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Repayment Strategies for New Physicians

Paul S. Garrard
Founder and President, PGPresents, LLC
Independent Student Loan Consulting
www.PGPresents.com
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Topics to discuss

- Simple steps to an effective strategy
- Postponing payments in training
- Time driven and income driven plans
- How income plans really work
  - PAYE versus REPAYE
  - Married borrowers and repayment
- Public Service Loan Forgiveness
- Federal consolidation and refinancing

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Preserve your options*

- You land in the public sector
  - Keep making minimum payments until you qualify for PSLF
- You land in the private sector
  - Stay in your income plan and overpay if and when you want to, or …
  - Refinance with a private lender at a lower rate

* Start making payments with an income plan during training

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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

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Step 1: Portfolio

- What
- Who
- When

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Your portfolio

- Federal loans at NSLDS.ed.gov
  - Direct Unsubsidized and Direct PLUS
    - Direct means government is lender
    - Should have one loan servicer
  - Most federal loans due 6 months out*
- Campus-based
  - Check with your school's FAO or loan office
  - Different loan servicer than for Direct Loans
- Private loans
  - Check disclosure statement for terms

* Unless grace period already used

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Federal interest rates

Year	Unsub	Grad PLUS
2019.2020	6.08%	7.08%
2018.2019	6.59%	7.59%
2017.2018	6.00%	7.00%
2016.2017	5.31%	6.31%
2015.2016	5.84%	6.84%

* Campus-based rates vary by school and program
* Private loan rates vary by lender

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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

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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 you're late renewing income plans
  - When there are "gaps" in status

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Step 2: Objectives

- Aggressive?
- Cautious?
- Service?
- PSLF?*

* Public Service Loan Forgiveness

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PSLF

- Designed to encourage borrowers to enter and stay in public sector for at least 10 years with promise to forgive debt tax free
- Not degree or specialty specific
- Proposals to eliminate PSLF have gone nowhere*
- High percentage of denials should not concern you

* Any changes unlikely to impact current borrowers

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PSLF denial reasons*

Wrong payment plans	53%
Missing information	25%
Wrong loans	16%
Employment dates	2%
Employer not eligible	2%

* Forgiveness Program Data, May 2019, U.S. Department of Education

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PSLF eligibility

1. Make 120 timely, scheduled payments with eligible plan*
2. On eligible loans (Direct Loans from government)
3. While working FT for eligible employer**

* Payments do not have to be consecutive, but you cannot accelerate PSLF
** Most teaching hospitals qualify

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Enrolling in PSLF

- You don't APPLY until all payments made, but you can ENROLL
- Submit PSLF Employment Certification Form (ECF)* every year
- This does NOT commit you to do PSLF, it only ensures you always know where you stand

* Online at www.StudentAid.ed.gov/publicservice
* Submit to FedLoan Servicing regardless of who your current loan servicer is

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My two cents worth

- Medical school graduates paying loans off long before PSLF
- PSLF unlikely to change your career plans
- Preserve the option for PSLF by making payments during training
- No way you would apply until you knew you had met all requirements

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Your first decision

1. Postpone payments
2. Start active repayment

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Postponement

- Deferment*
  - Unlikely in residency
  - Graduate Fellowship Deferment
- Forbearance*
  - Mandatory and Discretionary
    - Mandatory Residency Forbearance
      - Use any time, up to 12 months at a time, may be used throughout residency (no limit)
    - Alignment Forbearance for loans coming due at graduation

* Considered in good standing, credit is protected

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Step 3: Select a plan

1. Time driven
2. Income driven

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Time driven

- Debt spread out over time period
  - Standard 10 and Extended 25 year plans*
- Payments not based on income, marital status, how you file taxes, family size
- Debt free at end of term with minimum payments
- Can switch to income plan later
- Payments with these plans are NOT eligible payments for PSLF

* There are graduated versions of these

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Income Driven

- Designed for high debt borrowers who can't afford Standard 10 year
- Bigger the gap between federal debt and income, more likely you need IDR*
- Payments based on income and family size, and payments change annually
- PAYE and REPAYE newest plans
- Pros and cons to using these plans

* Income Driven Repayment (the "umbrella" name for all the income plans)

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Married borrowers

- Spousal income always counted under all income plans when filing jointly*
- Only way to exclude spousal income
  - File separately and use PAYE (or older IBR)
  - REPAYE always counts spousal income
- Use Repayment Estimator at www.StudentLoans.gov to estimate impact of filing jointly versus separately on monthly payments**

* Spousal federal debt factored into payment calculation
** Do NOT use for total repayment and forgiveness estimates

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Once in an IDR

1. Debt forgiven after 10 years with PSLF*
2. You retire the debt before the term is up
3. Debt not retired at end of term, remaining debt forgiven**

* Balance forgiven is NOT considered taxable income
** Balance forgiven IS considered taxable income

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PAYE versus REPAYE

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

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

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PAYE or REPAYE

- REPAYE may be best for borrowers
  - With big gap between debt and income
  - Who are single or spouse has minimal income
- 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

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Switching plans

- Start in time plan, then move to income plan
- Start with income plan for manageable payment, overpay on worst loan, no need to switch plans*
- Start in REPAYE, marry into money, spouse is not having it, file separately, and switch to PAYE

* This is when you might consider refinancing with a private lender

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Assumptions

- $250,000, Class of 2019
  - $162,000 Direct Unsub, $88,000 Grad PLUS
- Applicable rates based on year taken
- 6 month window prior to repayment
- No aggressive payments
- Single, family size of 1 throughout
- PGY-1 stipend of $56,000*
- $180,000 starting salary after training*
- No gaps in renewal of plans or payments

* Moderate stipend and salary increases each year

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$250,000*

	Standard	Extended	REPAYE	PAYE
Monthly Payment	$3,235 10 years	$1,905 25 years	$311 to $2,565 25 years	$311 to $2,198 20 years
Total Paid	$388,253	$571,392	$510,724	$365,913
PSLF Paid	NA	NA	$135,568	$135,568
PSLF Forgiven	NA	NA	$307,816 not taxable	$332,782 not taxable
Term Forgiveness	$0	$0	$176,334 taxable	$280,721 taxable
Est. Taxes	NA	NA	$52,900	$84,216
Total Cost	$388,253	$571,392	$563,624	450,129

* $40,500 Direct Unsubsidized and $22,000 Direct Plus each year; applicable rates for Class of 2019
* 6-month window prior to repayment; no aggressive payments
* Single, family size of 1; $56,000 starting stipend; $180,000 starting salary; taxable rate at 30%

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Federal Consolidation and Refinancing

- Federal consolidation
  - Trading federal debt for federal debt
  - Most are not strong candidates
  - May help secure $0 payment PGY-1*
- Refinancing with private lender
  - Trading federal for private debt**
  - Likely best after training if PSLF off the table and you don't need income plan

* Possible if you consolidate AFTER graduation and BEFORE residency starts
** You can include private loans in a new refinance loan, in addition to federal

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Takeaways

- You can absolutely pull this off
- Run your numbers every year
- Don't borrow more than you need
- Watch where you get information
- Control what you can control
- Document everything you do
- Use FREE resources to help

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CONGRATULATIONS AND GOOD LUCK!

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Loan Repayment Strategies for Osteopathic Physicians Webinar FAQ

September 18, 2019

Answers submitted as a courtesy to AACOM by Paul S. Garrard, Founder and President, PGPresents, LLC.
www.PGPresents.com

1. **If you are in an income-based plan and your payment is $0.00, does that count towards the 120 payments?**

   Yes, as long as the borrower is working full-time (FT) for an eligible employer. See the FAQs on Public Service Loan Forgiveness (PSLF) Program at www.StudentAid.ed.gov/publicservice and look for qualifying or eligible payments.

2. **Please briefly explain the difference between taxable and non-taxable income and clarify what you mean by taxable. Does it mean you just owe taxes one time on the debt forgiven?**

   It is important to note that we are not tax advisors. When a borrower qualifies for PSLF, the amount forgiven does NOT have to be listed (claimed) as income on the borrower's tax return the year the debt is forgiven. However, the amount of debt forgiven at the end of the repayment term with an income plan (20 years with PAYE, 25 with REPAYE) if the borrower does not retire their debt by the end of the term DOES have to be listed (claimed) as income the year it is forgiven, and it is subject to whatever tax rate is appropriate at that time.

3. **If you start in PAYE and then switch to REPAYE does the initial payment cap still apply?**

   No, there would be no payment cap, since you are now in REPAYE, and REPAYE has no payment cap. In addition, the term does not reset, meaning if you have been in PAYE for four years, you have 21 years remaining when you switch to REPAYE.

4. **Why would someone (even in the private sector) use a time-based plan, considering the flexibility the income plan offers?**

   Multiple reasons, including a) they can afford the payments, b) they want the same payment every month and every year, c) they don't want their monthly payments dependent on marital status and how they file taxes if they are married, and d) they know if they make minimum payments they will be debt free at the end of the term and not face any tax consequences of having their debt forgiven at the end of the term.

5. **Total and monthly payments are less with PAYE than REPAYE. What are your thoughts on this?**

   This is actually only partly true. The monthly payment calculation is exactly the same at 10% of discretionary income. You may view the PG Presents comparison chart for more information. However, for borrowers who cannot retire their debt by the end of the term, they will pay less with PAYE since the term is 20 years compared with 25 for PAYE, but their tax liability will be higher.

6. **Does switching non-profit hospitals affect PSLF qualifications—for example, doing residency at one hospital, then doing fellowship at another, and working at a third hospital after?**

   The 120 required payments for PSLF do not have to be consecutive nor does the eligible employment, BUT the PSLF clock does not move unless all of these things are happening at the same time: 1) you make 120 payments with an income plan, 2) on Direct Loans, 3) while working FT for an eligible employer.

7. **For PSLF, do you have to apply RIGHT after you make 120 payments? Or if you happen to apply a bit late, after 122 payments, while waiting to hear back regarding forgiveness, is that ok?**

   You apply when you make your last payment, and some accommodation would have to be made to ensure that whatever the balance is after your last qualifying payment is forgiven, as you should NOT have to make any additional payments; the application process will most certainly not happen overnight.

8. **If you forget to submit the Employment Certification Form (ECF) one year, is that year not counted towards your 120 payments for PSLF?**

   No, timely payments with an income plan on Direct Loans while working FT count towards PSLF whether they are being tracked or not, BUT you would most definitely want to submit the ECF for that time period, otherwise YOU have to prove you made those payments while you were working full-time for an eligible employer.

9. **How does mandatory forbearance affect your interest? How long is forbearance?**

   Interest accrues during forbearance and will capitalize when forbearance ends. Mandatory Residency Forbearance is good for the entire duration of training, 12 months at a time.