

**HOD ACTION: Council on Medical Education Report 7 adopted as amended, and the remainder of the report filed.**

REPORT OF THE COUNCIL ON MEDICAL EDUCATION

CME Report 7-A-17

Subject: Expansion of Public Service Loan Forgiveness

Presented by: Patricia Turner, MD, Chair

Referred to: Reference Committee C  
(Kenneth M. Certa, MD, Chair)

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1 INTRODUCTION

2  
3 American Medical Association (AMA) Policy D-305.993 (10), “Expansion of Public Loan  
4 Forgiveness,” asks that our AMA study mechanisms to allow residents and fellows working in for-  
5 profit institutions to be eligible for the Public Service Loan Forgiveness program (PSLF). This  
6 report is in response to that directive.

7  
8 BACKGROUND

9  
10 The PSLF allows debt relief for medical professionals who make 120 payments on their  
11 educational loans while working for a non-profit entity. Although most residency and fellowship  
12 programs are located in non-profit institutions, the for-profit or non-profit status of programs is not  
13 generally readily discernible to a medical student or resident investigating training options.  
14 Additionally, residents and fellows who are training in a non-profit university-based residency or  
15 fellowship program will be excluded from the PSLF if they are officially employees of an affiliated  
16 for-profit hospital or health system.

17  
18 The PSLF is intended to encourage individuals to work in public service jobs. The remaining  
19 balance of educational loans is forgiven after a certain number of payments have been made while  
20 working for a qualified employer. Requirements for participating in the PSLF include: 1) type of  
21 loan, 2) timing of payments, 3) loan repayment program, and 4) qualifying employer.<sup>1,2</sup>

22  
23 The only types of educational loans that qualify for the PSLF are Direct Loans (Direct Subsidized  
24 Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans). Other  
25 loans under another federal student loan program, such as Subsidized Federal Stafford Loans or  
26 Federal Perkins Loans, may be consolidated into a Direct Consolidated Loan, which would then be  
27 eligible for the PSLF.

28  
29 Payments towards the loan that will qualify for the PSLF must have been made after October 1,  
30 2007; they must also fulfill the required due amount and be made no later than 15 days after the  
31 due date. A total of 120 qualifying payments are required, but these payments do not have to be  
32 sequential.

33  
34 The 120 payments have to be made through one of several loan repayment programs that qualify  
35 for the PSLF. Qualifying programs include any income-driven repayment plan, such as the Revised  
36 Pay As You Earn Repayment Plan (REPAYE Plan), Pay As You Earn Repayment Plan (PAYE  
37 Plan), the Income-Based Repayment Plan (IBR Plan), the Income-Contingent Repayment Plan

1 (ICR Plan), or the 10-year Standard Repayment Plan. The PSLF will forgive loan balances after the  
2 120 payments are made; most individuals will still have a balance if they are making payments  
3 through REPAYE, PAYE, IBR or ICR plans, as they are income-based.

4  
5 Qualifying employers include the following:

- 6 • All federal, state, local, or tribal government agencies or organizations;
- 7 • Public colleges and universities, public child and family service agencies, and special  
8 governmental districts (including entities such as public transportation, water, bridge  
9 district, or housing authorities);
- 10 • Non-profit organizations that are tax-exempt under section 501(c)(3) of the Internal  
11 Revenue Code; and
- 12 • Non-profit organizations that are not tax-exempt under section 501(c)(3) of the Internal  
13 Revenue Code, but which provide a qualifying public service, including emergency  
14 management, public safety, public service for individuals with disabilities and the elderly,  
15 and public health (including full-time health care practitioners).

16  
17 To be eligible for forgiveness after making 120 qualifying payments, the individual must be  
18 employed full-time (at least 30 hours per week) by a qualifying employer at the time each  
19 qualifying payment is made, at the time the application for loan forgiveness is made, and at the  
20 time loan forgiveness is received.

21  
22 Prior to graduation, medical students are encouraged to request from the Office of Federal Student  
23 Aid of the U.S. Department of Education an income-based repayment plan (REPAYE, PAYE, IBR  
24 or ICR). After graduation, the applicant should consolidate qualifying loans into a Direct Loan.  
25 Once in a residency program, the resident should submit an Employment Certification Form to  
26 FedLoan Servicing, an organization approved by the Department of Education to service loans  
27 owned by the federal government, and the only organization that manages the PSLF. The resident  
28 will work with his or her employer to fill out the form, and the employer will need to certify that  
29 the organization is a qualifying public service organization, state the time frame of employment,  
30 and stipulate that the resident worked at least 30 hours per week. Although the form can be  
31 submitted retroactively, it is advised that the resident submit the form annually, and while  
32 employed by the qualifying employer. Residents should retain documents supporting qualifying  
33 employment, such as pay stubs and W2 forms.<sup>3</sup>

34  
35 To date, no one has actually qualified for the PSLF. The earliest date an applicant can qualify is  
36 October 2017, at which point the program will have been in existence 120 months. Participants in  
37 any of the income-based repayment plans will have their loan paid back (with interest) and any  
38 balance forgiven after a maximum of 240 payments; the PSLF requires half the payments, after  
39 which time the balance is forgiven. A repayment plan such as the PAYE plan allows graduates—  
40 now residents—to pay a minimum 10 percent of their monthly discretionary income (total income  
41 minus any deductions minus 150 percent of the federal household poverty level) towards loan  
42 repayment.<sup>4</sup> Once the individual is out of training and receiving a more substantial salary compared  
43 to residency, the maximum loan payment is capped at the equivalent of a 10-year level repayment  
44 note. Student loan amounts forgiven under the PSLF are not considered income, and therefore are  
45 non-taxable.

46  
47 Not surprisingly, the program is very popular among medical students, who, as a group, have  
48 particularly high educational indebtedness. In 2010, Friedman and colleagues found that 11 percent  
49 of medical school graduates responding to the Association of American Medical Colleges'  
50 (AAMC) Graduation Questionnaire indicated that they intended to participate in PSLF; by 2014,

1 25 percent intended to participate.<sup>5</sup> In each of the four years studied the rate of intended  
2 participation grew 21 percent.

### 3 4 CONCERNS ABOUT THE PSLF

#### 5 6 *Challenges for Residents and Fellows*

7  
8 Graduating medical students may intend to participate in the PSLF while employed as a resident,  
9 but be unable to for several reasons. During the match process, medical students rank residency  
10 programs based on the quality of training they perceive they are likely to receive, among other  
11 variables. They may not be aware of or have access to information about the for-profit status of the  
12 entity that will pay their salary. Graduate medical education often takes place within complicated  
13 institutional arrangements of “sponsoring” and “participating” institutions. Even if residents and  
14 fellows rotate to several non-profit clinical sites, and funds are contributed to that salary by non-  
15 profit or government institutions, the institution writing the salary check may not be non-profit and  
16 thus not be a qualifying employer for the PSLF.<sup>6</sup>

17  
18 Even if students are aware of the profit status of the programs to which they are applying, they may  
19 not feel they can only rank those programs that are non-profit in order to assure a match. Further,  
20 they are obligated by their binding agreement with the National Resident Matching Program  
21 (NRMP) to begin training at the institution to which they are matched, even if it precludes their  
22 participation in PSLF.<sup>6</sup>

23  
24 Finally, mergers and takeovers of hospitals can create a situation in which trainees who had been  
25 working in a non-profit hospital may find their salaries subsequently paid by a for-profit  
26 organization, thus postponing or ending their eligibility to participate in the PSLF.<sup>6</sup>

#### 27 28 *Unintended Consequences of Loan Forgiveness Programs*

29  
30 Articles in the press have cautioned that students in graduate and professional schools may borrow  
31 more than they normally would in anticipation of ultimately being relieved of the debt through loan  
32 forgiveness programs, such as the PSLF. These articles posit that this trend contributes to ever-  
33 increasing higher education costs that affect all students.<sup>7,8</sup> Indeed, it has been suggested that  
34 graduate and professional schools deliberately market the benefits of income-based repayment  
35 plans (and the PSLF) to students, rather than working to make graduate education more  
36 affordable.<sup>9</sup> The harshest critics suggest that these programs, by providing unlimited loans with the  
37 prospect of forgiveness, create a moral hazard for borrowers who acquire debt with little intention  
38 of completely repaying, while taxpayers are left subsidizing their education and educational  
39 institutions continue to charge high tuition.<sup>7</sup>

40  
41 Friedman and colleagues’ analysis of the workforce implications of loan forgiveness programs  
42 found that the highest proportion of graduating medical students intending to use loan forgiveness  
43 were those entering a specialty that could lead to a primary care career. However, these were  
44 followed closely by those planning surgical and medical subspecialty careers. Although the intent  
45 of the PSLF was not to increase the number of primary care physicians, it is a possible side benefit.  
46 Friedman et al. raise concerns that the PSLF may divert resources from the National Health Service  
47 Corps (NHSC) program, which has an explicit goal of increasing primary care physicians in  
48 underserved areas.<sup>5</sup> Indeed, analyses modeling prospective incomes of physicians in internal  
49 medicine who participate in the NHSC found that they may realize greater financial value over  
50 time compared to those who borrow and then repay their loans through the PSLF.<sup>10</sup> Accordingly,  
51 medical students may wish to consider service in the NHSC not only as an altruistic opportunity to

1 provide health care to patients in need but as a wise career decision offering long-term financial  
2 benefits. Nonetheless, there are shortages of physicians in many specialty areas in the US and  
3 regional shortages in most specialties, thus physicians taking advantage of the PSLF and not  
4 entering primary care may still ultimately serve a population for which their specialty is in short  
5 supply.

6  
7 *Potential Costs to Taxpayers, Congressional Scrutiny, and Proposed Caps*

8  
9 An additional criticism of debt forgiveness programs is that they may disproportionately be used by  
10 people with potential to earn high incomes. This has led policymakers to explore ways to limit the  
11 resources required for the programs.

12  
13 It is estimated that the federal cost of the PSLF for medical school graduates in 2014 alone, once  
14 they have completed their 120 payments, will be over \$316 million.<sup>5</sup> The U.S. Department of  
15 Education estimates that the federal costs of all income-based repayment plans (and not just the  
16 PSLF) will be \$74 billion for loans taken out between 1995 and 2017.<sup>11</sup> Thus, this program has  
17 received scrutiny by policymakers, with proposals to cap the amount of debt that can be forgiven.  
18 President Obama's 2016 budget proposal included a \$57,500 cap on the amount of debt forgiven.  
19 This would put the maximum amount of debt forgiven more in line with the average debt of  
20 undergraduate education than graduate education, especially medical school. Another proposal  
21 would make only one income-based repayment plan available to new borrowers (as opposed to the  
22 current four) and target more generous benefits to those with lower incomes.<sup>11</sup> If such proposals  
23 were passed, they would be likely to affect future loan recipients and not those already  
24 participating in repayment programs.

25  
26 Policymakers will likely continue to explore ways to reduce the cost of these programs and assure  
27 they are meeting the intended need.

28  
29 **POTENTIAL MODIFICATIONS TO PROTECT THE PSLF**

30  
31 Several different modifications have been suggested for the PSLF. As there are well described  
32 shortages in various medical specialties, especially primary care fields, some have proposed  
33 limiting the PSLF to those physicians who train and practice in primary care fields.<sup>5</sup> It is well  
34 established that future earning potential is one of many factors medical students consider when  
35 selecting their specialty, so this proposal might not only decrease the overall cost of the PSLF (by  
36 excluding participation by specialists), but could also increase the number of primary care  
37 physicians in the workforce.

38  
39 However, this proposal has significant downsides. Definitions of primary care differ; some include  
40 surgical fields and some do not, and picking any single list could pit specialties against each other.  
41 Additionally, as some of the specialties omitted typically have longer training periods, this proposal  
42 would ask physicians with the longest period of low salary to pay back the full portion of their  
43 loans, while allowing those who have graduated from their residency and are now earning a salary  
44 in practice to receive significant loan reimbursement.

45  
46 Other suggestions have focused on restricting loan reimbursement to those who practice in  
47 underserved areas (such as designated Health Professional Shortage Areas). This would allow  
48 physicians to practice in their area of interest without sacrificing the ability to participate in the  
49 PSLF, while still limiting reimbursement to those who are serving the nation's health care needs.

1 One other potential solution would be to appoint a non-partisan independent authority to supervise  
2 the program and its evolution, and provide course correction as necessary. A concern, however, is  
3 that a physician (or teacher) could be at year eight of ten in non-profit service under current  
4 conditions, only to have the authority change eligibility criteria and negate the previous years of  
5 service. This could be easily avoided by simply having all “course corrections” take effect in the  
6 future, allowing everyone who is grandfathered into the program to complete their payments and  
7 receive their loan forgiveness, although such a delay would also render these course corrections  
8 much less productive at reducing costs to taxpayers.

9  
10 As medicine becomes more complex, more physicians are lengthening their training in the form of  
11 fellowships and “super-fellowships.” This means that more physicians will change institutions  
12 during their training, putting them at risk for increasing the length of their loan repayment period,  
13 as loan payments made while working at a for-profit institution do not qualify for the PSLF. As  
14 trainees often pursue the best education available irrespective of salary and, certainly, of the profit  
15 status of the institution, the profit status of graduate medical education training institutions should  
16 not be a qualification for PSLF eligibility. A physician who provides primary care or needed  
17 subspecialty care in a federally designated Health Professional Shortage Area while training at a  
18 for-profit institution should certainly be eligible for the PSLF.

#### 19 20 CURRENT AMA POLICY

21  
22 The AMA has several policies or directives that relate to medical school debt and public loan  
23 forgiveness. In particular:

24  
25 D-305.993, “Medical School Financing, Tuition, and Student Debt,” states that the AMA will  
26 advocate for ongoing, adequate funding for programs that provide scholarship or loan repayment  
27 funds in return for service; urge the Accreditation Council for Graduate Medical Education to  
28 revise its Institutional Requirements to include financial planning/debt management counseling for  
29 residents; and advocate against a cap on federal loan forgiveness programs but also advocate that  
30 any cap on loan forgiveness under the PSLF program be at least equal to the principal amount  
31 borrowed.

32  
33 H-305.928, “Proposed Revisions to AMA Policy on Medical Student Debt,” states that our AMA  
34 support new and expanded medical education assistance programs from the federal government;  
35 support legislation and regulation that produce favorable terms and conditions for borrowing and  
36 loan repayment; and support expansion and increase of medical student and physician benefits  
37 under PSLF.

38  
39 H-305.991, “Repayment of Education Loans,” states that the AMA will encourage medical schools  
40 to counsel medical student borrowers on the status of indebtedness and payment schedules prior to  
41 graduation.

42  
43 D-305.975, “Long-terms Solutions to Medical Student Debt,” states that our AMA will advocate  
44 for increased funding for the NHSC Loan Repayment Program to assure adequate funding of  
45 primary care within the NHSC; and encourage the NHSC to have repayment policies consistent  
46 with other federal loan forgiveness programs, to decrease the amount or loans in default and  
47 increase the number of physicians practicing in underserved areas.

1 SUMMARY AND RECOMMENDATIONS

2  
3 Overall, the physician community may be forced to recognize that its training paradigm is outside  
4 the initial scope of the PSLF. Although the training period is long and arduous, and residents and  
5 fellows are relatively poorly reimbursed, physician salaries remain substantial, making the  
6 argument for loan forgiveness a delicate one. When focusing on improvements to the PSLF, we  
7 must remain cognizant of these facts.

8  
9 The Council on Medical Education therefore recommends that the following recommendations be  
10 adopted and the remainder of the report be filed.

- 11
- 12 1. That our American Medical Association (AMA) encourage the Accreditation Council for  
13 Graduate Medical Education (ACGME) to require programs to include within the terms,  
14 conditions, and benefits of appointment to the program (which must be provided to  
15 applicants invited to interview, as per ACGME Institutional Requirements) information  
16 regarding the Public Service Loan Forgiveness (PSLF) program qualifying status of the  
17 employer. (New HOD Policy)
  - 18
  - 19 2. That our AMA rescind Policy D-305.993 (10), as having been fulfilled by this report.  
20 (Rescind HOD Policy)
  - 21
  - 22 3. That our AMA reaffirm Policy D-305.993 (1-9), which asks that the AMA advocate  
23 against a cap on federal loan forgiveness programs. (Reaffirm HOD policy)
  - 24
  - 25 4. That our AMA advocate that the profit status of a physician's training institution not be a  
26 factor for PSLF eligibility. (Directive to Take Action)
  - 27
  - 28 5. That our AMA encourage medical school financial advisors to counsel wise borrowing by  
29 medical students, in the event that the PSLF program is eliminated or severely curtailed.  
30 (Directive to Take Action)
  - 31
  - 32 6. That our AMA encourage medical school financial advisors to promote to medical students  
33 service-based loan repayment options, and other federal and military programs, as an  
34 attractive alternative to the PSLF in terms of financial prospects as well as providing the  
35 opportunity to provide care in medically underserved areas. (Directive to Take Action)
  - 36
  - 37 7. That our AMA strongly advocate that the terms of the PSLF that existed at the time of the  
38 agreement remain unchanged for any program participant in the event of any future  
39 restrictive changes. (Directive to Take Action)

Fiscal note: \$2,000.

## REFERENCES

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- <sup>10</sup> Marcu MI, Kellerman AL, Hunter C, Curtis J, Rice C, Wilensky GR. Borrow or serve? An economic analysis of options for financing a medical school education. *Acad Med*, January 24, 2017, doi: 10.1097/ACM.0000000000001572
- <sup>11</sup> GAO. Federal student loans. Education needs to improve its income-driven repayment plan budget estimates. November 2016. <http://www.gao.gov/assets/690/681064.pdf>. Accessed November 10, 2016.