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
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

- 1993: ~$50k
- 2000: ~$89k
- 2017: ~$220k
- Total debt in 2017: $300k
### Starting Physician Salaries by Specialty

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anesthesia</td>
<td>$250k</td>
</tr>
<tr>
<td>Emergency</td>
<td>$280k</td>
</tr>
<tr>
<td>Family Medicine</td>
<td>$183k</td>
</tr>
<tr>
<td>IM, General</td>
<td>$185k</td>
</tr>
<tr>
<td>OBGYN</td>
<td>$219k</td>
</tr>
<tr>
<td>Pediatrics</td>
<td>$167k</td>
</tr>
<tr>
<td>Psychiatry</td>
<td>$208k</td>
</tr>
<tr>
<td>Surgery, General</td>
<td>$328k</td>
</tr>
<tr>
<td>Surgery, Neuro</td>
<td>$680k</td>
</tr>
</tbody>
</table>

*Your future salary and sector of employment should inform your action plan NOW*
REPAYMENT TIMELINE AFTER GRADUATION

Winter/Spring 2017:
Graduation, File 2016 Taxes

By Fall 2017:
End of Grace Period on Stafford/Grad PLUS

Training Exit Analysis ("Fork")
PSLF / Standard / Refinance

July 2017:
Begin Residency

IDR Renewal every 12 Months / Review Profile and Legislative Changes
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

<table>
<thead>
<tr>
<th>Standard or Extended Term</th>
<th>Most Housestaff need payment relief during training</th>
</tr>
</thead>
</table>
| 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

<table>
<thead>
<tr>
<th>Salary</th>
<th>$55,000</th>
<th>$56,650</th>
<th>$58,350</th>
<th>$60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Year Standard Payment:</td>
<td>$3,354</td>
<td>$40k</td>
<td>$160k</td>
<td></td>
</tr>
<tr>
<td>Monthly Interest in Forbearance</td>
<td>$1,538</td>
<td>$18,500</td>
<td>$74k</td>
<td></td>
</tr>
<tr>
<td>PAYE / REPAYE / NEW IBR Payment:</td>
<td>$0</td>
<td>$76</td>
<td>$301</td>
<td>$303</td>
</tr>
</tbody>
</table>

- $300k 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 Disadvantages 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

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Monthly Repayment Options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standard 10 Year Repayment</td>
</tr>
<tr>
<td></td>
<td>3,353.64</td>
</tr>
<tr>
<td>1</td>
<td></td>
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<td>10</td>
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</tr>
</tbody>
</table>

**Income Driven Repayment Type**
- **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

- **Partial Financial Hardship?**
  - Yes
  - Yes
  - Yes
  - Yes
  - Yes
  - Yes
  - Yes
  - Yes
  - Yes

- **PSLF Eligible Employment?**
  - 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

Profile:

- 2017 Graduate
- Debt - $300k
- Specialty – OBGYN
- PSLF Eligible during training
- Future expected income - $250k
- 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)

## Federal Loan Overview

<p>| | |</p>
<table>
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## Public Service Loan Forgiveness Projection

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<tr>
<td>Extended 25 Year Repayment</td>
<td>1,960.97</td>
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<tr>
<td>Income Driven Repayment</td>
<td>-</td>
<td>76.21</td>
<td>300.79</td>
<td>302.94</td>
<td>312.03</td>
<td>1,245.73</td>
<td>1,942.47</td>
<td>2,000.75</td>
<td>2,060.77</td>
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<tr>
<td>Income Driven Repayment Type</td>
<td>REPAYE</td>
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<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

## Estimated Out of Pocket Cost

- **USD 124,371.42**
- **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
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

For-Profit (Standard 10 Year Payoff Amount):
- $613,608.25
- $(74,203.64)
- $701,266.57
- $(311,407.13)
- $(400,000.00)
- $(200,000.00)
- $-
- $(200,000.00)
- $(400,000.00)

PSLF:
- $200,000.00
- $400,000.00
- $600,000.00
- $800,000.00

For-Profit (Standard 10 Year Payoff Amount):
- $(74,203.64)
- $(311,407.13)
Salary Equivalent

- Annual economic benefit of PSLF
  - Base Salary
  - Series2

1. 175,000.00
2. 73,050.70
3. 200,000.00

Refi to 5 year term saves $60k
OTHER FINANCIAL CONSIDERATIONS...
Sample Budget: Fail to Plan, Plan to Fail!

### CASH FLOW WORKSHEET

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Variable Monthly Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, salary (after deductions)*</td>
<td>Electricity</td>
</tr>
<tr>
<td>Investment dividends</td>
<td>Gas/Heat</td>
</tr>
<tr>
<td>Interest received</td>
<td>Cell phone</td>
</tr>
<tr>
<td>Social Security income</td>
<td>Cable TV/Internet</td>
</tr>
<tr>
<td>Retirement income</td>
<td>Food</td>
</tr>
<tr>
<td>Rental income, business royalties</td>
<td>Entertainment/dining</td>
</tr>
<tr>
<td>Alimony/Paternity</td>
<td>Automobile gas &amp; oil</td>
</tr>
<tr>
<td>Other income</td>
<td>Personal care</td>
</tr>
<tr>
<td><strong>Total Monthly Income</strong></td>
<td>Recreation/travel</td>
</tr>
<tr>
<td>$3,100</td>
<td>Clothing</td>
</tr>
<tr>
<td></td>
<td>Laundry</td>
</tr>
<tr>
<td></td>
<td>Child care</td>
</tr>
<tr>
<td></td>
<td>Automobile repairs, etc.</td>
</tr>
<tr>
<td></td>
<td>Other transportation</td>
</tr>
<tr>
<td></td>
<td>Club/association dues</td>
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<tr>
<td></td>
<td>Hobby</td>
</tr>
<tr>
<td></td>
<td>Gifts/Donations</td>
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<tr>
<td></td>
<td>Home repairs and maintenance</td>
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<td></td>
<td>Home improvements</td>
</tr>
<tr>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td>Unreimbursed medical and dental expenses</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous</td>
</tr>
<tr>
<td></td>
<td><strong>Total Variable Expenses</strong></td>
</tr>
<tr>
<td></td>
<td><strong>$0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed Monthly Expenses</th>
<th>Net Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage payment or rent</td>
<td>Total Monthly Income</td>
</tr>
<tr>
<td>2nd home mortgage</td>
<td>$3,100</td>
</tr>
<tr>
<td>Automobile loan</td>
<td>Total Fixed Expenses</td>
</tr>
<tr>
<td>Student loans (Federal)</td>
<td>$125</td>
</tr>
<tr>
<td>Student loans (Private)</td>
<td>Total Variable Expenses</td>
</tr>
<tr>
<td>Credit cards</td>
<td>$125</td>
</tr>
<tr>
<td>Savings (liquidity)</td>
<td>Discretionary Income</td>
</tr>
<tr>
<td>Investments (liquidity)</td>
<td>(Income - Expenses)</td>
</tr>
<tr>
<td>Retirement Contributions (IRA)</td>
<td><strong>$2,175</strong></td>
</tr>
<tr>
<td>Additional Federal &amp; State Income taxes</td>
<td></td>
</tr>
<tr>
<td>Real estate taxes</td>
<td></td>
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<tr>
<td>Other taxes</td>
<td></td>
</tr>
<tr>
<td>Alimony/Paternity</td>
<td></td>
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<tr>
<td>Miscellaneous</td>
<td></td>
</tr>
<tr>
<td>Homeowner's insurance</td>
<td></td>
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<tr>
<td>Automobile insurance</td>
<td></td>
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<tr>
<td>Umbrella insurance</td>
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</tr>
<tr>
<td><strong>Total Fixed Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>$125</td>
<td></td>
</tr>
</tbody>
</table>

![Pie chart showing budget allocation]
COMPONENTS OF A CREDIT SCORE

Credit History and Credit Mix (15%): 
Length of credit and types of credit

Credit Inquiries (10%): 
Checks on a borrower’s credit

Amount Owed (33%): 
Ratio of debt to total credit

Payment History (35%): 
Late Payments

Other (7%): 

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 DI?**
  - Disability Insurance protects your ability to earn an income
  - This helps hedge risk against losing all that education and training that a doctor or 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
  - Nontaxable 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

<table>
<thead>
<tr>
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<td>$76</td>
<td>$301</td>
<td>$303</td>
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<tr>
<td>Savings / Interest Accrual Fund / Roth IRA:</td>
<td>$400</td>
<td>$400</td>
<td>$400</td>
<td>$400</td>
</tr>
<tr>
<td>Occupation-specific Income Protection (DI):</td>
<td>$125</td>
<td>$125</td>
<td>$125</td>
<td>$125</td>
</tr>
<tr>
<td><strong>Total Monthly Allocation to Strategy:</strong></td>
<td><strong>$525</strong></td>
<td><strong>$601</strong></td>
<td><strong>$826</strong></td>
<td><strong>$828</strong></td>
</tr>
</tbody>
</table>

**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