Student Loan Management When Both Spouses Work

Student loan management is actually super easy for single docs and married docs with a non-earning spouse. You refinance your private loans as an intern and enroll your federal loans in the Revised Pay As You Earn (REPAYE) program. If you take a job with a 501(c)3 (non-profit) after residency/fellowship, you stay in an Income Driven Repayment (IDR) program (might be worth switching from REPAYE to Pay As You Earn -PAYE if you have a low debt to income ratio) and you go for Public Service Loan Forgiveness (PSLF). You then keep careful track of every payment and certification form and save up a PSLF side fund in case you change your mind or the program changes and you aren't grandfathered in. If you do not take a job with a non-profit after residency, you refinance your loans as soon as you have your attending contract and you make huge payments toward them each month while living like a resident for 2-5 years after training.

Easy-peasy. I can put that on one powerpoint slide.

Ridiculous Debt to Income Ratios

The only exception is people with ridiculous loan to income ratios, like 3-4X+. These are people who didn't do the math on the return on investment they would get for going to professional school. Honestly, if you borrowed 4X your expected annual income, you probably made a bad career decision, at least in a financial sense. It reminds me of the classic Biblical admonition from [Luke 14:28](#) ("For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it?") Those people probably ought to run the numbers on PAYE forgiveness. Yes, that forgiveness requires 20 years of payments and unlike PSLF is taxable at your ordinary income tax rates. But it might be easier to save up and invest for that tax bomb than to actually pay off the loans at those extreme debt to income ratios. It is a rare physician in this situation, but it isn't that uncommon among dentists, [veterinarians](#), attorneys, and other professionals who rack up similar debts but have lower incomes.

Let me demonstrate.

Let's say you make $100K a year and owe $400K in student loans at 7%. The interest alone on those loans is $28K per year, or 28% of your gross income. If you actually wanted to pay those loans off over 10 years, you would have to pay $57K per year, or 57% of your gross income.

But if you enroll in PAYE, your payments would be $683 per month. So over the next 20 years, you would pay $683*12*20 = $163,920 toward those loans. After 20 years in PAYE, whatever is left is forgiven. Awesome! You borrowed $400K and only had to pay back $164K. Winner, winner, chicken dinner!

Unfortunately, that forgiveness is taxable. So how much will be forgiven if you let a $400K debt ride for 20 years while only paying $683/month? $1.2 Million. What is the tax bill on that going to be? Well, it's hard to say. The tax code could change, becoming more or less progressive between now and then. But most likely the brackets are going to continue to rise with inflation over those 20 years. I think it would be reasonable to assume that you're going to pay at least 30% on that forgiven debt, all due in the year it is forgiven. 30% of $1.2 Million is $400K. Yes, that figure looks remarkably like that original debt, but when you consider the time value of money, it's probably less even when combined with the $164K you actually paid.

So you have to start saving up to cover that tax bomb in addition to making your PAYE payments. If you can make 8% a year on that investment, after-taxes and fees, how much do you need to save each year in order to have $400K in 20 years?

=PMT(8%,20,0,400000) = $8,741

Add that amount to the $683/month ($8,196/year) and you get a total of $16,937. If you actually wanted to pay those loans off over 20 years, you would need to make payments of

=PMT(7%,20,400000,0) = $37,757 per year, over twice as much

So as you can see, at extreme debt to income ratios, it can make sense to go for PAYE forgiveness. In this scenario, you probably don't want to use REPAYE. Although the subsidized interest rate would work toward reducing the amount forgiven and thus the associated tax bill (without increasing the amount you have to pay each month), you will be required to make 25 years of payments before you get forgiveness instead of just 20 under PAYE. Between the extra payments and the additional growth of the balance over those last 5 years, you will come out behind.

Roth vs Tax-deferred in Residency

The only other interesting twist to talk about for single folks and married single earners is the Roth vs tax-deferred savings issue during and possibly after residency. The general rule for residents is to use Roth accounts to save. But if you are going for PSLF, using a tax-deferred account lowers your income, and thus your IDR payments. The lower your IDR payments the better your cash flow in residency but more importantly, the more that is left to be forgiven through PSLF. Is packing more money into a Roth account worth having less money forgiven? Or is it better to get more forgiven but then later end up with a negative tax rate arbitrage between contribution and withdrawal? Hard to say. You really have to run the numbers, and that's tough to do given that you don't even have all the numbers (such as your tax rate in retirement) to make an accurate calculation. Personally, I like keeping it simple and when in doubt I'd still lean toward making Roth contributions even if it means getting a little less forgiveness. If you do decide to put some money into tax-deferred accounts to increase the forgiveness amount, don't put too much in. Those payments don't go below zero. Once you get to that point, you should definitely put any additional savings into Roth accounts. What is that point? Well, it varies and you'll have to run the numbers for your situation. Let's do it really quickly for three scenarios:

- Single
- Married without kids
- Married with two kids

The goal is to get your adjusted gross income down to 150% of the poverty line, but no further. That poverty line varies by family size, but can be looked up here.

2019 Poverty Line By Family Status		
Status	Poverty Line	150% of Poverty Line
Single	$12,490	$18,735
Married, no kids	$16,910	$25,365
Married, 2 kids	$25,750	$38,625

On a typical resident salary of $60K, the numbers are as follows.

If you’re single with an AGI of $60K, you’re going to need to put $60,000 – $18,735 = $41,265 into tax-deferred retirement accounts to get your REPAYE payments to $0. That’s going to be pretty tough given that you can only put $19K into a 401(k) or 403(b) and $6K into a traditional IRA. Not to mention living in residency on $19K. So all the retirement savings you’re able to do should probably go into a tax-deferred account if you prefer to maximize forgiveness rather than to maximize your future Roth:Tax-deferred ratio.

Dual dolphins in Cabo San Lucas

If you are married without children, it is a little easier to get to $0 payments, due to the higher poverty level. You’re going to need to put $60,000 – $25,365 = $35,635 into a tax-deferred retirement account in order to get your REPAYE payments to $0. That’s a pretty tough order too.

If you are married with two children and a super saver, perhaps you can do it. $60,000 – $38,625 = $21,375. You could get that into a 401(k) and an IRA. Obviously any amount above and beyond that should go into a Roth IRA or Roth 401(k).

This technique can be used even if you don’t plan to go for PSLF. Lowering your income also may increase the REPAYE subsidy you receive during residency. Is it worth it? Probably, especially if you just do a Roth conversion of all that tax-deferred money in the year you leave residency. Obviously, the value of this technique varies a lot, but it is a notable exception to the “Roth for Residents” rule of thumb that was a lot better rule before the government came up with REPAYE.

Student Loan Management For Dual Earners

The purpose of today’s post, however, is to discuss a far more complex issue–student loan management for those who are married to another earner. This gets a lot more interesting and a lot more complex. So much so that my standard advice for years has been to get professional student loan management advice if you find yourself in this situation.

I blame it on the government really. If the government had not come up with all of these programs to help student loan borrowers, the management would still be really easy–refinance when you can and pay them back as fast as you can. But once you start adding in income driven repayment programs, subsidized interest rates, and forgiveness programs, it becomes more complex than ventilator management in Acute Respiratory Distress Syndrome (ARDS). So the general principle behind the recommendations in this post is to maximize your benefits from those government programs. Usually you are going to end up weighing one financial advantage against another, making the right course much less obvious.

Let's talk about five separate situations today:

- Two doctors, both going for PSLF
- Two doctors, one going for PSLF
- A doctor married to a debt-free engineer, going for PSLF
- A doctor married to a debt-free engineer, not going for PSLF
- A doctor married to a debt-free attending, not going for PSLF

[Update immediately following publication: I made a few changes, primarily to reflect when one should use PAYE during residency. When writing the post, I had forgotten that there is no point to doing MFS while doing REPAYE since both incomes must be included in the REPAYE payment calculation. That required a change to every scenario below. So if you read the original version emailed out, be sure to go back through this one, at least for your situation.]

Two Doctors Going for PSLF

In our first scenario, we have two doctors who love academics. Let's say they're both doing a total of 6 years of training, they both owe $300K in student loans, they both are making

$60K a year during training, and they both expect to make $300K per year after finishing their training. They have no children and plan to stay on in academia for at least four more years. Here is what they should do:

1 Refinance private loans as interns

You never get interest rate subsidies or forgiveness for these.

2 Both should enroll in REPAYE as soon as possible and start making payments

The more payments made during residency and fellowship, the better. That’s because in-training payments are relatively low, usually less than the interest on the loan. The more of your 120 payments required for PSLF that are small in-training payments, the more that will be left to forgive. Why REPAYE over PAYE or IBR? Two reasons. The payments are lower and the interest rate is subsidized. IBR requires you to pay 15% of discretionary income (your adjusted gross income minus 150% of poverty line) toward student loans. REPAYE and PAYE only require 10% of discretionary income be paid. Again, the less you pay, the more left to be forgiven. The advantage of REPAYE over PAYE is the interest rate subsidy. In REPAYE, 1/2 of the remaining monthly interest after your required payment is applied is forgiven. So if your $200K, 6% loan accumulates $1,000 per month of interest, and your payment is $200 per month, then $400 of interest is added on to the loan and $400 is forgiven.

So far so good. Unfortunately, it gets more complex from here.

3 File your taxes Married Filing Jointly (MFJ)

Unfortunately, under REPAYE you cannot separate out your incomes by filing MFS. So there is no point to filing MFS so long as you qualify for a REPAYE subsidy. This couple does since their combined REPAYE payments are $797 and the interest on $600K in loans at 6.8% is $3,400 per month.

Filing your taxes MFS instead of MFJ could mean you will pay more in taxes. Is that the case in this scenario? Let's run the numbers. Assuming the standard deduction and nothing special about your taxes, you'll owe $12,749 in taxes if you file MFJ. If you file MFS, you will each owe $6,375, and together will owe $12,750 due to rounding. No real penalty in this situation for MFS, so you really want to, you could, but there is no point here.

4 Contribute to tax-deferred retirement accounts

"What? I thought residents were supposed to use Roth accounts?"

Well, they usually are. But by putting at least some of your savings into tax-deferred accounts, you can lower your REPAYE payments and thus increase the amount of your student loans that will be forgiven. Of course, once those payments are reduced to zero, any additional savings should go into Roth accounts. In this scenario, each of the two docs is going to want to put as much as possible into tax-deferred accounts, assuming they prefer to maximize forgiveness and the REPAYE subsidy rather than maximize their future Roth:Tax-deferred savings ratio. That's probably the right move here.

5 Stay in REPAYE after Residency

By the way, these docs should stay in REPAYE after residency. They will graduate each owing more than $300K with an income of $300K. On that income, the student loans would have to be less than $204K before the REPAYE payments (which unlike PAYE are not capped) would exceed the payments under PAYE.

Two Doctors, One Going for PSLF

Did that seem crazy complex? That was nothing compared to what we're about to get into. The above scenario was relatively straightforward. Let's consider what should be done if only one of the docs wants to go for PSLF. For example, let's assume the doc going for PSLF owes $300K and the other doc owes nothing thanks to some scholarships, work, and wealthy parents. Again, both are residents making $60K. What should they do?

1 Refinance private loans

There is no reason not to refinance loans to a lower interest rate since Laurel Road and SoFI offer $100 per month payments during residency.

2 Enroll in PAYE

You want that interest rate subsidy available only in REPAYE. Unfortunately, filing MFS in REPAYE doesn't do you any good as REPAYE looks at your combined income. So you have to give up that REPAYE subsidy in order to file MFS. So now you have to weigh the value of the REPAYE subsidy against the value of having a lower PAYE payment due to a lower income. Let's do that in this scenario.

REPAYE payment: $797 ($9,574 per year)

PAYE payment: $349 ($4,188 per year)

REPAYE subsidy: ((6.8% * $300,000) – $9,574)/2 = $5,413

That is a very valuable subsidy this doc would giving up in order to lower payments. If plans changed from PSLF to payback, the right answer would be to go into REPAYE. But with PSLF, PAYE would be allowed for more to be forgiven and less paid toward the loans overall. So PAYE is the correct program.

3 File your taxes Married Filing Separately (MFS) as a resident

In order to get those lower PAYE payments, this couple would have to file MFS during residency. This will lower the required monthly payment under PAYE. MFS, that payment would be $349. MFJ? $797. No brainer there. As demonstrated above, their tax bill will not increase by filing MFS.

What if one of them were an attending though? Then what would be the additional tax cost to MFS? Let's assume the resident going for PSLF is making $60K and the attending without loans is making $300K. MFS, the resident will owe $6,375 and the attending will owe $75,924 for a total of $82,299. If they filed MFJ, the tax bill would be $70,025, a difference of $12,274. Did they get more than that in additional PSLF forgiveness? No way. $349/month = $4,188/year. It seems kind of stupid to pay an extra $12,274 in taxes now in order to get $4,188 in additional forgiveness in a few years, right?

4 Contribute to tax-deferred retirement accounts

The same principle applies as in the example above with the two residents going for PSLF, except only the one going for PSLF actually wants to use the tax-deferred retirement accounts. The other should probably use a Roth account, although she potentially could increase her REPAYE subsidy by using a tax-deferred retirement account. In this scenario, the couple really wants to defer as much into the PSLF-seeking doc's retirement accounts as possible (again, assuming they prioritize higher forgiveness over a higher Roth:tax-deferred ratio in retirement, which is not necessarily a no-brainer.) They should live off the other doc's income in order to max out a 401(k)/403(b) for the PSLF-seeking doc. Also remember that when filing MFS, if you make more than $10K and live with your spouse at any point during the year, you can neither deduct a traditional IRA contribution nor directly contribute to a Roth IRA. so you will need to do any Roth IRA contributions through the Backdoor.

5 File taxes Married Filing Separately (MFS) as an attending

Since these two docs, once they become attendings, will each earn exactly the same amount, it is still okay for them to file MFS. That will lower the PAYE payments. For the same reason, the PSLF-seeking doctor should still be maxing out tax-deferred accounts (hopefully both will be doing so as they move into their peak earnings years.) Of course, the ability to deduct an IRA contribution is going to go away, so they will both be doing Backdoor Roth IRAs. The doc will want to just stay in PAYE as an attending, mostly just to facilitate the lower payment from filing MFS since the cap will have no effect given the size of the loan burden. But if it were a lower loan amount (say $150K instead of $300K) then the payment cap available with PAYE but not REPAYE would also be beneficial.

Doctor Married to an Engineer, Going for PSLF

Let’s add some more complexity. Let’s assume the engineer spouse makes $60K and has no debt. The doc still owes $300K, makes $60K during residency, and will make $300K after residency.

1 Refinance private loans

Noticing a trend here? If you haven’t refinanced your private loans, even if you’re still in residency, scroll to the bottom of this post and click on the links to Laurel Road and SoFI. Apply with both and take the one that gives you a lower interest rate.

2 Enroll in PAYE

Same reasoning as above.

3 File your taxes Married Filing Separately (MFS) as a resident

Same reasoning applies as in the above example. If you have to include that engineer’s income, your REPAYE payments will be much higher. Since the tax burden will be the same with MFJ or MFS, might as well do MFS. The more disparate the incomes, the more likely it is that the couple should file MFJ. When the incomes are similar, there isn’t a penalty there.

4 Contribute to tax-deferred retirement accounts

Same reasoning as in above example. Again, if the couple can save more than the maximum into the resident’s 401(k)/403(b), that should go into Roth accounts because they are not yet in their peak earnings years. Obviously, the debt-free engineer’s retirement savings should go into Roth accounts.

5 File taxes Married Filing Jointly (MFJ) as an attending

Here's the big difference between these two scenarios. The incomes are very disparate, so the tax advantage of filing MFJ is larger than the additional PSLF forgiveness. Now that they are filing jointly, it is even more advantageous for both to be maximizing any possible tax-deferred accounts available to either of them. Given an income of $360K and a debt of $300K+, it still makes sense for them to just remain in REPAYE as they will not benefit from the PAYE cap on payments.

Doctor Married to an Engineer, Not Going for PSLF

Okay, now for our fourth situation. In this case, the doc is not going for PSLF, but still wants to take advantage of the interest rate subsidy available through REPAYE.

1 Refinance private loans

If you can get a lower interest rate (and you almost surely can), get a lower interest rate.

2 Enroll in REPAYE

The goal here is not to minimize payments, but rather to minimize the total debt by maximizing the REPAYE subsidy. If you’re not going to enroll in REPAYE, you might as well refinance your federal loans as an intern along with your private ones. It is worth actually running the numbers here. It’s possible, but not very likely, that your effective tax rate under REPAYE is higher than what you can refinance to. Let’s run those here for this couple.

REPAYE subsidy: $5,413 (see above for details)

Total interest: $5,413 + $9,564 = $14,977

Effective interest rate: $14,977/$300,000 = 4.99%

Now, this doc would have to apply with SoFi and Laurel Road to see what interest rate they could refinance to, but it is probably going to be in the 5-5.5% range. So might as well go with REPAYE since the effective rate is lower.

3 File your taxes Married Filing Jointly (MFJ) as a resident

Since you are using REPAYE instead of PAYE, there is no benefit to filing MFS.

4 Contribute to tax-deferred retirement accounts

Same reasoning as above examples. However, the benefit is not nearly as high as the above examples since it doesn’t increase forgiveness, it just increases the REPAYE subsidy (effectively lowering the interest rate.)

5 Refinance loans as an attending

As soon as your REPAYE payments become higher than the interest accumulating, there is no more REPAYE subsidy. At that point, you should refinance to a lower rate.

Doctor Married to an Attending, Not Going for PSLF

1 Refinance private loans

Same reasoning as always. No reason not to do this. See the links at the end of this post and get it done.

2 Refinance federal loans

“Say what?”

Yup. This is the right move in this situation. No sense in doing the MFS/PAYE thing since you’re not going to get anything forgiven anyway. REPAYE isn’t a good option due to the spouse’s high income—there won’t be a REPAYE subsidy. Just refinance them and get busy paying them off. I mean, you’re married to a debt-free attending for crying out loud! You should have those loans paid off before you even finish residency.

3 File your taxes Married Filing Jointly (MFJ) as a resident (and an attending)

Might as well. There is no advantage here to MFS.

4 Contribute to Roth retirement accounts

The two of you are not yet at your peak earnings, so the right choice here is usually going to be using Roth 401(k)s and of course a Backdoor Roth IRA for each of you. If you have a tax-deferred account sitting around somewhere, you might even want to do a Roth conversion on it.

Some Conclusions

I know this post was long, but I hope you found it useful. As noted above, in most of these scenarios there is a place for you to refinance your student loans. Here is my list of the best student loan refinancing deals on the internet. These are affiliate links, meaning I get paid if you refinance through them. But it's a win-win-win-win-win situation. The lender gets your business, you get cash back, I get paid, and the taxpayer gets their money back to lend to a new MS1. No losers when you click on those links.

Company
Cash Back
Rates
Residents?

$500
Variable 3.12% - 7.86%
Fixed 3.75% - 7.03%
No
Refinance Now!

$500
Variable 2.57% - 6.97%
Fixed 3.89% - 7.89%
No
Refinance Now!

$300
Variable 2.70% - 8.77%
Fixed 5.23% - 8.97%
No
Refinance Now!

$300-1000
Variable 2.68% - 8.96%
Fixed 5.10% - 8.93%
No
Refinance Now!

$350
Variable 2.80% -6.01%
Fixed 3.39% - 6.69%
No
Refinance Now!

$300
Variable 2.560% to 7.295%
Fixed 3.899% to 7.979%
Yes
Refinance Now!

$200
starts at 1.95%
No
Refinance Now!

$300

Variable 3.23%-6.65%
Fixed 3.50%–7.02%
Yes
Refinance Now!

$400
Variable 3.24%-5.19%
Fixed 4.19%–6.20%
No
Refinance Now!

$500
Variable 2.48% -6.25%
Fixed 3.20% - 6.25%
No
Refinance Now!

If you are having trouble following this post or running the numbers or just want some reassurance that you're doing this right, contact one of my recommended student loan specialists. It will cost you a few hundred dollars, but as you can see, that investment could easily be worth tens of thousands in additional forgiveness, additional interest rate subsidy, or saved interest. There's no shame in asking for a little bit of professional help.

If you want to learn more about student loans, consider reading Ben White's excellent Medical Student Loans: A Comprehensive Guide.

What do you think? Do you agree with my advice? Why or why not? What do you think about the government programs making these decisions so complex? What did you do with your loans? Comment below!