

Inviting the Elephant into the Room: A Dialogue to Co-create a Financially Healthy Veterinary Profession

Background for Further Discussion

By James F. Wilson, DVM, JD (with graphs by Jim Taylor, University of Tennessee 2008)

THE STARTING POINT

There is a lot of general knowledge indicating that today's veterinary students are graduating with serious increases in educational debt without commensurate increases in starting salaries. Although NCVEI data shows that practice owners are doing better financially than they were at the time the KPMG Megastudy was conducted in 1998, a growing volume of evidence supports the fact that profitability in veterinary practices is illusory for many.

The combination of these two is creating serious financial fears for students and recent graduates, most of whom are naïve concerning the magnitude of their future economic debt situation, the meager salaries they will be earning, and the budgetary effects that will be produced by the clash between educational debt, practice profitability, and personal financial success. Like so many students before them, they blindly applied for and now are graduating from veterinary school expecting that the profession will provide a valuable personal, professional, and financial return on their investment. As reported in the March *DVM Magazine* article on this subject, increasing numbers are concluding that their investment in a veterinary degree may not produce a strong economic return on that investment.

The biggest fear, and one leading to the reason for the January 20, 2008 NAVC symposium entitled "The Elephant in The Room," is that we may be pricing a veterinary degree out of reach for many talented, hard-working students whose families cannot help or support them sufficiently so they can afford to attend veterinary school and pay back their loans after graduation.

Whose responsibility is it, then, to apprise applicants and veterinary students about the reality of a return on the financial investment in a veterinary degree? Should the profession and our veterinary schools be more transparent with respect to this issues and statistics?

Can or should all parties be providing more assistance for students with respect to their decisions as to how they will repay their debts before they enter school, during it, and as they approach graduation? Will the inferior return on investment that comes with a veterinary degree erode quality applications for slots in our schools? If our veterinary schools or the AVMA fully informs students of the fact that their starting salaries may not support the debt required to acquire a veterinary education, will that discourage even more candidates from applying for school?

Can or should we be teaching students more about what is required to become productive team members of veterinary practices so that together they produce gross revenues and profits sufficient to allow for higher salaries, new technology, and ever improving veterinary care? Can or must we teach practice owners and managers that if they expect this to happen, more of the practical knowledge needed for success must come from their willingness to provide increased, formal, accountable mentorship during the first six to twelve months post graduation?

COST OF EDUCATION AND DEBT LEVELS REQUIRED TO OBTAIN IT

As we begin this background discussion, it is important that it start with a factual overview of the magnitude of the problem and some of the most salient factors contributing to this.

1. **Residents:** Students who are residents of the state funded veterinary school in which they were admitted still constitute the majority of today's students.
 - a. American Association of Veterinary Medical College (AAVMC) data show that the average cost/year for the first of a four-year veterinary education for students entering in 2000 and graduating in the class of 2004 as residents of their state was \$21,081.
 - b. That number has risen to \$36,914 for students entering in 2006 and graduating in 2010.
 - c. This generates almost \$60,000 more for the cost of the four-year degree for students graduating in 2010 than for those who entered school in the year 2000. (Unfortunately, data were not available for 2006 and 2008, which is why no bar graphs appear for those years in the figure below.)
 - d. Without adding in and compounding further increases in tuition and fee expenses during the second, third, and fourth years of school, these figures produce an increase of 75% in the cost of a veterinary degree or **12.5% per year for residents over the past six years.**
 - e. AVMA survey data from 2007 showed that the mean educational debt for residents was \$91,760 with a median of \$100,000.

2. **Nonresidents:** Nearly 1/3 of today's students enrolled in state-funded veterinary schools enroll as and/or are attending as nonresidents. In some states it is possible for these people to become residents while attending school. For most, that is impossible no matter how hard they try, unless they establish residency before acceptance.
 - a. At graduation, approximately 20% of all the students in the AVMA survey are paying nonresident tuition. This is far greater than the numbers than existed prior to the mid-1990s when the AAVMC first developed an easy way for students to apply to multiple schools.
 - b. Among nonresidents with debt, the mean educational debt for 2007 grads was \$122,242.¹
 - c. According to AAVMC data, the average cost of a year's education for nonresident students entering veterinary school in 2000 and graduating in 2004 was \$32,245.
 - d. The average for those entering in 2006-07 and graduating in 2010 will be ~\$52,831/year.²
 - e. This will leave 2010 graduates with \$80,000 more for the cost of their education than those who graduated in 2004.
 - f. When looking at the graph that follows, it appears likely that the cost of a veterinary education will continue its rapid climb as students currently enrolled pay incrementally higher nonresident tuition over each successive year of their four-year education.
 - g. This change amounts to an increase of 64% in the past six years or **10.66% annually** during this time.

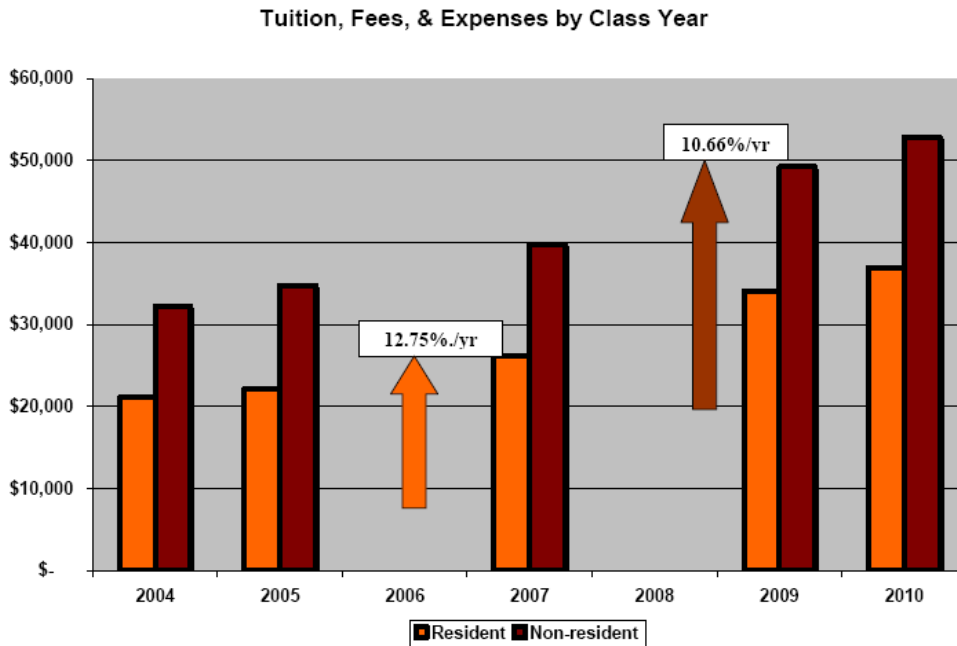
The December 15, 2007 *JAVMA* article on this subject reported that all but 8.4% of the debt reported in the AVMA survey of residents and nonresidents has been incurred while students were in veterinary school.

An interesting side note here is that only 10% of Western University's students and 3% of the University of Pennsylvania's students responded to the AVMA survey. The average student at Penn has \$150,000 worth of debt in 2006 2007 while the mean for all students at Penn, not just those with debt, in 2007 was \$126,000. Data from Western U was not available but Dr. Wilson's personal experience is that the average debt numbers there are significantly higher than at Penn. It should be noted that none of these

figures include the data from students graduating from private schools such as Ross University or St. George's or other international schools such as Prince Edward Island or those in the UK or EU.

Since 75% of the students from all the remaining schools completed this survey in 2007, there is no doubt that the small numbers of students reporting salary and debt figures from expensive schools like Western and Penn skews the national averages for debt downward. It may also result in lower mean starting salaries since salaries in the Mid-Atlantic States and California, where these schools reside, tend to be higher than elsewhere in the nation.

Figure 1:



Based on data published annually in *JAVMA*, starting salaries have gone from **109.1%** of the projected educational debt for 1980 graduates to **54.3%** of the actual debt in 2007. Stated another way, in 1980 **educational debt was 91.6% of the mean starting salary** whereas **in 2007 it is 184.1% of the entry level salary** and this is for those new graduates who are **NOT COMPLETING** internships. That accounts for a doubling of the debt:salary ratio for new graduates during this time period (Figures 2 & 3).

Figure 2:

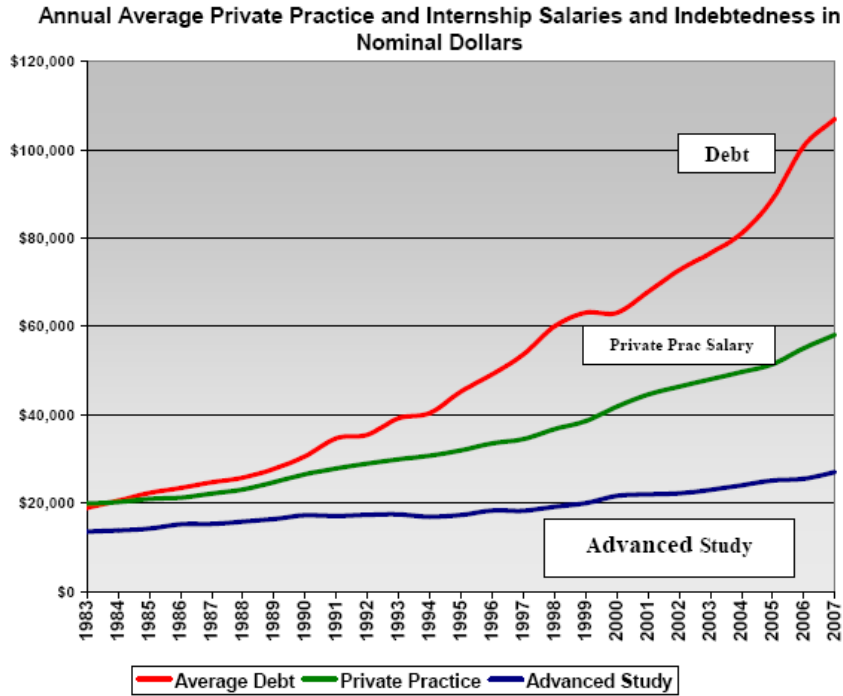
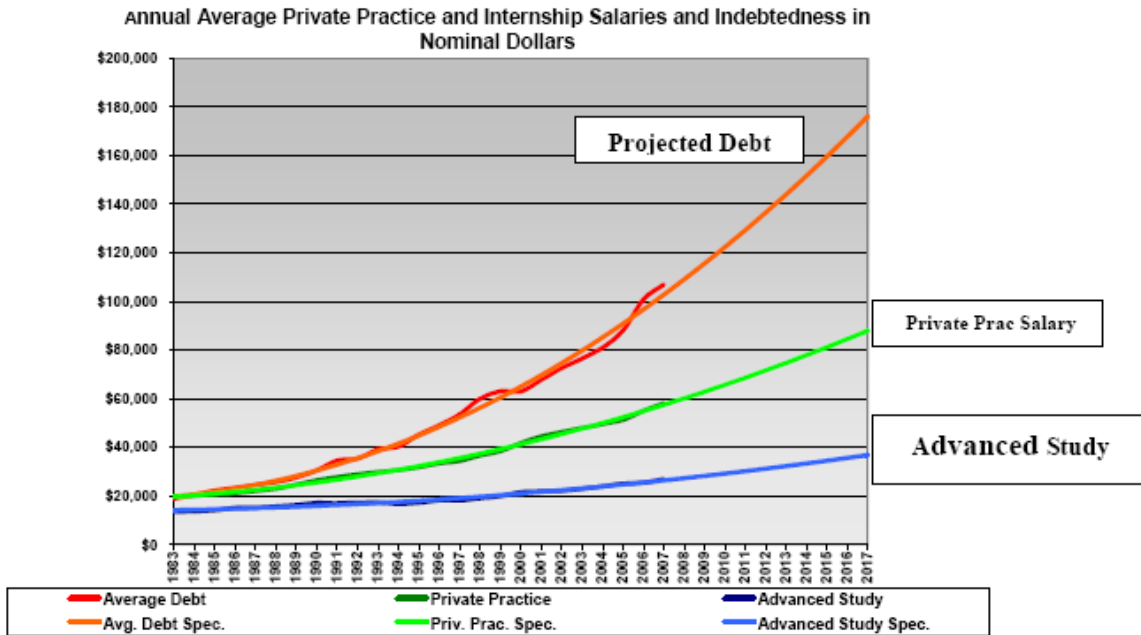


Figure 3:



THE PROGRESSION TOWARD AND ECONOMICS OF INTERNSHIPS

In 1980, an estimated 8% of new graduates completed internships. In 2007, 36.8% of new grads entered one. (Data here were produced at Dr. Wilson’s office entering all 806 VIRMP internships in a spreadsheet and sorting by type and compensation.)

- a. The mean salary for all VIRMP internships for the 2007-08 academic year was \$27,466.
- b. The mean for all VIRMP private practice internships was \$28,755.
- c. The mean for university only internships was \$24,099.
- d. The mean for all VIRMP internship salaries has been rising at 3.08% annually since 1980, well below the annualized Consumer Price Index of 3.97%. This has resulted in mean real incomes for students entering advanced study **decreasing at a rate of 0.36% annually since 1983.**

Completing internships may help new graduates practice a superior quality of veterinary medicine but requires that they forego \$40,000 to \$50,000 of income that they may never make-up. Additionally, personal experience has shown that the completion of an internship provides no guarantee that the people who do so will be able to produce any more income than those who have not nor will they receive salaries any higher than those who have. The same is **not** true with respect to completing residencies, where the earning power associated with board certification is enhanced multifold over careers as associates in general practice.

DRAMATIC CHANGES IN EDUCATIONAL INTEREST RATES.

From 2002 to 2005, interest rates for federally funded educational loans dropped from around 8% to 2.7% or less, with direct withdrawal incentives dropping rates by 0.25% and on-time repayment of loans for 60 months reducing the rates by another 0.5% to 1%.

This enabled students in school and former graduates with much higher interest rates to consolidate their loans and make repayment of them much easier. Moreover, because of a glitch in the law, during this time students were allowed to consolidate their loans each year while in school and again after graduation. During those extraordinarily low interest years, students were encouraged to borrow all the money they could because “money will never be this cheap again.” In 2005, the educational interest rate rose two points to 4.7% in 2006 it rose another two points to 6.8% and has now become a fixed rate.

Unfortunately, the effect of this rapid upward migration of rates slipped under the radar for most students who never contemplated its monthly effect on their budgets while they were in school. In other words, no one looked ahead to see what this would do to annual living costs. Who could have guessed that it would change monthly payments for 2004 graduates with \$100,000 of loans at 2.5% from \$943/month to \$1,150/month at 6.8% if they graduated three years later in 2007. This alone added **\$207/month or \$2,484 per year** to the cost of living for today’s graduates – after taxes. And, it does not take into account that 2007 graduates had to pay 33% more for their education (and borrow that much more) than those lucky ones who were in the class of 2004.

THE BLEAK FUTURE

After looking over the above graphs for 2017, when the mean debt of \$176,000 is two times starting salary (Figure 4), the reality of that is as follows:

- a. Assuming that graduates follow the recommendations of today’s financial advisors that graduates should not have educational loans in excess of 10% of one’s gross monthly income,
- b. If life is good and educational interest rates level off at are a mere 5%, using a ten-year repayment period it is estimated that new grads will need an annual salary of at least \$224,010.00 to be able to afford to repay this debt.
- c. Since that sounds impossible, let’s use the current hardship repayment cap of 15% of one’s gross monthly income for educational debt repayment. In this case one only needs an annual salary of

\$149,340 to repay the loan in ten years and, even at that, debtors are likely to experience financial difficulties.

- d. If graduates with average debt are able to extend their loans from ten years to **30-year repayment** periods, at a 5% interest rate, monthly payments would be \$994.81 while annual payments would be \$11,338.
- e. At the 15% of gross monthly income figure, this requires an average annual starting salary of \$75,584. This is doable but will serve as a major economic drag on these graduates for thirty years. In fact, with a 30-year repayment period, many of these people will be paying off their educational loans when they are eligible for social security (assuming it is still solvent then).
- f. Using the ideal model of 10% of gross income for an educational debt of \$176,000 and staying with a ten-year repayment period, instead of thirty, at a 5% interest rate (currently unavailable without changes in federal legislation) the annual loan payment becomes \$1,867/month or \$22,401. This would require an annual salary of \$149,360, something that is next to impossible.
- g. If the current 6.8% interest rate remains unchanged, that same \$176,000 educational debt paid off over 10 years rises to \$2,025/month or \$24,300/year. Paid over 30 years, this leads to \$1,247/month or \$13,787 per year. That is like owning a home and living on the street.

SAMPLES OF REASONS OFFERED FOR SOARING EDUCATIONAL DEBT:

The simple thought process for many in this profession is that these extraordinary costs for an education have been brought on by the spendthrift ways of today's students. One constantly hears claims from their elders that these darn students now need and "must have" new cars instead of used ones. This "now," "me first," "entitlement" generation is accustomed to "eating out" regularly, taking vacation/education trips to SAVMA Symposia all over the country using their borrowed money, and enjoying a lifestyle well beyond that enjoyed by graduates from the 1960s, '70s, and '80s. We also hear that "the parents of these kids have spoiled them financially," "they have never had to live in dumpy married student housing like we did when we went to school," and "too many of them have never had paying jobs during summers or the school year sufficient to decrease the amount of money they have had to borrow."

The data showing a slower educational debt increase of 9.1% vs. rising educational costs of 12.5% for residents and 10.66% for nonresidents tends to refute this perception. (Please note that there were 100 Veterinary Business Management Association student leaders present at the January 20, 2008 Elephant in the Room symposium who also refuted this perception.)

Blaming students for "the way things are" goes nowhere toward solving the financial crisis that they face. The entire profession must look more deeply at a host of other, probably more important factors that have led to this mess. They include:

- a. Massive decreases in governmental funding for education and increased costs for it brought on by technological advances – especially for those in professional schools.
- b. Although no research has been completed to support it, many contend that this is the same problem for all of today's college graduates, just a bigger one for those attending four years of professional school and even bigger for veterinary students due to the low starting salaries relative to debt ratios.
- c. The absence of the GI-Bill to help those pay for the education of today's youth, none of whom ever faced the draft into military service experienced by their predecessors.
- d. The possession of strong academic knowledge upon graduation but life and professional skills that preclude today's graduates from producing enough revenue to allow for higher starting salaries.
- e. Fees for veterinary services that are too low to support the salaries needed by new grads.

- f. Productivity per doctor and square foot in our practices that is too low to produce sufficient revenue to fix this problem. Inadequate staff leveraging at many practices exacerbates all of this.
- g. Excessive overhead related to the fragmented market of small, three or fewer doctor practices that make up the majority of the veterinary practices in the U.S.A.

THE PROFITABILITY ISSUE

The debt problem would not be so serious if starting salaries vs. debt levels were closer to those in the other health care professions and if salaries after entering the profession ratcheted upward faster as they do there. Reasons given for lower incomes and profits in the veterinary profession include:

1. The small, fragmented, one and two doctor practice orientation in veterinary medicine that leads to excessive, fixed overhead costs for the delivery of veterinary services.
2. The absence of large numbers of animal owners who have the assistance of third-party payers to help cover half or more of the costs incurred for medical care that must then come from disposable income as opposed to governmentally provided health care, employer funded third-party insurance or health savings accounts.
3. Inadequate client communication skills for new graduates to induce strong client compliance with recommended courses of veterinary care;
4. Excessive time spent observing the tertiary care provided in our veterinary schools and insufficient time learning how to deliver efficient primary care.
5. Inadequate, hands-on anesthetic and surgical experience to allow recently graduated veterinary students to produce income from elective surgical procedures. (Many feel this has been brought on by the animal rights/animal welfare attitudes of society, the humane movement, and the changing mores of students.)
6. The absence of a fully developed third-party payment system that supplements the disposable income that clients must find to pay for the high quality veterinary care available today.

It should be noted here that the gender shift from male to female has brought with it differences in the self esteem and risk taking nature of today's predominately female graduates. Lizette Hardie, DVM, ACVS and David Bristol, DVM, Dean of Academic Affairs at North Carolina State University have noted that, in general, instructors have to encourage female students to charge forward a lot more when teaching surgical skills than is the case with males. Meanwhile, a higher percentage of men will move boldly forward, whether or not they actually know what they are doing while women are less likely to do so. It's the old "men don't ask for directions" thing!

So in addition to teaching the importance of communication skills, and business skills, we may need to consider how to teach a predominantly female student population in a way that boosts their self confidence and esteem before they graduate.

Dr. Bristol goes on to opine that it appears that even the coaching of teams of females probably needs to be handled differently than those of men. "Boys join teams to play the game; girls play the game to join the team". This difference may affect things like how a woman practice owner distributes income within the practice years after her graduation from veterinary school – with more provided to her team so to speak, vs. the drivers of income and methods of sharing it by male practice owners.

THE LONG TERM EFFECT OF HIGH DEBT/LOW PROFITS

What no one seems to be discussing, especially in the political arena is the huge effect this financial drain has on all college graduates in this county and will have on the USA's economy in the future when this repayment of debt and interest is spent for an education, rather than allowing investments in residences, veterinary practice real estate, veterinary practices, education for the next generation of children, and retirement plans. More research and discussion of this is paramount to understand the magnitude of the current crisis.

Earning higher salaries is NOT the only, nor often not even the primary, reason students enroll in veterinary schools. For many, it is to have a versatile and stimulating career helping animals and people. Although no research has been completed to support it, many contend that this is the same problem for all of today's college graduates. It is just a bigger one for those attending four years of professional school after their four years of undergraduate education, which is an even bigger burden for veterinary students due to the low starting salaries relative to debt ratios.

If the costs of a veterinary professional education and internship soon make it a bad investment, there is a huge fear that:

- a. Only students from families with enough financial resources to help their children will apply,
- b. Very few of the graduates will be able to afford to start or buy veterinary practices,
- c. Those who complete their degree programs will be bitter about the investment they made in their education and unwilling or unable to provide financial support for the institutions from which they graduated,
- d. Students will graduate with wonderful academic knowledge but continue to lack the life and professional skills that enable them to produce enough revenue to allow for higher salaries,
- e. Fees for veterinary services will remain too low to support the salaries needed by recent grads. Productivity per new grad is too low to produce sufficient revenue production per doctor to fix this problem. Inadequate staff leveraging, in many practices, exacerbates all of this.

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Executive Summary of January 20, 2008 Symposium

By Carol Mase, DVM and Jeff Thoren, DVM, Facilitators of Discussion at NAVC Event

In any organization there's often an "elephant in the room" - an obstacle or challenge that everyone knows about but isn't willing to address. Until the elephant becomes clear and becomes endangered as a species, the quality of solutions generated to bring about positive change is limited. For the veterinary profession, the current "elephant" is a growing financial crisis for students and practitioners - a volatile combination of rising veterinary student debt and a corresponding lack of a sustainable and profitable business model for many practices - we now call this the Debt/Profitability Elephant. Veterinary Medicine has been involved with this elephant for at least the last 20 years, arguably beginning with the Pew Report.

The NAVC conversation was the effort of the VBMA students in an attempt to bring the profession together to understand the whole of the beast. Nearly 250 participants including academic deans and faculty, representatives from AAHA, AVMA, AAVMC, and AVPMCA, private practitioners, industry, lending organizations and 100 veterinary students participated in this first large scale dialogue on these issues. This was the first time that all these stakeholders have come together with the intention of holding open dialogue on the issues *in preparation for finding novel solutions to the problem*. Dialogues will also be held at the AAHA and AVMA meetings. Following these, the effort of the group will turn to creating solutions to be rolled out at the 2009 NAVC meeting. Critical to the success of this endeavor is to include more students, faculty, and practitioners in the dialogue.

STATEMENT OF INTENT OF DISCUSSION

There were two themes for the January 20, 2008, NAVC meeting that was held to address these issues:

1. Income maximization for veterinarians, which could include:
 - o Debt minimization, debt repayment options, enhancing associate productivity and revenue production, increasing associate compensation (including higher salaries for interns and residents), and contemplating what causes and how to narrow the gender pay gap.
2. Business profitability of practices, which could include:
 - o Comparing the economics of various types of business models, evaluating the beneficial or detrimental effect of corporate consolidations or mergers of practices, managing practices more effectively to produce improved profits, the need for more careers and business education in veterinary school, and the role of and promotion of entrepreneurs in veterinary medicine.

To address these four issues questions were asked for each of the two themes. They are:

1. What questions, if answered, could make the greatest difference to the future of the situation we're exploring here?
2. How do the factors identified for this theme relate to and influence each other? Are there other key factors we should consider?
3. What are some creative ways the profession can move forward on this issue?
4. What challenges might occur in solving this situation and how might we meet these?

The goals for the conversation were to:

1. Clearly identify the key issues associated with these challenges;

2. Capitalize on the collective intelligence, wisdom, and experience of all the stakeholders in the room;
3. Identify the most compelling solutions and generate realistic “next steps” to maintain forward momentum;
4. Set the stage for creating actionable, solution-based plans that can be implemented at multiple levels; and
5. Produce a summary document to capture key ideas and insights from the session

HIGHLIGHTS OF NAVC’S CONVERSATION 1

Five key findings:

1. Many in our profession are unaware of the magnitude of the student debt problem.
2. New grads are still lacking the core competencies of communication, collaboration, and leadership and these are not being provided by coaching/mentoring in the teaching hospitals or upon entry into private practice.
3. Practitioners and students are unsure of the components and drivers of business profitability. Additionally, our profession is not well informed nor trained to leverage staff nor benefit from economies of scale.
4. Veterinary School Teaching Hospitals are not doing enough to create well-rounded entry level, productive clinicians.
5. There is a growing perceived need to have an internship before joining a practice to the point that this is perceived by many as an essential component to gain the practical experience needed to succeed in the clinical world.

Because many in our profession are unaware of the magnitude of the student debt problem, our challenges are to:

- Come together as a community of professionals in order to
 - Leverage our strengths,
 - Demonstrate, to ourselves and others, the value of our profession, and
 - Recognize that blaming anyone one party for this problem will do nothing to solve it.
- Increase public awareness and gain the attention of legislators to assist with funding for expanded veterinary school capacities and assistance in lowering the costs for education.
- Better inform clients of our value proposition so they can see the value that is added by our services
 - This becomes particularly important as Humane Societies seek to become respected “care providers” beyond spay/neuter clinics – with the tax benefits and low, subsidized fees that come from nonprofit providers.
- Pursue other types of compensation incentives, e.g. forgiveness of educational debt for particular avenues of service.
- Link up with state VMAs for regional and local solutions

Many practice owners believe that new grads lack the core competencies of communication, collaboration, and leadership and these are poorly provided by the coaching or mentoring in our teaching hospitals or by the practitioners they join in private practice.

- Thus, our challenges are to:
 - Create a positive culture in veterinary schools that builds self-worth;
 - Learn, as students, to create value in working comfortably with and developing trust with our colleagues and our clients;
 - Learn to work more effectively and productively in teams;

- Find and eliminate the paradigms and/or unquestioned traditions that are holding us back; and
- More effectively use the practice of good medicine and stronger communication skills to strengthen the veterinary-owner bond.

We, practitioners and students, are unsure of the components of business profitability. Additionally, we are not well informed regarding effective leveraging of staff nor how to achieve economies of scale.

- Our challenges here are to:
 - Learn how to see two more clients per day with the same amount of time and energy, thus, generating an additional \$240 of revenue per day, which will produce the profits needed to pay salaries and invest in our practices;
 - Begin to see profit as a good outcome from our hard work, versus inappropriate for caregivers of animals, and a requisite means of practicing good medicine;
 - Eliminate the negative image that profits have with a large segment of the veterinary student body who don't understand that they are needed if they are to practice all that they are learning;
 - Strive to improve practice productivity and efficiency;
 - Identify our "who" – the client base that is suited to our individual strengths, what do they want and how can we best provide this for the niche that we pursue;
 - Determine which forms of third-party payment can have a positive effect on the utilization of veterinary services by the pet owning public and how to avoid the pitfalls that have so adversely affected the changes that managed care have brought to the human health care profession;
 - Understand how the market and industry demands for veterinary services are changing; and
 - Assess whether we as veterinarians, and not our clients, have created a glass ceiling on prices.

Many discussants mentioned that they thought Veterinary Teaching Hospitals were not doing enough to create well-rounded veterinarians.

- Our challenges on this front are to:
 - Combine business education and medical and surgical issues as a part of all clinical rounds;
 - Potentially, have students evaluating and implementing ways to more effectively operate and manage our teaching hospitals as part of their practice management experience;
 - Allow students to see fewer tertiary care patients and more primary care patients;
 - Encourage schools with the most successful life skills programs to share their them more widely with each other; and
 - Produce "practice ready" graduates that have better social skills and more confidence so that they feel better about their productivity and income producing potentials.

There is a growing perceived need to complete internships before joining practices. We need to determine whether the curriculum and clinical experiences in our schools are forcing this to become an essential component of acquiring the practical experience needed to faster success after graduation.

- Our challenges in this niche are to:
 - Balance the need for increased education and hands on experience with the reality of increased debt;
 - Survey recent grads who have and have not completed internships to determine whether those experiences truly do increase the quality of medicine practiced, individual productivity of and compensation and benefits for those who have completed one, and/or the profitability of the practices they join; and

- Find new ways for students to gain more focused experience in their special areas of interest during school.

SUMMARY

The background information presented here clearly indicates that the current debt/profitability dichotomy is reaching crisis proportions. Please join the parties who are seeking solutions by attending one or both of the symposia on this subject at the upcoming AAHA Convention in Tampa, FL or AVMA Convention in New Orleans. For more information as to the time and place, please view the websites describing these activities at www.aaha.org and www.avma.org.