Joint Subcommittee On Postsecondary Education Policy and Budget

60TH Montana Legislature

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HJR 22 WORKING GROUP (DENTAL STUDY)

DENTAL STUDENT LOAN REPAYMENT OPTION

PROPOSAL FOR LEGISLATION FOR THE 2009 SESSION

Wednesday, June 11, 2008

At the March 2008 meeting of the HJR 22 working group, the members agreed to further consider the option of creating a student loan repayment program for dentists as a means to attract more dentists to practice in Montana and address the service access problems in rural and underserved Montana communities.

This report, a follow-on to the March 2008 staff report on this option, is intended to focus on the decision points that would be necessary for this working group to recommend creating such a program so that the appropriate legislation could be requested for the 2009 regular session of the legislature. Any recommendation will be forwarded to the Postsecondary Education Policy and Budget Subcommittee (PEPB).

In many respects the creation of a student loan repayment program for dentists in Montana will start with information and experience from the Montana Rural Physicians Incentive Program (MR PIP) that was created by the legislature in 1991. MR PIP can serve as a useful model and the working group may want to consider whether to create a separate loan repayment program for dentists, or whether to expand the MR PIP program, codified at 20-26-1501, MCA, et. seq., to include dentists as well as physicians.

Major Components of a Dentist Incentive Program

Based upon the MR PIP model and models from other state loan repayment programs, the following are the major components that would be needed for a dentist student loan repayment program:

- The funding mechanism for MR PIP is a state special revenue account funded from a surcharge paid by medical students who are subsidized by state support fees in the WICHE/WWAMI programs. The current surcharge is set at 16 percent of the support fee amount. Using this formula, a dental student loan repayment program would generate approximately $41,000 of revenue per year based upon the 12 dental student slots and a support fee of $21,300 in FY 2009 [16% X $21,300 = $3,408 X 12 = $40,896].

- The program must define the maximum loan repayment level that would be allowed over a specific period of time and determine the annual payout schedule that reaches that payout maximum. MR PIP uses the following repayment schedule:
  - Year 1 - two payments at six month intervals of $5,000 EA ($10,000 Total)
  - Year 2 - two payments at six month intervals of $7,500 EA ($15,000 Total)
  - Year 3 - two payments at six month intervals of $10,000 EA ($20,000 Total)
  - Year 4 - two payments at six month intervals of $12,500 EA ($25,000 Total)
  - Year 5 - two payments at six month intervals of $15,000 EA ($30,000 Total)
    - **Total Loan Repayment over the full five years - $100,000**

- The program would need to define where dentists would be required to practice in order to be eligible for loan repayment. This could be based upon the federal definition of the federal health professional shortage area (HPSA) for dentists or other Montana specific criteria. MR PIP legislation delegated the specific geographic criteria of eligibility to the Board of Regents, the state agency given administrative responsibility for the program, because the HPSA designation was not considered accurate in terms of Montana population and geographic distributions.

- Given that there may be administrative costs, the program would want to identify a percentage of allowable administrative charges that could be levied on the program funding mechanism to pay allowable administrative costs. Of course, a part of this is designating the responsible state agency who would administer the program.

- Given that an obstacle to dental care for low-income populations is the Medicaid program and the number of Medicaid patients a dental practice may accept, the program may want to state that eligible dentists would have to accept a specific percentage of Medicaid patients in their practice or have a sliding-scale fee basis that would increase access for low-income populations.

- In order to allow ongoing oversight, the program may want to require a regular report to the legislature on specific performance measures to be designed by the program. These measures may include metrics such as access to care, retention of dentists (both to completion of the repayment term and beyond), program costs, the number of dentists participating, etc. In addition, it may be important for the program and report to identify the ideal target number of dentists needed in Montana to address the needs in order to know when problems in dental care have been "solved."

- An existing federal loan repayment program, the National Health Service Corps (NHSC), also provides an opportunity for student loan repayment awards of up to $25,000 per-year for dentists who serve a minimum of two-years in underserved communities. Any dental student loan repayment program may want to require coordination of the two benefit programs.

Projected Fiscal Impact of Dental Incentive Student Loan Repayment Program

Starting with the current level of 86 physicians participating in MR PIP repayment, there are only 27 percent as many dentists in Montana as doctors (27 percent of 86 is 23), and based upon the experience of other state dental student loan repayment programs (see NCSL report page 9, ***State Experience With Dental Loan Repayment Programs***, 2005), it seems reasonable to project that there would be an average of 5 to 7 dentists participating in a Montana student loan repayment program at any time.

Assuming that the dental program would replicate the benefit level of MR PIP (see above schedule), given that the costs of a medical versus a dental education are equivalent, and assuming that a dental repayment would also use a graduated repayment schedule equivalent to MR PIP, it is reasonable to project the first five year costs of this program could be as high as follows:

- Year one = $50,000 to $70,000
- Year two = $75,000 to $105,000
- Year three = $100,000 to $140,000
- Year four = $125,000 to $175,000
- Year five = $150,000 to $210,000

It took two years for MR PIP to begin making student loan repayments after its inception, though the program began collecting student surcharge fees immediately. Therefore, assuming a two-year lag before payments were to begin, the fund balance of a repayment account would be approximately $82,000 (see above revenue projections) before year one repayments would begin. With regular annual revenue of $41,000, if the number of dentists in the repayment program were to reach the high end of this projection then the program would not be able to meet the repayment schedule before the end of year two. Even at the low end of this projection, it is very likely that program funding would be depleted during year three or year four at the very latest, if the only source of revenue would be the $41,000 annual student surcharge funding.

Funding Options for Dental Student Loan Repayment Program

Assuming that this level of ongoing funding would not be sufficient to meet the projected student loan repayment costs or that a service payback program (an option being considered for recommendation by this working group) may eliminate the option for a student surcharge funding source for this program, there are a number of potential funding options that the working group may want to consider, including:

- Limit repayment levels to the amount of available funding by pro-rating repayments
- Limit the number of participants each year
- Increase the number of dental student slots beyond the existing number of 12, which would increase revenue if the student surcharge continues (to meet projected costs would require approximately 25 dental slots and continuing the student surcharge) [note that this working group is also considering a recommendation to increase the number of dental student slots as a means to address the shortage of dentists]
- Request an ongoing general fund appropriation to support the program. A $150,000 annual, ongoing appropriation would keep the program sustainable for more than thirty years given the assumptions discussed above (12 dental slots, the MR PIP payout schedule, 5 to 7 dentists in payback status, and 5.5 percent interest rate of return on the account fund balance). If there is no student surcharge funding available, then this would increase to a $200,000 annual appropriation[1]
- Request a one-time-only general fund appropriation to seed the loan repayment account that would generate interest earnings going forward (e.g. assume approximately 5.5 percent annual return rate). A $1.5 million one-time appropriation would keep the fund sustainable for approximately 27 years given the assumptions discussed above. If there is no student surcharge funding available, then funding sustainability would be for only 18 years
- Request a general fund appropriation to seed the loan repayment account, as above, but require that the initial general fund appropriation would be reverted when a target sustainable fund balance for the account is reached. A $3.5 million one-time appropriation that reverts after ten years would keep the program sustainable for 28 years given the assumptions discussed above. If there is no student surcharge funding available, then funding sustainability would be for only 19 years

Working Group Options

If the working group would like to recommend creating a dental student loan repayment program that targets dentists and addresses each of the above components (decisions points that would need to be addressed), the working group may want to consider the following options:

1. Request a bill draft to create a **new** dentist student loan program
2. Request a bill draft that would amend the existing Rural Physician Incentive Program (20-26-1501, MCA, et.seq.) to expand the program to include dentists
3. Identify a funding mechanism for whichever option 1 or 2 above is selected
   a. Consider the ongoing funding needs based upon student surcharge fees
   b. Consider general fund start-up funding to seed the program
   c. Consider general fund for both start-up and ongoing funding support

Respectfully submitted:

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[1] Note that SB 553 of the 2007 regular session that created an ongoing general fund appropriation to support the MR PIP program projects that the annual general fund appropriation will be $250,000 starting in FY 2011 when the physician income tax credit is fully phased out.