ASTORIA STRATEGIC WEALTH

Attention: Residents, Fellows and Attendings

The Basics of Repaying Your Student Loans

IBR, PSLF, PAYE, REPAY, Loan Consolidation, Federal Loans, Private Loans, Rates and Tax Deductibility - this is a *complicated but important conversation.* On top of that, the rules are changing as are the lenders by offering new financing configurations. And, of course, the right answer for you is specific to your circumstances.

In residency or upon graduation, you have a lot of moving parts as you navigate your career. For many medical professionals, student loan repayment represents a significant planning opportunity; making the time to understand your options will be time well spent.

First, remember the grace period, but consider the cost

Thanks to the grace period built into most student loans, after you graduate, you'll likely get anywhere from six to nine months before you need to start repaying your loans. This gives you some breathing room to get financially settled. HOWEVER, it may not be your best choice to defer. Indebtedness costs you money – period. Unless you are confident that your return on investment will be higher with the capital that you would otherwise use to pay off your loans, or there is a chance for loan forgiveness, the lenders are winning this game. So while a grace period exists, it is generally advisable to pay down at least your highest interest debt aggressively.

Understand your repayment options

Gone are the days when your only repayment option consisted of fixed, equal payments spread over a 10-year term. Though this is certainly one option--and typically the fastest way to pay off your loans--it's not the only option. Because of the growing number of students who require student loans to finance their education and the ever increasing amount of their debt, the federal government offers several flexible repayment plans to help students manage this large financial responsibility. (Private student lenders may or may not offer the following plans--check with your lender.)

- Standard repayment plan: This is the original repayment plan. With a standard plan, you generally pay a fixed amount each month for up to 10 years.
- Graduated repayment plan: With a graduated plan, your payments start out low in the early years of the loan but increase in later years (the term is still 10 years). This plan is tailored to individuals with relatively low current incomes (e.g., recent college graduates) who expect their incomes to increase in the future. However, you'll ultimately pay more for your loan than you would under the standard plan, because more interest accumulates in the early years of the plan when your outstanding loan balance is higher.
- Extended repayment plan: With an extended plan, you extend the time you have to repay your loan, usually from 12 to 30 years, depending on the loan amount. Your fixed monthly payment is lower than it would be under the standard plan, but again, you'll ultimately pay more for your loan because of the interest that accumulates under the longer repayment period. Note: Many lenders allow you to combine an extended plan with a graduated plan.
- Income-based repayment plan: With an income-based repayment (IBR) plan, your monthly loan payment is based on your annual discretionary income. The federal government offers a PAYE plan (Pay As You Earn) and a REPAYE plan (Revised Pay as You Earn). Generally, undergraduate borrowers who qualify will pay 10% of their discretionary income toward their student loans each month, and after 20 years of on time payments, the remaining balance may be forgiven (payments may be forgiven after 10 years for those in certain public interest jobs and after 25 years for graduate school borrowers). For more information, visit the federal government's student aid website at studentaid.ed.gov.
- PSLF: The Public Service Loan Forgiveness *(*PSLF) Program forgives the remaining balance on your Direct Loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.
- Loan consolidation: Loan consolidation is technically not a repayment option, but it does overlap. With loan consolidation, you combine several student loans into one loan, sometimes at a lower interest rate. Thus, you can write one check each month. You need to apply for loan consolidation, and different lenders have different rules about which loans qualify for consolidation. However, with most loan consolidations, you can choose an extended repayment and/or a graduated repayment plan in addition to a standard repayment plan. Be careful not to co-mingle federal student loans and private student loans in this process as that will result in disqualification from certain loan forgiveness options.

To pick the best repayment option, you'll need to determine the amount of discretionary income that you have to put toward your student loan each month. This, in turn, requires you to make a budget and track your monthly income and expenses.

In addition to inquiring about repayment options, ask whether your lender offers any special discounts for prompt loan repayment. For example, some lenders may shave a percentage point off your interest rate if you allow them to directly debit your checking account each month. Or, they may waive some monthly payments after receiving on-time payments for a certain length of time.

Investigate the student loan interest deduction

On the bright side, you might be able to deduct some or all of the student loan interest you pay on your federal tax return. In 2019, if you're a single filer with a modified adjusted gross income (MAGI) under $70,000 or a joint filer with a MAGI under $140,000, you can deduct up to $2,500 of student loan interest that you pay during the year. A partial deduction is available to single filers with a MAGI between $70,000 and $85,000 and joint filers with a MAGI between $140,000 and $170,000.

There are a couple of hurdles, though. You must have incurred the loans when you were at least a half-time student, and you can't take the deduction if you're claimed as a dependent on someone else's tax return.

If you paid $600 or more of interest to a single lender on a qualified student loan during the year, you should receive Form 1098-E at tax time from your lender, showing the amount of student loan interest you've paid for the year. For more information, see IRS Publication 970.