The Magic and Misdirection of Public Service Loan Forgiveness

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Guiding Questions

› What is the **meaning** of prospective student loan forgiveness for borrowers enrolled in the Public Student Loan Forgiveness program?

› Is counting on having one’s loans forgiven **magical thinking**?
Public Service Loan Forgiveness

- Public Service Loan Forgiveness
  - Began = 2007 → Eligible = 2017
  - Qualifying payments, loans, employers

- Low rates of successful discharge:
  - 0.03% (6/2018) → 1.05% (3/2020)
  - DoE perspective: Missing information; lack of qualifying payments, eligible loans, qualifying employer
  - CFPB perspective: Opaque rules for eligibility, lack of borrower education, poor oversight of contracted loan servicers, intentionally convoluted program design

- Need to understand lived experiences
Meaning and Magical Thinking

› **Meaning:**
  › Individual sources of meaning: Beliefs and goals
  › Meaning-making: Manipulation of beliefs and goals to eliminate cognitive dissonance

› **Magical thinking:** Thinking people engage in to gain a sense of control when their actual control over events is decidedly absent
  › Belief(s) that contradict scientific knowledge
  › Implied causal link between the wish and the outcome
  › In the face of unknown futures, a way of coping

› **Author’s note:**
  › “Far from a sign of stupidity or weakness, magical thinking exemplifies many of the habits that made humans so evolutionarily successful” (Hutson, 2012, p. 4).
Methods

- Sequential exploratory mixed methods (February 2018-April 2019)
- 14 focus groups (n=12), Descriptive phenomenology
- National survey (n=224)

Participants
- 25-75 years old
- Loans for non-profit institutions (private and public)
- 6-year degree completion

<table>
<thead>
<tr>
<th>Age category</th>
<th>Pilot Phase Feb. 2018</th>
<th>Questionnaire + Focus Groups Feb.-Sept. 2018</th>
<th>National Survey Feb.-April 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 to 35 year olds</td>
<td>Group P1</td>
<td>Group 1 + Group 2</td>
<td>Group 3 + Group 4</td>
</tr>
<tr>
<td>36 to 50 year olds</td>
<td>Group P2</td>
<td>Group 5 + Group 6</td>
<td>Group 7 + Group 8</td>
</tr>
<tr>
<td>51 to 75 year olds</td>
<td>Group P3</td>
<td>Group 9, 10, 11</td>
<td>Group 12, 13, 14</td>
</tr>
<tr>
<td>Total cases</td>
<td>18 participants</td>
<td>88 participants</td>
<td>1,874 participants</td>
</tr>
</tbody>
</table>
Qualitative Results

“What is one word that you would use to describe your student loans?”
## Qualitative Results

<table>
<thead>
<tr>
<th>Meaning/Theme</th>
<th>Code</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>A strategic repayment decision</td>
<td>Applying for PSLF made sense for the work I do</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Relatively low payments make for a relatively lower financial burden in the short-term</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Living in the moment</td>
<td>4</td>
</tr>
<tr>
<td>A risk</td>
<td>Long-term risks of making relatively low payments</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Precarious/unknown future of the program</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Lack of control</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Anxiety</td>
<td>2</td>
</tr>
<tr>
<td>An obligation</td>
<td>Lower-paying job in order to qualify for PSLF</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Impacts on career</td>
<td>4</td>
</tr>
<tr>
<td>A beacon of hope</td>
<td>Hope/optimism</td>
<td>4</td>
</tr>
</tbody>
</table>
Becca: Current loan balance = $80,000; Four years into making qualifying payments:

- **Working for a nonprofit, you’re not making that much money, so the payments are pretty low, and definitely doable** [Relatively low payments make for a relatively lower financial burden in the short-term], **but I’m not really paying down the principal balance** [Long-term risks of making relatively low payments]. **So I’m really hoping that, after 10 years, I can have the rest forgiven** [Hope/optimism]… **I think it’s like 50K will be forgiven after 10 years of paying your loans on time. So that’s kind of my strategy right now** [Living in the moment]… **The only thing now is I get worried with politics, with the current administration** [Politically precarious/ unknown state of the program]. **There was an article about maybe wanting to get rid of it. Then it’s like, well, will people still be grandfathered in** [Lack of control]? **Because if this program disappears, then I don’t have a strategy, so I don’t know how I would pay off the rest** [Living in the moment].
National Survey Results

- **Minimal confidence** in loans actually being forgiven → risk of PSLF
  - 25.4%: Extremely/very confident that loans would be forgiven

- Need to follow a more **prescribed career path** → PSLF was extremely/very influential on:
  - Choice of career/field (36.1%)
  - Choice of employer (43.7%)
  - Length of time at a job (48.5%)

### The Influence of Prospective Public Service Loan Forgiveness on Career

<table>
<thead>
<tr>
<th>Domain of Influence</th>
<th>Extremely influential</th>
<th>Very influential</th>
<th>Moderately influential</th>
<th>Slightly influential</th>
<th>Not at all influential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choice of career field</td>
<td>19.7%</td>
<td>16.1%</td>
<td>13.5%</td>
<td>18.4%</td>
<td>32.3%</td>
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<tr>
<td>Choice of employer</td>
<td>23.5%</td>
<td>19.9%</td>
<td>15.8%</td>
<td>14.5%</td>
<td>26.2%</td>
</tr>
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<td>Length of time at jobs</td>
<td>24.7%</td>
<td>23.3%</td>
<td>13.9%</td>
<td>10.3%</td>
<td>27.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Percent of Participants</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
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Despite uncertainty and lack of confidence, borrowers are still counting on PSLF

Presence and absence of magical thinking

Building on previous research about magical thinking and stress (see Keinan, 2002), we would argue that to cope with the stress of debt and ambiguity of one’s chances of having their loans forgiven, borrowers enrolled in the PSLF program need to think magically.

Question: How to ensure that counting on having one’s loans being forgiven is not magical thinking but is instead a realistic hope and endeavor?

Structural changes to PSLF

Comprehensive audit

Improved data sharing and accountability for loan servicers in violation of contracts

More comprehensive training about loan forgiveness for financial professionals

Impacts on borrowers, social/public service consumers, the economy, and trust in institutions if reforms are not made?
Limitations and Future Areas of Research

› Limitations
  › Small sample sizes
  › PSLF and other forgiveness programs

› Future Areas of Research
  › Perceptions of/experiences with PSLF for borrowers:
    › Across different industries
    › Across the lifespan
    › Who are working parents
  › Intersection of COVID-19 and PSLF
References

› Department of Education: Public Service Loan Forgiveness Program Data Report (2019; 2020, June). Data Reports.


Questions + Feedback

› Thank you!

› Contact Julie Miller: jmiller1@mit.edu