SPECIAL COMMENTARY

# Understanding Your Student Loan Repayment Options

## What do you need to know about student loan payments restarting in October?

There is a new income driven repayment (IDR) plan available called Saving on a Valuable Education (SAVE) that may result in a lower payment for most borrowers.

This plan allows for a greater poverty line deduction than other IDR plans of 225%. Your federal poverty line (FPL) depends on the size of your family.

For example, a family of 4 would have an FPL level of $30,000 in 2023. 225% of $30,000 is $67,500.

Only AGI above this limit will be counted as discretionary income that is available to calculate your payment. Initially 10% of this discretionary income will be used to calculate your payment. Then in July 2024, 5% of discretionary income will be used.
https://studentaid.gov/announcements-events/save-plan

It is possible to have a payment of $0 under the SAVE plan. This plan will prevent negative amortization by providing an interest subsidy. Meaning your loan won't grow even if your calculated payment is less than the interest on the loan.

Signing up for SAVE will extend the repayment of your loan if you are on the standard 10-year repayment.

## Tax Considerations

Reducing your AGI could result in a lower payment under SAVE. AGI is adjusted gross income and is reported on line 11 on your 2022 tax return. Contributing to a pre-tax retirement account (Traditional IRA, Traditional 401k, Traditional 403b) or an HSA can reduce AGI amongst other techniques.

Married couples could consider filing taxes separately next year to exclude the higher earning spouse's income (you can't amend 2022's return just to re-file separately).

Example: John makes $150k per year and Jenny makes $42k per year. If Jenny has $50k in student loans, they could consider filing separately to exclude John's higher income from some IDR calculations. Note not all IDR plans allow you to separate incomes.

In most cases this may result in higher taxes than filing jointly but could result in a lower IDR payment and be a net positive for the couple.

If the higher earning spouse has loans and is working toward PLSF or another forgiveness plan, consider the ICR plan which caps the payment at the standard repayment.

You may lose credits and deductions by filing separately such as the Dependent Care Credit and student loan interest deduction. Families with young children who pay for childcare should proceed with caution. If you pay a family member who doesn't claim the income generally you aren't able to receive a credit anyway, so the point is moot.

Follow this link to simulate which loan repayment may make sense for you: https://studentaid.gov/loan-simulator/.

Be careful if you are currently enrolled in a different IDR plan and decide to enroll in SAVE. Per Studentaid.gov:

"As of July 1, 2023, unpaid interest on your loans won't be added to your principal when you leave any IDR plan, except the Income-Based Repayment (IBR) Plan (where capitalization is required by statute)."

Parent PLUS borrowers are not eligible for the new SAVE plan unless they perform a double consolidation. https://www.studentloanplanner.com/parent-plus-double-consolidation/

With a single consolidation Parent PLUS borrowers are only eligible for the ICR plan.

Another waiver to be aware of is the IDR Waiver Account Adjustment. https://studentaid.gov/announcements-events/idr-account-adjustment

Basically, previous IDR plans/forgiveness plans were handled so poorly the Department of ED is doing a one-time account adjustment. This waiver will allow credit towards forgiveness based on your oldest loan's first payment (This is a big deal). Be sure to contact your loan servicer for more details and if you need to consolidate to qualify. https://studentaid.gov/manage-loans/consolidation

Consolidating your loans comes with a few things to be aware of:

1. Before this waiver a direct consolidation loan would exclude any prior qualifying payments toward a forgiveness plan.
2. Consolidating your loans could result in a lower payment in and of itself as you are just amortizing the loan over a new 10-year period, basically kicking the can.
3. If you were on a previous IDR plan with a payment that wasn't even covering the interest, consolidating could capitalize the loan, meaning any unpaid interest will get added to principal, resulting in owing interest on your unpaid interest! If you are working towards forgiveness this may be ok as it will result in a higher amount being forgiven.
4. IMPORTANT! This waiver is good until 12/31/23.

If you are unsure of your current loan servicer, use this link:
https://studentaid.gov/manage-loans/repayment/servicers

*This post is discussing options for Federal student loan borrowers not privately held loans.
**This is based on information available at this time, but circumstances may change in the future.
***Contact your loan servicer to verify this information.

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