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REPAYMENT STRATEGIES FOR NEW DENTAL SCHOOL GRADUATES

Senior Loan Exit Interview
Class of 2024

AMERICAN DENTAL EDUCATION ASSOCIATION

Topics to cover

- Simple steps to developing a repayment strategy
- Your student loan portfolio
  - Federal, campus-based, and private loans
  - Interest rates and favorable changes to interest capitalization
  - Loan servicers, payment application and due dates
- Repayment options and loan forgiveness on federal loans
  - Postponement options
  - Time-driven and income-driven plans, including new income plan SAVE
  - Public Service Loan Forgiveness
  - Options during advanced dental education
- Sample repayment estimates with AAMC/ADEA Dental Loan Organizer and Calculator (AAMC/ADEA DLOC)*
- Federal consolidation and private refinancing
- Resources and takeaways

*AAMC/ADEA Dental Loan Organizer and Calculator available at adea.org/DLOC

Important reminders

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- You can change strategies and repayment plans.
- Principal loan balance will not come down until you pay more than outstanding interest due.
- Public Service Loan Forgiveness (PSLF) is working.
  - AAMC/ADEA DLOC can give you forgiveness estimates
- Control what you can control in repayment by meeting all deadlines and keeping contact information current.
- Documentation is extremely important.
- Use caution where you get repayment information.*
- Your loans and your repayment strategy are your own.

*Use trusted resources like ADEA, your financial aid office, and your loan servicer.

Simple steps to choosing an effective repayment strategy

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1. Know what you borrowed, who services your loans and when they come due.
2. Identify and constantly review your repayment objectives.
3. Choose a repayment plan to help meet your repayment objectives.

Step 1: Loan portfolio

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- Federal loans at StudentAid.gov
  - Direct unsubsidized and direct PLUS (Grad PLUS)
    - Government is lender, repayment handled by third-party loan servicer.
    - Usually due six months after graduation.
    - Eligible for repayment with income-driven plans and eligible for PSLF.
- Campus-based loans*
  - Perkins, Health Professions Student Loans (HPSL), and Loans for Disadvantaged Students (LDS)
    - School is lender, different loan servicer than federal direct loans.
    - See disclosure statement from your school's loan office for terms and conditions.
- Private loans*
  - Private lenders and credit-based loans not listed at StudentAid.gov.
  - See disclosure statement from lender for terms and conditions.

*Not eligible for repayment with income-driven plans and not eligible for PSLF.

Interest rates

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- Fixed rates on direct unsubsidized and direct PLUS (Grad PLUS)
  - Borrowers have different rates each year on new loans.*
  - Direct PLUS always 1% higher than direct unsubsidized.
  - See Interest Rate Primer on ADEA website.**
- 5% fixed on Perkins, HPSL and LDS
- Rates vary on private loans
  - See disclosure statement for interest rate.

*Rates change on new loans disbursed on or after July 1 each year, then fixed for life of loan
**Under Financial Resource for Students

Changes to interest capitalization

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- Capitalization is when any accrued and unpaid interest is added back to principal of loan, increasing the balance on which additional interest can be charged.
- Effective July 1, 2023, interest no longer capitalizes on federal loans when borrowers:
  - Enter repayment.
  - Come out of periods of forbearance.
  - Switch income plans (other than from Income Based Repayment).
  - No longer demonstrate Partial Financial Hardship* with PAYE.**

*When 10% of discretionary income is higher than payments under original standard level 10-year plan
**Pay As You Earn (one of the income-driven repayment plans)

Loan servicers

- Lenders, including federal government (the lender for direct loans), contract with third parties to help borrowers manage their loans and provide repayment support.
- Borrowers should have one servicer for all their direct loans.
  - This negates, for many, the need to consolidate.
- Borrowers will have different a loan servicer for campus-based loans.

Payment application

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- Loan servicers offer combined or single billing, with one payment under repayment plan chosen by borrower being applied proportionately against each loan they service, based on balance and rate.
- Voluntary and additional payments may be applied against the loan of the borrower's choosing.
  - Great way to be smartly aggressive by posting these payments against highest rate loan.
- Borrowers should set up an online account with their loan servicer.

When loans come due

- Most federal loans due six months after graduation or drop below half-time status.
  - Direct unsubsidized loans have a six-month grace period.
  - Direct PLUS (Grad PLUS) have a six-month post-enrollment deferment period.
- Grace periods are loan specific.
  - Must use entire grace period to lose it.
  - Borrowers with predental loans and gap years should see predental loans coming due right after graduation, but this does not impact due date of dental school loans.

Step 2: Repayment objectives

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- Smartly aggressive*
- Cautious
- Public Service Loan Forgiveness
- Loan repayment assistance from employers**
- Refinancing with private lenders to reduce interest rate on entire portfolio
- Postponement during hospital-based residency and while enrolled in academic-based advanced dental education programs

*Close to 50% of seniors indicate an interest in aggressive repayment (ADEA Survey of Dental School Seniors)
**National Health Service Corps, National Institutes of Health, Armed Forces, some state programs, other employers

Options at repayment

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- Loan servicers usually notify borrowers 30 to 90 days prior to loans coming due.
  - Be sure all contact information is up to date, especially if you are doing advanced dental education work.
  - Check your trash and junk mail for emails from loan servicers, and put your loan servicer in your safe sender list.
- Options at repayment
  - Postpone payments, if needed.*
  - Start active repayment by choosing a repayment plan.

*See StudentAid.gov and work with your loan servicer for postponement options.
*Mandatory forbearance available during hospital-based advanced dental education programs.

Postponement options

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- Contact your loan servicer if you need to postpone payment.
- Details at StudentAid.gov.
- Two ways to postpone payments on federal loans:
  - Deferment*
    - Subsidized loans are interest-free, unsub loans accrue interest
  - Forbearance*
    - Interest accrues on both subsidized and unsub loans
    - Mandatory Internship Residency Forbearance available for borrowers in hospital-based residency programs
- Postponement good for 12 months, must renew annually.

*Borrowers are considered in good standing, credit is protected

Repayment reminders

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- There is no penalty for aggressive repayment.
- You can usually switch repayment plans.*
- Your one payment to servicer is applied proportionately against all loans they service, based on amount borrowed and rate.
  - Voluntary and additional payments may be targeted to most expensive loans.*
- Payments are applied to all outstanding interest before being applied to principal.
  - Principal balance will not go down until all interest covered.

*Work with your loan servicer if you need to change repayment plans or want to make additional payments.

Step 3: Pick a plan

- Pick a repayment plan where minimum required payment is comfortable and affordable.
  - Overpay if pursuing aggressive strategy
    - Target additional payments to loans with highest rate or pick off smaller balance loans.
  - Make minimum payment only if there are cash flow challenges or you are pursuing PSLF.
- Two categories of plans on federal loans:
  1. Time-driven
  2. Income-driven

Time-driven

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- Loan servicer calculates payments based on amount due at repayment spread out over a designated period of time.
  - Standard 10 and extended 25-year terms
  - Same payment each month*
- Payments always cover more than monthly interest, so principal balance comes down immediately.
- Debt retired at end of term, nothing to forgive.
- Payment calculation has nothing to do with income, marital and tax filing status, or family size.
- Common with campus-based and private loans, including private refinance loans.

*Assumes level plans used, graduated versions available

Income-driven repayment (IDR)

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- Designed for borrowers who have a significant gap between federal debt and income who cannot afford repayment under standard 10-year plan.
  - The bigger the gap between federal debt and income, the more likely income plan needed, unless borrower has other resources
  - Commonly used by residents in hospital-based advanced dental education
- Monthly payments change annually
  - Payments based on income and family size
- See IDR comparison chart* for help selecting best IDR plan

*Financial Resources for Students at adea.org under the red ribbon

IDR payment calculation

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- Payments for IDRs based on federal formula that looks at income, family size, and poverty level for state of residence.
  - In general, payments based on income from most recently filed return.
  - Current income can be used if significantly less than income reflected on most recent return.
- Spousal income counted under all income plans when filing jointly.
  - Spousal income can be excluded under all plans when filing separately.

Once in an income plan

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1. Debt forgiven tax free after 10 years' worth of qualifying payments with PSLF, or
2. Borrower retires debt out of pocket before end of term (or moves debt to a private lender with refinancing), or
3. Government forgives remaining debt at end of term if PSLF is not used and borrower cannot pay debt in full by end of term.
   - Sometimes referred to as "term forgiveness"
   - Forgiveness amount considered taxable income year forgiven

*Taxation references are for federal tax, state tax requirements may vary

IDR comparison chart

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	PAYE Pay As You Earn	"New" IBR Income Based Repayment	SAVE Saving on a Valuable Education
Payment calculation	10% of DI; capped at original standard 10-year payment amount	10% of DI; capped at original standard 10-year payment amount	10% of DI; weighted average if borrower has both undergrad and graduate loans; no payment cap
Repayment term	Up to 20 years	Up to 20 years	Up to 25 years
Spousal income	Yes, but not when filing separately	Yes, but not when filing separately	Yes, but not when filing separately
Income requirement	Yes, borrower must show PFH	Yes, borrower must show PFH	No, any income level qualifies
Interest subsidy on unsubsidized loans	No	No	Yes; government covers 100% of remaining monthly interest not covered by SAVE payment
PSLF	Yes	Yes	Yes
Interest capitalization	No	Yes; when borrower no longer shows PFH or moves to another IDR	No

Important notes about IDR plans

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- “New” IBR has same provisions as PAYE with exception of interest capitalization.
- No new PAYE applications accepted as of July 1, 2024.
  - Borrowers already in PAYE can remain in PAYE if they want.
- “New” IBR not available to borrowers using SAVE after making 60 payments with SAVE.
- Any remaining balance at end of IDR term is forgiven, but subject to federal tax the year forgiven.
- Partial Financial Hardship (PFH) occurs when 10% of discretionary income is lower than original Standard 10-year payment amount.

Important notes about IDR plans

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- SAVE replaced REPAYE (Revised Pay As You Earn)
  - Borrowers previously in REPAYE automatically moved to SAVE.
- DI (discretionary income) is how much Adjusted Gross Income (AGI) exceeds 150% of the poverty level for PAYE and IBR, and 225% of the poverty level for SAVE.
  - SAVE has lower payments since more of DI is protected.
- Income Based Repayment (IBR) has different provisions based on when a borrower first started borrowing.
  - "New" IBR is for first-time borrowers as of July 1, 2014 (this is the plan referenced in the comparison chart).
  - Older IBR is for borrowers prior to July 1, 2014, and the payment calculation is higher at 15% of DI with a 25-year repayment term.

Public Service Loan Forgiveness (PSLF)

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- Passed into law in 2007 to encourage borrowers to enter and remain in nonprofit sector for at least 10 years with promise to forgive their debt at that time.
  - Forgiveness amount with PSLF not considered taxable income
- PSLF not degree specific; any borrowers (including dental and dental hygiene graduates) meeting eligibility requirements can qualify.
- See ADEA Financial Resources for Students for one-pager on PSLF.

PSLF eligibility

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- Three things must happen at the same time in order to qualify for PSLF.
- Borrowers must:
  1. Make 120 timely qualifying payments with an eligible repayment plan* …
  2. On eligible loans** …
  3. While working full time (30 hours) for an eligible non-profit employer.

*You must use an income-driven repayment plan at some point to qualify for PSLF.
**Only direct loans qualify.

Advanced dental education

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- Hospital-based residency
  - You are an employee of a hospital receiving a stipend.
  - Start active repayment, possibly with income plan, or postpone payments with mandatory internship residency forbearance.*
- Academic-based residency
  - You are still considered enrolled in school.
    - In-school status or in-school deferment on federal loans.
  - May need to borrow additional loans (check with school).
  - Check terms on private loans.

*May be used at any time during residency, 12 months at a time, no time limit, considered in good standing.

Repayment assumptions

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- $300,000 total principal federal debt borrowed.
  - $162,000 direct unsubsidized, remainder direct PLUS
  - Applicable interest rates by year for Class of 2024 graduate, CARES Act applied to rates during period covered by CARES Act
- Six-month window before payment begins.
- No prepayments, loans held to full term.
- Single, family size of one for PAYE and SAVE payment calculation.
- $200,000 starting salary (directly into practice).
- AAMC/ADEA Dental Loan Organizer and Calculator used for all repayment and forgiveness estimates.
  - adea.org/DLOC

Repayment directly into practice with $200,000 salary

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Plan	Years	Monthly Payment	Total Paid	PSLF Paid PSLF Forgiven	Term Forgiveness
Standard	10	$4,141	$494,525	NA	NA
Extended	25	$2,386	$710,441	NA	NA
SAVE	25	$1,350 to $2,699 over 25 years	$571,241	$186,844* $375,717** (not taxable)	$286,306† (taxable)
PAYE	20	$1,456 to $2,571 over 20 years	$457,924	$202,135* $396,255** (not taxable)	$343,206† (taxable)

*PSLF Paid represents out of pocket costs over the 10 years needed to qualify for PSLF.
**PSLF forgiveness amount highlighted in red, not subject to tax.
†Under current tax law, borrower must claim term forgiveness amount as taxable income the year forgiven.

Federal consolidation

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- Paying off multiple federal loans with one new federal loan.
  - You are trading debt for debt in the same amount
- Many recent graduates do not need to consolidate since most have one loan servicer for all their direct loans and rates are already fixed.
- Federal government's direct consolidation loan only federal consolidation option.
  - Information and online application at StudentAid.gov/consolidation
- See ADEA Financial Resources for Students for more information on federal consolidation, including advantages and disadvantages.

Refinancing

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- Refinancing is trading student loan debt (federal and/or private and/or campus-based) for private debt.
- Offers promise of lower rates and significant repayment savings.
- These are credit-based loans, but lenders may also consider employment history and debt-to-income ratio when approving applications and determining pricing options.
- Some borrowers refinance private loans from college and keep federal loans federal.
- See ADEA Financial Resources for Students for more information on refinancing with private lenders, including important questions to ask before refinancing.

Resources

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- adea.org
  - See Financial Resources for Students*
  - AAMC/ADEA Dental Loan Organizer and Calculator at adea.org/DLOC
    - Designed specifically for dental students
    - FREE for seven years
    - Customize repayment based on career plans including advanced dental education
    - May also be used by dental hygiene students and graduates
- StudentAid.gov
- Your financial aid office
- Your loan servicer
- www.irs.gov/publications/p970
  - Information on student loan interest deduction

*Look for the red ribbon and Information for Current Students and Residents.

Takeaways

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- Dental school graduates have great track record for responsible repayment.
- Constantly evaluate your repayment objectives.
- You can change repayment strategies and repayment plans if needed.
- There is never a penalty for aggressive repayment.
- Keep up to date on changes that may impact you.
- Be cautious where you get repayment information.
- Use AAMC/ADEA Dental Loan Organizer and Calculator.

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CONGRATULATIONS!

Best Wishes to the Class of 2024!