan Forgiveness Program is aimed at providing an incentive for getting the education needed for today’s professionals, while offering financial relief for those who stay

the course and provide the types of public services we so desperately need. If you would like more information or guidance about the PSLF program or about the general financial situation of yourself or someone important to you, please get in touch today. We are here to help!

Stay Diversified, Stay YOUR Course!

Watch the Webinar: Planning in the 21st Century

I recently had the privilege of participating in the Wildcat Wealth webinar series hosted by my alma mater, California State University – Chico. We discussed everything from the fundamentals of a sound financial plan to the impact of government debt and what's in store for the markets in the future. If you're interested in tuning in, click the button below to watch the full webinar at your convenience.

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