

CASE 3: A MASTERS IN PUBLIC HEALTH NOT PERSONAL FINANCE

TARIK JOHNSON

Masters of Public Health | 2016 | 24 years old

STUDENT LOAN DEBT
AT GRADUATION:
\$80,000

ANNUAL INCOME:
~\$42,000

The Situation

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

\$42,000

What repayment plan(s) have you used and what is the I'm currently deferring my loan repayment for 6 months

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

I know I have a ton of student loan debt. I'm nervous about how I'm going to pay it all back. For right now I'm deferring, then I'll do an income-based repayment plan.

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

I have no idea.

What does your monthly budget look like?

I don't keep a formal budget. In general I try to save money on unnecessary expenses like clothes, going out, etc but I enjoy having fun and hanging out with my friends.

The Assessment

Tarik has a large burden of student loan debt compared to income. His debt:income ratio is nearly 2:1. That makes

him an ideal candidate for an income-based repayment plan and any loan forgiveness option available to him.

The option we're going to walk through is PSLF. Because Tarik works for a public university which is seen as a government agency, his employer qualifies him for PSLF. Remember, it doesn't matter what type of work you do for that organization, just that you work for an eligible employer.

In order to qualify Tarik needs to pick the best repayment plan. Likely the best option for repayment is the PAYE plan. Tarik is qualified because he was a new borrower after Oct 1st, 2007 and has a high amount of debt relative to his income.

The PAYE plan is a good choice because Tarik will pay 10% of his discretionary income and never pay more than the standard 10 year repayment plan. The estimated monthly payments at Tarik's current salary are \$201.50 per month.

Tarik's monthly payment will be adjusted annually. For ease of estimation we will assume a flat income over the 120 payment required to qualify for PSLF.

Over the 120 payments Tarik makes he will pay \$24,180 of his debt. As PSLF exists today the remainder of his student loan will be forgiven tax free.

There are a few things that could change the value of PSLF for Tarik. If he doesn't work for a qualifying employer consistently over 10 years he will pay more money. You don't have to work for a qualifying employer consecutively to qualify for PSLF. But you do have to make 120 qualifying payments. So if you work for a non-qualifying employer for a year (12 payments) you will have to continue making your student loan payments during that time but they won't count toward your PSLF eligibility.

That means, instead of only making 120 payments and then having the balance forgiven, you will make 132 payments.

As PSLF currently stands it is the best financial option for Tarik and he should pursue this option for student loan repayment.