Subject: Expansion of Public Service Loan Forgiveness

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Referred to: Reference Committee C
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INTRODUCTION

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

BACKGROUND

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

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

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

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

The 120 payments have to be made through one of several loan repayment programs that qualify for the PSLF. Qualifying programs include any income-driven repayment plan, such as the Revised Pay As You Earn Repayment Plan (REPAYE Plan), Pay As You Earn Repayment Plan (PAYE Plan), the Income-Based Repayment Plan (IBR Plan), the Income-Contingent Repayment Plan...
(ICR Plan), or the 10-year Standard Repayment Plan. The PSLF will forgive loan balances after the 120 payments are made; most individuals will still have a balance if they are making payments through REPAYE, PAYE, IBR or ICR plans, as they are income-based.

Qualifying employers include the following:

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

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

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

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

Not surprisingly, the program is very popular among medical students, who, as a group, have particularly high educational indebtedness. In 2010, Friedman and colleagues found that 11 percent of medical school graduates responding to the Association of American Medical Colleges’ (AAMC) Graduation Questionnaire indicated that they intended to participate in PSLF; by 2014,
25 percent intended to participate.\(^5\) In each of the four years studied the rate of intended participation grew 21 percent.

CONCERNS ABOUT THE PSLF

Challenges for Residents and Fellows

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

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

Finally, mergers and takeovers of hospitals can create a situation in which trainees who had been working in a non-profit hospital may find their salaries subsequently paid by a for-profit organization, thus postponing or ending their eligibility to participate in the PSLF.\(^6\)

Unintended Consequences of Loan Forgiveness Programs

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

Friedman and colleagues’ analysis of the workforce implications of loan forgiveness programs found that the highest proportion of graduating medical students intending to use loan forgiveness were those entering a specialty that could lead to a primary care career. However, these were followed closely by those planning surgical and medical subspecialty careers. Although the intent of the PSLF was not to increase the number of primary care physicians, it is a possible side benefit. Friedman et al. raise concerns that the PSLF may divert resources from the National Health Service Corps (NHSC) program, which has an explicit goal of increasing primary care physicians in underserved areas.\(^5\) Indeed, analyses modeling prospective incomes of physicians in internal medicine who participate in the NHSC found that they may realize greater financial value over time compared to those who borrow and then repay their loans through the PSLF.\(^10\) Accordingly, medical students may wish to consider service in the NHSC not only as an altruistic opportunity to
provide health care to patients in need but as a wise career decision offering long-term financial
benefits. Nonetheless, there are shortages of physicians in many specialty areas in the US and
regional shortages in most specialties, thus physicians taking advantage of the PSLF and not
entering primary care may still ultimately serve a population for which their specialty is in short
supply.

Potential Costs to Taxpayers, Congressional Scrutiny, and Proposed Caps

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

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

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

Potential Modifications to Protect the PSLF

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

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

Other suggestions have focused on restricting loan reimbursement to those who practice in
underserved areas (such as designated Health Professional Shortage Areas). This would allow
physicians to practice in their area of interest without sacrificing the ability to participate in the
PSLF, while still limiting reimbursement to those who are serving the nation’s health care needs.
One other potential solution would be to appoint a non-partisan independent authority to supervise
the program and its evolution, and provide course correction as necessary. A concern, however, is
that a physician (or teacher) could be at year eight of ten in non-profit service under current
conditions, only to have the authority change eligibility criteria and negate the previous years of
service. This could be easily avoided by simply having all “course corrections” take effect in the
future, allowing everyone who is grandfathered into the program to complete their payments and
receive their loan forgiveness, although such a delay would also render these course corrections
much less productive at reducing costs to taxpayers.

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

CURRENT AMA POLICY

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

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

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

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

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

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

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

1. That our American Medical Association (AMA) encourage the Accreditation Council for Graduate Medical Education (ACGME) to require programs to include within the terms, conditions, and benefits of appointment to the program (which must be provided to applicants invited to interview, as per ACGME Institutional Requirements) information regarding the Public Service Loan Forgiveness (PSLF) program qualifying status of the employer. (New HOD Policy)

2. That our AMA rescind Policy D-305.993 (10), as having been fulfilled by this report. (Rescind HOD Policy)

3. That our AMA reaffirm Policy D-305.993 (1-9), which asks that the AMA advocate against a cap on federal loan forgiveness programs. (Reaffirm HOD policy)

4. That our AMA advocate that the profit status of a physician's training institution not be a factor for PSLF eligibility. (Directive to Take Action)

5. That our AMA encourage medical school financial advisors to counsel wise borrowing by medical students, in the event that the PSLF program is eliminated or severely curtailed. (Directive to Take Action)

6. That our AMA encourage medical school financial advisors to promote to medical students service-based loan repayment options, and other federal and military programs, as an attractive alternative to the PSLF in terms of financial prospects as well as providing the opportunity to provide care in medically underserved areas. (Directive to Take Action)

7. That our AMA strongly advocate that the terms of the PSLF that existed at the time of the agreement remain unchanged for any program participant in the event of any future restrictive changes. (Directive to Take Action)

Fiscal note: $2,000.
REFERENCES


