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WEALTH PLANNING

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# How to avoid the 10 most common student loan debt mistakes that healthcare professionals make

# 1) Not properly maintaining an inventory of all of your loans

- Not only is it important to stay organized so that you don't accidentally miss any payments, when trying to figure out your best student loan debt strategy, you have to begin by knowing all of the details of every single federal and private loan you have ever borrowed.
- This is especially true for your federal loans as the complex rules that dictate the options and strategies available to you depend on things such as loan type, when you first borrowed, and loan status.

# So whats the best way to gather all of your federal and private student loan details?

- For your federal loans, the only proper way to get all of your loan details is to download your file from the National Student Loan Data System
- ( http://nslds.ed.gov )
- For your private loans, you need to download a recent credit report.  (you can do this for free once per year at www.annualcreditreport.com which is a safe, federally authorized site).   You can then determine that all of the loans that show up on your credit report but not in your nslds file are private loans.
- You will then need to contact the service providers of your private loans and request the promissory notes for your loan details.  They will try to send you other documents but the promissory note is the only one with ALL of the details

# 2) Paying a "debt relief company" to help you with your student loans

- There are a lot of scams out there where companies are promising to help you cut your payments in half or eliminate your debt all together through some "government program". They may also charge you a high amount of fees to help you consolidate your federal loans into an income driven repayment plan.
- The reality is that there is no easy path to loan forgiveness. And when it comes to consolidation, these debt relief companies have no power to negotiate any kind of special rates for your federal loans.
- They may help you enter into an income driven repayment plan, but there is no reason for you to pay anybody just to do that. All of the forms can be obtained online and you can complete the entire process yourself for free.
- It is also likely that they put you into the wrong income driven plan as they have no qualifications to help you properly assess which plan is best for you

# 3) Entering you loans into deferment or forbearance after graduation

- While it can be tempting to postpone those payments while you are settling into your new job after graduation, deferment or forbearance could end up costing you thousands
- The interest on loans will continue to accrue while you are not making payments. The interest ends up getting added into your principal and you end up paying interest on interest
- For a lot of healthcare professionals with federal loans, especially those who will qualify for PSLF, it may be best to get on an income driven payment plan that creates a payment you can actually afford, and starts the clock towards forgiveness. That clock doesn't start as long as you are in deferment or forbearance.
- For private loans, you should shop for the lowest refinance rates to see if you can consolidate them into a single monthly payment you can afford

# 4) Choosing REPAYE without considering potential future changes to income or marital status

- This one is especially true for medical residents
- Let's say you choose REPAYE when you enter medical residency. Given the average medical resident income, your payments will be pretty low, but once you leave residency and your income shoots up, so will your monthly payments as they are tied to that increased income. They may increase to a higher monthly payment that is higher than if you had stuck with the standard 10 year plan because with REPAYE, THERE IS NO PAYMENT CAP
- To make matters worse, once your income increases dramatically, you may not be eligible to switch to IBR or PAYE , which do have a payment cap. This is because in order to do so, your payments would have to be lower than what they would be calculated as under the standard 10 year plan.

- The other potential issue with choosing REPAYE right out of medical school has to do with marital status
- One of the common student loan debt strategies that can be utilized is to file your taxes married separately.  This allows you to exclude your spouse's income from your monthly payment calculation for income driven plans, which can reduce your payment dramatically
- However, this is only allowed for IBR and PAYE.  REPAYE doesn't give you this option
- So if you are single when you graduate and you choose REPAYE because at the time if provides you the lowest monthly payment, but then you get married in the next couple of years, you could be costing yourself thousands more than if you took a long term view of your income and marital status and chose a different repayment plan

# 5) Refinancing your federal loans through a private lender without even considering the potential benefits of PSLF and income driven plans.

- Refinancing may very well be the best course of action, but it is simply impossible to know for sure unless you crunch the numbers on the income driven plan options.
- Its extremely important to go through that process on your own or with a qualified professional because once you refinance to private loans, you can NEVER get those into an income driven repayment plan, and those private loans with NEVER be eligible for PSLF.

# 6) Not submitting your PSLF employment certification form EVERY year

- It is not uncommon for your NSLDS form to report an inaccurate count for your PSLF payments. This can happen for a number of reasons and you do have the ability to apply for a manual recount, but that process could take many months
- It is not actually required to submit an employment certification form each year, but doing so decreases the risk of a miscount.
- If you submit it each year, and keep meticulous records, worst case scenario if you have to apply for a recount, that process will go much more smoothly.
- TIP: FedLoan Servicing is the name of the company your loans get transferred to when you apply for PSLF. If you are having a hard time getting them to process a manual recount, you can find your local congressional case worker at https://www.house.gov/representatives/find-your-representative and ask them to contact FedLoan on your behalf for a status update

# 7) Not maxing out your employer benefits to reduce your AGI and potentially drastically reduce your monthly income driven repayments

- Contributing to your 401k or 403b reduces your AGI, therefore reducing your monthly loan payment. You could potentially save more for retirement AND reduce your monthly payments, without having less cash flow in your pocket.
- Other employer sponsored benefits such as an HSA or FSA, and some employer group term life insurance plans also reduce AGI.
- It may benefit you to work with a CFP® who has the technology to model how potential changes to your participation in these benefits not only affect your student loan payments, but your overall cash flow and retirement goals.

# 8) Making extra payments while aiming for loan forgiveness

- If you have thoroughly examined possible loan debt strategies, and you are confident you will qualify for forgiveness, the name of the game is to pay as little as possible towards your loan debt each month
- Yes, it may be a little stressful to watch your total balance actually increase each year due to negative amortization, but you have to trust the process and understand that if you are sure you are going to qualify for PSLF, it doesnt actually matter what your loan balance grows to since at the time of forgiveness, that balanced is wiped clean, tax free.  (Note: only forgiveness through PSLF is tax free, standard loan forgiveness after the required 20 to 25 years of payments under income driven plans is taxable).

# 9) Not shopping around for the best refinance rates

- Much like shopping around for mortgage refinance rates, it's important to shop for the best student loan refinance rates
- We recently went through this process with my wife's student loans and the interest rates offered varied quite a bit.  A small difference can potentially add up to thousands more in total costs so its worth your time and effort
- Get 3 to 5 rate quotes and don't forget to ask about cash bonus offers
- If rates happen to be very similar, consider other important factors when choosing a company such as flexible payment options, cosigner release options, and customer service

# 10) Not exploring additional federal and state student loan forgiveness programs aside from PSLF

- Nurses and doctors have access to a variety of federal and state programs to help with their student loan debt
- For example, my wife is a nurse at the Mayo Clinic, and all of her loans are private so she doesn't qualify for PSLF, but she qualifies for the Florida Nursing Student Loan Forgiveness Program which reimburses her up to $4000/year for 4 years
- Other states offer similar programs which you can find **HERE**

There are other government payment assistance programs such as those offered by the NHSC (https://nhsc.hrsa.gov/loan-repayment/nhsc-loan-repayment-program.html ) and NIH (https://www.nimh.nih.gov/funding/training/nih-loan-repayment-programs.shtml

## Do you have questions or want to learn more about how HCP Wealth Planning helps healthcare professionals tackle student loan debt and work towards financial freedom?

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