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
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
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.

Source: http://www.studentaid.gov/announcements-events/coronavirus
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 retirement\(^1\)

61% of millennials delayed buying a home\(^2\)

25% put off getting married\(^3\)

\(^3\) Student Loan Planner, September 24, 2019. https://www.studentloanplanner.com/student-loans-marriage-divorce/
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

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

* 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
Federal loans: repayment options

Standard Repayment Plan

- 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
Federal loans: repayment options

Graduated Repayment Plan

- 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
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

<table>
<thead>
<tr>
<th>Plan</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>Generally 10 percent of your discretionary income, but never more than the 10-year standard repayment plan amount</td>
</tr>
<tr>
<td>Revised Pay As You Earn (REPAYE)</td>
<td>Generally 10 percent of your discretionary income</td>
</tr>
<tr>
<td>Income-Based Repayment Plan (IBR)</td>
<td>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</td>
</tr>
<tr>
<td>Income-Contingent Repayment Plan (ICR)</td>
<td>The lesser of the following:&lt;br&gt;- 20 percent of your discretionary income or&lt;br&gt;- What you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income</td>
</tr>
</tbody>
</table>

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

- Public Service Loan Forgiveness Program
- Teacher Loan Forgiveness Program
- Federal Student Loan Repayment Program
Federal loans: forgiveness and cancellation options

Public Service Loan Forgiveness Program

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.

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

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Balance (in $)</th>
<th>Rate</th>
<th>Payment (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dentist</td>
<td>500.00</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>Car loan (T)</td>
<td>8,000.00</td>
<td>7.00%</td>
<td>200.00</td>
</tr>
<tr>
<td>Car loan (C)</td>
<td>15,000.00</td>
<td>6.50%</td>
<td>300.00</td>
</tr>
<tr>
<td>Mastercard</td>
<td>9,000.00</td>
<td>13.5%</td>
<td>110.00</td>
</tr>
<tr>
<td>Student loan</td>
<td>20,000.00</td>
<td>4.00%</td>
<td>75.00</td>
</tr>
<tr>
<td>Lowe's</td>
<td>1,500.00</td>
<td>9.00%</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>54,000.00</strong></td>
<td></td>
<td><strong>705.00</strong></td>
</tr>
</tbody>
</table>

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/
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
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

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

CFPB Consumer Financial Protection Bureau

ConsumerFinance.gov/students/

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