INCOME-DRIVEN REPAYMENT PLANS
AS PART OF A PODIATRIST'S REPAYMENT STRATEGY

Primer on Income-Based Repayment (IBR) and Pay As You Earn (PAYE)

Some podiatrists choose payment plans based on their income as they first enter repayment as a means of finding a monthly payment they can comfortably manage, especially if their debt exceeds their starting salary, and perhaps when they have no other source of income from a spouse or partner to help. In this regard, IBR and the new version of IBR called PAYE are popular repayment options, especially with residents, as they often offer a way to start repaying when income may be limited. New podiatrists who have yet to secure employment may find these repayment options of value as well.

Some basics on IBR and PAYE

- IBR and PAYE are repayment plans designed for highly indebted borrowers whose student loan debt exceeds their starting salary and who cannot afford repayment under other plans
  - This is one reason they are often ideal for new podiatrists entering residency who want to pay but whose student loan debt may far exceed their annual residency stipend
- IBR and PAYE can only be used for eligible borrowers on Federal Stafford, Federal Grad PLUS, and Federal Consolidation Loans (the latter of which may not include Parent PLUS Loans)
  - *Note that only Direct Loans may be repaid with PAYE*
- Borrowers must renew their eligibility each year for these repayment plans
  - Monthly payments calculated under both IBR and PAYE are good for one year
  - Borrowers can expect their monthly payment to go up when their income goes up, but even after residency when their income goes up, a practicing podiatrist should still see manageable payments under these programs

Determining your eligibility for and monthly payments under IBR and PAYE

When you apply for IBR or PAYE, your Loan Servicer will use a federal formula to determine if you meet a threshold called "Partial Financial Hardship" that looks at your debt, your income, and your family size, all in order to determine if you are even allowed to repay with these programs.

- Your *eligibility* for IBR or PAYE is determined by three main factors:
  - Federal educational debt from NSLDS (www.NSLDS.ed.gov)
  - Income (AGI)
  - Family size
- However, your actual *monthly loan payment* (assuming you demonstrate eligibility for IBR or PAYE) is determined by only two factors:
  - Income (AGI)
  - Family size

Note that married borrowers who file a joint tax return will have both their eligibility for and subsequent payments under both IBR and PAYE determined by using their spouse's income in addition to their own.

What happens when you no longer qualify for the lower payments under IBR or PAYE (meaning you no longer demonstrate "Partial Financial Hardship")

Remember that you have to renew eligibility for the lower payments each year under either IBR or PAYE, and the theory is that at some point in your career (perhaps after your get established in your practice as a podiatrist) you will no longer need the lower payments associated with these programs.

- *When you no longer meet the threshold known as "Partial Financial Hardship" (PFH), your monthly student loan payment will automatically revert to what it would have been had you entered the Standard 10 year repayment plan when you first applied for either IBR or PAYE*
    - You are still in the IBR or PAYE plan, your payment simply hits a maximum amount
    - Use the calculators at www.StudentLoans.gov to run an estimate of what your initial Standard 10 year payment amount would be (or would have been), in case this happens
- You have several options when this happens (when you no longer demonstrate PFH):
    - Make the payments until your balance is paid in full
    - Make the payments until your balance is forgiven under either the 25 year or 20 year Forgiveness Programs associated with IBR and PAYE respectively, or your balance is forgiven through the Public Service Loan Forgiveness (PSLF) program
    - Contact your Loan Servicer and "opt out" or either IBR or PAYE and move into another repayment plan such as Extended

Differences between IBR and PAYE

- IBR has been available since 2009, so many current practicing podiatrists are using IBR, while PAYE has only been available since December 2012
- IBR payments are calculated at 15% of discretionary income, while PAYE payments are calculated at 10% of discretionary income, hence payments under PAYE are always lower
- Only Direct Loans may be repaid under PAYE
- PAYE limits capitalization to 10% of the original principal balance, while IBR has no cap
- PAYE has a shorter forgiveness window (20 years) when compared with IBR (25 years)
- In general, borrowers with a loan balance as of October 1, 2007 are not eligible for PAYE

Takeaways

- Income Based Repayment and Pay As You Earn provide manageable payments for responsible podiatrists who cannot afford repayment under other plans like Standard 10 year
- Consider "backing into" these repayment plans to ensure you really need them by running repayment estimates under all repayment plans, including Standard 10 year and Extended 25 year using the calculators at www.StudentLoans.gov (see Managing Repayment)
- There is never a penalty for overpaying, including when paying with IBR or PAYE

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