"What are the pros and cons of the Public Service Loan Forgiveness program?"

Suhl A. Choi, Pharm.D.
PGY1 at University of Chicago Medicine
Chicago, IL

The good news is that pharmacists make a great living with a median salary of $121,500.[1] The bad news is that pharmacists, especially new practitioners, are often swimming in student loan debt. According to the American Association of Colleges of Pharmacy Graduating Student Survey for 2015, 89% of pharmacy students borrowed money to pay for college expenses, with a median loan balance of $150,000 on graduation.[2] In 2009, that figure was just $100,000.[3] With student loan debt rising exponentially, the conversation around choosing the right student loan repayment option is becoming much more prevalent. Specifically, more borrowers are wondering if they should opt into the Public Service Loan Forgiveness (PSLF)[4] program. *[Note: This article will focus on student loans and repayment options offered by the federal government. If you have loans with a private lender, you should consult with that lender to determine your options before making any decisions.]*

Overview of Student Loan Repayment Options

Before getting into the details of PSLF, we must have a good understanding of the common federal loan repayment options. Visit the U.S. Department of Education Federal Student Aid website to evaluate the repayment options available regarding the loans you have taken out. Although there are many options to consider for repayment, the default option for most federal loans accrued by pharmacy students is the Standard Repayment Plan. Under this option, payments are a fixed amount per month over a 10-year period (possibly longer for consolidated loans) and include the principal owed as well as any accruing interest. Although this option will likely result in the highest monthly payment, which can be difficult to budget during your residency training year, it will also result in a lower amount of interest paid over the life of the loan than the other options such as the extended and graduated repayment options.

Another repayment option that is growing in popularity (especially for pharmacy residents with a lower salary during the residency year) are the income-driven repayment plans. These include the Revised Pay as You Earn (REPAYE), Pay as You Earn (PAYE), Income-Based Repayment (IBR), and Income-Contingent Repayment (ICR) plans. Although these repayment options vary slightly regarding the loans eligible for repayment and how the monthly payment amount is calculated, the overarching theme with these plans is to have a monthly payment that is based on the amount of income you are making. For example, with REPAYE, the monthly payments are calculated to be 10% of your discretionary income. The discretionary income is the difference between your adjusted gross income [AGI] and 150% of the poverty guideline for your family size and state of residence.[5]

A Closer Look at PSLF

Many borrowers debate whether PSLF is right for them. This option forgives loan balances on direct loans (and some others, if consolidated) after making 120 qualifying payments while working full-time (the greater of 30 hours a week or full-time, as defined by your employer). A qualifying employer is defined as (1) a government organization; (2) a tax-exempt, nonprofit organization; or (3) the AmeriCorps and Peace Corps programs. Because many pharmacy residents work for a qualifying employer (e.g., a nonprofit hospital/health system) and plan to continue doing so after completing residency training, the forgiveness program is worth looking at.

If you choose PSLF, you will select one of the income-driven repayment plans because any remaining balance owed beyond the payments made will be forgiven after 10 years. Note that if you choose an income-driven repayment option outside PSLF, the amount forgiven after the period when payments are required for that program (e.g., 20-25 years for the REPAYE program) will be subject to taxation at your income tax rate. In comparison, if you choose an income-driven repayment option inside PSLF, the remaining balance after 10 years that is forgiven will not be taxed. Other important notes about PSLF include the following:

- The 120 qualifying monthly payments do not have to be consecutive.
- Although submitting the Employment Certification form is not required, the PSLF website encourages borrowers to do so once a year or when a job change occurs to help with the tracking of qualifying payments and to minimize having to find information later on when the forgiveness is ready to be realized.
- Moreover, submitting the Employment Certification form will allow the borrower to hear back from the U.S. Department of Education to ensure the employer qualifies and to gather information about the number of payments left until the borrower qualifies for forgiveness.
- The U.S. Department of Education has a helpful fact sheet and Q&A document that are worth an initial reading and revisiting from time to time.

So, under PSLF, what happens to your loan balance at the end of 10 years if you meet all of the above requirements? Poof. Gone without any taxes to pay. Sounds like a pretty sweet deal right? **It can be, but let's look further at the pros and cons of the PSLF program.**

Pros of PSLF

The pros of PSLF are obvious. If you have a lot of high-interest student loan debt, a significant amount of your loan balance may be forgiven by opting into PSLF compared with choosing another repayment plan such as the standard, graduated, extended, or income-driven plans (e.g., REPAYE, PAYE, IBR), which are not within the confines of PSLF. Many factors influence how much will be forgiven. Most notable are your loan balance, interest rate, and income during the repayment period.

The best way to figure out your potential savings with PSLF is to do the math yourself. Let's see how your monthly payment amount is calculated during the repayment period. If you can predict how much you will pay each month, you can compare that total to what you would pay in another plan (e.g., Standard Repayment Plan) to see if the difference is worth some of the potential cons of the PSLF program (addressed below).

To see how the PSLF calculations are completed, let's use an example of a pharmacy resident named Jessica who recently graduated from pharmacy school. Let's say that Jessica is single and living in Ohio with an AGI of $37,000. Although most borrowers have several loans with varying interest rates, let's assume that Jessica has $150,000 of direct unsubsidized loans at 6% interest. Jessica is looking at the various repayment options. Knowing that she is going to work for a nonprofit hospital postresidency, she wonders whether she should pursue the PSLF program or whether it would be better to choose another repayment option such as the Standard Repayment Plan.

Here comes the good news! Jessica (and you!) can use the Repayment Estimator provided by the U.S. Department of Education to calculate the monthly payment. Caution, however! When you enter these variables into the Repayment Estimator, you will not get the correct final figures (projected amount forgiven) if you opt into PSLF. These are the non-PSLF numbers, so you can use this to figure out what your initial payment may be, but the amount forgiven will of course be different because you won't be paying past 120 qualifying payments with PSLF.

Entering the variables for Jessica into the Repayment Estimator ($37,000 of AGI, $150,000 of direct unsubsidized loans at 6%, single and living in Ohio) yields the following results:

Repayment Plan	Monthly Payment
Standard	$1665
Graduated	$952
Extended fixed	$966
Extended graduated	$750
REPAYE	$160
PAYE	$160
IBR	$240
IBR for new borrowers	$160
ICR	$419

Let's look further at how these numbers are calculated. Specifically, let's look at how the REPAYE monthly payment ($160) is calculated, knowing that REPAYE uses 10% of your discretionary income (calculated as the difference between your [AGI] and 150% of the poverty guideline amount for your state of residence and family size, divided by 12) to determine that payment.

- Federal poverty level (FPL) for 2016 for a single person = $11,880 x 150% = $17,820.
- $37,000 (AGI) – $17,820 (150% of FPL) = $19,180 (discretionary income).
- $19,180 (discretionary income)/12 months = $1598.3/month of discretionary income.
- $1598.3 (discretionary income/month) x 10% (noted above in the definition of how the monthly payment is calculated) = **$160**.

Remember, this is for Jessica's current situation. In this example, where Jessica is making a resident salary, the monthly payment is fairly low. But remember, the income-driven repayment options (REPAYE, PAYE, IBR, and ICR) calculate the payment on the basis of a percentage of discretionary income. After Jessica finishes the residency and her income goes up, her monthly payment will go up as well.

As you can see in the example above, the income-driven repayment plans are typically much more attractive than the Standard Repayment Plan during residency in regards to the amount owed by the borrower each month. In the Standard Repayment Plan, the monthly payment for Jessica would be $1665. This should be manageable postresidency, but it could be difficult during her 1 or 2 years of residency training.

If someone has $150,000 of loans at 6% interest, as in the case of Jessica, the first payment would have to be greater than $750 to ensure the balance of the loan doesn't go UP! This is calculated by multiplying $150,000 x 6% and dividing that number by 12 months. This is the concern with income-based repayment plans that are not part of PSLF. Why? Because, as you can see above, the payment for several of those income-driven plans is significantly less than $750, meaning that the balance of those loans will be higher next month than they are today. Although these income-driven repayment plans do have a forgiveness clause (if choosing outside PSLF), loan forgiveness occurs after 20+ years instead of after 10 years like with PSLF, depending on the repayment plan chosen. I don't know about you, but I don't want those loans hanging over my head for 20+ years to see the balance growing over time, even if those amounts may be forgiven.

So let's continue to play out Jessica's example to see whether choosing the PSLF program makes sense. To do this, we must project Jessica's salary beyond residency training because the income-driven repayment plans calculate the monthly payment using discretionary income, as we discussed. Because Jessica's loan balance would actually grow during the residency year (remember, the payment won't even cover the interest), let's assume that after residency, the $150,000 Jessica owes is now up to $157,000 (still at 6% interest). If we recalculate using the Repayment Estimator with an assumed AGI of $110,000, we get the following results for the income-driven plans.

Repayment Plan	Monthly Payment
REPAYE	$768
PAYE	$768
IBR	$1152
IBR for new borrowers	$768
ICR	$1635

To keep an apples-apples comparison, let's assume that Jessica's family structure does not change (still single), her income also does not change, and the federal poverty limits remain the same during the 10-year repayment period. Of course, we know this likely won't be the case, but it allows for an easy comparison between the repayment plans. Please note that if you use the Repayment Estimator, a salary increase of 5% per year is assumed, and adjustments are made to assume an increase in the federal poverty limits.

If Jessica chooses and can afford the Standard Repayment Plan program, she will pay a total of $199,800 ($1665 x 120 months). This represents $150,000 of the original loan balance and $49,800 in interest.

In comparison, if Jessica chooses PSLF with the REPAYE income-driven plan, she will pay $1920 ($160 x 12 months) during year 1 and $82,944 during the remaining 9 years ($768 x 12 months x 9 years) before forgiveness kicks in, for a total of $84,864. Remember, for the ease of showing this example, we have assumed no income raises per year (beyond the change from residency to year 1 postresidency); we have also assumed that the federal poverty limits will remain unchanged and that Jessica's household income will remain the same. Moreover, the amount forgiven for Jessica will be higher than shown here because during her PGY1 year, the income-driven repayment plan will calculate the payment on the basis of her AGI from the taxes she filed during her final professional year, and her first year of work after residency will use the AGI from the taxes she filed during her PGY1 year.

Although this is a crude example with some assumptions built in along the way, we can see that Jessica will pay about $115,000 less out of pocket by choosing the PSLF program over the Standard Repayment Plan.

Easy decision, right? Maybe yes, maybe no. Let's look at the potential cons of PSLF.

Cons of PSLF

Although the loan forgiveness program can be very good if you look only at the numbers, it may not be the best option for everyone. It is critical that you do the math for your own situation because the factors individual to you can significantly affect how much you will save through forgiveness.

For example, if we take the same example (Jessica) above but change the loan balance to $75,000 (still at 6%) with a household AGI of $100,000 during residency (because of a working spouse) and an AGI of $173,000 postresidency with no kids, the total payout would be $99,918 under the standard 10-year repayment option and around $92,000 with the REPAYE plan. In this situation, nothing would be forgiven because the loan would be paid off in about 6 years under the REPAYE plan. How is that the case? The monthly payment, after the first year, would actually be more than under the Standard Repayment Plan (based on the discretionary income calculation with the dual income); therefore, the loan would be paid off sooner than 10 years. Although paying off this loan in less than 10 years might certainly not be a bad decision (because less interest would be paid overall), **this is an example of where taking on the restrictions (and other cons) of PSLF would not be worth it.**

So why is PSLF not always the best option? There are three main reasons beyond whether the calculations I outlined above make sense. First, there is an obligation (in my opinion) to pay back borrowed money when terms are agreed on at the time of borrowing. Second, what if the borrower wants to change jobs, and the desired employer does not qualify in the PSLF program? Career choices should not have to be dictated by student loans. Third, although paying off a loan is painful, the borrower often stands to benefit well beyond the savings from the balance of the loans that are forgiven. Maybe the borrower will have several thousand dollars forgiven under the PSLF program, but the lessons learned during paying off that debt might return more than that amount down the road. When my wife and I made a commitment to pay off $200,000 in non-mortgage debt, it was hard, really hard. It required sacrifice, budgeting, difficult conversations, and compromise. But I don't think we would have learned these lessons had our loans been forgiven. Also, something happened when we got into the mode of grinding down our debt payments: we started to appreciate what we had a whole lot more. It is hard to place a dollar amount on that feeling.

Another consideration and potential con of the PSLF program is the possibility that the rules could change at any time regarding PSLF. This is a relatively new program (first group eligible for forgiveness in 2017); therefore, it makes sense that tweaks will/can be made. Some attempts have already been made to change the PSLF program, including both capping the amount forgiven and eliminating the program altogether. Although those already working toward PSLF might be grandfathered in, again, no one knows what could happen. It is reasonable to believe no changes will occur until after the 2016 presidential election, but we should all stay tuned!

Let's consider one final note about PSLF. Remember, PSLF is a program offered by the federal government for federal loans. Therefore, if you are considering refinancing to a lower interest rate with a private lender, you must be sure that you are not pursuing PSLF because refinancing into a private lender would make you ineligible for the PSLF program.

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ABOUT THE AUTHOR:

Dr. Timothy R. Ulbrich is an associate professor of pharmacy practice and associate dean at Northeast Ohio Medical University College of Pharmacy. He lives in Rootstown, Ohio, with his wife, Jess, and three sons: Samuel, Everett, and Levi. After paying off over $200,000 in non-mortgage debt, he is working to empower pharmacists and pharmacy students to take control of their financial future. He is the author of the Your Financial Pharmacist blog and The Path to Debt Free: An E-Guide for Pharmacists. You can follow him on Twitter (@FinancialRPh) and Facebook (www.facebook.com/yourfinancialpharmacist).