Subject: Update on Financial Aid Programs  
(Resolution 324-A-09)

Presented by: Baretta R. Casey, MD, MPH, Chair

Referred to: Reference Committee K  
(Michael M. Miller, MD, Chair)

This report combines a follow-up to one Council on Medical Education report recommendation and a response to two resolutions.

Policy D-305.959, Section 2 (AMA Policy Database) which stems from Council on Medical Education Report 13-A-09, Medical Student Debt, asks that our American Medical Association (AMA) work with other stakeholder groups to study how fundraising efforts and existing medical school and university endowment funds are being used to support financial aid programs for medical students.

Policy D-305.961, Medical Student Loan Repayment, asks that our AMA study the impact that the Higher Education Opportunity Act will have on the length of time it will take young physicians to pay off their medical student loans and the impact of early loan repayment on persons choosing careers in medicine and on specialty selection by medical students.

Resolution 324-A-09, Public Loan Forgiveness Program, which was introduced by the Young Physicians Section and referred to the Board of Trustees, asks that our AMA seek to ensure that all resident and fellow physicians in training and that all physicians in active medical practice who accept either Medicare, Medicaid, or Tricare fall within the definition of public service jobs for the purpose of the Public Service Loan Forgiveness Program.

INCREASING MEDICAL STUDENT DEBT LEVELS

Medical student debt continues to rise. Most significantly, as shown by data from medical schools, the percent of graduating medical students with debt above $200,000 has been steadily increasing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Schools</th>
<th>Private Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Debt</td>
<td>% Above $200,000</td>
</tr>
<tr>
<td>2003</td>
<td>$89,825</td>
<td>0.9%</td>
</tr>
<tr>
<td>2005</td>
<td>$104,955</td>
<td>1.6%</td>
</tr>
<tr>
<td>2007</td>
<td>$120,631</td>
<td>4.5%</td>
</tr>
<tr>
<td>2009</td>
<td>$131,446</td>
<td>8.7%</td>
</tr>
</tbody>
</table>
For all indebted medical students, average debt, as reported by medical schools, rose from $101,058 in 2003 to $140,132 in 2009.\textsuperscript{1}

**INSTITUTIONAL FUNDING AS A SOURCE OF FINANCIAL AID**

Of the approximately 10,389 fourth-year medical students who responded to the 2009 Association of American Medical Colleges (AAMC) Medical School Graduation Questionnaire, 59.2% reported receiving financial aid in the form of scholarships, grants, or stipends. The average total amount of scholarship support received by students with scholarships was about $45,000.\textsuperscript{2}

Scholarships and grants from institutional sources contribute importantly to this total. In the 2008-2009 academic year, medical schools awarded $213.2 million in need-based scholarships to 30,570 recipients. The average award for that year was about $7,000.\textsuperscript{3} The number of need-based scholarship awards has been increasing, up from 25,700 in the 2006-2007 academic year and 28,579 in 2007-2008.\textsuperscript{3}

*The Status of Gift and Endowment Revenue*

Medical schools use gift and endowment revenue for a variety of purposes, such as capital construction; faculty salaries, including endowed professorships; and general operating revenues. Gifts and endowments also provide a major source of institutional funding for scholarships and grants. According to a 2008 survey conducted by the AAMC, gifts to support current operations accounted for about 61% of all support from private sources, followed by gifts for endowment (17%) and capital needs gifts (13%). Of the gifts designated for current operations, only 16% were unrestricted.\textsuperscript{4}

There are a variety of ways that gift and endowment revenue may be directed into financial aid for medical students. For example, gift income may be expended directly or placed into an endowment, with the endowment income providing the source of the aid. Further, the endowment funding may be restricted, as in the case of a named or designated scholarship, or be discretionary.

Overall, medical school revenue from gifts and endowment is decreasing. As compared with 2008, in 2009 total revenue from gifts across all medical schools decreased 1.8% and revenue from endowment decreased 0.3%. The decrease was mainly exhibited in private medical schools, where revenue from gifts decreased 6.1% and revenue from endowment decreased 2.6%.\textsuperscript{5} Average philanthropic support from private sources declined in 2009 as well, decreasing by an average of 19% between 2008 and 2009 (from a mean of $41 million to $30.1 million).\textsuperscript{5}

The value of gifts to medical schools specifically for student scholarships decreased between 2007 and 2008, from a median of about $928,800 per school to $794,149. The median in 2008 for private institutions was $2.1 million and the median for public institutions was about $466,200.\textsuperscript{4} In 2009, the median of gifts for student scholarships was $780,180 ($1.4 million for private schools and $526,159 in public institutions).\textsuperscript{5}

The 2008 and 2009 AAMC surveys revealed that about one-half of responding institutions were engaged in a fund-raising campaign. The campaign may be conducted by the medical school alone or by the medical school and its primary hospital affiliate. Medical schools acting alone have a median goal of $215-242 million and a median campaign length of seven years.\textsuperscript{4,5}

In summary, revenue from philanthropy is an important source of support for financial aid as well as for other medical school activities. The economic climate is creating a challenge, as this revenue source is being impacted, at least at private institutions. Medical schools will need to
compensate for decreasing gifts and falling values of endowments. How this eventually will affect
the availability of financial aid is uncertain.

DESCRIPTION OF RECENT LEGISLATIVE CHANGES

Recent legislation has affected access to and repayment of student loans. These individual acts will
be discussed in the chronological order of their enactment into law. More detailed information is
available from the National Association of Student Financial Aid Administrators at

College Cost Reduction and Access Act

The College Cost Reduction and Access Act (CCRAA) (P.L. 110-84) was signed by President
Bush on September 27, 2007. Two provisions of CCRAA relate directly to the issue of loan
repayment.

Income Based Repayment (Title II)

As an effect of the CCRAA, on July 1, 2009 the 20/220 pathway was eliminated and replaced by
an income-based repayment (IBR) process. The 20/220 pathway allowed deferment of federal
educational loans for up to three years in the case of borrowers whose debt burden was more than
20% of their income and whose income minus debt burden was less than 220% of the Federal
poverty level for a family of two. The federal government paid the interest that accrued on
subsidized loans during the deferment period.6

The IBR process only allows full deferment in the case of individuals earning less than 150% of the
federal poverty level. Partial deferment is allowed if a monthly loan repayment exceeds 15% of the
difference between the individual’s adjusted gross income and 150% of the federal poverty level
for the individual’s family size. Only federally guaranteed loans (Federal Family Education Loan,
Direct Loan programs such as Stafford) are eligible for repayment under IBR. While most resident
physicians will be eligible for IBR, monthly payments are required starting at the beginning of
residency.6 Loan payments are limited to 15% of the borrower’s discretionary income or 15% of
the amount that the borrower’s (and spouse’s if applicable) adjusted gross income exceeds 150% of
the poverty line, divided by 12.6,7 Monthly payments are recalculated yearly, based on the
individual’s adjusted gross income and the federal poverty level for the resident’s family size.
According to calculations by the Medical Student Section, a single first-year resident with a salary
of $46,717 would have a monthly loan payment of $380.6

However, during IBR interest continues to accrue on both subsidized and unsubsidized loans,
which the IBR payment may not be sufficient to cover. For the first three years, the federal
government will cover the difference between the IBR payment (on subsidized loans) and the
accrued interest. Unpaid interest on unsubsidized loans and on subsidized loans after the three-year
period is added to the principal of the loan when the individual leaves IBR.6

Loan Forgiveness (Title IV)

The CCRAA included the Public Service Loan Forgiveness Program that allows individuals
employed in the public service sector to be forgiven the balance of their eligible student loans after
120 payments have been made. The payments must be made after October 1, 2007. The 120
required payments may be under the IBR Plan. Loans under the William D. Ford Direct Loan
Program are eligible. These include:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans),
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans),
- Federal Direct PLUS Loans, and
- Federal Direct Consolidation Loans.8

The program specifies, as clarified in the Higher Education Opportunity Act (see below), that the borrower must be employed full-time in a public service organization when making the 120 monthly loan payments, at the time the borrower applies for loan forgiveness, and at the time the remaining balance on eligible loans is repaid. A public service organization includes:

- a non-profit organization under 501(c)(3) of the Internal Revenue Code;
- a federal, state, local, or Tribal government organization, agency, or entity (for example, a not-for-profit college);
- A private organization that is a non-profit business that provides public health services, including services by nurses and full-time professionals engaged in health care practitioner occupations and health care support occupations.8

There is no mention in the Act of forgiveness for physicians who provide care to patients in federal programs if the physician is not employed by an organization specified above. Additional information is available at http://studentaid.ed.gov/students/attachments/siteresources/LoanForgivenessv4.pdf.

Higher Education Opportunity Act

The Higher Education Opportunity Act (HEOA) (P.L. 110-315) was signed by President Bush on August 14, 2008. In addition to clarifying the definitions in the Loan Forgiveness for Public Service Employees program, the HEOA created a new loan forgiveness program of up to $10,000 in loan forgiveness over five years. Eligibility includes residents who have been accepted to, or currently participate in, ACGME-accredited graduate medical education (GME) programs that require more than five years of total GME and have fewer US medical school applicants than the total number of available positions. The legislation prohibits an individual from receiving funding both from this loan forgiveness program and the Public Service Loan Forgiveness Program.9

The HEOA also reauthorized the Federal Perkins loan program through FY 2015 at $300 million (a 20% increase). This is a low interest (5%) loan available to medical students with exceptional financial need. The bill increased the annual Perkins loan limit for graduate and professional students from $6,000 to $8,000 and increased the lifetime limit from $40,000 to $60,000.9

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) (P.L. 111-148) was signed by President Obama in March 2010. Among other provisions, the act amends Title VII of the Public Health Service Act to create a pediatric subspecialty loan repayment program for individuals who agree to work full-time for at least two years in a pediatric medical specialty, in pediatric surgery, or in child and adolescent mental and behavioral health. Recipients would be required to work in a health professions shortage area or with a medically underserved population. The program pays up to $35,000 per year for up to three years. Funding for the National Health Service Corps (NHSC) also was increased to support the NHSC scholarship and loan repayment programs.10
Other Loan Repayment Programs

In addition to the NHSC and the Indian Health Service, there now are a number of other federal loan repayment programs. For example, the NIH sponsors loan repayment for clinical research, pediatric research, health disparities research, contraception and infertility research, and clinical research for individuals from disadvantaged backgrounds. There also are numerous loan repayment/loan forgiveness programs available at the state level, mainly focused on service in underserved areas.

IMPLICATIONS OF LEGISLATIVE CHANGES

Each of the legislative changes described in this report can affect the amount of debt that physicians carry and the mechanisms by which it is repaid. The new IBR program, for example, requires repayment to begin at the beginning of residency and caps the amount of payment that is required through the life of the loan. However, this means that the loan may not be repaid by the end of the typical 10-year loan period. The new Public Service Loan Forgiveness Program could allow the remainder of the loan to be forgiven, if the borrower meets certain conditions of employment. These conditions could, in turn, impact physician choice of specialty, practice location, and practice setting. The preceding discussion illustrates the complexities and interrelationships of the programs that have been created.

Impact on Career and Specialty Selection

Determining how, if at all, the new regulations related to loan repayment influence specialty choice is not simple. There has been an influence of debt on specialty choice, at least for some medical students. Of the approximately 9,300 fourth-year medical students responding to an item related to the impact of debt on their specialty choice in the 2009 AAMC Medical School Graduation Questionnaire, 6% replied that debt had a strong influence and 16% replied that debt had a moderate influence on their specialty choice. As described by respondents to the questionnaire, other factors, however, exhibited an influence on a greater proportion of respondents:

- the specialty’s fit with the student’s personality, interests, and skills (strong and moderate influence, 97%);
- the content of specialty (strong and moderate influence, 97%); and
- work/life balance (strong and moderate influence, 75%).

Specialty selection also is being complicated by concerns about the availability of residency positions. As the number of medical school graduates increases, medical students aiming for a competitive specialty are being counseled to also include a less competitive specialty option in their rank list.

Access to the Public Service Loan Forgiveness Program

This program is available for individuals working for 501(c)(3) organizations and in settings that provide public services, including health care. The legislation does not specifically mention physicians, but it is likely that physicians employed in such settings would qualify. This would include, for example, residents in non-profit hospitals, full-time medical school faculty members, and other physicians employed full-time in public hospitals or other non-profit health care settings. Physicians employed by for-profit entities or spending less than full-time (defined as 30 hours per week) in employment in the specified settings are not eligible. Given the current economic climate, expansion of access to the program is likely not feasible.
SUMMARY AND RECOMMENDATIONS

This is a time of significant change. For medical schools, the current economic climate is affecting the availability of gift and endowment income to be used for financial aid. This decrease in giving is a new phenomenon, and it is unclear, at this time, what the trends will be in the availability of institutional scholarships and how the debt level of graduating medical students will be affected. The IBR process and the other legislative changes described in this report are equally new and affect the debt levels of graduating medical students and young physicians. There also are new programs, for example, loan repayment options, that could act to reduce the debt burden for at least some young physicians. In general, while some specific steps can be taken to assist physicians, ongoing monitoring of these interrelated issues is needed.

Therefore, the Council on Medical Education recommends that the following be adopted in lieu of Resolution 324-A-09 and that the remainder of this report be filed.

1. That our American Medical Association (AMA), through the advocacy process, explore the possibility of assuring that all resident physicians and fellows have access to the Public Service Loan Forgiveness Program for the time they are in residency and fellowship training. (Directive to Take Action)

2. That our AMA continue to monitor the short- and long-term impact of the economic environment on the availability of institutional and external sources of financial aid for medical students, as well as on choice of specialty and practice location. (Directive to Take Action)

3. That directives for action D-305.959 and D-305.961 be rescinded.

Fiscal Note: Less than $500
REFERENCES


2. Association of American Medical Colleges. 2009 Medical School Graduation Questionnaire. All Schools Report (Final).


