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Financial Planning for Public Service Graduates 2011

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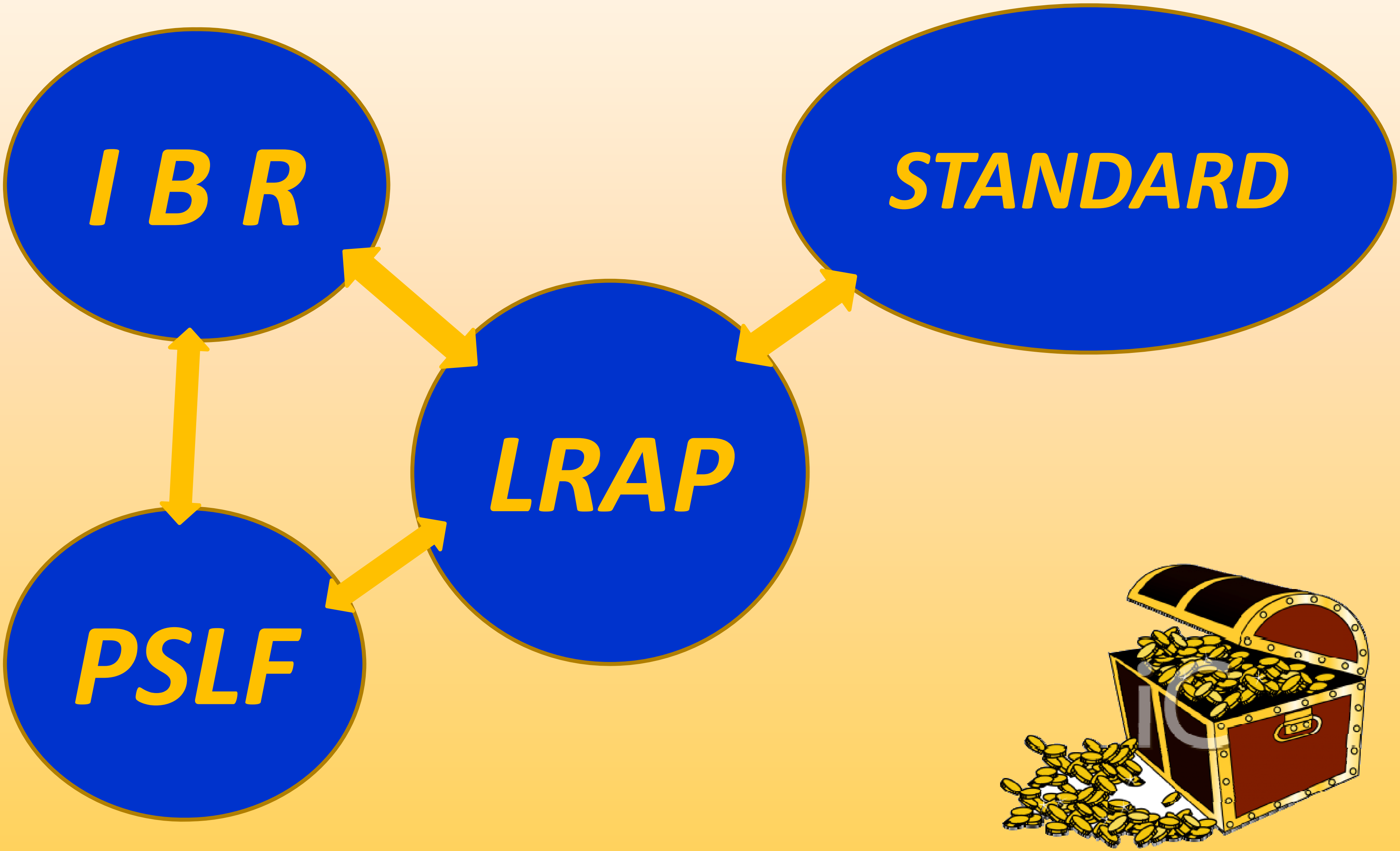
College Cost Reduction & Access Act - LRAP



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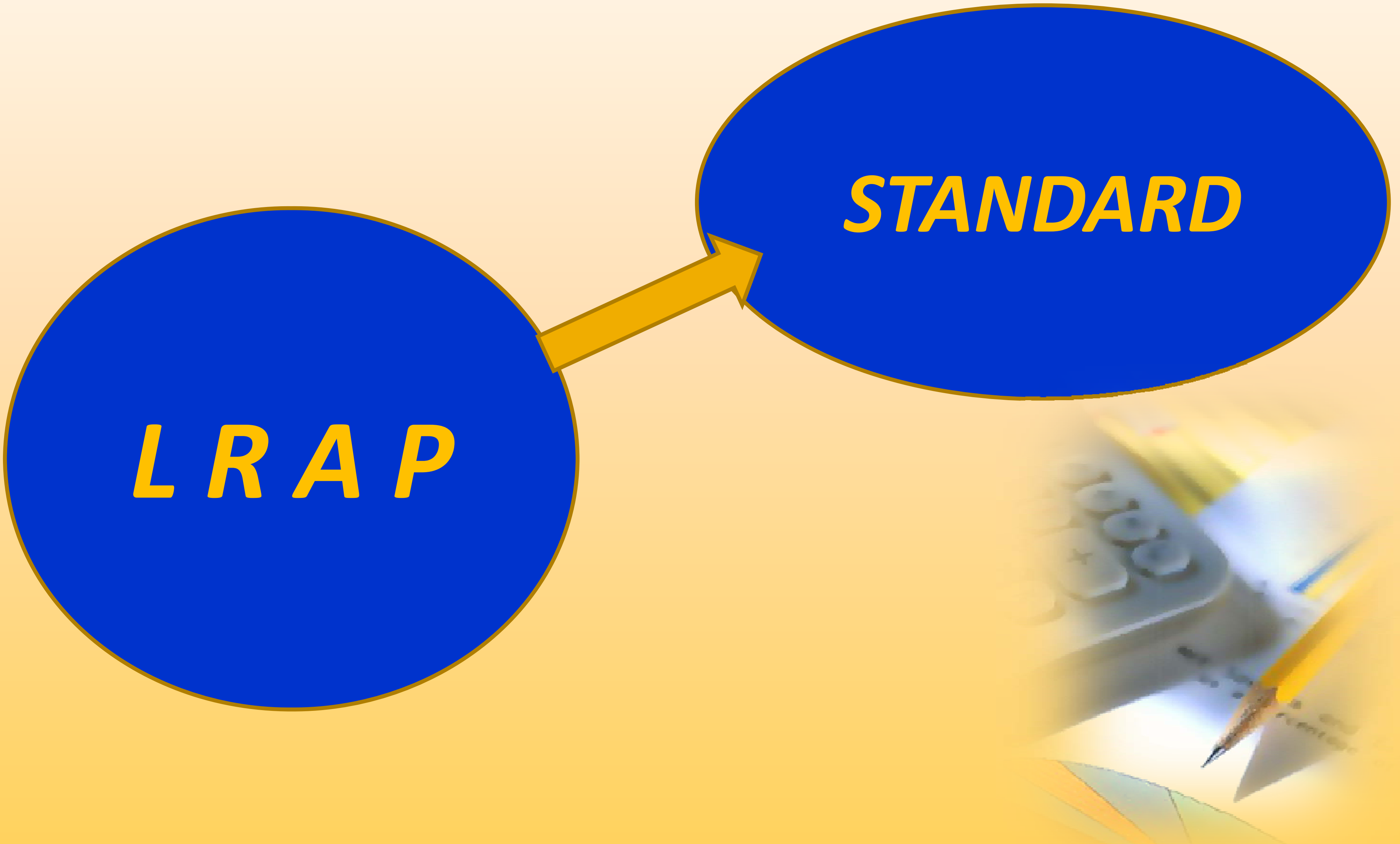
LRAP – Standard Track



LRAP – Standard Track

Standard – 10-year Repayment

- **LRAP Standard – Track**
  (graduating class of 2011 and 2012 only)
  - Federal or private loans while at Berkeley Law ONLY
    - Up to $100,000 law school debt and
      may include a maximum bar study loan of $10,000
  - Interest rate is capped at 8.25%
  - For income greater than $65,000 assistance will be prorated and capped at $100,000

Participants are responsible for out-of pocket payments for federal and private loans over $100,000 and all pre-Berkeley Law loans

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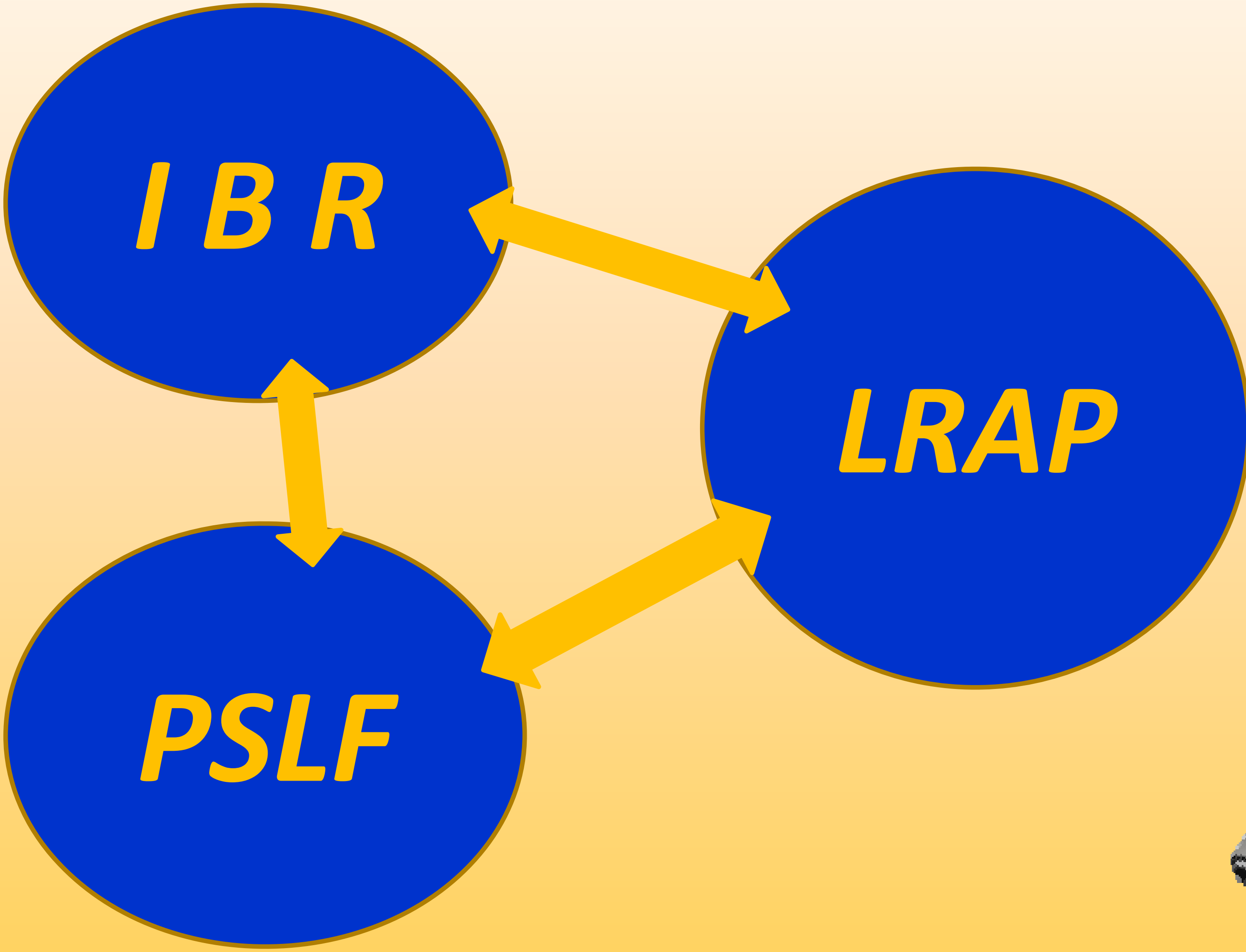

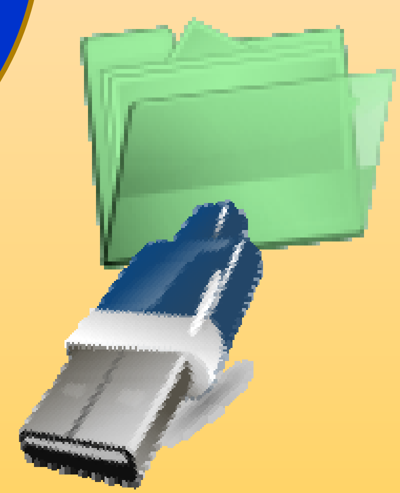

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CCRAA - IBR

FEDERAL STUDENT LOANS

Income Based Repayment Plan (I B R)

- Must **qualify** for partial economic hardship
- Limits payments to 15% of discretionary income
- **Married** borrowers may consider filing separate taxes
- Negative amortization
- **Income documentation** required annually
- After 120 qualifying payments while in qualifying employment remaining debt is forgiven, a non-taxable event
- After 25 years remaining debt forgiven is taxable income

Your lenders should always have your current address!

Submit required documents on time!

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IBR monthly payment amounts

Income	1-person household	2-person household	3-person household
$25,000	$108	$37	$0
$30,000	$171	$99	$28
$35,000	$233	$162	$90
$40,000	$296	$224	$153
$45,000	$358	$287	$215
$50,000	$421	$349	$278
$55,000	$483	$412	$340
$60,000	$546	$474	$403
$65,000	$608	$537	$465

After the initial determination of your eligibility for IBR, your payment may be adjusted each year based on changes in your income and family size.

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Identifying Your Loans

YOUR STUDENT LOANS

- DIRECT loans
  - Stafford subsidized and unsubsidized
  - GRAD PLUS loans

- **FFEL loans –** *do not qualify for PSLF*
- **Perkins loans –** *do not qualify for PSLF or IBR*

- *Private loans – do not qualify for PSLF, IBR or federal consolidation*

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Federal DIRECT Consolidation

SHOULD I CONSOLIDATE?

- Federal student loans with a variable interest rate
- IBR – PSLF
  - Consolidate Perkins and FFEL loans with Federal DIRECT
    - Perkins loans will shift to the unsubsidized portion of your loans
- Interim statement for a 10-day period of adjustments

Under the Public Service Loan Forgiveness **(PSLF) a consolidation loan** is considered a new loan, and therefore **will re-start the 10-year clock**.

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Stop Student Loan Payments

HARDSHIP OR TIED BUDGET?

- Deferment
  - Unemployment
  - Economic Hardship
    - *1-person household, approximately $16,335*
  - no payments, and **government pays interest** on subsidized loans
  - Maximum time limit: 36 months
  - Must reapply: every 6 months

- Forbearance
  - No subsidy savings
  - At lender's discretion for private student loans

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Student Loan Management

BEFORE GRADUATION

- Get Information about your Loans and Repayment Tools
  - Read about LRAP, IBR and PSLF
    - IBRinfo.org, EJW Debt Management and StudentAid.gov
    - Follow our new LRAP blog at http://lrap.berkeleylawblogs.org/
- Schedule a One-on-One Appointment
  - Personalized overview of your student loan repayment options
    LRAP@law.berkeley.edu
- Online Exit Counseling

Action Plan – Budget

Create an action plan

- Decide on a repayment strategy in context of your employment and career plans
- Consolidate?
- Apply for IBR?
- Apply for LRAP
- Submit an EFT authorization for LRAP funds
- Notify your lender of your new address
- Open a separate account for student loan payments

- Create a budget

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Financial Aid Office

- 2010-11 Graduates Budget Appeal Form is available at:

  http://www.law.berkeley.edu/193.htm

Request Graduate Plus Loan at:
financial-aid@law.berkeley.edu

For private and Berkeley Law bar study loan applications contact:

Candi Gester

642-1563 *(Financial Aid Advisor)*

financial-aid@law.berkeley.edu

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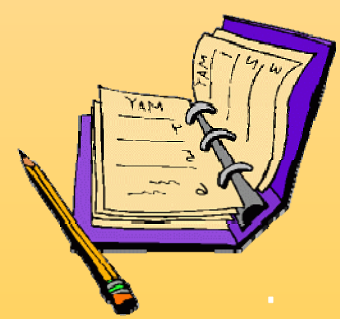
Financial Aid Office

To enable us to process your **Spring 2012 LRAP** application more efficiently **please schedule an appointment** for an individual assessment of your student loan portfolio and repayment options.

Sigrid Allen

642-5733 *(LRAP & Student Loan Repayment Strategies)*

LRAP@law.berkeley.edu



Tax day presentation

If you earn $50,000, then you will pay $6,250 in federal income taxes.

Your marginal tax rate is 25%. You paid $250 income tax on the last $1,000 you earned.

If you had earned $60,000, then your federal income tax would be $8,750. The feds take 25% of the next $10,000, or $2,500.

Your average tax rate is 12.5%. Your first $8,500 taxable income is taxed at a 10% rate. The next $26,000 is taxed at a 15% rate.

The next tax bracket is 28% at $83,600 taxable income. The rate is 33% at $174,400.

Not all of your income is subject to the federal income tax

For the 2011 tax year there is a $3,700 personal exemption and a $5,800 standard deduction.

If you income was below $9,500 you would pay no income tax.

You also will pay the Social Security and Medicare tax. For 2011 this is 5.65% of earnings up to $106,800 (usually it is 7.65%).

So if your salary is $50,000 your after-tax take home pay will be $40,925 after subtracting $6,250 in income tax and $2,825 in SSI and Medicare taxes.

If you work in California, then you also will pay the state income tax. In 2010, this is $2,485 on $50,000 income.

So if you earn $50,000, then your take home pay will be $38,440.

The California income tax also is progressive. The marginal tax rate at $50,000 income is 9.3%.

If you get a raise of $10,000, then together the feds and the state will take 39.95%,* or $3,995.

* 25% federal income tax, 5.65% SSI and Medicare, 9.3% state income tax.

If your adjusted gross income ("AGI") is less than $60,000, then you can deduct up to $2,500 in student loan interest you pay.

You can't deduct principal.

The deduction is phased out starting at $60,000 AGI. It disappears at $75,000 AGI.

The value of the deduction is a function of your marginal rate. At a 25% marginal rate you save $25 federal income taxes with a $100 deduction. You also save $9.30 in state income taxes.

You may deduct unreimbursed moving expenses so long as the job you take is more than 50 miles from your current home.

You cannot deduct the cost of the bar exam and bar review. If this is reimbursed by your employer it is taxable income.

You may deduct student loan interest and moving expenses without itemizing, meaning these are on top of the standard deduction.

State income tax is an itemized deduction.

If you are married, then you may file a joint return or you may file as married individuals filing separately.

For federal income tax purposes, a couple with two income earners generally will pay a bit less tax filing jointly if they earn significantly different amounts.

If one earns \$50,000 and the other \$30,000, then they will pay \$600 more in taxes if they file separate returns.

If one earns \$120,000 and the other earns \$50,000, then they will pay \$1,092 more in taxes if they file separate returns.

If they stay single and file separate returns, then they split the difference, paying \$360 less than would filing as separate married and \$700 more than as joint married.

If they each earn \$50,000, then there is no difference.

A married couple filing separately may not deduct interest paid on student loans!