Income Driven Repayment *A Better Way To Repay Your Debt*

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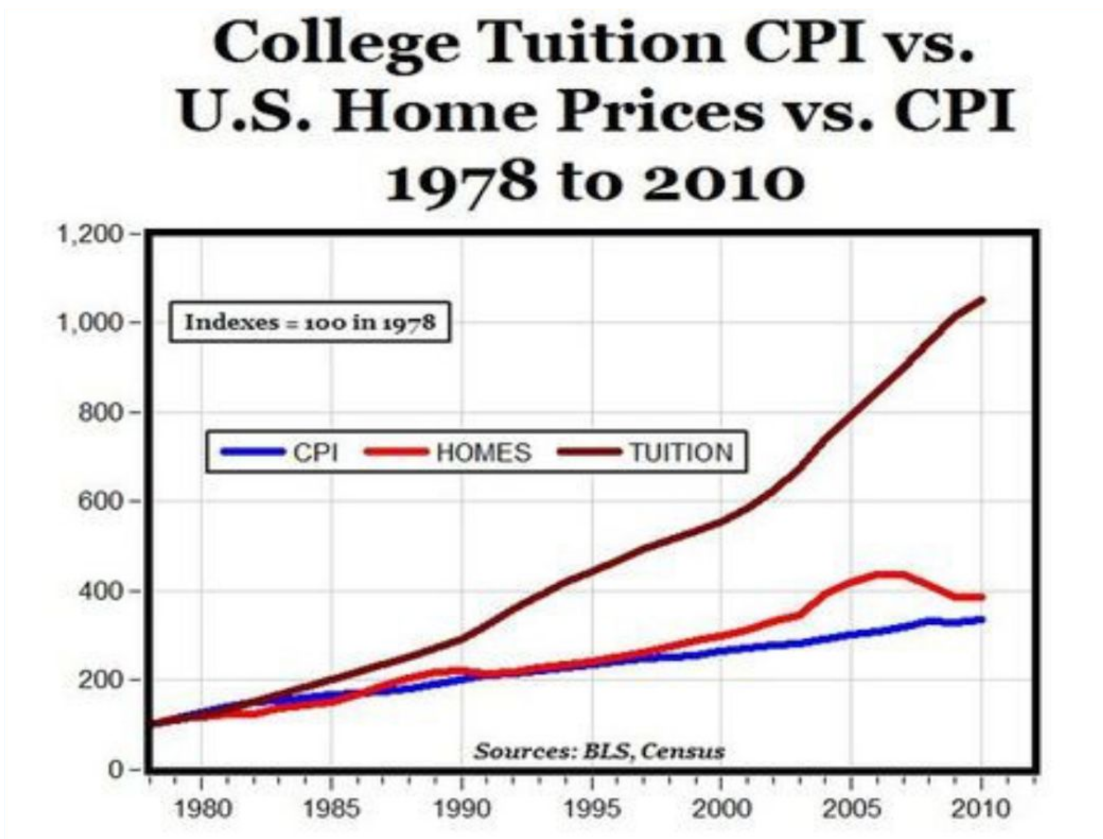
The Burden of Education?

While the cost of living is rising fast, the cost of college and repaying those loans is rising even faster - as much as three times the rate of general inflation. Indeed, the monthly payments required to repay education are becoming more and more difficult for graduates to make. Many young professionals feel as if they will never make enough money to pay off their loans and are forced into forbearance or default. The good news is that Income Driven Repayment can reduce the monthly cost and has the ability to discharge 100's of thousands of dollars in student loans.



Repayment Made Simple

In 1993 the 103rd US Congress passed the Omnibus Budget Reconciliation Act of 1993. The legislation laid the foundation for programs designed to make repaying stu-dent loans easier for those who had high amounts of student debt compared to their in-come. In 2007 and again in 2010 Congress passed additional legislation to reduce the burden of student loan repayment. The collective name for the programs created by the US Congress is Income Driven Repayment (IDR). Income Contingent Repayment (ICR), Income Based Repayment (IBR), Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE) are the four programs that make up Income Driven Repayment.

<u>What could be smarter?</u>

Income Driven Repayment programs all share the common feature of restructuring payment terms when compared to traditional repayment options.

Under traditional options required monthly payments are determined by the:
- **Amount of student debt borrowed**
- **Interest rates of the loans**
- **Length of the term under which the borrower intends to repay their debt**

Under an IDR option required monthly payments are determined annually by:
- **Their income**
- **Their family size**
- **The poverty guidelines in the state that they live**

IDR Options allow for loan forgiveness:

- **Any interest or principal not repaid by the monthly IDR payments will be forgiven at the end of the max repayment periods**

- **IDR payments qualify toward the 120 payments required for Public Service Loan Forgiveness.**

Income Contingent Repayment

Availability Dates: 1994-present

Eligible Loans: Direct Loans only, Direct Consolidated Loans (with or without Parent Plus Loans)

Discretionary Income: Income reduced by the US Department of Health & Human Services poverty line by state & family size

Required Payment: 20% of discretionary income or fixed 1 year payment

Interest Capitalization: Annually, up to 10% of the original loan amount

Interest Subsidy: None

Max Repayment: 25 years

Qualifying for PSLF: Yes

ICR is the only program that Direct Consolidated loans consisting of Parent Plus Loans can qualify for provided the parent didn't enter repayment before 7/1/2006. ICR is the only program that capitalized unpaid interest while in repayment.

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Income Based Repayment

Availability Dates: July 1, 2009-present

Eligible Loans: Direct Loans, FFEL Loans, Direct & FFEL Consolidated Loans (without Parent Plus Loans)

Discretionary Income: Income reduced by 1 1/2 the US Department of Health & Human Services poverty line by state & family size

Required Payment: 15% of discretionary income

Interest Capitalization: None as long as you qualify annually

Interest Subsidy: Subsidized loans for the first 3 years

Max Repayment: 25 years

Qualifying for PSLF: Yes

IBR is not available for Parent Plus loans or consolidated loans consisting of parent plus loans. Married borrowers can avoid payments calculated off both spouses by filing their federal tax return married sep-arate. Interest is subsidized on all subsi-dized loans for the first three years in in-come based repayment if payments do not cover the annual interest charged.

Pay As You Earn

Availability Dates:	**December 1, 2012-present**
Eligible Loans:	**Direct Loans only, Direct Consolidated Loans (without Parent Plus Loans)**
Discretionary Income:	**Income reduced by 1 1/2 the US Department of Health & Human Services poverty line by state & family size**
Required Payment:	**10% of discretionary income**
Interest Capitalization:	**None as long as you qualify annually**
Interest Subsidy:	**Subsidized loans for the first 3 years**
Max Repayment:	**20 years**
Qualifying for PSLF:	**Yes**

Pay As You Earn is only available for Direct Loans and requires the participant to be a new borrower on October 1 of 2007. Borrowers who have taken out loans prior to October 1, 2007 must have paid those loans in full prior to October 1, 2007 to qualify. In ad-dition to being a new borrower, PAYE is only available to borrowers who have at least one federal loan made to them after October 1, 2011. Consolidated loans do not change the loan origination dates and are not used to determine eligibility requirements based upon dates of the loans.

Revised Pay As You Earn

Availability Dates: December 17, 2015-present

Eligible Loans: Direct Loans only, Direct Consolidated Loans (without Parent Plus Loans)

Discretionary Income: Income reduced by 1 1/2 the US Department of Health & Human Services poverty line by state & family size

Required Payment: 10% of discretionary income

Interest Capitalization: None as long as you qualify annually

Interest Subsidy: Subsidized loans for the first 3 years, 1/2 of unpaid interest on Unsubsidized loans and Subsidized loans after the first 3 years

Max Repayment: 20 years for undergraduate borrowers, 25 years for borrowers with graduate loans

Qualifying for PSLF: Yes

Revised Pay As You Earn is only available for Direct Loans but is not limited by loan dates. The department of education pays 1/2 the unpaid interest on all unsubsidized loans, all the unpaid interest on subsidized loans for the first 3 years and 1/2 the unpaid interest on the subsidized loans after the first three years. Revised Pay As You Earn requires the payments to be determined by both spouses incomes regardless of their tax filing status. The maximum repayment length is 20 years for borrowers who do not have any graduate loans, and 25 years for bor-rowers that have taken out debt for graduate school.

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Income Based Repayment - New Borrowers

Availability Dates:	October 2010-present
Eligible Loans:	Direct Loans only, Direct Consolidated Loans (without Parent Plus Loans)
Discretionary Income:	Income reduced by 1 1/2 the US Department of Health & Human Services poverty line by state & family size
Required Payment:	10% of discretionary income
Interest Capitalization:	None as long as you qualify annually
Interest Subsidy:	Subsidized loans for the first 3 years
Max Repayment:	20 years
Qualifying for PSLF:	Yes

Income Based Repayment for new borrowers is only available for Direct Loans and requires the participant to be a new borrower on July 1, 2014. Borrowers who have taken out loans prior to July 1, 2014 must have paid those loans in full prior to July 1, 2014 to qualify. Consolidated loans do not change the loan origination dates and are not used to determine eligibility requirements based upon dates of the loans.

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Public Service Loan Forgiveness

The College Cost Reduction Act of 2007 established a new public service loan forgiveness program (PSLF). The programs allow for any debt and unpaid interest to be canceled after making 120 on-time, scheduled, monthly payment on Direct Loans. Only pay-ments made after October 1, 2007 while in a standard 10 year repayment or an IDR repayment qualify for PSLF. Although payments do not have to be consecutive, they do have to be made while working full-time at a qualifying public service organization.

Qualifying employment is any employment with a federal, state or local govern-ment agency, entity or organization, tax-exempt not-for-profit organization, or a private not-for-profit employer.

The Department of Education considers full time employment a minimum of an average of 30 hours per week. Public service does not include time spent participating in religious instruction, worship services, or any form of proselytizing. Teachers or other contracted employees of public service organizations under contract for 12 months meet the full- time standard if average work is at least 30 hours during the contractual period.

COMPARISON OF IDR PROGRAMS

	Income Contingent Repayment	Income Based Repayment (old)	Pay As You Earn	Revised Pay As You Earn	(New) Income Based Re-payment
Eligible Loans	Direct Loans Only (Consolidated Parent)	FFEL & Direct Loans	Direct Loans Only	Direct Loans Only	Direct Loans Only
Discretionary Income	HHS Federal Poverty Line	1 1/2 HHS Federal Poverty Line	1 1/2 HHS Federal Poverty Line	1 1/2 HHS Federal Poverty Line	1 1/2 HHS Federal Poverty Line
Required Payment	20% or 12 year fixed	15%	10%`	10%	10%
Interest Capitalization	Yes 10% of original balance	No	No	No	No
Interest Subsidies	None	Yes - Subsidized Loans 3 years	Yes - Subsidized Loans 3 years		Yes - Subsidized Loans 3 years 1/2 on all Loans
Maximum Repayment	25 years	25 years	20 years	20 or 25 years	20 years
PSLF Qualifying	Yes	Yes	Yes	Yes	Yes
Loan Restriction Dates	N/A	N/A	Oct. 7, 2007 & Oct 1, 2011	N/A	New Borrower 2014

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Life Changes & Income Driven Repayment

Student loan borrowers live in uncertain times. For most the repayment period coin-cides with the introduction into the workforce as a degreed professional. IDR provides borrowers the opportunity to make employment decisions based upon their life's goals, not on their ability to repay their debt. Payments in IDR are designed to be affordable on any income, providing borrowers with added freedoms.

- **Reduce payments if income decreases due to a change in employment**
  -Payments in IDR are determined by the income of the borrower, if a borrower changes jobs or loses their job payments can be adjusted to their new income level.

- **Start saving for retirement at an earlier age**
  -IDR allows borrowers to begin saving for retirement at an early age. A key component of the investment and savings life cycle is to allow the maximum time for retirement dollars to grow. The best way to achieve a savings goal is to begin saving money as early as possible. By lowering monthly payments to student loans, young professionals no longer have to sacrifice their future for their present.

- **Purchase a home**
  -A key component of qualifying for a home mortgage is the percent of income required to service outstanding debt. Student loan payments under an IDR plan will never exceed the required payment percentage allowing more of a borrower's income to be used on a home purchase.

- **Start their own business**
  -Starting a business can be a risky endeavor and profits are not always achieved right away. IDR removes static loan payments as an obstacle, allowing borrowers the piece of mind that their payments will be determined by their business success.

Risks of Income Driven Repayment

Income Driven Repayment can provide a great benefit for many borrowers burdened by student debt, but selecting IDR may not be the best choice for everyone. Some risks that are already inherent with student loans can be extended or expanded by IDR, while the enrollment in IDR can also create new risks.

- **Participants may not qualify for loan forgiveness**
  -For most borrowers enrolling in IDR, incomes are expected to increase over time. Although a borrower may qualify for lowered payment today, if the borrower's income were to increase they may not qualify in the future. In order to have loan forgiveness, borrowers must have a balance remaining at their maximum repayment term and many borrowers will repay their loans prior to that date.

- **Longer Repayment**
  -Payment terms in IDR can last as long as 25 years. As such borrowers repaying their debt through IDR will likely have much more interest accrued or paid during their repayment than a traditional 10 year term.

- **Death of a borrower**
  -Federal student loans can be discharged in the event that the borrower or, in the case of parent plus loans, the student becomes deceased.

- **Disability of a borrower**
  -Federal student loans can be discharged in the event that the borrower is unable to engage in any substantial gainful activity for 60 months.

- **Tax treatment of forgiven debt**
  -Under current tax code the forgiven debt via the max repayment periods of IDR, the death of a borrower, or the total and complete disability of the borrower is considered income and would cause a taxable event to the borrower or their estate.

Choosing the Right Plan

When it comes to student loan repayment it is important that a borrower considers the risks of IDR as well as the benefits. IDR can help a borrower achieve their long term objectives, but may not be the cheapest way to repay their student debt. Often times, borrowers who elect an IDR repayment plan have payments that are below the annual interest charge on their loans. In these cases, the total amount of student debt outstanding is increased with each payment, expanding the risks associated with death and disability of the borrower and increasing the amount to be paid off if loans are not forgiven. In-creased debt loads through the max repayment periods of IDR also increase the potential taxation at the end of repayment in IDR. When compared to a traditional 10 year repayment, the extended repayment terms of IDR increase the likelihood of a borrower experiencing adverse life events, such as death, disability or unemployment while in repayment.

Enrollment in Income Driven Repayment can be complex as available options are determined by loan types, loan origination dates, and may require a consolidation. Although borrowers can enroll in the programs on their own, professional advice can help a borrower determine if an IDR option will fit their short and long term financial goals. Participants of IDR should also carefully examine the risks associated with IDR and consider putting in place strategies to minimize the liabilities to the best of their ability.

Black Swan Advisors, LLC is an Advice-Only, Fee-Only, financial planning centric firm; specializing in advanced education funding/planning, and integrated financial life planning. We have education planning experience from *cradle through career*: Private K-12 Funding, 529's, ABLE, College Savings, College Funding, College Pre-Approval™, Mid-Career Training, and Student Loan Repayment. Our core work is optimizing and coordinating the entire financial life for our successful families. We often do work with project-only clients; who just need some expert advice with Late Stage College Funding or Student Loan Repayment Planning.

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let me do some of the work and worry for you.

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