**Managing Medical Education Debt Strategically**

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**Residents and early-career physicians should explore repayment and forgiveness options thoroughly, and make informed choices**

By [Bonnie Darves](https://www.linkedin.com/pub/bonnie-darves/0/697/838)

For physicians who have made it through medical school, survived “Match Day,” and started their training, life is exciting, if exhausting at times. Most residents are well prepared for the rigors of training, but they might be less equipped to deal with one vehicle that helped get them where they are: a bundle or, in some cases, a mountain of education loan debt.

“It was a rude awakening to look at the numbers,” said Alok Patel, MD, a third-year pediatrics resident at the University of Washington, referring to the $175,000 he owes. “It’s a lot easier to forget about something when it’s in abstract terms. But what I didn’t expect was that I’d be spending $30 a day on the interest that has accrued.”

The loan debt is a source of anxiety, Dr. Patel admits, but it hasn’t dampened his enthusiasm or altered his plans. He hopes to combine his dual passion in pediatric public health and medical journalism in a career that enables him “to care for vulnerable children and make a difference in their lives.” His action plan is to continue on the income-based loan repayment program through residency, and then work as a hospitalist for a few years and live frugally, to fast-track to pay down his loan.

“Knowing the facts, learning about personal financial management, and having a clear, quantified goal has really helped reduce the anxiety,” said Dr. Patel, who is training at Seattle Children’s Hospital. “It seems more manageable now— I can still pursue my passion and pay back the loans in a reasonable amount of time.”

Natalie Anne Manalo, MD, a fourth-year neurology resident at Northwestern University in Chicago, echoes Dr. Patel’s sentiments about the psychological benefit of making a plan. She owes $220,000 in education loans, and recently married a physician whose loan debt is roughly the same. Overwhelmed by the prospect of paying back so much money, the couple met with a financial planner who specializes in medical education debt.

Dr. Manalo first consolidated her loans, and also paid off a private loan she took out during her last year in medical school to cover her travel expenses for interviews. “It’s less confusing now that the loans are all in one place,” said Dr. Manalo. “And even though the private loan wasn’t the highest-interest-rate one, I just wanted to get rid of it.” Dr. Manalo plans to go into private practice, after completing a sleep medicine fellowship next year. Because her husband, a fourth-year orthopedics resident, has been steadily paying off his loans, the plan is to focus on her loans first. “I will go on a 10-year repayment plan rather than just chipping away at interest, so that we can just get rid of that debt faster,” Dr. Manalo said. “It’s a relief to have a plan in place and to know that we’re making progress.”

**Understand the options**
Devising a personal strategy to handle a six-figure debt load can be a daunting task, especially for borrowers whose debt is in the vicinity of the current median — $180,000 in 2013, per the most recent data from the Association of American Medical Colleges (AAMC). Despite this ever-rising number, there’s some good news for debt-saddled residents: loan repayment options have expanded substantially in recent years, and the new options offer considerable flexibility.

In the past, the basic choices for physicians who did not qualify for a federal forgiveness program were a 10- or 25-year fixed-rate repayment plans or a graduated plan in which payments increase over time. Three additional options are available now, including the following:

**1. Income-based repayment (IBR).** Under this option, monthly payments are limited to 15 percent of the borrower’s discretionary (after fixed expenses) income for borrowers who had existing loans as of July 1, 2014. Payments are recalculated annually. The repayment term is 25 years.

**2. Pay As You Earn (PAYE).** This income-driven plan takes into account both income and family size, and a spouse’s eligible loan debt, if applicable. The payment is calculated based on 10 percent of income. The repayment term is 20 years, and forgiveness of remaining debt is granted after 20 years of qualifying payments. Note: Borrowers must have a partial financial hardship to qualify.

**3. Income-contingent repayment (ICR).** Payments are calculated based on adjusted gross income, and are limited to either 20 percent of the borrower’s discretionary income or the amount the borrower would pay with a fixed payment over 12 years. Payments are recalculated annually. The repayment term is 25 years.

To qualify for any of the income-driven plans, the borrower’s federal student loan debt must either exceed annual discretionary income or represent a significant portion of that income.

Another related positive development has occurred with the federal Public Service Loan Forgiveness (PSLF) Program (PSLF). Borrowers who work in nonprofit health care settings who make 10 years of qualifying payments under one of the income-driven plans might qualify for forgiveness of the remaining loan balance. It is important to understand that some types of loans, such as Parent PLUS loans or Special Consolidation loans that repaid a Parent PLUS debt, don’t qualify for treatment under the income-driven plans. However, a Direct Consolidation Loan does qualify, so some borrowers can expand their repayment options by going to the effort to consolidate as many loans as possible.

**IBR plans more flexible**
Joy Sorensen Navarre, a Minneapolis-based financial consultant who advises physician borrowers and frequently makes presentations to residency programs on education-debt management, reports that the new plans are already making a difference for borrowers. “More than half of the residents I see who are struggling with payments are not going into deferment or forbearance now — they are getting on income-driven plans,” said Ms. Navarre, who is president of Navigate, LLC, and an investment advisor at Foster Klima. “I do think that there are still a lot of physicians who didn’t get the message about the new repayment and forgiveness options, or think they’re not eligible. There are still lots of questions out there, but the key is for residents to understand that in most cases they can make changes to their repayment plans as their circumstances change.”

One of those questions is actually a misconception — that physician borrowers must be at or near the federal poverty level to qualify for income-pegged plans. “A lot of doctors think it’s a poverty-driven program, so they don’t even look into these plans. But that’s not the case,” Ms. Navarre said. The other misconception she frequently encounters is that once borrowers choose a repayment program, it can’t be changed. In fact, it often can, provided the borrower (and the loans) meet the program’s criteria.

“The point I make to residents is that it’s never too late to look at your options and possibly make a change. It’s a matter of getting your data, and then going over the program and options, and testing out various scenarios,” Ms. Navarre explained.

The following is a hypothetical example of a resident with a loan balance of $200,000 at a 6.80 percent interest rate, an annual adjusted gross income of $52,000, in a two-taxpayer family. Here is how the payments would work out in three different scenarios: $2,302 monthly under the standard 10-year payment program, $1,388 under the 25-year plan, and $237 under the new PAYE program.

The downside to the lower payments, of course, is that unpaid interest keeps accruing. For Claire Murphy, MD, a pathology resident at the University of Washington, the IBR program has been a help financially, but she is aware of cost. “The IBR is a good option, but when I look at the interest it always feels like I’m throwing away money,” said Dr. Murphy, who will stay on at the University of Washington next year to do a fellowship in hematopathology. She admits that her loan debt of approximately $190,000 might ultimately influence the practice setting she chooses, but it didn’t play a role in her career choice.

“When I chose pathology, I knew that I wouldn’t do anything else — and I am happy with my choice,” Dr. Murphy said. “But I am feeling that pull between academic and private practice, and I am not sure where I will end up.”

**Plan repayment proactively**
Another point of confusion about medical education debt is whether consolidation makes sense. “That’s one of the questions we hear frequently from residents — should I consolidate or not?” said Julie Fresne, the AAMC’s director of student financial services. There is no easy answer, Ms. Fresne notes, because it depends on the student’s individual financial circumstances, and the rates, types, and amounts of the loans. The AAMC’s website FIRST (see Resources section at the end of this article) includes a tool to help borrowers figure out whether or not to consolidate their federal loans.

Of course, consolidation doesn’t reduce total indebtedness, but it can simplify matters, so that residents don’t have to keep track of several loans. Generally speaking, consolidation is a good option for physicians who have many loans that all carry comparable interest rates; there is no charge to consolidate, and it’s easier to manage one payment than eight or nine. However, physicians who have a broad spread in rates might fare better financially in the long run by paying down higher-interest debt more quickly, Ms. Navarre explains, using a targeted repayment plan that allocates relatively higher amounts toward high-interest debt.

Regardless of the strategy physicians choose, the availability of repayment plans that can be directly tied to income levels has been a relief to cash-strapped, anxious residents, Ms. Fresne notes. “For the AAMC and borrowers, one of the most positive things that has happened in recent years is the addition of more income-driven repayment plans,” she said. “It means that, barring unusual circumstances, any medical graduate should be able to repay any amount of debt while practicing in any specialty.”

For Rebecca Rogers, MD, who is the chief internal medicine resident at Cambridge Health Alliance Residency in Cambridge, Massachusetts, and intends to work in an underserved setting, the availability of loan forgiveness options has reduced her anxiety about the nearly $200,000 she owes in loans. “I have always seen myself practicing in an underserved setting, in either an academic or community clinic setting. So it’s really helpful knowing that there is financial assistance for those of us who are going into primary care,” Dr. Rogers said. “I know that I can make my career decision based on what I want to do — and not on my debt, which sometimes feels like almost too big a number to think about.”

Two other things have helped her psychologically. Harvard Medical School, where Dr. Rogers earned her MD, forgave $35,000 of her loan debt because she is going into primary care. And during the financially challenging years of medical school and residency, Dr. Rogers said, she has become a self-styled “expert” in living frugally while making modest loan payments, after having to go into forbearance briefly. “For me, it’s been important to pay as I go, for psychological reasons.”

Richard Pels, MD, the longtime director of the Cambridge Health Alliance Residency, is all too familiar with the psychological difficulties that his residents face when they try to reckon with their increasingly higher debt loads. “I wish the system didn’t exert such financial pressures, but that’s the reality for many residents,” said Dr. Pels. “The fact that medical resident salaries haven’t gone up very much, and certainly haven’t kept pace with debt level increases, makes it a struggle for folks during residency and when they leave it.”

On a final note, Dr. Pels reminds residents to prepare financially for the transition from training to practice, when they’ll likely have to do some juggling to make ends meet. That’s when, in his experience, a second financial reckoning hits home. “When residents transition from training to practice, they have a lot of expenses, and for some it’s like sticker shock when they finally look at the total number — for state licenses, staff membership cost, board exams, and DEA registration. That can amount to thousands of dollars,” Dr. Pels said. “So it’s smart to plan ahead to manage those costs.”

**Medical Loan Debt Do’s and Don’ts**
**Do:** Explore all repayment options — not just the ones that seem easier to understand — and recognize that the income-based plans are helpful but are far more costly than standard repayment.

**Do:** Seek expert guidance before making a major decision on a repayment plans, especially if the debt load is very high — $200,000 or more. Work with advisors who are experienced with physician education debt and the economics of career progression, rather than generalists.

**Do:** Stay in touch with loan servicers and advise them if your contact information or financial status changes. Loan servicers might change during the repayment period, too, so it’s key to keep track of which one is attached to which loan.

**Don’t:** Use forbearance unless it’s absolutely financially necessary — and if it is, get back to making payments as soon as possible. The accruing interest, which could top $1,200 a month for the resident with $200,000 in loans, is added back into the principal, making forbearance a very expensive proposition.

**Don’t:** Use lenders or loan servicers as a primary source of information about repayment options. These individuals are expected to manage payment processes efficiently and serve lenders’ best interests, which might be in conflict with borrowers’ best interests.

**Don’t:** Opt for the denial route in dealing with loan debt, or view the debt as a “lump sum” to be paid off in the simplest way possible. The sooner physicians proactively look at their situation and devise a repayment plan that takes into account the complexity of their loan portfolio — loans’ varying interest rates and terms — the better off they’ll be, financially and possibly psychologically.

**Resources**
A growing number of online resources are available for residents and practicing physicians who want to better manage their education debt and explore the loan-repayment and forgiveness options. Following are a few.

**AAMC FIRST**. This online tool from the Association of American Medical Colleges — FIRST is short for Financial Information, Resources, Services, and Tools — helps residents navigate the complexities of education debt and money management. The website offers financial planning tools, loan servicer information, and details on the National Health Service Corps loan-forgiveness programs. See the more than two-dozen fact sheets on topics including deferment and forbearance, loan consolidation, budgeting, and managing financially during residency. Go to <https://www.aamc.org/services/first/first_for_residents>.

**AAMC Debt Fact Card.** This single-page document contains up-to-date information on mean and median indebtedness, a breakdown on the types of loans new graduates are carrying, and sample repayment scenarios. Go to <https://www.aamc.org/download/152968/data/debtfactcard.pdf>.

**U.S. Department of Education’s StudentLoans.gov**. The Department of Education website is a comprehensive resource on repayment and consolidation options. Go to <https://studentloans.gov/myDirectLoan/index.action>.

**National Student Loan Data System (NSLDS).** This site is a helpful resource for physicians who are starting to look at their repayment options (or are considering changing their plan) and who want to get a snapshot of their total loan picture. Go to [www.nslds.ed.gov](http://www.nslds.ed.gov/).

**FedLoan Servicing.** This website is intended primarily to help borrowers manage their loans and payments. It also provides detailed comparisons on the several loan-repayment options. Go to [http://www.myfedloan.org](http://www.myfedloan.org/).

**Public Service Loan Forgiveness Program.** This site describes the federal program that enables eligible physicians to obtain loan forgiveness in return for public service. It covers the types of loans that qualify for forgiveness and the terms of the program, as well as related consolidation information. Go to <https://studentaid.ed.gov/sites/default/files/public-service-loan-forgiveness.pdf>.