

Attracting the next generation of high-net worth clients using student loan planning.

RYAN S. GALIOTTO, CFP®

WWW.THESTUDENTLOANPRACTICE.COM

A solid orange horizontal bar at the bottom of the slide.

Agenda

- Basics of student loans
- How to position SLP in your practice
- ***How COVID-19 presents a great opportunity for SL borrowers and what you should be telling your client to do right now!***
- Case Study: Walking you through the planning process

Why should you integrate SLP in to your practice?



Generational Relationships.*



Great opportunity for young advisors.



Additional revenue/value-add

Who's impacted the most by student loans?



Doctors

High balances, low starting wages (residency)

Impacts their decision to private practices vs public service



Nurses

High balances, lower wages (perfect for PSLF)

Potentially eligible for NCLRP (Nurse Corps Loan Repayment Program)



Lawyers

Very high balances, not always a public job.



Teachers

Higher balances, low salary.

Usually state-based repayment programs they can take advantage of.

Basics of Student Loans

PART 1

Types of Student Loans

<u>Category</u>	<u>Sub Category</u>	<u>Loan Type</u>	<u>Income-driven Repayment Plan</u>	<u>Public Service Loan Forgiveness</u>
Federal Loans	Direct Loans	Direct Subsidized Loans	More options	Eligible
		Direct Unsubsidized Loans		
		Direct PLUS Loans		
		Direct Consolidation Loans		
	Federal Family Education Loan (FFEL)	FFEL Subsidized Loans	Less options	Eligible only after consolidate to Direct Loan
		FFEL Unsubsidized Loans		
		FFEL PLUS Loans		
		FFEL Consolidation Loans		
	Other	Perkins Loans		
		Primary Care Loans (PCL)		
		Loans for Disadvantaged Students (LDS)		
Private loans		Private/Institution Loans	N/A	N/A

Direct Subsidized vs Unsubsidized

Direct Subsidized Loans

- Department of Education pays interest while student is...
 - Enrolled at least “half-time”
 - 6 credits
 - First six months once they graduate, “grace period”
 - During deferment.

Only available to undergrads.

School determines amount they can borrow.

• Direct Unsubsidized Loans

- Student is responsible for paying the interest, not the Dept of Ed.
 - Interest will accrue and capitalize from day one if no interest payments are made.
- Available to undergrads and grads.
- School determines the amount they can borrow.

Two ways to pay back Federal loans.

1. Balance-based repay

- Payments are based on loan balance and interest.
 - Level
 - 10 yr (default), 25 yr, 30 yr
 - Graduated
 - Payments start low and increase over time.
 - 10 year, 25 years, 30 years.

2. Income-driven repay

- Payment amount is based on the current income of student.
- *If students are going for Public Service Loan Forgiveness, IDR is necessary.*

Income Driven Repayment Plans

Plan	Monthly Payment	Terms (yrs.)
IBR	Min (10% of discretionary income, 10yr standard repayment plan amount) after 7/1/14	20
	Min (15% of discretionary income, 10yr standard repayment plan amount) before 7/1/14	25
PAYE	Min (10% of discretionary income or 10yr standard repayment plan amount, whichever is lower) <u>Doesn't include spouse IF filing taxes separately!</u>	20
REPAYE	10% of discretionary income (including spouse) on unlimited amount of income	20 for under; 25 for graduate
ICR	Min (20% of discretionary income, 12yr payment)	25

*Discretionary Income = AGI – 150% current poverty rate (*based on household size*)

How retirement accounts impact IDR's

Pre-tax retirement accounts can lower income, thus lowering their payments!

(Great for PSLF – more on this in next section!)

Public Service Loan Forgiveness (PSLF)

Most popular forgiveness program.

Only available for DIRECT loans, not FFEL

- *If they are FFEL, do a Direct Consolidation to turn the FFEL loans to Direct loans.*

To qualify...

- *Make 120 on-time payment, while on IDR.*
- *While working for a qualifying non-profit.*

Tax-free Forgiveness.

Has a high failure rate, but you can change that. ECF!

Legislation could change the future of PSLF. Future = unknown.

When does it make sense to Refi loans?

1. Federal Loans

- Rarely ever makes sense unless student is planning to pay down loans quickly.
- When refi'd, Federal loans become private loans.
- Student loses access to IDRs, PSLF, all Federal perks.

2. Private Loans

- Almost always makes sense.
- Any time you can get a lower rate, refi.
- Lots of cash bonuses available.
 - Studentloanplanner.com



Don't refi Federal
loans if client
needs access to
IDRs, PSLF.

What happens to student loans at death or disability?

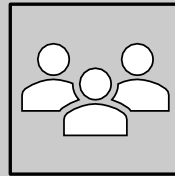
- 1. Federal loan: Discharged tax-free at student's death or permanent disability (5+ years)**
2. Private loans: Follow same guidelines as other debts. Some lenders may discharge. Check with lender.
3. Parent Plus loans: Now discharged tax-free (TCJA) at student's death. Can be discharged with OWN disability, not student's disability.

Positioning in your practice.

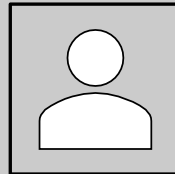
PART 2

A solid orange horizontal bar at the bottom of the slide.

How I
integrated SLP
into my service
models.



Current Advisory Clients = value add



Non-Advisory Clients = flat fee

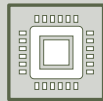
My service calendar (for stand-alones)



1. Initial Meeting

30-60 minute “initial” consultation to discuss situation

- Loans, balances, employment, marital situation, income, etc.



2. Analysis

I analyze the information using software I pay for, LoanBuddy.



3. Presentation Meeting (1-2 weeks later)

Complete new client paperwork.

Explain my findings.

Sign up for IDRs, completed ECFs (if needed)



4. Email once a year to remind them to re-certify income, complete the ECF.



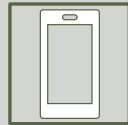
5. Unlimited email support after presentation meeting.

How I market the service



My Blog

www.yourbestfinanciallife.com



Social Media

Facebook, LinkedIn



Podcast



Local hospitals – NEW!

WHAT YOU SHOULD BE TELLING YOUR CLIENTS RIGHT NOW!

Seriously, call them today and tell them this stuff....

HOW COVID HAS IMPACTED STUDENT LOANS

CARES ACT created COVID-19 relief for student loans!

- Emergency Cash Grants may be available to students (food, housing, tuitions, supplies, child cares, computers, transportation, etc.)
- No payments until Sept 30, 2021, as of Jan. 20, 2021.
- No interest until Sept 30, 2021.
- No collections on defaulted loans until Sept 30, 2021.
- IDR Payment Recertifications pushed out six months from original date. (if your date was May 1, 2021, it's now November 1, 2021.)
- ***Don't be shocked if this gets extended again!***

COVID HAS CHANGED STUDENT LOANS

If you're going for PSLF... STOP MAKING PAYMENTS UNTIL OCTOBER!

- CARES Act eliminated Federal student loan payments until October...
- BUT..... Even if they make no payment, the month is counted towards PSLF!

If you're not going for PSLF.. Make payment even though you're not required! Attack the principal and take advantage of 0% interest!

Don't even consider refi'ing Fed loans until October. You can't beat 0%!

Is your school offering a refund? Use it to pay down loans!

Case Study: Bethany

PART 3

Facts

Graduated with PhD in School Psychology (Feb 2017)

Started paying loans back August 2017.

Works for a non-profit. (UPMC)

\$230,008 in Federal Loans.

\$80,000 in Parent Plus Loans.

\$36,000 income in 2017, \$60,000 income in 2018

Married in 2018, husband's income is \$52,000.

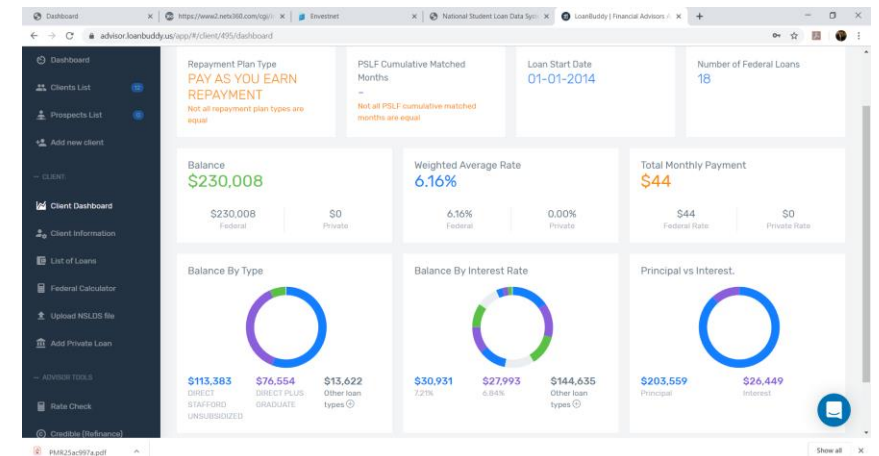
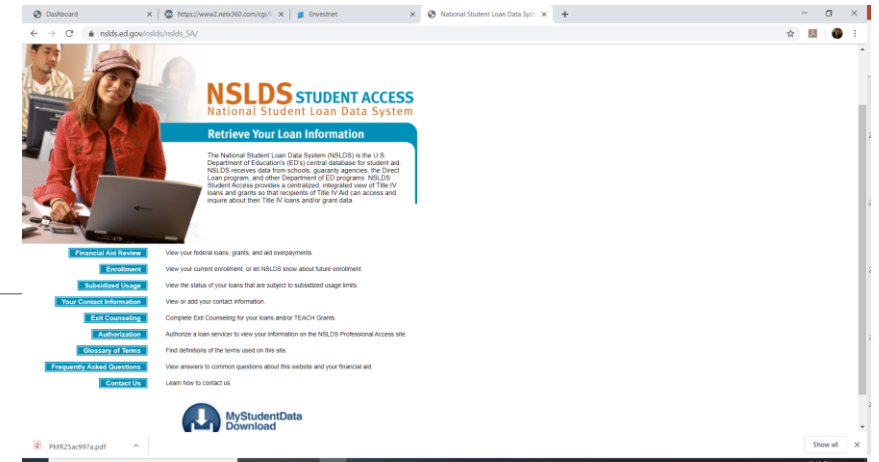
Has a 403b available to her, husband contributing to a 403b as well.

Step 1: Ask for the NSLDS file, submit to LoanBuddy

Ask the client to log on to studentaid.gov and send me the MyStudentLoanData.txt file.

- This file contains all the information on their Federal loans.

I then enter this file in to LoanBuddy (~\$60/mnth) but could perhaps work out an enterprise deal.



Step 2: Determine if she's eligible for forgiveness (use other's ppl's money)

I ask how long she's planning to work for a non-profit, and she tells me the remainder of her career.

Therefore, she's eligible for Public Service Loan Forgiveness (10 year program).

We can use PSLF to potentially reduce her loan balance.

But... does it make sense to pursue PSLF?

Step 3: Analyze her income/loan balance data to determine if PSLF makes sense.

Using LoanBuddy, I put in her current income (\$60,000), her husband's income (\$52,000), and their current filing status (MFJ) and ran a simulation.

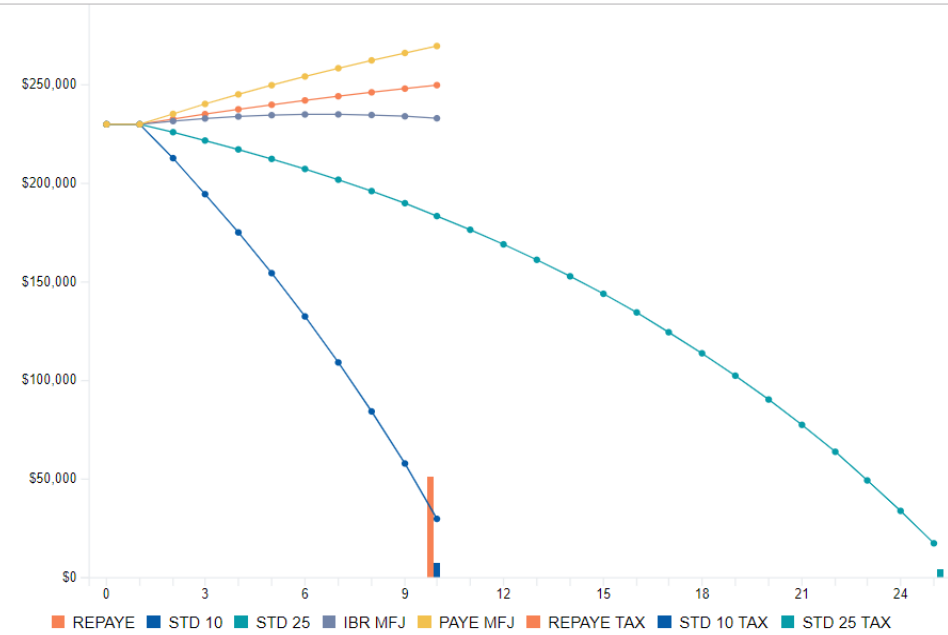
Because we're looking at their combined income, her monthly payment would be roughly \$607 using REPAYE (remember, she's married)

She would pay back \$82,533

Her total forgiven balance would be \$272,969.

However, if we file MFS (removing spouse's income), and put her on PAYE, her monthly payment would be \$233/mnth, her forgiven balance would be \$321,799 with \$33,703 in total payments.

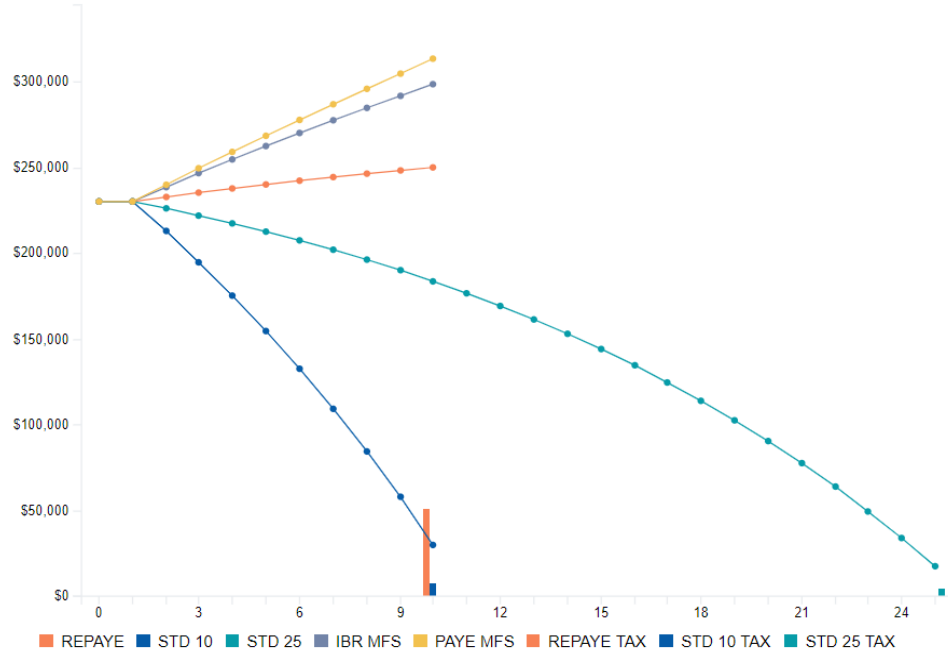
Her yearly taxes would increase roughly \$1,500/yr due to lost deductions and MFJ loss.



Summary

	STD10	STD25	PAYE MFJ	Repaye	IBR MFJ
Original Repayment Balance	\$230,008	\$230,008	\$203,559	\$203,559	\$203,559
Weighted Average - Interest Rate	6.16%	6.16%	6.16%	6.16%	6.16%
Repayment (Years)	10	25	10	10	10
Total Federal Loan Cost	\$308,719	\$451,567	\$82,533	\$82,533	\$123,799
Amount Forgiven	\$0	\$0	\$272,969	\$251,489	\$231,703





Summary

	STD10	STD25	PAYE MFS	Repaye	IBR MFS
Original Repayment Balance	\$230,008	\$230,008	\$203,559	\$203,559	\$203,559
Weighted Average - Interest Rate	6.16%	6.16%	6.16%	6.16%	6.16%
Repayment (Years)	10	25	10	10	10
Total Federal Loan Cost	\$308,719	\$451,567	\$33,703	\$82,533	\$50,555
Amount Forgiven	\$0	\$0	\$321,799	\$251,489	\$304,947



Step 2: Comparing the Scenarios

Scenario 1: File as MFS

Income Considered: \$60,000

Monthly Payment \$233

Total Payments: \$33,703

Forgiven Amt: \$321,799

Total cost to client:

Total Payments: \$33,703

(+) Add'l Taxes (over 10 yrs): \$15,000

Cost: \$48,703

• Scenario 2: File as MFJ

• Income considered: \$112,000

• Monthly Payment: \$607

• Total Payments: \$82,533

• Forgiven Amt: \$272,969

• Total cost to client:

• Total Payments: \$82,533

• (+) Add'l Taxes (over 10 years): \$0

• **Cost: \$82,533**

Step 3: Apply for IDR and complete Employment Certification Form

Go to [StudentLoans.gov](https://studentloans.gov) and help them apply for the PAYE IDR.

- 3 weeks later the Dept of Ed will send the monthly payment letter to them.
- 3 weeks after that, loans should transfer to FedLoan Servicing.

Have Bethany complete the Employment Certification Form and send that to her HR team for completion.

This starts the clock on the “120 payments” for PSLF and starts counting her PSLF Cumulative Matched Months (which can be monitored on NSLDS)

Step 4: Reduce AGI by combining husband's 403b contributions into B's.

We calculated that Bethany's husband is contributing \$2,600 to his 403b plan at work.

To further reduce her AGI, we had her husband stop contributions his 403b and redirect them to Bethany's 403b plan.

This will reduce her AGI, reduce her monthly payments, and increase how much is forgiven in 10 years.

Remember, USE THEIR MONEY, not your clients.

Step 5: Hedge her bet

Bethany was worried that PSLF may go away.

We told her “hedge” her bet by creating a savings plan to accumulate \$321,799 in a taxable brokerage account in 10 years.

Based on her salary, this may be a bit high, but she and her husband are saving in to a brokerage account to offset the risk the program goes away.

In 10 years, if the program does dismantle, they'll liquidate the account and use the proceeds to pay off the SLs.

If the program is still around, they will redirect this money back in to their financial plan.

Step 6: Annual check ups.

Meet regularly to recertify income for IDR.

Complete another ECF

Ensure the Cumulative Matched Months are being calculated properly.

Additional Resources



The Student Loan Practice by Ryan Galiotto

www.thestudentloanpractice.com

\$100 off using code FPANEOH



CSLP Program

www.cslainstitute.org

\$1,000



Dept of Education

www.studentloans.ed.gov

FREE



LoanBuddy

www.loanbuddy.us

\$60/mnth

Or shoot me an email: ryan@thestudentloanpractice.com