



REPAYMENT STRATEGIES FOR NEW DENTAL SCHOOL GRADUATES

Senior Loan Exit Interview Class of 2023

AMERICAN DENTAL EDUCATION ASSOCIATION

Topics to cover

- Simple steps to developing a repayment strategy
- Your student loan portfolio
 - Interest rates, changes to capitalization, Student Debt Relief Plan and the CARES Act
 - Loan servicers and payment application
- Repayment options and loan forgiveness on federal loans
 - Postponement options
 - Time-driven and income-driven plans
 - Public Service Loan Forgiveness
 - Advanced dental education
- Sample repayment estimates with Dental Loan Organizer and Calculator (DLOC)*
- Federal consolidation and private refinancing
- Resources and takeaways

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

Important reminders

- 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

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

- Federal loans at [StudentAid.gov](https://studentaid.gov)
 - Direct unsubsidized and direct PLUS (Grad PLUS)
 - Government is lender, repayment handled by third-party loan servicer
 - Usually due 6 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](https://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

- 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**
- 5% fixed on Perkins, HPSL and LDS
- Rates vary on private loans
 - See disclosure statement for interest rate

* 0% rate during period covered by the CARES Act

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

Changes to interest capitalization

- 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 will no longer capitalize when:
 - You enter repayment
 - You change income-driven repayment plans
 - You come out of forbearance (if forbearance used)

Student Debt Relief Plan*

1. Extension of the CARES Act
2. Targeted debt relief to low and middle-income families
 - Program currently blocked as of February 2023
3. Make loan repayment more manageable
 - New income plan with lower payments
 - Cover unpaid interest

* See [StudentAid.gov/debt-relief-announcement](https://studentaid.gov/debt-relief-announcement) for details

- Coronavirus Aid, Relief, and Economic Security Act enacted March 2020 in response to pandemic
- Provisions
 1. 0% interest on all federally-owned loans, including direct loans
 2. Suspension of payments, regardless of repayment plan
 3. Period of suspended payments counts towards PSLF*, assuming other requirements met
- Currently set to expire 60 days after Student Debt Relief Plan implemented or litigation involving plan is resolved, or 60 days after June 30, 2023, if no action taken by that date

* Public Service Loan Forgiveness

Step 2: Repayment objectives

- Aggressive—reduce impact of interest accrual*
- Cautious—protect income and help with cash flow
- Public Service Loan Forgiveness
- Repayment help in exchange for service commitment**
- Refinancing with private lenders to reduce interest rate on entire portfolio

* 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 and some state programs

Options at repayment

- 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.
- Options at repayment
 - Postpone payments, if needed*
 - Start active repayment

* See [StudentAid.gov](https://studentaid.gov) and work with your loan servicer for postponement options.

* Mandatory forbearance available during hospital-based advanced dental education programs.

Repayment reminders

- 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 on most expensive loans.*
- Payments are applied to all outstanding interest first 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 on loans with highest rate or pick off smaller balance loans.
 - Make minimum payment only if there are cash flow challenges or on track for PSLF.
- Multiple repayment plans on federal loans
 1. Time-driven
 2. Income-driven

Time-driven

- Loan servicer calculates payments based on amount borrowed spread 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 private loans, including refinance loans

* Assumes level plans used, graduated versions available

** Assumes minimum payments only

Income-driven repayment

- Designed for borrowers who have a gap between federal debt and income who cannot afford repayment under standard 10-year plan
 - Bigger the gap between federal debt and income, 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 Pay As You Earn (PAYE) vs. Revised Pay As You Earn (REPAYE) comparison chart* for help selecting best income plan
 - Income-based Repayment (IBR) is a MUCH older plan, rarely used by recent graduates

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

IDR payment calculation

- Payments for PAYE and REPAYE based on federal formula calculated at 10% of discretionary income*
 - 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 excluded with PAYE when filing separately
 - Spousal income always counted with REPAYE, regardless of filing status

* Amount by which income exceeds 150% of the poverty guideline amount for your state

Once in an income plan

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”
 - Happens when calculated payments don't cover interest due
 - **Forgiveness amount considered taxable income year forgiven**

Public Service Loan Forgiveness (PSLF)

- 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

- 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 plan like PAYE or REPAYE to qualify.

** Only direct loans qualify.

Advanced dental education

- Hospital-based residency
 - You are an employee of a hospital receiving a stipend
 - Start active repayment, possibly with income plan
 - Postpone payments with mandatory internship residency forbearance*
- Academic-based residency
 - You are still considered enrolled in school
 - 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

- \$300,000
 - \$162,000 direct unsubsidized, remainder direct PLUS
- Applicable interest rates by year for Class of 2023 graduate, CARES Act applied to rates
- Six-month window before payment begins
- No prepayments, loans held to full term
 - Remember there is no penalty for early repayment
- Single, family size of one for PAYE and REPAYE
- \$180,000 starting salary (directly into practice)
- AAMC/ADEA Dental Loan Organizer and Calculator used for all repayment and forgiveness estimates
 - [adea.org/DLOC](https://www.aadea.org/DLOC)

Repayment directly into practice

Plan	Years	Monthly Payment	Total Paid	PSLF Paid PSLF Forgiven	Term Forgiveness
Standard	10	\$3,422	\$410,677	NA	NA
Extended	25	\$1,991	\$597,215	NA	NA
PAYE	20	\$1,326* to \$2,428 over 20 years	\$425,233	\$185,858 \$311,886** (not taxable)	\$232,964*** (taxable)
REPAYE	25	\$1,326* to \$2,824 over 25 years	\$580,553	\$185,858 \$305,312** (not taxable)	\$125,286*** (taxable)

* Initial payments during hospital-based residency would be much lower due to lower income (stipend).

** 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

- Paying off multiple **federal** loans with one new **federal** loan
- 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](https://studentaid.gov/consolidation)
- See ADEA Financial Resources for Students for more information on federal consolidation, including advantages and disadvantages

Refinancing

- 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

- 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
- 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

- Dental school graduates have great track records for repayment.
- You can change repayment strategies if needed, so constantly evaluate your repayment objectives.
- 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.



CONGRATULATIONS!

Best Wishes to the Class of 2023!

AMERICAN DENTAL EDUCATION ASSOCIATION