

A SUMMARY OF STRATEGIES TO EFFECTIVELY MANAGE LAW SCHOOL DEBT

A law graduate's career path, future salary, and debt level are primary factors in determining the optimal strategies for managing their student loan debt. Below is a summary of strategies and concepts discussed in the presentation.

ENROLLING IN FEDERAL REPAYMENT PROGRAMS

Law students with debt should position themselves to benefit from applicable government programs. In order to achieve the greatest savings, this process should begin prior to graduation.

Income-Based Repayment (IBR):

- Benefits include a reduced monthly payment and interest subsidies
- Providing accurate income documentation is critical to achieving the highest subsidy
- Outstanding debt is forgiven after 25 years of qualifying payments while working in the private sector. In 2014, new borrowers can receive debt forgiveness after 20 years.

Public Service Loan Forgiveness (PSLF):

- Direct Loan borrowers can receive tax-free loan forgiveness on their outstanding federal debt after 10 years of qualifying payments
- Must work at a public service entity, such as a federal, state or non-profit organization

CONSOLIDATING LOANS

Consolidating with the Direct Loan Program will position loans for maximum benefits if performed correctly.

- New statute, available until June 30, 2011, creates opportunity for eligible in-school borrowers to take advantage of consolidation prior to graduation
- Majority of law students will need to perform multiple consolidations based on loan type, rate and timing. This approach is necessary to ensure repayment flexibility.
- Prioritize high interest rate loans (Grad PLUS) while in-school and consolidate low rate loans (Stafford) after graduation
- Variable rate federal loans should be consolidated separately to lock in a historically low rate

FILING TAXES

How and when a law student files their taxes may have a direct impact on the potential savings obtained through federal repayment programs.

- All law students should file taxes regardless of income level
- Accurately calculating Adjusted Gross Income (AGI) will reduce monthly payments and provide government subsidies
- Consider tuition and fees deduction which is often superior to Lifetime Learning Credit due to subsidy savings
- Understand trade-off and impact of filing jointly with spouse

IMPLEMENTING OPTIMAL LOAN REPAYMENT APPROACH

A bimodal distribution of attorney incomes demonstrates the need for implementing different repayment strategies based on career path. In the event an attorney's career path changes, repayment strategy must be reviewed and adjusted accordingly.

- **Above Mean Salary:** Maximize government subsidies and ensure optimal allocation of excess funds (e.g., targeting most costly debt)
- **Below Mean Salary:** Increase liquidity via reduced payments and position loans to benefit from loan forgiveness program
- **Below Mean Salary/Public Sector:** Ensure liquidity via reduced payments and position loans to maximize forgiveness from PSLF

DETERMINING THE BEST USE OF DISCRETIONARY FUNDS

To achieve the highest return on discretionary funds, it is important to perform a comprehensive analysis of potential options including investing, saving and debt repayment options.

- Only invest when returns exceed cost of debt and liquidity issues are met. For example, a law school graduate can achieve a greater return by repaying their PLUS loan at an after tax rate of 8.1% versus investing in the S&P at 7.4%.*

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