Student Loan Considerations for Graduating Housestaff
Overview

• Changes In Student Debt Levels
• Federal Programs Overview
• Maximizing PSLF
• Savings Scenarios and Case Studies
• Proposed Legislative Changes and Potential Impact
• Refinancing: When and why?
• Other Considerations (taxes, consolidation, targeted repayment)
• Training Exit Analysis
• Action plan Q&A

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Changes in Student Debt Levels

Debt levels have quadrupled in the last 20 years
Regulatory Changes

• 2007: Public Service Loan Forgiveness enacted
• 2009: (July 1st): Income-Based Repayment (IBR) effective
• 2012: Pay As You Earn (PAYE)
  • Available to “new borrowers” on or after Oct. 1, 2007
• 2014: New Direct Consolidation Process
  • Choose your own servicer and apply for IBR/PAYE with new application
• 2014: President’s Executive Order
  • PAYE benefits available to all borrowers beginning July 2015
• 2015: President’s Budget Proposal

Public Service Loan Forgiveness and PAYE provide greatest savings opportunity to medical graduates
No Payment, No Problem?

Salary: $48,000  $48,410  $49,862  $51,358

10-Year Standard Payment: $2,525  $2,662  $2,808  $2,965
Extended Term Payment: $1,519  $1,603  $1,693  $1,789

- Payment unmanageable during residency
- Deferment regulation changes necessitate forbearance

Cost of Forbearance

Total Forbearance Cost = $64,518
# Pay As You Earn

<table>
<thead>
<tr>
<th></th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
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<tbody>
<tr>
<td>Salary:</td>
<td>$48,000</td>
<td>$48,410</td>
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<tr>
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<td>$1,519</td>
<td>$1,603</td>
<td>$1,693</td>
<td>$1,789</td>
</tr>
<tr>
<td>PAYE Payment:</td>
<td>$0</td>
<td>$57</td>
<td>$256</td>
<td>$259</td>
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</tbody>
</table>

**PAYE Subsidy**

- **Interest Paid**
  - 1st Year: $13,663
  - 2nd Year: $13,038
  - 3rd Year: $10,824
  - 4th Year: $11,701

- **Subsidy Earned**
  - 1st Year: $3,178

**Interest Paid**

- 1st Year: $1,156
- 2nd Year: $1,104
- 3rd Year: $918
- 4th Year: $3,118

**Total Subsidy Earned**: $14,819
Public Service Loan Forgiveness

Eligible Loans: Direct Stafford & Grad PLUS

(FFEL, Perkins, HPSL and LDS can be consolidated for eligibility)

Specific requirements:

- Borrower must make 120 qualifying payments on a Federal Direct Loan

- Borrower must work for a public service entity as defined by the program, such as a Federal, State, Local, or non-profit organization

  - Employment Certification Form is available
    - Will trigger transition to FedLoans as servicer

Approximately 80% of hospitals are non-profit
Loan Forgiveness – True Cost of Debt

4-Year Residency

- **Standard Repayment**
  - $395,160
- **IBR Payment**
  - $164,590
- **PAYE Payment**
  - $109,726
Maximizing Loan Forgiveness

4-Year Residency

$175,185 IBR Forgiven

$240,605 PAYE Forgiven

Salary | IBR Outstanding Balance | PAYE Outstanding Balance

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAYE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</table>
Amount of Savings for a Physician Using Pay As You Earn versus a 10 Year Standard Repayment Term

Amount of Federal Debt

- $275,000
- $225,000
- $175,000
- $125,000

Savings Amount vs. Post Residency Starting Salary

Years in Residency

- 7
- 6
- 5
- 4
- 3
Savings: $28,441 (Present Value)
## Obama 2016 Budget Proposal

### Repayment Under Obama's Proposal

<table>
<thead>
<tr>
<th>Income Driven Repayment Calculation</th>
<th>Loan Forgiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited to 10% of discretionary income</td>
<td>10 Years if working in the Public Sector AND loan balance less than $57,500</td>
</tr>
<tr>
<td>Cap on payments removed</td>
<td>20 years for borrowers with total loan balance less than $57,500</td>
</tr>
<tr>
<td>• Expansion of PAYE to all federal loan borrowers</td>
<td>• $57,500 limit, based on max borrowing amount for independent undergrads</td>
</tr>
<tr>
<td>• Removal of cap on payments</td>
<td>• Balances above $57,500 will not be forgiven until 20-25 years of participation</td>
</tr>
<tr>
<td>• New cap on amount forgiven through PSLF</td>
<td>• Household income used for documentation instead of MFS</td>
</tr>
<tr>
<td>• $57,500 limit, based on max borrowing amount for independent undergrads</td>
<td>• 20 and 25 year forgiveness options to be tax-free</td>
</tr>
</tbody>
</table>
Other Physician Loan Repayment Programs

• National Health Service Corps (NHSC)
  – Up to $60,000 for full-time service at a designated site for a minimum of 2 years, continued service available for greater repayment
  – Half-time program available

• State-Based Repayment Programs
  – Often must be employed in Health Professional Shortage Area (HPSA)
  – Free of other contractual service obligations
  – $100k or more available based on commitment

PSLF and IBR/PAYE Forgiveness Still Available
Other Considerations:

- Consolidation
- Taxes
- Refinancing
- Income Protection
Considerations for Loan Consolidation

• Do I need to consolidate?
  – PSLF and PAYE are available for Direct Loans only
  – IBR available for FFEL loans but not PSLF eligible
  – Perkins, HPSL, LDS (some don’t appear on NSLDS!)

• Option to choose servicer
  – FedLoans is PSLF servicer
  – Varying turnaround times for processing applications
  – Varied standards for income verification (best to file tax return)
  – Service considerations

• Servicer Errors
  – Eligible loans not included in consolidation
  – Wrong repayment plan implemented
  – Incorrect advice regarding consolidation for forbearance, IBR/PAYE/PSLF

You have 10 business days to make changes once Loan Summary Sheet is issued
A PGY2 resident with $207k in federal student loan debt on academic career track gets married. How does the loan repayment strategy change if the spouse has no student loan debt and makes $90K salary?
A Physician’s Fork in the Road

Forgiveness  Refinancing
Refinancing Opportunities

Refinancing to lower rates may help reduce interest costs for Federal, private or credit card debt

- Recent entrants to the market disrupting the “status quo”
- High earners can refinance to fixed rates as low as 3.5%
- Private enterprise filling the gap left by Federal marketplace
- For Graduating Housestaff with contracts/paystubs in for-profit roles
**Refinancing Considerations**

- **Loss of subsidy/forgiveness** benefits on Federal education loans
- **Liquidity**, as forbearance and deferment typically not allowed after refinancing
- Origination and **other fees** may erode savings
- **Fixed vs. variable rate** loan types have significant impact on long-term vs. short-term savings
- Your **time horizon** for paying off the particular debt
## Cost of Debt, For-Profit Sector Without Refinancing

<table>
<thead>
<tr>
<th>Term</th>
<th>Interest Rate</th>
<th>Monthly Accrued Interest</th>
<th>Est. Loan Balance 8/2016</th>
<th>Est. Monthly Payment 8/2016</th>
<th>Total Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Year</td>
<td>3.5%</td>
<td>$724.74</td>
<td>$292,912.71</td>
<td>$5,328.59</td>
<td>$321,115.40</td>
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<tr>
<td>10 Year</td>
<td>4.5%</td>
<td>$960.37</td>
<td>$296,211.53</td>
<td>$3,069.89</td>
<td>$369,786.80</td>
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<tr>
<td>15 Year</td>
<td>5%</td>
<td>$1,078.19</td>
<td>$297,861.01</td>
<td>$2,355.47</td>
<td>$425,384.6</td>
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<tr>
<td>20 Year</td>
<td>5.25%</td>
<td>$1,137.10</td>
<td>$298,685.75</td>
<td>$2,012.68</td>
<td>$484,443.20</td>
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## Cost of Debt, For-Profit Sector WITH Refinancing

<table>
<thead>
<tr>
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<th>Monthly Accrued Interest</th>
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</thead>
<tbody>
<tr>
<td>5 Year</td>
<td>6.37%</td>
<td>$1,501.02</td>
<td>$303,780.63</td>
<td>$5,925.34</td>
<td>$355,520.40</td>
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<tr>
<td>10 Year</td>
<td>6.37%</td>
<td>$1,501.02</td>
<td>$303,780.63</td>
<td>$3,429.31</td>
<td>$411,517.20</td>
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<tr>
<td>15 Year</td>
<td>6.37%</td>
<td>$1,501.02</td>
<td>$303,780.63</td>
<td>$2,624.59</td>
<td>$472,426.20</td>
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<tr>
<td>20 Year</td>
<td>6.37%</td>
<td>$1,501.02</td>
<td>$303,780.63</td>
<td>$2,241.72</td>
<td>$538,012.80</td>
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<tr>
<td>30 Year</td>
<td>6.5%</td>
<td>$1,501.02</td>
<td>$303,780.63</td>
<td>$1,920.10</td>
<td>$691,236.00</td>
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Structuring Your Repayment (No Forgiveness)

Typical Repayment Plan

- Consolidation – 4.75%
- Stafford – 6.8%
- Grad Plus – 7.9%
- Private Loan - 9.25%

Targeted Repayment Plan

- Non-payment – 4.75%
- Non-payment – 6.8%
- Non-payment – 7.9%
- 9.25%

Effective Rate (APR) = 6.29%

$11,675

Effective Rate (APR) = 5.69%

*Assumes $168,000 in federal debt and $8,000 in private loans
Disability and Life Insurance

A word of caution . . . be mindful of the following:

- **Over Insurance**: Excessive premiums or types of insurance
- **Lack of Needs Analysis**: Many could insure liabilities only, or less
- **Poor Evaluation**: Did not compare price and quality of policy (riders)

**Solution**: Consult an Independent Broker

- **Comparative Coverage Analysis**: Unbiased side by side comparison of benefit levels, policy prices, and policy riders

Many issues stem from conflicting broker incentives
Training Exit Strategy
Stark Law Overview and Impact

- Bans the practice of physician self-referral, there are loopholes
- Some states have more restrictive interpretation than others
- Specialties with higher likelihood of for-profit employment after training:
  - Emergency Medicine
  - Anesthesia
  - Radiology
- Paths with higher non-profit opportunity:
  - Family Medicine/Primary Care
  - Pediatrics
  - Academic
  - States where non-profit hospitals more inclined to employ directly

Non-profit “Setting” May Not Qualify as Public Service
Physician Starting Salaries by Specialty

- Anesthesia: $276k
- Emergency Medicine: $231k
- Family Medicine: $161k
- IM, General: $180k
- OBGYN: $220k
- Pediatrics: $160k
- Psychiatry: $179k
- Surgery, General: $275k
- Surgery, Neuro: $520k

Higher Salaries Reduce Forgiveness Benefit
After 4 years of training, a graduating resident contemplates the next step in her career. How does loan forgiveness impact the economics of working for a non-profit?

**Original Debt:** $250,000

**Debt after training:** $308,000

**Non-profit salary offer:** $155,000

**For-profit salary offer:** $205,000
Costs and Benefits of Career Opportunities

- PV of Earnings in Years 5 - 10: 645,702.11
- PV Total Spent: 853,993.11
- PV Total Spent (For-Profit): (77,175.54)
- PV Total Spent (PSLF): (435,303.98)
Assumptions: PAYE eligible. The taxable equivalent amount assumes a marginal federal tax rate of 20% and a marginal state tax rate of 5%.
After training, an EM resident who used PAYE during all of training is contemplating two offers, one with a non-profit organization and the other with a for-profit:

Original Debt: $250,000
Debt after training: $338,000
Non-profit salary offer: $250,000
For-profit salary offer: $325,000

Requirements for PSLF eligibility: At least four more years with PSLF-eligible employer, $93,000 in payments in PAYE based on individual salary

Payments on 10-year standard play after using PAYE during training: $476,000

- Could refinance to reduce cost, subject to marketplace availability
Sample Analytics

- **Public Sector Starting Salary**
  - Base Salary: $250,000
  - Additional from Public Service derived from forgiveness: $144,262

- **Private Sector Starting Salary**
  - Base Salary: $325,000

**Additional Salary Equivalent for PSLF**

- Actual For-Profit Practice Salary: $325,000

Bar chart illustrating the comparison between public and private sector starting salaries.
Graduation Action Plan

- **Tax Filing**: File a $0 tax return before graduation. Incorporate impact of taxes on federal loan subsidy programs when filing future returns.

- **Consolidation**: Evaluate and complete a consolidation with the Direct Loan Program. Remember to triple-check that all appropriate loans are included.

- **Pay As You Earn**: Apply for and enter PAYE during consolidation process, or three months before end of grace period. Re-apply annually with income documentation and family-size verification.

- **Public Service Loan Forgiveness**: Track eligible payments, maintain employment documentation, and stay up-to-date on changes.

- **Recalibrate Strategy Based on Sector/Salary**

- **Evaluate Refinancing Opportunities**

- **Review Annually**

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Personal Consultations: $150 (until July 1st, 2015)

- Review federal and private loan portfolio
- Identify need for consolidation
- Repayment options overview, including Income-Driven options and loan forgiveness opportunities
- Detailed review of consolidation and repayment application, including servicer recommendation if applicable
- Review loans for refinancing opportunities
- Tax, credit & legislative considerations overview
- Create a budget
- Income protection and financial goals (home/practice purchase, etc)
- Develop a timeline of action items

Refinancing Marketplace

- Complimentary review of loans, savings opportunity and introduce partner
Wishing You The Best With Your Career in Medicine...

Doctor Without Quarters
“til DEBT do us part”

Jason DiLorenzo
jdilo@doctorswithoutquarters.com

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Appendix
### Average Student Loan Debt Portfolio, 2014 Med Grad

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Original Balance</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidized Stafford</td>
<td>$17,000</td>
<td>6.800%</td>
</tr>
<tr>
<td>Unsubsidized Stafford</td>
<td>$155,000</td>
<td>6.522%</td>
</tr>
<tr>
<td>Grad PLUS</td>
<td>$24,700</td>
<td>7.528%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$196,700</strong></td>
<td><strong>6.672%</strong></td>
</tr>
</tbody>
</table>

### Loan Repayment Analysis

<table>
<thead>
<tr>
<th>Payment Scenario</th>
<th>Average Monthly Payment</th>
<th>Payoff Term (months)</th>
<th>Total Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE and PSLF (today)</td>
<td>$807</td>
<td>120</td>
<td>$96,893</td>
</tr>
<tr>
<td>PAYE and PSLF (proposal)</td>
<td>$1,216</td>
<td>240</td>
<td>$291,829</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
<td><strong>$409</strong></td>
<td><strong>120</strong></td>
<td><strong>$194,936</strong></td>
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</tbody>
</table>