Student Loan Best Practices for Transitioning to Practice

Stanford Hospital
November 16th, 2015

By Jason DiLorenzo & Marti Trujillo
Questions from Housestaff

- If I’m in IBR, is it possible that some or all of my federal loans could not be PSLF eligible?
- Is it better to choose a deferment if I’m eligible for one?
- What happens to our loan debt if we die?
- Could you address Obama’s 2016 budget changes and how, if implemented, they would affect those of us who are already submitting paperwork for loan forgiveness (e.g. is there a possibility that we would be grandfathered in through the original program)?
Agenda

• Changes In Student Debt Levels
• Federal Programs Overview & Applicability
• Refinancing: When and Why
• Application Considerations
• Physician Employment Environment
• Savings Scenarios and Case Studies
• Training Exit Analysis
• Action Plan and Q&A
Changes in Student Debt Levels

1993: ~$50k
2000: ~$89k
2015: ~$220k

Debt levels have quadrupled in the last 20 years.
Marketplace Changes

• 2007: Public Service Loan Forgiveness
• 2009: Income-Based Repayment (IBR)
• 2012: Pay As You Earn (PAYE)
  • Available to “new borrowers” on or after Oct. 1, 2007
• December 2015: Revised Pay As You Earn (REPAYE)
• 2016: President’s Budget Proposal
• 2013 – Today: Evolution of Private Refinancing Market

Public Service Loan Forgiveness and PAYE provide greatest savings opportunity to some medical graduates
Forbearance: The “F” Word for Housestaff

Salary:

<table>
<thead>
<tr>
<th>Year</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$48,000</td>
</tr>
<tr>
<td>2</td>
<td>$48,410</td>
</tr>
<tr>
<td>3</td>
<td>$49,862</td>
</tr>
<tr>
<td>4</td>
<td>$51,358</td>
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10-Year Standard Payment:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>$2,525</td>
</tr>
<tr>
<td>2</td>
<td>$2,662</td>
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<tr>
<td>3</td>
<td>$2,808</td>
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<tr>
<td>4</td>
<td>$2,965</td>
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Extended Term Payment:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,519</td>
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<tr>
<td>2</td>
<td>$1,603</td>
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<tr>
<td>3</td>
<td>$1,693</td>
</tr>
<tr>
<td>4</td>
<td>$1,789</td>
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</table>

Cost of Forbearance

- Payment unmanageable during residency
- Deferment regulation changes necessitate 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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<td>$1,603</td>
<td>$1,693</td>
<td>$1,789</td>
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<tr>
<td><strong>PAYE Payment:</strong></td>
<td>$  0</td>
<td>$ 57</td>
<td>$256</td>
<td>$259</td>
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</table>

**PAYE Subsidy**

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

- **Subsidy Earned**
  - $3,178

**Interest Paid**

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

**Subsidy Earned**

- **1st Year**: $6,871
- **2nd Year**: $677
- **3rd Year**: $3,077
- **4th Year**: $11,701

**PAYE Subsidy**

- **1st Year**: $677
- **2nd Year**: $3,077
- **3rd Year**: $3,077
- **4th Year**: $11,701

Total **PAYE Subsidy**: **$14,819**
**REPAYE: Pros and Cons**

**Pros:**

- 50% of accruing interest paid by government (Unsubsidized loans become partially Subsidized!)
- 10% of discretionary PSLF eligible, 10-year clock won’t reset (unless you consolidate)
- No PFH required

**Cons:**

- Household income will be used regardless of how you file taxes
- 25 year taxable forgiveness for graduate students
- No cap to payments (10-year standard in IBR & PAYE)

*Public Service Loan Forgiveness and PAYE provide greatest savings opportunity to medical graduates*
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, not mandatory

    • 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

Payment amounts for each year of residency:

Year 1: $395,160
Year 2: $164,590
Year 3: $109,726

Bar chart showing payments for each year of residency for different repayment plans.
Tying the Knot: A Case Study

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?

 Forgiveness Potential $232,039
 Forgiveness potential $150,305
A Physician’s Fork in the Road

Forgiveness

Refinancing
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
EXIT INTERVIEW

Costs and Benefits of Career Opportunities

PV of Earnings in Years 5 - 10

PSLF
For-Profit (Standard 10 Year Payoff Amount)

PV Total Spent

(77,175.54)
(435,303.98)
Salary Equivalent Public VS Private

**Assumptions:** PAYE eligible. The taxable equivalent amount assumes a marginal federal tax rate of 20% and a marginal state tax rate of 5%.

### Actual Public Service Salary

- **Public/Non-Profit:**
  - Base Salary: $155,000.00
  - Additional from Public Service derived from forgiveness: $94,076.74

- **For-Profit:**
  - Base Salary: $205,000.00
After six years of training, a fellow 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

Should refinance to reduce cost
Sample Analytics

Additional from Public Service derived from forgiveness

Public Sector Starting Salary
- Base Salary: $250,000
- Additional Salary Equivalent for PSLF: $144,262

Private Sector Starting Salary
- Actual For-Profit Practice Salary: $325,000
To Re or Not to Re: That is the Question

Opportunity:

- Lending marketplace increasingly crowded and highly competitive
- Transaction-focused, not consultative
- Rates can be competitive, fixed as low as 3.5%
- Available in training for some Housestaff
- For graduates with $75k or less in federal debt, PSLF likely holds little value, refinancing may make sense
- Not to be confused with “Consolidation”

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
1. Identify if refinancing is suitable!

2. Review existing financial and credit profile to determine if refinancing is available
   - Debt-to-income ratio considered
   - No negative credit history, min 680 score
   - Adding co-signer can improve results

3. Approach marketplace
   - Work with an Advisor
   - Deferment/Low payments in residency available
   - Better rates available for shorter terms, but can you afford higher payment right after training?

4. Once terms and rates are quoted, select option in the context of your liquidity needs
Reduced or no payments in-residency may be available
No prepayment penalties or origination fees
Discharge in death or permanent disability
May not be protected in bankruptcy
NHSC/NIH eligible

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<th>Amount Refinanced:</th>
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<td>$198,479</td>
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<table>
<thead>
<tr>
<th>Refinancing Considerations</th>
<th>5 Year</th>
<th>10 Year</th>
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<tbody>
<tr>
<td>$198,479</td>
<td>4.125%</td>
<td>5.000%</td>
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<table>
<thead>
<tr>
<th>In-Training</th>
<th>5 Year</th>
<th>10 Year</th>
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</thead>
<tbody>
<tr>
<td>Payment in Training</td>
<td>$ 100</td>
<td>$ 100</td>
</tr>
<tr>
<td>Unpaid Interest after training</td>
<td>$ 10,481</td>
<td>$ 13,086</td>
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<tr>
<td>Regular Payment</td>
<td>$ 3,860</td>
<td>$ 2,244</td>
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<tr>
<td>Total Paid</td>
<td>$ 233,394</td>
<td>$ 271,068</td>
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<tr>
<td>Total Interest Paid</td>
<td>$ 34,928</td>
<td>$ 72,598</td>
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<tr>
<td># of Months to Pay Off</td>
<td>78</td>
<td>138</td>
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<table>
<thead>
<tr>
<th>Regular</th>
<th>5 Year</th>
<th>10 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Payment</td>
<td>$ 3,666</td>
<td>$ 2,105</td>
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<tr>
<td>Total Paid</td>
<td>$ 219,977</td>
<td>$ 252,613</td>
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<tr>
<td>Total Interest Paid</td>
<td>$ 21,511</td>
<td>$ 54,142</td>
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<tr>
<td># of Months to Pay Off</td>
<td>60</td>
<td>120</td>
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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
# Obama 2016 Budget Proposal

## Repayment Under Obama's Proposal

<table>
<thead>
<tr>
<th>Income Driven Repayment Calculation</th>
<th>Limited to 10% of discretionary income</th>
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<tbody>
<tr>
<td>Cap on payments removed</td>
<td></td>
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<table>
<thead>
<tr>
<th>Loan Forgiveness</th>
<th>10 Years if working in the Public Sector AND loan balance less than $57,500</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20 years for borrowers with total loan balance less than $57,500</td>
</tr>
<tr>
<td></td>
<td>25 years for borrowers with total loan balance greater than $57,500</td>
</tr>
</tbody>
</table>

- Expansion of PAYE to all federal loan borrowers
- Removal of cap on payments (REPAYE)
- New cap on amount forgiven through PSLF
  - $57,500 limit, based on max borrowing amount for independent undergrads
  - Balances above $57,500 will not be forgiven until 20-25 years of participation
- Household income used for documentation instead of MFS (REPAYE)
- 20 and 25 year forgiveness options to be tax-free (still waiting)
Register for a FREE suitability analysis at:
http://www.dwoq.com/refinance-analysis.html
Wishing You The Best With Your Career in Medicine...

Jason DiLorenzo
Founder & Executive Director
Jason@dwoq.com
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