Managing Student Loans and When to Pay for Advice-Podcast #138

Podcast #138 Show Notes: Managing Student Loans and When to Pay for Advice

There is a huge issue with student loans in our country today. I think it is currently at $1.7 trillion. That is almost half of the annual federal budget. One out of six Americans over the age of 18 have student loans. We have discussed many times on the blog and podcast the huge student loan burdens that physicians and dentists are dealing with. In this episode, I interview Travis Hornsby, a student loan expert. We have a great discussion about unique ways to manage your student loans and techniques that you have probably not heard of before. We talk about who needs to seek out formal student loan advice and who probably doesn't. Managing your student loans takes into account retirement contributions and how you file your taxes. It can be very complicated and advice from the professionals is just a few hundred dollars but can likely save you thousands of dollars in interest and other costs associated with your loan. Listen to this episode to learn techniques for managing your loans and to better understand whether you need to seek professional advice for your student loan burden.

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Quote of the Day

Our quote of the day comes from Bill Gross, that famous bond fund manager, who said,

> *"Jack Bogel's early business model, Vanguard, promoting index funds, was a mystery to me for at least a few of my beginning years at PIMCO. Why would most investors be content with just average performance, I wondered? The answer is certainly now obvious."*

Isn't that the truth? Thank you to Vanguard for really implementing the low-cost index fund solutions. Obviously, now you can buy funds that are just as good at Schwab or Fidelity or I-Shares, but let's not kid ourselves, those would never exist if it hadn't been for Vanguard.

Resources for Student Loans

If you are dealing with student loans, I have a couple of resources on the website you are likely going to be very interested in. One is a guide to when and how to refinance your student loans. We have all the best student loan refinancing companies listed there and I have negotiated special deals with each of them. These are better deals than you will get if you go directly to their website. Usually, it's cash-back, so if you refinance your loan, not only do you get much better service and a lower interest rate, but you get cash back. Make sure you go through those links when you refinance your student loans to get the best deals.

The second resource is also under that recommended tab, our student loan advice page, where we list specialists in student loans. Basically, they do nothing but advise you about how to manage your student loans. Of course, that takes into account retirement contributions, how you file your taxes and those sorts of issues as well, but for a few hundred dollars you are likely to save tens of thousands of dollars in interest and other costs associated with your loan.

Managing Student Loans and When to Pay for Advice

Cause of the Student Loan Crisis

Travis and I open our discussion by talking about the student loan crisis and who is to blame. The price of tuition is going up in part because colleges see people getting good returns for education. But there is also another problem going on where you can borrow as much as you want. Travis points out that since 2006 with the Grad PLUS program, and then also Parent PLUS, there is no cap on the amount of loans that you can borrow. It is just the cost of attendance and, obviously, the schools have gotten wise to this, and the cost of attendance is whatever a school wants it to be. So we have seen massive increases in tuition levels over a very short amount of time. I asked Travis how would he assign fault for this crisis? I mean, how much of it is the government's fault for loaning money to anyone who can get into school? How much of it is the school's fault for jacking up these costs of attendances, and how much is the fault of the students for not actually making a value-based decision when they enroll in a school?

> *"Well, the government provided the murder weapon and the schools helped people learn how to shoot it. If I would place blame, I actually put a lot more blame on the schools than a lot of people do, because I think that the schools are transparently self-interested in increasing the number of programs."*

Public Service Loan Forgiveness

We talk about PSLF for a bit. Travis shares the history of the program. Basically 2011 was the first time people figured out how to consolidate into direct loans to match what the PSLF program was promising. Before that date, you had to have gone way out of your way to consolidate your student loans into a direct consolidation loan. So based on most of the loans that he sees, it’s very rare for a physician to have direct loans that are scheduled to be forgiven anytime before 2021.

> *“It is really going to be an exponential curve of approval rates basically from now until then. I think the first mass wave of physicians getting it, it’s going to be in 2022, because that’s when some of those medical schools had direct loans in 2008. Then I think that 2024 is when you’re going to see the first big wave of folks getting PSLF, so that’s going to be just in time for the next presidential election.”*

We discussed the fear that some have that the program won’t work for them. Travis feels that people that are worried about it not working out usually either don’t have a high enough savings rate or are not thinking about the problem in terms of what the math says. They’re usually thinking about it from sort of an emotional, fear-based perspective. When you apply logic to it, it’s not really as scary unless you’re just relying on this program for your entire financial future, which you should not be doing. Travis agrees with my advice to save up a PSLF side fund. Essentially, instead of sending five or 10-plus thousand dollars a month to your loan servicer, you should make your required payment and take the remainder of that amount and put it into an investment account. Essentially, a PSLF side fund. In case you change jobs, you don’t want to work for a nonprofit anymore or Congress changes the rules.

Income-Driven Repayment Programs

We talked about the income-driven repayment programs/forgiveness programs. This is income-based repayment. This is Pay As You Earn. This is Revised Pay As You Earn. The way these are set up is if you make payments for 20 to 25 years in these programs, the remainder of your federal student loans are forgiven, but that forgiveness is taxable. There is no requirement that you work full-time, there is no requirement that you work for 501(c)(3) or a government employer, but on the downside, there's going to be this tax bomb after 20 years. Whatever is left is taxable income to you in the year you receive forgiveness. I asked Travis who these programs are appropriate for and how can he in good conscience recommend anyone drag out a student loan for 20 to 25 years only to face a tax bomb that perhaps will be as large as the original loan?

> *"If you are a family medicine doctor making $200,000 and you went to a private medical school, you could easily have $400,000 in total student loan debt. To pay that back, you'd have to pay at least $4,000 a month to pay back in 10 years. And so, after taxes, especially if you live in a state with a decent size income tax, you might be looking at a third or maybe even 40-50% of your take-home pay after all the needs are met going into loans for 10 years. That is a hard pill to swallow for someone that wants to start a family or buy a house or start saving for retirement or investing or really anything."*

Yes, it is a hard pill to swallow if they have already spent the money they haven't made.

> *"With the income based repayment plans instead of paying $4,000 of after-tax income to your loans, what you can do instead is, with that $200,000 income, you can pay 10% of your discretionary income. That's basically your adjusted*

gross income, your AGI, minus 150% of the poverty line. If you have a decent-sized family that might give you a decent-sized write off. Then you can also write things off like 401k contributions and HSA contributions, off of that student loan payment. And so, you might be able to get your student loan payment down to as low as $1,200 a month or $1,000 a month or something with careful tax and retirement planning. And so, paying 4,000 a month for 10 years versus paying 1,000 or $1,200 a month adjusted for your income, that's a cashflow advantage."

Then with that extra cash flow, he is suggesting that you fully fund your pretax retirement accounts and put the remaining money into a mutual fund taxable account like at Vanguard, so that you can have plenty of money to pay that tax bill in the future. Travis feels like if you look at it from a maximizing net worth perspective, for certain borrowers that taxable 20 to 25-year forgiveness strategy results in a couple years of retiring sooner because of just how much better off that makes you to be able to contribute the maximum to retirement in those early years plus buy a home and start a family.

"There's also a lot more complicated ways that you can lower that payment. For example, if that borrower was in California, which is a community property state, you can file taxes separately and equally distribute your income on your tax return. Say that that family medicine physician that's working in a private practice is married to a stay-at-home spouse. That 200,000 income, if you filed taxes separately, would be split 100,000 and 100,000 on that return. Then you could base that loan payment off of 100,000 instead of 200,000. Then that payment instead of 1,000 to $1,200 a month, you might be able to get it to like 600 or $800 a month. The student loan interest does not compound. It grows at a linear rate, which means the effective interest rate of the growth of your balance, actually gets less and less every

> *year because the interest rate grows at this simple rate of interest, which compounds similarly to inflation."*

It feels like one of those things that could work out better mathematically, but not necessarily behaviorally. There are a lot of components there that have to work out for this to come out ahead. You have to actually invest the difference, and you have to do it over a long period of time. You basically have to keep deferring gratification for quite a long while in this program. A lot of people, I fear, would see that lower payment they owe, "Oh, I only have to pay 1,200 now instead of 4,000," and use the difference to buy a nicer house, to drive a faster car, to go on a nicer vacation. In Travis' experience that is certainly a problem, but when it's fully explained to someone, he finds there is a very high success rate of people putting that money into retirement and investing.

Whatever you decide to do, get a plan upfront. I run into a lot of people who dink around for five years and then they start trying to figure out what they're going to do, and even if they have a 10-year plan at that point, they're already at 15 and could be getting paid forgiveness at 20.

Student Loan Advice for Attendings

We discussed specific advice for attendings not going for PSLF, dividing them into four categories based on the ratio of student loan burden to gross income.

1X Student Loan to Gross Income Ratio

> *"Do you live in a community property state or not? That's nine States around the country, and that does complicate the analysis. But assuming you don't, you have a couple of choices. You could stick to that Revised Pay As You Earn program if you're right out of training and get an interest*

> *subsidy for an additional year until they ask you to re-certify after that point or just to go ahead and refinance that loan."*

He is cautious to recommend a 5 year repayment plan as it could pose problems with qualifying for a mortgage or a practice loan. He recommends something called the refinancing ladder,

> *"which is starting off with a longer-term loan, like maybe 10 to 20 years. Just to have that required payment be low and then shovel tons and tons of money at that loan to knock it down by 100 or even $200,000. At that point, you could look into doing maybe a five-year variable rate or something like that with an ultra low interest cost, because, at that point, once you've knocked down the principal so much, that required payment is going to be significantly less than if you started off with a super aggressive term on the front end. I've definitely seen some cases of people with those one-to-one debt to income ratios hurt themselves. Right out of the gate, they want to sprint as fast as possible when, even for reasonably-sized balances, paying back your loans is a little bit more like a 5K race versus a 100-meter dash."*

You can tell we disagree a bit with this. The nice thing about the 5 year repayment is you get very focused. You know you have this five or six thousand dollar a month payment to make and, hopefully, you're throwing $10,000 a month at it. It's a little bit easier to keep up that pace for 18 months than it is for six or eight or 10 years. Travis is afraid that could keep them from getting the house but I think it is better they don't buy the house yet. I'm a big fan of the five years, because, at the very worst, you're going to have the loans gone in five years. And there is something to be said for that. I'm trying to give that message to people all the time, that this is the secret to success, to have that lower lifestyle for two to five years after training, and that really aggressive student loan plan usually fits in with that pretty good.

2X Student Loan to Gross Income Ratio

> *"For the two-to-one debt-to-income ratio, just to give an example. Again, you could maybe have access to different kinds of retirement plans that might enable you to put away the 19,000 that you can put into a 401(k) or maybe even a lot more than that. Maybe you have a profit-sharing plan or some sort of solo 401(k) or something where you could put away a lot more in deferral, a lot more income and take that off of your AGI. And so, if you run those numbers for someone with a two-to-one debt-to-income ratio with a typical medical school-sized balance, the savings is probably going to be at least $100,000. In terms of refinancing versus going for forgiveness. In other words, forgiveness, the 20-year forgiveness plan, would probably be around $100,000 cheaper if you look at the present value, which is the cost in today's dollars."*

At a 2X ratio for most of the people Travis works with he is telling them to drag it out for 20 or 25 years.

> *"Unless they have a strong, strong preference to pay it back very quickly, and they have a very clear rationale of how they're going to do that, then yeah. Because, the thing about a two-to-one debt-to-income ratio is you can make it higher than that by putting away a lot of this money into pretax vehicles, so you can make that debt-to-income ratio instead of two-to-one, maybe you make it two-and-a-half-to-one or three-to-one. Because, you put away a bunch of money into pretax accounts, and then if you live in a community property state or maybe you file your taxes separately from your spouse, maybe you can get that debt-to-income ratio, maybe five-to-one, six-to-one when forgiveness just looks*

> *unbelievably good."*

Because you're reducing your discretionary income, you're reducing your taxable income, which reduces your student loan payment. Then you have that mutual fund contribution that you want to make to prepare for the future tax liabilities if you're not PSLF. If you have the tax bomb, the money is there, and if you don't have the tax bomb, you're significantly wealthier than you would've otherwise been. So that protects you no matter what if you have one of those ratios above two-to-one.

3X-4X Student Loan to Gross Income Ratio

At some point does Travis just tell people they need to really consider going to work for the VA or for a nonprofit and going for public service loan forgiveness instead of one of these IDR forgiveness programs?

> *"The key thing to do is to compare the 20 or 25-year costs in today's dollars to the cost of doing PSLF in today's dollars. Let's say the cost is maybe 200 grand in today's dollars if you take advantage of all the forgiveness stuff, versus maybe 50. That's 150K difference and that 150K amount, you have to work for, let's say five years after training, because you obviously get the credit during training, assuming you're making payments.*
>
> *Five years to get 150,000 of after-tax incomes, that's 30,000 a year. Then, if you think about the pretax value of that, because student loans are not tax deductible, then that 30,000 per year in money is more like 50,000, let's say. So what you would say is, if you take your nonprofit or academic job and you add 50,000 to that, would that be a job that you would abandon your private sector lifestyle to do? For a lot of people, especially higher-earning specialties or even moderately-earning specialties, that's a financial trade-off that's just not worth it."*

Refinancing Student Loans

We both agree that there is no reason that a doctor should not refinance their private loans as soon as you get out of school. Refinance them quickly and as often as possible, as long as you can get a lower interest rate. Especially with the companies that have programs for residents that limit your payments to just $100 a month. There is no cost to refinancing, besides a little bit of your time. But you will get a lower interest rate and a cash bonus if you go through the links on this page.

Co-Signing on Student Loans

Should spouses ever co-sign in order to reduce the interest rate? Say you're a resident married to an attending and the attending is willing to co-sign for your loans. Is that a good idea or a bad idea?

> *"If you're married without a prenup, you're already invested in each other financially way more than whatever your student loan balance is. You're already on the hook for a lot, so based off of that theory, why not be invested a little more? I'm joking around a little bit, but what I tell people is, "If you're a resident, you should be able to find a refi deal that's probably 0.5% to 1% higher in your own name from these companies that will refinance residents and fellows. And, if the person doesn't mind, if you have joint accounts, if you have the mindset that everything is shared and the spouse that has the higher income is willing to take that risk of having to owe that debt in the event of the marriage not working out, then go for it. Because in most States, this debt that's in your name, is not necessarily divisible in a divorce, whereas the assets are always divisible. So you're kind of taking on something that you would not be obligated to pay back without being co-signed in the event that the marriage doesn't work out."*

There are death and disability consequences as well that you’re now taking on, but at least you can buy a little bit extra term life and disability insurance to cover that risk.

Who Doesn’t Need Student Loan Advice?

What are the categories of people who don’t need advice because their situation is so clear-cut?

> *“I would say somebody who is maybe two years away from PSLF and already has their plan capped out at the standard 10-year plan and they’ve already run the numbers to check if Revised Pay As You Earn is better than pay your IBR with the capped payment, that’s an example of somebody that probably doesn’t need our advice. Somebody who is a clear-cut refinancing case that might owe half of their income in a private sector job. I mean, it’s pretty straightforward, you need to refinance your loans and try to pay them off as fast as possible. I will say, though, that there are so many loopholes and so many things that a lot of times people are just not aware of. Some of these examples, like the married filing separately rules, the community property division of income.”*

Travis mentions several unique techniques for managing student loans like the married filing separately rules and the community property division of income.

> *“Things like filing separately with Pay As You Earn and then having one spouse do REPAYE to take advantage of proportional payments that are applied, can actually turn somebody with a low debt amount relative to their income to somebody that could actually get PSLF. So there’s just so many things to think about with how complex the loan rules are. I would say that there’s probably a 10% chance that someone would use our services, that’s unsure about it, that we wouldn’t really find anything. But approximately 90% of the time we do find something significant, and significant is usually a five-*

figure amount, on average, in projected savings. I mean, from a probability standpoint, there's a very high likelihood that the concept will pay for itself in multiples."

What about a single resident or a resident who is married to a stay-at-home parent? Can we just tell them refinance your private loans and enroll in REPAYE as a resident, and then determine at the end of your residency whether you're going for forgiveness program or not? Can we just tell them that they don't need advice?

"In a lot of cases, yes, but there're a lot of cases where you want it. I mean, cases where you're worried about that payment getting capped out at the standard 10-year plan, cases where the person has loans through the Department of Health, which is actually a common problem. Health profession student loans or Perkins loans are eligible for PSLF if they're consolidated manually through the studentloans.gov site. If the person is married to somebody or is thinking about getting married and they're trying to figure out what will happen to their student loan payment if they did get married, they would actually lose one month of payment credit while they're processing that switch. So if you have a $300-a-month payment on REPAYE and you have to transition to PAYE because you need to file your taxes separately because you're going to get married, well then, that costs you one month of credit at the training level of the $300-a-month rate and then adds one month of payment on the attending level income rate.

In other words, by starting off on REPAYE and then switching to PAYE because you didn't know that you needed to file separately or something, then that would have maybe cost you the difference between those two payment amounts. Maybe 3,000 minus 300, $2,700 cost. So I think that, yes, absolutely, people don't need us to get PSLF. That's not what I'm saying. Or refinancing, you don't need us to refinance. I think that *the same thing is true for filing your taxes. You don't need a CPA to file your taxes. Where it's helpful is when you have a complex setup and a lot of people don't know that they have a complex setup. That's why I think anybody with over $100,000 in debt that's even remotely thinking about some kind of forgiveness program, is very likely to save a lot of money getting advice."*

Variable vs Fixed Rate Student Loans

"The variable-rate loan needs to be able to be paid back in less than two years, as if your life depended on it. The reason for that is, I know that people would freak out if their variable rate went above their fixed rate at all. In fact, that's not that big of a deal if it went above that, because, as long as the payments that you made while the interest rate was lower than what the fixed rate would have been, that math can work out basically. Even if you're paying a little bit higher interest rate on the tail end than you would have with the fixed, it works out because you owe most of the debt at the beginning, not at the end.

That's why I tell people you if you get 1% lower interest rate with a variable compared to a fixed to take it, and you need to be able to pay the loan off in two years if you absolutely had to, because, say there's some kind of horrific thing that happens in the economy, all the variable rates are based off of short-term interest rates. And so, theoretically, in a recession you could have short-term interest rates spike and you could have a yield curve inversion and so your variable rates could get really, really high in an economic crisis. That's very unlikely, it's just something that you want to be able to handle and not sign up for like a 20-year variable rate with the expectation it's going to take you the full 20 years to pay it off. Because then I think you could very well lose money on that deal."

I find a lot of people are really scared of variable rates, but I think it’s helpful to sit down and actually run the numbers of what has to happen for you to come out behind. Almost always, it means rates have to rise dramatically and early in the payback term for you to come out behind. I don’t know that you have to be able to wipe it out in two years, but you certainly need to be able to handle a maximum possible payment you could get if the interest rates just went through the roof. If you’re really living like a resident and trying to knock these things out in two or three or four years, I think most of the time that payment is probably less than the amount of money you’re paying toward them anyway. But I think just running the numbers eliminates a lot of that fear that people have of variable interest rates.

Pay Off Loans or Invest

Another common question I get, and there’s probably no right answer to this, “Should I pay off my loans or invest?” What does Travis think they should use to decide what they do personally?

> *“What we’ve found is behavioral things matter more than anything else. The first thing you need to do is get 10% of your income going into retirement unless that maxes it. So 10% of your income going into retirement accounts and then $100 a month going into a non retirement account, in ETFs or mutual funds. The reason for that is, our data suggests that*

people do not open non retirement accounts as physicians for a very long time. Most people are just not aware of it or they don’t understand it or they just don’t ever get it set up where it’s a recurring monthly transfer, and that is something that’s going to inhibit someone’s wealth growth big time. Because, as you know, Jim, you can only put so much in retirement accounts. So that’s really important. Once that’s done, what I would say is, actually it’s the wrong question because, again, savings rate is far more important than answering this question the right way.”

Student Loan Strategies Most Physicians Don’t Know

Travis mentioned the married filing separately in a community property state.

> *“A lot of physicians out there with stay-at-home spouses or simply physicians who are the breadwinners, which are most people living in states like Arizona, Texas, California, Nevada, Louisiana, could save a whole lot of money by lowering their payment with that kind of equal distribution of income where you’re paying 10% on half of your household income instead of all of it.”*

> *“Then, another example would be if you file taxes separately, let’s say two physicians are making the same income, that one has way more debt than the other one does. So the other one has a small debt and the other one has a big debt, then you could file separately for taxes and do Pay As You Earn and basically get two deductions for your family size because you’d get your deduction for your Pay As You Earn and you could get a much lower payment there. Then, on top of that, people don’t really understand this a lot of times, but REPAYE as a proportional payment based off of the size of your loans. What they do is, they calculate what that payment should be based on your marital income and they distribute*

the percentage of that payment to each person's loans based off of what your debt-to-income ratio is.

For example, say you only had 10% of the federal debt. They might calculate your REPAYE payment at $2,000 a month, and then only 10% of that 2,000 a month would go onto the person with a small loan amount. That's $200 a month, then the person with the high debt, instead of having that other $1,800 go into that person's loan, if they've filed separately with doing Pay As You Earn they might be able to pay 500 or $1,000 a month instead, and the net savings on that could easily be the equivalent of a really nice used car every year. That's just one example. Then, just the standard 10-year plan, too, a lot of people don't know this, the standard 10-year plan exists for all loans until you consolidate them and then it doesn't.

One thing that we've seen happen to people is, they'll get the scary letter in the mail that says they no longer qualify to pay based on their income. When you're an attending, that's a pretty common thing, then they listen to that $15-an-hour phone rep and they change the Revised Pay As You Earn program. Well, the problem is, that payment could have just gotten capped if they had done nothing. If they had done nothing, that payment would have stayed at the capped amount, but when they switched to REPAYE, they no longer have a partial financial hardship and they're not allowed to switch back. We've seen that cost people five-figure sums annually because they took the advice of their loan service or when they lost the 10-year standard plan from consolidating their loans. Those are a couple examples, there's plenty more than that, but that's just a sampling of how ridiculously complicated this stuff can get."

Amending Tax Returns for Student Loan Purposes

Some people have suggested actually refiling, amending their old tax returns, in order to get a benefit with paying off their student loans. I asked Travis to explain how that works and whether it’s legal or not?

> *“Our position is that it is. Basically, what you can do is, as long as your current return status is married filing separate, that’s what the requirement is. So that your most recent tax return and the one you most recently used must always be married filing separate if you’re benefiting from excluding your spouse’s income from your payment on either the Pay As You Earn program or the income-based repayment program. Because the Revised Pay As You Earn does not allow that. You always have to include your spouse’s income regardless of your tax filing status.*
>
> *And so, what you can do there is, sometimes, filing separately creates thousands of dollars in additional taxes because the government encourages people to file joint. So what you can do is you can go back and amend tax returns from separate to joint up to three years in the past. The way you would do this is file separate and keep your returns separate until you are no longer using that old return from, say 2017, for your income-based certification. Then once you have a new return to have that most recent return be separate, then you can go back and amend 2017 from separate to joint and, potentially, get a refund of those thousands of dollars of extra tax penalties. One thing that the loan servicers in some cases, especially Fed Loan, are telling people to do is check a box that says, “I can’t reasonably access my spouse’s income.”*
>
> *Our view on that is, that’s fraudulent. Because, if you filed the married filing joint tax return, especially, their income*

> *is right on the return you signed that it was all truthful. So that’s demonstratively not true. So there’re legal ways to exclude your spouse’s income from your loan repayment calculation that don’t involve committing fraud like some of the loan servicers are recommending. And this amending tax return strategy is something that we think is legitimate, but admittedly it is a gray area. Whenever something is a gray area, we tell people what we think and why, and then we will let them make that decision, because some people are comfortable deducting their car lease for their practice and some people aren’t, and there’re different views on things like that.”*

A lot of people don’t realize, though, that the IRS and the Department of Education are totally separate entities, and don’t necessarily talk to each other.

> *“Absolutely, and that creates all kinds of problems. There are proposals to do a lot of new things with student loans. Like, a lot of the Kaiser physicians are not eligible for PSLF. Well, there’s a bill on the table that would change that. There was a proposal by the leading Senate Republican recently that would make your student loans deductible from your pay stub directly. So imagine the opportunities for someone in private practice with an S corporation paying themselves $120,000 a year, making 400,000 a year. That person could pay an absolute fraction of their student loan compared to what they do under the current regime. So there’re all these changes that could come down the pipeline and, regardless of what happens, there’s probably going to be a way to optimize this stuff and save money. And regardless of what happens, if you want to get out of debt and have a high-savings rate, then do that, it’s going to help you. So there’s really something for everybody, I think, no matter what happens, and people really shouldn’t stress as much as they do about it if you know the rules.”*

Ending

If you are interested in some of these strategies Travis has talked about, or just realize that you need some advice about your student loan situation, you can get in touch with him at whitecoatinvestor.com/studentloanplanner . Using that link you get a year of email follow up questions after the consult for being a White Coat Investor reader and listener.

Travis is, obviously, more willing than I am to drag student loans out for 20 to 25 years. I will readily concede that the math often works out in that situation, especially when you have 2X-plus debt-to-income ratios. But, I would just hate to be in debt for that long. I would hate to be carrying around these student loans for 20 or 25 years and then at the end of it have to write a big check. So I would really give serious consideration before you commit to that long, long pathway as to whether you have both the behavioral fortitude to stick with the plan for that long as well as whether you have any concerns whatsoever that your career is going to last that long and you're going to be able to work long enough to manage that plan rather than pounding your student loans out early. Travis will certainly help you run the numbers and let you make the decisions yourself.

Full Transcription

Intro: This is the White Coat Investor Podcast, where we help those who wear the white coat get a fair shake on Wall Street. We've been helping doctors and other high-income professionals stop doing dumb things with their money since 2011. Here's your host, Dr. Jim Dahle.
WCI: This is White Coat Investor Podcast number 138, Student Loans: When To Get Advice. It's good to have you back. Thanks for listening to the White Coat Investor Podcast and thanks

for what you do. You're probably on your way into work. Hopefully, you're on your way home, but either way, if nobody thinks you today, let me be the first.

WCI: This podcast is sponsored by Bob Bhayani and drdisabilityquotes.com, a truly independent provider of disability insurance planning solutions to the medical community nationwide and a longtime WCI sponsor. Bob specializes in working with residents and fellows early in their careers to set up sound financial and insurance strategy, and he's been extraordinarily responsive to me anytime any reader has had any sort of an issue. So it's no surprise that I often get great feedback about them from readers and listeners. If you need to review your disability insurance coverage to make sure it meets your needs, or if you just haven't gotten around to getting this critical insurance in place, contact Bob, drdisabilityquotes.com, today. Or by email, info@drdisabilityquotes.com, or by calling (973) 771-9100.

WCI: All right, let's do our quote of the day. This one comes from Bill Gross, that famous bond fund manager, who said, "Jack Bogel's early business model, Vanguard, promoting index funds, was a mystery to me for at least a few of my beginning years at PIMCO. Why would most investors be content with just average performance, I wondered? The answer is certainly now obvious.” Isn’t that the truth, and thank you to Vanguard for really implementing the low-cost index fund solutions. Obviously, now you can buy funds that are just as good at Schwab or Fidelity or I-Shares, but let’s not kid ourselves, those would never exist if it hadn’t been for Vanguard.

WCI: If you are dealing with student loans, I have a couple of resources on the website you are likely going to be very interested in. One of which can be found at whitecoatinvestor.com/student-loan-refinancing. You can find that under the recommended tab. What this is, is it’s a guide to when and how to refinance your student loans. We have all the best student loan refinancing companies listed there and I have negotiated special deals with each of them. These are better deals than you will get if you go directly to their website. Usually, it’s cash-back, so if you refinance your loan, not only do you get much better service and a lower interest rate, but you get cash back. It might be 200 bucks, might be more, 400 and 500 bucks sometimes, so make sure you go through those links when you refinance your student loans to get the best deals.

WCI: The second resource is also under that recommended tab and it takes you to our student loan advice page. That’s whitecoatinvestor.com/student-loan-advice, and listed there are specialists in student loans. Basically, they do nothing but advise you about how to manage your student loans. Of course, that takes into account retirement contributions, how you file your taxes and those sorts of issues as well, but for a few hundred dollars you are likely to save tens of thousands of dollars in interest and other costs associated with your loan. So I’m going to be talking today with one of the advisors on that page, Travis Hornsby, of Student Loan Planner, and if you want to get more information from him or hire him for his services, you can find those services at whitecoatinvestor.com/studentloanplanner. Those links, of course, will be in the show notes like usual.

WCI: We've got a long interview today, but we get into some pretty awesome discussions about unique ways to manage your student loans. I'll bet there are some techniques we're going to talk about today that you haven't heard before. So if you've still got student loans, this podcast is for you, but even if you don't still have student loans, you may find it interesting just to learn what people are doing with their student loans these days in order to try to overcome this massive burden that they're dealing with. Let's get Travis on the phone here.

WCI: Today on the White Coat Investor Podcast. We have a special guest. We have Travis Hornsby here. You may know him as the idea man behind studentloanplanner.com. He has a CFA and actually worked at Vanguard for a while, managing bonds I believe, and has since found his entrepreneurial spirit. I would describe him best as perhaps an online entrepreneur who has begun Student Loan Planner a few years ago and uses it to give advice to people who need advice in our complicated student loan environment that we have. That seems to be getting more and more complicated every year with all the government programs and all the different options out there in the private world. Welcome to the White Coat Investor Podcast, Travis

Travis: It's great to be on, Jim.

WCI: There is a huge issue with student loans out there. I think it's currently at $1.7 trillion in the U.S. That's almost half of the annual federal budget. One out of six Americans over 18 has student loans, what do you think is the cause of this crisis?

Travis: Well, I think that the price of tuition is going up in part because colleges see people getting good returns for education. In a world where you have increased automation, the returns for education are better and better than they've ever been compared to the alternative, which is not getting very much education. That said, there’s also another problem going on where you can borrow as much as you want. Since 2006 with the Grad PLUS program, and then also Parent PLUS, there’s no cap on the amount of loans that you can borrow. So it’s just the cost of attendance and, obviously, the schools have gotten wise to this, and so a cost of attendance is whatever a school wants it to be really. So you’ve seen massive increases, in some cases, tripling, quadrupling, even quintupling tuition levels over a very short amount of time, particularly in these graduate professional level degree programs.

WCI: How would you assign fault for this crisis? I mean, how much of it is the government’s fault for loaning money to anyone who can get into school? How much of it is the school’s fault for jacking up these costs of attendances, and how much is the fault of the students for not actually making a value-based decision when they enroll in a school?

Travis: Well, the government provided the murder weapon and the schools helped people learn how to shoot it. If I would place blame, I actually put a lot more blame on the schools than a lot of people do, because I think that the schools are transparently self-interested in increasing the number of programs. For example, the number of pharmacy programs has tripled in about 10 years. The application acceptance rate is pretty much 90%, and it used to be around 30%, so the schools are just exploding in the number of programs they’re offering at very high price points just to make as much money as possible. It’s very difficult when you’re going up against the desire to make all this money at the school level against a 22-year-old that does not know a lot about finances.

WCI: It’s interesting, they tell us this in medicine all the time that, “Tuition doesn’t even cover the cost of your education. This is costing us money to educate you.” Do you think that’s really true when they’re charging 40, 50, $60,000 a year in tuition?

Travis: I don’t personally believe that. I think that if you talk to a lot of people that run these programs off the record, what they’ll tell you is that other kinds of sources of funding, maybe grant funding or donations or state appropriations, have fallen some and they want to expand their programs. They want to expand their research mission. They want to continue to attract a lot of faculty and be as large of a program and prestigious of a program as possible, and the best way to do that when people will go to your program no matter what, and you have more applicants than you have seats available, the best way to do that is just to charge more money. Especially when you’re able to pay based on your income, and there’s not a whole lot of resistance for the people who are showing up in terms of the increase in price. Because, once somebody is in school, you’re not going to drop out and protest if the dean raises tuition by 10% right?
WCI: Yeah, exactly. Even the application fees are a source of revenue to the school. They can charge you a couple of hundred bucks as an application fee. That helps reduce their costs of attracting students as well, so it seems like they’re making it on both sides there.

Travis: Yeah. Well, there’s actually some unethical stuff going on in that regard. I’ll give you an example for chiropractic colleges. There’s actually some chiropractic colleges now that will pay to fly you out to their school. Will pay for your hotel, your flight, your meals, everything, and they will spend maybe $1,000 per person for people to come out and check out their program. The reason for that is, if they have an idea of what their conversion rate is to people who sign on the dotted line, that’s hugely profitable. So there’s some really ultra-aggressive recruiting tactics going on with schools that, some of the schools where you do have greater interest than the number of seats available, like medical schools, are making the money with the application fees. But there’s other programs that are just transparently trying to get as many warm bodies as possible with just tactics that might be more familiar with the used car lot honestly,

WCI: I feel like that's been going on in law for a long time, with all these for-profit law schools out there just pumping graduates out that can't even find a job at all. They're lucky to find one paying $50,000 a year with a law degree. I suspect it may be creeping a little bit more into the medical specialties or the medical professions as well.
Travis: Yeah. I mean, I think the key is, are there jobs? Are there jobs that require your degree that are going to pay much more than what you could get with a bachelor's degree? In the legal world, that job market took a big hit, and so you can't charge anything you want when the job market isn't what you're saying it is. In the medical world, people still get really good jobs with six-figure incomes, so it's like a treasury bond. A medical career, a medical degree is like a treasury bond, where it's the price of safety in a very volatile global economy, and what is the fair price of that? Well, clearly, right now people are bidding up the price of that, because there's tons of capital injected into the system where people are allowed to bid up the price of safety.

WCI: Well, let's talk about that for a little bit. Is it worth borrowing the entire cost of education for a physician? I mean, is it specialty-dependent? What about other professions like dentists, pharmacists, attorneys, veterinarians? At a certain point, you've got to look at that and go, "If I have to borrow the entire cost of attendance, this is no longer a good investment." Do you think it's still there for doctors, what about for other fields?

Travis: This is the way that I look at it. If you look at traditional debt repayment metrics, assuming you have to pay that debt all the way down to zero, then the answer for a lot of these professions is no, it's not worth it. But the problem is, is that's not what the reality is of what the rules are. For example, if I go to, say a pharmacy program, and I borrow two or $300,000 for a degree that is going to pay me $100,000 a year. If you look at the math behind that, if you assume you have to pay back that 300 grand, the break even might be some point in your 50s. But if you look at the option to pay based on your income, you can pay 10% of your income for 20 years and maybe around 5% that's going into index funds for the future tax bomb that you would own.

Travis: That might be approximately 15% all in of your income if you look at the payments for your loans and saving for those future tax liabilities when the loans are forgiven, if you're working in the private sector. And so, then, the question is, was it worth it for you to go to pharmacy school for four years and then to basically lose 15% of this higher income than you would presumably make with your bachelor's degree? If that's worth it, then that was worth it to go get that professional degree program. And if that was not worth it, like if you went to a lower-earning professional degree program, then you would not want to have that 15-ish percent tax on your income for the next couple of decades for what you got.

WCI: Yeah. It's an interesting way to think about it, and it may be the proper way to think about it, but I hate thinking about it that way. The reason why is that payment mentality. It's like buying a car on payments. You're like, "Well, I'm going to afford those payments, it's only this percentage of my salary." But then what happens if you lose your job or you end up hating the field or you want to change to something else? You basically lined up your entire financial life for decades on the assumption that you're going to be able to put 15% of your income towards taking care of these student loans. So maybe if your salary drops or something, now it's 30% or something else. I just think there's a lot of variables when you're counting on this working out for 20 or 30 years.

Travis: That's true, but at the same time if your salary does drop, then your payment drops as well. What I like to do whenever somebody is very skeptical about loan forgiveness happening in the future, whether it’s PSLF or the 20 to 25-year taxable version of loan forgiveness, regardless of what program they’re talking about, I would ask someone to find a government program in the past, say 40 or 50 years that has gotten more restrictive and less generous than more generous and less restrictive and more expensive. I think that if you look at the reform proposals that have been put out there, there’s a very low chance that this rug gets pulled out from millions of borrowers where their finances are totally wrecked. Also, I would say if somebody is depending upon forgiveness for their financial wellbeing in the future, then that’s a huge mistake. That person needs to be focused on having a high-savings rate where regardless of what anybody that wins the presidency does, your finances are actually going to work out just fine.

WCI: I agree with that. Let’s talk a little bit, you’ve brought up forgiveness. Let’s get into forgiveness. Reports have indicated that only 1% of applicants for public service loan forgiveness actually receive public service loan forgiveness. Why is that and is it a problem? And, if you can, what do you expect that number to be next year and what would you say to the person who would otherwise qualify for public service loan forgiveness, but who doubts it will actually work out?
Travis: Great questions. The thing that listeners might understand, but if you don’t, this is really important background. The government had a bank student loan program before 2010 called the FFEL Loan Program. This is a program where the banks lent the money and the government backed them up in case something went bad, and so they don’t lose money. It’s a government-insured loan program. That went away in 2010 and the Direct Loan Program took over and that was the only way, basically, you could get loans with the federal government, is directly through this Direct Loan Program. When they were writing the PSLF bill in 2007, the banks probably

would not like the idea of having all of their loans forgiven and losing all that interest income. So they did a carve out and made only direct loans eligible for PSLF.

Travis: So the vast majority of folks started borrowing direct loans for the first time ever in 2010. There are some medical schools that started adopting it really as early as 2008, so you take four years to graduate medical school, so then 2012 would be the first date that you would, potentially, be able to have all direct loans without having to have done anything special. Then, before that date, you had to have gone way out of your way to consolidate your student loans into a direct consolidation loan. So based off of most of the loans that we see, it’s very, very rare, almost exceedingly rare, for a physician to have direct loans that’s scheduled to be forgiven anytime before 2021. So basically 2011 was the first time people figured out how to consolidate this into direct loans to match what the PSLF program was promising.

WCI: Yeah. Let me interrupt you there for a second, because that’s what the data is showing as well. There’s a Facebook group, a private Facebook group, that’s basically docs going for PSLF. And they’ve done surveys over in there of, “When will you be eligible for it”? Basically, there’s nobody before 2020, 2021 that’s going to be eligible. That’s when the guinea pigs really start hitting. And so, the data certainly bears out what you’re saying.

Travis: Yeah. 2022, you have a lot of these folks that went to medical schools that were on the leading edge of this, that didn’t have to do anything special, that got signed up for a direct loan without having to have realized what they were doing. Then, past 2012, you start having more and more people getting direct loans without having to have done anything special. The reality is, is a lot of people that I run into have you used deferment or forbearance at some point during the residency programs, just simply because even three or $400, a month a lot of times people just don’t want to pay it

in a high-cost-of-living city where a lot of residency programs are located. And so, then that puts you back further in that 10-year time clock.
Travis: The reason that one of the most popular questions I ever get is, "Have you seen any physicians that have gotten PSLF?" Well, in very, very limited cases, yes. But it's extremely rare and there are structural reasons that are going to go away exponentially to cause that PSLF approval rate to increase. So what I would say is, if you're just talking to people that went to medical school starting in 2010, those are the first group that really will have not have to have done anything special and the PSLF approval rate is going to spike.
WCI: But that's really 2024 that we're talking about, because they don't even come out of school until 2014 if they enrolled in 2010.

Travis: It is, and so it's really going to be an exponential curve of approval rates basically from now until then. I think the first mass wave of physicians getting it, it's going to be in 2022, because that's when some of those medical schools had direct loans in 2008. Then I think that 2024 is when you're going to see the first big wave of folks getting PSLF, so that's going to be just in time for the next presidential election.

WCI: But people actually applied for this, and only 1% of them got it. How come?
Travis: Yeah. People don't read the instructions. I mean-

WCI: What percentage is that? 75% of them didn't even bother reading the instructions, didn't know how the program worked or what?

Travis: Yeah. It's approximately that, I think 60, 70% didn't have qualifying loans that applied. That's a very high percentage of people that just had FFEL loans. To be honest, there's very, very few people that nerd out with this stuff. And it's a little bit of a false selection rate too, because if you know that you're not eligible because you actually know what the rules are, you're not going to apply. You're not going to take your time and apply because you know that you're not eligible. And if you didn't know that you were not eligible, you would apply because you, all you know is that you have loans that say Stafford on them and you pay on them every month.

Travis: That's all you know. And so, a lot of these folks that were applying are some of the least-informed folks. I'm not trying to be mean, it's just the reality. Then also, like I said, the program wasn't set up really to help them and it wasn't set up in the right way to get forgiveness. So the 99% rejection rate is one of the worst and most misleading headlines ever, because we've done some internal projections as to what we think PSLF will cost. So by 2024, we think it's going to cost in excess of $30 billion per year, which is I think more than the annual budget of NASA.

WCI: Yeah. Not surprised. It can be a big, big slug of money, especially when a significant percentage of docs will eventually qualify for it. But there's still a big percentage between 60 and 70% and 99%, how much of that is due to these incompetent loan servicing companies that literally cannot count to 120 monthly payments?

Travis: Well, it's certainly partly their fault for sure. I mean, and some of the other reasons, like people didn't fill out the application completely. I mean, I worked for a few years at Vanguard. I mean, it was amazing how many applications for things and requests for things got denied because somebody missed one of the signature pages. Unfortunately, paperwork is a difficult way to do things and has just a naturally high rejection rate in general. I mean, I think that the loan servicing companies, look, I think this is why we're in this problem. The loan servicing companies were awarded contracts based on the cost to service the loan.

Travis: The federal government made an incentive structure that benefits loan servicers that keep default rates low, so that's one thing they care about. The other thing they care about is, what is the cost per borrower that we're going to have to pay? Those are pretty much the only two things that they judged when they were selecting the loan companies to do this. And so, in terms of who you're going to hire for that, well there's some loan servicing companies that probably would have done a better job managing the PSLF program that basically looked at what the contract was, what they bid, and they said, "There's no way that we could service this according to the way we want to do it for that price."

Travis: And so, the government for whatever reason, I don't know if it was intentional or not, basically selected the cheapest possible option to manage the program. Of course, when you put people that are making 12 to $15 an hour at the center of this service model for people who are depending on a six-figure financial benefit that are trying to optimize for it, that's naturally going to create a ton of problems. And so, I think that the reality is, is that you just have to make sure that you're looking out for your own financial interests, because you pretty much cannot believe anything that a 12 to $15-an-hour phone rep is going to tell you. It might be correct, but you would need to do some work to make sure you verify what they're telling you.

WCI: All right, so what's the line you're giving people who would otherwise qualify for public service forgiveness, but doubt it's going to work out? They've got serious doubts that it's actually going to happen, that Congress won't change the rules on them, that for whatever reason they won't get it? Do you reassure those people? What do you tell them?

Travis: Well, I would say it depends. I've very rarely, if ever, seen a case that justifies a physician sticking with a job solely for public service loan forgiveness. In most cases, you can make more money even adjusting for that last benefit

before taxes by just going and joining a private practice or having your own private clinic or something like that. So if your goal is to get as much money as possible, because you're doubting PSLF is going to happen, then just go try to make money if that's the goal.
Travis: But what I would say is, PSLF is a classic case of a disproportional payout, so the risk of you not refinancing your loan if PSLF does not work out, at worst, at absolute worst, is probably some sort of five-figure sum. So I think that that's really not that much, honestly, like 20, 30, 40, $50,000 compared to, potentially, hundreds of thousands of dollars if PSLF does work out. That's a disproportionate risk to give up PSLF for that low five-figure sum you could benefit from. That's what I would say is, if you think you're uncertain about the PSLF program, if your projected loss to save $40,000-

WCI: You're talking the additional interest you'd pay from carrying those loans longer than you otherwise would or not refinancing the loans.
Travis: Exactly. If you're looking at a 50% risk of PSLF not working out, and that's a $40,000 loss, if you carry the loan with the government to term and paying it back with those higher interest costs, then the impact of that is negative 200, 50% times 40. Let's say that the benefit of doing it is worth 200,000 and there's a 50% chance of that. Well, that's 50% times 200,000 is $100,000 positive then that could work out. And so, if you're making the decision statistically, you're supposed to look at the potential loss adjusted for the probability, which is $20,000 loss with a potential gain of 100,000 and that bet as an expected value of $80,000.
Travis: So if somebody in Vegas had those odds and had that opportunity to take that bet, they would borrow from everybody they possibly could to leverage up that bet as much as they possibly could, as long as they could afford to take it. So basically what I would say is, is that people that are worried about it not working out usually either don't have a high

enough savings rate or are usually not thinking about the problem in terms of what the math says. They're usually thinking about it from sort of an emotional, fear-based perspective. So when you apply logic to it, it's not really nearly as scary unless you're just relying on this program for your entire financial future.

WCI: Yeah, I think there's more and more people every year that are doing that. Certainly, coming out of residency with a $400,000-plus debt hanging over your head can be a scary thing. Maybe we ought to step back just for a minute. For those who feel like this whole discussion has already gone over their head, we're talking about public service loan forgiveness. This is the government program for direct student loans, whereby, if you make 120 on-time monthly payments in a qualifying loan program, a direct loan program from the government, while employed full-time by a 501(c)(3), a nonprofit or a government employer, the remainder of your loans are forgiven, tax-free. That's the public service loan forgiveness program that we've been discussing.

WCI: Now, Travis, one of the things I tell people all the time, I tell them they are not going to want to be in debt five years out of residency, that they are going to want to have their student loans taken care of. And so, if they're going for public service loan forgiveness, obviously, that can take longer than five years out of residency. If they do a three-year residency, that's seven more years afterward. But I tell them to build up a public service loan forgiveness side fund. Essentially, instead of sending five or 10-plus thousand dollars a month to their loan servicer, I tell them to make their required payment and take the remainder of that amount and put it into an investing account. Essentially, a PSLF side fund. In case they change jobs, they don't want to work for a nonprofit anymore or Congress changes the rules on them or whatever. What do you think about that advice?

Travis: Well, it's excellent advice, because it highlights the problem with people freaking out about forgiveness going away. The problem is, is people don't have enough assets, so what matters is that you have a positive net worth. Because, if you had $2 million of assets and you had a $500,000 student loan that was set up for PSLF, your net worth is 1.5 million. You wouldn't give a hoot what happens with PSLF. I mean, you would care, obviously. A little bit, I guess, but the point is, is that would not be a major stressor in your life. It would probably be something like, your family, your job, like normal things that stress people out.

Travis: I think that the reality is, is that a lot of people get so nervous about their loan. The answer to that nervousness and anxiety is trying to increase the assets side of the equation, because it would be very foolish from a math perspective to pay down debt that looks to be projected to be forgiven, tax-free. And so, the anecdote to that worry or the cure for that worry, I mean, is to try to increase your assets, which is investing like in mutual funds and 401(k)s and retirement and practice equity if you wanted to own part of the medical practice and things like that.

WCI: It sounds to me like you agree with me that just going for public service loan forgiveness is not an excuse to not live like a resident for a few years after residency.
Travis: Right. If you look at the math behind that, so public service loan forgiveness at most is worth maybe a few years off of your retirement date if it happens. By having a higher savings rate, going from like a 10 or 15% savings rate to say 30%, that can shave off a decade or even a decade and a half off of your retirement date. Just by focusing on having more of your money, not going into consumption and going into either paying down debt or putting that in assets and investing. So a lot of times people that have that attending mindset with what their budget's going to be when they get out of training, the PSLF program is not going to be the thing that's going to rescue their retirement age.

WCI: Yeah, agreed. It should be a relatively small part of your financial life, not what you based everything on. All right. Let’s turn the page and while still talking about forgiveness, let’s talk about the IDR, the income-driven repayment programs, forgiveness programs. This is income-based repayment. This is Pay As You Earn. This is Revised Pay As You Earn. The way these are set up are that, if you make payments for 20 to 25 years, you make your payments in these programs, the remainder of your federal student loans are forgiven, but that forgiveness is taxable. But there is no requirement that you work full-time, there is no requirement that you work for 501(c)(3) or a government employer, but on the downside there’s going to be this tax bomb after 20 years. Whatever’s left is taxable income to you in the year you receive forgiveness. Who are these programs appropriate for and how can you in good conscience recommend anyone drag out a student loan for 20 to 25 years only to face a tax bomb that perhaps will be as large as the original loan?

Travis: Yeah. I think that the key there is, I would repeat that savings rate comment, that your savings rate is going to be far more impactful if you do the 20 to 25-year IDR version or if you refinance. That said, here’s why this can help people so much. If you are a family medicine doctor making $200,000 and you went to a private medical school, you could easily have $400,000 in total student loan debt. To pay that back, you’d have to pay at least $4,000 a month to pay back in 10 years. And so, after taxes, especially if you live in a state with a decent size income tax, you might be looking at a third or maybe even 40, 50% of your take-home pay after all the needs are met going into loans for 10 years. That is a hard pill to swallow for somebody that wants to start a family or buy a house or start saving for retirement or investing or really anything,
WCI: It’s a hard pill to swallow if they’ve already spent the money they haven’t made.

Travis: Well, yeah. Now, and the way that this is responsible is, instead of paying $4,000 of after-tax income to your loans, what you can do instead is, with that $200,000 income, you can pay 10% of your discretionary income. That's basically your adjusted gross income, your AGI, minus 150% of the poverty line. If you have a decent-sized, family that might give you a decent-sized write off. Then you can also write things off like 401k contributions, HSA contributions, off of that student loan payment. And so, you might be able to get your student loan payment down to as low as $1,200 a month or $1,000 a month or something that with careful tax and retirement planning. And so, paying 4,000 a month for 10 years versus paying 1,000 or $1,200 a month adjusted for your income, that's a cashflow advantage.
Travis: But what I'm proposing is that, with that cash flow advantage, they use that to put into their pretax retirement accounts to fully fund those retirement accounts. Then also put any remaining money into a mutual fund, taxable account like at Vanguard, so that you can have plenty of money to pay that tax bomb in the future. If you look at it from a maximizing net worth perspective, for certain borrowers that taxable 20 to 25-year forgiveness strategy results in a couple years of retiring sooner because of just how much better-off that makes you to be able to contribute the maximum to retirement in those early years. And to be able to buy a home without just getting flat out denied or to start a family when you might otherwise put off having kids for several years.

Travis: There's also a lot more complicated ways that you can lower that payment. For example, if that borrower was in California, which is a community property state, you can file taxes separately and equally distribute your income on your tax return. Say that that family medicine physician that's working in a private practice is married to a stay-at-home spouse. That 200,000 income, if you filed taxes separately, would be split 100,000 and 100,000 on that return. Then you could base that loan payment off of 100,000 instead of

200,000. Then that payment instead of 1,000 to $1,200 a month, you might be able to get it to like 600 or $800 a month. The student loan interest does not compound. It grows at a linear rate, which means the effective interest rate of the growth of your balance, actually gets less and less every year because the interest rate grows at this simple rate of interest, which compounds similarly to inflation.
Travis: So I guess from my perspective, the risk is pretty defined and it also gives you the pretty big upside of, what happens if you have a more progressive administration at some point that makes the tax bomb go away? That's what I think will probably happen, although we don't model that for any of our clients. We prepare them for owing it, but, realistically, all the reform proposals talk about doing away with that tax bomb. And so, then, you really can think of your student loans as a tax or it's a debt. When you're trying to decide which one that is, if you can really optimize your set up and make it like a tax, then you can minimize that tax legally and allow somebody to accomplish a lot more in their lives and accomplish a lot more of their goals without having to sacrifice quite as much if they took the direct head-on full force assault weigh on their debt.

WCI: No. It feels like one of those things that could work out better mathematically, but not necessarily behaviorally. I mean, there's a lot of components there that have to work out for this to come out ahead. You have to actually invest the difference, and you have to do it over a long period of time. You basically have to keep deferring gratification for quite a long while in this program. I mean, a lot of people, I fear, would see that lower payment they owe, "Oh, I only got to pay 1,200 now instead of 4,000," and use the difference to buy a nicer house. To drive a faster car, to go on a nicer vacation. Do you think that's a big concern for these people with these big student loans?
Travis: That's absolutely a concern. The reality is, as many people as read your side and our side, there's a whole lot of

people out there that take that behavioral finance approach of, “Well, I’m just going to pay the interest.” Or, “I’m just going to pay as much as I can, which is enough that it’s just keep this debt around for 20 or 30 years.” Or, “I’m going to mess around with this and get to refinancing it five or 10 years down the line when I can actually afford the 10-year payments, and then I’m going to do it.”
Travis: So if somebody does come across your side and decides, “You know what, I just want to pay my entire income to my loans,” like that person’s probably going to be fine no matter what. But, in my view, and what we’ve seen happen more often than not is, people will throw extra money when they have it on their loans and it’ll stress them out like crazy because they’re paying, enough to maybe pay a little bit of the interest in principal, but not really enough to fully pay it down. So yes. It’s certainly a problem, but when it’s fully explained to someone, we find there’s a very high success rate of people putting that money into retirement and investing.

Travis: A lot of these folks, they’re just sort of paralyzed. If you were going to put off refinancing until you can afford the payments, you might end up with an even worse scenario than modeling it head to head right away. Because you’ll let the balance grow. What I would say is, a lot of people end up stretching out the repayment for fairly close to 20 years anyway. If you’re going to stretch it out over even 10 to 15 years, really the risk, I mean, is not that great. See what might happen with these forgiveness programs if the math makes sense.
WCI: Well, I agree with that. I mean, get a plan up front, because I agree. I run into a lot of people who dink around for five years and then they start trying to figure out what they’re going to do, and even if they have a 10-year plan at that point, they’re already at 15 there and could be getting paid forgiveness at 20. So that’s for sure good advice to do it right up front. All right, let’s talk a little bit about general advice for an attending who is not going to qualify

for public service loan forgiveness. Let’s just divide them into four categories based on the ratio of student loan burden to gross income. Let’s say 1X, 2X, so they are twice as much as their income, 3X, and 4X. What’s some general advice you’d give to somebody with a 1X ratio?

Travis: The only thing that I can say is, I guess one is, do you live in a community property state or not? That’s nine States around the country, because that does complicate the analysis. But assuming you don’t, assuming you live in like New York or, I don’t know, Iowa or someplace where physicians make good incomes and your debt to income is one-to-one, you have a couple of choices. You could stick to that Revised Pay As You Earn program if you’re right out of training and get an interest subsidy for an additional year until they ask you to re-certify after that point or, alternatively, and what’s probably a better call, is just to go ahead and refinance that loan. I’m very cautious about recommending five years off the bat. I think that that’s probably for most people a bad idea because that can put your required debt payment at such a high level that could pose problems with qualifying for a mortgage or a practice loan if you’re going to do any buy-ins or anything like that.
Travis: So, I generally recommend something called the refinancing ladder, which is starting off with a longer-term loan, like maybe 10 to 20 years. Just to have that required payment be low and then shovel tons and tons of money at that loan to knock it down by 100 or even $200,000. At that point, you could look into doing maybe a five-year variable rate or something like that with an ultra low interest cost, because, at that point, once you’ve knocked down the principal so much, that required payment is going to be significantly less than if you started off with a super aggressive term on the front end. I’ve definitely seen some cases of people with those one-to-one debt to income ratios hurt themselves with … Right out of the gate, they want to sprint as fast as possible when, even for reasonably-sized balances, paying back your loans is

a little bit more like a 5K race versus a 100-meter dash.

WCI: The nice thing about that though is, you get very focused. You know you've got this five or $6,000-a-month payment to make and, hopefully, you're throwing $10,000 a month at it. It's a little bit easier to keep up that pace for 18 months than it is for six or eight or 10 years.
Travis: That's true. I just want somebody to be aware that that might cost you qualifying for that house that you wanted.
WCI: Yeah. Well, maybe it's better they don't get the house-
Travis: That's a good point.
WCI: … when they can't have a debt and buy the big, fat doctor house. I'm a big fan of the five years, because, at the very worst, you're going to have a gone in five years. And there's something to be said for that, I think.
Travis: No, there is. And really what that represents is savings, right?

WCI: Right. For sure. It means you're going to have to live a lower lifestyle. Ain't no doubt about it, but I guess when I'm trying to give that message to people all the time, that this is the secret to success, is to have that lower lifestyle for two to five years, well, a really aggressive student loan plan usually fits in with that pretty good.
Travis: Yeah. For the two-to-one debt-to-income ratio, just to give an example. Again, you could maybe have access to different kinds of retirement plans that might enable you to put away the 19,000 that you can put into a 401(k) or maybe even a lot more than that. Maybe you have a profit-sharing plan or some sort of solo 401(k) or something where you could put away a lot more in deferral, a lot more income and take that off of your AGI. And so, if you run those numbers for someone with a two-to-one debt-to-income ratio with a typical medical school-sized balance, the savings is probably going to be at least $100,000. In terms of refinancing versus going for forgiveness. In other words, forgiveness, the 20-year forgiveness plan, would probably be around $100,000 cheaper if

you look at the present value, which is the cost in today's dollars.

WCI: At a 2X ratio, that's how it works out. So most of the 2X folks you run into, you're telling them to drag it out for 20 or 25 years.

Travis: Absolutely. Unless they have a strong, strong preference to pay it back very quickly, and they have a very clear rationale of how they're going to do that, then yeah. Because, the thing about a two-to-one debt-to-income ratio is you can make it higher than that by putting away a lot of this money into do pretax vehicles, so you can make that debt-to-income ratio instead of two-to-one, maybe you make it two-and-a-half-to-one or three-to-one. Because, you put away a bunch of money into pretax accounts, and then if you live in a community property state or maybe you file your taxes separately from your spouse, maybe you can get that debt-to-income ratio, maybe five-to-one, six-to-one when forgiveness just looks unbelievably good.

WCI: Because you're reducing your discretionary income.

Travis: Exactly, and you're reducing your taxable income, which reduces your student loan payment. Then, that increases the amount of your balance. One thing that's kind of weird for people to think about is, if you're going for a forgiveness-based plan, whether that's PSLF or the non tax-free version that's over a longer period, you want your balance to grow. That's a good thing, as crazy as that sounds, because that means that you're not taking money out of your pocket and putting it into your loans. You're paying the minimum asked of you, which is causing that balance to grow and be projected to be forgiven. So for someone who has the three-to-one or the four-to-one ratio, that takes what is a crushing burden that requires them to live a lifestyle that they may or may not be willing to live, and takes it into a world where they can treat it like 10% of their income.

Travis: And it's 10% of their taxable income, not 10% of their income. Then, also, you have that mutual fund contribution

that you want to make to prepare for those future tax liabilities if you're not PSLF. You can really view those contributions as also being a PSLF side fund for people that don't have that tax bomb to pay. Then what that's going to do is, if you have the tax bomb, the money's there, and if you don't have the tax bomb, you're significantly wealthier than you would've otherwise been. So that protects you no matter what if you have one of those ratios above two-to-one, and really we make the threshold 1.5-to-one as the debt-to-income ratio, where you are a little indifferent, like that 1.5-to-two debt-to-income ratio, that's where you have the conversation and you try to gauge what someone's attitude towards debt is and what their life goals are and try to figure out which one fits better with what they want to accomplish.
WCI: How about when you get out to these monster ratios, 3X, 4X? You've got these absolutely monstrous student loans compared to your gross income? Is there a certain point at which you go, you really need to consider going to work for the VA or for a nonprofit and going for public service loan forgiveness instead of one of these IDR forgiveness programs?

Travis: Well, the key thing to do is to compare the 20 or 25-year costs in today's dollars to the cost of doing PSLF in today's dollars. Let's say the cost is maybe 200 grand in today's dollars if you take advantage of all the forgiveness stuff, versus maybe 50 if you do PSLs. That's 150K difference and that 150K amount, you have to work for, let's say five years after training, because you obviously get the credit during training,
WCI: Assuming you're making payments.
Travis: Right. Five years to get 150,000 of after-tax incomes, that's 30,000 a year. Then, if you think about the pretax value of that, because student loans are not tax deductible, then that 30,000 per year in money is more like 50,000 let's say. So what you would say is, if you take your nonprofit or academic job and you add 50,000 to that, would that be a job

that you would abandon your private sector lifestyle to do? For a lot of, especially higher-earning specialties or even moderately-earning specialties, that’s a financial trade-off that’s just not worth it.
WCI: All right, let’s turn the page again and talk a little bit briefly about refinancing. Do you see any reason why a doc shouldn’t refinance their private loans just as soon as they get out of school?
Travis: Private loans, no. You should refinance those as often as possible.
WCI: As long as you can get a lower interest rate, you might as well refinance them. Especially with the companies that have programs for residents that limit your payments to just 100 bucks a month.
Travis: Right. The only exception and it’s a rare exception, is if you’re in some sort of weird default case where you haven’t made payments in a very long time, you might be past the statute of limitations.
WCI: A good point.

Travis: That’s the only exception to that. But yeah, private loans, actually we did a survey and found something like the typical interest rate improvement that someone would want to refinance a second or third time was like 2% lower. Which is really absurd if you think about it, because it’s such an easy process. I mean, there’s-
WCI: Because there’s no cost to doing it. It takes you a half an hour or an hour to do the paperwork and there’s no cost.
Travis: Well, there’s a reverse cost, because you actually get money to do it because of the bonuses. People can do that. Really, I tell people, “If you can get a 0.5% interest rate that’s lower by that amount or more, refinance as many times as you want. It’s not going to have any kind of bad impact on your credit.”
WCI: Yeah. Shoot, 0.1% reduction. In fact, probably doing it at an even rate, it probably makes sense if you’re getting the cash-back bonus, it just doesn’t take much. People wait way

too long to refinance when that’s the path they’re going down, and they don’t do it nearly as often or as early as they should.

Travis: I found that you got to give somebody a little bit of a sweetener to get them onto a website that asks them for a bunch of their information and sending in their income verification forms and stuff.

WCI: Yeah, for sure. Okay. Let’s talk about co-signing. Should spouses ever co-sign in order to reduce the interest rate? Say you’re a resident married to an attending and the attending is willing to co-sign for your loans. Is that a good idea or a bad idea?

Travis: Well, I mean, if you’re married without a prenup, you’re already invested in each other financially way more than whatever your student loan balance is. You’re already on the hook for a lot, so of based off of that theory, why not be invested a little more? I’m joking around a little bit, but what I tell people is, “If you’re a resident, you should be able to find a refi deal that’s probably 0.5% to 1% higher in your own name from these companies that will refinance residents and fellows. And, if the person doesn’t mind, if you have joint accounts, if you have the mindset that everything is shared and the spouse that has the higher income is willing to take that risk of having to owe that debt in the event of the marriage not working out, then go for it. Because in most States, this debt that’s in your name, is not necessarily divisible in a divorce, whereas the assets are always divisible. So you’re kind of taking on something that you would not be obligated to pay back without being co-signed in the event that the marriage doesn’t work out.”

WCI: Yes. I suppose there’s also the death and disability consequences as well that you’re now taking on, but at least you can buy a little bit extra the term life and disability insurance to cover that risk.

Travis: Yeah. I mean, it’s something that probably my wife and I would do, we would probably co-sign for each other. I think that it’s a personal decision and it’s just something that you want to make sure that you really talk through and think through before you do it.

WCI: Now, at studentloanplanner.com, you’re in the business of giving student loan advice. You’re basically student loan specialists, experts in student loans, but what are the categories of people who don’t need your advice, who don’t need to come see you and get advice about their student loans, because their situation is so clear-cut?

Travis: I would say somebody who is maybe two years away from PSLF and already has their plan capped out at the standard 10-year plan and they’ve already run the numbers to check if Revised Pay As You Earn is better than pay your IBR with the capped payment, that’s an example of somebody that probably doesn’t need our advice. Somebody who is a clear-cut refinancing case that might owe half of their income in a private sector job. I mean, it’s pretty straight forward, you need to refinance your loans and try to pay them off as fast as possible. I will say though that there are so many loopholes and so many things that a lot of times people are just not aware of. Some of these examples, like the married filing separately rules, the community property division of income.

Travis: Also, things like filing separately with Pay As You Earn and then having one spouse do repay to take advantage of proportional payments that are applied, can actually turn somebody with a low debt amount relative to their income to somebody that could actually get PSLF. So there’s just so many things to think about with how complex the loan rules are. I would say that there’s probably a 10% chance that someone would use our services, that’s unsure about it, that we wouldn’t really find anything. But approximately 90% of the time we do find something significant, and significant is usually a five-figure amount, on average, in projected savings. I mean, from a probability standpoint, there’s a very high likelihood that the concept will pay for itself in multiples.

WCI: What about a single resident or a resident who's married to a stay-at-home parent? Can we just tell them refinance your private loans and enroll in repay as a resident, and then determine at the end of your residency whether you're going for forgiveness program or not? Can we just tell them that they don't need advice, they can just enroll in repay and then refinance their private loans?
Travis: In a lot of cases, yes, but there's a lot of cases where you want it. I mean, cases where you're worried about that payment getting capped out at the standard 10-year plan, cases where the person has loans through the Department of Health, which is actually a common problem. Health profession student loans or Perkins loans are eligible for PSLF if they're consolidated manually through the studentloans.gov site. If the person is married to somebody or is thinking about, maybe they're engaged or they're dating somebody and they're trying to figure out what will happen to their student loan payment if they did get married, they would actually lose one month of payment credit while they're processing that switch. So if you have a $300-a-month payment on repay and you have to transition to pay because you need to file your taxes separately because you're going to get married, well, then that costs you one month of credit at the training level of the $300-a-month rate and then adds one month of payment on the attending level income rate.

Travis: In other words, by starting off on repay and then switching to pay because you didn't know that you needed to file separately or something, then that would have maybe cost you the difference between those two payment amounts. Maybe 3,000 minus 300, $2,700 cost. So I think that, yes, absolutely, people don't need us to get PSLF. That's not what I'm saying. Or refinancing, you don't need us to refinance. I think that the same thing is true for filing your taxes. You don't need a CPA to file your taxes. Where it's helpful is

when you have a complex setup and a lot of people don't know that they have a complex setup. That's why I think anybody with over $100,000 in debt that's even remotely thinking about some kind of forgiveness program, is very likely to save a lot of money, I think.
WCI: I have long asserted that people who are smart enough and hardworking enough to get into dental and medical school should be able to get out of their undergraduate education without debt. Do you agree or disagree with that, and why?
Travis: I agree that it's always possible. The question is, do you want to make the sacrifice? For example, you can join ROTC. You can get a part-time job, go to community college, then go to your state university that charges the lowest cost. But perhaps your time is better spent doing research assistant work and trying to prep for grad school rather than working at an office supply company part-time making 10, $15 an hour. I think it's possible, the real question is, what do you want to do? Because I would argue that if you want to be an engineer, shelling out to go to MIT is probably a good trade off, shelling out to go to a top 100-ranked private school is probably not a good decision to take debt out. So I look at it more in terms of value than just debt, but I agree with you. It's definitely possible to get a degree without debt, I just think that you need to be focused more on value rather than cost.

WCI: Let's talk for a minute about a common question I'd get for people who are refinancing. They want to know whether they should take a variable-rate or a fixed-rate loan. Do you have general advice on that, or how do you walk them through that decision?
Travis: Yeah. The variable-rate loan needs to be able to be paid back in less than two years if your life depended on it. The reason for that is, I know that people would freak out if their variable rate went above their fixed rate at all. In fact, that's not that big of a deal if it when above that, because, as long as the payments that you made while the

interest rate was lower than what the fixed rate would have been, that math can work out basically. Even if you're paying a little bit higher interest rate on the tail end than you would have with the fixed, it works out because you owe most of the debt at the beginning, not at the end.

Travis: That's why I tell people you want to get 1% lower interest rate with a variable compared to a fixed to take it, and you need to be able to pay the loan off in two years if you absolutely had to, because, say there's some kind of horrific thing that happens in the economy, all the variable rates are based off of short-term interest rates or [inaudible 00:51:37]. And so, theoretically, in a recession you could have short-term interest rates spike and you could have a yield curve inversion and so your variable rates could get really, really high in an economic crisis. That's very unlikely, it's just something that you want to be able to handle it and not sign up for like a 20-year variable rate with the expectation it's going to take you the full 20 years to pay it off. Because then I think you could very well lose money on that deal.

WCI: Yeah. I found a lot of people are really scared of variable rates, but I think it's helpful to sit down and actually run the numbers of, what has to happen for you to come out behind? Almost always, it means rates have to rise dramatically and early in the payback term for you to come out behind. I think, I don't know that you have to be able to wipe it out in two years, but you certainly need to be able to handle a maximum possible payment you could get if the interest rates just went through the roof. If you're really living like a resident and trying to knock these things out in two or three or four years, I think most of the time that payment is probably less than the amount of money you're paying anyway toward them. But I think just running the numbers eliminates a lot of that fear that people have of variable interest rates.

Travis: Absolutely. Math is the best disinfectant, as some economists like to say.

WCI: All right. Another common question I get, and there's probably no right answer to this, "Should I pay off my loans or invest?" What do you think they should use to decide what they do personally?
Travis: What we've found is behavioral things matter more than anything else. The first thing you need to do is get 10% of your income going into retirement unless that maxes it. So 10% of your income going into retirement accounts and then $100 a month going into a non retirement account, in ETFs or mutual funds. The reason for that is, our data suggests that people do not open non retirement accounts as physicians for a very long time. Most people are just not aware of it or they don't understand it or they just don't ever get it set up where it's a recurring monthly transfer, and that is something that's going to inhibit someone's wealth growth big time. Because, as you know, Jim, you can only put so much in retirement accounts. So that's really important. Once that's done, what I would say is, and actually is the wrong question because, again, savings rate is far more important than answering this question the right way.
WCI: Right. It doesn't matter where it's going, it's all about how much is going.

Travis: It doesn't matter. I mean, it does matter in the sense of, if you put your money into loans instead of investments in side accounts when you could've gotten PSLF, you could drive into the office for an entire year or maybe even two because you made the wrong plan with your student loans. That's a big impact, but compared to having that higher savings rate and having it go into either place, that's going to have the effect of you driving into the office for 10 fewer years. I just want people to get the best of both worlds and have the right loan plan and save a lot of money, but I just want that to be said just that a lot of times when people are stressing out about that, they're stressing out about the wrong thing.

WCI: Yeah, I agree with that. We’re running out of time here, but I wanted to get to one or two more questions for you here. And we’re really heading off into the weeds now, which I think is fun, a lot of people enjoy that. But let’s talk about some student loan strategies that most physicians do not know.
Travis: Sure. I mentioned the married filing separately in a community property state. That’s very common, and people really do not know about that very well. There’s an IRS form, starts with 89 something I think, but that’s how you allocate the income. And a lot of CPAs don’t even really know a ton about this, because they don’t do it that much, because the main reason to file separately for CPA world is to limit your liability, not to save money on taxes. It has this huge application in the student loan world and people, like I said, are not even aware of this. So a lot of physicians out there with stay-at-home spouses or simply physicians who are the breadwinners, which are most people living in States like Arizona, Texas, California, Nevada, Louisiana, could save a whole lot of money by lowering their payment with that kind of equal distribution of income where you’re paying 10% on of your household income instead of all of it.

Travis: Then, another example would be if you file taxes separately, let’s say two physicians are making the same income, that one has way more debt than the other one does. So the other one has a small debt and the other one has a big debt, then you could file separately for taxes and do Pay As You Earn and basically get two deductions for your family size because you’d get your deduction for your Pay As You Earn and you could get a much lower payment there. Then, on top of that, people don’t really understand this a lot of times, but repay as a proportional payment based off of the size of your loans. What they do is, they calculate what that payment should be based on your marital income and they distribute the percentage of that payment to each person’s loans based off of what your debt-to-income ratio is.
Travis: I hope I’m not losing anybody but, for example, say

you only had 10% of the federal debt. They might calculate your repay payment at $2,000 a month, and then only 10% of that 2,000 a month would go onto the person with a small loan amounts. That’s $200 a month, then the person with the high debt, instead of having that other $1,800 go into that person’s loan, if they’re filed separately with doing Pay As You Earn they might be able to pay 500 or $1,000 a month instead, and the net savings on that could easily be the equivalent of a really nice used car every year. That’s just one example. Then, just the standard 10-year plan too, a lot of people don’t know this, the standard 10-year plan exists for all loans until you consolidate them and then it doesn’t.

Travis: One thing that we’ve seen happen to people is, they’ll get the scary letter in the mail that says they no longer qualify to pay based on their income. When you’re an attending, that’s a pretty common thing, then they listen to that $15-an-hour phone rep and they change the Revised Pay As You Earn program. Well, the problem is, is that payment could have just gotten capped if they had done nothing. If they had done nothing, that payment would have stayed at the capped amount, but when they switched to repay, they no longer have a partial financial hardship and they’re not allowed to switch back. We’ve seen that cost people five-figure sums annually because they took the advice of their loan service or when they lost the 10-year standard plan from consolidating their loans. Those are a couple examples, there’s plenty more than that, but that’s just a sampling of how ridiculously complicated this stuff can get.
WCI: Okay. Last question. Some people have suggested actually refiling, amending their old tax returns, in order to get a benefit with paying off their student loans. Can you explain how that works and whether it’s legal or not?
Travis: Our position is that it is. Basically, what you can do is, as long as your current returns is married filing separate, that’s what the requirement is. So that your most recent tax return and the one you most recently used must

always be married filing separate if you're benefiting from excluding your spouse's income from your payment on either the Pay As You Earn program or the income-based repayment program. Because the Revised Pay As You Earn does not allow that. You always have to include your spouse's income regardless of your tax filing status.

Travis: And so, what you can do there is, sometimes, filing separately creates thousands of dollars in additional taxes because the government encourages people to file joint. So what you can do is you can go back and amend tax returns from separate to joint up to three years in the past. The way you would do this is file separate and keep your returns separate until you are no longer using that old return from, say 2017, for your income-based certification. Then once you have a new return to have that most recent return be separate, then you can go back and amend 2017 from separate to joint and, potentially, get a refund of those thousands of dollars of extra tax penalties. One thing that the loan servicers in some cases, especially fed loan, are telling people to do is check a box that says, "I can't reasonably access my spouse's income."

Travis: Our view on that is, that's fraudulent. Because, if you filed the married filing joint tax return especially, their income is right on the return you signed that it was all truthful. So that's demonstratively not true. So there's legal ways to exclude your spouse's income from your loan repayment calculation that don't involve committing fraud like some of the loan servicers are recommending. And this amending tax return strategy is something that we think it's legitimate, but admittedly it is a gray area. Whenever something is a gray area, we tell people what we think and why, and then we will let them make that decision, because some people are comfortable deducting their car lease for their practice and some people aren't, and there's different views on things like that.

WCI: Yeah. A lot of people don't realize though that the IRS and the Department of Education are totally separate entities, and don't necessarily talk to each other.

Travis: Absolutely, and that creates all kinds of problems. There are proposals to do a lot of new things with student loans. Like, a lot of the Kaiser physicians are not eligible for PSLF. Well, there's a bill on the table that would change that. There was a proposal by the leading Senate Republican recently that would make your student loans deductible from your pay stub directly. So imagine the opportunities for someone in private practice with an S corporation paying themselves $120,000 a year, making 400,000 a year. That person could pay an absolute fraction of their student loan compared to what they do under the current regime. So there's all these changes that could come down the pipeline and, regardless of what happens, there's probably going to be a way to optimize this stuff and save money. And regardless of what happens, if you want to get out of debt and have a high-savings rate, then do that, it's going to help you. So there's really something for everybody, I think, no matter what happens, and people really shouldn't stress as much as they do about it if you know the rules.

WCI: That's very helpful. Thank you so much, Travis, for being on the White Coat Investor Podcast today. If you are interested in some of these strategies Travis has talked about, or just realize that you need some advice about your student loan situation, you can get in touch with him at whitecoatinvestor.com/studentloanplanner or, alternatively, studentloanplanner/wci. Either way, we'll get you to Travis and you'll be able to get connected and get that advice that you need. Travis, thanks so much for coming on the White Coat Investor Podcast.

Travis: Sure, and last quick point, they have to use that link. Otherwise, you don't get the year of followup questions if you decide to hire us. You get a year if you go through your link, Jim, and you only get six months if you go through

our sites. So, hopefully, listeners who are interested will remember to go back to that link and book directly through that.
WCI: Thank you so much. We'll make sure that links in the podcast show notes as well, but again, that's whitecoatinvestor/studentloanplanner. All right. Thank you very much.
Travis: Great to be on.

WCI: Okay. A few comments about that interview. "Travis is, obviously, more willing than I am to drag student loans out for 20 to 25 years. I will readily concede that the math often works out in that situation, especially when you have 2X-plus debt-to-income ratios." Well, boy, I would just hate to be in debt for that long. I would hate to be carrying around these student loans for 20 or 25 years and then at the end of it have to write a big check. So I would really give serious consideration before you commit to that long, long pathway as to whether you have both the behavioral fortitude to stick with the plan for that long. As well as whether you have any concerns whatsoever that your career is going to last that long and you're going to be able to work long enough to manage that plan rather than pounding your student loans out early.
WCI: But if you need advice, I think Travis gives great advice. He will certainly help you run the numbers and let you make the decisions yourself. Again, that a URL to get his advice is whitecoatinvestor.com/studentloanplanner. This episode was sponsored by Bob Bhayani and drdisabilityquotes.com. They're a truly independent provider of disability insurance planning solutions to the medical community nationwide. He specializes in working with residents and fellows earlier in their careers to set up sound financial and insurance strategies. Contact Bob today by email at info@drdisabilityquotes.com or by calling (973) 771-9100.

WCI: Be sure also to check out our resources under the recommended tab, whitecoatinvestor.com, particularly for those best deals on student loan refinancing, but also if you need help with getting advice about how best to manage your student loans. You can find both of those tabs underneath the recommended list on the whitecoatinvestor.com. Thanks to those of you who have left us a five-star review and for telling your friends about the podcast. You'd be surprised how many docs will never read a blog post, but will listen to a podcast. So maybe this is the way to reach those colleagues of yours that you know could use the WCI message. Head up, shoulders back. You've got this and we can help. We'll see you next time on the White Coat Investor Podcast.

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