Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

MEMORANDUM

TO: Small Business Committee Members

FROM: Nydia M. Velázquez, Chairwoman

DATE: Wednesday, June 12, 2019

RE: Full Committee hearing entitled, "The Doctor is Out. Rising Student Loan Debt and the Decline of the Small Medical Practice" on Wednesday, June 12, 2019 at 11:30 A.M. in Room 2360 of the Rayburn House Office Building.

The Committee on Small Business will hold a hearing entitled "The Doctor is Out. Rising Student Loan Debt and the Decline of the Small Medical Practice" on Wednesday, June 12, 2019 at 11:30 A.M. in room 2360 of the Rayburn House Office Building.

Student loan debt is now a $1.49 trillion issue that continues to grow and is now the second highest consumer debt category, behind only mortgage debt, and higher than credit card and auto loan debt. With over 40 million Americans burdened by student loan debt, the need to pay off that debt can prevent graduates from buying homes and prevent individuals from taking the risk to start a business. In certain fields, like the medical profession, student loan debt is impacting specialties doctors choose and disincentivizing doctors from starting their own practice. Members will hear testimony on what has led to the staggering growth in student loan debt, how it compares to prior generations of college educated professionals, why medical professionals are more likely to have higher debt levels, and the impact it has on specialization and private practice decisions. Additionally, the hearing will examine what legislative solutions or ideas are available to reduce student loan debt and increase the number of private practices in the health care field.

Witnesses include:

- Ms. Sandra Norby, PT, DPT, CEO of HomeTown Physical Therapy, LLC, Des Moines, IA (Testifying on behalf American Physical Therapy Association and the Private Practice Section of the American Physical Therapy Association)
- Dr. Lauren Wiese, Orthodontic Resident, University of Maryland School of Dentistry, Baltimore, MD (Testifying on behalf of the American Association of Orthodontics)
- Dr. Tracey L. Henry, MD, MPH, MS, Assistant Professor of Medicine - Division of General Medicine and Geriatrics, and Assistant Health Director Grady Primary Care Center, Atlanta, GA (Testifying on behalf of the American College of Physicians)

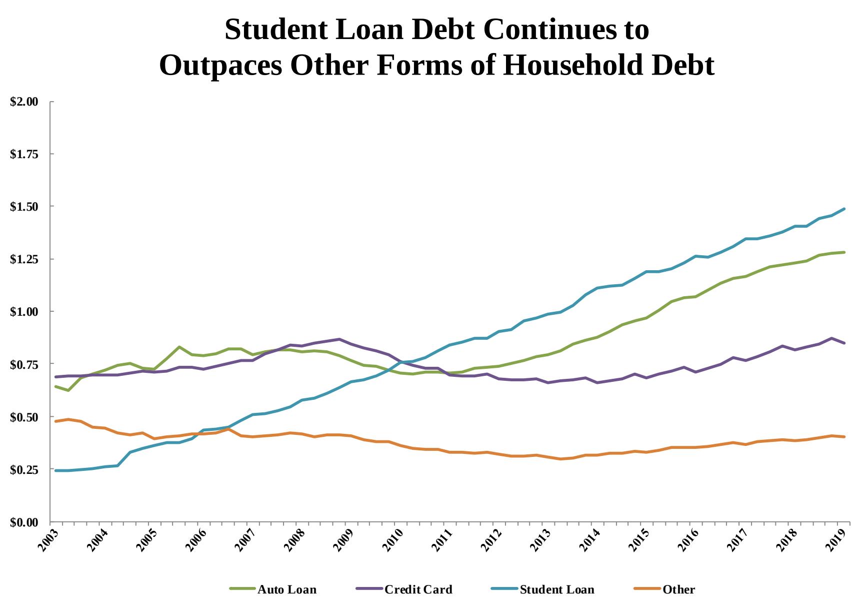
- Mr. Jason Delisle, Resident Fellow, American Enterprise Institute, Washington, D.C.

Rising Cost of Education and Growing Student Debt

Student loan debt is now a $1.49 trillion issue that continues to climb quarter after quarter. Not only has it forced many younger and older Americans to reevaluate careers paths but has also hampered small business formation and expansion, and economic activity. Among many health care professionals, it has hindered and limited opportunities for sole or private practice, while influencing the specialty many professionals are able to choose from.

Student loans, like other forms of debt, enable borrowers to purchase goods and services that might not normally be available due to the steep, up-front and on-going cost. Unfortunately, budgetary cuts and declines in state spending on public colleges have led to an increasing cost of attending higher education institutions. Between 2008 to 2018, state spending per student at higher education institutions declined in all but four states in the U.S.[1] In that same time frame, average spending per pupil declined 16 percent.[2] With the average cost of attending a four-year public college ranging between $9,410 and $23,890 for in-state and out-of-state residents respectively, many students and families have had to take on the additional cost of attending higher education in the form of private and publicly subsidized loans.[3]

Graph 1



Source: New York Fed Consumer Credit/Equifax.
Note: Amount in trillions of USD.

[1] Michael Mitchelle et al., UNKEPT PROMISES: STATE CUTS TO HIGHER EDUCATION THREATEN ACCESS AND EQUITY CENTER ON BUDGET AND POLICY PRIORITIES (2018), https://www.cbpp.org/research/state-budget-and-tax/unkept-promises-state-cuts-to-higher-education-threaten-access-and (last visited May 24, 2019).

[2] *Id.*

[3] College Costs: FAQs, COLLEGE COSTS: FAQs, https://bigfuture.collegeboard.org/pay-for-college/college-costs/college-costs-faqs (last visited May 24, 2019).

As the cost has skyrocketed, the total debt accrued has followed suit. Student loan debt is now the largest non-housing related debt balance, reaching a historic $1.49 trillion in the first quarter of this year (**see Graphic 1**).[4] This debt alone has surpassed all other forms of non-housing related debt for American households since 2015 and continues to outpace other forms of debt on an annual basis.[5] While this figure represents all undergraduate and graduate debt, a sizable portion is due to professional and advanced degree studies.

Student Loans Among Health Care Professionals

Professional, graduate, and doctoral degrees, which occupations like orthopedic surgeons or cardiologists require, account for a major part of the growing student debt crisis in the United States. In 2015 and 2016, 17 percent of federal student loan borrowers were in graduate or professional school yet accounted for 38 percent of federal education loans.[6] This is in part due to the cost of professional health schooling, which consists of degrees in Doctor of Dental Medicine to Master of Science in Nursing.

Of this class of borrowers, physicians have among the highest amounts of student loan debt of any profession. While attending medical school has historically added an additional cost, the mean medical education debt has grown nearly threefold since the late 1980s.[7] In 2012, 64 percent of medical professional degree recipients had loans totaling more than $100,000.[8] Many medical professionals now owe over $200,000 by graduation, and some who pursue more specialized medicine, such as cardiothoracic surgery and dermatologists, can accumulate between $500,000 to $1 million before entering the workforce.

The cost of schooling can also affect the specialty a physician chooses. Higher educational debt has shown to deter medical school graduates of public medical schools from choosing primary care, mainly as a result of the lower salaries associated with the specialty.[9] This is particularly true for public school graduates with high debt and those from lower-income families, which perceive a need for greater financial return of specialization to finance their debt.[10] In primary care, an area in which more physicians are needed and employs a large portion of female physicians, salaries are among the lowest in the profession.[11] With an average debt of $166,750 upon graduation from

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[4] Center for Microeconomic Data, THE CENTER FOR MICROECONOMIC DATA - FEDERAL RESERVE BANK OF NEW YORK, https://www.newyorkfed.org/microeconomics/hhdc (last visited May 24, 2019).

[5] House Small Business Committee Staff calculations.

[6] Baum and Steele, *Graduate and Professional School Debt: How Much Students Borrow*, Urban Institute (2018) https://www.urban.org/sites/default/files/publication/95626/graduate-and-professional-school-debt.pdf

[7] Justin Grischkan et al., *Distribution of Medical Education Debt by Specialty, 2010-2016*, 177 JAMA INTERNAL MEDICINE1532 (2017), https://jamanetwork.com/journals/jamainternalmedicine/fullarticle/2652831 (last visited May 24, 2019).

[8] The Top 5 Medical Specialties with the Highest Student-loan Debts, AMERICAN MEDICAL ASSOCIATION (2019), https://www.ama-assn.org/residents-students/resident-student-finance/top-5-medical-specialties-highest-student-loan-debts (last visited May 28, 2019).

[9] Julie P. Phillips et al., A Retrospective Analysis of the Relationship Between Medical Student Debt and Primary Care Practice in the United States The Annals of Family Medicine (2014), http://www.annfammed.org/content/12/6/542.full (last visited May 28, 2019).

[10] *Id.*

[11] The average primary care physicians earn $195,000 compared to $284,000 for other medical specialist in the field. While this constitutes an increase for primary care physicians from prior years, still trails other specialties in the field.

medical school, there is little incentive to look for a job that pays between $173,000 and $185,000 per year, as many primary care physicians do. If the industry average stands at about $270,000 many would rather choose specialties that receive over double the pay of primary care physicians for the same amount in loans.

Challenges Facing Solo and Small Practices

Running a private medical practice is no different than running a small business and for many medical professionals in private practice, the challenges are ever-growing. Overhead costs, insurance, and access to capital are all issues for medical providers looking to start their own practice. Unlike many private practices, hospital or health systems have existing or larger administrative professionals that are better able to handle payment policies and other health care administrative tasks. Among independent physicians, overhead cost and reimbursement pressures are the most cited concerns.[12] Also, private payer payment policies increasingly favor integrated health systems and make it more challenging for physician practices to remain independent.[13] When employed by hospitals or health systems, many medical professions are able to focus on attending patients rather than reporting requirements or processing payments.

Consolidation Trend

Medical professionals are in the business of treating patients, yet many are expressing dissatisfaction with their jobs due to the growing challenges of being in private practice. In fact, research from the American Medical Association highlights the growing trend of hospital or large practice-based employment among physicians, and a decline in the number of physicians working at smaller private practices.[14] This phenomenon is in part due to growing industry consolidation and mergers that have created additional incentives for medical professionals.[15] Since the 1990s, though, there has been a trend towards larger and more established employment among medical professionals rather than owning a private practice. The trend is likely to continue as the hospital employment model continues to overtake the industry. Many physicians, however, don’t think the trend away from private practice and toward hospital employment is a good one; 58 percent of physicians do not think this trend will improve care or reduce costs.[16] Furthermore, 34.6 percent of the hospital employed physicians do not think hospital employment was a positive trend.

Financial Pressures

There are numerous reasons why medical professionals are choosing not to start solo or small group medical practices, but the driving factor is the financial pressures of managing such a

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[12] Many U.S. Doctors will Leave Private Practice for Hospital Employment, Accenture Reports, (2015), https://newsroom.accenture.com/news/many-us-doctors-will-leave-private-practice-for-hospital-employment-accenture-reports.htm (last visited May 30, 2019).

[13] UPDATED PHYSICIAN PRACTICE ACQUISITION STUDY: NATIONAL AND REGIONAL CHANGES IN PHYSICIAN EMPLOYMENT 2012-2016(2018), http://www.physiciansadvocacyinstitute.org/Portals/0/assets/docs/2016-PAI-Physician-Employment-Study-Final.pdf (last visited May 30, 2019).

[14] Carol K Kane, PHYSICIAN PRACTICE BENCHMARK SURVEY AMERICAN MEDICAL ASSOCIATION (2019), https://www.ama-assn.org/about/research/physician-practice-benchmark-survey (last visited May 30, 2019).

[15] 2019 Small Business Profiles for the States and Territories, SBA’S OFFICE OF ADVOCACY, https://advocacy.sba.gov/2019/04/24/2019-small-business-profiles-for-the-states-and-territories/ (last visited May 30, 2019) [hereinafter 2019 SBA Profiles].

[16] 2018 Survey of America’s Physicians, THE PHYSICIANS FOUNDATION (2018), https://physiciansfoundation.org/research-insights/the-physicians-foundation-2018-physician-survey/ (last visited Jun 3, 2019) [hereinafter Physician Survey].

practice. The inability to keep costs low while also taking on additional financing in conjunction with existing debt is a major contributor. Running a practice can be expensive and, unlike group practitioners, physicians in solo practice do not have the benefit of sharing their business expenses. Specifically, a group practice is often more attractive to doctors because by sharing the costs associated with practice, such as overhead for rent, office maintenance, staffing, office and medical supplies and technology support, they are able to generate more income and lower liability.

Medical professionals, like many new graduates, face particular challenges when entering the labor force. Chief among them is figuring out how to pay off staggering amounts of student loan debt while attempting to follow a fruitful career path or open a small private practice. Starting a small business is a risk and may provide less stability and flexibility than accepting a job in established or larger firms. Unfortunately, the large student loan debt that many graduating medical professionals have doesn't incentivize people to take those risks associated with starting a small business in a capital-intensive industry. Many graduates would rather have a steady paycheck to assure they can make student loan payments than going into private practice, which requires a multitude of responsibilities including hiring staff, attracting patients, and dealing with administrative activities. By eliminating the administrative cost of owning a private practice, many medical professionals can enjoy the flexibility associated with working for a hospital or medical group.

Decline of Small Practices

Health care and social assistance remains the top small business employers in the U.S., employing over 8.8 million individuals in 2016.[17] However, as of 2018, less than one-third (31.4 percent) of practicing physicians identified as independent practice owners or partners.[18] Meanwhile, as noted above, with the rise of health care systems and medical groups, the amount of those employed by a medical group or hospital hovered around 50 percent.[19] This leaves the percentage of physicians with their own private practice at the lowest it has been since the launch of the survey in 2008.

Student Loan Debt is Exacerbating Medical Professional Shortages in Rural Communities

America is facing a workforce shortage, which can cause business stagnation and slowed economic growth. Recruiting and maintaining employees at small firms and in low paying specialties is a particularly acute issue in the medical profession. A growing concern is the decline in the number of qualified medical professionals overall, and the inability to meet the growing health care needs of the next decades. Already, nearly 15,000 primary care professionals, over 10,000 dental professionals, and nearly 7,000 mental health professionals are needed to address existing shortages across the country (see **Table 1**). By 2030, there will be an expected physician shortage up to 104,900 according to the Association of American Medical Colleges (AAMC), with primary care making up roughly half.[20] With this shortage of medical professionals and a larger segment moving towards large scale employment, many private practices are finding it difficult to recruit and retain new medical professionals.

[17] 2019 SBA Profiles, *supra* note 15.
[18] Physician Survey, *supra* note 16.
[19] *Id.*
[20] Research Shows Shortage of More than 100,000 Doctors by 2030, AAMC NEWS (2017), https://news.aamc.org/medical-education/article/new-aamc-research-reaffirms-looming-physician-shor/ (last visited May 30, 2019).

This trend worsens in rural communities. Unfortunately, the current situation in rural communities—an aging population, decline in medical professionals interested in working in rural areas, consolidation of health care facilities, lower salaries and increased cost, and large student debt among medical professionals—creates little incentive for starting private practices. Student debt is also impacting where medical professionals decide to practice. Due to large balances and less favorable repayment terms, many medical professionals forgo working in underserved rural and lower pay areas for major metropolitan areas, where incomes among medical professionals are higher.[21] This move towards larger metropolitan areas and higher salaries that allow medical professionals to make a dent on their debt, has likely compounded the existing medical professional shortage in designated areas. While medical professionals face many of the challenges in starting a business as other entrepreneurs, the staggering amount of student debt poses unique challenges to the medical profession and ultimately the patients they serve.

Table 1

Medical Professional Shortages Are Widespread			
	Number of Designations	Population of Designated	Practitioners Needed
Primary Medical Health	7,026	79,125,152	14,900
Dental Health	5,833	57,937,800	10,635
Mental Health	5,124	115,383,074	6,894

Source: U.S. Department of Health & Human Services.
Note: The number of designations includes HPSAs that are proposed for withdrawal (P) and HPSAs that have no data (N). Designations are not withdrawn until a Federal Register Notice is published, generally once a year on or around July 1. Population of designated are figures reported for the Population of Designated Facility HPSAs for both Primary Care and Dental reflects the number of internees in designated correctional facilities.

Policy Proposals

Loan repayment programs are a way to lighten the load for newly graduated medical professionals. As interest adds up during residency, many do not have to make payments until afterwards due to forbearance or deferment. Under the Graduate Fellowship Deferment (GFD) program, many students can avoid making payments while at lower pay while interest only accrues on the unsubsidized and Grad PLUS Loan balances.[22] Many students, however, opt for the second choice; Income Driven Repayment (IDR) plans pay predetermined amounts based on the amount of money made during residency. These plans were reformed several times during the Obama Administration, the most recent being the 2015 Revised Pay As You Earn (REPAYE).[23] This program allows graduates to qualify without an income requirement or proof of financial hardship, like previous versions did, and provides a forgiveness program after 25 years.[24] Furthermore, it limits interest charged to borrowers, only charging 50 percent of the accrued interest on all their loans.[25]

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[21] Michael Pierce, STUDENT DEBT AND HEALTH CARE CONSUMER FINANCIAL PROTECTION BUREAU (2013), https://www.consumerfinance.gov/about-us/blog/student-debt-and-health-care/ (last visited Jun 5, 2019).
[22] Jose Rivera Espada, A Physician's Fork in the Road: Student Loan Repayment, Forgiveness, and Refinancing NEJM Resident 360 (2016), https://resident360.nejm.org/content_items/1373 (last visited May 30, 2019).
[23] *Id.*
[24] *Id.*
[25] *Id.*

Recent legislative proposals have aimed at providing student loan relief for recent college graduates, while also providing a strong footing for those interested in starting a small business. Small business founders need a more level playing field that allows for job creation and economic activity. Policymakers should focus on proposals that address the needs of entrepreneurs, so they can create jobs and economic growth without the fear of taking on more debt or being unable to repay student loans. Other proposals that provide more incentives for rural America, such as ways to incentivize medical professionals to serve rural and underserved areas where the medical professional shortage is a problem.

Conclusion

Medical professionals play an integral part of our small businesses as sole practitioners and small employers. Unfortunately, growing student loan debt has hampered many of these professional's ability to open a private practice or reach major life benchmarks. With student loan debt growing $29 billion in the first quarter of this year, reaching nearly $1.5 trillion, something must be done to address the crisis. Among medical professionals, it has hampered and limited opportunities for sole or private practice, and, ultimately, help individuals in urban and rural communities.