Public Service Loan Forgiveness

[Editor’s Note 11/27/2018: Student loan management can be tricky, particularly during residency. Since this post was written back in 2011, I’ve compiled in one place all the information you need to manage student loans from undergraduate until payoff in our “Ultimate Guide to Student Loan Debt Management for Doctors”. We’re talking private & federal loans, IDR and forgiveness programs (PSLF, REPAYE, PAYE, IBR, ICR), refinancing, and how to pay off quickly.]

The last post in this series discussed the Income Based Repayment (IBR) program which allows loans to be forgiven after 25 years of qualifying payments. The main benefit of the Public Service Loan Forgiveness (PSLF) program is that it allows qualifying student loans (essentially all your student loans) to be forgiven after just ten years of qualifying payments, even if those payments have been dramatically reduced by the IBR program IF you work for a qualifying organization, which many physicians do. In fact, it’s probably even possible, if you have enough dependents and a low-paying job, to have the program pay more money than you borrowed.
Examples of Jobs Qualifying for PSLF

- Military or Public Health Corps positions (of course these folks, like me, are unlikely to have significant student loan burden.)
- VA Employees
- Employee of a non-profit public health organization
- Employee of a non-profit, tax-exempt 501c organization (many hospitals)

This means you can’t go into private practice, be self-employed, or work for a for-profit hospital or group. But there are still a lot of good physician jobs out there that would qualify. Here are a few additional rules:

1. You must work at least 30 hours a week
2. You must work for an eligible organization for 10 years (but bear in mind that residency AND fellowship count), so this could be as little as 3-4 years).
3. Only payments made after October 1, 2007 count.
4. If you pay off the loans, there will be nothing left to forgive. Keep in mind the typical Stafford loan repayment period is 10 years. So it is possible you’ll have paid all or nearly all of the loans off by the time this program could help you.

You can read the official rules for the IBR and PSLF programs here.

So what are ways in which you could use these programs? Keep in mind that the more dependents you have, and the less income your family makes the more likely they are to help you.
Hypothetical PSLF Situations

1. Many medical students with a high loan burden will use these programs (especially IBR) to reduce payments during residency. You may be able to reduce your payments by hundreds or even thousands a month. But even these reduced payments count toward the 25-year mark for IBR forgiveness and the 10-year mark for PSLF forgiveness.

2. If you will be training for a long time, such as a surgery residency with or without fellowship, or just about any specialty with an additional fellowship, you ought to give serious consideration toward trying to reduce your payments as much as possible using IBR, and then working for a PSLF-qualifying employer. 3-5 years of slightly reduced pay is well-worth having a couple hundred thousand dollars worth of loans forgiven. Many non-profit positions pay just as well as private practice for many specialties.

3. If you will be in a relatively low paying specialty, such as primary care or a pediatric subspecialty and have a high loan burden, there’s a good chance you’ll be able to get significant loans forgiven and you would do well to work for a PSLF-qualifying employer.

4. When choosing residencies, fellowships, and your first job, an important consideration is whether your employer
qualifies under the PSLF program. This may be the most important benefit on the table and be worth taking a much lower salary to get.

5. Remember the principle of easy come, easy go. The government can change this program at any time. What a shame it would be if you intentionally paid as little as possible in hopes of getting the loans forgiven, then the government changed the program or you lost your job or became disabled. Remember that you don’t just have to make the payments for ten years, you have to make the payments AND be employed by a qualifying employer for the full ten years.

Best PSLF Scenario

Here’s the best possible case I could come up with where these programs would be most beneficial. Imagine a medical student who attended not only an expensive medical school, but also an expensive undergraduate institution. Let’s imagine he has somehow racked up a cool half million in loans. He also is married to a stay-at-home mom and they have 4 kids. He has decided to become a pediatric nephrologist. So he comes out of medical school and on a ten-year program and would have to make payments of say $3800 a month without these programs (although he could probably get some kind of hardship deferral.) Instead, he pays $0 during residency. Meanwhile,
his debt burden is increasing at over $40,000 a year. So after residency, his student loans are now $625,000. He enters his fellowship. Let’s say he’s now making $70K a year. He now makes payments of $310 a month, or a total of about $11K. Meanwhile, the debt load continues to increase. He now owes something like $750K. He gets out of fellowship, and gets a job at a PSLF-qualifying employer which pays him $180,000 a year. His payments are now $1690 (still reduced thanks to IBR). He makes those payments for four years, paying a total of about $61,000. Even then, he only pays off about $10,000 in principle. So he owes about $740,000, all of which will now be forgiven. Pretty sweet windfall. Fair? Probably not, but when have benefits from the government ever been fair. No wonder the rates on student loans have gotten so high.

[Update: I had a reader write in about a related subject, and I suggested he look into this. He found a couple of small issues that were relatively new to me. First, he notes that only “direct loans” count, and that payments made before consolidating into direct loans don’t count (nor do payments made before 2007 in direct loans.) So no one will be able to get their loans forgiven for at least another 5-6 years. Second, consolidating into direct loans can raise your interest rate slightly, as they round the rate UP to the nearest 1/8 %. He found a great list of question and answers on the subject you should check out as well.]