

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)

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

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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.^{1,2}

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.³

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.⁴ 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.⁵ 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.⁶

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.⁶

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.⁶

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.^{7,8} 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.⁹ 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.⁷

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.⁵ 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.¹⁰ 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.⁵ 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 2017.¹¹ 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.¹¹ 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.⁵ 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 The AMA has several policies or directives that relate to medical school debt and public loan
22 forgiveness. In particular:

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

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

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

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

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 2. That our AMA rescind Policy D-305.993 (10), as having been fulfilled by this report.
19 (Rescind HOD Policy)
- 20 3. That our AMA reaffirm Policy D-305.993 (1-9), which asks that the AMA advocate
21 against a cap on federal loan forgiveness programs. (Reaffirm HOD policy)
- 22 4. That our AMA advocate that the profit status of a physician's training institution not be a
23 factor for PSLF eligibility. (Directive to Take Action)
- 24 5. That our AMA encourage medical school financial advisors to counsel wise borrowing by
25 medical students, in the event that the PSLF program is eliminated or severely curtailed.
26 (Directive to Take Action)
- 27 6. That our AMA encourage medical school financial advisors to promote to medical students
28 service-based loan repayment options, and other federal and military programs, as an
29 attractive alternative to the PSLF in terms of financial prospects as well as providing the
30 opportunity to provide care in medically underserved areas. (Directive to Take Action)
- 31 7. That our AMA strongly advocate that the terms of the PSLF that existed at the time of the
32 agreement remain unchanged for any program participant in the event of any future
33 restrictive changes. (Directive to Take Action)

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37 Fiscal note: \$2,000.
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REFERENCES

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¹⁰ 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

¹¹ 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.