

# PSLF Side Fund

Q.

I'm a new attending with a wife who is a fellow. We both have a lot of debt and both have put about 4 years toward PSLF. I'm set up for PSLF but my wife may do private practice. I want to create a fund where we save what we would have otherwise spent to pay loans off early. Is the best place just a taxable account or is there some better place to put it and I'm just not thinking through all the implications?



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A.

The [Public Service Loan Forgiveness](#) program provides tax-free forgiveness for federal direct loans once 120 monthly payments have been made toward it while employed full-time by a government employer or a non-profit (501(c)3). These payments can be made through any of the Income Based Repayment (IBR), Pay As You Earn (PAYE), Revised Pay As You Earn (RePAYE), or the standard 10 year repayment programs. Since most residencies and fellowships are non-profits, and since most residents and fellows enrolled in the various Income-Driven

Repayment (IDR) programs qualify for payments that are a fraction of what they would owe in the 10 year standard repayment program, a doctor who made many relatively small payments during training stands to have a great deal of their student loan burden forgiven upon completing 120 payments. For someone who was enrolled in an IDR program during most or all of their training and is subsequently working for the military, VA, or a non-profit, [going for PSLF](#) is a no-brainer.

However, many PSLF enrollees fear the legislative risk inherent in any program that exists at the whims of Congress. Despite the fact that people are now starting to obtain PSLF, they fear the program will be changed and that they will not be grandfathered into the terms of the old program. This lack of faith in Congress leads some doctors to a drastic and potentially foolhardy course – they simply ignore the program despite the fact that it could be worth tens or even hundreds of thousands of dollars to them.

While this does allow them to refinance the loans to a slightly lower rate (potentially saving a few thousand in interest) and with proper financial management and discipline may even allow them to be debt-free sooner, it is probably a mistake when looking at their overall lifetime financial picture. The solution to a lack of faith in PSLF is not to leave the program, it is simply to hedge your bet by using a “PSLF side fund.”



## Update Prior to Publication

I did [a podcast](#) a week or so ago and talked about PSLF for a few minutes in it. I had a bunch of people email me to tell me they're REALLY worried PSLF isn't going to work out because

the bureaucrats managing the program can't seem to keep track of what loans they have and how many valid payments they've made. They even suggest that the reason that [98% of those who have applied for PSLF so far didn't get it](#) was NOT because they didn't understand the rules or because they couldn't fill the paperwork out right, but because the bureaucrats couldn't keep track of their payments. They may be entirely correct, although I wouldn't bet on it because I think the PSLF bureaucrats will get this paperwork thing figured out before the lawsuits start coming, or at least after the first few. But again, the solution is NOT to refinance and start paying off your loans. The solution is a "PSLF side fund" (and keeping a copy of every promissory note you've ever had, every communication you ever have with the bureaucrats, every annual certification form you've had signed, and every payment you've ever made.) But hey, if you want to pay off your loan because you're 99% sure you'll never receive PSLF, it's a free country.

## PSLF Side Fund

The idea behind a PSLF Side Fund is that if, for some crazy reason, Congress changes the law AND doesn't grandfather you in (or the bureaucrats can't find record of all those payments you made), you now have a pot of money you can instantly use to pay off your student loans. If PSLF does materialize, then you can use that money for a house down payment, ~~some really awesome vacations, a new Tesla,~~ or add it to your retirement stash.

My goal in suggesting docs use this side fund is two-fold. First, it keeps them in a program that I believe is highly likely to give them a ton of money, eventually. Second, it keeps them from using "I'm going for PSLF" as an excuse to not [live like a resident](#) for the first 2-5 years out of residency.

Once you understand this concept, it usually seems like a no-

brainer. “Of course that’s what I should do,” the newly enlightened doc realizes. The next question, of course, is the one asked at the beginning of this post – what kind of account and investment should this money go into?

## Where To Invest Your PSLF Side Fund

Ideally, a new residency graduate is living like a resident. This should provide enough money to max out all available retirement accounts (403b, 457b, a [personal and spousal Backdoor Roth IRA](#), your spouse’s available accounts, and maybe even an HSA), start working toward a down payment on the dream home, AND still put enough money into the PSLF side fund that it would equal the remaining student loan burden in less than 5 years. In that case, the “where” question is easily answered – in a [taxable account](#).



However, the new graduate who has foolishly decided not to live like a resident may find that she is forced into the unsavory choice of EITHER maxing out retirement accounts OR saving up the PSLF side fund in a taxable account. In that situation, I would generally lean toward maxing out the retirement accounts for the tax benefits both short and long-term and additional asset protection. If PSLF materializes, the money is already in that tax-protected space you can never get back if you don’t use.

If it does not materialize, of course, she'll be faced with the choice of whether or not to actually take money out of the retirement accounts, pay any taxes and penalties due, and pay off the loans. But at least she'll back to a net worth of "broke" whichever choice she makes. (Honestly, I'd probably leave it in the retirement accounts and continue the student loan payments, but then again I wouldn't be in that position because I lived like a resident.)

Of course, if she really thinks that PSLF is going away for her and she would actually withdraw from the accounts if it did, then she may pass on those retirement account benefits and just invest the money in taxable to decrease the withdrawal penalties.

## **How To Invest Your PSLF Side Fund**

Once you've decided WHERE (i.e. which account) to invest your PSLF side fund, you now need to decide HOW (i.e. which investment) to put the money into. While it is generally a bad idea to invest money you may need in the next 5 years into risky investments like stocks and real estate, one must also consider the likelihood of actually needing that money in the next 5 years. If you judge that chance as highly unlikely, it's fine to invest the money as you would the rest of your retirement funds – i.e. for the long run in an aggressive mix of stocks, bonds, and real estate, although I would stay away from illiquid investments like a syndicated property.

If you think there's a pretty decent chance you're going to get hosed, then stick with safer investments such as a high-yield savings account, a bond fund, or a balanced fund. The less faith you have in PSLF, the more conservative your investment should be.

The image is a vertical advertisement for SoFi. At the top left is the SoFi logo, which consists of a blue square containing a grid of white dots, followed by the text "SoFi" in a sans-serif font. Below the logo, the main headline reads "Start saving on your medical school debt." in a bold, black, sans-serif font. Underneath the headline, a smaller line of text states "Graduates who refinance can save thousands." At the bottom left of the advertisement is a dark blue rounded rectangular button with the word "GO" in white, uppercase letters. The background of the advertisement features a smiling woman with long dark hair, wearing a black top and a necklace, standing in front of a blurred outdoor setting.

Personally, if it were me, I'd be maxing out all of my retirement accounts and saving up my PSLF side fund in stock index funds in a taxable account. But I've got a lot of faith that PSLF will still exist in some form 5-7 years from now and that even if it doesn't, those already enrolled in the program will be grandfathered into its current terms.

*What do you think? Where and how do you think a PSLF side fund should be invested and why? Comment below!*