HOD ACTION: Council on Medical Education Report 8 adopted and the remainder of the report filed.

REPORT OF THE COUNCIL ON MEDICAL EDUCATION

CME Report 8-A-12

Subject: Evaluation of Income-Contingent Medical Education Loans (Resolution 306-A-11)

Presented by: David E. Swee, MD, Chair

Referred to: Reference Committee C (J. Mack Worthington, MD, Chair)

Resolution 306-A-11, which was submitted by the Medical Student Section and referred to the Board of Trustees, asked that our American Medical Association (AMA):

> 1) Study the feasibility of medical school-initiated income-contingent loans, including the Strategic Alternative for Funding Education proposal, as a mechanism to alleviate medical education debt.
>
> 2) Sponsor a national request for proposals aimed at recruiting additional innovative initiatives focused on alleviating medical student debt, and support the best proposal(s), following feasibility studies, at the highest lobbying and legislative priority.

INCOME-CONTINGENT MEDICAL EDUCATION LOANS

Income-contingent loans can be included under the general heading of human capital contracts (HCCs). As applied to higher education, in HCCs investors cover the costs of a program for a student in return for a percentage of that student's future earnings for a fixed period of time.[1] Conceptually, this is similar to service-related scholarship programs such as the National Health Service Corps scholarship, where medical students receive financial aid in return for the promise of future service. The major difference is that HCCs do not, in themselves, limit the occupational choices or location of the "borrower."

Background of HCCs

The concept of HCCs originated with the economist Milton Friedman in the 1950s.[2] A number of years ago, Yale University introduced a program that allowed students to pay their tuition after graduation by providing the school with a defined fraction of their income. This program ended when federally subsidized loans became available.[2]

There currently are a limited number of HCC programs in operation. For example, a company known as Lumni operates for-profit and nonprofit funds that finance the college education of students in Chile, Colombia, Mexico, and the US.[3,4] Lumni has supported over 2,000 students, most of whom are from low-income backgrounds, with a default rate, to date, of three percent.[3, 4] Another example is the Germany-based Career Concept, which finances about 2,000 students in more than 20 countries, mostly in the European Union.[1]

Issues in Implementing HCCs

Much of the information about the structure and implications of human capital contracting that relates to higher education (college and beyond) comes from blogs or other online resources and is theoretical, since no large-scale models have been implemented. The following analysis is adapted from writings that focused mainly on college students.

A debate exists as to whether HCCs would be more effective if based in the public or private sectors.[5] An HCC could, for example, be sponsored by the educational institution in which the student is enrolled,[5-7] as in the Yale example.

Another implementation issue is the feasibility of prospectively calculating the percent of the borrower's salary that would be paid to the "lender" and the length of the "loan." HCCs permit flexibility in the student's choice of profession or occupation. However, they are reported to work best when there is some predictability about the student's future salary. For example, Lumni funds students who plan to be teachers, nurses, and social workers, whose future salaries can be prospectively determined.[2]

Commentators note that there might be less interest in funding future careers with low-income potential or a high risk of unemployment.[2] Also, "lenders" would have a higher return when the student enters a well-paying field, since repayment is not a fixed amount but is based on the "borrowers" salary. For example, it was noted that colleges sponsoring HCCs might have an incentive to channel their students into lucrative careers so as to maximize their returns.[6]

Application of the HCC Concept to Medical Education

In theory, it seems that HCCs could be appropriate for medical students, since physicians are likely to continue in their careers and have a relatively high earning potential. A proposal related to medical education, the Strategic Alternative for Funding Education, recommends that practicing physicians pay for their medical education by contributing a fixed percent of their professional income (higher for private school graduates) to their medical school over a 10-year period beginning after the completion of residency. It also was suggested in the model that payback to medical school could be made tax deductible or paid on a pre-tax basis.[8]

While attractive in concept, implementation of such a plan would be complex in a number of ways. There are logistical issues related to implementation at individual medical schools, such as the need to develop a contracting mechanism, create repayment parameters that would allow the recoup of the loan plus overhead costs, identify processes to monitor the amount of repayment over the life of the repayment period based on the individual's salary/reimbursement level over time, and determine strategies in case of "default." The operating costs of setting up such a system would only be covered if a large number of students participated in the program. Also, schools beginning such a program would not see a financial return until the first cohort of students entered practice (at least seven years), so that a school would be operating for a significant period of time without tuition revenue from some or all students. Instead of depending on individual medical schools to create programs for their own students, a national or regional consortium might be more efficient, based either in the public or private sector. Also, attempts could be made to allow pay-back of such loans on a pre-tax basis.

The HCC concept does not alleviate debt,[8] it just makes "repayment" more predictable and ties the level of repayment to earnings. The main success of HCCs now in operation has been to allow

individuals with limited financial resources to attend college[1] and to select careers of interest as well as of social value.[1]

STRATEGIES TO CONTROL MEDICAL STUDENT DEBT

Debt Levels and Medical School Tuition

Medical student debt continues to be high. According to data from the Association of American Medical Colleges,[9] (AAMC) the average debt of 2010 indebted graduates of private schools was $158,526 and of public school graduates was $136,093. About 14% of all graduates had no debt (12% of public school graduates and 17% of private school graduates), and about 19% had debt of over $200,000. However, the percent of graduates with debt over $200,000 varied by type of school (11% of graduates of public schools and 29% of graduates of private schools).[9]

Tuition is an important contributor to debt. While the median tuition and fees for private schools remain higher than for public schools, the difference has narrowed over time (see Table 1). In fact, the median tuition and fees for nonresident students in public schools now exceeds that for private schools. The average percent of nonresident students in public schools also has been increasing (11% in 2000-2001 and 17% in 2010-2011),[11] perhaps contributing to the rising median debt of public school graduates.

Table 1
MEDIAN TUITION AND FEES FOR FIRST-YEAR MEDICAL STUDENTS[10]

School Year	Median Tuition/Private		Median Tuition/Public	
	Resident	Nonresident	Resident	Nonresident
2000-2001	29,566	30,050	11,530	25,774
2005-2006	38,080	39,225	20,297	37,384
2010-2011	46,339	47,634	28,214	49,438

Resolution 306-A-11 asks that our AMA set up a system to identify and evaluate innovative mechanisms to alleviate medical student debt. There already has been significant work in this area, including a number of reviews of the literature in support of previous Council on Medical Education reports that have led to AMA policy.

In general, mechanisms to reduce or eliminate debt can be categorized into three categories.

Medical School Strategies

Strategies utilized by medical schools include limiting tuition, providing scholarship support, providing debt management counseling, and assisting students to gain access to external funding sources. In general, such mechanisms have been the most influential in limiting debt for the largest number of students. These strategies require resources at the medical school level, including the availability of support personnel and the identification of sources of revenue, such as new philanthropy and the use of existing endowment, to offset tuition revenues. Support for these

strategies is included, for example, in the following AMA policies: D-305.988, Strategies to Address Medical School Tuition Increases, (AMA Policy Database) and D-305.970, Proposed Revisions to AMA Policy on Medical Student Debt.

In the 2009-2010 academic year, medical schools reported providing school-funded, need-based scholarship support to over 32,000 students, as well as other types of scholarship support (including support for students in MD-PhD programs).[12]

National and Regional Public Sector Strategies

There are a number of programs at the federal level that offer scholarships or loan repayment in return for clinical service after the completion of training. In addition, the National Institutes of Health offers loan repayment for physicians and others engaging in targeted areas of research.

In general, the number of medical students who are supported by the individual, service-related scholarship programs is relatively low. For example, in the 2009-2010 academic year, 103 students received support from the National Health Service Corps scholarship program, and 197 received scholarship support through state-funded programs with a service commitment.[12] In addition, there is the Scholarships for Disadvantaged Students program that supported over 1,700 students in the 2009-2010 academic year.[12]

These strategies are addressed, for example, in the following AMA policies: D-305.975, Long-term Solutions to Medical Student Debt, D-305.970, Proposed Revisions to AMA Policy on Medical Student Debt, and D-305.979, State and Local Advocacy on Medical Student Debt.

Private Sector Strategies

Our AMA has encouraged state and specialty societies to establish or enhance scholarship programs. Other foundations might provide funding for scholarships, either directly or through philanthropy to medical schools.

These strategies are captured, for example, in the following AMA policy: D-305.979, State and Local Advocacy on Medical Student Debt.

Identifying Innovative Strategies

The AMA's collaboration with the AAMC is particularly helpful in monitoring issues related to medical student debt. The AAMC is uniquely positioned to collect information about debt levels and the strategies used by medical schools and others to alleviate it.

SUMMARY AND RECOMMENDATIONS

Medical student debt continues to be a serious issue. Our AMA has expressed a commitment to the issue. AMA Policy H-305.928, "Proposed Revisions to AMA Policy on Medical Student Debt," states, in part, that:

> Our AMA will make reducing medical student debt a high priority for legislative and other action and will collaborate with other organizations to study how costs to students of medical education can be reduced.

1 In addition, AMA Policy H-305.928 includes a number of strategies to address debt levels. These
2 include the availability of sufficient state and other funding for medical schools to reduce their
3 need to increase tuition; increased availability of scholarship and loan repayment programs from
4 school, state, and federal sources; and legislation and regulation to create favorable conditions for
5 borrowing.
6
7 Therefore, the Council on Medical Education recommends that the following recommendation be
8 adopted in lieu of Resolution 306-A-11 and the remainder of this report be filed:
9
10 That our American Medical Association (AMA) reaffirm AMA Policy H-305.928, “Proposed
11 Revisions to AMA Policy on Medical Student Debt.” (Reaffirm HOD Policy)

Fiscal Note: Less than $500.

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