



Student Loan Forgiveness Programs: An Evolving Workforce Development Tool

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Context

Since the 1940s, public officials at the local, state and federal levels have used student loan forgiveness programs to attract individuals to critically needed occupations and underserved communities. In exchange for a work commitment, the loan program forgives (or repays) an amount of the employee's student loan. Traditionally, these programs have been directed at teachers, nurses, physicians, public-service attorneys and military personnel.

Loan forgiveness programs also help students pay for a college education and contribute to the development of intellectual capital. Until recently, most loan forgiveness money was directed at in-school programs that pay for students to attend college in exchange for a work commitment in an approved occupation after graduation. The trend has shifted to on-the-job programs that do not pay for college costs but allow students to apply for forgiveness programs after obtaining employment.

These programs are receiving greater attention from students, working professionals, communities

and policymakers as a result of greater regional workforce needs, increased concerns about college affordability and the sustained popularity of these programs. With every passing year, officials in communities, state capitols and in Washington D.C. seek to approve new loan programs or expand existing programs. Loan forgiveness has now been extended to veterinarians, optometrists and dentists in communities throughout the United States.

However, state budget reductions, policy changes at the federal level and difficulties in the credit markets have subjected some forgiveness programs to substantial budget cuts and the prospect of elimination. This may affect efforts to recruit and retain teachers, nurses and physicians, among other populations, in underserved communities and states across the nation.

While anecdotal evidence may validate notions that these programs address the workforce shortages in a number of communities and help professionals with college costs, broad-based longitudinal analysis examining loan forgiveness resource allocation has not been conducted and many fundamental policy questions remain unanswered. This paper provides

an overview of student loan forgiveness programs and raises issues for policymakers pertaining to whether these programs are an efficient and effective use of taxpayer funds.

Observations

Many communities, especially in rural regions and inner cities, have struggled with workforce shortages in high-need occupations and the situation appears to be getting worse. The magnitude of the problem can be most aptly viewed in the health care field. An aging populace, uneven compensation structures for health care professionals, enrollment caps at medical schools and a variety of other factors have left gaps in health care access throughout the United States. According to a recent article in *USA Today*, the American Academy of Family Physicians expects a shortage of 40,000 family physicians by 2020 that could limit health care access in rural and inner-city urban areas. Other health-related professions, such as nursing and dentistry, are already facing shortages and are expected to experience increasing disparities in access.

Teaching shortages exist in rural and inner cities and in certain school subject areas—science, technology, engineering, and math (STEM fields) as well as special education and English as a Second Language. A 2009 report by the National Commission on Teaching and America's Future notes that in the next four years, more than a third of the nation's 3.2 million teachers are expected to retire. While teacher shortfalls on a national level may be overstated, many communities continue to struggle to recruit and retain quality teachers.

Increased college costs, accompanied by increased student loan/debt burdens, have also enhanced the profile and demand for student loan forgiveness programs. College students throughout the U.S. are increasingly relying on student loans as a means of addressing higher tuition costs. According to finaid.org, a student financial aid Web site, two-thirds (65.6 percent) of those who graduated with a bachelor's degree in 2007–2008 did so with an average student loan debt of \$23,186. The

current economic downturn will only exacerbate this dynamic; the precipitous decline of state tax revenues and subsequent budget and institutional financial aid cuts, increased unemployment and extensive losses in personal savings will collectively contribute to a greater reliance on student loans.

Growing student debt has led to an increasing call for government assistance in paying off the debt. For those in high-need professions with modest starting salaries, having moderate or large student loan debt may be unfeasible. In response, lawmakers have chosen to fuse constituent demands to fill workforce shortages with calls for student debt assistance. Many view this as a “win-win”; students receive debt relief while communities are able to recruit professionals to address critical labor market needs.

Elected officials at all levels have increased the size and scope of loan forgiveness programs.

Policymakers at all levels continue to develop and expand forgiveness programs as a means to attract professionals to specific occupations in designated geographical areas and simultaneously help students with college costs.

Federal. The federal government has been involved in student loan forgiveness since passing the National Defense Student Loan Program in 1958. Nurses, scientists, Peace Corps volunteers and military personnel are just a few of the occupations that are eligible for federal student loan forgiveness programs.

The vast majority of forgivable federal loans occur under the Perkins Loan program that is designed to help low-income students attend college. A 2005 report from the Congressional Research Service (CRS) indicates that from 1972 to 2002, the federal government forgave \$525 million and \$700,000 in Perkins Loans for teachers and servicemembers, respectively. In addition, occupations affiliated with volunteer service, law enforcement, early intervention and nursing/medical technicians have achieved Perkins Loan principal forgiveness amounts totaling \$5.4 million, \$34.8 million, \$33.2 million and \$72.9 million, respectively.

In 2004, Congress passed the Taxpayer-Teacher Protection Act that extended loan forgiveness for highly qualified special education teachers working in elementary and secondary schools and for highly qualified math and science teachers working in secondary schools. This legislation includes loans in the Stafford Loan program.

More recently, Congress approved key legislation related to loan forgiveness. The College Cost Reduction and Access Act of 2007 allows students in selected public service-related professions to have their loans (all federal loans under the Direct Loan program) forgiven after 10 years of eligible employment and qualifying loan payments.

The 2008 update to the Higher Education Act authorized loan forgiveness for “service in areas of national need.” This includes but is not limited to early childhood educators, librarians, foreign language specialists, certain public sector employees and nutrition professionals. A total of 14 occupation groups are eligible for up to \$10,000 in loan forgiveness. While these occupations have been authorized for loan forgiveness in the 2008 law, Congress has not yet funded this provision.

Finally, according to the Office of Personnel Management (OPM), employees in federal agencies have also increasingly enjoyed the benefits of loan forgiveness. A recent OPM report indicates that \$51.6 million was forgiven for calendar year 2008, a 22 percent increase over FY2007 and a stark contrast to the \$3 million in loans repaid in FY2002. OPM states that nearly half the reporting agencies either made student loan repayments in 2008 or established a program for future use, with the average loan repayment totaling approximately \$7,500.

State. States have added dozens of new programs in the last decade. According to a 2004 report from the American Institutes for Research (AIR), 43 states had operated a total of 161 programs in 2001-02. The number of in-school programs increased by approximately 40 percent from 1998 to 2002, and the amount of “on the job” programs more than doubled during that time. Since the publication

of this report, there is little evidence to suggest that state lawmakers have lost enthusiasm for establishing new programs.

Local. Underserved communities have added their own incentives for teachers, doctors and nurses to work locally. School districts, hospitals and pharmacies have created a variety of loan forgiveness programs tailored to draw professionals to their communities, and some professional associations have compiled lists of these programs as references for skilled professionals. For example, a list compiled by the American Society of Health System Pharmacists (ASHP) includes Ministry Health Care of Marshfield, WI; its program offers pharmacists, clinical leads, and pharmacy managers \$10,000 annually in loan forgiveness over five years, for a total of \$50,000.

While programs continue to be added and expanded, cutbacks in funding, subsidies and other issues have put some loan forgiveness programs in financial jeopardy. Recent coverage in *The New York Times* exposed the plight of a state-sponsored agency that could not meet its financial obligations to loan program participants. This dilemma left program participants with greatly reduced loan forgiveness amounts and little recourse to help pay off student debt.

State student loan forgiveness programs usually depend on legislative appropriations from state lawmakers. In the past few years, state governments have experienced deep declines in revenues, leading to cuts in some forgiveness programs. Difficult budget situations have led to proposed cuts or elimination of programs in states like Connecticut, Iowa and Kentucky.

Other financial issues have plagued these programs. The state administrators of loan forgiveness programs are often lenders of student loans. Congress reduced the guaranteed rate of return for these lenders in the College Cost Reduction and Access Act of 2007, eliminating a source of revenue for some loan forgiveness programs. Finally, turmoil in the credit markets has also contributed to higher costs for program administrators.

Nevertheless, lawmakers continue to introduce more bills seeking to establish new programs.

Numerous political benefits and scant opposition make these programs attractive to elected officials. Loan forgiveness programs generally receive broad support from students, interest groups and underserved communities. With anecdotal evidence indicating program success and little substantive evidence to the contrary, the policy debate is heavily skewed toward acceptance of new programs.

State. According to *CQ Trendtrack*, at least 65 bills have been offered this legislative session either amending programs or developing or expanding loan forgiveness to include new occupations. Given deteriorating state budget conditions, most have not advanced far in the legislative process, but a few have been signed into law. The bills typically seek to extend loan forgiveness to a variety of additional occupations, including but not limited to mental health professionals, farmers and veterinarians (See <http://www.CongressWeb.com/AASCU/docfiles/Loan%20Forgiveness%20Legislation.xls>).

Federal. At the federal level, at least a dozen bills expanding loan forgiveness have been introduced in the 111th Congress. The health care reform legislation currently being debated in Congress includes a plethora of incentives for professionals in the health care fields (See table of federal loan forgiveness legislation).

High administrative costs are steering policymakers to move away from “in-school” and toward “on-the-job” programs. The “in-school” loan forgiveness programs assist students with paying for college in exchange for a work commitment after graduation. The student must complete the service required or pay back the principal and interest of the loan. While a majority of loan forgiveness programs have operated in this manner, they often carry extensive administrative burdens, involve a substantial risk of default and may fail to adjust to changing labor market conditions.

“On the job” programs, which forgive loans while professionals are working, are believed to carry smaller administrative burdens, have nominal up-front costs, can be easily adjusted to reflect labor

needs and allow students more time to choose a career. A 1995 Government Accountability Office (GAO) report found higher administrative costs in the “in school” program because participating students needed to be tracked through college. “On the job” programs may also be better designed to attract out-of-state professionals to underserved communities because they may not be restricted to state residents.

Little information is available highlighting outcomes and effectiveness of these programs.

Anecdotal evidence seems to support arguments that these programs are beneficial to students and communities, but fundamental questions pertaining to the effectiveness and efficiency of these programs have not been answered. Research on teacher programs in the National Defense Education Act in the 1960s indicated that those programs did not affect the number or quality of teachers. Officials concluded in the 1980s that the federal teacher programs were not altering career choices, but were simply attracting individuals who were already going into the occupation.

The 2004 AIR report concludes, “. . . we really do not know whether these programs are the best way to help individuals, whether currently enrolled in school or repaying loans, cover education expenses.” Most programs have not conducted recent studies demonstrating how these programs change career and living choices, which programs and occupational sectors are most sensitive to these programs and which type of loan program is most effective.

Conclusions

AASCU supports loan forgiveness for teachers who work in high-need schools or teach in high-need subject areas. However, we believe loan forgiveness is only one component in an overall financial aid and workforce development approach. Policymakers should explore alternative solutions to these challenges that would be more effective while being less expensive for taxpayers.

When developing these programs, officials need to clearly outline the specific problems they are

addressing, set goals for achievement of program objectives and assess whether the programs are an efficient and effective method for meeting the stated goals. In some cases, loan forgiveness may be a poor solution to more fundamental workforce challenges in the health care, K-12 and postsecondary education systems, and debt management.

Finally, better quantitative data is needed to analyze the effectiveness of these programs, including the collection and analysis of data on participants, in order to effectively evaluate these programs. The 2005 CRS report concludes that future research needs to

“ . . . include acquiring more data on the extent to which loan forgiveness or service payback recipients would have taken the targeted job irrespective of the program, the extent participants remain in jobs after the expiration of loan forgiveness or service payback program, how the efficacy of these programs compares to other forms of financial aid, and the extent to which these programs may be divisive when there are similar individuals working in similar jobs, but only some are eligible for loan forgiveness (in effect, creating a situation where one employee is paid more than another for the same work).”

It is clear that loan forgiveness is increasingly being utilized as a means of addressing workforce shortages and helping students with college costs. However, it is not known whether these programs are the most effective and efficient means of meeting these key policy challenges. A comprehensive evaluation of loan forgiveness as a public policy solution at all levels is needed to bring greater clarity and understanding to this issue.

Resources

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