Debt Management Series

Repaying Student Loans: Income-Based Repayment and Public Service Loan Forgiveness

What is Income Based Repayment? (IBR)

• Became available July 1, 2009
• Intended to be affordable repayment plan for those facing “Partial Financial Hardship” (PFH)
**IBR: Repayment Option for**

- Federal Direct Loans
- Federal Graduate PLUS Loans
- Federal Consolidated Loans
- Perkins Loan only when it is consolidated to Federal Consolidated Loans
- Parent PLUS Loans are **EXCLUDED**
  - Beware of including Parent PLUS loans in a Federal Consolidated Loan

**Partial Financial Hardship**

- Based on:
  - Household AGI
  - Household Size
  - HHS Federal Poverty Guideline for your state
- When your Standard Repayment Plan’s annual loan amount exceeds 15% of your household AGI above 150% of your family’s poverty line
- Most likely to qualify during residency and for those in primary care
The 2009 Poverty Guidelines for the 48 Contiguous States & District of Columbia

<table>
<thead>
<tr>
<th>Persons in Family</th>
<th>Poverty Guideline</th>
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<tbody>
<tr>
<td>1</td>
<td>$10,830</td>
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<tr>
<td>2</td>
<td>$14,570</td>
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<tr>
<td>3</td>
<td>$18,310</td>
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<td>4</td>
<td>$22,050</td>
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<tr>
<td>5</td>
<td>$25,790</td>
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<td>6</td>
<td>$29,530</td>
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<tr>
<td>7</td>
<td>$33,270</td>
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<tr>
<td>8</td>
<td>$37,010</td>
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For families with more than 8 persons, add $3,740 for each additional person.

PROS
- Lowest initial monthly repayment
- Unpaid interest accruing on Subsidized Stafford is paid by ED up to first 3 years in IBR
- Loan cancellation after 25 years of eligible payment
- Possible to exclude spouse’s income if filing separately

CONS
- May have negative amortization
- Increased total cost of loan due to accrued interest
- Annual income & family size verification required
- Unpaid interest will be capitalized at some point
- If married, may need to file separate tax returns
Case Scenario of IBR & PSLF
$150,000 Loan Debt

Single, 6.8% interest, starting salary of $100,000 with 4% annual increases

- 10 years of Standard Repayment
  - Initial monthly payment: $1,726
  - Total amount paid: $207,144
- 10 years of Income Based Repayment
  - Initial monthly payment: $1,047
  - Total Amount paid to date: $152,157
  - Total Amount forgiven after 10 years of Public Service: $83,350

Other things to remember

- Qualifying repayment does not have to be consecutive
  - Time off from eligible employment
  - Staying at home with kids
- IBR will increase the total debt overall (with accrued interest)
- IBR will minimize monthly payment while maximizing loan forgiveness amount IF qualified
- IBR loan cancelled after 25 years of being “economically challenged”
Online Resources

- IBRinfo.org
- National Student Loan Data System:
  - www.nslds.ed.gov
- Calculators:
  - finaid.org/calculators
  - Studentaid.ed.gov
  - Ed.gov/directloan
- Direct Loan Consolidation:
  - www.loanconsolidation.ed.gov
- Studentaid.ed.gov for IBR & Public Service Loan Forgiveness Q&A sheets

What is Public Service Loan Forgiveness?

- Remaining balance of a loan may be forgiven for individuals who work full-time in a “public service” job for 10 years (120 qualifying monthly payments on an eligible loan).
How do I qualify for Public Service Loan Forgiveness (PSLF)?

- Right type of payment
- Right type of loan
- Right type of job
- 120 times

Right type of Payment

- Income based repayment (IBR)
- Income contingent repayment (ICR)
- Standard 10 year repayment plan
- **NOT** graduated or extended repayment
- ***In general, those with the IBR or ICR will have a remaining balance after making 120 loan payments.***
**Right type of Loan**

- Federal Direct Stafford Loan (Subsidized and Unsubsidized)
- Federal Direct PLUS Loans (for parents or graduate students)
- Federal Direct Consolidation Loans
  - FFELP, Perkins, Certain Health Professions and Nursing Loans
- **NO:** Parent Plus, Joint spousal consolidation, FFELP and Perkins

*Consider your options before consolidating with Direct Loans*

**Right Type of Job**

- Full time in any position by a public service organization, AmeriCorps or Peace Corps.
- Public Service means:
  - Federal, state, local, or tribal government organization, agency, or entity (includes most public schools, colleges, and universities)
  - A non-profit organization under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under the section 501(a) of the Internal Revenue Code
  - A private organization that is not a for-profit business and provides public services such as:
    - Military
    - Law enforcement
    - Public health
    - Public education
    - Public interest law
Eligibility for Loan Forgiveness

• Not in default
• Must be employed full time by a public service organization when:
  – Making the required 120 separate monthly payments
    • Do not have to be consecutive
  – Applying for the loan forgiveness
  – Remaining balance on the loans are forgiven

Loan Repayment Requirements

• 120 separate monthly payments after October 1, 2007 (earlier payments do not count)
• www.ed.gov/directloan
None Qualifying Payments

- Payments NOT made within 15 days of due date
- Payments made while NOT working full time in a qualifying public service job
- Payments made during default
- Payments on non-qualifying loans

Qualifying Employment Documentation

- Keep records of:
  - Dates of employment
  - Full time status
  - Employer identification
  - Employer meeting the definition of public service organization
~Thank You~