Should Physicians REPAYE?

[Editor's Note: This is a guest post from blog advertiser and student loan expert Jan Miller, President of [Student Loan Consultant.](#) He offers [fee-only](#) advice about your student loans. I was happy to see this post as it was a subject I have been wanting to post about for quite a while and he did such a nice job, it'll save me a lot of work. It did, however, motivate me to get around to writing about something I've been meaning to write about the last few months. My post on a related subject will run later this week.]

The newest income driven plan, REPAYE, is here and it's officially ready to join the ranks of the Pay As You Earn (PAYE), Income Based (IBR) and Income Contingent (ICR) repayment assistance programs.

Back in June of last year, Obama put through an executive order that would allow all those who qualified for the 15% IBR program to qualify for the lower 10% payment, starting as early as December 15th, 2015. So this change has been on its way for some time now, but the benefits, consequences and caveats were still lingering in the air, remaining a bit of a mystery.

Prior to this date, all borrowers who took out loans before

October 1st, 2007, or had not taken out new debt after October 1st, 2011, did not qualify for the PAYE program (and its payment, which is based off of 10% of your discretionary income). This applies to most physicians in residency and beyond, since they have been in school longer than the program has existed, and before the important 2007 date.

Jan Miller, Student Loan Expert

Ideally, they would have simplified this whole issue and just extended the PAYE program to all borrowers who meet the income requirements. But they decided to add on this new program, which is a *hybrid* of IBR and PAYE – with a couple of its own unique twists and turns.

In my opinion, I suspect they did this so that they could implement the new regulations they have been itching to put in place to close certain loopholes (see The Doctor's/Physician's Loophole). In doing so, they have added a bunch of new variables to the equation. Let's explore them.

The Apple Didn't Fall Far From The PAYE

At first glance, there are a lot of similarities between IBR, PAYE and REPAYE (let’s leave ICR out of this, as it is rarely relevant to anyone but Parent Plus Loan borrowers who, unfortunately, miss out on the deal and don’t get to switch to the REPAYE program).

All of these programs use a similar formula to determine the qualifying payment, with the only major difference being the 15% instead of the 10% between IBR and the other two. They all result in loan forgiveness after 20 or 25 years (if there’s anything left to forgive), income verification works the same way and, most importantly, all payments count towards the Public Service Loan Forgiveness program (while you are working for a qualifying employer).

Bad Apples

However, it’s the differences that stick out more than anything. There are several, but two of them are potentially the biggest deal-breakers when physicians consider the program.

The first is the removal of the payment cap. Basically, under REPAYE, your payment will continue to increase with your income, without limit. This is different from IBR, which caps payments out at the standard 10 year repayment term.

This is the payment amount that would, at the beginning of your repayment, pay off your loans within 10 years, based on the loan’s balance and interest, much like a typical bank loan. Then, once your IBR payment increased to the point that it *matched* this 10-year standard payment (also called “the hardship threshold”), then your interest would continue to capitalize, but your payment would *not* go up beyond this point, no matter how much money you made.

This rule actually created a nice “loophole” for physicians, who typically make a modest income during residency but then receive a dramatic income jump once they start their permanent positions. As a result of this type of income growth, a physician’s payment is relatively small against very large student loan balances during residency. At this point, the lower payment matches up nicely with the lower income. However, due to IBR’s income cap feature, the payment would never exceed the 10-year standard no matter how much money the borrower made.

For example, if a resident made $50,000 a year, owed $200,000 in federal student loan debt, and filed Single, the IBR payment would be a manageable $400 or so. However, once that individual’s income increased to $257,000/year, then their payment would not go past $2300 (depending on the interest rates) even though the same IBR calculation that yielded a $400 payment would now create a $3000/month payment).

So, in this example, the cap saves the borrower an extra $700/month in payments. And as the borrower’s income increased, the payment would stay at the cap, thus resulting in greater and greater savings until the loan was forgiven. This payment cap built into IBR is going to be responsible for tens of thousands of dollars in lifetime loan payments and forgiveness benefits for physicians in a majority of cases (especially those who qualify for the 10-year Public Service Loan Forgiveness program).

Legislators must have noticed this, which is one big reason the IBR payment cap feature is not included in the new REPAYE program. As a result, many physicians are leery to make the switch as a lower payment now might cost them in the long run.

However, the removal of this cap shouldn’t scare you away so quickly! Though you could potentially miss out on savings and forgiveness with the cap, the chances are less likely since the 10% formula makes such a huge dent in your monthly payment.

Looking at the same example above, the IBR payment runs into the cap at about $2300/month, which is equivalent to the physician's income of $200,000 per year. So, anything above that income would push the payment beyond the 10-year standard if IBR did not have the cap feature. However, with the REPAYE program, you don't miss that cap so much since it takes such a significantly higher income to reach the cap due to the reduction of your payment by about 1/3rd. So in the above example, under the REPAYE program, you won't reach the cap till you make almost $300,000. As a result, by the time you reach the cap, you may be near the end of your 10-year forgiveness program anyway. You probably won't care if your payment doesn't pass the cap until your 8 years into repayment when your payment has been 33% less up until that point.

Every situation is different, and in my experience, many physicians don't have the above cookie-cutter scenario. It changes everything when you throw a wider range of incomes and debt in the mix. Or even worse, private loans!

[Editor's Note: In case you didn't get that, if you're going for PSLF, and currently in PAYE, you don't want to switch to REPAYE because you'll end up with less forgiveness due to making bigger payments as an attending. If you are going for PSLF and currently in IBR there is a decent chance you do not want to switch to REPAYE, but you have to run the numbers or

hire someone like Jan to do it for you.]

The Bitterest REPAYE Fruit

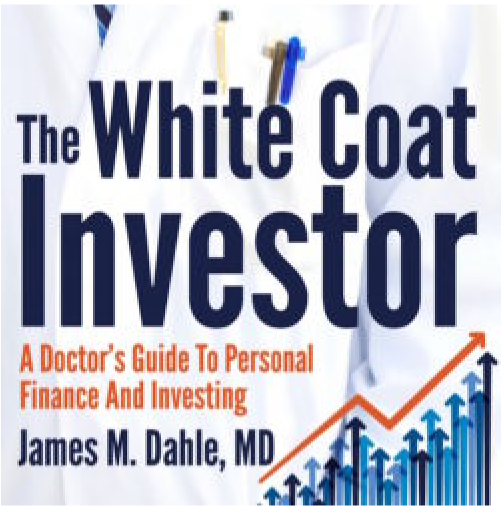
So, what could be worse than private loans? Your spouse! At least when it comes to the REPAYE program's potential deal-breakers. Gone are the days when you could file your taxes married separately and exclude the spouse's income when you entered the REPAYE zone. There's no way out of it: you must include the income of both spouses regardless of your filing status.

This feature of the REPAYE program alone can cancel out any of its benefits. As with anything, of course, it depends on how all of the variables play out. If both spouses make equal pay, then the REPAYE is not a good option… unless both spouses have a similar total of federal student loans. Having a spouse with similar federal student loan debt cancels out the drawbacks of the REPAYE program's spousal rules. These are just some of the potential scenarios that are possible.

So, What's the REPAYE Verdict?

Well, just like before, when you had a myriad of choices to consider as a doctor in student loan repayment (such as IBR, PSLF, scrapping IBR and paying extra and/or refinancing some or the whole lot), now you have even more math to do. And I didn't even mention the other features of the program, such as the new 50% unpaid interest subsidy *[the subject of my upcoming post-ed]*, or the variance that graduate loans add to the REPAYE term *[if you have graduate loans you don't get any loans forgiven until 25 years, but if you only have undergraduate loans, you get forgiveness at 20.-ed]* This can also only increase the chances that your loan servicer will make a mistake somewhere, and the customer service representatives will give you a different answer every time you call.

The Silver Lining



If you read between the lines, the REPAYE program is actually very good news for physicians and the like who are concerned that the PSLF program is not going to be around to forgive any of the debt they were promised. Right here, with the REPAYE program, you can see the standard grandfathering that the U.S. Department of Education always does at work. This is why they couldn't just extend the PAYE program. It would go against the existing grandfathered rules of the program. Instead, they made a new program, which will also share its own grandfathering protection for borrowers who already qualify for it. And, if you look at things even more closely, the shape of this program is designed to accommodate the PSLF program. So, you have a brand new program that implements features like the removal of the payment cap and spousal filing loopholes, and it matches up nicely with the PSLF program *and* the direction they want that program to go in the future.

Additionally, two of the changes currently being discussed to close these so called doctor's loopholes are already implemented here. In my mind, this reduces the potential that there will be a strict cap on how much can be forgiven in total under the PSLF program. It seems unnecessary and redundant to implement all of the considered methods when attempting to effect the desired change.

The very existence of the REPAYE program contradicts the likelihood that PSLF will be cancelled completely. So, I strongly feel that PSLF is here to stay for the long haul. And, at the very least, the current terms should be grandfathered with new changes only affecting new borrowers who take out their first loans after the new regulations. The form that the PSLF program takes over the next couple of decades will most likely be subject to constant change, but its core benefits should be around for years to come for those to whom it was promised.

What do you think of the new REPAYE program? Will you switch from PAYE to REPAYE or IBR to REPAYE? Why or why not? Comment below!