Public Service Loan Forgiveness

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It’s Been Said...

- "Forgiveness does not change the past, but it does enlarge the future." - Paul Boese, author

- "Without forgiveness life is governed by... an endless cycle of resentment and retaliation." - Roberto Assagioli, psychologist

- "If you can't forgive and forget, pick one." - Robert Brault, author
Agenda

- A Brief History
- Comparing Income-Driven Repayment Plans
- Public Service Loan Forgiveness
- Proposed Changes to PSLF (Obama 2015)
- Strategies to Consider Today
Medical School Costs (AAMC 2012)

Figure 2: Median 4-year cost of attendance (COA) and education debt of indebted medical school graduates, 2000-2012 (in constant 2012 dollars)

Source: AAMC Graduation Questionnaire (GQ) and Tuition and Student Fees Survey (TSF).

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Figure 1: Median Education Debt of Indebted Medical School Graduates, 1992-2012

Source: AAMC Graduation Questionnaire (GQ). CAGR = compound annual growth rate. CPI = Consumer Price Index.

Used by permission
Forgiveness – A Brief History

• 2007: Public Service Loan Forgiveness enacted
• 2009: Income-Based Repayment (IBR) effective
• 2012: Pay As You Earn (PAYE) enacted
  • Available to “new borrowers” on or after Oct. 1, 2007
• 2014: New Direct Consolidation Process
  • Choose your own servicer and apply for IBR/PAYE with new application
• 2015: Proposed Changes to PSLF in new budget
Income-Driven Repayment Plans
# Income-Driven Repayment Plans Today

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Eligible Loans</th>
<th>Borrower Eligibility</th>
<th>Payment Calculation</th>
<th>Forgiven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>Direct loans</td>
<td>• Partial Financial Hardship &lt;br&gt;• New borrower as of 10/1/07 and received a loan disbursement on/after 10/1/11</td>
<td>10% of discretionary income</td>
<td>20 years</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR) – effective 7/14/14</td>
<td>Direct loans</td>
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<td>Income-Contingent Repayment (ICR)</td>
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<td>Direct or FFEL loans</td>
<td>• Partial Financial Hardship &lt;br&gt;• Borrowers prior to 7/1/14</td>
<td>15% of discretionary income</td>
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Partial Financial Hardship

- Borrower must demonstrate a partial financial hardship (PFH)
- Exists when the annual amount on the borrower’s eligible loans exceed 10% of the difference between the borrower’s AGI & 150% of the poverty guidelines based on borrower’s family size
- Factors:
  - Adjusted Gross Income (AGI)
  - Poverty guidelines
  - Family size
  - Standard loan payment
Determining IBR/PAYE Eligibility

Assume $60,000 income, $58,000 federal loan indebtedness, Family size = 1

$5,000 Monthly AGI

- $1,458 150% of poverty line

$3,542

10% of $1,542 = $354

Standard payment = $667

Qualify = Yes
# Medical Student Example - PAYE

## AAMC Debt Fact Card October 2014

[https://www.aamc.org/download/152968/data/debtfactcard.pdf](https://www.aamc.org/download/152968/data/debtfactcard.pdf)

### Cost, M1 In-State, 2014-15

<table>
<thead>
<tr>
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<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Tuition &amp; Fees</td>
<td>$34,540 (↑4%)</td>
<td>$53,714 (↑3%)</td>
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<tr>
<td>Median Cost of Attendance (COA)</td>
<td>$56,779 (↑2%)</td>
<td>$76,376 (↑4%)</td>
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<tr>
<td>Median 4-Yr. COA for Class of 2015</td>
<td>$226,447 (↑3%)</td>
<td>$298,538 (↑4%)</td>
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Source: AAMC TSF Survey preliminary data from 85 public schools and 55 private schools.

### Resident/Fellow Stipends 2014

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<th>Approx. PAYE Monthly Payment</th>
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<tr>
<td>1st Post-MD Year</td>
<td>$51,250</td>
<td>$283</td>
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<td>2nd Post-MD Year</td>
<td>$52,941</td>
<td>$298</td>
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<td>3rd Post-MD Year</td>
<td>$55,029</td>
<td>$315</td>
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<td>4th Post-MD Year</td>
<td>$57,200</td>
<td>$333</td>
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Source: Analysis of current federal regulations and preliminary data from AAMC Survey of Resident/Fellow Stipends and Benefits. PAYE = Pay As You Earn.
Partial Financial Hardship

Filing status consideration:

- Single or married filing separately
  - Only the borrower’s AGI
- Married filing jointly
  - Borrower and spouse’s AGI
  - Borrower and spouse’s loan debt
## Income-Driven Repayment Plans Today

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Public Service Loan Forgiveness (PSLF)
Public Service Loan Forgiveness

- Created by Congress through the College Cost Reduction and Access Act of 2007 to encourage individuals to enter and work in the public sector.
- Borrowers who work for a public service employer may be eligible to have a portion of their Direct Loan debt forgiven after 120 qualifying monthly payments on or after October 1, 2007.
- PSLF is for Direct Loans only. If the borrower has FFELP loans, they would need to consolidate into the Direct Loan program in order to have those loans qualify.
Public Service Employment

- A federal, state, local, or tribal government organization, agency, or entity
- A public child or family service agency
- A nonprofit organization under section 501(c)(3) taxation under section 501(a) of the IRC
- A private organization that provides public services:
  - Emergency management, military service, public safety
  - Law enforcement, public interest law services, public child care
  - Public service for individuals with disabilities and the elderly
Public Service Employment

- A tribal college or university
- Peace Corps and AmeriCorps
- A private organization that provides public services:
  - Public health, public education, public library services
  - School library or other school-based services
- Is **NOT** a business organized for profit, a labor union, partisan political organization, or religious organization
Qualifications

- Borrower cannot be in default on student loans
- Must be employed full-time:
  - 30 hours per week or the equivalent
  - During the time the borrower makes the qualifying payments
  - At the time loan forgiveness is requested and granted
PSLF Qualifying Payments

- Required 120 payments do not have to be consecutive, but must be:
  - Separate
  - On time
  - Full monthly payments

- Reduced or zero monthly payments under IBR, Pay As You Earn, or ICR qualify
Qualifying monthly payments must be made under these plans:

- Income-Based Repayment
- Pay As You Earn
- Income-Contingent Repayment
- Standard (based on 10-year schedule)
Non-Qualifying Payments

- Standard repayment term on a Direct Consolidation loan that is more than 10 years
  - Standard repayment on a consolidation loan is 10 to 30 years, depending on total education debt
  - In order to have qualifying payments for PSLF, the monthly payment cannot be less than a 10-year standard payment amount
Proposed Changes to PSLF
President Obama’s FY 2015 Budget Proposal

Impact on Medical Student Financial Aid

- **What is the “President’s Budget?”**
  - Annual spending plan outlined for following fiscal year.
  - Plan “requests” often require congressional approval.
  - FY 2015 budget happens to coincide with the expiration of the Higher Education Act (HEA), which authorizes most programs at the Department of Education, including federal student aid.
  - Likely that Congress will address as part of HEA reauthorization over the next year.
## Obama 2015 Budget Proposal

### Income Driven Repayment Calculation

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</tr>
</thead>
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<tr>
<td><strong>Income-Based Repayment (IBR)</strong></td>
<td>Monthly payments are 15% of “discretionary income,” capped at 10-year Standard repayment (10% for new borrowers after 7/1/14)</td>
<td>Establishes PAYE as the only income-driven plan for new borrowers after July 1, 2015, and opens PAYE to all borrowers regardless of loan dates</td>
</tr>
<tr>
<td><strong>Pay As You Earn (PAYE)</strong></td>
<td>Monthly payments are 10% of “discretionary income,” capped at 10-year Standard repayment</td>
<td>Eliminates 10-year Standard payment cap</td>
</tr>
<tr>
<td><strong>(PAYE)</strong></td>
<td>Remaining federal loan balance is forgiven after 20 years of repayment, but is taxable income</td>
<td>Increases to 25 years for borrowers with federal loan balances above $57,500, but excludes the amount forgiven from taxable income</td>
</tr>
<tr>
<td><strong>(PAYE)</strong></td>
<td>Interest above the monthly payment accrues</td>
<td>Caps the amount of interest that can accrue</td>
</tr>
</tbody>
</table>
### Obama 2015 Budget Proposal (Cont’d)

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<thead>
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<th>Proposed</th>
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<tr>
<td><strong>Public Service Loan Forgiveness</strong></td>
<td>Uncapped forgiveness for the remaining balance (principal and interest) on eligible Direct Loans</td>
<td>Caps forgiveness at the aggregate loan limit for independent undergraduate students ($57,500)</td>
</tr>
<tr>
<td><strong>Forgiveness Cap</strong></td>
<td>Uncapped forgiveness for the remaining balance (principal and interest) on eligible Direct Loans</td>
<td>Caps forgiveness at the aggregate loan limit for independent undergraduate students ($57,500)</td>
</tr>
<tr>
<td><strong>Eligible Payments</strong></td>
<td>Eligible repayment plans include: Standard Repayment, Income Contingent Repayment (ICR), IBR, and PAYE</td>
<td>Prevents payments made under non-income driven repayment plans from being applied toward PSLF</td>
</tr>
<tr>
<td><strong>Tax Implications</strong></td>
<td>Amount forgiven is taxable</td>
<td>20 and 25 year forgiveness options to be tax-free</td>
</tr>
</tbody>
</table>

Source: Department of Education Student Loans Overview Fiscal Year 2015 Budget Proposal
Strategies for Today
Strategies for Today

- Consolidation: Evaluate loan portfolio and complete a consolidation with the Direct Loan Program.
- Tax Filing: Consider impact of taxes on federal loan subsidy programs when filing.
- Choose a Repayment Plan: Apply for and enter IBR or PAYE (during residency). Re-apply annually with income documentation and family-size verification.
- Make Payments and Monitor Carefully
Strategies for Today

- Public Service Loan Forgiveness: Track eligible payments, maintain documentation, utilize employment certification form if applicable.
- Manage Liquidity: Ensure you have sufficient cash flow to make all loan payments.
- Manage Discretionary Income: Determine how to allocate extra cash to achieve highest returns.
Strategies for Today

FinAid.org Calculators
http://www.finaid.org/calculators/ibr.phtml

Loan Forgiveness
Forgiveness Year: 10 years

Income-Based Repayment

<table>
<thead>
<tr>
<th>Years in Repayment:</th>
<th>10 years</th>
<th>10 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Payment:</td>
<td>$10.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>Max Monthly Payment:</td>
<td>$428.06</td>
<td>$2,169.26</td>
</tr>
<tr>
<td>NPV of Total Paid:</td>
<td>$45,902.55</td>
<td>$198,509.70</td>
</tr>
<tr>
<td>Total Amount Paid:</td>
<td>$61,384.21</td>
<td>$260,311.93</td>
</tr>
<tr>
<td>Total Accrued Interest:</td>
<td>$128,180.00</td>
<td>$71,811.93</td>
</tr>
<tr>
<td>Capitalized Interest:</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Govt-Paid Sub. Interest:</td>
<td>-$2,223.95</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Interest Paid:</td>
<td>-$61,384.21</td>
<td>-$71,811.93</td>
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<tr>
<td>Total Unpaid Interest:</td>
<td>$64,571.85</td>
<td>$0.00</td>
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<td>Total Amount Paid:</td>
<td>$61,384.21</td>
<td>$260,311.93</td>
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<tr>
<td>Payments to Principal:</td>
<td>$0.00</td>
<td>$188,500.00</td>
</tr>
<tr>
<td>Total Debt:</td>
<td>$188,500.00</td>
<td>$188,500.00</td>
</tr>
<tr>
<td>Capitalized Interest:</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Payments to Principal:</td>
<td>-$0.00</td>
<td>-$188,500.00</td>
</tr>
<tr>
<td>Remaining Balance:</td>
<td>$188,500.00</td>
<td>$0.00</td>
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Government Payments
Loan Forgiveness: 10 years

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<tr>
<th>Years in Repayment:</th>
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<tr>
<td>Balance Write-off:</td>
<td>$188,500.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Forgiveness:</td>
<td>$253,071.85</td>
<td>$0.00</td>
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<tr>
<td>Govt-Paid Sub. Interest:</td>
<td>$2,223.95</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Forgiveness:</td>
<td>$253,071.85</td>
<td>$0.00</td>
</tr>
<tr>
<td>Total Govt Payments:</td>
<td>$255,295.79</td>
<td>$0.00</td>
</tr>
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Net Present Value

| Total Unpaid Interest: | $36,744.01 | $0.00 |
| Balance Write-off: | $107,264.17 | $0.00 |
| Total Forgiveness: | $144,008.18 | $0.00 |
Application Process

- Electronic application available at studentloans.gov (IBR/Pay As You Earn/ICR Repayment Plan Request form)
- Uses IRS Data Retrieval Tool to collect tax information from the most recently completed two tax years
- Electronically transmits application to federal loan servicer
- Can be used for initial application or annual reevaluations
- It will take you at least 10 years to make the 120 qualifying payments necessary to receive PSLF
- During this time you’ll want to track your periods of qualifying employment
- The Employment Certification Form will allow you to get your employer’s certification of employment while you are still employed

Income Documentation

- If AGI is not available or does not reflect current income, borrower can submit alternative documentation of income (ADOI)
- Borrower must provide documentation of all taxable income
  - Example: pay stubs, unemployment benefits
Questions / Wrap-Up

Learn more about IDR Plans & PSLF here:

- Department of Education: [https://studentaid.ed.gov/repay-loans/understand/plans](https://studentaid.ed.gov/repay-loans/understand/plans)
- AAMC: [https://www.aamc.org/services/first/](https://www.aamc.org/services/first/)
- IBR Info: [http://ibrinfo.org/](http://ibrinfo.org/)
- FinAid.org Calculators: [http://www.finaid.org/calculators/ibr.phtml](http://www.finaid.org/calculators/ibr.phtml)
- Wells Fargo Education Financial Services: [www.wellsfargo.com/student](http://www.wellsfargo.com/student)
- My Contact Info: William Buescher – Market Relationship Manager – (413) 362-9351 – [william.a.buescher@wellsfargo.com](mailto:william.a.buescher@wellsfargo.com)