A Physician's Practical Guide to Student Loan Decisions

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Not all medical professionals make money the main focus of their careers. However, all medical professionals who borrowed money to pursue their careers need help navigating their student loan obligations. Rather than create a quickly outdated general guide on various repayment options, this article is meant to help physician leaders develop effective strategies for payback or forgiveness that make the most sense given the type of income a medical professional has, what type of role they are in, and the degree of flexibility they may have in their career.

KEY WORDS: Student loans; financial literacy; financial education.

You have done everything from getting a diploma to getting the white coat to surviving residency! You are now ready to go from surviving to thriving. You've made memories and met friends and colleagues from your undergrad years all the way to your final days of residency, and all this time, you've been followed by the best of all frenemies: your student loans.

Whether you work in a nonprofit or for-profit organization, rather than leaving things to chance, fate, and unreliable government policy, this article should help you make the best possible decisions about your student loans to grow your wealth over time.

Before we go on, some high-level notes: First, this article is not meant to provide specific paydown strategies, but to help you make better decisions given your general situation. Second, if you feel morally obligated to return your debts to your initial creditor do not read further; continue with your payment schedule. If you aren't worried about student loans because your family will help you pay them down, this article will not be helpful. For everyone else, please read on. I hope the article will help you determine which strategies are the best for you. Note that the information presented is accurate as of February 6, 2025.

WORKING IN A NONPROFIT ORGANIZATION

If you are currently working at a nonprofit, you have a few tools that are not available to your for-profit counterparts. Namely, you can get public student loan forgiveness (PSLF). This means that after you've given 10 years of public service (which may include your residency), the balance of your student loans will be forgiven without a penalty on the amount forgiven becoming income receivable to you. This is especially helpful because not only is the repayment term lower than a traditional forgiveness term, but also the amount forgiven is not considered personal income.

Let's focus on the decision-making process around whether forgiveness is a good idea for you, based on common situations and areas you need to address before exploring this route:

1. Will the payments you make based on your income pay off most of your student loan balance within the time frame of your required payment schedule to get forgiveness? This question is important because most, if not all, student loan forgiveness plans require you to put a percentage of your earned income, currently about 10%, toward paying down your student loans.

   If you are in a high-income role, such as a surgeon, emergency room doctor, or other highly compensated physician, a 10% "tax" on your income may come out to the balance and interest payment schedule that you would have otherwise needed to pay anyway, and the amount forgiven is small or negligible.

   Experts note that people already in IBR or PAYE who benefit from artificially low rates that were calculated during lower income years may benefit from locking in and keeping their payments ongoing based on those lower calculation numbers.
2. Do you plan to continue working in a nonprofit despite being able to earn approximately 25–35% more in a similar but for-profit role for the 10 years required for PSLF? Money is important because you need it to repay your student loans and achieve your financial goals. If you earn more in a different role but sacrifice your PSLF, you may have been better off not going through PSLF and

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using the earnings difference to aggressively pay down student loans and achieve your other financial goals. Are you OK with losing your career flexibility?

The Strategy: If you replied "yes" to both questions, you should pursue PSLF. If you said "no" to both, you should not pursue PSLF. If you have said "yes" to one and "no" to the other, I suggest not pursuing PSLF, as both of these questions are very important considerations. However, you may want to weigh and balance your goals and needs based on your short- and medium-term goals against long-term student loan payoff or forgiveness based on the locked-in payment amounts.

WORKING IN A FOR-PROFIT ORGANIZATION

If you are currently working at a for-profit, you have fewer tools for forgiveness but may have more flexibility through your employer on how to aggressively address your student loans. Some employees who switch from a nonprofit to a for-profit organization may be able to negotiate high incomes to make up for the loss of their PSLF, which is a great example of a benefit of making the change. This comes at a cost, however, as traditional student loan forgiveness has a 25-year term, and the amount forgiven will be received as income.

For-profit employees should consider these questions:

1. What is the makeup of your student loans? You have probably taken out many student loans during your long journey from undergraduate to residency. Your loans may be federal, subsidized, unsubsidized, or private. Taking a full inventory of your student loans, from the totals to the interest to the type of loans, will help you to decide your pay-down strategy.
2. Do you want to pay the minimums or pay the maximums? A less-advertised and less-helpful forgiveness program exists. If you pay for 20 or 25 years (depending on the forgiveness program you are pursuing), you will have your federal student loans forgiven. However, at the time of forgiveness, the total amount forgiven will be counted as income. As of February 2025, there is one exception, which will be discussed shortly. This may come during your highest earning years and could cause 40% of your student loan debt at the end of the repayment period to be counted toward your tax burden for that year.

Because of this "student loan time bomb," the forgiveness option for private student loans is often not as attractive but could be a potential option for those looking to achieve short- to medium-term financial goals before addressing student loans. Paying the maximum amount will free up more cash flow but could lower your overall lifetime payments due to the interest paid on student loans.

3. To refinance or not to refinance? Remember that private student loans are not forgivable and must be repaid. If you go this route, you will want to accelerate your student loan payments and aggressively pay them down. The interest rate on these student loans often coincides with the interest rates when you take out these loans. Look carefully at any penalties for early repayment and any refinancing fees. You do not want to refinance your student loans.

The Strategy: If you have short- to medium-term goals, you may want to explore options that allow you to defer payments or have lower payments. Some examples may be buying a home or saving for big purchases such as wedding expenses. These goals may require you to slow progress on student loans and then review more aggressive options later, including saving for the "tax time bomb" at the end of the deferral strategy after 25 years.

If you have no medium- to short-term goals, this may be a great time to look at your highest-interest student loans as candidates for refinancing and aggressive paydown. Forgiven debts are generally considered income and are subject to income tax. However, *"under the TCJA (Tax Cuts and Jobs Act), this provision was modified, so student loans discharged due to the death or permanent total disability of the student did not count as gross income through 12/31/2025. Section 9675 of the American Rescue Plan Act modified the TCJA change further so that it applied to virtually any discharged student loan. At the end of 2025, when the ARPA change expires, forgiven student loan debt (including debt forgiven due to death or permanent and total disability) will generally be includible in gross income and hence subject to taxation."*[1]

Consider this carefully, as this is a short reprieve and may not serve as a future reference unless there are similar programs available in the future.

CONSIDERING W2 INCOME

Working for an employer who handles tax withholdings and benefits means that there are preset programs available to help you. This help could come in the form of retirement savings programs, group insurance policies, or additional work benefits. Thanks to the recent SAVE Act(s), many employers can help their employees with student loans.

Considerations:

1. **Retirement savings**. According to IRS Notice 2024-63, employers are allowed to make matching contributions on account of employees' qualified student loan payments.[2] Often, new physicians are between a rock and a hard place when it comes to saving for retirement or paying down their student loans. This program allows you to have your retirement cake as well as your dollars to help you eat away at your student loans.

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That said, as this is a new program, many employers have yet to roll it out nationally. As you look through employee benefits packages, look for these types of programs.

2. **Student loan assistance programs**. Many employers help their newly hired employees with student loan assistance programs. This could come in the form of direct assistance and go a long way toward repaying the loans directly. Some employers negotiate directly with their employees for this additional benefit, while other employers have a more structured assistance program that pays a fixed dollar amount or a percentage of income toward eligible student loans. Look out for any clawbacks or minimum years with the employer as potential pitfalls to using this program.

The Strategy: Maximize what your employer offers you and stick to the non-profit or for-profit playbook above. The main focus here is not to leave anything "on the table."

CONSIDERING 1099 INCOME

Being paid directly as a contractor means you have the advantages and disadvantages associated with freedom of choice. With greater flexibility comes greater responsibility in choosing your own benefits, remembering to pay taxes, and deciding how to balance personal and business expenses. There are many planning opportunities around student loans, but there are also many pitfalls.

Considerations:

1. **Pay yourself what you need**. When you are your boss, you control how much to pay your employees. In this case, you are the employee. Anything that you don't pay yourself can go into improving your business or be taken as business profits. If you are considering an income-based repayment plan, this could be doubly important as you may need the income for liability repayments or goal funding. However, if none of these apply, there may be opportunities to mitigate your income for better forgiveness terms.
2. **Do not mix up your accounts**. If you have a business account set up for your 1099 income, make sure you do not use it to pay your student loans with the expectation that it is considered a business expense. You will and should, for tax purposes, consider this income a draw and or distribution in the future. If you are concerned about paying payroll taxes, you can consult with your accountant on this issue, but you will still need to pay taxes on these distributions on your income taxes. If you do this incorrectly, you may withhold taxes incorrectly, leading to nasty surprises when it comes time to file taxes.

The Strategy: There are very few student loan programs that a 1099 employee can create for themselves without running into certain anti-self-dealing prohibitions. For example, educational assistance programs are generally unavailable, as you will most likely own more than 5% of the entity through which you run your 1099 income. In this case, you should focus on the 1099 income you receive that may be on the side from a main source of employer income (locums work). This allows you to try to take advantage of as many workplace benefits as possible (PSLF for nonprofits) while mitigating the ultimate tax bill that is due, net of student loan repayment strategies.

CONCLUSION

The best payoff or paydown strategies for you and your situation may change over time. Keep in mind that student loan decisions are always affected by interest rates. As of the writing of this article in early 2025, interest rates are extremely high compared to the recent 10 years but considered reasonably normal by historical rates.

Take a long view when paying off your student loans. Ultimately, you have many life and financial goals to accomplish. Just as many people do not rush to pay off a mortgage, others try their best to be done with their mortgage all at once. If you ever doubt the best strategy, review this article and see if your situation has fundamentally changed and if you need to adjust your student loan strategy based on your changing circumstances.

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