Memorandum

RE: The Cost-Effectiveness of Public Service Loan Forgiveness (PSLF)
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Economic Analysis: The Cost-Effectiveness of Public Service Loan Forgiveness (PSLF)

Executive Summary

The current PSLF program costs approximately $10-15 billion annually (the ten year cost estimated to be $110 billion) while delivering recruitment and retention value equivalent to $302 billion in salary increases—representing extraordinary taxpayer value at a 20:1+ cost-effectiveness ratio. Restricting qualifying employers would eliminate this cost advantage and force significantly more expensive alternative approaches to maintain essential public service workforces.

Program Purpose and Economic Rationale

The purpose of the Public Service Loan Forgiveness (PSLF) program is to attract and retain talented and highly-educated individuals—those who have invested significantly in their education and carry student loan debt—into roles that deliver positive externalities for society but are typically associated with lower financial compensation. Without incentives like PSLF, alongside confidence in the viability and durability of the program, these critical positions in areas such as healthcare, education, public safety, government, and non-profit sectors are less attractive to qualified candidates. By offering student loan forgiveness after a period of dedicated public service, PSLF effectively lowers the financial barriers that often deter skilled professionals from pursuing careers focused on the public good.

Recent feedback from PSLF-eligible employers confirms this economic reality:

- Healthcare systems report PSLF as "key to recruiting nurses and hard-to-fill clinical positions"

- Nonprofit organizations describe PSLF as "a major driver to get any form of talent in the marketplace" noting "there is no financial incentive to work for a nonprofit without this program"
- Rural employers identify PSLF as the "critical differentiator compared to other area employers"
- School districts report teachers choosing public service specifically because of loan forgiveness potential

Cash-Equivalent Analysis: The True Value of PSLF

Using a cash-equivalent analysis reveals the extraordinary financial value PSLF offers to both eligible employees and employers, clearly demonstrating the benefit's effectiveness and efficiency. To quantify PSLF's economic value, we assessed the financial equivalent required to replicate this benefit through direct compensation:

Annual Salary Equivalent: Replacing the PSLF benefit universally across eligible sectors (approximately 33.6 million full-time equivalent public-sector and nonprofit employees) would necessitate a recurring salary increase averaging approximately $9,000 per employee per year, totaling $302 billion annually.

One-time Bonus Equivalent: Alternatively, providing an immediate lump-sum bonus to match the present value of PSLF would require roughly $69,800 per employee, equating to an extraordinary total cost of $2.35 trillion.

Borrower-level cash-equivalent

Scenario	Balance Forgiven (year 10)	Present-value (PV) of benefit	Annual raise that PV-matches	Equivalent one-time bonus
Teacher (B.A./M.Ed., $55 k salary, $40 k debt)	$40k	$24.6k	$ 4.5k	$ 34.9k
Average PSLF borrower ($80k forgiven)	$80k	$49.1k	$ 9.0k	$ 69.8k

Non-profit physician ($120k forgiven)	$120k	$73.7k	$ 13.6k	$ 104.7k

Assumptions: 5% discount rate; 29.65% combined federal & payroll tax; no state tax. Physician estimate assumes 10 years in a 501(c)(3) hospital; actual results vary with residency salary years and filing status.

Methodology

1. Project forgiveness amount - Assume IDR payments for 120 months while interest subsidies keep the balance roughly flat for lower-income borrowers
2. Discount future benefit - Nominal discount rate = 5%
3. Translate to after-tax dollars - Because PSLF is tax-free, the equivalent salary must deliver the same net present value after 10 years
4. Gross-up for taxes - Apply 29.65% combined federal + payroll tax

Total Cost Calculation

Since cash compensation would apply to all workers rather than only those with student loans, the taxpayer cost of achieving equivalent total compensation attractiveness equals the per-borrower cash value multiplied by the total number of full-time employees in PSLF-eligible positions:

- Federal government FTEs (civilian): ~4.3 million FTEs (2023 data)
- State + local government: ~20.3 million employees (5.45M state + 14.83M local)
- Total government FTEs: ~24.6 million FTEs
- Total nonprofit employment: ~12.8 million jobs (2022 data), assuming 70% FTE = ~9 million FTEs[1]
- Total eligible workforce: ~33.6 million FTEs

Total cash compensation equivalent: $9,000 × 33.6M employees = over $302 billion per year, or over $3 trillion over a ten-year period. As a one-time bonus, the cost would exceed $2.3 trillion today.

Cost Implications of Restricting Qualifying Employers

The proposed restrictions on qualifying employers would fundamentally undermine PSLF's cost-effectiveness through several mechanisms:

Immediate Workforce Displacement Costs

Organizations losing PSLF eligibility would face immediate pressure to provide alternative compensation to retain current employees who joined specifically for loan forgiveness benefits. Based on our cash-equivalent analysis, this could require salary increases of $4,500-$13,600 per affected employee annually.

Administrative Complexity and Legal Costs

Determining which organizations engage in "substantial illegal purpose" creates new bureaucratic infrastructure requirements, legal challenges, and ongoing compliance costs. The evidentiary standards and appeals processes outlined in the proposed regulations would require significant administrative resources while creating uncertainty that undermines the program's recruitment value.

Market Distortion Effects

Arbitrary distinctions between similar organizations serving identical public purposes would create competitive imbalances, forcing "excluded" employers to dramatically increase compensation while "included" employers maintain cost advantages—leading to inefficient resource allocation and service delivery disruptions.

Risk Analysis: Consequences of Program Restriction

Immediate Workforce Disruption

Employer feedback reveals the scale of potential disruption:

- Healthcare systems warn that program changes would represent "one of our most significant business challenges"
- Educational institutions note that restrictions would accelerate teacher shortages: "we will not have people going to the teaching industry at all"
- Nonprofit organizations report that changes "would cripple our applicant base"

Increased Taxpayer Costs

Governments at all levels would face pressure to raise salaries to maintain competitive recruitment, shifting costs from the targeted PSLF program to broader, more expensive compensation increases across entire public sector workforces.

Service Delivery Impacts

Rural and underserved communities already struggling with professional staffing would be disproportionately affected, as PSLF currently serves as their primary tool for competing with higher-paying urban and private sector alternatives.

Fiscal Impact Comparison

Scenario	Annual Cost	10-Year Cost	Coverage	Efficiency
Current PSLF Program	$10-$15 billion	*$100-150 billion*	Targeted to debt holders	20:1 cost advantage
Universal Salary Increases	$302 billion	$3+ trillion	All employees	Broad, unfocused
One-time Bonus Equivalent	n/a	$2.35 trillion	All employees	Immediate, massive cost

Conclusion

The PSLF program represents an exceptionally cost-effective policy tool for addressing critical workforce challenges in public service sectors. Rather than requiring hundreds of billions in annual salary increases or trillions in upfront bonus payments to attract qualified professionals to lower-paying but socially essential roles, PSLF achieves the same recruitment and retention objectives at a fraction of the cost—approximately 5% of the equivalent direct compensation approach.

By targeting loan forgiveness specifically to those with educational debt who commit to public service, the program efficiently channels resources where they have maximum impact—enabling governments and nonprofits to compete for talent without dramatically restructuring their compensation systems. The program's current broad eligibility reflects sound economic policy design: targeting maximum public benefit at minimum public cost.

Restricting PSLF qualifying employers would abandon this proven, cost-effective workforce tool in favor of significantly more expensive alternatives, ultimately costing taxpayers billions more while weakening public service delivery. The extraordinary cost-effectiveness of the current program structure—delivering $302 billion in recruitment value for $10-15 billion in annual investment—demonstrates that broad eligibility is not just policy preference but fiscal necessity.

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[1] *The 70% FTE assumption for nonprofit employment reflects typical employment patterns in the sector, accounting for part-time and contract positions that would not qualify for PSLF.*