Medical Student Debt

According to the United States Department of Education's public statistics, 76-89% of medical students leave medical school with educational debt. On top of this, the average amount for medical students is $241,600 in total student loan debt.

There are many options for physicians to pursue student loan assistance and forgiveness that begin as soon as you are employed full time. **Residencies and fellowships count as full-time employment,** according to the federal government. Many hospital systems and academic medical centers offer loan forgiveness as an incentive to either sign-on with the organization and/or to stay employed with the organization. If this is not something that is offered to you, there are still other options available.

Public Student Loan Forgiveness

Started in 2007, the Public Student Loan Forgiveness (PSLF) program provides an avenue to work toward being free of federal student debt. PSLF does not provide relief for any private loans. After making *120 qualified payments* while employed *full-time* at a *non-profit organization*, any remaining loan balance is forgiven by the U.S. Federal Government. One particularly exciting benefit of loan forgiveness through PSLF is that the forgiven balance of your student debt is not considered taxable income.

Some definitions:

- Full-Time: Full-time employment is defined by the program as spending 30 hours per week or more.
- Qualified Payments: For a payment to qualify, it needs to be a payment made on a particular payment plan. All Income-Driven Repayment Plans qualify as acceptable plans. Qualified payments need to have been made:
  - after October 1, 2007
  - under an approved repayment plan
  - for the full amount due as shown on your bill
  - no later than 15 days after your due date
  - and made while employed full time at a non-profit organization

  In October 2021, the federal government approved a large exception to this rule due to the pandemic. Please refer to the Pandemic Considerations section of this document for more details.
- Non-profit organization: Your employer needs to be registered as a 501(c)(3) organization through the Internal Revenue Service (IRS). This means that your organization operates as a not-for-profit organization and is tax-exempt. Nearly all organizations that operate as emergency services, safety, education, and health qualify, unless the business is a for-profit model. Private Practices are almost always for-profit organizations. Most Hospitals, Universities, and medical centers are registered as 501(c)(3) organizations.

In order to take part in the program, you need to submit documentation to the US Department of Education via the PSLF Form. Both you and a representative of your employer (usually human resources) need to fill out the form. This form can be completed after you have left your organization, or you can complete it periodically. Your 120 qualified payments do not need to be consecutive and to not need to be with one single employer. If you make qualified payments during the four years of your residency and then for the following 6 years while employed by a qualified organization, you will be eligible for loan forgiveness.

Some physician-specific considerations when determining if your employer is a qualified employer:

- If you are hospital-employed and your hospital is a non-profit organization, it is highly likely that you qualify for PSLF.
- If you are employed by a physician group, you need to speak with a representative from the physician group to determine if the group is non-profit to qualify.
- If you work for a private practice, it is unlikely that you qualify, but you should still check with your owner or representative who completes your organization's taxes to see if you qualify.
- If you work for a for-profit hospital or hospital system, it is unlikely that you qualify.
- If you work at an academic medical center, whether it is public or private, it is highly likely that it qualifies.

Income-Driven Repayment Plans

To qualify for the PSLF program, you need to be on an Income Driven Repayment (IDR) plan. To take part in an IDR plan, each year, you are required to permit the IRS to send your tax return to the Department of Education, or you can do so yourself. These plans will frequently give you a repayment amount that is less than your standard payment, based on your loan balance by calculating what your *discretionary income* is. **While you are in your residency and/or fellowships, this will be the most beneficial to help you to afford your loans without letting them accumulate interest for the remainder of your medical training.** When you submit documentation for an IDR plan, the government chooses a plan for you based on your situation.

Discretionary income is calculated by taking your Adjusted Gross Income (AGI) and subtracting the value that would be 150% of the poverty guideline for your family size and state of residence. This value is your annual discretionary income and must be divided by 12 to calculate your monthly discretionary income. To calculate what a monthly payment is likely to be based on your discretionary income, you can use the following formula and variables:

$$x = Poverty\ Guideline\ for\ your\ family\ size\ and\ area$$

$$y = The\ \%\ of\ discretionary\ income\ as\ determined\ by\ your\ repayment\ plan$$

$$\frac{y(AGI - 1.5y)}{12} = Monthly\ Payment$$

IDR Plans:

- REPAYE Plan: 10% of your discretionary income.
- PAYE Plan: 10% of your discretionary income, but never more than the 10-year Standard Repayment Plan
- IBR: 10% of your discretionary income for new borrowers after July 2014 or 15% if you are not a new borrower after July 2014, but never more than the 10-year Standard Repayment Plan
- ICR Plan: The lesser of the following
  - 20% of your discretionary income
  - What you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income

For the average medical school graduate, please see the following scenarios for the average debt load of approximately $240,000.

The following examples are all based on average interest rates of 5% for student loans and are for illustrative purposes only. Without knowing the exact interest rates and loan amount(s) (as well as the exact income received each year over 10 years), these examples are only broad overviews.

Scenario A: A new medical school graduate, single, starting their PGY-1, making $64,000 per year in Ohio, where RosmanSearch is located, with $240,000 in student loan debt:

Payment Plan	Monthly Payment	Total Amount Paid at end of Loan	Amount Forgiven
Standard Repayment Plan	$2,546	$305,469	$0
REPAYE & PSLF	$370-620	$58,956	$270,522

Something to keep in mind though, is that each year, you need to submit your tax information and your payment will adjust based on your new income. After all, you won't be a resident or fellow forever! <u>Specialties with longer residencies and physicians who pursue one or more fellowships will see the greatest benefit.</u>

Scenario B: A fellow, single, making $85,000 per year in Ohio, with $225,000 in student loan debt (because they have paid some money down during residency!):

Payment Plan	Monthly Payment	Total Amount Paid at end of Loan	Amount Forgiven
Standard Repayment Plan	$2,546	$305,469	$0
REPAYE & PSLF	$378-640	$58,956	$250,772

Scenario C: An attending physician, single, making $325,000 per year in Ohio, who has not yet paid on their student loans and has a balance of $240,000.

Payment Plan	Monthly Payment	Total Amount Paid at end of Loan	Amount Forgiven
Standard Repayment Plan	$2,546	$305,469	$0
ICR & PSLF	$4,439	$272,496	$0

Yikes! With this scenario, you can see that though you may have saved some money during medical training, the two options available to you are to pay your loans outright with the standard repayment plan or choose to use the Income-Contingent Repayment plan, which will be 20% of your discretionary income <u>and</u> will be nearly double the cost of the standard repayment plan. Under the ICR plan, you will pay your loans off in approximately 8 years. In this scenario, it may make more sense to opt for the Standard Repayment Plan,

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Scenario D: An attending physician, married to another attending physician who have both taken jobs in academics, where the salaries tend to skew lower. The family's AGI is $400,000 and the couple has a combined student loan balance of $480,000. When calculating payments for IDR, student loan borrowers can choose to include the spouse's loans and salary, or not to. In this case, the couple has chosen to include one another.

Payment Plan	Monthly Payment	Total Amount Paid at end of Loan	Amount Forgiven
Standard Repayment Plan	$2,546 *each*	$305,469 *each*	$0
REPAYE & PSLF	$1,586-2,281 *each*	$229,647 *each*	$103,003 *each*

In this scenario, the couple, as married physicians, would benefit greatly from participating in the PSLF program. Not only would their joint student loan debt allow them to reduce their monthly payments, but both partners would receive a sizeable loan forgiveness amount at the end of 10 years.

In scenarios where two married partners have very different amounts of debt, the maximum monthly payment is set for the couple. If the maximum monthly payment through IDR comes out to $2,000 each month, one partner holds 80% of the total outstanding loan balance, and the other holds 20%, their payments would be $1,600 and $400 respectively.

Should I participate in PSLF?

As you can see, PSLF may not benefit every physician's scenario. PSLF and IDR is a good idea for nearly all residents and fellows to reduce the financial burden of student debt before becoming an attending physician. For some specialties, earning more money may create a situation where it is cheaper to pursue the Standard Repayment Plan, and even cheaper over the lifetime of the loan to overpay to quickly pay back the student loan balance before the interest compounds year-over-year. For physicians who choose to get married, both parties' AGI and loan balances can create intricacies where only you can decide what is right for you and your student loans.

Simply put, physicians with more debt are more likely to benefit from PSLF, whereas physicians who graduate with less debt may be better off paying down the loans quickly. Additionally, physicians who participate in the PSLF program sooner (during the remainder of their years of medical training) are much more likely to benefit from forgiveness for their years of payment while on a resident or fellow salary.

Temporary Expanded PSLF (TEPSLF) or Pandemic-related Changes to PSLF

Due to the pandemic, the U.S. Department of Education announced a temporary change to the rules of PSLF regarding what payments are considered *qualified payments*. Under the original PSLF guidelines, *qualified payments* only include payments made while on an IDR plan. The revised guidelines include all payments made, *even if not made in full or made late*, and while being employed full-time with a qualified employer. This means that if a borrower was on a different payment plan and was making payments before starting on an income-driven plan, those payments would now qualify. This revision includes all payments made after October 2007, when the PSLF program was started. Borrowers who want to take advantage of this extended period where previously non-qualified payments can be counted as qualified payments have until October 31, 2022 to submit updated PSLF Forms to have those past payments counted.

Another revision to the PSLF program, or perhaps better described as a clarification is that for each month that the Pandemic-related forbearance has been in place, if a borrower has been employed full-time with a qualified employer, counts as one qualified payment. This means that borrowers who intend to have their loan balance forgiven at the end of their *120 qualifying payments*, these past few months will not negatively impact them.

You can read more about the pandemic-related changes and the TEPSLF here.

RosmanSearch Disclaimer

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