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Statement before the House Committee on Small Business
On The Doctor is Out: Rising Student Loan Debt and the Decline of the Small Medical Practice

Borrowing for Medical School

Assessing the Benefits in the Federal Student Loan Program for Health Professionals

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Introduction

Chairwoman Velazquez, Ranking Member Chabot, and members of the committee, thank you for the opportunity to testify about student loans and debt burdens among graduate and professional students, particularly those in medical professions. My testimony today focuses on broad trends in student debt and repayment patterns across a range of degree programs to provide the committee with a general understanding of the student loan landscape. I also discuss limited statistics on medical school tuition and debt increases in recent years to speak more directly to the topic of today's hearing. The testimony also addresses the federal Income-Based Repayment program, which has allowed high-debt, high-income borrowers to reduce their repayment burdens at substantial cost to the government. A related program, Public Service Loan Forgiveness, can provide large taxpayer-funded incentives to doctors who *do not* open their own practices and instead work for non-profit entities. To conclude, I suggest reforms to these programs and explain how an accountability system for federal student loans would help ensure colleges align their prices with graduates' expected earnings.

The federal government's Direct Loan program dominates the student loan market, now issuing 90 percent of all loans made across the country. Students pursuing everything from short-term certificates to graduate programs and medical degrees collectively receive nearly $100 billion in loans every year at terms more generous than most private lenders would offer.

The federal role in higher education lending has grown ever since lawmakers enacted the first loan program under the National Defense Education Act of 1958. The Higher Education Act of 1965 expanded access to loans to more colleges and students through the Guaranteed Student Loan Program, but benefits were restricted to students from low-income families. In 1980, Congress created a loan program for parents of undergraduates (Parent PLUS), and then in 1992, eliminated annual and lifetime borrowing limits for those loans. That year, lawmakers also authorized the Unsubsidized Stafford Loan program, which allows all undergraduate students to borrow federal loans regardless of their financial circumstances. In 2006, Congress created the Grad PLUS loan program, which removed limits on the amount that graduate and professional students can borrow from the government.[1]

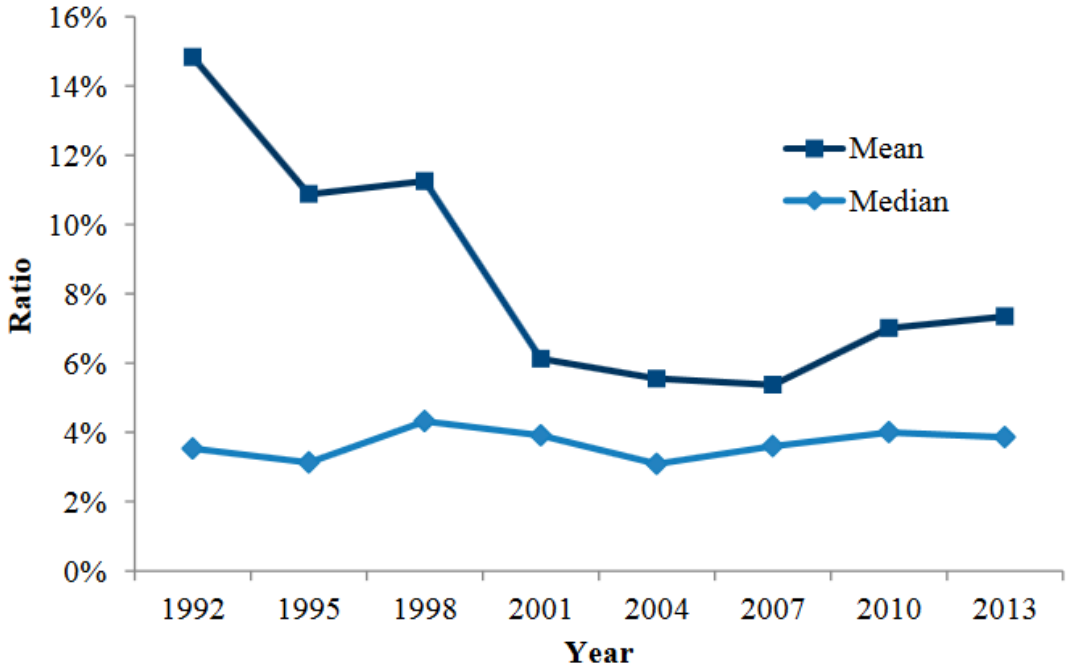
This expansion, along with rising college costs and increasing student enrollments, has led to a rapid increase in the stock of outstanding debt in recent years. The amount of outstanding federal student loans was $595 billion in 2004 (in 2019 dollars). By 2015, it had more than doubled to $1.3 trillion. Today, the amount of outstanding student loan debt is $1.5 trillion.[2] As a result, student loans have become a major source of worry among policymakers and the public.

Does Rising Debt Signal Rising Burdens?

The rapid rise in total outstanding debt has led some to conclude that students' monthly repayment burdens have increased at a similar rate. The data show a much more complicated picture.

One Brookings Institution study from 2014 shows that repayment burdens for households with student debt have remained surprisingly constant for decades.[3] The authors found that borrowers' monthly loan payments relative to their household earnings have remained steady at about 4 percent (median). There are, of course, limitations to these data and the analysis, but it is noteworthy how little the increase in outstanding debt has affected the amount that individual borrowers' pay each month. The authors suggest that the increase in outstanding debt reflects the fact that more students are pursuing a postsecondary credential. They also suggest that to the extent debt burdens have increased at the household level, incomes have also increased enough to offset the higher debt loads. In other words, rising student debt in the aggregate is not synonymous with rising debt burdens at the household level.

Figure 1. Monthly Household Student Loan Payment-to-Income Ratios 1992-2013

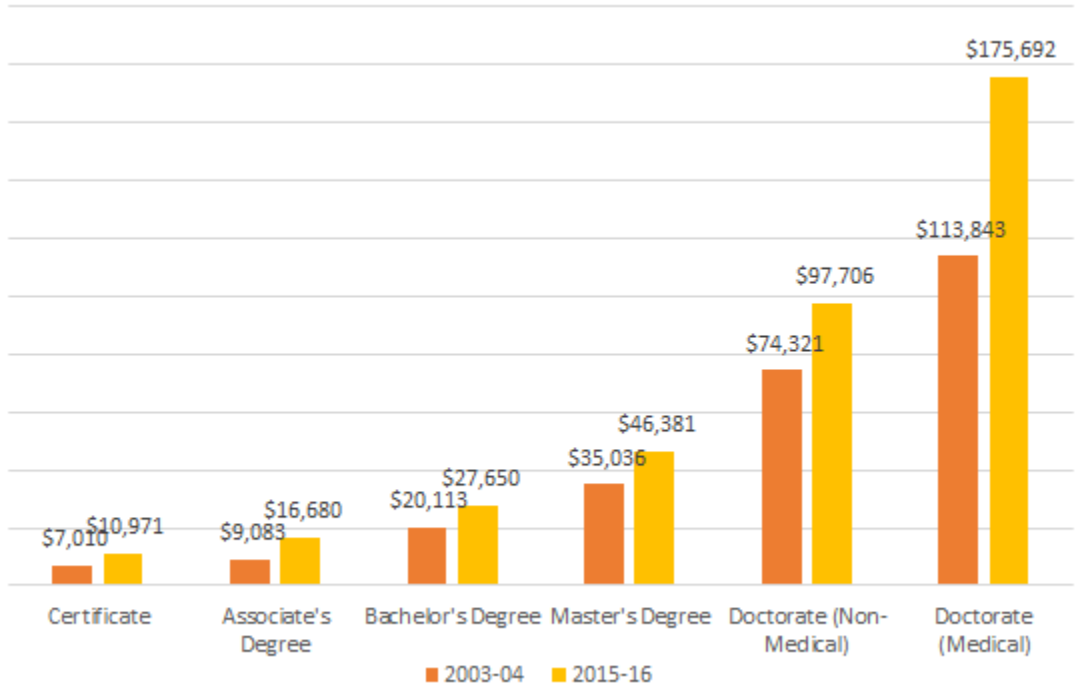


Notes: Based on households age 20-40 with education debt, wage income of at least $1,000 (in 2010 dollars), and that were making positive monthly payments.
Source: Elizabeth J. Akers and Matthew M. Chingos, Student Loan Update: A First Look at the 2013 Survey of Consumer Finances, Brookings Institute, September 2014, www.brookings.edu/wp-content/uploads/2016/06/Student-Loan-Update_Sept-2014.pdf.

Debt Has Increased Most for Graduate and Professional Degrees

Data from the U.S. Department of Education help illustrate another misconception about rising student debt. While popular narratives tend to focus on rising debt at the undergraduate level, data from the Department of Education show that graduate and professional degrees have seen larger increases in student indebtedness. Those who borrow for doctoral degree programs (which includes medical programs) have seen some of the largest increases in median debt. In 2004, borrowers who completed a doctoral degree program had accumulated $79,160 in debt. By 2016, students earning those degrees had borrowed $124,441 (figures are in 2017 dollars). In fact, debt for graduate and professional degrees makes up approximately 40 percent of the total outstanding stock of debt.[4] Figure 2 details the changes between the 2003–04 and 2015–16 academic year for students who completed a degree program that year and borrowed federal student loans at any point. In the case of graduate and professional students, estimates include loans incurred during undergraduate and graduate studies (the numbers are only slightly higher if non-federal loans are included).

Figure 2. Median Cumulative Federal Loans Upon Completion, changes between 2004 and 2016



Notes: Estimates are in 2017 dollars and exclude interest. Master's and doctoral degree debt estimates include both undergraduate and graduate loans. Doctorate (Medical) includes medicine, osteopathic medicine, dentistry, chiropractic, pharmacy, optometry, and podiatry degrees. Doctorate (Non-Medical) includes all other doctoral degrees.
Source: Author's calculations based on National Center for Education Statistics, National Postsecondary Student Aid Survey 2004, 2016.

This same data source shows debt levels among students pursuing medical education. However, the sample size for these students is relatively small. With that limitation in mind, the data suggest that students in medical school borrow more on average. Among those who take loans, annual borrowing for this group of students was $51,845 in 2016, up from $41,595 in 2004 (both figures are in 2017 dollars). Nearly all of the increase occurred between the 2011–12 and 2015–16 academic years, suggesting that rapidly rising debt loads are a more recent phenomenon for medical students. However, the data do not show an increase in the incidence of borrowing. About three quarters of medical students borrow each year, a share that has remained constant since 2004.[5]

Statistics about borrowing understate medical students' debt burdens because during residency, a borrower's income is usually not high enough that she would be able to make payments that cover the accruing interest. It is not unusual for a medical student to accrue tens of thousands of dollars in interest during residency, adding to the total amount owed.

The increase in borrowing for medical programs has coincided with a large increase in tuition at medical colleges. Here again nearly all of the change occurs between the 2011–12 and 2015–16 academic years. Median tuition and fees after grants and scholarships are netted out has held fairly steady at about $20,000 per year between 2004 and 2012. In 2016 tuition and fees jump net of aid jump to $36,360. (All figures are in 2017 dollars).[6] This suggests that a major factor in the increase in debt is a response to the sharp spike in tuition and fees that medical colleges charge. The reasons for such price increases are beyond the scope of my expertise but I would urge the committee to redirect concerns over rising debt to rising tuition prices. To the extent that unaffordable student debts have affected small medical practices, the proximate cause of the problem is likely to be the pricing practices of medical colleges.

Income-Based Repayment

Student debt burdens, especially among graduate and professional students and those with loans from medical school, must be understood in the context of the federal Income-Based Repayment (IBR) program. Under the most recent version of IBR, which Congress and the Obama administration enacted in 2010 and made available to all new federal student loan borrowers beginning in July 2014, borrowers pay only 10 percent of their discretionary income toward the loan. Discretionary income is defined as all income in excess of 150 percent of the poverty guidelines adjusted by household size. After a 20-year repayment period, any remaining balance is forgiven. These payment terms apply regardless of the amount a student borrows and there is no limit to the amount a borrower can have forgiven.

IBR provides medical students a powerful tool to manage their debt as it allows them to make affordable payments even when their incomes are relatively low, particularly during residency. For example, Figure 3 shows that a typical medical school graduate with $200,000 in debt and a $55,000 income during residency would be required to make monthly payments starting at $307 while using IBR, substantially less than the amount he would owe under a fixed 10-year repayment term (though additional interest accumulates under IBR due to low payments during this period). His payments would later rise with his income when he is fully employed, but they are always set at 10 percent of his discretionary income. This is an important benefit to consider given that the premise of today's hearing is that doctors cannot afford to open their own practices because of unaffordable student debt. The IBR program should largely eliminate debt burden as a deciding factor in that type of career decision.

Figure 3. Loan Repayment for Hypothetical Medical Student with $200,000 Initial Balance

Repayment Plan	Years in Repayment	Monthly Payment (Residency)	Monthly Payment	Total Payment	Balance Forgiven
Income-Based Repayment	20	$307	$1,422-$2,271	$401,191	$0
Public Service Loan Forgiveness for Income-Based Repayment	10	$307	$1,422-$2,271	$146,628	$182,867
Standard 10-Year Repayment	10	$2,271	$2,271	$272,515	$0

Notes: Sample repayment estimates based on $200,000 loan balance with 6.5% interest rate upon completion of medical school. Assumes $55,000 salary for three years of residency and $190,000 starting salary following residency with 4% annual growth, one-person household.
Source: Author's calculation.

Here I will note that a typical doctor is likely to fully repay her student loans before she reaches the 20-year loan forgiveness term under IBR (Figure 3). That is based on my analysis of information from the American Association of Medical Colleges.[7] IBR simply allows these borrowers to smooth out their payments over that time period.

The story changes for borrowers with above-average debts or those with below-average incomes. For example, Figure 4 shows that a medical student who graduates with $300,000 in student loans stands to have $265,771 forgiven after 20 years of payments in IBR.[8] Moreover, his total payments are only about $21,000 more in nominal terms despite borrowing $100,000 more. In one sense, that is how IBR was intended to work. But in another sense, the program allows students to borrow more but make the same payments as someone who borrows less, with taxpayers making up the difference.

Figure 4. Loan Repayment for Hypothetical Medical Student with $300,000 Initial Balance

Repayment Plan	Years in Repayment	Monthly Payment (Residency)	Monthly Payment	Total Payment	Balance Forgiven
Income-Based Repayment	20	$307	$1,422-$2,744	$422,507	$265,771
Public Service Loan Forgiveness for Income-Based Repayment	10	$307	$1,422-$2,744	$146,628	$348,372
Standard 10-Year Repayment	10	$3,406	$3,406	$408,773	$0

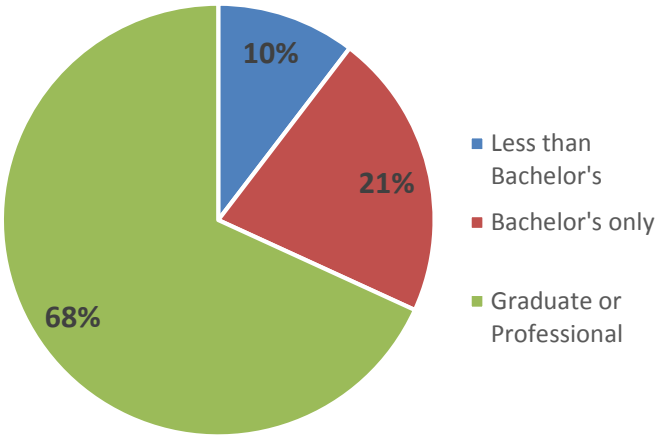
Notes: Sample repayment estimates based on $300,000 loan balance with 6.5% interest rate upon completion of medical school. Assumes $55,000 salary for three years of residency and $190,000 starting salary following residency with 4% annual growth, one-person household.
Source: Author's calculation.

The program can also provide six-figure government benefits to some of the highest earning professionals in the country. This issue was raised last year by a *Wall Street Journal* article that profiled an orthodontist earning $225,000 a year who was using IBR and on track to have much of his debt forgiven (he borrowed $600,000).[9]

Such cases may look like outliers, but statistics from the Department of Education offer clear evidence that IBR's benefits are skewed toward high-debt, high-income borrowers with graduate and professional degrees. 68 percent of the students who are expected to use IBR borrowed for a graduate or professional degree (Figure 5), and nearly half of them are expected to earn $100,000 or more during their repayment period (Figure 6).[10] The cost to taxpayers for this program has increased from $1 billion annually in 2009 to over $14 billion today.[11]

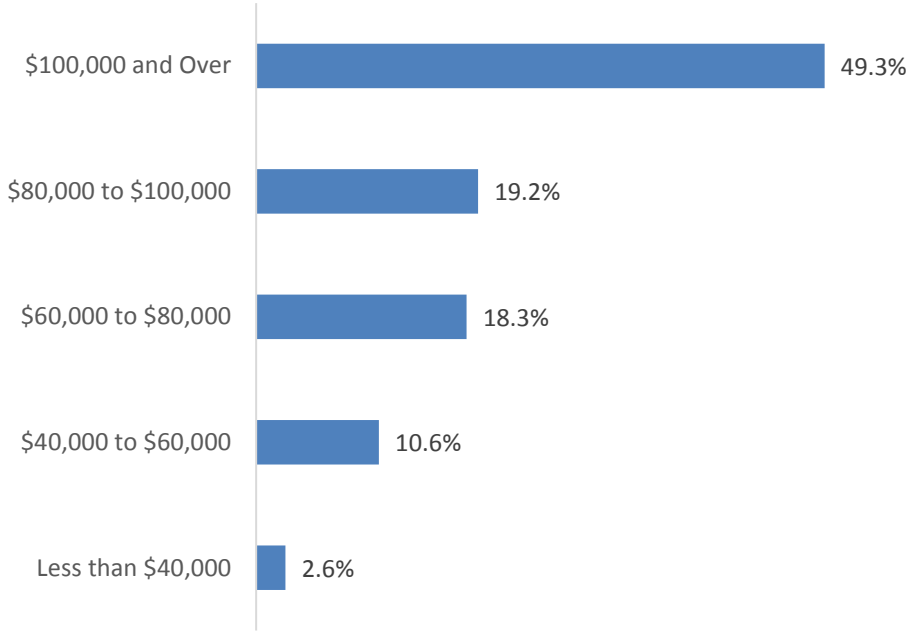
These statistics suggest that the IBR program is providing more than just a safety net for borrowers. It has become a defacto tuition-assistance program for high-income borrowers with graduate degrees, a group that includes those in the medical professions.

Figure 5. Degree Level of Borrowers Projected to Use Income-Based Repayment for Federal Student Loans



Source: Author's calculation using US Department of Education Projections for 2017 cohort.

Figure 6. Household Incomes of Graduate School Borrowers Projected to Use Income-Based Repayment for Federal Student Loans



Source: Author's calculation using US Department of Education Projections for 2017 cohort.

Public Service Loan Forgiveness: A Disincentive to Open a Small Practice

The Public Service Loan Forgiveness (PSLF) program allows borrowers using IBR and work in government or non-profit jobs to have their debt forgiven much earlier than other borrowers -- and therefore receive a substantially larger benefit. PSLF provides tax-free loan forgiveness of any outstanding debt after a borrower makes 10 years of qualifying monthly payments. And like IBR, there is no limit to the amount that can be forgiven.

Unlike loan forgiveness programs that target specific professions, PSLF defines public service occupations so broadly that it encompasses a quarter of the U.S. workforce.[12] Eligible employment includes any position at a federal, state, or local government entity, or non-profit organization with a 501(c)(3) designation, or another non-profit organization that does not have 501(c)(3) status but provides emergency management, public safety, or law enforcement services; health services; education or library services; school-based services; public interest law services; early childhood education; or public services for individuals with disabilities and the elderly.[13]

As shown in Figures 3 and 4, medical school borrowers with $200,000 and $300,000 in debt would repay substantially less under PSLF's 10-year loan forgiveness term than under IBR's 20-year term. In total, PSLF reduces the borrower's cumulative payments by over $200,000 (in nominal terms).

This is relevant to today's hearing because it shows that a doctor who works at a non-profit hospital stands to receive a $200,000 bonus from taxpayers. Whereas a doctor who opens her own private practice does not qualify for this bonus. By definition, her practice would not meet the terms of an eligible employer under PSLF, as it is a for-profit entity. The disparate treatment results despite the fact that the doctor operating her own practice may be performing the same job as the doctor at the non-profit hospital and may even earn less than him. Nevertheless, in the eyes of the federal government, only the doctor at the non-profit hospital is providing a public service. The PSLF program, in short, can provide a powerful incentive for doctors to seek employment at PSLF-eligible organizations and a *disincentive* to open their own private practices.

Solutions

I conclude by offering a few solutions to the aforementioned problems. First, the best way to address the overly generous and poorly targeted benefits of the IBR program is to increase the length of time that high-debt borrowers are required to pay before qualifying for loan forgiveness. The current 20-year term is too short relative to how much borrowers must repay if they have high balances. One virtue of this approach is it maintains the income-based payment feature, meaning that borrowers never make payments that exceed 10 percent of their discretionary income. Both the Obama and Trump administrations have endorsed a longer repayment term for borrowers who attended school beyond a 4-year degree, proposing 25 and 30 year repayment terms, respectively.[14] Ideally, the term would be based on amount borrowed rather than the type of credential a borrower seeks or holds.

Second, the Public Service Loan Forgiveness program should be eliminated. Borrowers who wish to pursue these jobs can still benefit from affordable payments under IBR and have their debts forgiven under the same terms as borrowers working in other fields *who have the same debt-to-income* profiles. In other words, this approach treats all borrowers equally if they have the same incomes and debt levels. Lawmakers could then use the savings this generates, over $2 billion annually according to the Congressional Budget Office, to provide direct income subsidies to individuals in professions they deem in need of taxpayer-funded wage subsidies.[15]

Finally, one of the overarching problems implicit in this hearing's focus is that the price that universities are charging for many graduate and professional programs, including many in medical fields, are out of line with the incomes borrowers expect to earn. Put another way, these programs offer an insufficient return on investment for borrowers, taxpayers, or both. Borrowers and taxpayers therefore need some protection from such overpriced credentials, and universities need more incentives to better align their prices with labor market outcomes.

Lawmakers can provide those protections and incentives by using federal resources to collect and publish information on tuition prices, borrowing, and graduate earnings at each program. This effort is already underway through the Department of Education's College Scorecard and President Trump's executive order, but lawmakers can help the effort by ensuring that the Department has the resources necessary to carry out the task and that all federal agencies share the necessary data.[16]

Lawmakers could go further than providing information on prices, debt, and earnings. They could adopt an accountability system that penalizes programs at universities where graduate earnings are not high enough to justify the prices it charges, or ones where a high share of students stand to qualify for loan forgiveness under IBR. The penalty could be loss of access to the federal student loan program or assessment of risk-sharing fines in the case of unpaid loans.

That concludes my testimony today. I look forward to answering any questions that the members of the committee may have.

Citations

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[4] Author's calculation based on annual loan issuance; 40% of debt issued in the federal loan program is for graduate and professional degrees. Congressional Budget Office, "CBO May 2019 Baseline," www.cbo.gov/system/files/2019-05/51310-2019-05-studentloan.pdf.
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