The Doctors’ Loophole – Student Loans and PSLF

[Updated Editor’s Note: Welcome WSJ readers! I see that Josh Mitchell’s recent article, US Student-Loan Forgiveness Program Proves Costly, links to this site claiming that some call the PSLF a “Doctor’s Loophole.” Well, that some includes this guest poster, but not me. I’m getting lots of flack from readers about it, so much so that I may edit the entire article enough to remove the word “loophole” from it entirely.

To be certain, I don’t view the PSLF program as a “doctor’s loophole.” I think anyone who meets the requirements of the program ought to qualify for it, whether they are social workers or doctors. And if Congress feels a need to change the program, they ought to grandfather anyone who has taken out the loans already assuming this program would be in place. Most doctors make less in academic positions, which is the vast majority of those who will be getting forgiveness through the PSLF program. I suspect it will only be a matter of time before non-profit hospitals looking to hire doctors will drop starting salaries for new grads because they know about PSLF. By the way, it is far better for me financially for PSLF to go away. Not only will my taxes be lower, but more of my readers will refinance their loans, a significant source of revenue for this site. But I’ve got thousands of readers who have been counting on PSLF for as much as 8 years now, and I owe this to them as their advocate. Changing the deal now without grandfathering them in would be completely unfair.]

[Original Editor’s Note: This is a guest post from Jan Miller, a student loan consultant and an advertiser on this website. I get at least 2 or 3 emails a week from readers asking me to look into my cloudy crystal ball and tell them whether or not PSLF will be a good idea for them and whether or not it will change before they can take advantage of it. This post helps answer that]
question. Enjoy!

As a student loan consultant, I work with borrowers of various different career paths. Some are architects, some are baristas and some are even actors living in Hollywood. One of the biggest groups of borrowers I help are physicians. Because of their high debt amounts, and their participation in Internship and Residency, doctors have some particularly special concerns when it comes to managing their student debt.

One of the most recent concerns that doctors are facing is the effect that Obama’s legislation will have on the so-called “Doctors’ Loophole.” But what exactly is it, and how does it affect a physician?

What is “The Doctors’ Loophole?”

The Doctors’ Loophole refers to a special loophole that exists in the Income Driven Repayment plans, and Forgiveness plans, that the feds perhaps never realized would benefit physicians so significantly.

Back in 2007, when the income driven payment and forgiveness plans were created, they were primarily designed to help those who had low incomes in relation to their total federal student loan debt. Income Based Repayment (IBR) and Pay As You Earn (PAYE) payments will always max out at the standard 10 year payment, no matter how much money the borrower makes. So regardless of how much money a doctor ends up making, they will never have to pay more than what the standard 10-year amount would have required.

As a result, if a borrower’s income is low for a few years of residency (and it usually is), her or his required monthly payment will be nice and low to match it. But if they have a large surge in income once they establish their practice (and doctors usually do), then their required payment will never be higher than the standard required amount.

Interesting loophole indeed. In addition to creating some very favorable conditions for monthly payments, this loophole can also result in large
amounts of debt (i.e. hundreds of thousands of dollars) being forgiven for doctors – who may be making hundreds of thousands of dollars a year by the time the loan is forgiven! This unexpected benefit has been a happy boon for many physicians and other healthcare professionals—but there are many people who aren’t too thrilled about it.

[Editor’s Note: I’d prefer the term “may be” to “has been” since no doctor has yet completed 120 qualified monthly payments since 120 months haven’t passed since 2007.]

My Opinion + Recent Legislation

Personally, I have no problem with this beneficent loophole, since it is going to a group of professionals who a) already pay so much money for their education and b) are providing a tremendous public service. However, such a large forgiveness benefit for high income earners has received a lot of criticism as of late, to the degree that it’s likely to be closed when new legislation is passed in some way or another.

Recently, Obama signed an executive action that will allow borrowers in the 15% Income Based Repayment program to take advantage of the 10% Pay As You Earn program, come December 2015. His new budget proposal also directly addresses student loans, so we can expect lots of changes to happen.

Because of all these executive and potential legislative changes, I’ve been receiving questions from my clients, especially those who are healthcare professionals. They’re asking me questions like:

- Is the Public Service Forgiveness program too good to be true?
- Can I rely on it?
- Will it be taken away from me?

And so on.
Interestingly, many doctors have made educational, career, and specific job choices based on their loan forgiveness potential. So, if new legislation breaks the promise of forgiveness, it is going to cause a substantial problem for a large number of people who were counting on this benefit. Might the feds back out on their promise of student loan forgiveness, once they realize that such a controversial loophole exists? Hopefully, they will honor their word and follow their own rules, as they usually do when it comes to federal student loans.

**Realistically Optimistic Projections**

Although I cannot predict what Congress will do, or what legislation will be passed, I am hopeful that any new changes that limit healthcare professionals to how much they can have forgiven will only apply to “new borrowers” (those who took out loans after the new legislation becomes active). After all, this would fall in line with the way they have always done it.

When the regulations were changed in 1987, those who took out loans before that time period were still subject to the same rules prior to the changes. The same thing happened when they made additional changes in 1993. Additionally, this type of grandfathering can also be seen with the Pay As You Earn (PAYE) program in its present state. For PAYE, newly instituted in 2014, if you have loans older than October 2007, you do not qualify for it. However, new borrowers with original debt after October 2011 do qualify for it.

**Closing the Loophole**

So, what will happen next? There are many ways to “close” this so called loophole.

1. They can keep everything as is, but remove the payment cap at the standard repayment, so the payment amount continues to rise with the borrower’s income.
2. Or, they can put a cap on the amount of total debt that can be forgiven.
3. They could also specifically eliminate doctors from the program, or disqualify internships and residency from qualifying PSLF employment.
Even if the loophole is closed, I believe that current borrowers who are participating in the programs now are probably safe and will continue to benefit from the current lower payments and the future forgiveness benefits. However, it’s generally not recommended to base your career choices on forgiveness possibilities. [Easier said than done when you owe $550K and your dream is to be a pediatrician.-ed] Make sure you consider all factors, and speak with a trusted professional about your next best steps.

What do you think? Do you think PSLF will go away for doctors? If so, who do you think might be grandfathered in? How do you envision the loophole closing? How have these concerns affected your career choice and your loan refinancing decisions? Comment below!