

Student Loans: We Have Reached the Tipping Point



It is general financial advice that student loans not exceed 1 year's anticipated income, because it becomes increasingly problematic that there is sufficient cash flow to service the note. In medicine, we have reached this tipping point.

Since the passage of the Higher Education Act of 1965, part of President Lyndon Johnson's Great Society, which created the Guaranteed Student Loan Program, tuition at colleges and universities in the United States has increased 3 times faster than inflation. Industries capture a subsidy by raising prices. Schools capture the government subsidy of student loans by raising tuition, which the student funds by borrowing more: a classical positive feedback loop. Note that because there is competition from off-campus housing, dormitory rates have risen only twice as fast as inflation over this same period.

Of medical students in the United States who graduate with student loans, the average is \$196,520.¹ The median student debt of those who have loans is \$200,000. By definition, half of the US medical school graduates with student loans are more than \$200,000 in hock, a nonintellectual but appropriately descriptive term. Or, marry another med student, and double your debt in 1 day.

The average physician in the United States makes about \$299,000 per year.² Some specialties make more, even considerably more, pulling up the average. Many make less. For example, the average male Primary Care physician makes \$239,000, but the average female Primary Care physician makes barely \$203,000. The average female Primary Care physician in the United States has reached the tipping point: their student loans are essentially equal to their income. And the male Primary Care physicians, and many other physicians, are there, or not far behind.

When they enter medical school, very few students know what area of specialty they will pursue. Thus, all entering students should presume that they may graduate already at the tipping point. This is especially the case for our female physicians who, regardless of specialty, earn less than their male colleagues.

A little history will provide perspective. In 2005, Congress created Grad Plus, which removed loan limits, and allowed students to borrow for living expenses. The intent was to relieve the students' reliance on private banks and their more strict repayment requirements. In the past, it was the bankers, lending their own money, who provided the discipline. With this discipline removed, student loans exploded. They now total more than \$1.5 trillion, more than credit card debt or car loans.

There is now a government-sponsored repayment plan based on income. Monthly payments are capped at 10% of discretionary income. If one runs simulations on anticipated income and debt levels in the range of \$200,000 to

\$300,000, repayments will be capped when debt is about 1.25 to 1.3 times income. The result is perverse: unless the current rules are changed, the further a student gets into debt above their anticipated income, the more they should borrow, because they know they will not have to pay it back.

With so many people owing the government so much money, I predict that student loans will become politicized, sooner rather than later.

I have 4 suggestions:

- 1) It was noted 20 years ago that medical students were willing to take on more debt rather than cut back on lifestyle. Being more thrifty could easily cut a student's debt load 10% to 20%. Ex: \$2.74 per day, the cost of a Starbucks's coffee, times 365 days per year = \$1,000.
- 2) The only way to break this upward spiral of tuition and student debt is for the government to exit the student loan business. Sufficient money is available from the private sector.
- 3) If the Academic Medical Establishment continues to raise tuition faster than inflation, I would consider it an act of bad faith, because they know they are placing more and more students in a situation where the student will not be able to repay. Since female physicians on average earn less than their male counterparts, they will bear the brunt of the problem. If the percentage of female medical graduates continues to increase, which I believe it will, this will become an even greater problem.
- 4) Student loans have by far the worst repayment record. Many consider them to be somehow different than other debt. They are not. You were lent money in good faith, it needs to be paid back.

Disclosures

The author has no conflicts of interest to disclose.

Robert M. Doroghazi, MD*

The Physician Investor Newsletter

* Corresponding author: Tel: +5734430893.

(rdoroghazi@yahoo.com).

1. American Association of Medical Colleges. Medical student education: debt, costs, and loan repayment fact card; 2018 Accessed February 1, 2019.
2. Kane L. Physician compensation report 2018. *Medscape* 2018. Accessed February 1, 2019.

See page 1886 for disclosure information.

Funding: None.