

AMA-RFS Issue Brief

Income-Based Repayment

BACKGROUND

While the amount of debt physicians incur during medical school rises, options for loan repayment have changed. In the past, the 20/220 pathway provided loan deferment for up to three years following graduation from medical school. This pathway dissolved with passage of the 2007 College Cost Reduction and Access Act (CCRAA). 20/220 was replaced with Income-Based Repayment (IBR), which took effect on July 1, 2009. IBR is not loan deferment, but rather a reduced monthly payment program for borrowers with partial financial hardship. The IBR requires residents with student loans to make monthly payments starting their first year of residency. Full deferment is possible, but only for individuals earning less than 150% of the federal poverty level (\$16,245 for an individual).

INCOME-BASED REPAYMENT

Eligibility

Individuals demonstrating partial financial hardship with certain federally-guaranteed loans are eligible. Under a 10-year repayment program, partial financial hardship is defined as monthly loan payments in excess of 15% of the difference between adjusted gross income (AGI) and 150% of the federal poverty level (FPL). Only federally-guaranteed loans, such as the Federal Family Education Loan or direct loan programs (Stafford, GRAD plus, and federal consolidation loans), are eligible for the IBR plan. Loans that are not eligible include private loans, Parent PLUS, and Perkins loans.

Calculating Your Monthly Payment

Monthly payments are capped at 15% of the amount by which your AGI exceeds 150% of the FPL:

$$\text{Monthly payment} = \frac{[\text{AGI} - (\text{FPL} \times 1.5)] \times 1.5}{12}$$

You can determine your monthly payment with the online calculator found here: www.IBRinfo.org. Monthly payments are based solely on the equation above. No matter your future income, monthly payments will not be higher than under a standard 10-year repayment plan determined by the parameters when you first enter the program.

Interest

Interest accrues on subsidized and unsubsidized loans. For many residents, the reduced monthly payment under IBR is not sufficient to cover the interest accrual each month. If a resident's monthly payment does not cover accrued interest, the federal government will pay the remaining accrued interest on subsidized loans for the first three years. Unpaid interest on unsubsidized loans and unpaid interest on subsidized loans after the first three years continues to accrue and is added to the principal when a resident is no longer eligible for IBR. Thus, a resident's loan principal may actually be higher when he or she leaves the IBR than when he or she entered.

Loan Forgiveness

CCRAA provides two loan forgiveness pathways for borrowers:

- If an individual has not repaid his or her loan in full after 25 years of reduced monthly payments through the IBR, the remaining balance on eligible loans is forgiven
- The Public Service Loan Forgiveness Program allows individuals who work full-time at a “public service organization” and who have made 120 reduced monthly payments to have the remainder of their loans forgiven

OTHER REPAYMENT OPTIONS

A standard 10-year repayment plan is always an option for borrowers, but for the majority of residents, with low income and high debt, this is unrealistic. Borrowers can request forbearance which means that while interest accrues, monthly repayments are not made. Forbearance is at the discretion of the lender, and is not uniformly offered. Comparing repayment options can be difficult since loan terms and circumstances among borrowers vary greatly. In general, reduced payments in the short-term translate into higher payments in the future.

Comparison of Repayment Options

Repayment Options	Monthly Payment		Total Interest Paid
	During Residency	After Residency	
Standard (10-year)	\$\$	\$\$	\$
IBR	\$	\$\$\$	\$\$
Forbearance	—	\$\$\$\$	\$\$\$

RESEARCH YOUR OPTIONS

The following websites can provide more information on Income-Based Repayment:

- www.IBRinfo.org
- www.finaid.org/loans/ibr.phtml
- <http://www.finaid.org/calculators/ibr.phtml>
- www.aamc.org/programs/first/facts/incomebased.pdf
- www.ama-assn.org/go/succeeding

STAY INVOLVED

- Communicate your concerns about medical student debt and loan repayment to your Congressional representatives
- Get involved with the AMA-RFS Legislative Advocacy Committee and join the RFS listserv
- Donate to AMPAC and support candidates who are working to help reduce the debt burden and improve loan repayment options
- Visit: <http://www.ama-assn.org/ama/rfs>