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Want to reduce student loans? Consider a public sector job, and get rewarded for your service.

Key takeaways

- Public Service Loan Forgiveness (PSLF) is a federal student loan forgiveness program for people who work in the public sector.
- Benefits include the potential to lower monthly payments and pay off student loan debt more quickly than might otherwise be possible.
- With less pressure from debt and monthly payments, you may be able to save more for retirement and other long-term goals.
- Ensuring that payments qualify for PSLF can be challenging, so continue to check with your loan servicer to make sure you're on track, and visit Fidelity.com/forgiveness for checklists, videos, and additional information.

After graduating with more than $70,000 in debt, Kevin Simmons' student loans fell into default when he couldn't keep up with the $400-per-month payments. Until, that is, Simmons took a job at the University of Miami's College of Business Administration. As a 501(c)(3) organization, the University of Miami is a qualifying public service employer, which meant that Simmons qualified for the PSLF program and the opportunity to have his loan balance forgiven after 10 years of qualifying payments. "This program is what helped me to get back on track. If you stay on track with payments for a certain amount of time, the debt is forgiven—and now that I have my finances under control, I can save more for my retirement and help my kids with their college expenses," Simmons says.

To qualify for the program, Simmons switched to an income-driven repayment plan, which used a percentage of his household discretionary income to determine his monthly payment. The payment went from more than $400 a month to just $5 a month.

PSLF did more than help Simmons get his student debt under control; it also freed up much-needed cash to help him build his credit and work toward buying a house. His credit score improved as well—up from 470 when he was missing payments to nearly 700, helping him to qualify for a home mortgage.

Paying off student loan debt is something that is obviously important to borrowers—but it's also a concern for employers like the University of Miami that want to enhance the overall well-being of their employees. That's because paying off student loans for decades can weigh down people's lives, careers, and long-term financial goals, and create stress. Saving for retirement, for example, often gets shortchanged. "People are aware that they need to start saving for retirement, but they don't feel they have the funds to save for retirement because they are drowning in their student debt," says Jennifer Cohen, executive director of benefits at the University of Miami.

A word of caution: Although PSLF has the power to help many of the 45 million American student loan debt holders who have qualifying public service jobs, navigating the PSLF process can be frustrating.[1]

If you think you qualify for PSLF, make sure to read the fine print and qualifications of the program, create documentation to ensure that your payments are counted toward loan forgiveness, and submit the annual certification form. Here's how.

Public Service Loan Forgiveness: The basics

PSLF is a tax-free student loan forgiveness program for people who work in the public sector. Generally, the public sector includes government organizations and tax-exempt, not-for-profit organizations. After making 120 qualified payments (10 years' worth) on your student loans while employed by a qualifying public service employer, the government will forgive the remaining balance on your qualified loans—and the loan forgiveness is 100% tax free.

The fine print: Make sure you have a qualified loan, a qualified employer, and a qualified repayment plan—get the details below on qualifying factors. You must be employed full time while you are making payments. If you work at least 30 hours in part-time jobs for multiple qualifying employers, you may also be eligible for the program. Recently, the first set of participants who believed they qualified for PSLF reached 10 years of repayment. A significant majority had issues with some of their payments and were required to make additional qualifying payments. The key lesson here is to work closely your loan service provider to make sure loan payments are counted and that you meet all qualifying factors.

What is a qualifying loan?

Only Federal Direct Loans are eligible for forgiveness. Other types of federal loans—such as Federal Family Education Loan (FFEL), Perkins, Parent Loan for Undergraduate Students (PLUS), and Stafford loans—can be consolidated into Federal Direct Loans. This process brings together other federal loans you may have and combines them into a single Federal Direct Loan.

A word of caution: If you plan to take advantage of this or any other federal program, do not privately refinance your federal loans. Once you privately refinance your loans, they become ineligible for PSLF (and all federal repayment plans). So while a lower rate from a private loan provider might be attractive, you will lose out on the chance for forgiveness completely if you use a private loan to refinance your student loan debt.

Another thing to be aware of is that loan consolidation could set back your progress toward 120 payments. If you have already been making qualifying payments toward a Federal Direct Loan and then consolidate it with other federal loans, the count to satisfy the 120 loan payments starts over with your consolidated loan.

What is a qualifying employer?

Your employer must be one that provides a "public service." The government has outlined what constitutes a qualifying employer as:

- Government organizations at any level (federal, state, local, or tribal)
- Not-for-profit organizations that are tax exempt under Section 501(c)(3) of the Internal Revenue Code (this includes most universities and many hospital systems)
- Other types of not-for-profit organizations that provide certain types of qualifying public services. A few examples include law enforcement, public health, public education, and the military. Check Studentaid.gov for a full list.

To ensure that your employer qualifies, you should submit an annual Employment Certification Form available from the U.S. Department of Education, which will provide documentation that you are meeting this requirement.

The fine print: There's no guarantee that a qualifying employer today will be considered a qualifying employer in five years or even next year. While the requirements are very clear on the qualification of 501(c)(3) and government organizations, approval of other nonprofits has been under question. For example, in 2017 employees of the American Bar Association filed a lawsuit against the Department of Education contesting the rejection of their certifications. So, be sure to check the employer list and submit your employer certifications annually to stay on top of the requirements. And remember, just like any federal program such as Social Security, Medicare, or Medicaid, this program is subject to budget and funding pressures and is not guaranteed.

What counts as a qualifying payment?

A qualifying payment is simply a payment you make toward your Federal Direct loans while on a qualifying repayment program at the time you are billed for it. The best practice is to be on an income-driven plan, including Income-Based Repayment, Pay As You Earn, Revised Pay As You Earn, and Income-Contingent Repayment to receive as much benefit as possible from the program. The Standard 10-Year Repayment program is also included, but if you make 10 years of qualifying payments, you will not have any loan balance left to forgive. Read about income-driven repayment plans on Studentaid.gov.

The fine print: Qualifying monthly payments are on-time payments made after October 1, 2007, under a qualifying repayment plan. For your qualified payments to actually count toward the 120-payment requirement, you must be employed at a qualifying employer while you're making those payments. Payments do not need to be consecutive, so taking time off between qualifying jobs will not reset your count. Payments must be scheduled or required by your loan service provider, so payments during periods of forbearance or grace do not count toward your total number of qualifying payments. If you pay more than you need to in any given month, you will not receive additional payment credits for paying "faster" than what is due.

How can I get started?

To find out if you qualify, submit a certification form to the Department of Education. The Department of Education will review your form and verify that you have the right type of loan and the right type of payment plan, and that your employer qualifies. After your initial approval, the process will be documented by moving your loan to a new servicer designed to track PSLF payments over time. Qualified payments made before you submit a certification form may count toward the 120-payments goal.

To make sure everything is progressing as planned, a good rule of thumb is to continue to submit annual Employment Certification Forms to keep track of your qualifying payments, and continue to verify with the government.

Submitting for PSLF

After making the 120 qualified payments, you will need to submit the Final PSLF: Application for Forgiveness. You will be asked to include documentation proving that all employers during your 10-year payment period met the eligibility criteria and may be asked to submit additional documentation.

The Fine Print: You must be employed with a qualifying organization when you submit your application and at the time it is approved. If you leave your qualifying employer before you receive your PSLF, you will not be approved.

Learn more

Learn what you need to know and how to get started at Fidelity's Public Service Loan Forgiveness site.

[1]National Center for Education Statistics 2011–2012.

PSLF is a Department of Education–sponsored program and is therefore subject to changes made by that government entity. It is not guaranteed.

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