

M.D. Economics

Jay Youngclaus
Senior Education Analyst
AAMC

April 2009

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Class of 2008 Indebted Graduates



Type	Median Medical School Debt	Percent of All Students
Private	\$170,000	40%
Public	\$135,000	60%
All	\$150,000	100%

Source: AAMC 2008 Graduation Questionnaire

Caveats

- Data: Rounded for clarity, usually to nearest \$1,000, most based on AAMC surveys, others based on AAMC analysis of regulations
- Information and Estimates: based on AAMC interpretation of federal regulations as of February 2009 and are subject to change. They are estimates only. Borrowers should always contact their lender/servicer(s) to discuss exact loan balances and repayment options.

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This is a story about Dr. Median and
the economics of becoming a doctor...

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M.D. Economics



In the fall of 2004, Dr. Median entered Median State University (a public school)

As a reminder, way back in 2004...

- Gallon of Gas cost ~\$2.00*
- Top Grossing movie was Shrek II*
- Dow Jones Industrial Average = 10,303
(07/01/04)*

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4 Year COA @ Median State

CATEGORY	4 YEAR TOTAL
Tuition & Fees.....	\$122,000
Living Expenses.....	\$ 34,000
Other Costs.....	\$ 26,000
Total COA	\$182,000
“Not Loans”	\$ 32,000
Total Stafford Loans.....	\$150,000
(Sub-\$34,000, Unsub-\$116,000)	
4 years of Interest.....	\$ 17,000
Dr. Median graduates w/ the 2008 median medical school debt amount	

Interest on Medical School Debt



Time in school and the grace period have a cost...

- At graduation, Stafford Loans total: \$150,000
- During med. school, 4 yrs. of interest : +\$17,000
- After grad., 6 mo. grace period interest: +\$4,000
- After capitalization, repayment balance: **\$171,000**

If repayment now, interest payment = ~\$1,000/month

Options in Residency

With a repayment balance of \$171,000 Dr. Median will need to decide on a residency specialty, location, and a repayment plan :



IBR



Forbearance



Public Service
Loan Forgiveness

Door #1: IBR

Income Based Repayment (IBR)

- “Caps” annual repayment at 15% of income above 150% of the federal poverty guideline for the applicable household size
- Dr. Median, single, PGY-1, projected annual stipend of \$47,000 means \$385/month in IBR
- But, monthly interest alone is ~\$1,000, so negative amortization during residency



Door #1: IBR

During 4 Yr Residency

Annual Stipend range

\$47K to \$58K

Monthly IBR Payment range

\$385 to \$500 = ~\$21K

After 4 Yr Residency

Owed at start of residency

\$ 171,000

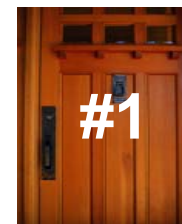
Interest “shortfall” during residency*

\$ 21,000

Total Owed

\$ 192,000

* includes 4 years of “shortfall” on unsubsidized and 4th year only on subsidized (Dept. of Ed. covers first 3 years of subsidized “shortfall” of ~\$4,000)



Door #2: Forbearance

Forbearance:

- No payments during 4 year residency
- Interest accrues (with no Dept. of Ed. subsidy)
- After residency, capitalization
- Total owed at repayment higher



Door #2: Forbearance

During 4 Yr Residency

Annual Stipend range

\$ 47K to \$58K

Monthly payment

\$ 0

After 4 Yr Residency

Owed at start of residency

\$ 171,000

Interest accrual during residency

\$ 51,000

Total Owed

~\$222,000



Door #3: Loan Forgiveness (PSLF)



Public Service Loan Forgiveness (PSLF):

- work full-time for 120 months in a “qualifying public service job”
- only Direct Loans eligible, can consolidate into Direct Consolidation Loan
- repayment can be on IBR terms

... yes, this could mean a significant amount forgiven for Dr. Median...



Door #3: Loan Forgiveness (PSLF)



What is a “qualifying public service job?”

Caveat—please check regulations and/or with Dept. of Education to confirm

Public service organization includes:

- Non-profit/501(c)(3) such as medical school or teaching hospital!
- Federal, state, local, or tribal gov’t. agency
- Private org. that provides public health services
- Full-time service in Peace Corps or AmeriCorps
- many other examples in regulations...





Door #3: Loan Forgiveness (PSLF)

PSLF can match IBR during repayment

During 4 yr. residency:

Annual Stipend range	\$ 47K to \$58K
Monthly IBR Payment range	\$ 385 to \$500 = ~\$21K

After 4 yr. residency:

Owed at start of residency	\$ 171,000
Interest “shortfall” during residency*	\$ 21,000

Total Owed ~\$ 171,000

* this interest added to total only if/when show no “partial financial hardship”



Door #3: IBR then PSLF

<u>Yr of Practice</u>	<u>Yr of IBR</u>	<u>Salary</u>	<u>Monthly IBR Payment</u>
1	5	\$100K	\$1,020
2	6	\$103.5K	\$1,060
3	7	\$107K	\$1,100
4	8	\$111K	\$1,140
5	9	\$115K	\$1,180
6	10	\$119K	\$1,220

After 10 years (4+6) repayment balance is \$158.3K ... plus unpaid interest from residency of \$21.3K...

(Has “partial financial hardship” as long as monthly amount < \$1,966)



Door #3: IBR then PSLF

IBR for 10 years, then Public Service Loan Forgiveness

After 10 years IBR

Total Repayment (\$21K res. + \$81K post-res.) \$102,000

Total Forgiven **\$180,000**

Interest Cost \$89,000

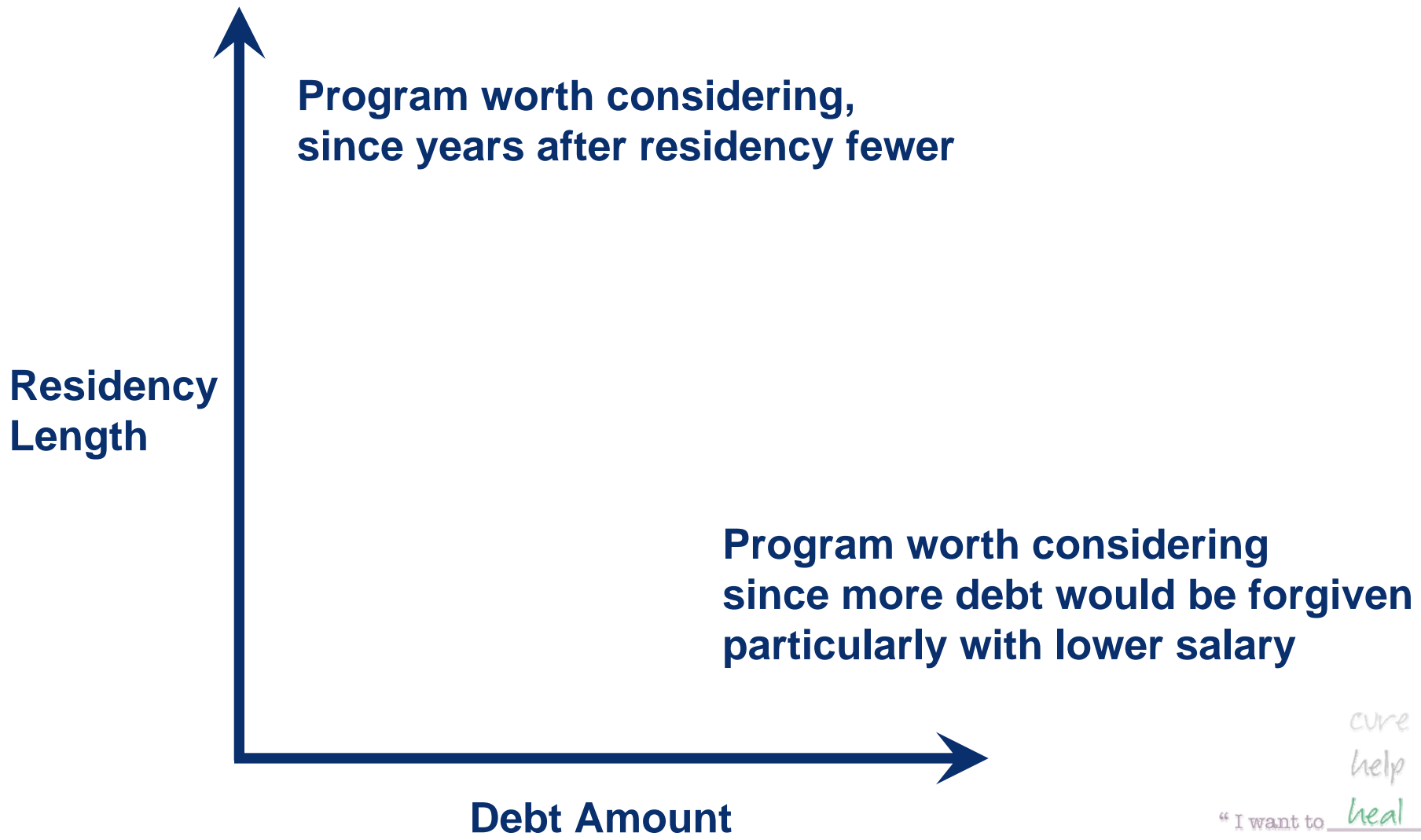
(4 yrs. Med School, 6 months Grace, 10 yrs. IBR)

Obviously, with larger debt amounts, more will be forgiven...





Public Service Loan Forgiveness



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Summary



	Years	Monthly \$	Interest \$	Total \$
1. IBR	4, then 12	\$385 to \$500, then \$2,000 if salary \geq \$176K	\$152K	\$302K
2. Forbearance, then standard	4 of forb, then 10	\$0, then \$2,600	\$157K	\$307K
Forbearance, then extended	4 of forb, then 25	\$0, then \$1,500	\$313K	\$463K
3. Public Service (Direct) Loan Forgiveness	10 of IBR	\$385 to \$500, then \$1,020 to \$1,220 for 6 yrs.	\$89K	\$102K then \$180K forgiven



Door #2: What about *after* residency?

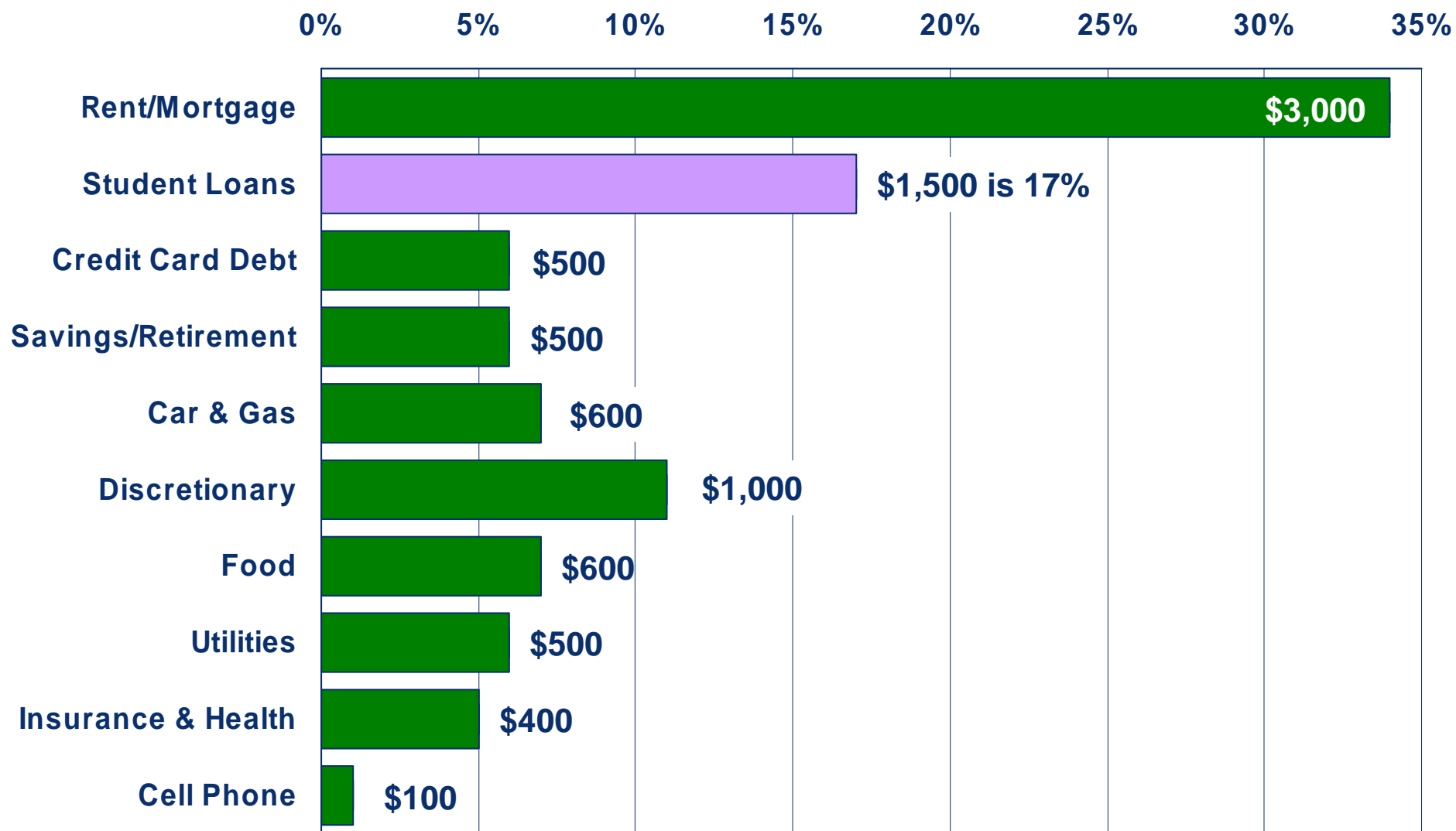


- Post residency monthly payment of \$1,500 - feasible? Chose forbearance during residency, extended 25-yr after
- For Family Practice (w/o OB), median salary 1-2 years in specialty is \$147K ('07 data)
- Projects to \$165K in 2012
- After all taxes, that is ~\$8,700 per month ...

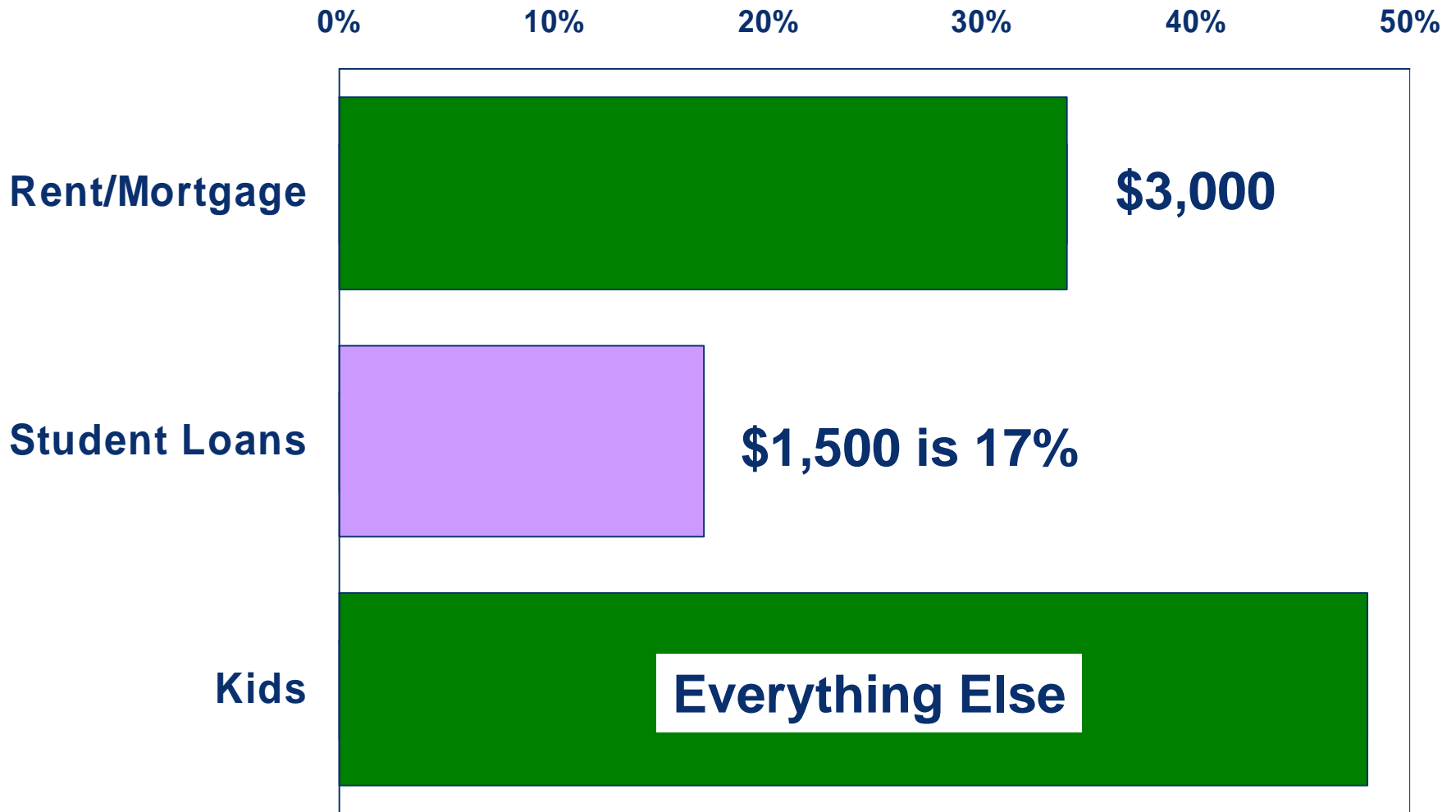




Sample Monthly Budget for 2012



Sample Monthly Budget for 2012 with a family



M.D. Degree

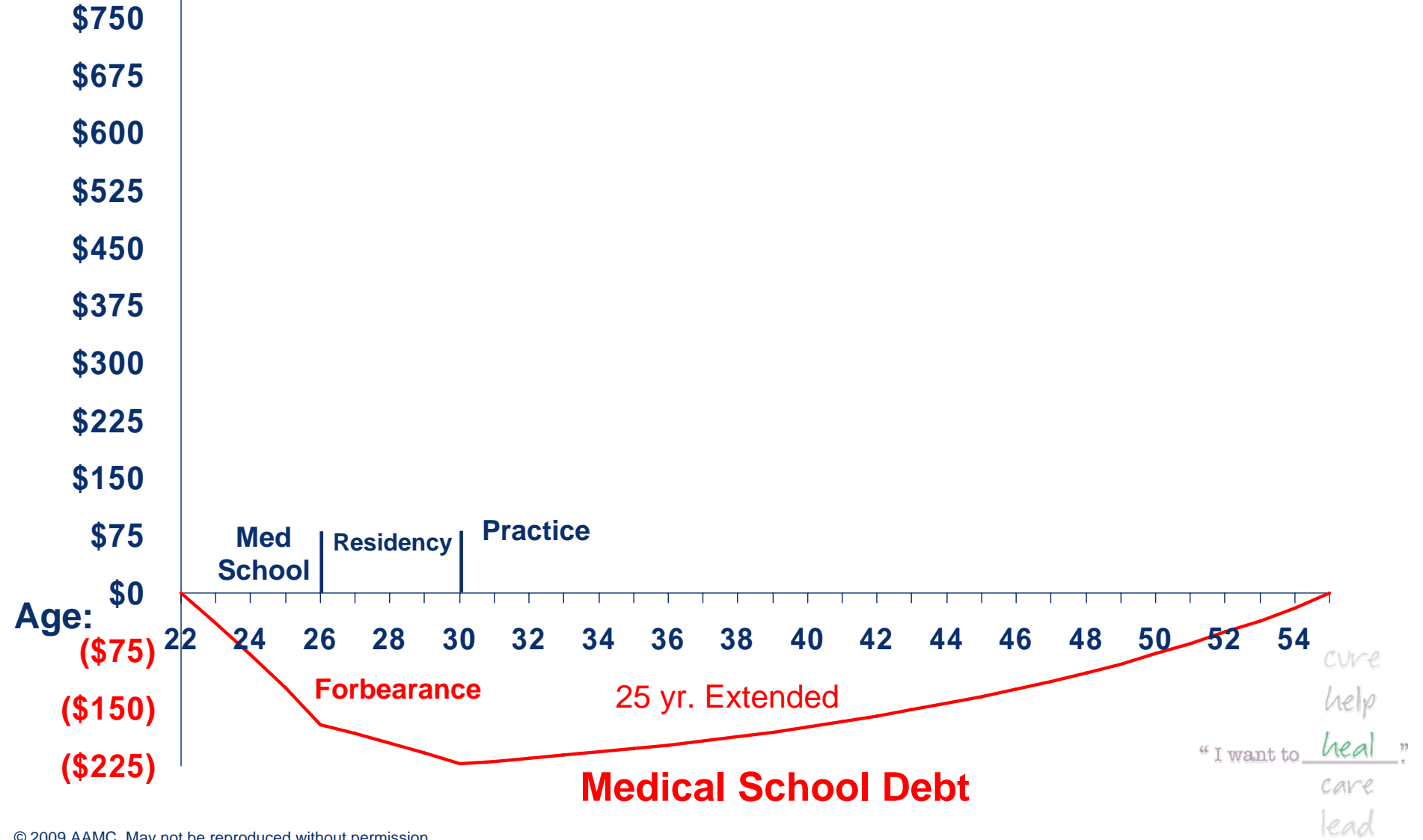


Is it worth it in the long run?

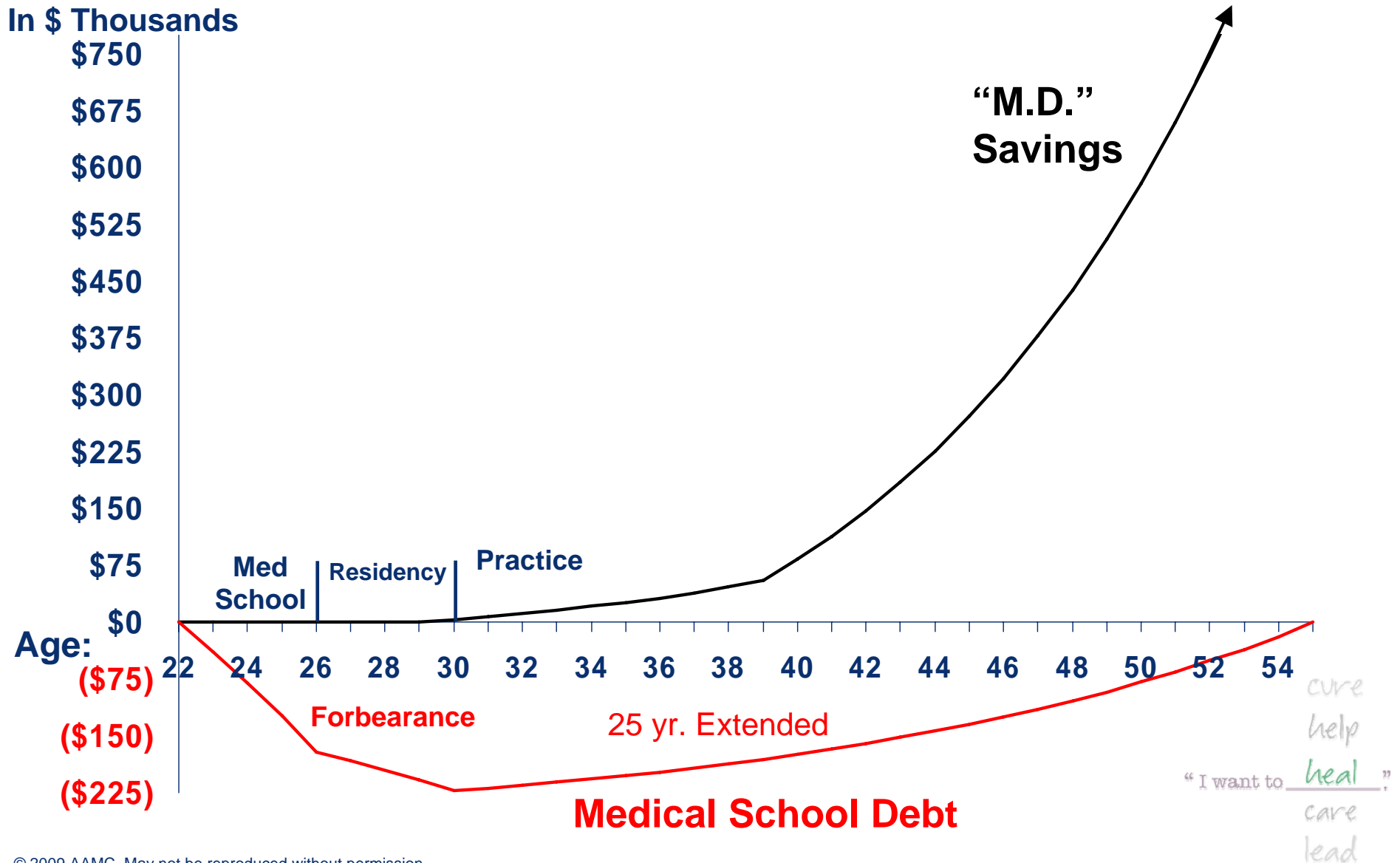
Value of an M.D. Degree



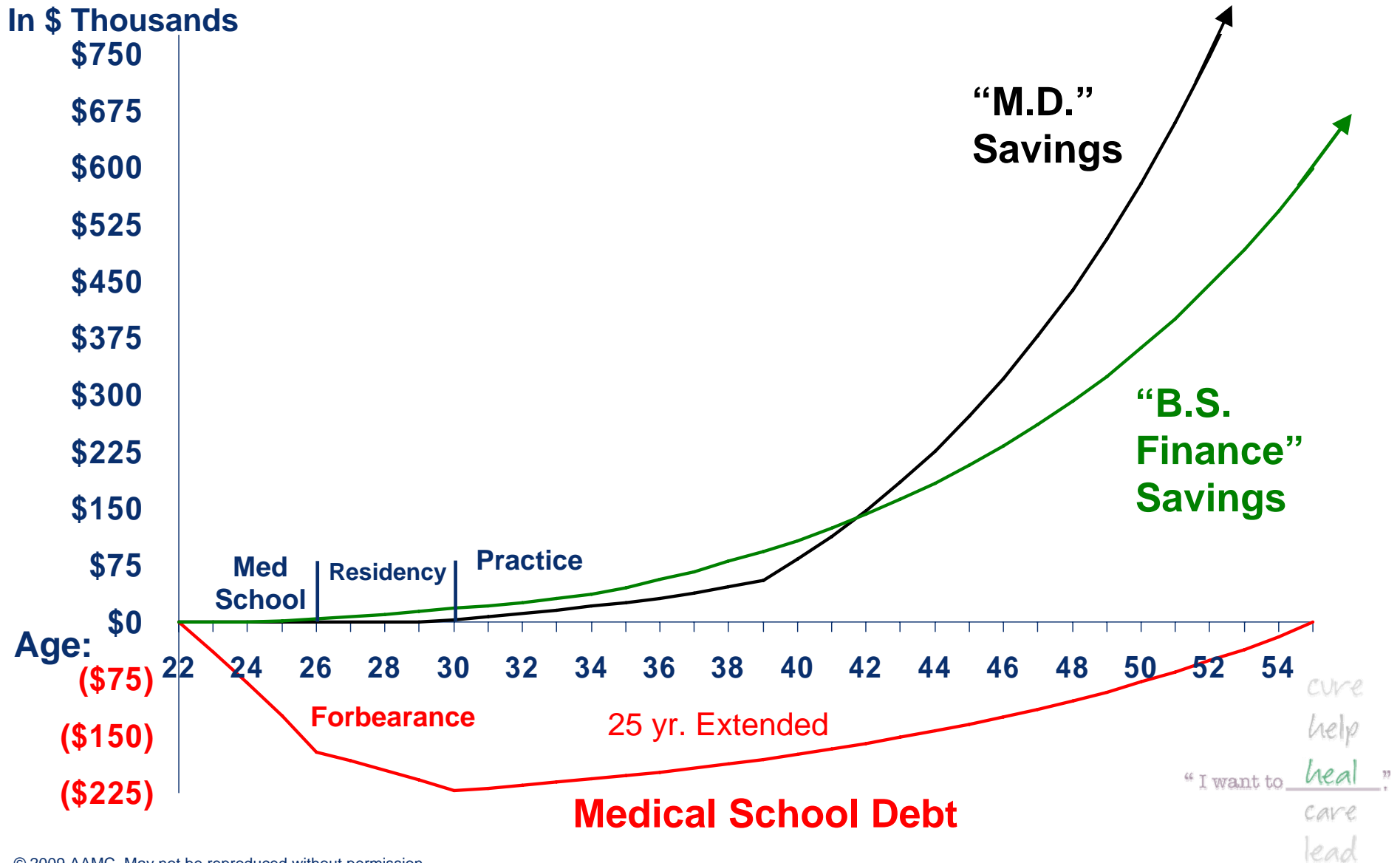
In \$ Thousands



Value of an M.D. Degree



Value of an M.D. Degree





Value of an M.D. Degree

	B.A./B.S. Business/ Finance	M.D. Family Practice (w/o OB)
Starting Age	22	30
Starting Salary	\$40,000 in 2004	\$165,000 in 2012
Retirement Savings at 65	\$1.5 M	\$3.0 M

Assumptions: Salaries grow at **3.5%** per year, savings grow at **8%** annually

B.A./B.S.: Annual savings rate of **5%** from 25 to 34, **10%** from 35 to 65. Works 44 years

M.D.: Annual savings rate of **2%** from 30 to 39, **10%** from 40 to 65. Practice for 36 years

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Thank you



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Door #1: IBR

With post-residency salary of \$176K or more:

Total Owed (after 4 year residency)	\$192,000
Monthly Payment (for nearly 12 years)	~\$2,000
Total Repayment	\$302,000
Interest Cost	\$152,000
(4 yrs. Med School, 6 months Grace, 4 yrs. residency, 12 yrs. post-residency)	

... how about Door #2?...



Door #2: Forbearance

Forbearance for 4 years...
then a 10-year Standard Repayment

Total Owed (post 4 yrs. of residency)	\$ 222,000
Monthly Payment (for 10 year standard)	\$ 2,600
Total Repayment (4 yrs. of \$0 + 10 yrs.)	\$ 307,000
Interest Cost	\$157,000
(4 yrs school, 6 months Grace, 4 yrs. of \$0, 10 yrs. Repayment)	

... how about Door #3?...



Door #2: Forbearance

Forbearance for 4 years...
then a 25-year Extended Repayment

Total Owed (post 4 yrs. of residency) \$ 222,000

Monthly Payment (for 25 year extended) \$ 1,500

Total Repayment (4 yrs. of \$0 + 25 yrs.) \$ 463,000

Interest Cost \$313,000

(4 yrs school, 6 months Grace, 4 yrs. of \$0, 25 yrs. Repayment)

... how about Door #3?...



Door #2: What about *after* residency?

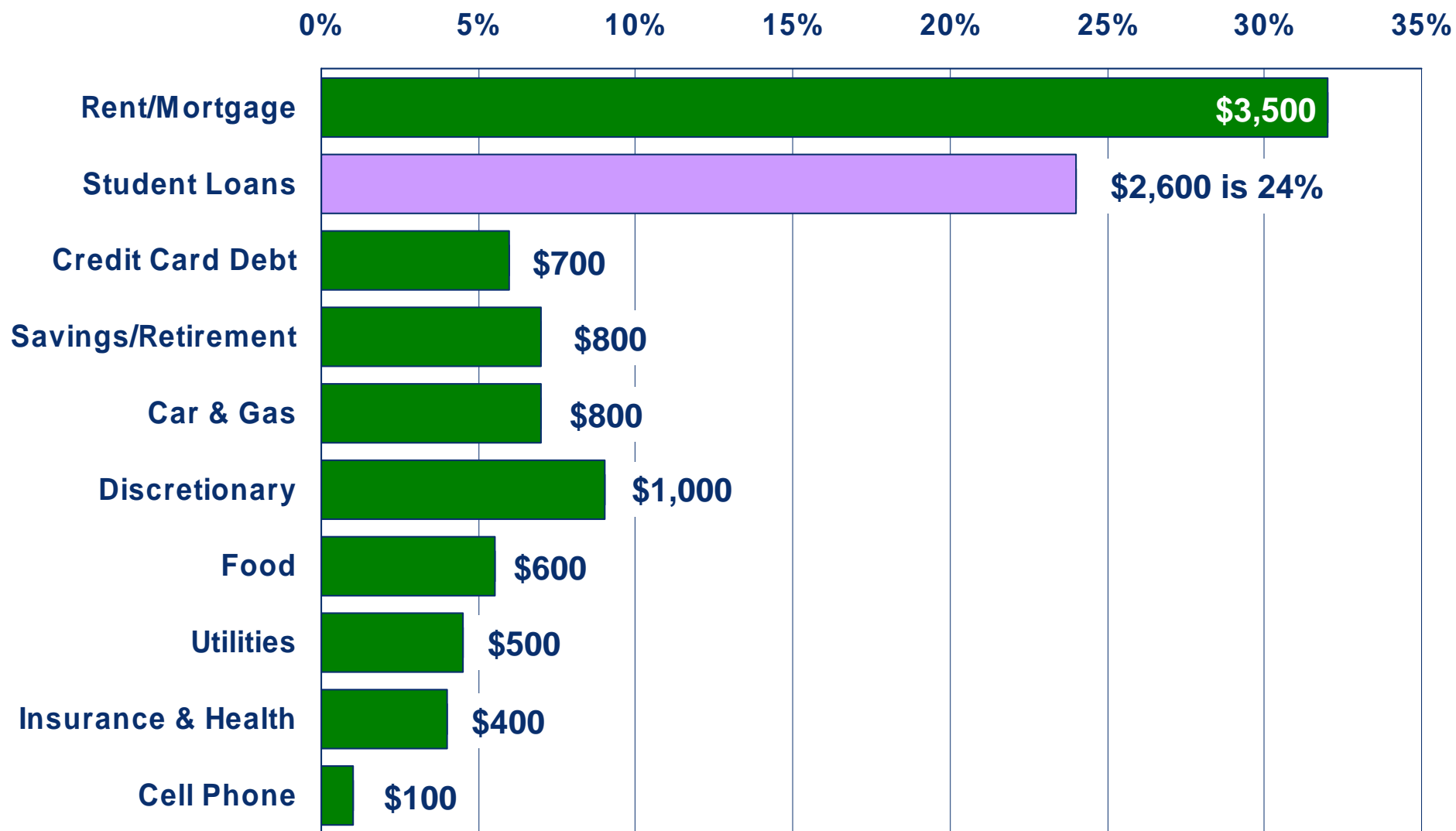


- Post residency monthly payment of \$2,600 - feasible? Chose forbearance during residency
- For Internal Medicine, median salary 1-2 years in specialty is \$179K ('07 data)
- Projects to \$215K in 2012
- After all taxes, that is ~\$11,000 per month ...

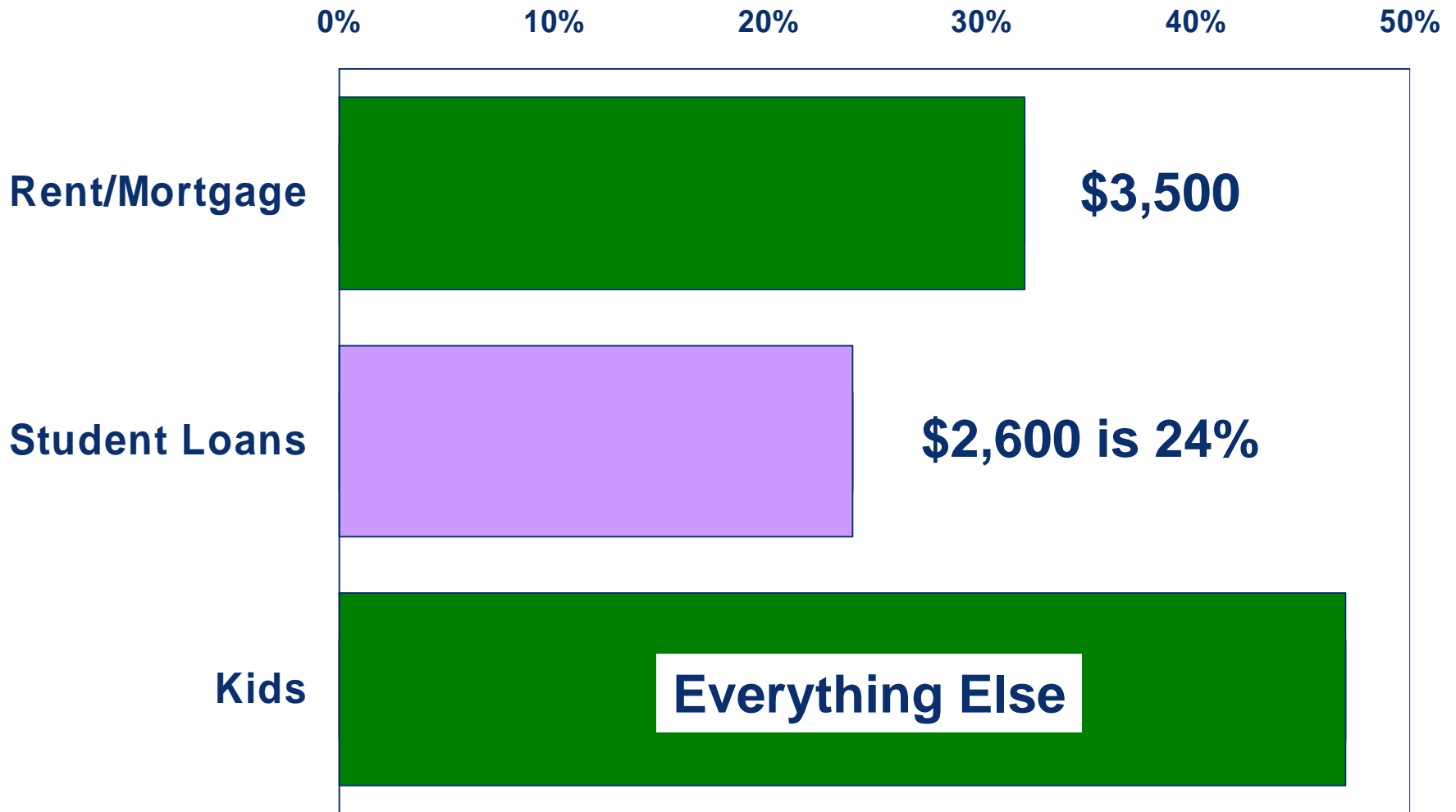




Sample Monthly Budget for 2012



Sample Monthly Budget for 2012 with a family



Door #2: What about *after* residency?

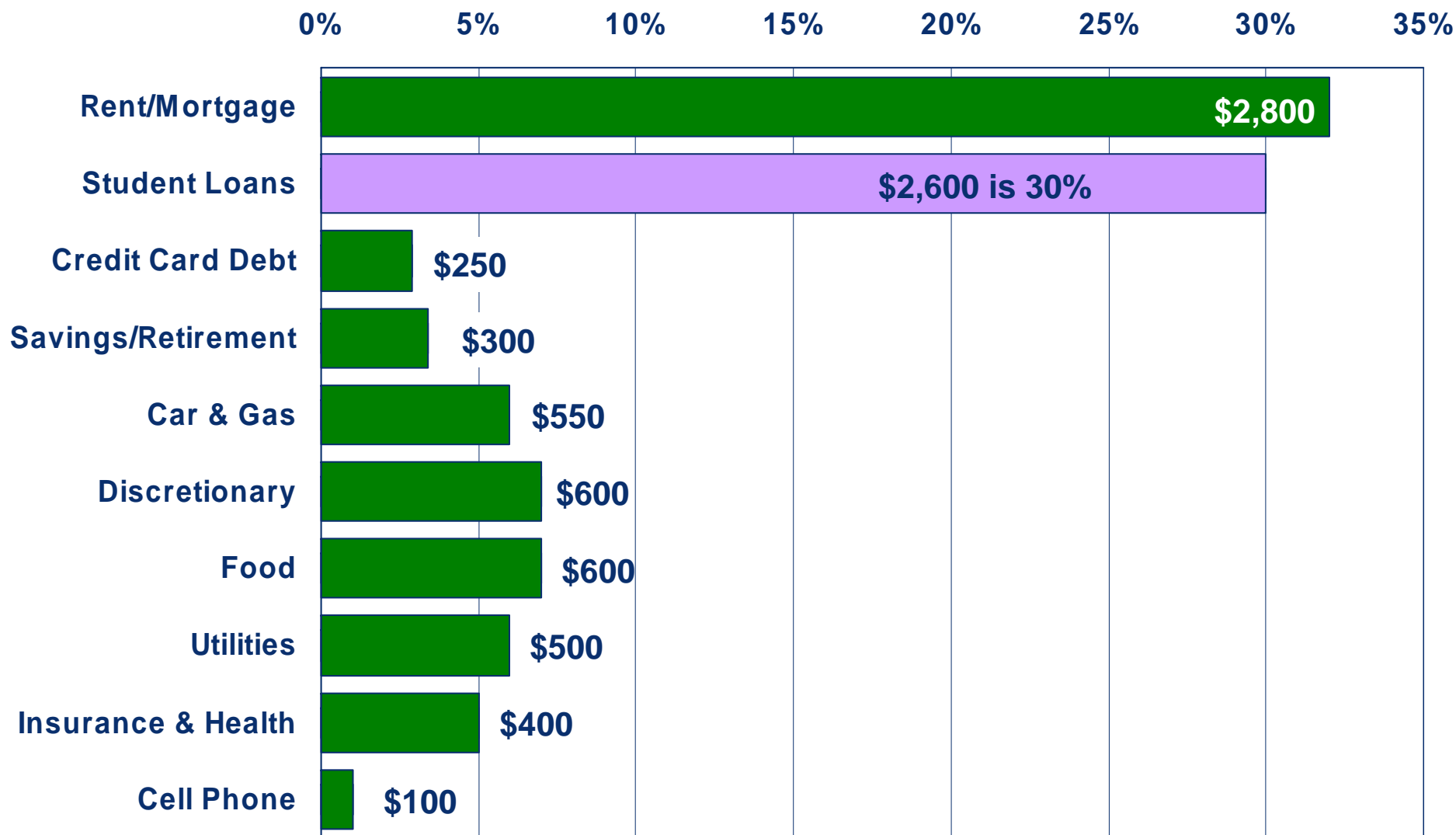


- Post residency monthly payment of \$2,600 - feasible? Chose forbearance during residency, extended 25-yr after
- For Family Practice (w/o OB), median salary 1-2 years in specialty is \$147K ('07 data)
- Projects to \$165K in 2012
- After all taxes, that is ~\$8,700 per month ...





Sample Monthly Budget for 2012



Sample Monthly Budget for 2012 with a family

