



STUDENT LOAN AND FINANCIAL BEST PRACTICES FOR OSTEOPATHIC STUDENTS AND GRADUATES

Presented by Jason DiLorenzo
Founder & Executive Director

Agenda

- Resident and Fellow Economics
- Responsible Borrowing
- Choosing from Today's Many Options
- Loan Forgiveness and Legislation Update
- Case Studies
- The Refinancing Marketplace
- Taxes & Other Financial Considerations
- Available Resources, Q&A

Federal Loans: (Stafford, Grad PLUS)

- **Federal Stafford: Fixed Rate 6% (since July 1st 2006)**
 - **Unsubsidized: all interest accrues**
- **Direct Graduate PLUS: Fixed Rate 7% (all interest accrues)**

Private Loans:

- **Sometimes needed for Externships, Internships, or Residencies**
- **Interest rates vary**
- **Margins have decreased but minimum credit requirements have tightened**

High Rate Private

Grad PLUS

Unsubsidized Stafford

Subsidized Stafford

Perkins

Low Rate Private

Grants/Scholarships

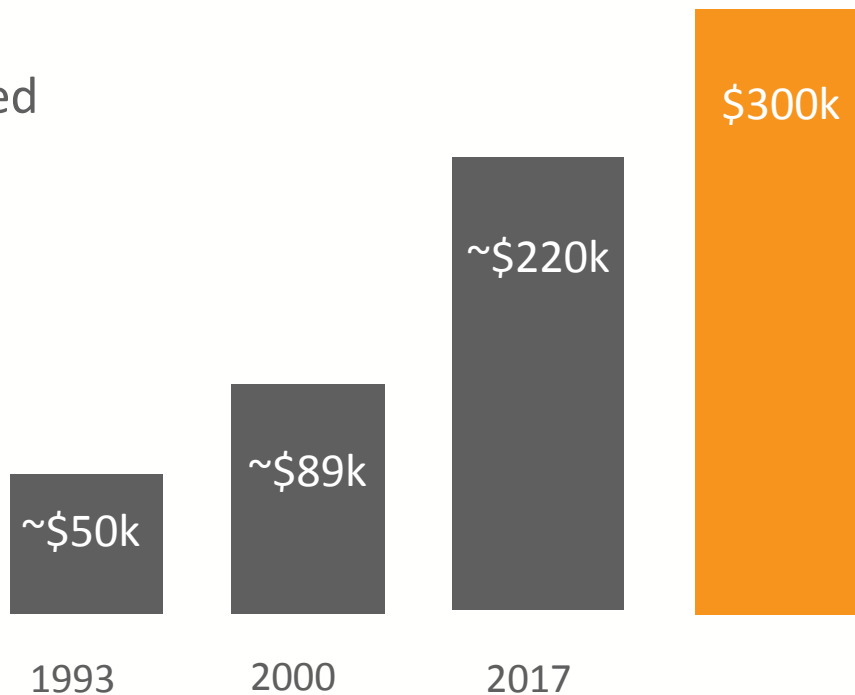


Responsible Borrowing

- Federal loans are unique as unlike in the private marketplace, underwriting is limited and funds are available up to your COA
- Limit your borrowing! Every additional \$10k you borrow results in roughly \$120 per month over 10-year payment plan
- Develop a budget and hold yourself accountable to it
- Understand repayment and forgiveness options now, as they can improve the economic value of some career paths
- Don't put your head in the sand!
- Review your federal loans at www.nslds.ed.gov

Changes in Student Debt Levels

- Debt levels have quadrupled in the last 20 years



Starting Physician Salaries by Specialty

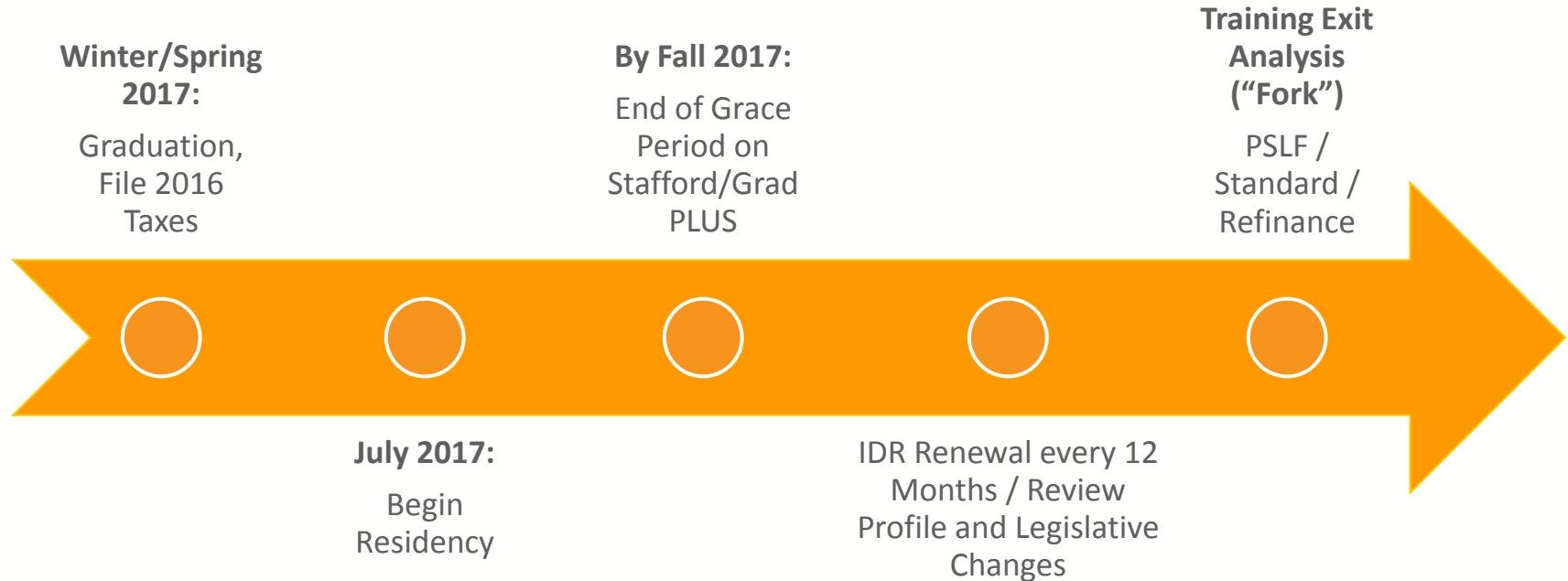
- Anesthesia: \$250k
- Emergency: : \$280k
- Family Medicine: \$183k
- IM, General: \$185k
- OBGYN: \$219k
- Pediatrics: \$167k
- Psychiatry: \$208k
- Surgery, General: \$328k
- Surgery, Neuro: \$680k

***Your future salary
and sector of
employment should
inform your action
plan NOW***

REPAYMENT TIMELINE AFTER GRADUATION



DOCTORS WITHOUT QUARTERS



A Physician's Fork In The Road

FORGIVENESS

- PSLF
- Taxable Loan Forgiveness
- Payment Relief in Training
- Average Savings over \$150k



ACCELERATED PAYMENT/ REFINANCING

- Private Sector
- High Household Income
- Federal Benefits not Needed
- Doctors can save over \$60k out-of-pocket today

Repayment Options During Residency

Standard or Extended Term

- Most Housestaff need payment relief during training

Forbearance

- MOST COSTLY!
- MPH/other students CAN waive deferment if in residency

Refinancing

- Available with attractive underwriting profile
- May be appropriate for some residents

IBR

- 15% of discretionary income, 25 year taxable forgiveness

PAYE / New IBR

- 10% of discretionary income, 20 year taxable forgiveness
- **Only available if no loans outstanding on Oct 1, 2007**

REPAYE

- 10% of discretionary income, 25 year taxable forgiveness for grads
- **50% of accruing interest not charged, no borrowing restriction**

Budgeting For Loan Repayment

\$300k
@
6.15%

	Salary: \$ 55,000	\$56,650	\$58,350	\$60,000
10-Year Standard Payment:	\$3,354	= \$40k annual	= \$160k over 4 years	
Monthly Interest in Forbearance	\$1,538	= \$18,500 annual	= \$74k in accrued interest	
PAYE / REPAYE / NEW IBR Payment:	\$ 0	\$76	\$301	\$303

\$33k in interest savings

Liquidity during training

Payments count toward PSLF

What is Public Service Loan Forgiveness?


- ❑ Eligible Loans:
 - ❑ Direct Stafford, Direct Grad PLUS, Direct Consolidation
 - ❑ Non-Direct, Perkins, Health Professions (HPSL) and Loans for Disadvantaged Students (LDS) can be consolidated for eligibility
- ❑ Eligible Payments:
 - ❑ Borrower must use an IDR or standard 10 year payment plan
 - ❑ Make 120 on-time payments (10 year minimum)
- ❑ Eligible Employment:
 - ❑ Borrower must be **directly** employed by a federal, state, or local government entity, or 501(c)3 non-profit
 - ❑ Employment must be full-time and 30hrs+ per week



Most residents
are PSLF
qualified
during training

Impact of Stark Law and Specialty

- ❑ Stark Law 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
 - ❑ Psychiatry
 - ❑ Pediatrics
 - ❑ Academic



Non-profit
“setting” may
not qualify as
Public Service

Marketplace and Legislative Change

- Servicer mismanagement of PSLF, Navient allegations
- Media coverage of PSLF fears (current class action)
- All Reauthorization bills could get on fast track with Republican majority
- Proposed single repayment plan for borrowers after July 2017, but existing borrowers will still have access to current programs
 - ▣ **Elimination of PSLF proposed, grandfathering suggested for borrowers before July 2018**
- Trump had commented on a 12.5% income cap, consolidate to single IDR plan
 - ▣ Potential for private lenders to participate again (but current lending marketplace values cash flow)

PSLF Case Study

Profile:

- ❑ 2017 Graduate
- ❑ Debt - \$300k
- ❑ Specialty – OBGYN
- ❑ PSLF Eligible during training
- ❑ Future expected income - \$250k
- ❑ Directly employed by a 501c3 hospital after training

Sample PSLF Case Study (\$300k debt)

FEDERAL LOAN OVERVIEW

Current Federal Loan Amount	\$ 300,000.00
Federal Loan Blended Average Interest Rate	6.1525%
Standard 10 year total payment	\$ 402,436.32
Extended 25 year total payment	\$ 588,289.94

PUBLIC SERVICE LOAN FORGIVENESS PROJECTION

YEAR	1	2	3	4	5	6	7	8	9	10
Monthly REPAYMENT Options										
Standard 10 Year Repayment	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64	3,353.64
Extended 25 Year Repayment	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97	1,960.97
Income Driven Repayment	-	76.21	300.79	302.94	312.03	1,245.73	1,942.47	2,000.75	2,060.77	2,122.59
Income Driven Repayment Type	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE	REPAYE
Demographics Information										
Est. Adjusted Gross Income	-	27,500.00	55,000.00	55,825.00	57,499.75	170,145.63	254,375.00	262,006.25	269,866.44	277,962.43
Household Size	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Partial Financial Hardship?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PSLF Eligible Employment?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

ESTIMATED OUT OF POCKET COST: USD 124,371.42

ESTIMATED LOAN BALANCE FORGIVEN: USD 318,257.25

EFFECTIVE INTEREST RATE DURING TRAINING: 3.41622%

PSLF Case Study

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- ❑ Directly employed by a 501c3 hospital after training
- ❑ Gets married in fall of PGY2, spouse makes \$200k, no debt

Sample PSLF Case Study (\$300k debt)

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Partial Financial Hardship?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
PSLF Eligible Employment?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

ESTIMATED OUT OF POCKET COST: USD 124,371.42

ESTIMATED LOAN BALANCE FORGIVEN: USD 345,819.90

EFFECTIVE INTEREST RATE DURING TRAINING: 3.79087%

Private Refinancing

- Opportunity
 - Lending marketplace increasingly crowded and highly competitive
 - Rates typically lower than Federal rates, fixed as low as **3.5%**
 - Payment terms from 5 to 20 years
 - For graduates with \$75k or less in federal debt, IDR's and PSLF holds little value
 - **Rarely available for residents without a cosigner**

- Considerations
 - Loss of Federal benefits
 - Liquidity, can you afford the payments?
 - Fees may erode savings
 - Fixed vs. variable rate loan types
 - **You CAN refinance an already refinanced loan in the future**

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?

EXIT STRATEGY CASE STUDY

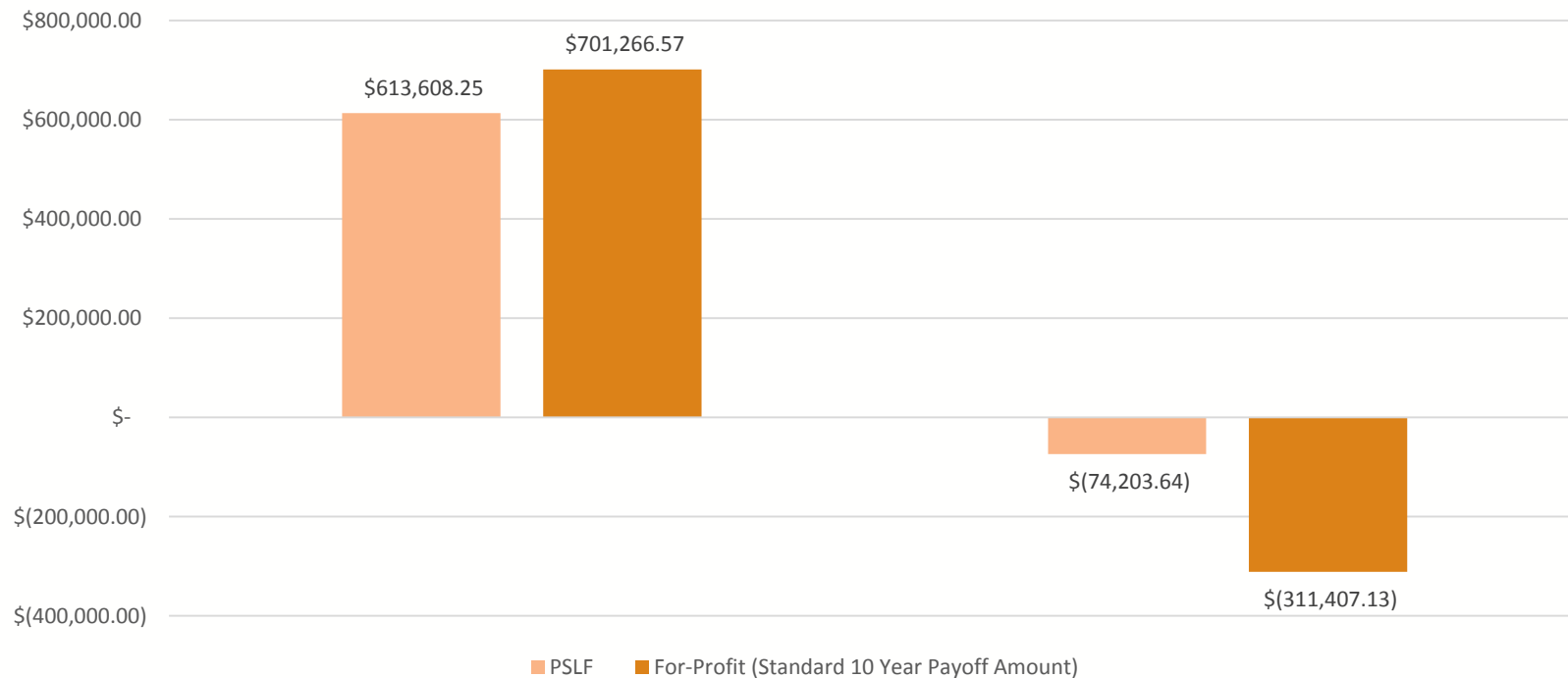
Exit Case Study

- 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?

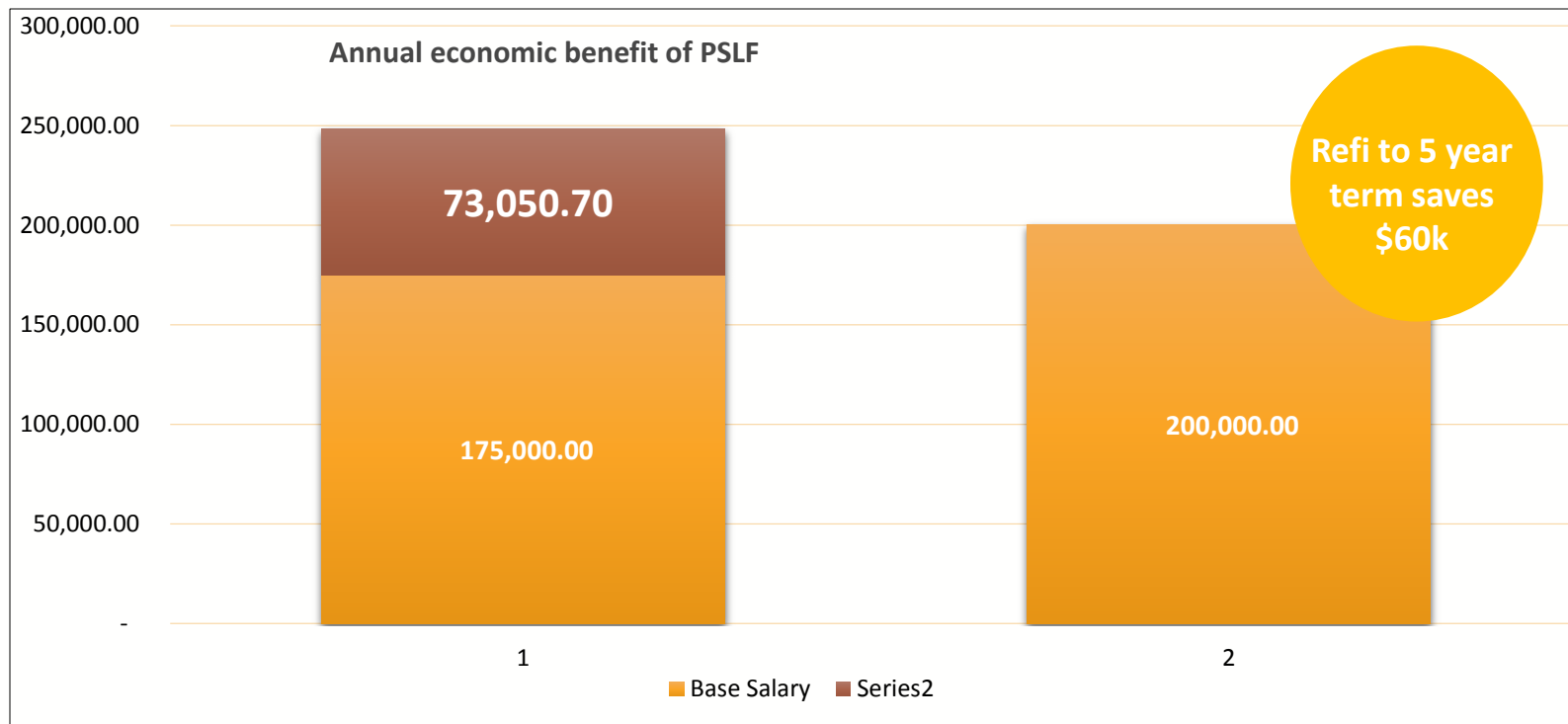
- Original Debt: \$250,000 (6%)
- Debt after training: \$303,000 PAYE / \$276,500 REPAYE
- Non-profit salary offer: \$175,000
- For-profit salary offer: \$200,000

Exit Case Study

Costs and Benefits of Career Opportunities



Salary Equivalent



OTHER FINANCIAL CONSIDERATIONS...

Sample Budget: Fail to Plan, Plan to Fail!



DOCTORS WITHOUT QUARTERS

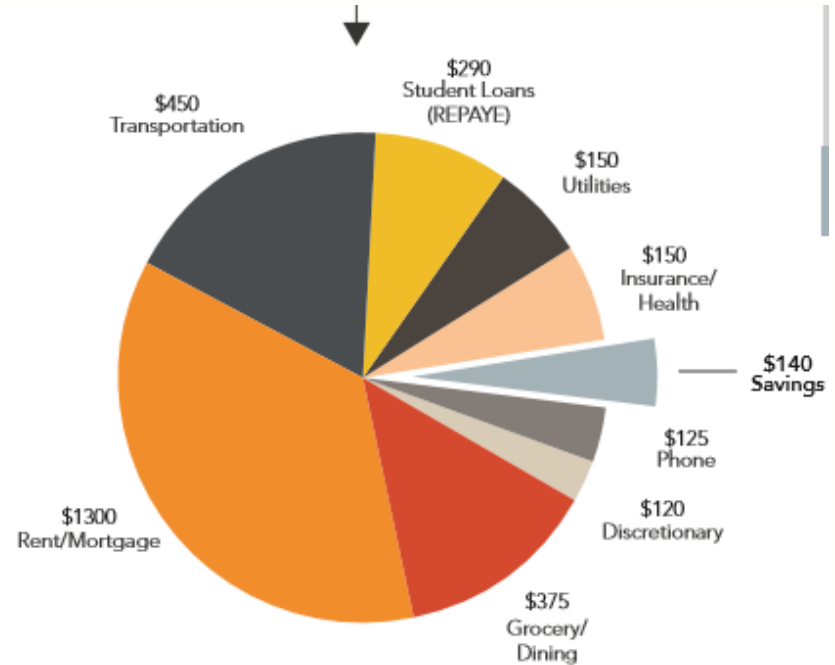
CASH FLOW WORKSHEET

Monthly Income	
Wages, salary (after deductions*)	\$3,100
Investment dividends	
Interest received	
Social Security income	
Retirement income	
Rental income, business royalties	
Alimony / Palimony	
Other income	
Total Monthly Income	\$3,100

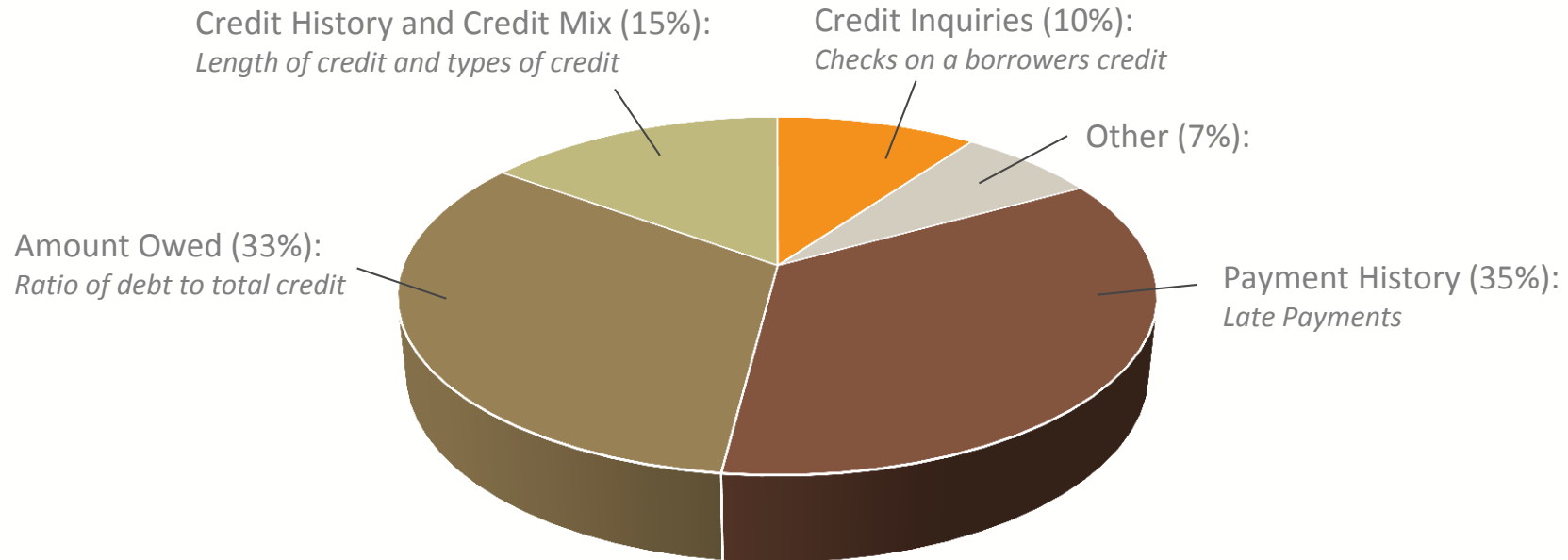
Fixed Monthly Expenses	
Mortgage payment or rent	\$800
2nd home mortgage	
Automobile loan	
Student loans (Federal)	
Student loans (Private)	
Credit cards	
Savings (regularly)	
Investments (regularly)	
Retirement Contributions (IRA)	
Additional Federal & State income taxes	
Real estate taxes	
Other taxes	
Alimony / Palimony	
Miscellaneous	
Homeowner's insurance	
Automobile insurance	
Umbrella insurance	
Additional Insurance Coverage (non-payroll)	
Life insurance	
Disability insurance	\$125
Medical / Dental insurance	
Long-term care insurance	
Total Fixed Expenses	\$925

Variable Monthly Expenses	
Electricity	
Gas / Heat	
Cell phone	
Cable TV / Internet	
Food	
Entertainment / dining	
Automobile gas & oil	
Personal care	
Recreation / travel	
Clothing	
Laundry	
Child care	
Automobile repairs, etc.	
Other transportation	
Club / association dues	
Hobbies	
Gifts / Donations	
Home repairs and maintenance	
Home improvements	
Water	
Unreimbursed medical, and dental expenses	
Miscellaneous	
Miscellaneous	
Total Variable Expenses	\$0

Net Cash Flow	
Total Monthly Income	\$3,100
Total Fixed Expenses	\$925
Total Variable Expenses	\$0
Discretionary Income (Income - Expenses)	\$2,175



COMPONENTS OF A CREDIT SCORE



Standardized credit scores provide lenders of all types with valuable criteria used to determine how appropriate you are for a certain loan.

Investing During Residency

- Accumulate 3 to 6 months of living expenses in savings for the unexpected
- If you are able to do ANY long-term investing, maximize:
 - 401(k) / 403(b)
 - Max-out the employer match
- Roth IRA contributions
 - Max contribution - \$5,500 per person.
 - able to contribute for the prior year up to tax filing deadline

Income Protection for YOUR Occupation

- *Why do I need it?*
 - *Disability Insurance protects your ability to earn an income*
 - *This helps hedge risk against losing all that education and training that a doctor has spent learning over the past 10 years*
 - *Residents are eligible for up to \$5k/month in coverage*
- *Doesn't my employer provide this?*
 - *Taxable benefit*
 - *Not specific to your OWN occupation*
 - *Starts over with each job change*
- *Considerations*
 - *Guaranteed Insurability*
 - *OWN occupation coverage*
 - *Price is based on when you purchase coverage*

Financing a Home Purchase

- Renting versus buying during training
 - \$165,000 mortgage – 30 year fixed interest @ 4.5% = \$836/month (+H/O ins +Taxes)
 - After 3 years = \$8,850 in principal paid down
 - After 5 years = \$15,135 in principal paid down
 - Estimated transaction costs = 10% = \$16,500 - \$15,135 equity = \$1,365 loss
- Consider how a home purchase will impact long term planning

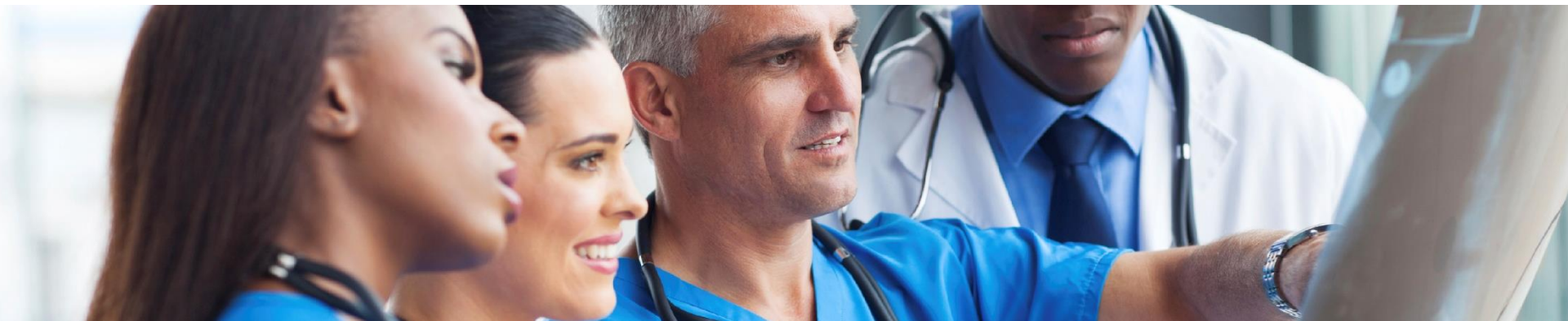
Budgeting For Success: A Case Study

Salary:	\$ 55,000	\$56,650	\$58,350	\$60,000
PAYE / REPAYE Payment:	\$ 0	\$76	\$301	\$303
Savings / Interest Accrual Fund / Roth IRA:	\$ 400	\$400	\$400	\$400
Occupation-specific Income Protection (DI):	\$ 125	\$125	\$125	\$125
Total Monthly Allocation to Strategy:	\$525	\$601	\$826	\$828

**Savings Account /
Roth IRA Value in
2021: \$20k+**

DWOQ Consultations: **AOA MEMBERS GET 20% OFF**

- ❑ Individual Loan Consultations with Annual Support
- ❑ **\$295 then \$60 quarterly (*\$475/\$90 for couples with debt*)**
 - ❑ Complete review of federal and private loan portfolio
 - ❑ Annual repayment options overview, including Income-Driven options and loan forgiveness opportunities
 - ❑ Overview and/or completion of consolidation and repayment application
 - ❑ Review loans for refinancing opportunities
 - ❑ Develop strategy to allocate income towards savings, retirement, home purchase and income protection
 - ❑ Develop a timeline of action items
 - ❑ Annual access to your DWOQ advisor
- ❑ **FREE REFINANCING SUITABILITY ANALYSIS AND SUPPORT**



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