Moonlighting vs IBR, PAYE, and PSLF: A Student Loan Showdown

[Editor’s Note: This is a guest blog post written by Ramsey Tate, MD. She is currently a fellow and shares tools on personal finance and productivity for women in medicine at Call Me Dr. We have no financial relationship.]

Residency and fellowship are a long slog through penury. The light at the end of the tunnel seems awfully far away when you look at the mismatch between your student loan debt and your resident paycheck. How’s a PGY-umpteen to help make ends meet? Moonlighting, of course! I know my eyes lit up like the Grinch stealing Christmas when I found out that a local urgent care would pay me $100 per hour to moonlight. One of my co-residents actually calculated that we got paid about $5/hour during residency. $100/hour sounded like dirty, sinful amounts of cash.

Generations of cash-strapped housestaff and junior faculty have traded their precious free time for the opportunity to supplement their income through moonlighting. And moonlighting serves more purposes than just padding housestaff wallets. Moonlighters help fill staffing gaps at rural and community hospitals and clinics, ensuring that patients have access to care in areas where recruiting physicians is difficult. Moonlighting also builds housestaff autonomy and experience with many residents moonlighting within their own institutions. But, mostly, we do it for the dollars.

**IBR, PAYE, PSLF and Moonlighting?**

First, let’s break down those acronyms:

- **IBR** is Income-based repayment, is a loan repayment
program that calculates your monthly federal student loan payments based on your discretionary monthly income. What you think is your discretionary income and what federal loan servicers think is your discretionary income may be a little different. For income-based repayment plan purposes, your discretionary income is the difference between your adjusted gross income (AGI) and 150% of the federal poverty line based on your state and number of dependents.

- **PAYE** is Pay As You Earn, a newer, similar alternative to IBR for recent graduates that features lower income-based payments (10% of that discretionary income, instead of the 15% under IBR)

- **PSLF** is Public Service Loan Forgiveness, a mythical fairy that will forgive outstanding federal student loans beginning in 2017 for borrowers who have made 120 qualifying payments while employed full-time for a non-profit. Lots of details here. 120 payments total, but they don’t have to be 120 sequential payments. Qualifying payments are payments made through PAYE, IBR, ICR (income-contingent repayment), or standard repayment plans only. Full-time is an average of 30 hours per week. Not a problem for housestaff! The definition of a non-profit is more complicated but includes most tax-exempt hospitals and universities.

For some of us, PSLF and IBR/PAYE change the potential payoff of moonlighting. Moonlighting generates extra income for housestaff, but many loan repayment programs that qualify for Public Service Loan Forgiveness calculate monthly payments based on income. More income = higher monthly payments, shifting part of our moonlighting earnings to loan repayment. Our goal should be to pay the least amount possible towards our loans each month to maximize the amount forgiven if we qualify for PSLF. All of a sudden, the math in favor of moonlighting gets complicated.
What's the PSLF payoff?

Let’s walk through an example to illustrate. Take for example a shiny new resident graduating from Fancy Pants University with $200,000 in federal student loan debt. (Lest you think this deep dark fiction, these numbers are in the ballpark of my own.) Her average interest rate is 6%. She does a 3-year residency program and then goes on to complete a 3-year fellowship, all at a public university. Starting 6 months into residency (when the grace period on her loans expires), our resident starts monthly payments through PAYE. Her housestaff stipend is $50,000 for PGY-1 and goes up $1,000/year every year. As long as she stays in PAYE, her unpaid interest will continue to accrue but won’t be added to her loan principal. She’s a single gal and her monthly PAYE payment will start at $271 per month. That monthly payment doesn’t cover the interest that’s accruing so by the end of PGY-1 she’ll still owe the $2000,000 principal and will have accrued $4,374 of interest for the year. Her income goes up a little each year as does her IBR payment but the payment never covers the accrued interest.

At the end of fellowship and 5 ½ years of payments, she’ll have paid her loan servicer $19,362. What does she have to show for it? A loan balance of $246,638 ($200,000 principal + $46,638 in accrued interest). She’ll also have 66 payments towards Public Service Loan Forgiveness.

Our accomplished young doctor gets a faculty position at Big Shot University and her AGI goes up to $200,000, with an annual increase of $15,000 per year. Now that she’s making the big bucks, she doesn’t qualify for income-based repayment plans anymore and changes her payment plan to the 10-year standard repayment plan (the plan with the lowest monthly payments that still qualifies for PSLF). The interest gets added to her principal now as she goes along. 54 payments to go to PSLF! Is it worth it? 4 ½ years later, our faculty star
has completed 120 qualifying payments. She’s paid another $129,816 to her loan servicer, bringing the total paid towards her loans to $149,178. Her outstanding loan balance is $175,283, forgiven tax-free through the magical PSLF fairy. [AKA Joe Taxpayer-ed] Of course, PSLF won’t kick in for the first borrowers until 2017. This is how it’s anticipated to play out but nothing’s guaranteed until someone sees the money.

How much do you really make moonlighting?

Now let’s look at the impact of moonlighting. Our resident starts moonlighting her 3rd year of residency and continues through fellowship. She’s pretty busy, so she only moonlights two shifts at eight hours each per month but that’s an extra $1,600 per month or $19,200 per year. Not too shabby! Of course, since her income is higher her PAYE payments go up as well. At the end of fellowship, she’s earned $76,800 in extra gross income from moonlighting and she’s paid $27,042 towards her loans. If we look at the impact on her moonlighting income, that’s $7,680 of moonlighting income that went straight to her loans. At the end of 120 payments, she’s paid a total of $152,820 towards her loans. Her outstanding loan balance at the time of forgiveness is $169,820, or $5,463 less than without moonlighting. Moonlighting brought in $76,800 of additional gross income. After taxes, that’s an additional $57,600 in net income. $7,680 went straight to higher PAYE payments and $5,463 went to the reduced loan forgiveness balance. That leaves $44,457 in net income. That $44,457 cost our favorite doctor 768 hours of her personal time.

That’s moonlighting income of $58/hour.

Of course, this super-simplified example hasn’t accounted for things like Social Security deductions, local taxes, commuting time and expense, and required professional fees that also lower that hourly figure. [It also doesn’t account for the time value of money saved due to lower payments-ed.] Hmm,
that’s still pretty good money but not as awesome as she thought when she first started moonlighting.

As for me, I picked up moonlighting shifts for about a year during fellowship before realizing that I value my time more than what I was earning by moonlighting. Instead of moonlighting, I use that time working on research projects and career development, investments in my career that will yield more in future earnings. The math is different for everyone and you might make out gangbusters by moonlighting with different circumstances.

*Has IBR, PAYE, and/or PSLF affected your decision to moonlight?*

Bottom line: Know what you’re earning! The decision to moonlight has very different implications in a world with high student loan balances and the promise of Public Service Loan Forgiveness.

<table>
<thead>
<tr>
<th>Moonlighting by the Numbers</th>
<th>Without moonlighting</th>
<th>Moonlighting</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student loan capital</strong></td>
<td>$200,000</td>
<td>$200,000</td>
<td></td>
</tr>
<tr>
<td><strong>Net income during training</strong></td>
<td>$276,336</td>
<td>$333,936</td>
<td>$57,600</td>
</tr>
<tr>
<td><strong>Repaid during training</strong></td>
<td>$19,362</td>
<td>$27,042</td>
<td>$7,680</td>
</tr>
<tr>
<td><strong>Total net income during repayment</strong></td>
<td>$1,143,493</td>
<td>$1,201,093</td>
<td>$57,600</td>
</tr>
<tr>
<td><strong>Total repaid during repayment</strong></td>
<td>$149,178</td>
<td>$152,820</td>
<td>$3,642</td>
</tr>
<tr>
<td><strong>PSLF payoff</strong></td>
<td>$175,283</td>
<td>$169,820</td>
<td>$5,463</td>
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If you’re interested, I’d be happy to share a worksheet with you to help you calculate the impact of moonlighting on your
personal circumstances. You can find the worksheet on my website.

What do you think? Will you or did you moonlight less due to the effect it would have on your payments or forgiveness amounts? Why or why not? Comment below!