

Student Loan Update

Repayment Strategies for Health Sciences Graduates

Duke University School of Medicine

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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

* Cost of Attendance (annual financial aid budget)
** Public Service Loan Forgiveness

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 loans referenced at StudentAid.gov (look for the "dashboard" when you LOGIN)
 ** Negates for many the need to consolidate, as you already have convenience

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

* You should have ONE loan servicer for all your Direct Loans
 ** Rates change on NEW loans disbursed on or after July 1 of each year
 *** Cost of attendance (financial aid budget)

Federal interest rates*

Year	Direct Unsub*	Direct PLUS*
2022.2023	6.54%	7.54%
2021.2022	5.28%	6.28%
2020.2021	4.30%	5.30%
2019.2020	6.08%	7.08%
2018.2019	6.59%	7.59%
2017.2018	6.00%	7.00%

* 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)

* We think 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

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](https://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

	Standard 10 years	Extended 25 years	PAYE up to 20 years
Monthly Payment	\$2,663* 10 years	\$1,599* 25 years	\$313 to \$2,453 over 20 years
Total Paid	\$319,609	\$479,842	\$410,241
PSLF Paid	NA	NA	\$156,215
PSLF Forgiven	NA	NA	\$231,919 (not taxable)
Term Forgiveness	\$0	\$0	\$97,938 (taxable)
Est. Taxes**	NA	NA	\$29,381
Total Cost	\$319,609	\$479,842	\$439,622


* Note these payments are both MORE than monthly interest due
 * Monthly interest due \$1,298.41 (from AAMC MLOC)
 ** 30% tax rate used as an estimate

\$200,000 **6 year** residency

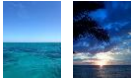
	Standard 10 years	Extended 25 years	PAYE up to 20 years
Monthly Payment	\$2,663* 10 years	\$1,599* 25 years	\$313 to \$2,219 over 20 years
Total Paid	\$319,609	\$479,842	\$337,653
PSLF Paid	NA	NA	\$107,915
PSLF Forgiven	NA	NA	\$280,306 (not taxable)
Term Forgiveness	\$0	\$0	\$203,286 (taxable)
Est. Taxes**	NA	NA	\$60,985
Total Cost	\$319,609	\$479,842	\$398,638

* Note these payments are both MORE than monthly interest due
 * Monthly interest due \$1,298.41 (from AAMC MLOC)
 ** 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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