About three quarters of medical students plan to begin paying their student-loan debt upon graduation from medical school or during their first year of residency, according to a 2017 survey.

Exactly when a borrower starts paying back and how much will vary based on a number of factors, according to Allan Phillips, a Certified Financial Planner™ with Taylor Wealth Solutions. Phillips advocates an informed strategy on student-loan repayment that takes into account an individual’s long- and short-term financial goals.

“What the tendency to make financial decisions in silos—an insurance decision, an investment decision or a debt decision—will lead to suboptimal results,” Phillips told AMA Wire®.

Know what you owe

In most instances, medical student loan payments are due following a six-month, post-graduation grace period. Medical students can begin planning ahead for loan repayment well in advance of their graduation date, however.

“Understanding the type of debt you’re taking on, the type of company you’re financing with and what you want your career to look like can help you be able to manage your debt level once those loans become payable,” Phillips said.

Phillips also offers this seemingly self-evident yet essential cautionary advice: Only take out what you need and understand the impact of interest rates. Over-borrowing will make repayment harder down the line.

“Really, it’s hard to get a grasp early on [in med school] of how fast the educational debt can grow on its own,” said Lee Ouyang, MD, a first-year resident at Eastern Virginia Medical School who has begun repayment. “I know how much tuition is and how much extra I take out, but how fast that grows
as it’s incurring interest was a little more nebulous until I actually sat down and thought about it.”

**Look into loan forgiveness**

Standard loan-repayment plans amortize over 10 years. So if a student accrues $300,000 in loan debt and repays on a standard plan, it’s almost certain that, with interest, the monthly payments on any loan would be approaching or upward of $3,000.

That sum is an unrealistic figure for most residents, but there are ways to reduce it and even have a chunk of your loan debt forgiven.

The Public Service Loan Forgiveness (PSLF) program is a viable option for many residents. It is available to physicians with federal loans who work at nonprofit institutions. To qualify, borrowers must make 120 on-time payments over 10 years. If those payments are made, the remaining principal and interest are forgiven, and the forgiven sum is untaxed.

To further reduce payments, there are several income-based payment plans that allow for realistic payback options—it is not entirely uncommon to have a debt load that exceeds income at the outset of residency—that can be used in tandem with the PSLF program. These plans only require a fixed percentage of income to be paid monthly toward a student-loan balance.

The clock on a PSLF plan begins when the first payment is made. So following four years of residency, a physician would be required to spend an additional six years in a nonprofit care setting. In theory, the most beneficial way to go through the PSLF program is to pay the minimum payment each month for the duration of your repayment. That may not be the case, however, for physicians who are unsure if they want to spend the first 10 years of their career in nonprofit settings.

“I think I’ll be paying down a little more [debt] and trying to stay qualified for PSLF at the same time. That way I’m hedging in two directions,” Dr. Ouyang said. “I won’t pay the least amount of money, but I’m trying to optimize my options either way, because who knows what four years from now is going to bring.”

Other programs offer stipends or loan forgiveness for physicians who work in understaffed fields or areas with a shortage of physicians.

Karen Dionesotes is a third-year medical student who is taking a gap year to work in public health after earning a master’s degree in that field in 2016. Because she has been away from medical school for two years—she plans to finish up her fourth year in 2018—her loans will require payment. She enrolled in an income-based repayment plan and cut her monthly payments by more than $3,000.
"There’s a program I’m going to apply to in my fourth year where, if you work in a primary care field, they give you stipends to help you pay off your debt during residency,” she said. “I’m probably going to end up in psychiatry. It’s a needed specialty. I like the idea of working in a VA, and if you work for the government you can get student-loan forgiveness.

“Besides [the stipend and repayment plans] there’s not much else you can do,” Dionesetes said. “You look at these [debt numbers], they could end up being like half a million dollars. It’s definitely overwhelming.”

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