

Student Financial Planning: “What happens after I graduate?”

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On today's agenda

- **Priority one, know what you borrowed and know your grace, deferment, and forbearance options**
- Determine your repayment objectives
- Repayment challenges and considerations
- Repayment plans, including IBR and Public Service Loan Forgiveness
- Resources

Loan types

- Sub and Unsubsidized Stafford
- Grad PLUS*
- Federal Consolidation
- Federal Perkins
- Primary Care Loan
- Loans for Disadvantaged Students
- Institutional Loans
- Private Loans**

* Consider any Parent PLUS Loans taken out in college for which you may be responsible

** Includes any Residency and Relocation (R&R) Loans borrowed in 4th year

Terminology

- Subsidized and unsubsidized loans
- Capitalization
- FFELP and Direct Loans
- Grace, deferment, and forbearance
- Combined billing and consolidation

Sub and unsub loans

- Subsidized
 - Interest free during grace and deferment
 - Subsidized Stafford, Perkins, PCL, LDS, some institutional loans
- Unsubsidized
 - Interest accrues from date of disbursement
 - Unsubsidized Stafford, Grad PLUS, some institutional loans, private loans including R&R loans

Capitalization

- Adding accrued and unpaid interest back to principal loan balance
- Less frequent the better
- Can often track online
- Capitalization often occurs at repayment and at a “status change”
 - “Non Capping Administrative Forbearance”*

* Loan servicer may place borrower in forbearance to keep loans in “Good Standing” should there be a delay in setting up borrower for IBR payments; this protects borrower from delinquency, but interest accrues; ask your loan servicer if they cap this interest

Capitalization at status change

- General rule of thumb is that loan servicers capitalize interest at a “status” change
- Examples would include:
 - Grace to “active repayment”
 - Grace to Internship Residency Forbearance
 - Internship Residency Forbearance to Graduate Fellowship Deferment
 - Internship Residency Forbearance to IBR payments
 - IBR to period when borrower no longer demonstrates “Partial Financial Hardship”

FFELP and Direct Loans

- Federal Family Education Loan Program*
 - Stafford, Grad PLUS, Consolidation taken out from private lenders
- Direct Loans
 - Stafford, Grad PLUS, Consolidation taken out “directly” from government
- “Split” portfolios may exacerbate challenges of implementing your repayment strategy**

* Formerly called the Guaranteed Student Loan Program ** Many borrowers will have “split” portfolios (at least initially) when their school moves from FFELP to Direct Lending, which all schools are required to do as of July 1, 2010

Grace

- Period of time following graduation when you are not required to pay
- No application required
- Subsidized loans keep their subsidy
- Grace periods are “loan specific”
 - Length depends on the loan type (for example, 6 months for Stafford, 9 for Perkins, 12 months for PCL, etc.)
 - Once used, you do not get again (you lost Grace period on premed Staffords if more than 6 months expired between premed and start of medical school, but that does not impact Grace period on Staffords from medical school)
- Pay special attention to loans that have no grace periods such as Grad PLUS

Deferment

- You can postpone payments, assuming you meet certain requirements
- Subsidized loans keep their subsidy
- **Deferment during residency rarely an option, due to recent changes***
- Graduate Fellowship Deferment still available following residency for eligible borrowers
- New “Post Enrollment 6 Month Deferment” for Grad PLUS disbursed on or after July 1, 2008
 - Works just like a Grace period, but is actually a Deferment

* Debt to income ratio removed from Economic Hardship Deferment eligibility criteria on July 1, 2009, with adverse impact to medical residents' ability to qualify

Forbearance

- Postpone or reduce payments during times of financial difficulty
- Costly option
 - No subsidies
 - Capitalization may be more frequent
 - May lose borrower benefits
- Mandatory Internship Residency Forbearance available throughout residency, regardless of length*
 - Based on status as medical resident

* May be used at any time during residency; this is NOT at the discretion of loan servicer, must be granted per statute; this provision means there is no reason you should ever be delinquent on Stafford, Grad PLUS, or Consolidation while in residency

Combined billing

- Often possible when multiple loans are with one servicer*
- Servicer “combines” bills for multiple loans into one bill
- One payment applied proportionately against loans
- Protects aggressive repayment strategy**

* Provides convenience of one payment ** Allows borrower to target voluntary or additional payments against their most expensive loan, a key component in an aggressive repayment strategy as you try to get the best “bang for your buck”

Consolidation

- Multiple loans refinanced or paid in full with one new loan
- Rate may be slightly higher*
- Direct Loan Consolidation only option for federal loans
- May adversely impact aggressive repayment strategy**

* Most portfolios are comprised of fixed rates already; new consolidation rate is weighted average rounded up .125% and fixed for life of loan ** No penalty for early payment, but you cannot "target" payments like you can with combined billing

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What are **your** objectives?

- Protect your income and maximize monthly cash flow in residency and/or practice
- Minimize interest costs and capitalization
- Public service with loan forgiveness
- Convenience
- Repayment help with service commitment

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Repayment challenges

- Complex portfolios
 - Multiple loans with multiple interest rates
 - Multiple repayment start dates
 - Multiple deferment and forbearance options
 - Some eligible for PSLF, some not eligible
- Multiple servicers
 - Overall decline in quality of service*
- Limited time to dedicate to your loans

* While an opinion of PGPresents, this is a widely held position among many who work with students and graduates, especially in the medical school environment; this is also an opinion held by many in higher education

Repayment considerations

- Find out how much income “bump” you will have in residency
- Student loan payments should not exceed 8-10% of your gross income*
- Deferment and forbearance do not adversely impact your credit score**

* Industry standard; some consider 10-15% more appropriate for medical residents

** Loans remain in “Good Standing” during periods of deferment and forbearance

Repayment considerations

- Borrowers may switch repayment plans, with some restrictions
- No penalty for early repayment of federal loans
- Consolidation may partially negate an aggressive repayment strategy
- Decline in quality of loan servicing may add to challenges in repayment*

* While an opinion of PGPresents, this is a widely held position among many who work with students and graduates, especially in the medical school environment; this is also an opinion held by many in higher education

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Options at repayment

- 30-45 days prior to repayment, notice from loan servicer
- Borrower should be offered three basic options:
 - Enter “active repayment”*
 - Request a Deferment
 - Request a Forbearance

* Choosing Standard, Graduated, an Income “Related” plan, or Extended repayment

Options at repayment

- 30-45 days prior to repayment, notice from loan servicer
- **Reality suggests just two options:**
 - Enter “active repayment”*
 - Request a Forbearance

* Choose from Standard, Graduated, Income “Related”, or Extended repayment plans



“Active Repayment” options

- Standard (Level)
- Graduated
- Income “related”
- Extended



Standard repayment

- 10 years, level payments each month
- Relatively higher monthly payment, lower overall interest costs
- You get put in Standard if you don't choose when given opportunity
- Part of strategy for someone with steady income who can handle the payments*

* May become your strategy after your residency program is complete



Graduated repayment

- Payments start lower and increase at designated amounts at designated times over 10 years*
- Lower initial payments result in higher overall interest cost
- You know payment amounts and when payments will increase, no surprises
- Part of strategy for someone with regular income, but other immediate and/or short term financial commitments and expenses**

* Plans vary by loan servicer ** Possible strategy after residency if you still carry other financial commitments



Income “related”

- Payments tied to income
- Documentation required each year
- Usually 10 years
- Smaller initial payments mean higher overall interest costs
- Part of strategy for someone with variable income or minimal income for defined period



Income “related”

- Three versions of repayment plans tied to income
 - Income Sensitive Repayment (ISR)
 - FFELP version of income related plan
 - Income Contingent Repayment (ICR)
 - Direct Loans version of income related plan
 - Income Based Repayment (IBR)
 - Available for eligible borrowers* in both FFELP and Direct Lending

* Borrower must demonstrate “Partial Financial Hardship”



Extended repayment

- Level payments over extended period of up to 25 years for eligible borrowers
- Lower monthly payments result in much higher total interest costs
- Graduated options available
- Part of strategy for extremely highly indebted borrowers*

* Possible strategy for someone with high debt who needs to protect part of their income for a designated period of time

Sample repayment at \$162,000

- Standard (Level)
 - \$2,119 per month for 10 years
 - \$92,267 total interest cost
 - \$254,267 total repayment cost
- Graduated
 - \$1,043 per month for 24 months
 - \$2,492 per month for 96 months
 - \$102,272 total interest cost
 - \$264,272 total repayment cost
- Extended
 - \$1,278 per month for 25 years
 - \$221,385 total interest cost
 - \$383,385 total repayment cost

Estimates courtesy USA Funds; \$34K Sub Stafford, remainder Unsub Stafford, no Borrower Benefits, 6 month grace, no Internship Residency Forbearance, no early payments, 6.8% interest rate, capitalization at repayment

Impact of Forbearance

- Standard (no Forbearance)
 - \$2,119 per month for 10 years
 - \$92,267 total interest cost
 - \$254,267 total repayment cost
- Standard (3.5 years of Forbearance)
 - \$2,623 per month for 10 years
 - \$152,782 total interest cost
 - \$314,782 total repayment cost

Estimates courtesy USA Funds; \$34K Sub Stafford, remainder Unsub Stafford, no Borrower Benefits, 6 month grace, 3.5 years of forbearance where indicated, no early payments, 6.8% interest rate, capitalization at repayment

IBR and PSLF based on Standard*

- **Standard (Level)**
 - **\$2,119 per month for 10 years**
 - \$92,267 total interest cost
 - **\$254,267 total repayment cost**
- Graduated
 - \$1,043 per month for 24 months
 - \$2,492 per month for 96 months
 - \$102,272 total interest cost
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- Extended
 - \$1,278 per month for 25 years
 - \$221,385 total interest cost
 - \$383,385 total repayment cost

* IBR and PSLF are closely tied to Standard repayment amounts, so always know what your Standard monthly payment on your eligible federal loans would be immediately upon entering repayment; that is why in this example the estimated monthly payment amount is in **BOLD**

“Active Repayment” options

- Standard (Level)
- Graduated
- Income “related”
 - **Income Based Repayment**
- Extended

Income Based Repayment (IBR)

- Stafford, Grad PLUS, Federal Consolidation*
- FFELP or Direct Loans
- Designed for:
 - highly indebted borrowers with ...
 - low to moderate incomes that are ...
 - expected over the long term
- You must show “Partial Financial Hardship” in order to qualify to make the lower IBR payment

* Federal Consolidation NOT eligible for IBR if loan includes Parent PLUS; Perkins Loans are not eligible for IBR payments, unless they have been consolidated

Partial Financial Hardship

Partial Financial Hardship occurs when the annual amount due on your eligible federal loans at the time you entered repayment* exceeds 15%** of the difference between your AGI and 150% of poverty level for your family size.

* Calculated on the Standard 10 year repayment plan ** This percentage will become 10% for new borrowers effective July 1, 2014

PFH during residency?

- 2009 Poverty Line for family of 1: 10,830*
- Times 150%: 16,245
- AGI as PGY-1: \$46,717**
- **Total annual loan payments: \$25,428*****

- AGI less 150% of Poverty Line: 30,472
- **Times 15% 4,570**
- Compare with 4,570 with \$25,428
 - Borrower should easily qualify

* Per HHS (2010 Guidelines not released as of date of preparation of these slides)

** Median PGY-1 stipend reported by AAMC

*** Standard repayment on \$162,000 in Stafford Loans (see earlier slide)

Payment during residency*

- Family size: 1 (single)
- 150% of 2009 Poverty Line: \$1,354 (family of 1)
- Income: \$46,717**

- Monthly AGI: \$3,893
- Minus 150% of Poverty Line: (\$1,354)
- Equals \$2,539
- Times 15% x.15
- **Estimated monthly payment \$ 380**

* Payment is ESTIMATE based on assumptions referenced in presentation and estimated figures provided ** Median PGY-1 stipend reported by AAMC

PFH during practice?

- 2009 Poverty Line for family of 1: 10,830
- Times 150%: 16,245
- Estimated starting salary: \$130,000*
- **Total annual loan payments: \$25,428**

- AGI less 150% of Poverty Line: 113,755
- **Times 15% 17,063**
- Compare with 17,063 with \$25,428
 - Borrower should qualify at least 1 year into practice

* Per several salary studies and surveys, including Physicians Search

Payment during practice*

- Family size: 1 (single)
- 150% of 2009 Poverty Line: \$1,354 (family of 1)
- Income: \$130,000

- Monthly AGI: \$10,833
- Minus 150% of Poverty Line: (1,354)
- Equals 9,479
- Times 15% x.15
- **Estimated monthly payment \$ 1,421**

* Payment is ESTIMATE based on assumptions referenced in presentation and estimated figures provided



How IBR could help

- More manageable payments during residency and practice, assuming threshold still met for Partial Financial Hardship*
- Protects your income for other financial obligations and commitments, or other financial interests

* Primary Care Physicians (PCPs) may qualify during their first years of practice, due to relatively lower salaries



How IBR could help

- Keeps monthly payments manageable during practice, even if you do not show Partial Financial Hardship
 - Monthly payments after periods of PFH can never be higher than they would have been had borrower entered Standard repayment immediately upon repayment*

* As long as borrower stays in IBR plan; this will extend repayment term beyond 10 years



IBR and married borrowers

- Current law
 - Spousal income counted if file jointly
- Effective July 2010
 - Spousal income still counted if file jointly, but spousal student loan debt included in PFH determination and subsequent calculation of monthly payment under IBR
- Option for Alternative Documentation of Income*
 - Check with your loan servicer(s)

* In general, Loan Servicers have the discretion to request and review documentation that supports a borrower's claim that previous year income may not be representative of their current financial situation; check with your Loan Servicer(s) should this be the case



How IBR could help

- **Helps increase the amount of debt that may be eligible to be forgiven under Public Service Loan Forgiveness**



Public Service Loan Forgiveness

- Designed for borrowers with “Partial Financial Hardship” who do public service work
- Forgives remaining balance on **eligible loans** after 10 years of **eligible loan payments** and **eligible employment**



To get PSLF, you need:

- **Eligible loans**
 - Only Direct Loans qualify*
- **Eligible payments**
 - Payments under the IBR plan
- **Eligible employment**
 - Public service, other 501(c)(3), or nonprofit

* Borrowers with Stafford, Grad PLUS, and Consolidation through the FFEL Program must consolidate them into Direct Loan Consolidation in order for those loans to become eligible for PSLF

What qualifies as public service?

- Employed by any nonprofit, tax-exempt 501(c)(3) organization
 - Some teaching hospitals qualify
- IRS has searchable database of 501(c)(3) organizations
 - <http://www.irs.gov/app/pub-78/>
 - Find out who pays you and if they are a 501(c)(3)
- Employed by federal, state, local, or tribal government
 - Includes military, public schools, colleges

Source: IBRinfo.org

Forgiveness amount

IBR then Standard		Standard	
• PGY-1	\$ 4,560	• PGY-1	\$25,428
• PGY-2	\$ 4,800	• PGY-2	\$25,428
• PGY-3	\$ 5,040	• PGY-3	\$25,428
• PGY-4	\$ 5,280	• PGY-4	\$25,428
• Practice	\$152,568	• Practice	\$152,555
• TOTAL	\$172,248	• TOTAL	\$254,267

Assumptions: Same previous repayment assumptions; resident shows PFH during 4 year residency and makes IBR payments (amounts are estimates), then pays regular Standard amount for 6 years; borrower has Direct Loans and both residency and practice qualify as public service in this example; \$82,019 eligible for forgiveness; PLEASE NOTE should borrower not qualify for PSLF due to non eligible employment, repayment term will be extended beyond 10 years due to lower initial IBR payments



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Resources

- Decision Point Timeline*
- [www."YourLoanServicer".com](http://www.YourLoanServicer.com)
 - Check your loan servicer's Web site for online management of your student loans
- www.AAMC.org/FIRST
 - Monthly payment estimator, repayment schedules
 - Scholarship and loan repayment/forgiveness programs
- www.IBRinfo.org
 - Income Based Repayment information
 - Sign up for email alerts on IBR

* Distributed to session participants during session at AACOM 2010 Annual Meeting courtesy of PG Presents, LLC

Resources

- www.NSLDS.ed.gov
 - Comprehensive listing of Title IV federal loans (Stafford, Grad PLUS, Consolidation, Perkins)
- www.Ombudsman.ed.gov
 - Help with unresolved repayment issues
- www.IRS.gov/publications/p970
 - Student Loan Interest Deduction
- www.FPAnet.org
 - Financial planning information from a reputable non-profit organization

Questions?

Currently enrolled students are always encouraged to work with the professionals in their school's Financial Aid Office.



THANK YOU!

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