

# Medical Student Debt

Brought to you by:

American Medical Association – Medical Student Section  
Committee on Legislation and Advocacy  
American Medical Association – Resident/Fellow Section  
Legislative Advocacy Committee



# The Numbers

- \$155,000 – the average educational debt of indebted 2008 medical school graduates.
- \$45,659 – the average salary for a first year resident.
- 87% – the percentage of 2008 graduates with debt
- 26% – the percentage of 2008 medical school graduates with credit card debt.

Source: *AAMC 2008 Graduation Questionnaire* (October 2008).  
AAMC (<http://www.aamc.org/gq>). Accessed February 28, 2009.



# Physician Workforce Issues

- AAMC predicts shortage of at least 124,000 physicians by 2025.<sup>1</sup>
- Debt influences physician shortages and specialty choice.<sup>2</sup>
- Low-earning specialties are most affected; only 2% of fourth-year medical students in a 2008 survey planned careers in general internal medicine.<sup>3</sup>

[1] *The Complexities of Physician Supply and Demand: Projections through 2025*, November 2008. AAMC

[2] 2003 Report of the AMA-MSS Task Force on Medical Student Debt

[3] Hauer KE et al. Factors associated with medical students' career choices regarding internal medicine. *JAMA*. 2008;300(10):1154-1164

# Physician Workforce Issues

- Decreased diversity of physician workforce
  - Minority students cited cost of attendance as the top reason deterring them from applying to medical school.<sup>1</sup>
- Promoting unsafe physician behaviors
  - Residents with high debt more likely to moonlight, increasing fatigue.<sup>2</sup>

[1] The Complexities of Physician Supply and Demand: Projections through 2025, November 2008. AAMC

[2] 2003 Report of the AMA-MSS Task Force on Medical Student Debt



# Background: Higher Education Act of 1965

- Signed into United States law on November 8, 1965, as part of President Lyndon Johnson's Great Society domestic agenda.
- Recognized college education was increasingly necessary for employment opportunities.
- Intended to “strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education.”



# Background: Higher Education Opportunity Act (HEOA) of 2008

- The Higher Education Opportunity Act (Public Law 110-315) (HEOA) was enacted on August 14, 2008, and reauthorizes the Higher Education Act of 1965, as amended (HEA).
- Reauthorization allows Congress to amend additional programs.
- Does not reinstate the “20/220” pathway, which was scheduled to be replaced by income-based repayment (IBR) effective July 1, 2009.
  - The College Cost Reduction and Access Act of 2007 (CCRAA) scheduled the switch to IBR.

# Definitions

- Deferment
  - No required loan payments
  - Government pays interest on subsidized loans
- Forbearance
  - No required loan payments
  - Interest accrues on all loans
- Adjusted Gross Income
  - Income (e.g. wages, interest, capital gains, alimony paid to you) adjusted downward by specific deductions (e.g. contributions to deductible retirement accounts, alimony paid *by* you).
  - Does not include standard and itemized deductions.

# “20/220” Deferment Pathway

- Expires July 1, 2009, per CCRAA.
- Allows residents to claim complete economic hardship deferment if:
  - Debt is  $> 20\%$  of their income
  - Income minus debt burden is  $< 220\%$  of the Federal Poverty Line
- Allowed to claim hardship up to three years.
- FPL<sup>1</sup>: \$ 10,830; 220% FPL: 23,826


[1] 2009 Federal Poverty Guideline established by the US Department of Health and Human Services



# Income-Based Repayment (IBR)

- Begins July 1, 2009, replaces “20/220”
- Allows payee to claim complete economic hardship if annual income < 150% of FPL (\$16,245).
- Or caps monthly payments at 15% of income exceeding 150% of FPL.
- Repayment begins within 6 months of graduation, after in-school deferment grace period expires.

# The Numbers: Loan Payment



|                              |                  |
|------------------------------|------------------|
| Annual Salary <sup>1</sup>   | \$45,659         |
| Monthly Salary               | \$3,805          |
| 150% of Federal Poverty Line | <u>- \$1,354</u> |
| Discretionary Income         | \$2,451 * 0.15 ≈ |
| Monthly Payment              | \$370            |

[1] Annual salary assumed equal to adjusted gross income for calculations

# The Numbers: Expenses

|                       |                 |
|-----------------------|-----------------|
| Rent (w/ utilities)   | \$1200/mo       |
| Internet and TV       | \$50/mo         |
| Cell Phone            | \$70/mo         |
| Food                  | \$400/mo        |
| Clothing              | \$100/mo        |
| Travel/Transportation | \$500/mo        |
| Books and journals    | \$50/mo         |
| Uninsured Med/Dental  | \$400/yr        |
| Personal              | \$200/mo        |
| <b>Total</b>          | <b>≈ \$2600</b> |

# The Bottom Line

|                                 |                 |
|---------------------------------|-----------------|
| Pre-tax Monthly Income          | \$3,805         |
| Net Monthly Income <sup>1</sup> | \$2,663         |
| Monthly Loan Payment            | - \$370         |
| Monthly Expenses                | <u>- \$2600</u> |
| <b>Net</b>                      | <b>-\$307</b>   |

[1] Net Monthly Income = Pre-tax minus 30% (for Federal and State income taxes, Social Security and Medicare)



# Repayment Options

- **IBR**
  - Begin paying back loans within 6 months of graduation.
  - Loans forgiven after 25 years, after 10 years if qualify for public service loan forgiveness.
- **Forbearance**
  - Able to defer payments for entire residency, interest accrues on all loans (subsidized and unsubsidized).

# AMA Recommendations

- Create more opportunities for debt relief through tuition assistance and loan forgiveness programs.
- Ensure fair, low interest rates.
- Income tax exemptions for medical student scholarships.
- Include dependent costs in the “cost of attendance” definition.
- Expand loan forgiveness programs to medical teaching faculty.

# Benefits of Reducing Indebtedness

- Helps preserve access to care, by allowing students to pursue primary care specialties.
- Promotes diversity within medicine.
- Lowers barriers for financially disadvantaged students.
- Allows careers in medical education and research, public health service, and practice in medically underserved areas.

# Sources

- *AAMC 2008 Graduation Questionnaire* (October 2008). AAMC (<http://www.aamc.org/gq>). Accessed February 28, 2009.
- *The Complexities of Physician Supply and Demand: Projections through 2025, November 2008* (November 2008). AAMC ([https://services.aamc.org/Publications/showfile.cfm?file=version122.pdf&prd\\_id=244&prv\\_id=299&pdf\\_id=122](https://services.aamc.org/Publications/showfile.cfm?file=version122.pdf&prd_id=244&prv_id=299&pdf_id=122)). Accessed February 28, 2009.
- 2003 Report of the AMA-MSS Task Force on Medical Student Debt ([http://www.ama-assn.org/ama1/pub/upload/mm/15/debt\\_report.pdf](http://www.ama-assn.org/ama1/pub/upload/mm/15/debt_report.pdf)). Accessed February 28, 2008.
- Hauer KE et al. Factors associated with medical students' career choices regarding internal medicine. *JAMA*. 2008;300(10):1154-1164.

