

# The 20/220 Rule: Financing your Future

How the elimination of Economic Hardship  
Deferment will impact your finances





# Graduating Medical Students

- Nine out of ten students carry outstanding loans
- The average medical student debt is:

**\$130,571**

- The average resident's income is:

**\$43,266**



# Repaying Loans

- Residents avoid unaffordable loan payments by two pathways:
  - Claiming Economic Hardship Deferment
  - Applying for Forbearance
- Forbearance is an expensive pathway
  - Interest accrues
  - Determination of eligibility consists of situational criteria
- Economic Hardship Deferment the preferred pathway
  - Interest on subsidized loans does not accrue
  - Consistent and straight-forward eligibility criteria



# Economic Hardship Deferment

- Economic Hardship Deferment means:
  - NO REQUIRED LOAN PAYMENTS
  - NO INTEREST ON SUBSIDIZED LOANS
- Residents may claim Economic Hardship for up to three years
- Two eligibility pathways to claim complete Economic Hardship Deferment:
  - Income less than 150% Federal Poverty Level
    - Income would have to be less than \$15,310
    - Applies to few or no residents
  - The “20/220 rule”



[http://www.ama-assn.org/ama1/pub/upload/mm/15/hr2669\\_analysis.pdf](http://www.ama-assn.org/ama1/pub/upload/mm/15/hr2669_analysis.pdf)



# Economic Hardship Deferment – The “20/220 Rule”

- Until recently, residents could claim Economic Hardship under the 20/220 pathway if:
  - Their debt was over 20% of their income
  - Their income minus debt burden was less than 220% of the Federal Poverty Level
    - FPL=\$10,210; 220% FPL=\$22,462
- 67% of incoming residents eligible



# Elimination of the “20/220 Rule”

- The 20/220 pathway was scheduled for elimination by the College Cost Reduction and Access Act of 2007 (H.R.2669)
  - Would have been effective Oct. 1, 2007
- Would have left forbearance as the only feasible remaining option for completely deferring loan repayments



# The Numbers

- Student Loan Debt: \$130,571
- Income: \$43,266
- Federal Taxes: \$5,053
- Monthly Gross: \$3,180
- Without the 20/220 pathway, monthly loan payments will be:

**\$1,503**



Assuming 6.8% interest rate and 120 payments. Formula used:  $P = \frac{Cr(1+r)^N}{(1+r)^N - 1}$

# The Numbers

- Forbearance is an affordable alternative in the short term
  - However, forbearance will cost more in the end

	Monthly Payments		Total Payment
	Years 1-3	Beyond Year 3	
20/220 Pathway	\$0	\$1,729	\$207,519
Forbearance	\$0	\$1,809	\$217,097



Assuming 6.8% interest rate and 120 payments. Formula used:  $P = \frac{Cr(1+r)^N}{(1+r)^N - 1}$

# What does this mean for you?

- Elimination of the 20/220 pathway will significantly add to your debt burden
  - Disproportionately affects students entering residencies with lower pay and longer training
- Many students will be forced to apply for forbearance
- Elimination of the 20/220 pathway in the middle of the year is disruptive
- Unfairly hits you at a time when you will least be able to make payments

# The good news...

- The Higher Education Act (HEA)
  - The College Cost Reduction and Access Act of 2007 (H.R. 2669) is an HEA reconciliation bill
    - Revises the current HEA for the purpose of budget reconciliation
    - A Reauthorization bill is still required
  - The House has not finalized language on a permanent HEA reauthorization bill (4371)
    - It is vitally important that the House include provisions restoring student loan repayment assistance

# What should Congress do?

- Restore the 20/220 pathway . . .
- . . . and in the meantime, delay elimination of the 20/220 pathway until the implementation of appropriate debt relief programs

# What the AMA is doing

- Providing Congressional testimony detailing how the 20/220 pathway elimination negatively impacts students and residents
- Lobbying Congressional leadership and physician members of Congress to reinstate the 20/220 pathway in the HEA reauthorization bill
- Working with the Department of Education to maintain the 20/220 pathway through the rule-making process
  - The Department of Education has decided to maintain the 20/220 pathway through Fall 2008



# What you can do

- Contact your legislator and ask them to:
  - Restore the 20/220 pathway in the HEA reauthorization
  - Support S. 2303, introduced by Sens. Richard Burr (R-NC) and Johnny Isakson (R-GA)
    - S. 2303 would permanently reinstate the 20/220 pathway
  - Delay the elimination of the 20/220 pathway
- Use the AMA's CapWiz site, or
- Call the Grassroots Hotline at:
  - (800) 833-6354



# What you can do

- For more information, talking points, and the Capwiz advocacy alert, please visit:

<http://www.ama-assn.org/ama/pub/category/18025.html>



