Public Service Loan Forgiveness and the new Revised Pay As You Earn (REPAYE)

Today’s Plan
• Which loans are which and why it matters
• Put private student loans in their place
• Evaluating federal student loan repayment plans
• Federal loan forgiveness
• Income-driven repayment
• Proposals for change
• Ask Heather

Federal student loans

Private student loans

Flexible, but excessively complicated

Simple, but frustratingly rigid

Which loans are which and why it matters

First, take inventory

Check to see if you have federal or private loans or both
Private student loans

- Terms based on credit
- Often variable interest rates with no cap
- Lack borrower protections
- Lack flexible repayment terms

annualcreditreport.com

www.nslsds.ed.gov

Before July 2010, federal loans came from two different sources

Federal Student Loans

Perkins
Federal Consolidation
Subsidized Stafford
Parent PLUS
Unsubsidized Stafford
Grad PLUS

FFEL
Federal Direct
Federal Student Loans
To err is human; to forgive, divine.

There are two kinds of federal loan forgiveness

If you still have a balance after making income-driven payments for 20 or 25 years:

- The balance is forgiven
- But the forgiven amount is taxed as income

Public Service Loan Forgiveness is earned by making payments

120 “qualifying” payments
Five Steps to Public Service Loan Forgiveness

1. Make the right kind of payments,
2. on the right kind of loans,
3. while working in the right kind of job.
4. Repeat 120 times.
5. Prove it.

Felisha Martinez borrows $65,000 at 6.8% interest

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Monthly Payment</th>
<th>Years in Repayment</th>
<th>Total Payments</th>
<th>Total Forgiven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-year term</td>
<td>$797</td>
<td>10</td>
<td>$95,612</td>
<td>N/A</td>
</tr>
<tr>
<td>30-year term</td>
<td>$481</td>
<td>25</td>
<td>$144,163</td>
<td>N/A</td>
</tr>
<tr>
<td>Income-Based Repayment</td>
<td>$277</td>
<td>10</td>
<td>$40,068</td>
<td>$76,523</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>$185</td>
<td>10</td>
<td>$28,284</td>
<td>$90,727</td>
</tr>
</tbody>
</table>

AGI $40,000; 3% annual increases; family size = 2 in year 1, plus 1 in year 3, plus 1 in year 5

Count payments.

...99,
100,
101,
102...

Payments are 10 or 15 percent of “discretionary income”

Long-term forgiveness takes either 20 or 25 years
Public Service Loan Forgiveness takes 120 “qualifying” payments
Qualifying repayment plans for PSLF:

- ICR
- Old IBR
- New IBR
- PAYE
- REPAYE
- Standard 10-year term

Married student loan borrowers must choose:

- File taxes jointly and have monthly payment based on joint AGI and combined student debt, or
- File taxes separately and have monthly payment based on individual AGI and individual student debt

### Monthly Payments

<table>
<thead>
<tr>
<th>AGI</th>
<th>single 15%</th>
<th>single 10%</th>
<th>married with 2 kids 15%</th>
<th>married with 2 kids 10%</th>
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</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$154</td>
<td>$103</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>$40,000</td>
<td>$279</td>
<td>$186</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>$50,000</td>
<td>$404</td>
<td>$270</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>$60,000</td>
<td>$529</td>
<td>$353</td>
<td>$45</td>
<td>$30</td>
</tr>
<tr>
<td>$70,000</td>
<td>$654</td>
<td>$436</td>
<td>$170</td>
<td>$114</td>
</tr>
<tr>
<td>$80,000</td>
<td>$779</td>
<td>$520</td>
<td>$295</td>
<td>$197</td>
</tr>
<tr>
<td>$90,000</td>
<td>$904</td>
<td>$603</td>
<td>$420</td>
<td>$280</td>
</tr>
<tr>
<td>$100,000</td>
<td>$1,029</td>
<td>$686</td>
<td>$545</td>
<td>$364</td>
</tr>
</tbody>
</table>

Partial Financial Hardship

Required debt to income ratio in order to qualify for most income-driven repayment plans
Old IBR Qualifies for PSLF 25 year forgiveness

PAYE Qualifies for PSLF 20 year forgiveness

REPAYE Qualifies for PSLF 20 year forgiveness for borrowers with only undergrad loans 25 year forgiveness for borrowers with any graduate or professional loans

Old IBR No special limitation to interest capitalization or accrual

PAYE Capitalization limited to 10 percent of principal balance

REPAYE Just 50 percent of interest accrues during periods of negative amortization

Mary and Joe

- Mary earns $45,000 as an office administrator.
- Her husband Joe earns $60,000 as an account executive.
- Mary and Joe have no children.
- Joe owes $25,000 on his eligible federal student loans
- Mary owes $75,000 on her loans (She owes 75 percent of the total marital student loan debt).

Comparing Taxation Tax Filing Status Adjusted Gross Income Annual Tax Due Combined Annual Tax Due
Jointly $102,500 $14,439 $14,439
Separately Hers: $60,000 $9,401 Hers: $45,000 $5,660 $15,061
Difference Filing jointly saves $622 on this year’s tax payment.

Comparing how much tax they’ll pay

Comparing student loan payments

<table>
<thead>
<tr>
<th>Tax Filing Status</th>
<th>Monthly IBR Payment</th>
<th>Combined Monthly IBR Payment</th>
<th>Combined Annual IBR Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jointly</td>
<td>Hers: $743 (75% of total)</td>
<td>His: $248 (25% of total)</td>
<td>$991 $11,892</td>
</tr>
<tr>
<td>Separately</td>
<td>Hers: $459</td>
<td>His: $731</td>
<td>$8,772</td>
</tr>
<tr>
<td>Difference</td>
<td>Filing jointly requires $260 more monthly in student loan payments</td>
<td>Filing jointly requires $3,120 more annually in student loan payments</td>
<td></td>
</tr>
</tbody>
</table>
The paperwork matters

- Verify income & family size annually
- Certify employment annually
- Apply for forgiveness

Avoid these common mistakes

- Forgetting to consolidate older federal loans (FFEL)
- Choosing an ineligible repayment plan (long-term)
- Filing a joint tax return without first evaluating the consequences
- Forgetting to recertify income on time
- Forgetting to file Employment Certification Forms annually
- Making lump-sum payments