CASE 2: FORGIVE A PHARMACIST?

SEON LI

Doctor of Pharmacy | 2013 | 29 years old

STUDENT LOAN DEBT AT GRADUATION: $175,000

ANNUAL INCOME: ~$120,000

The Situation

What were you getting paid when you first started repaying your loan?

$107,000 (post pGY1)

What repayment plan(s) have you used and what is the required monthly payment?

Used IBR and payments were approximately $1100 a month.

What is your general attitude toward student loan repayment? (i.e. repay as quickly as possible, pay the minimum, etc)

I have mixed feelings. Yes I would like to pay them back as soon as possible however I think taking opportunities when you are young is much better than we are older. Over the past 3 years since graduation I have been able to travel a lot and those experiences I can never forget. In hindsight there were many items I didn't need to spend money on.

When do you expect to have your student loans repaid or when did you pay them off?

No idea. Hopefully using the PSLF for 10 years and have the loans forgiven after 10 years. However, it is scary to count on that because never know if the program will still be there or if they will max the amount that can be forgiven.

What does your monthly budget look like?

I don't actually keep a budget. Every time I start one I lose motivation after a week or two. I hope to eventually keep a budget.

The Assessment

Alright Seon seems to have a little bit different a viewpoint on student loan debt than our previous case Javon. Seon specifically mentions travel and experiences as very important to her.

Let's run her student loan debt through four interest rate scenarios. Each scenario will be the $175,000 repaid over 15 years, however, the interest rate will either be her original federal loan rate of 6.7%, a fixed interest rate, a variable interest rate that remains low, or a variable interest rate that eventually reaches the interest rate cap.

<u>Federal Student Loan Fixed Interest Rate</u>

Seon's interest rate in repayment is not based on her credit score. Interest rates upon graduation in 2013 were 6.8% however Seon was able to get her rate discounted to 6.7% by signing up for automatic payments. This makes her monthly payment $1,543.74 for 15 years. She will pay $102,874.58 in interest during the 15 years she spends in repayment.

<u>Fixed interest rate loan</u>

Seon makes a good income and has good credit. When she goes to refinance her student loans she is approved for a fixed interest rate of 4.8%. This makes her monthly payment $1,365.73 for 15 years. She will pay $70,830.15 during her 15 years she spends in repayment.

<u>Variable interest rate loan that remains steadily low</u>

Because of Seon's good income and credit she is able to qualify for a 3.36% interest rate if she chooses to refinance. We're going to run through a best case scenario that assumes the interest rate doesn't fluctuate above her previous rate. This makes her monthly payment $1,239.05 for 15 years. She will pay $48,208 in interest during the 15 years she spends in repayment.

<u>Variable interest rate loan that reaches the lender's pre-determined cap of 10%</u>

Let's say the odds are not forever in Seon's favor and interest rates skyrocket over the course of her repayment terms. She will start out with an interest rate of 3.36% and end with an interest rate of 10%. Her monthly payment will start out at $1,239.05 however it will increase with each interest rate increase. I have assumed that the interest rate increases annually at a rate of 0.44. Seon will pay $81,397 in interest during the 15 years she spends in repayment.

All the options Seon has available look like this:

	Total Interest Paid
Current federal loans at 6.7%	$102,874
Fixed interest rate loans at 4.8 %	$70,830
Variable interest rate loan at 3.36%	$48,208
Variable interest rate loan starting at 3.36% and increasing to cap of 10%	$81,397

For Seon the worst financial option is to continue repaying her loans under the federal interest rate of 6.7%. The decision between a fixed interest rate and a variable interest rate is a little bit trickier.

Because the fixed interest rate is relatively close to the variable interest rate it is possible that if her variable interest rates reach capped amounts Seon could pay more interest than if she refinanced with a fixed rate loan.