Student Loan Best Practices for Transitioning to Practice

Stanford Hospital
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By Jason DiLorenzo & Marti Trujillo
• 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

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: $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

Year 1: $2,525
Year 2: $1,519
Year 3: $48,000
Year 4: $17,502

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>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary:</strong></td>
<td>$48,000</td>
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<td>$1,519</td>
<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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**PAYE Subsidy**

- **Subsidy Earned**: $3,178
- **Interest Paid**: $6,871
  - **1st Year**: $13,663
  - **2nd Year**: $13,038
  - **3rd Year**: $10,824
  - **4th Year**: $11,701

**PAYE Subsidy**

- **Interest Paid**: $14,819
- **1st Year**: $1,156
- **2nd Year**: $1,104
- **3rd Year**: $918
- **4th Year**: $3,118
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

<table>
<thead>
<tr>
<th>4-Year Residency</th>
<th>$395,160 Standard</th>
<th>$164,590 IBR</th>
<th>$109,726 PAYE</th>
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</thead>
</table>

#### Diagram

- **Residency Years:**
  - 1st
  - 2nd
  - 3rd
  - 4th
  - 5th
  - 6th
  - 7th
  - 8th
  - 9th
  - 10th
  - 11th
  - 12th
  - 13th
  - 14th

- **Payment Types:**
  - Standard Repayment
  - IBR Payment
  - PAYE Payment

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<table>
<thead>
<tr>
<th>Year</th>
<th>Standard Repayment</th>
<th>IBR Payment</th>
<th>PAYE Payment</th>
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<tr>
<td>1</td>
<td>$395,160</td>
<td>$164,590</td>
<td>$109,726</td>
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<tr>
<td>2</td>
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<td></td>
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<td>14</td>
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</tbody>
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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
EXIT INTERVIEW

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?

<table>
<thead>
<tr>
<th>Debt Category</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Original Debt:</td>
<td>$250,000</td>
</tr>
<tr>
<td>Debt after training:</td>
<td>$308,000</td>
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<tr>
<td>Non-profit salary offer:</td>
<td>$155,000</td>
</tr>
<tr>
<td>For-profit salary offer:</td>
<td>$205,000</td>
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</table>
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
- PSLF: (77,175.54)
- For-Profit (Standard 10 Year Payoff Amount): (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 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**

- **Public Sector Starting Salary**: $250,000
- **Additional from Public Service derived from forgiveness**: $144,262
- **Private Sector Starting Salary**: $325,000

**Actual For-Profit Practice Salary**

- **Base Salary**: $250,000
- **Additional Salary Equivalent for PSLF**: $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
Recommended Refinancing Process

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

4. Once terms and rates are quoted, select option in the context of your liquidity needs
   - 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?
**Refinancing Considerations**

- 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

**Amount Refinanced:**

$198,479

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<thead>
<tr>
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<th>5 Year</th>
<th>10 Year</th>
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<tbody>
<tr>
<td>Interest Rate</td>
<td>4.125%</td>
<td>5.000%</td>
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<table>
<thead>
<tr>
<th></th>
<th>In-Training</th>
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<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>
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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></th>
<th>Regular</th>
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<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 | • Expansion of PAYE to all federal loan borrowers |
| Income Driven Repayment Calculation | • Removal of cap on payments (REPAYE) |
| Limited to 10% of discretionary income | • New cap on amount forgiven through PSLF |
| Cap on payments removed | • $57,500 limit, based on max borrowing amount for independent undergrads |

### Loan Forgiveness

| 10 Years if working in the Public Sector AND loan balance less than $57,500 | • Balances above $57,500 will not be forgiven until 20-25 years of participation |
| 20 years for borrowers with total loan balance less than $57,500 | • Household income used for documentation instead of MFS (REPAYE) |
| 25 years for borrowers with total loan balance greater than $57,500 | • 20 and 25 year forgiveness options to be tax-free (still waiting) |
NEXT STEPS...

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