What Biden’s student-loan plan means for resident physicians

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Brendan Murphy
Senior News Writer

What’s the news: Under an executive order signed by President Joe Biden, any individual student-loan borrowers who earn less than $125,000 annually and married couples with earnings under $250,000 are eligible for $10,000 in federal student-loan debt forgiveness. Borrowers who qualified for the Pell Grant program, aimed at helping students from lower-income backgrounds, would be eligible for another $10,000 in loan forgiveness—meaning those borrowers could receive up to $20,000 in loan forgiveness.

The president also announced that the pandemic-spurred pause on loan payments—in effect since March 2020—will end at the conclusion of the year. The pause froze both interest accrual and repayments for the better part of three years.

For physicians in full-time clinical practice, this is likely to mean very little for their loan-repayment picture. According to “Medscape Physician Compensation Report 2022” data, physicians in every specialty earn well over the $125,000 per year individual income threshold. However, some physicians with a spouse with very low or no income may be eligible under the $250,000 family earnings threshold for the $10,000 in loan forgiveness under the Biden plan.

Meanwhile, the president’s action is not going to affect current medical students, who are not in loan repayment.

For residents and fellows, however, the loan-forgiveness language in the executive order may be applicable. A 2020–2021 AAMC report found that average salaries for first-year residents were a bit less than $59,000 per year. That number went as high as $78,000 for the residents and fellows entering their eighth year of graduate medical training.

So, the loan forgiveness will offer some relief for residents and fellows, but it might not make a sizable dent for many borrowers. It is worth noting that, due to legislation passed by Congress in the spring of 2021, any federal student-loan forgiveness is not taxable if it takes place before 2026.

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Why it’s important: Data from the Association of American Medical Colleges (AAMC) indicates that nearly three-quarters of physicians graduate with education-related debt, and the median debt is around $200,000. Reducing physician indebtedness could help promote diversity within medicine and contribute to a reduction in the shortage of physicians.

The resumption of loan payments, and the corresponding resumption of interest accrual, will put physician borrowers back on the clock when it comes to repayment. However, those who are seeking to take part in the Public Service Loan Forgiveness (PSLF) program will have the benefit of the months that interest and payments weren’t required counting toward their 10 years of required time before loan forgiveness takes hold.

The payment pause allowed for borrowers in loan repayment to get about one-quarter of their qualified payments essentially waived as $0 payments. Borrowers registered for the PSLF program should also be mindful of the upcoming Oct. 31 waiver deadline designed to give those physicians and other borrowers a chance to get past payments counted toward the PSLF if they were working for qualifying employers and have federal student loans.

Residents and fellows in income-based repayment options could also see a change in their minimum monthly payment under the executive order. The order calls for a new rule that would cut in half—from 10% to 5% of discretionary income—the amount that borrowers are required pay each month on their undergraduate loans.

Borrowers with both undergraduate and graduate loans, such as medical school, will pay a weighted average rate. The new rule would also raise the amount of income that is considered nondiscretionary income and therefore protected from being calculated into monthly loan repayment amounts. It is unclear, however, what those changes will look like.

Read more about what physicians should know on the PSLF program waiver.

Learn more: Much about the way loan forgiveness will be implemented remains unclear. And before any processes are put in place, the proposed plan will be subject to a public comment period.

Legal challenges are also expected to be abundant in the coming weeks. The president created the loan forgiveness executive order using the HEROES Act—created in the wake of the Sept. 11 attacks—to justify the action. The HEROES Act gives the executive branch broad authority to grant relief from student-loan requirements during national emergencies.

Read more about AMA policy on medical education costs and student debt, last updated in 2021. Also learn about the AMA’s support for congressional legislation to enable a 401(k) match for doctors paying off student loans and to give borrowers interest-free deferment on their student loans while in residency training.
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