American Podiatric Medical Association

INCOME-DRIVEN REPAYMENT PLANS AND LOAN FORGIVENESS PROGRAMS FOR PODIATRISTS

In the primer on Income-Driven Repayment plans (with specifics on IBR and PAYE), we noted that both plans offer many podiatrists (including residents) payments they can handle when their debt exceeds their salary. However, there may be another advantage to these repayment plans for some borrowers, most certainly including podiatrists, and that involves how they can be used to help borrowers qualify for forgiveness programs, including Public Service Loan Forgiveness (PSLF).

Here's how they work. The federal government will forgive a borrower's student loan debt under certain conditions and if they meet certain eligibility requirements (see www.StudentLoans.gov under Managing Repayment for details).

Income Based Repayment (IBR) 25 Year Forgiveness

- Borrower repays with IBR for 25 years and still has not repaid balance in full, so remaining balance is forgiven at that time
- Forgiveness provision not conditional on type employment, but is subject to tax under current law
- Forgiveness applies to both Direct Loans and FFEL Loans (many currently practicing podiatrists have FFEL loans)

Paye As You Earn (PAYE) 20 Year Forgiveness

- Borrower repays with PAYE for 20 years and still has not repaid balance in full, so remaining balance is forgiven at that time
- Forgiveness provision not conditional on type employment, but is subject to tax under current law
- *Forgiveness applies only to Direct Loans (since only Direct Loans may be repaid with PAYE)*
    - *Since 2010.2011 academic year, all Stafford and Grad PLUS Loans are Direct Loans*

Public Service Loan Forgiveness (PSLF)

The Public Service Loan Forgiveness Program (PSLF) was established in 2007 as part of the College Cost Reduction and Access Act (CCRAA) and was designed to encourage student loan borrowers to both enter and remain in public service (which includes non-profit organizations) as a means for helping them manage their student loan debt. The program applies to all eligible borrowers, including those from graduate and professional degree programs such as podiatry. With PSLF, the government will forgive a borrower's balance after 10 years (tax free), as long as three things have happened at the same time:

- Borrower must make 120 timely, scheduled payments (they need not be consecutive) with an eligible repayment plan such as IBR or PAYE, on …
- Direct Loans (only Direct Loans qualify for PSLF), while …
- Working for an eligible public servicer employer (which again, includes non-profit organizations)

Implications of these plans for podiatrists

None of the forgiveness programs referenced above are discipline or degree specific, and thus any eligible borrower, including podiatric medical school graduates, who meet the conditions for forgiveness attached to these programs should qualify for them.

However, whether under IBR or PAYE, one of the basic questions all graduates using these plans have and have had is whether or not to adopt an aggressive repayment strategy at some point and not lean on the government for help through forgiveness. This may become even more evident during residency when using these plans often only serves to slow the growth of the debt during residency when payments (especially under PAYE) may not even cover the interest that is accruing on the debt. This would most certainly be the case for a new podiatrist who is still seeking employment and who sets up IBR or PAYE with minimal (if any) payment required due to no income. Many practicing podiatrists likely come out of residency with a balance higher than when they started residency. You may wonder if you should pay over and above the minimum payment amount in order to slow the growth of your portfolio during residency.

Practicing podiatrists who are using Income-Driven Repayment plans such as IBR may be able to help current residents in terms of how they approached repayment in residency prior to entering practice.

Once again, the Public Service Loan Forgiveness (PSLF) program is not discipline nor degree specific. However, the requirement for working for an eligible public service employer for at least 10 years in order to qualify may not be consistent with many podiatric medical school graduates' plans following residency. Therefore, while their time in a teaching hospital during residency may well count as eligible employment, any plans for private practice following residency could negate PSLF eligibility. Granted some podiatrists end up working in academia or for the government or with another non-profit organization, but they may not know such until they are nearing the end of their residency program.

Since their inception and passage into law, there has been considerable concern and resulting discussion regarding these programs, especially Public Service Loan Forgiveness. These discussions have recently been exacerbated with the proposed changes to PSLF referenced in President Obama's 2015 Budget which contains language that would change the forgiveness programs, including placing limits on the amount borrowers may have forgiven under PSLF. Some argue these changes are targeted at highly indebted borrowers from the graduate and professional school communities who could see substantial forgiveness under PSLF, even though these responsible borrowers (who may have incurred substantial opportunity costs on top of the costs of additional borrowing) may potentially have higher earning potential.

These factors all point to the importance of continually reviewing your repayment strategy as a podiatrist, especially when renewing IBR or PAYE eligibility and looking at your new monthly payment amount.

May 2014

APMA
American Podiatric Medical Association