Student Loan Considerations for Graduating Housestaff

Stanford Transition to Practice Session
April 29th, 2015
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

1993: ~$50k
2000: ~$89k
2014: ~$220k

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

Cost of Forbearance

Total Forbearance Cost = $64,518

- Payment unmanageable during residency
- Deferment regulation changes necessitate forbearance
### 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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary:</strong></td>
<td>$48,000</td>
<td>$48,410</td>
<td>$49,862</td>
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</tr>
<tr>
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<td>$2,525</td>
<td>$2,662</td>
<td>$2,808</td>
<td>$2,965</td>
</tr>
<tr>
<td><strong>Extended Term Payment:</strong></td>
<td>$1,519</td>
<td>$1,603</td>
<td>$1,693</td>
<td>$1,789</td>
</tr>
<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**

<table>
<thead>
<tr>
<th></th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidy Earned</strong></td>
<td>$3,178</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Interest Paid</strong></td>
<td>$6,871</td>
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</table>

**Interest Paid:**

<table>
<thead>
<tr>
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<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Paid</strong></td>
<td>$13,663</td>
<td>$13,038</td>
<td>$10,824</td>
<td>$11,701</td>
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**PAYE Subsidy Earned:**

<table>
<thead>
<tr>
<th></th>
<th>1st Year</th>
<th>2nd Year</th>
<th>3rd Year</th>
<th>4th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PAYE Subsidy</strong></td>
<td>$1,156</td>
<td>$1,104</td>
<td>$918</td>
<td>$3,118</td>
</tr>
</tbody>
</table>

**Interest Earned:**

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

**Total:** $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

<table>
<thead>
<tr>
<th>Residency</th>
<th>Standard Repayment</th>
<th>IBR Payment</th>
<th>PAYE Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>$395,160</td>
<td>$164,590</td>
<td>$109,726</td>
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<td>2nd</td>
<td></td>
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<td></td>
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<tr>
<td>3rd</td>
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<td>4th</td>
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<tr>
<td>5th</td>
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<tr>
<td>6th</td>
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<td>7th</td>
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<td>8th</td>
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<td>9th</td>
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<td>10th</td>
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<td></td>
</tr>
<tr>
<td>14th</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Standard Repayment
IBR Payment
PAYE Payment
Maximizing Loan Forgiveness

4-Year Residency

$175,185 IBR Forgiven

$240,605 PAYE Forgiven

Salary  IBR Outstanding Balance  PAYE Outstanding Balance
Amount of Savings for a Physician Using Pay As You Earn versus a 10 Year Standard Repayment Term

Amount of Federal Debt

<table>
<thead>
<tr>
<th>Amount of Federal Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
</tr>
<tr>
<td>$120,000</td>
</tr>
<tr>
<td>$100,000</td>
</tr>
<tr>
<td>$80,000</td>
</tr>
<tr>
<td>$60,000</td>
</tr>
<tr>
<td>$40,000</td>
</tr>
<tr>
<td>$20,000</td>
</tr>
<tr>
<td>$0</td>
</tr>
</tbody>
</table>

Savings Amount

Post Residency Starting Salary

Years in Residency

- 3
- 4
- 5
- 6
- 7

Post Residency Starting Salary

Years in Residency

- 3
- 4
- 5
- 6
- 7
Savings: $28,441 (Present Value)
### 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>

<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
- 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
- 20 and 25 year forgiveness options to be tax-free
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
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 $150,305

 Forgiveness Potential $232,039
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>
<th>Term</th>
<th>Interest Rate</th>
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<th>Est. Loan Balance 8/2016</th>
<th>Est. Monthly Payment 8/2016</th>
<th>Total Payments</th>
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<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>
</tr>
<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>
</tr>
<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>
</tr>
<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>
</tr>
<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>
</tr>
</tbody>
</table>
Structuring Your Repayment (No Forgiveness)

Typical Repayment Plan

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

Repayment Period
- 8 yrs
- 10 yrs

Effective Rate (APR) = 6.29%

$11,675

Targeted Repayment Plan

- Non-payment
  - 4.75%

- Non-payment
  - 6.8%

- Non-payment
  - 7.9%

- 9.25%

Repayment Period
- 0.5 yr
- 1 yr
- 5 yrs
- 7 yrs
- 9.5 yrs

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
EXIT INTERVIEW

Costs and Benefits of Career Opportunities

PV of Earnings in Years 5 - 10

- PSLF: 645,702.11
- For-Profit (Standard 10 Year Payoff Amount): 853,993.11

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%.
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

<table>
<thead>
<tr>
<th>Public Sector Starting Salary</th>
<th>Private Sector Starting Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Salary</td>
<td>Actual For-Profit Practice Salary</td>
</tr>
<tr>
<td>$250,000</td>
<td>$325,000</td>
</tr>
<tr>
<td>Additional from Public Service</td>
<td>Derived from forgiveness</td>
</tr>
<tr>
<td>$144,262</td>
<td></td>
</tr>
</tbody>
</table>

Additional from Public Service derived from forgiveness

$- to $450,000

$100,000 to $250,000

$200,000 to $350,000

$300,000 to $450,000

$400,000 to $450,000

Base Salary

Additional Salary Equivalent for PSLF
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 LoanForgiveness:** 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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**DWOQ Services**

**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

www.DoctorsWithoutQuarters.com
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>
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</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>
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</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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