With loan repayment set to resume, 3 key questions for residents

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There are moves residents can make to put themselves in an advantageous loan-repayment position before the waiver on federal student loan payments expires.

After more than a year of a federal waiver on student-loan payments and interest accrual, the policies that allowed for that loan relief are set to expire.

An education session recorded for the June 2021 AMA Section Meetings offers some insight on the current state of loan repayment and strategies for payees going forward. Here are some key questions that surfaced during the session, "Medical school debt: Options to help medical students with crushing debt," which was hosted by the AMA Medical Student Section.

Will the repayment waiver last?

On his first day taking office, President Joe Biden signed an executive order extending nonpayment of student loans through September. This extension of policy that took hold in the spring of 2020 under the Trump administration applies to all federal loans and some private loans. But it will expire Oct. 1 barring an extension, which seems unlikely.

“It’s really going to depend on the economic situation at that time,” said Alexis Pierce, senior attorney for the AMA within the Division of Legislative Counsel. “If we continue to recover at the rate that we are and how things are going, I doubt there is going to be another extension.”

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Are there repayment strategies to consider before Oct. 1?

If you can afford to, Pierce said, then making payments now can pay off down the road.

“If you have the ability to pay off your loans now or can start to, it’s a great time,” Pierce said. “Because of that 0% interest you are going to be able to get a lot more bang for your buck and more of that money is going to go to your principal. It will help you get rid of that balance more quickly.”

Another option to consider is taking money budgeted for repayment over the past year and putting it into savings. This option, while accounting for current interest rates, is likely to be more beneficial than refinancing, according to Heather Smith, MD, a member of the AMA Council on Legislation and president-elect of the AMA Foundation.

“Take that amount you would have paid and put it into saving or put it into retirement, because the student-loan rates right now are so low—you’ll gain more than you’re going to be paying off down the road,” said Dr. Smith, an ob-gyn at Women & Infants Hospital of Rhode Island and assistant professor at Brown University’s Warren Alpert Medical School.

“The other part of that is be careful, because when you refinance it usually is through a private lender and that means that you lose benefits of having a federal loan, including the 0% that is currently being offered through the executive order.”

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Is there loan relief to come?

There are a few policy ideas in the pipeline, but as far as anything forthcoming that remains to be seen.

One policy that has passed is a provision passed within the American Rescue Plan Act that would make any loan forgiveness through 2026 untaxable. That could pay dividends if broader loan-forgiveness legislation is enacted during the current administration.

An additional piece of legislation under consideration that could offer residents some benefits would allow for front-line workers to gain student-loan forgiveness.