Repayment Strategies for New Physicians

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Independent Student Loan Consulting
MD/MPH Class of 2021
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Simple steps

1. Know what, who, and when
2. Determine your repayment objectives
3. Select repayment plan to meet those objectives

Proposed topics

- What residents are doing
- Student loan debt and your portfolio
- Higher Education Act update
  - Latest on PSLF*
- Repayment options
  - Time driven and income driven plans
  - Married borrowers and repayment
- Resources and action items

* Public Service Loan Forgiveness
Repayment strategies

- Postpone and catch up later
- Use service commitment programs
  - Preserve their options by entering repayment in training with IDR*
    - Land in public sector, use PSLF
    - Land in private sector
      - Stay in income plan and overpay
      - Refinance at lower rate with private lender

* Income Driven Repayment plan like PAYE or REPAYE

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Medical school debt*

- $200,000 Median all schools
- $215,000 Median private
- $215,005 Mean (average) private

- 44% planning on using PSLF**

* Source: Association of American Medical Colleges (AAMC), Class of 2019
** Public Service Loan Forgiveness
Your portfolio

• Federal*
  – Direct Unsub and Direct PLUS
  – Lender is government, they assign servicer
  – Fixed rates, rates change on new loans
  – Due 6 months after graduation
  – Repayment flexibility and PSLF eligible

• Campus-based

• Private loans

* Referenced on NSLDS at NSLDS.ed.gov

Interest rates*

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>Direct Unsubsidized max rate 9.5%</th>
<th>Direct PLUS (Grad PLUS) max rate 10.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019.2020</td>
<td>6.08%</td>
<td>7.08%</td>
</tr>
<tr>
<td>2018.2019</td>
<td>6.59%</td>
<td>7.59%</td>
</tr>
<tr>
<td>2017.2018</td>
<td>6.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>2016.2017</td>
<td>5.31%</td>
<td>6.31%</td>
</tr>
<tr>
<td>2015.2016</td>
<td>5.84%</td>
<td>6.84%</td>
</tr>
</tbody>
</table>

* Rates on new loans disbursed on or after July 1 of year indicated, fixed for life of loan

Payment application

• One payment applied proportionately against all loans*
• Target voluntary or additional payments on worst loan
• No penalty for early repayment
• Payments applied to interest first

* Called combined or single billing
Capitalization

- Accrued and unpaid interest added to principal
- Less frequent the better
- Expect interest to capitalize
  - At start of repayment
  - When switching income plans
  - When late renewing income plans
  - When there are "gaps" in status

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HEA* update

- HEA up for reauthorization
  - Last update 2008, expired in 2013, continually renewed
  - Reauthorization unlikely any time soon
- Provisions usually have trigger date with major changes impacting new borrowers only
  - Look for reference to "new borrowers" or "new loans"

* Higher Education Act
PSLF*

• Designed to encourage public sector work by promising to forgive debt tax free after 10 years of payments

• Requirements
  1. 120 timely IDR payments on ...
  2. Direct Loans ...
  3. While working FT for eligible employer**

• Not degree or specialty specific

* Public Service Loan Forgiveness
** Most teaching hospitals are non-profit

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PSLF*

• Targeted for changes since it was first passed into law in 2007

• Tons of misinformation about PSLF

• You can track eligibility

• FSA predicts increase in eligible borrowers

• News of recent denials

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PSLF denial reasons*

<table>
<thead>
<tr>
<th>Wrong payment plans</th>
<th>55%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missing information</td>
<td>24%</td>
</tr>
<tr>
<td>Wrong loans</td>
<td>15%</td>
</tr>
<tr>
<td>Employment dates</td>
<td>2%</td>
</tr>
<tr>
<td>Employer not eligible</td>
<td>2%</td>
</tr>
</tbody>
</table>

* Public Service Loan Forgiveness Program Data, June 2019, USED
My two cents worth

- Graduates were paying loans off long before PSLF
- Temporary Expanded PSLF passed
- Staffers on Capitol Hill likely want PSLF
- PSLF unlikely to change your career plans, unless huge debt
- No way you would apply until you knew you had met all requirements

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Repayment plans*

1. Time driven**
2. Income driven

* Federal loans like Direct Unsub, Direct PLUS, Direct Consolidation
** Most private loan repayment terms are time driven as well
Time driven

• End of term, debt retired*
  – Standard 10 and Extended 25 year**
  – Same payment each month***
• Payment calculation has nothing to do with income, marital status, how you file taxes, family size
• Common with private loans

* Assumes minimum payments only   ** Up to 30 with consolidation   *** Graduated versions of these plans are available

Income Driven

• Designed for borrowers who can’t afford Standard 10 year
• Bigger the gap between federal debt and income, more likely you need IDR
• PAYE and REPAYE newest plans
• Payments based on income and family size and change annually

IDR calculation

• Formula use PRIOR year income
• New form asks if current income has DECREASED since last return filed
  – Consider filing return your senior year
  – May result in $0 IDR payment*
• Income increases will show on subsequent return

* $0 calculated IDR payments count for PSLF
Once in an IDR

1. Debt retired tax free after 120 eligible payments with PSLF*
2. You retire the debt before the term is up
3. Debt not retired by end of term is forgiven, but considered taxable income

* Public Service Loan Forgiveness

PAYE versus REPAYE

<table>
<thead>
<tr>
<th></th>
<th>PAYE*</th>
<th>REPAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation</td>
<td>10% of DI**, payment cap</td>
<td>10% of DI**, no payment cap</td>
</tr>
<tr>
<td>Term</td>
<td>Up to 20 years (anything left forgiven***)</td>
<td>Up to 25 years (anything left forgiven***)</td>
</tr>
<tr>
<td>Spousal income</td>
<td>Yes, but not if filing separately</td>
<td>Yes, regardless of filing status</td>
</tr>
<tr>
<td>Interest subsidy on unsub loans</td>
<td>No</td>
<td>Yes, 50% whenever interest due exceeds calculated REPAYE payment</td>
</tr>
</tbody>
</table>

* New borrowers as of October 1, 2007 only
** Discretionary income (how much AGI exceeds 150% of poverty level)
*** Taxable

PAYE or REPAYE

• REPAYE may be best for borrowers
  – With big gap between debt and income
  – Who are single or married poor
  – Who may refinance after training if no PSLF
• PAYE may be best for borrowers
  – Whose income jumps their debt dramatically soon after training (they want payment cap)
  – Who need to exclude spousal income*
  – Who don’t anticipate retiring the debt but want to be debt free sooner than with REPAYE**

* You will need to file a separate return
** Higher potential tax liability with PAYE
### $200,000* 3 year residency

<table>
<thead>
<tr>
<th></th>
<th>Standard</th>
<th>Extended</th>
<th>REPAYE</th>
<th>PAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Payment</td>
<td>$2,560 10 years</td>
<td>$1,495 25 years</td>
<td>$318 to $2,487 24 years</td>
<td>$318 to $2,198 20 years</td>
</tr>
<tr>
<td>Total Paid</td>
<td>$307,249</td>
<td>$488,550</td>
<td>$466,960</td>
<td>$366,192</td>
</tr>
<tr>
<td>PSLF Paid</td>
<td>NA</td>
<td>NA</td>
<td>$135,847</td>
<td>$135,847</td>
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<tr>
<td>PSLF Forgiven</td>
<td>NA</td>
<td>NA</td>
<td>$217,808</td>
<td>$233,646</td>
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<tr>
<td>Term Forgiveness</td>
<td>$0</td>
<td>$0</td>
<td>$0 (paid in full before term up)</td>
<td>$117,825 taxable</td>
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<tr>
<td>Est. Taxes</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>$83,351</td>
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<tr>
<td>Total Cost</td>
<td>$307,249</td>
<td>$488,550</td>
<td>$466,960</td>
<td>$401,543</td>
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</table>

* $40,500 Direct Unsubsidized and $9,500 Direct Plus each year; applicable rates for Class of 2019
* 6- to 12-month window prior to repayment; no aggressive payments
* Single, family size of 1; $56,880 PGY - 1 stipend; $180,000 starting salary; taxable rate at 30%

### $200,000* 6 year residency

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<th>REPAYE</th>
<th>PAYE</th>
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</thead>
<tbody>
<tr>
<td>Monthly Payment</td>
<td>$2,560 10 years</td>
<td>$1,495 25 years</td>
<td>$318 to $2,328 25 years</td>
<td>$318 to $1,994 20 years</td>
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<tr>
<td>Total Paid</td>
<td>$307,249</td>
<td>$488,550</td>
<td>$434,604</td>
<td>$303,197</td>
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<tr>
<td>PSLF Paid</td>
<td>NA</td>
<td>NA</td>
<td>$94,387</td>
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<tr>
<td>PSLF Forgiven</td>
<td>NA</td>
<td>NA</td>
<td>$246,857</td>
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<tr>
<td>Term Forgiveness</td>
<td>$0</td>
<td>$0</td>
<td>$75,032 taxable</td>
<td>$203,556 taxable</td>
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<tr>
<td>Est. Taxes</td>
<td>NA</td>
<td>NA</td>
<td>$22,510</td>
<td>$61,067</td>
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<tr>
<td>Total Cost</td>
<td>$307,249</td>
<td>$488,550</td>
<td>$437,144</td>
<td>$364,264</td>
</tr>
</tbody>
</table>

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Resources

- Office of Student Financial Assistance
  - PG Presents, LLC
- www.AAMC.org/FIRST
  - Highly recommended site
  - Medloans Organizer and Calculator*
- www.StudentLoans.gov
  - Repayment Estimator
- Your loan servicer

* Repayment calculator designed specifically for medical students and residents

Action items

- Use AAMC MLOC* each year
- Don’t borrow more than you need, but consider interview expenses
- Be careful where you get information
- Take advantage of “Every Student Every Year” services

* AAMC Medloans Organizer and Calculator at www.AAMC.org/MLOC

GOOD LUCK!

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