

PLANNING FOR YOUR STUDENT LOANS

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EXPERIENCE
— YOUR WEALTH —



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AGENDA

- 01 About me
- 02 Overview of loan types and repayment plans
- 03 Framework for your repayment strategy
- 04 How major life events impact your student loans
- 05 Q&A



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ABOUT ME





STUDENT LOAN OVERVIEW



FEDERAL VS. PRIVATE STUDENT LOANS

FEDERAL STUDENT LOANS

- ❑ You can find your *federal* student loans at studentaid.gov
- ❑ Federal loans have the name "DIRECT" or "FFEL" in them
- ❑ Interest rates are set by the government
- ❑ Federal loans = flexible
 - ❑ Flexible repayment plans
 - ❑ Tax-free forgiveness for death/disability
 - ❑ Eligible for other forgiveness programs



PRIVATE STUDENT LOANS

- ❑ Owned by a private bank
- ❑ You can find your *private* loans on your credit report
- ❑ Interest rates are set by the lender
 - ❑ May require a co-signer
- ❑ Private loans = not flexible
 - ❑ Limited repayment options
 - ❑ Death/disability may *accelerate* payment of loan balance
 - ❑ No forgiveness programs

TYPES OF FEDERAL LOANS

- ❑ Two classifications - Direct and FFEL. All of these loans could be Direct or FFEL
- ❑ Stafford loans
 - ❑ Subsidized and unsubsidized loans
- ❑ Perkins loans
 - ❑ Subsidized loans
- ❑ Grad PLUS loans
 - ❑ Unsubsidized loans
- ❑ Federal consolidation loans
 - ❑ Subsidized and unsubsidized loans



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TYPES OF FEDERAL REPAYMENT PLANS

- ❑ There are 7 types of repayment plans...yeah 😊
- ❑ The *most common* repayment plans are:
 - ❑ Standard 10 year repayment plan
 - ❑ Pay evenly over a 10 year period
 - ❑ Pay As You Earn (PAYE)
 - ❑ Pay 10% of your AGI - poverty line deduction
 - ❑ **Max payment = amount of 10 year repayment**
 - ❑ Eligible if no loans prior to 10/1/2007 *and* borrower after 10/1/2011
 - ❑ **Can exclude spouse's income if file taxes separately**
 - ❑ Revised Pay As You Earn (REPAYE)
 - ❑ Pay 10% of your AGI - poverty line deduction
 - ❑ May have Direct loans originated at any time
 - ❑ **No max payment**
 - ❑ **Can't exclude spouse's income regardless of tax filing status**
 - ❑ Government pays 50% of unpaid interest on unsubsidized loans each month



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HOW PAYMENTS ARE ALLOCATED

Ex - \$100,000 student loan balance

\$10,000 unpaid interest

\$90,000 principal

- Payments *first* apply to interest
- Interest is *not* charged on this; grows in a separate bucket
- Need to pay down unpaid interest before making a dent in here
- Interest is charged based upon principal only



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Beware of interest "capitalization"

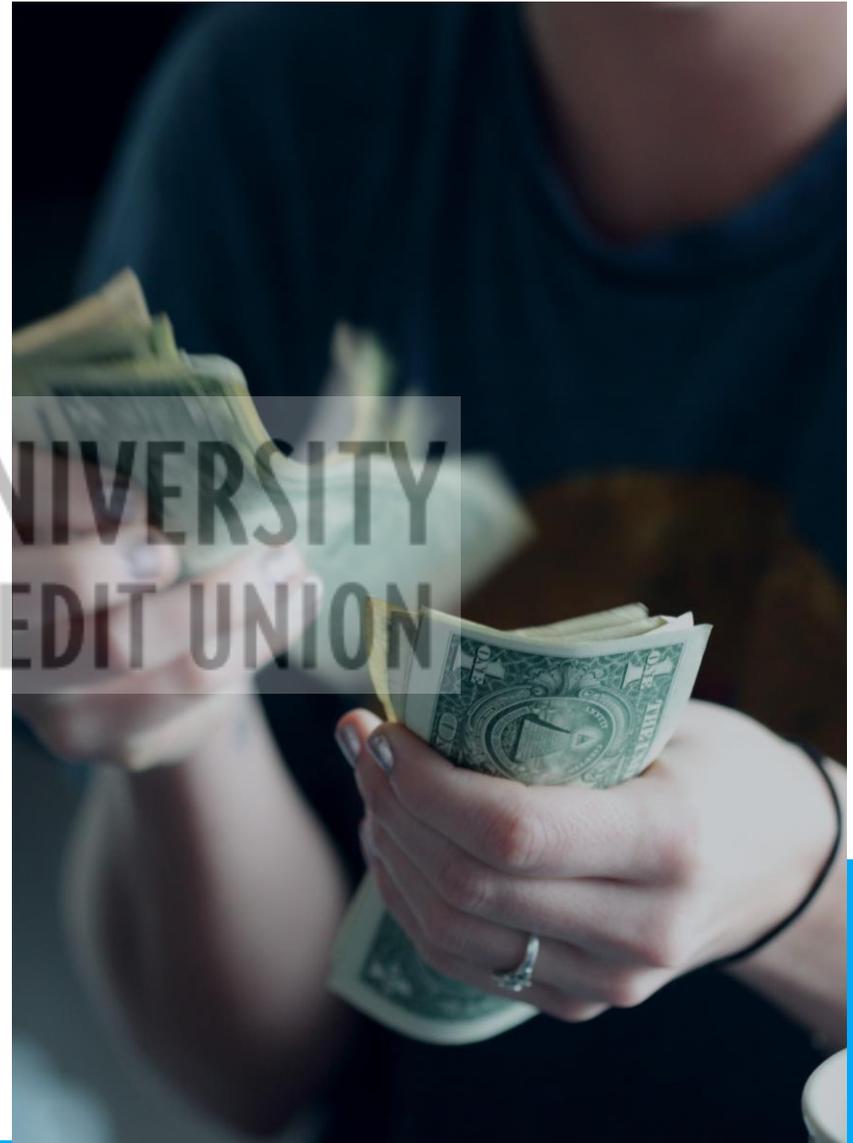
- \$10,000 is *added to* \$90,000 principal
- Occurs when:
 - Failure to document income
 - Switch repayment plans
 - Loans put in forbearance





CERTIFYING YOUR INCOME

- ❑ Required to certify your income every year if you are on an income-based repayment plan
- ❑ You can “recertify” early if you experience a drop in income
 - ❑ Resets the annual certification date
 - ❑ Can reduce payments all the way to zero if you have no income now
- ❑ No requirement to “recertify” your income if income increases before next income verification date





REPAYMENT STRATEGY



WHICH CAMP ARE YOU IN?

- 1 | Pay loans down as fast as possible
- 2 | Pay loans down with flexibility
- 3 | Pay as little as possible and have loans forgiven



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1) PAY DOWN AS FAST AS POSSIBLE

- 1 | Your income > your loan balance
- 2 | Your income is steady
- 3 | Your loans have high interest rates (>5%)
- 4 | You have a sufficient emergency fund
- 5 | Low opportunity cost with the money



You likely want to explore refinancing





HOW DO YOU REFINANCE YOUR STUDENT LOANS?

- ❑ Check out rates at Student Loan Planner and First Republic
- ❑ You can typically customize your repayment terms
- ❑ Ask about co-signer releases
- ❑ There is no limit to the amount of times you can refinance
- ❑ *Beware of the flexible federal student loan features that you are giving up!*



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2) PAY DOWN WITH FLEXIBILITY

- 1 | Your income > your loan balance
- 2 | Your income is more variable
- 3 | Your loans have lower interest rates (<5%)
- 4 | You may not have a sufficient emergency fund
- 5 | High opportunity cost with the money



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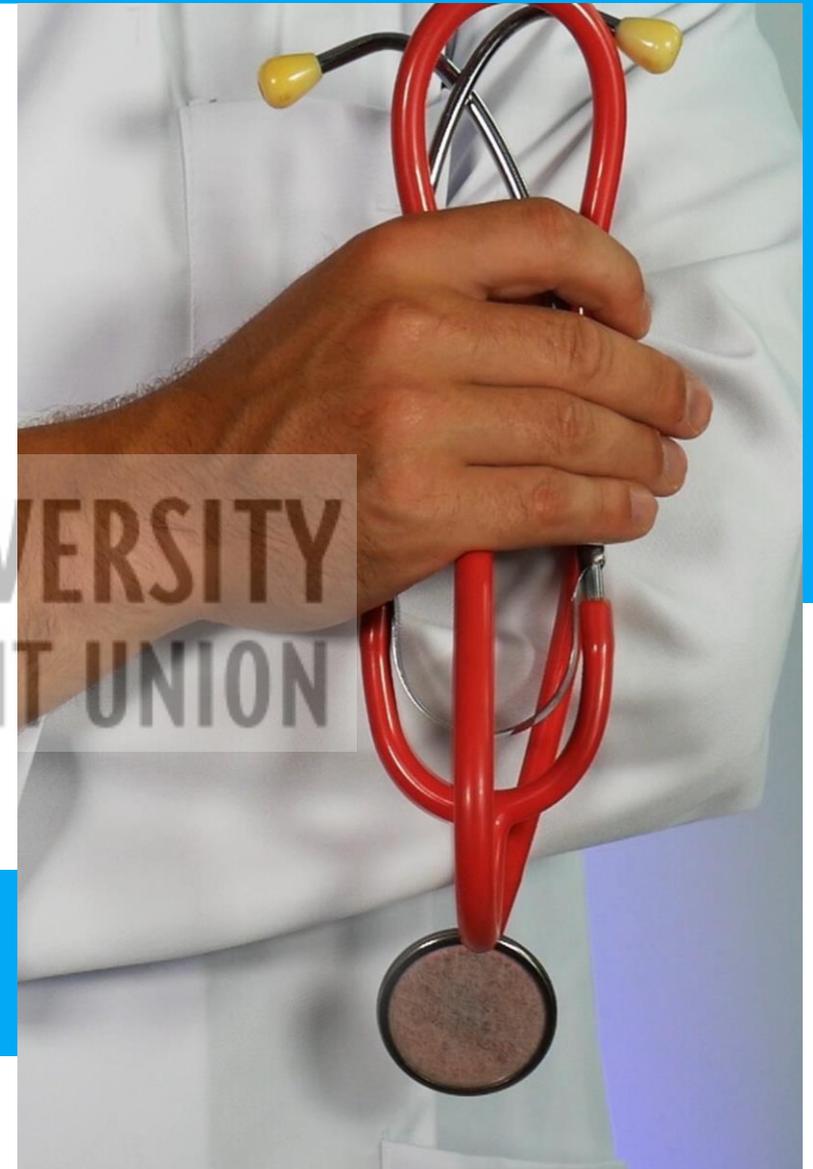
You likely want to enroll in an income-based repayment plan



3) PAY AS LITTLE AS POSSIBLE

- 1 | Your income < your loan balance
- 2 | You work at a non-profit, government agency or own a business
- 3 | Your loans have high interest rates (>5%)
- 4 | You may not have a sufficient emergency fund
- 5 | High opportunity cost with the money

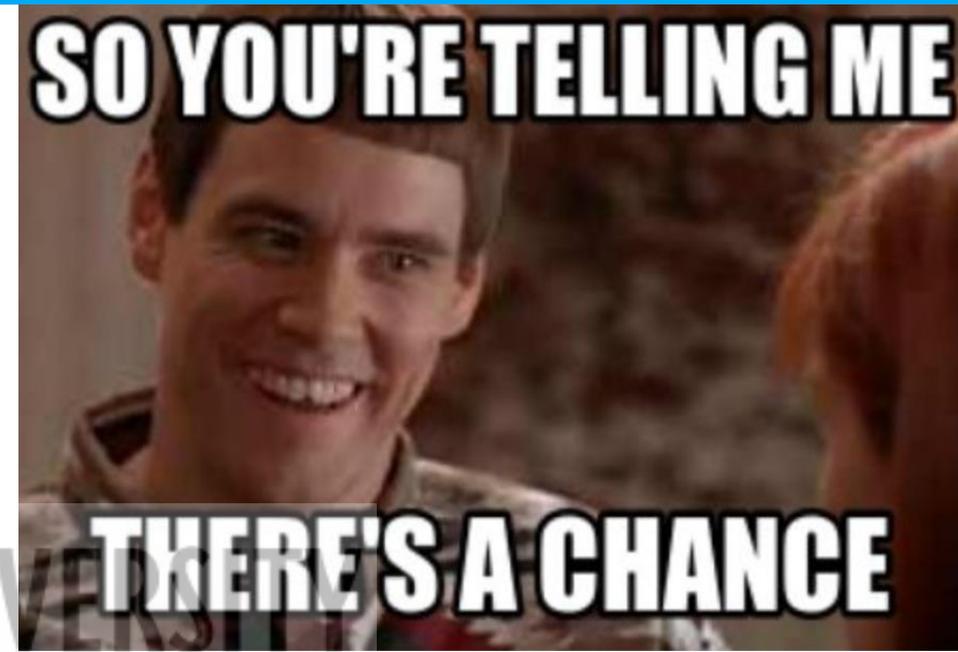
**You likely want to explore income-based
repayment and forgiveness**



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PUBLIC SERVICE LOAN FORGIVENESS

- ❑ PSLF = entire student loan balance is forgiven **tax-free** after 120 qualifying payments if you have the:
 - ❑ Right type of loans = Direct federal loans
 - ❑ Right type of repayment plan = Income-based or standard repayment
 - ❑ Right type of employer = 501©(3) nonprofit or government agency
 - ❑ Right type of documentation = Employment certifications, income certifications and documented PSLF credit
- ❑ WTF?
 - ❑ 99% of applications have been denied; but this stat is wildly misleading
 - ❑ Can save you *hundreds of thousands of dollars* if done properly
- ❑ Strategy = pay as **little** as possible if you are going for PSLF
 - ❑ Take advantage of pre-tax accounts (403(b)s, HSAs, etc.)
 - ❑ File taxes separately (except for REPAYE)





PSLF EXAMPLE

- ❑ \$415,000 student loan balance from med school
- ❑ Client worked at a hospital
- ❑ What is the value in pursuing PSLF?

Payment strategy	Net present value of payments (in today's dollars)	Loan balance depleted	Extra annual AFTER-TAX salary needed to "make up" for no PSLF
REPAYE & pursue PSLF	\$250,000	8 - 10 years	
REPAYE, pursue PSLF & max out pre-retirement accounts	\$219,000	8 - 10 years	
REPAYE & no PSLF	\$586,000	19 years	\$52,000/year
Private refinance @ 4.5% over 10 years	\$453,000	10 years (or later if you want)	\$33,000/year



TAXABLE LOAN FORGIVENESS

- ❑ Remaining student loan payments are forgiven (but this is taxed) after 20/25 years of payments if you have the:
 - ❑ Right type of loans = Direct and FFEL federal loans
 - ❑ Right type of repayment plan = Income-based
- ❑ This may make sense if your student loan balance > your income
 - ❑ Need to plan for the “tax bomb” in the year student loan balance is forgiven
- ❑ Strategy = pay as *little* as possible if you are going for taxable loan forgiveness
 - ❑ Take advantage of pre-tax accounts (403(b)s, HSAs, etc.)
 - ❑ File taxes separately (except for REPAYE)





TAXABLE LOAN FORGIVENESS EXAMPLE

- ❑ \$250,000 student loan balance from law school; interest rates between 6.8% and 7.9%
- ❑ Working at a for-profit law firm
- ❑ What is the value of pursuing taxable loan forgiveness at different income levels?

Income level w/ 3% annual raises	1) Net present value of payments (in today's dollars)	2) Loan balance remaining @ forgiveness	3) Assumed federal + state tax rate	4) NPV of tax due on loan forgiveness	5) Total net present value (#1 + #4)	6) Savings compared to private refinance
\$50,000	\$40,745	\$397,000	25%	\$67,584	\$108,329	\$153,671
\$100,000	\$106,000	\$320,000	30%	\$65,371	\$171,371	\$90,629
\$150,000	\$171,000	\$243,000	32%	\$52,951	\$223,951	\$38,049
\$200,000	\$236,000	\$156,000	35%	\$37,180	\$273,180	(\$11,180)
\$250,000	\$300,000	\$26,000	37%	\$6,551	\$306,551	(\$44,551)





STUDENT LOANS FOR MEDICAL PROFESSIONALS IN RESIDENCY + FELLOWSHIP



DEFERMENT

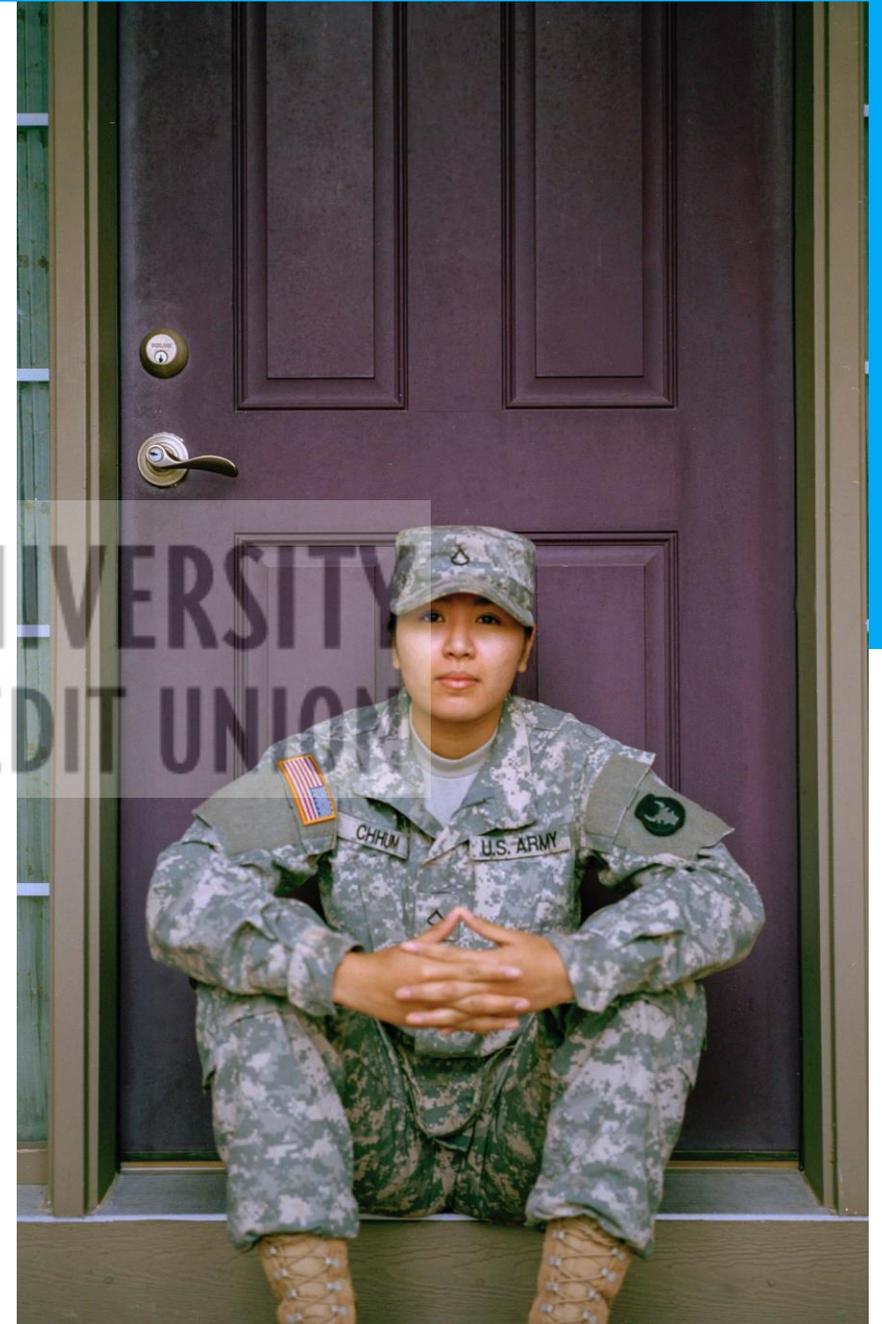
- ❑ Pros
 - ❑ Continue to pay \$0/month towards loans
 - ❑ May help with cash flow, especially if you have credit card debt or no emergency fund
- ❑ Cons
 - ❑ Loan balance grows more as interest accrues + capitalizes
 - ❑ You don't earn any credit towards PSLF

ENROLL IN REPAYE AT FIRST (likely)

- ❑ Pros
 - ❑ You will very likely begin earning credit towards PSLF
 - ❑ Loan balance doesn't grow as much, especially with 50% unpaid interest subsidy from REPAYE
- ❑ Cons
 - ❑ You will likely have a monthly payment ranging from \$300 - \$400/month
 - ❑ Requires careful financial planning to fit into cash flow
- ❑ Consider enrolling in PAYE before marriage and/or before salary dramatically increases
 - ❑ PAYE requires "partial financial hardship" to enter

MISC. LOAN FORGIVENESS PROGRAMS

- ❑ Military loan forgiveness
- ❑ National Institute of Health (NIH) loan forgiveness
- ❑ Indian Health Services loan forgiveness
- ❑ National Health Service Corps (NHSC) loan forgiveness
- ❑ State-specific loan forgiveness





FEDERAL STUDENT LOANS AND LIFE TRANSITIONS



MARRIAGE

- ❑ Impacts you if you are on an *income-based repayment plan*
- ❑ File taxes jointly = include spouse's income in your student loan calculation
- ❑ File taxes separately = you can **exclude** spouse's income in your student loan calculation if you aren't on REPAYE
- ❑ If both spouses have student loans; get help
 - ❑ It's complicated AF



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BUYING A HOME

- ❑ Lenders will look at your debt to income ratio, credit score and possibly assets
- ❑ FHA loan
 - ❑ Lender uses *greater of* 1% of outstanding loan balance or the actual documented payment
- ❑ Conforming loan/jumbo loans
 - ❑ Lender uses *current payment amount* only
 - ❑ Ignores the outstanding loan balance!
- ❑ Consider how your student loan repayment will impact your debt to income ratio
 - ❑ Higher payment = higher debt to income ratio = worse mortgage terms





STARTING A BUSINESS

- ❑ Enrolling in an income-based repayment plan can free up cash flow
 - ❑ \$0 current income = \$0 student loan repayment
- ❑ Your “real” income and “paper income” will differ
 - ❑ Business owners get many write offs like depreciation, amortization, payroll costs, etc.
- ❑ Can establish a “modest” salary and receive remaining profit via business distributions
 - ❑ Can use salary for income verification as opposed to tax return
- ❑ High student loan balance + starting a business = evaluate taxable loan forgiveness



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KEY TAKEAWAYS



WHAT SHOULD YOU REMEMBER?

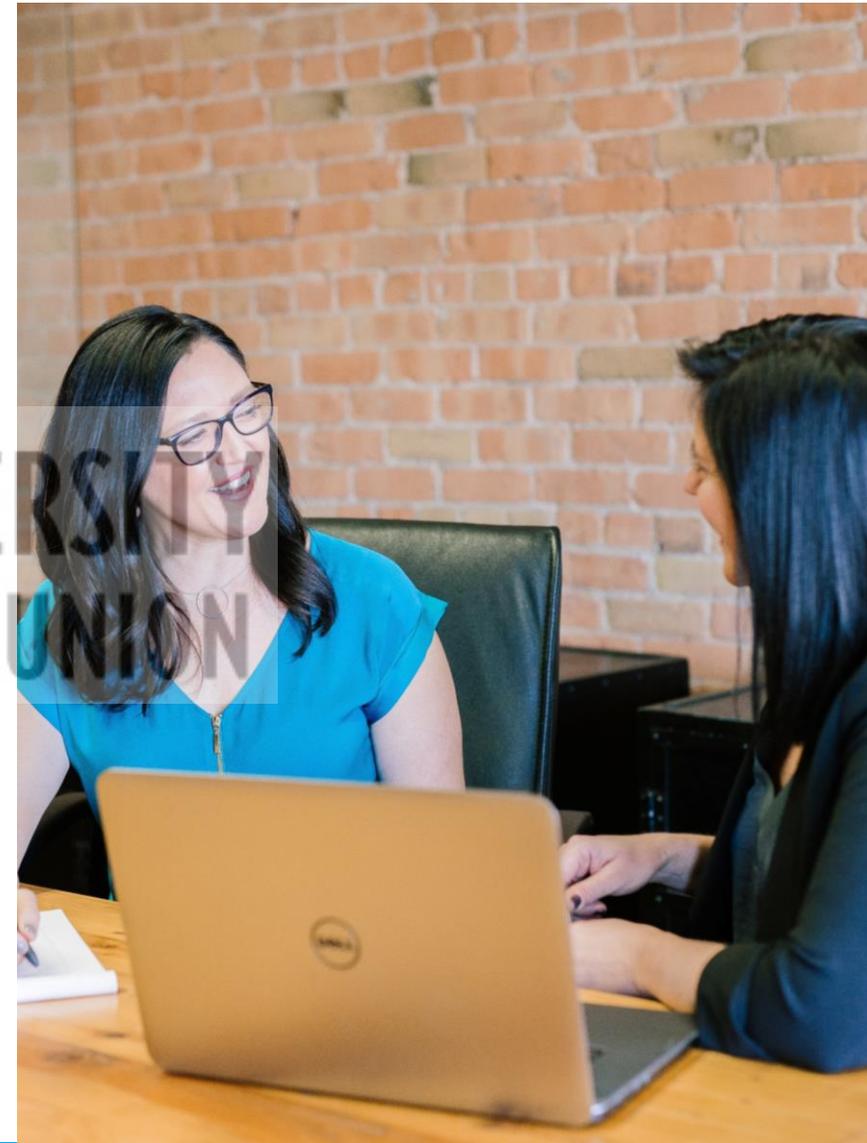
- 1 | Your life should drive your student loans, your student loans shouldn't drive your life
- 2 | Visit studentaid.gov to review what loans you have
- 3 | Do not complete a direct consolidation or private refinance until you fully understand your existing progress towards a loan forgiveness program
- 4 | If you are pursuing PSLF or taxable loan forgiveness, be sure to stay on top of income certifications + documentation of payments
- 5 | Proactively identify how different life transitions (job, marriage, buying a home, etc.) impacts your student loan strategy
- 6 | Seek help from an expert. Unfortunately, loan servicers should not be trusted 





HOW TO FIND HELP

- ❑ Find a Fee-only Certified Financial Planner™ and/or Certified Student Loan Professional
- ❑ One-off student loan reviews
 - ❑ <https://www.studentloanplanner.com/>
- ❑ Comprehensive fee-only financial planners (including student loans)
 - ❑ <https://www.xyplanningnetwork.com/>
 - ❑ <https://www.feeonlynetwork.com/>
 - ❑ <https://www.napfa.org/find-an-advisor>





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