



# THE GREAT STUDENT LOAN CONUNDRUM:

## *A PHYSICIAN'S GUIDE TO MEDICAL SCHOOL LOANS*

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After years of speaking to various residency programs, I decided, at the request of many of you, to create some sort of guide that addresses some commonly asked questions regarding medical school loans and the various repayment programs. Obviously, I can't list everything that everyone wants to know, so I've picked the most common questions that I have fielded during meetings or while giving talks. Please understand that the world of student loans is very fluid and requires periodic monitoring as the rules and guidelines can/will change. Furthermore, please always consult with your credentialed advisor before making any financial decisions.

### **1. I've been told there is a loan forgiveness program for doctors. Can you explain the basics of the PSLF (Public Service Loan Forgiveness)?**

- It's not only available to doctors. It's available to anyone with student loans who has a balance on their Direct Loans after making 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying (not-for-profit) employer.

But it turns out the program was designed perfectly - albeit unintentionally - for most physicians who are in residency, due to their low income in relation to very high student loan debt - which makes them eligible for a "qualifying repayment plan" such as the Pay as You Earn (PAYE) or Revised Pay as You Earn (REPAYE).

- Essentially, the Department of Education will forgive 100% of your balance - **on a tax-free basis** - after 10 years if you meet the above criteria. This can result in a tremendous amount of forgiven debt if done properly.
  - Please don't confuse the PSLF with the income-driven forgiveness. Under the latter, you'd better be prepared to pay income taxes on the final forgiveness

amount. This tends to be more common for other medical professionals such as pharmacists.

- The DOE posted the forgiveness application on their website last fall. I advise you check it out well before you reach the 120<sup>th</sup> month. Here it is:  
<https://studentaid.ed.gov/sa/sites/default/files/public-service-application-for-forgiveness.pdf>

## **2. What is my responsibility for the PSLF as I progress through the 120 months of repayment?**

- You need to ensure you remain in compliance with the PSLF requirements. This means you are the one responsible for verifying employment. According to a recent Student Loan Research Report by the US Government Accountability Office, about 147,000 borrowers had employment and loans certified in anticipation of PSLF, yet 4 million current direct loan borrowers may be employed in public service. Essentially, less than 4% of those likely eligible for PSLF are proactively positioning themselves for approval. You can certainly verify at the end, but I'd rather have my ducks in row prior to final forgiveness application.

## **3. Is it possible the PSLF program could be eliminated?**

- Absolutely. And I believe at some point it will go away. But of course, I could be wrong.

## **4. What happens if the PSLF program is eliminated?**

- Congress can do whatever they want, which makes this difficult to answer with any degree of certainty. But historically, whenever a Federal program is altered or eliminated, there is usually a grandfather clause that's designed to protect people already under the program. It would be surprising if the program was completely erased for those who have been faithfully making payments. But, I could imagine a scenario where sections of the program are changed, such as changing the taxation of the forgiven amount, even for those currently making timely payments under the program.

## **5. Should I pay more than my minimum payment on student loans?**

- It depends, but probably not while in residency. And certainly not if you are aiming for forgiveness under the PSLF.

However, if your loans are private, or if you know for certain (and I do mean **FOR CERTAIN**) that you will be working in the "for-profit" arena, then maybe paying more than your minimum payment might make sense (at this point it depends on your interest rate and other loan terms as to how aggressive you should be with paying them

down). My general rule-of-thumb is that you probably shouldn't get in a hurry to pay down loans that are at 5% or less, because those extra dollars could be put to much better "wealth-creating" uses.

By the way, I have not seen any federal loans with rates under 5%, at least not on an aggregated basis. However, many private refinance companies do offer rates around 5%, for now (but this is rapidly changing as the Federal Reserve continues raising rates).

#### **6. Are there tax benefits for those with student loans?**

- Yes. Currently you can deduct up to \$2,500 per year of student loan interest. But, this deduction is only available if your 2018 income is below \$165,000 if married filing jointly (or below \$80,000 if single). In most cases, residents have low enough income to enjoy the deduction, but should plan on the deduction going away after graduation, since your income will be much higher.

Keep in mind that this deduction is not available for those "married filing separate" (which many residents elect to qualify for lower payments under the PAYE – see below).

#### **7. I've heard there are situations where filing "married filing separate" makes sense from a student loan perspective. Is this true?**

- Yes. This makes sense in situations where the resident's spouse has high income. This is because under the PAYE your payment is based on the income shown on your tax return. Well, if your spouse has a high income and you file MFJ, this will result in a much higher monthly payment . . . not what we want while in residency. If gunning for the PSLF, we want to pay as little as possible so that the maximum amount is forgiven after 120 months.

Keep in mind that under the REPAYE option, your entire household income is considered for purposes of determining your monthly payments.

#### **8. What is my family's responsibility regarding my loans if I die?**

- Federal student loans are completely forgiven when you die. But private loans most likely are not. You'll need to check with your private lender to see what their policy is. Either way, I generally don't find this a very big deal. For most people, life insurance is very inexpensive which effectively negates this concern. So just go buy a term life insurance policy once you enter residency. You really should be doing this anyway, especially if you're married.

## 9. Are my student loans forgiven if I'm disabled?

- For private loans you can forget it. For Federal Loans, there is a disability forgiveness provision for those who are "Totally and Permanently Disabled." However, the definition of *disabled* that is used by the Department of Education is not very friendly. It reads that you must be unable to, "*engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that*
  - *Can be expected to result in death and,*
  - *Has lasted for a continuous period of not less than 60 months or can be expected to last for a continuous period of not less than 60 months.*

You can see that these are very stringent guidelines. **The most important thing any physician can do to protect themselves is to buy a long-term disability policy as early in their career as possible.** Heck, your 4<sup>th</sup> year of medical school isn't too early. So, call my office or whoever does your insurance and buy a policy ASAP. This is very important.

## 10. Should I refinance my student loans to a private lender?

- Probably not during residency. But after you finish training, you may want to consider this option ONLY if you are 100% certain you will be working for a "for-profit" organization (this includes a private group, private practice, locum tenens, etc.).

## 11. If I choose to refinance, how do I select a refi company?

- Shop, shop, shop. This is a decision that should be treated like any other commodity. Who offers the best product at the best price? I'm not suggesting that customer service is not important, but after the application process is over, most of your interaction with the lender will be primarily through your computer. As of this writing, there are nearly 20 different banks/lenders in the student loan refinance space (*SoFi, Earnest, LendKey*, etc).

## 12. What are your thoughts on forbearance while in residency?

- I can think of no scenario where I would recommend forbearance as a resident or fellow. There are a series of negative consequences that get put in motion when you enter forbearance, not the least of which is missing out on REPAYE's interest subsidy. Another major consequence is all that interest that begins to snowball, that eventually must be paid. Even if you intend to apply for PSLF, you are pushing the 10-year mark back month for month. Don't do that! **You need to enter a repayment plan as soon as you graduate medical school.** This means probably foregoing the grace period. Start paying on your loans as soon as possible. There's no reason not to! Your payment will likely be zero anyway under the REPAYE since it's based on your prior year's earnings (which is probably zero since you were a student the prior

year, with no income). And even after one year, it's rare that I see payments above \$300 month.

### **13. Should I use a home equity loan to pay down/off my student loans?**

- No. The only advantage here would be the higher limit tax deduction (in lieu of the \$2500 normal limit). However, the recently passed Tax Cuts and Jobs Act eliminated the interest deduction on home equity loans. So, I really can't think of any reasons to do this, unless there is a significant difference in interest rates.

### **14. I've been told that Federal student loans can't be discharged in bankruptcy. Is this true?**

- Under current law it's nearly impossible for students to get their Federal or private loans discharged in bankruptcy.

However, the Department of Education has recently expressed concerns regarding the difficulty of having loans discharged (something I learned while researching for this writing). I would not be surprised to see it become easier for loans to be discharged in the coming years if the DOE changes it's policy on the "*undue hardship standard*."

### **15. Will prospective employers pay off my student loans?**

- Yes. Many will. But don't put too much weight into this. To an employer it's just money. They don't care if it's called a "*signing bonus*" or "*student loan forgiveness bonus*." My suggestion is to negotiate this. If your loans are on track to be forgiven under the PSLF, or maybe you don't have any loans, then ask your prospective employer for the same "*loan forgiveness*" bonus as a signing bonus, or even better, an increase in salary.

But no matter what, if you are a PSLF candidate, you don't want your employer sending money to your loan servicer. It's a waste of money. All it does is reduce the total forgiveness dollar for dollar. Plus, you end up paying taxes on those dollars. In my experience these bonuses are paid out over 4-5 years – typically around \$20,000 annually. If the employer is willing, I'd rather they pay you \$20,000 more annually for the duration of your 4-5-year contract and renegotiate after your final contract year.

### **16. Are there any pitfalls I should know about?**

- Probably the biggest thing I see, is doctors mistakenly believing they are working for a *not-for-profit* (aka 501c3) organization when in fact they are not. This is very common, for example, with hospitalists who work in a hospital that is owned by a *not-for-profit* entity, but the doctor is technically employed by a *for-profit* hospitalist

group. So, you need to make sure you are abundantly clear on your employment status.

I can't imagine a more sickening realization that after 10 years of making payments, your \$150,000 remaining balance won't be going away after all. The recruiter or the HR director should be able to answer this question easily.

- Get help! Unless you are supremely confident in your understanding of all the options, you should hire a knowledgeable CPA or a reputable consulting firm that specializes in working with physicians dealing with student loans.

**Please understand that this is by no means an exhaustive analysis of medical school loans and the various repayment and forgiveness programs. Once again, I strongly urge seeking the counsel of an expert in this field. If they are good, they are worth the fee (which is negligible compared to the cost of you making a serious and irreversible mistake).**

**I welcome any and all feedback. Please write me with any questions.**

Sincerely,



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