On today’s docket

- Student debt and your loan portfolio
  - Interest rates, loan servicers, payment application
- Recent and proposed changes
  - Student Debt Relief Plan, capitalization changes, PSLF
- Repayment strategies for health sciences graduates
  - Time-driven versus Income Driven Repayment plans
  - Public Service Loan Forgiveness
- Sample repayment
- Your action items

Good news

- CARES Act extended again
- Current students can qualify for debt relief
- One loan servicer for federal loans, tracking easy, one payment regardless of plan
- Payments affordable, thanks to income plans, including during training
- Debt not driving specialty choice
- PSLF** is working, attendings are qualifying
- Major favorable changes to capitalization
Not so good news

• Federal interest rates went way up this year
• CARES Act will eventually expire and interest will start to accrue on your loans January 2023
• Federal debt often grows significantly during training, especially for high debt borrowers when payments nowhere near cover interest due, and often during residency
• Tons of misinformation on student loans

Your portfolio

• Federal Direct Loans*
  – Direct Unsubsidized and Direct PLUS (Grad PLUS)
  – Government is lender, repayment contracted out to loan servicers (you should have one servicer**)
• Campus-based
  – School is the lender, different loan servicer than Direct
• Private loans
  – Not needed in graduate school
  – Popular approach is borrow federal, refinance later if you land in private sector
  – Know repayment terms for college private loans

Federal Direct Loans*

• Direct Unsubsidized
  – $40,500 per year MD
  – $20,500 per year other graduate programs
  – Repayment starts 6 months after graduation
  – Fixed rate for life of loan**
  – Eligible for repayment with income plans, and for PSLF
• Direct PLUS (Grad PLUS)
  – Up to COA*** less all other aid, including Direct Unsub
  – Repayment starts 6 months after graduation
  – Fixed rate for life of loan**
  – Interest rate always 1% higher than Direct Unsub
  – Eligible for repayment with income plans, and for PSLF

* Federal loans referenced at StudentAid.gov (look for the “dashboard” when you LOGIN)
** Negates for many the need to consolidate, as you already have convenience
*** Cost of attendance (financial aid budget)
Federal interest rates*

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Unsub*</th>
<th>Direct PLUS*</th>
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</thead>
<tbody>
<tr>
<td>2022.2023</td>
<td>6.54%</td>
<td>7.54%</td>
</tr>
<tr>
<td>2021.2022</td>
<td>5.28%</td>
<td>6.28%</td>
</tr>
<tr>
<td>2020.2021</td>
<td>4.30%</td>
<td>5.30%</td>
</tr>
<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>
</tbody>
</table>

* Rates change on NEW loans disbursed on or after July 1 each year then fixed
** 0% on Direct Loans during period covered by the CARES Act

Payment application

- One payment applied proportionately against all loans*
- Target voluntary or additional payments on highest interest rate loan, or pick off smaller balance loans
  - Great way to be aggressive in repayment
- No penalty for early repayment
- Payments applied to interest first**

* Called combined or single billing (may negate need to consolidate)
** Principal/balance will not come down until all outstanding interest is paid

Recent and proposed changes

- Transfer of loans between loan servicers
  - Everything should have moved with no changes to terms and conditions, rates, status
- Public Service Loan Forgiveness
  - New loan servicer for PSLF borrowers (MOHELA)
  - PSLF waiver (ended October 31, 2022)
- Upcoming changes to capitalization
Capitalization changes*

- New rules eliminate capitalization:
  - When borrower first enters repayment
  - When borrower leaves forbearance
  - When borrower switches income plans
  - When borrower no longer shows PFH** for Pay As You Earn (PAYE)

* Effective July 1, 2023
** When 10% of discretionary income exceeds original Standard 10 year payment plan amount

New Debt Relief Plan

1. Extension of CARES Act*
   1. 0% interest on all Direct Loans
   2. Suspension of payments, regardless of repayment plan
   3. Period of suspended payments counts for PSLF**
2. Targeted debt relief to low and middle-income families
   - www.Studentaid.gov/debt-relief-announcement
   - Students can qualify, application already online
3. Make loan repayment more manageable
   - New income plan for undergraduate loans
   - Cover borrower’s unpaid interest when using income plan

* CARES Act now expires January 1, 2023
** Public Service Loan Forgiveness (assumes borrower meeting other requirements)

Possible strategies

- Aggressive from the outset
- Cautious, with minimum payments
- Service-commitment and employee assistance programs
- Cover interest, aggressive later
- Postpone during training
- Public Service Loan Forgiveness

* National Health Service Corps, armed forces, NIH, state programs, etc.
PSLF*

- Designed to encourage borrowers to work in non-profit sector for at least 10 years with promise to forgive remaining debt at that time
- Forgiveness amount NOT taxable income
- Has nothing to do with degree or specialty
  - OT, PA, PT, medical, all can qualify
- PSLF is working, borrowers are qualifying, many in the queue for PSLF
- Current Administration friendly towards PSLF
  - Recent changes to help more borrowers qualify

* Public Service Loan Forgiveness was passed into law in 2007

PSLF eligibility

- Three things must happen at the same time in order to qualify for PSLF
  1. Make 120 timely qualifying payments with an eligible plan (you must use an income plan)*
  2. On eligible loans (only Direct Loans qualify)
  3. While working full time for eligible public sector non-profit employer**

* Payments do not have to be consecutive nor from the same plan
** Most teaching hospitals qualify as eligible PSLF employers
** Employment does not have to be consecutive

Repayment plans

- Look for plan with required minimum payment you can comfortably afford, then decide how to proceed
  - Overpay on highest rate loan if aggressive strategy
  - Minimum payments if PSLF part of strategy or you have cash flow challenges
- Principal balance will not come down unless you pay more than outstanding interest due each month
Repayment plans*

• **Time driven**
  - Payments spread out over 10 or 25 years, level payments
  - Payment calculation has nothing to do with income, marital or tax filing status
  - Date certain when debt is gone (nothing to forgive)
  - Payments always cover more than interest due

• **Income driven**
  - Payments based on income and family size, not debt level or interest rate
  - Payments change every year
  - Payments often do not cover interest due, causing balance to grow significantly during training

* Same payment each month (level plan), graduated versions available

Income driven plans

• Designed for borrowers with significant gap between federal debt and income who cannot afford Standard 10 year plan
• Payments based on income and family size and change annually
  - Income from most recently filed tax return used in payment calculation, unless income has dropped significantly
  - Many borrowers get $0 payment if they filed $0 return
  - $0 calculated payment counts for PSLF*
• **PAYE and REPAYE** most popular plans
  - See comparison chart to help pick the best plan**

* Public Service Loan Forgiveness
** Currently available at [www.PGPresents.com](http://www.PGPresents.com)

Married borrowers

• Spousal income counted under all income plans when filing jointly
  - Spousal federal debt factored into calculation
• Only one way to exclude spousal income
  - File separate return and use PAYE
  - REPAYE always counts spousal income
• Don’t assume you have to file separately and use PAYE if married, run the numbers first
  - Use Loan Simulator* to determine impact of spousal income (and federal debt) on your payments

* Studentaid.gov/loan-simulator
** Should NEVER be used by residents for total repayment and forgiveness estimates
Once in an IDR

- Once in IDR, one of three things will happen:
  1. Debt forgiven after 120 eligible payments with PSLF*
  2. Debt retired out of pocket before end of term
     • You could also refinance with a private lender
  3. Debt not retired by end of term, but forgiven
     • We call this “term forgiveness”
     • Unlike forgiveness with PSLF, term forgiveness is considered taxable income the year it is forgiven

* You must use an income plan to qualify for Public Service Loan Forgiveness

Switching plans

- You can switch plans, work with loan servicer
- Examples of switching plans:
  1. Start in time plan, move to IDR
  2. Start in IDR, no need to switch, stay in IDR, overpay on highest rate loan
  3. Start in REPAYE, switch to PAYE

* StudentAid.gov/loan-simulator
** Should NEVER be used by residents for total repayment and forgiveness estimates

Sample repayment*

- $200,000, Class of 2026
  - Maximum Direct Unsub, remainder Grad PLUS
- Applicable rates based M1 year
  - 6.5% and 7.5% Direct Unsub and Grad PLUS M2, M3, M4
  - CARES Act accommodated in rates
- Loans due 6 months out, no aggressive payments
- Single, family size of 1 throughout
- PGY-1 stipend of $60,000**
- $200,000 starting salary after training**
- No gaps in renewal of income plans or payments

* AAMC Medloans Organizer and Calculator used for all repayment estimates
** Moderate stipend and salary increases each year
$200,000 3 year residency

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<th>Extended 25 years</th>
<th>PAYE up to 20 years</th>
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<tr>
<td>Monthly Payment</td>
<td>$2,663*</td>
<td>$1,599*</td>
<td>$313 to $2,453 over 20 years</td>
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<tr>
<td>Total Paid</td>
<td>$319,609</td>
<td>$479,842</td>
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<tr>
<td>PSLF Paid</td>
<td>NA</td>
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<td>$156,215</td>
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<tr>
<td>PSLF Forgiven</td>
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<td>NA</td>
<td>$231,919</td>
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<td>Term Forgiveness</td>
<td>$0</td>
<td>$0</td>
<td>$977,918</td>
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<td>Total Cost</td>
<td>$319,609</td>
<td>$479,842</td>
<td>$439,622</td>
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* Note these payments are both MORE than monthly interest due
** 30% tax rate used as an estimate

$200,000 6 year residency

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<td>$479,842</td>
<td>$337,653</td>
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<td>PSLF Paid</td>
<td>NA</td>
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<tr>
<td>PSLF Forgiven</td>
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<td>NA</td>
<td>$260,706 (not taxable)</td>
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<tr>
<td>Term Forgiveness</td>
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<td>$0</td>
<td>$203,286 (taxable)</td>
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<tr>
<td>Est. Taxes**</td>
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<td>NA</td>
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<tr>
<td>Total Cost</td>
<td>$319,609</td>
<td>$479,842</td>
<td>$398,638</td>
</tr>
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* Note these payments are both MORE than monthly interest due
** 30% tax rate used as an estimate

Your TO DO list

- Always know **what** you have borrowed and **who** your loan servicer is
- Use calculators to estimate repayment options and to select best plan
- Take advantage of help from Duke SOM Financial Aid Office and please provide your feedback
- Be careful with calculators, watch Module 13
- **Apply for targeted forgiveness**
- Be careful where you get your information

* AAMC Medloans Organizer and Calculator at www.AAMC.org/MLOC
THANK YOU!
GOOD LUCK AT DUKE!

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