

Student loans: how to pay off your debt



➔ **Today's student loan debt**

- **\$1.64 trillion** in student loan debt owed by 45 million Americans
- **11.1%** of student loans are 90 days or more delinquent or are in default
- Average monthly student loan payment ranges from \$200-\$299

Source: Student Loan Hero. "A Look at the Shocking Student Loan Debt Statistics for 2020." January 15, 2020

American Rescue Plan Act 2021

On March 11, 2021 Congress passed the American Rescue Plan Act that provides approximately \$1.9 trillion in spending to address the continued impact of COVID-19. This bill provides additional relief to address the continued impact of COVID-19 on the economy, public health, individuals, and businesses.

Source: <http://www.studentaid.gov/announcements-events/coronavirus>

American Rescue Plan Act 2021

Student Loan Relief

- Provisions of the 2016 Student Loan Tax Relief Act were incorporated into the American Rescue Plan Act. Traditionally, any student loan forgiveness was treated as income and would be included in an individual's annual income and, therefore, subject to tax. The American Rescue Plan Act changes that treatment making any student loan forgiveness from 2021 through 2025 income tax free. The provision includes private loans, not just federally backed title IV loans.
- Original payment relief is from the CARES Act and extended by executive order, means that through September 30, 2021, you are not required to make federal student loan payments. However, this student loan payment pause, absent any extension, will mean your federal student loan payments will be due starting October 1, 2021.

Source: <http://www.studentaid.gov/announcements-events/coronavirus>

American Rescue Plan Act 2021

Student Loan Relief

- The Consolidated Appropriations Act also extended to Jan 1, 2026, the exclusion from gross income of up to \$5,250 for this calendar year of educational assistance furnished by an employer to an employee. As such between December 31, 2020 and December 31, 2025, employer payments towards their employees' qualified student loans under a Sect. 127 educational assistance program may be excluded from the employees' taxable income (up to \$5,250). Confirm if your employer has a program.

A top-down view of a desk with a light-colored wooden surface. On the left is a silver laptop with a black keyboard. In the center is a small potted cactus. To the right is an open notebook with a grid pattern and a pair of black-rimmed glasses resting on it. A white computer mouse is visible at the bottom right.

Myths about student debt

- ▶ **Lower balances are more easily paid off**
- ▶ **It's only a problem for young people**

How student loan debt impacts borrowers



37% delayed saving for retirement¹



61% of millennials delayed buying a home²



25% put off getting married³

¹MIT Agelab study, July 30, 2019. <https://ttaa.new-media-release.com/mit-agelab/>

²SoFi, September 12, 2019. <https://www.sofi.com/blog/millennial-student-debt-survey/>

³Student Loan Planner, September 24, 2019. <https://www.studentloanplanner.com/student-loans-marriage-divorce/>

A top-down view of a desk with a light-colored wooden surface. On the left is a silver laptop with a black keyboard. In the center is a small, round, terracotta pot containing a green, spiky cactus. To the right of the cactus is an open notebook with a grid pattern and a pair of black-rimmed glasses resting on it. A white computer mouse is visible at the bottom right.

Agenda

- What type of loans do you have?
- What are your repayment options?
- What's your payoff strategy?

Types of student loans

Federal loans:

- Funded by the federal government
- Low, fixed interest rates
- Subsidized Interest
- Flexible repayment options
- Forgiveness programs

Private loans:

- Banks, credit unions, state agencies
- Variable (and generally high) interest rates
- Repayment options depend on lender and terms of the agreement



Federal loans at a glance

Loan Type	Lender	Eligibility	Need Based	Interest Rate*	Annual Award**
Direct Subsidized/ Direct Unsubsidized	Department of Education	Undergraduate	Yes	2.75%	\$5,500
Direct Unsubsidized	Department of Education	Graduate/ Professional	No	4.30%	\$20,500
Direct Plus	Department of Education	Graduate/ Professional/ Parents	No	5.30%	Cost of attendance minus financial aid

* Rates for Direct Loans first disbursed on or after July 1, 2019 and before July 1, 2020.

** Subject to Change.

To provide relief to student loan borrowers during the COVID-19 emergency, interest is being temporarily set at 0% on federal student loans. In addition, federal student loan borrowers were automatically placed in an administrative forbearance, which allows you to temporarily stop making your monthly loan payments. This 0% interest and suspension of payments will last from March 13, 2020, through Dec. 31, 2020, but you can still make payments if you choose.

Source: studentaid.ed.gov, October 2020

Federal loans: repayment options

Standard
Repayment
Plan

Graduated
Repayment
Plan

Extended
Repayment
Plan

Income-Driven
Repayment
Plan

Standard Repayment Plan

➔ Federal loans: repayment options

- This program will pay off your student loans the fastest and with the least amount of lifetime interest compared to the other three repayment plans. Under this program, you have up to 10 years to repay.
- All borrowers are eligible for this plan.
- Payments are fixed, and a minimum payment of \$50/month is required.
- This is the repayment plan your servicer will automatically place you in, so if you're interested in any of the plans we discuss next, it will require you to take action.

Source: <https://studentaid.gov/manageloans/repayment/plans/standard>

Graduated Repayment Plan

➔ Federal loans: repayment options

- Repayment Period: Up to 10 yrs.
- Eligibility: All borrowers
 - **Payments start out low and increase every two years**
 - **Pay more lifetime interest on the loan compared to the standard repayment plan**

Source: <https://studentaid.gov/manage-loans/repayment/plans/graduated>

Extended Repayment Plan

➔ **Federal loans: repayment options**

- Payment Type: Fixed or Graduated
- Repayment Period: Up to 25 yrs.
- Eligibility: New borrower with over \$30,000 in outstanding direct loans
- Lower monthly payments
- Pay more over time than under the standard repayment plan

Source: <https://studentaid.gov/manage-loans/repayment/plans/extended>

Income-Driven Repayment Plan

➔ Federal loans: repayment options

- Payment Type: % of Income
- Repayment Period: 20 or 25 yrs.
- Eligibility: All direct loan borrowers
 - **Affordable payments based on discretionary income and family size**
 - **Forgiveness options**
- There are 4 types of income-driven repayment plans

TIP: Set an annual reminder to recertify for this program!

Source: <https://studentaid.gov/manage-loans/repayment/plans/income-driven>

Income-driven repayment plans at a glance

Pay As You Earn (PAYE)

- Generally 10 percent of your discretionary income, but never more than the 10-year standard repayment plan amount

Revised Pay As You Earn (REPAYE)

- Generally 10 percent of your discretionary income

Income-Based Repayment Plan (IBR)

- Generally 10 percent of your discretionary income if you are a new borrower on or after July 1, 2014, but never more than the 10-year standard repayment plan amount

Income-Contingent Repayment Plan (ICR)

- The lesser of the following:
- 20 percent of your discretionary income or
- What you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income

Source: <https://studentaid.gov/manage-loans/repayment/plans/income-driven>.

Income-based repayment plan

Example:

A) Adjusted gross income	\$40,000
B) Poverty level	\$11,880
C) 150% of Poverty Level (B X 1.50)	\$17,820
D) Discretionary income (A – C)	\$22,180
E) 10% of Discretionary Income (D X 0.10)	\$2,218 (\$185/month)
F) Annual payments under standard 10-year plan	\$10,656 (\$888/month)
G) Is F greater than E? (If yes, qualifies for IBR plan)	Yes
H) Annual first-year payments due under IBR (D X 10%)	\$2,218 (\$185/month)

Source: Paying for College: A Practical Guide for Families, research.prudential.com

Federal loan consolidation

Direct consolidation loans:

- Centralize all eligible federal loans into one bill with one loan servicer
- Loans must be in grace period or repayment
- Lower monthly payments
- Longer repayment period
 - Up to 30 years

But first, know the details:

- Once loans are consolidated, they can't be separated
- Can't target payments
- Certain loan benefits could be lost



Federal loans: forgiveness and cancellation options



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graph LR; A[Public Service Loan Forgiveness Program] --> B[Teacher Loan Forgiveness Program]; B --> C[Federal Student Loan Repayment Program]
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Public Service
Loan Forgiveness
Program

Teacher Loan
Forgiveness
Program

Federal Student
Loan Repayment
Program

Public Service Loan Forgiveness Program

➔ **Federal loans:
forgiveness and
cancellation
options**

Requirements:

- Only Direct Loans
- Work full-time at certain public service jobs
- Made 120 payments (10 years) under certain payment plans:
- Income-driven repayment plan
- 10-year standard repayment plan
- Remaining balance may be forgiven
- Not treated as taxable income

Source: <https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service#qualifying-payments>

Source: <https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service>

Teacher Loan Forgiveness Program

➔ **Federal loans:
forgiveness and
cancellation
options**

Requirements:

- Teaching full-time
- 5 consecutive years
- Low income elementary or secondary school or educational service agency
- Up to \$17,500 of subsidized or unsubsidized loans may be forgiven
- Not treated as taxable income

Source: <https://studentaid.gov/manage-loans/forgiveness-cancellation/teacher>

Federal Student Loan Repayment Program

➔ Federal loans: forgiveness and cancellation options

- Federal agencies may forgive student loan debt of employees:
 - up to \$10,000 annually
 - up to \$60,000 lifetime
- Created to prevent losing highly skilled employees to the private sector
- The agency asks employees to sign an agreement to continue working there for three years in exchange for making annual payments on their student loans.

Source: U.S. Office of Personnel Management. Accessed October 2020:
<https://www.opm.gov/policy-data-oversight/pay-leave/student-loan-repayment/#url=Overview>

Federal loans: deferment and forbearance

Deferment:

- For students returning to school, unemployed, or on disability
- Up to three years
- Interest accrues on unsubsidized loans

Forbearance:

- Temporary postponement for up to 12 months
- Interest accrues on subsidized and unsubsidized loans



Repayment strategies

Get organized

- Create one spreadsheet with all your outstanding loans and the following information:
 - Loan servicer
 - Principal balance
 - Interest rate (sort high to low)
 - Monthly payment
 - Payment due date
- Pay off private loans first
- Student loan repayment calculator



Snowball or avalanche?

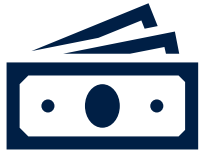
Snowball: pay off smallest balances and work your way up

Avalanche: focus on high-interest debt first

Creditor	Balance (in \$)	Rate	Payment (in \$)
Dentist	500.00	0.00%	
Car loan (T)	8,000.00	7.00%	200.00
Car loan (C)	15,000.00	6.50%	300.00
Mastercard	9,000.00	13.5%	110.00
Student loan	20,000.00	4.00%	75.00
Lowe's	1,500.00	9.00%	20.00
TOTAL:	54,000.00		705.00

This example is hypothetical.

Payments and budgeting



Pay extra:

- Make more than the minimum payment; know how it's being applied
- Don't advance the due date



Stick to a budget:

- Paying off student loan debt on a starting salary may require some sacrifices



Do your research

- A variety of online tools are available at websites including

<https://www.consumerfinance.gov/paying-for-college/repay-student-debt/>

Refinancing

Refinance private loans

- Pay less by reducing overall interest
- Requirements:
 - Good credit score
 - Steady employment
 - Favorable debt-to-income ratio



Tax deductions

Ask your accountant

- You may be able to take advantage of federal tax deductions on qualified loans

FORM 1040 - Schedule 1

Part II		Adjustments to Income	
10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Tuition and fees. Attach Form 8917	21	
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

Repayment strategies

Consider life insurance

- Federal Loans:
 - Discharge due to death
- Private Loans:
 - Ask your lender about any death forgiveness policies
 - Borrower's co-signer, estate or spouse may be liable



Resources



StudentAid.gov

studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action



ConsumerFinance.gov/students/

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The background of the slide features a light blue and white pattern of overlapping question marks. A dark blue rectangular box with rounded corners is positioned on the right side of the slide, containing the word "Questions" in white text.

Questions

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