Published on dvm360.com

Home > Debt-to-income ratio: Short-term gains but long-term problems

Debt-to-income ratio: Short-term gains but long-term problems

Yes, this KPI of the profession's health looks better, but the cost to educate veterinarians is still out of sync with the public's value of their services.

Jan 04, 2018
By Michael Dicks, PhD
DVM360 MAGAZINE

Shutterstock.com

New veterinarians today are generally being trained the same way veterinarians have been trained for decades. But the public's views of veterinarians have changed in those same decades—along with its demand for veterinary services. This disconnect can't go on if veterinary medicine is to survive and thrive into the future. It's time for the profession to adapt, which means realigning its views of itself with those of the general public.

How do we know the profession needs to change? To answer this, let's first take a step back and look at the big picture. As we've discussed before in this column, there are three markets that make up the veterinary profession:

- The market for veterinary education—individuals looking to attend vet school (the demand) and the schools' ability to provide education (the supply)
- The market for veterinarians—practices' willingness to hire veterinarians (demand) and veterinarians seeking employment (supply)
- The market for veterinary services—the public's willingness to pay for veterinary services (demand) and veterinarians' ability to provide them (supply).

Of course, these markets are all connected. The market for veterinary education is the source of the supply of new veterinarians into society, who then provide services to the public. In other words, veterinary school applicants look for seats at veterinary colleges, and attaining those seats lets them complete the requirements to become DVMs and practice veterinary medicine.

The 30 vet schools in the United States and the 19 foreign schools accredited by the U.S. offer a total of 4,450 seats each year to applicants. The four-year cost of each seat (tuition and fees) ranges from less than $100,000 to more the $250,000. Are these quantities and costs in line with public demand? Or, to put it another way, are the markets in balance? This is where it gets tricky.

Total graduate debt declines as tuition increases

Eighty-three percent of veterinary school applicants are unable to pay the total cost of the seat they attain. These applicants are forced to rely on loans to cover the gap—and that gap is widening. Between 2015 and 2017, the total tuition and fees charged U.S. veterinary students increased by 14.1 percent. You would think graduate debt would also have risen in that period—but you'd be wrong. The total debt of students graduating from U.S. colleges of veterinary medicine actually declined by 1.5 percent in the same period, even as the total number of students increased by 2 percent (see Table 1).

TABLE 1

U.S. vet school students: By the numbers

	2015	2016	2017	% change
Total debt	$408 million	$418 million	$403 million	(1.5%)
Total costs	$673 million	$701 million	$708 million	5.2%
Tuition and fees	$365 million	$403 million	$418 million	14.5%
Living expenses	$230 million	$238 million	$220 million	(4.3%)
Interest expenses	$78 million	$70 million	$70 million	(10.3%)
Number of students	2,882	2,930	2,942	2.0%

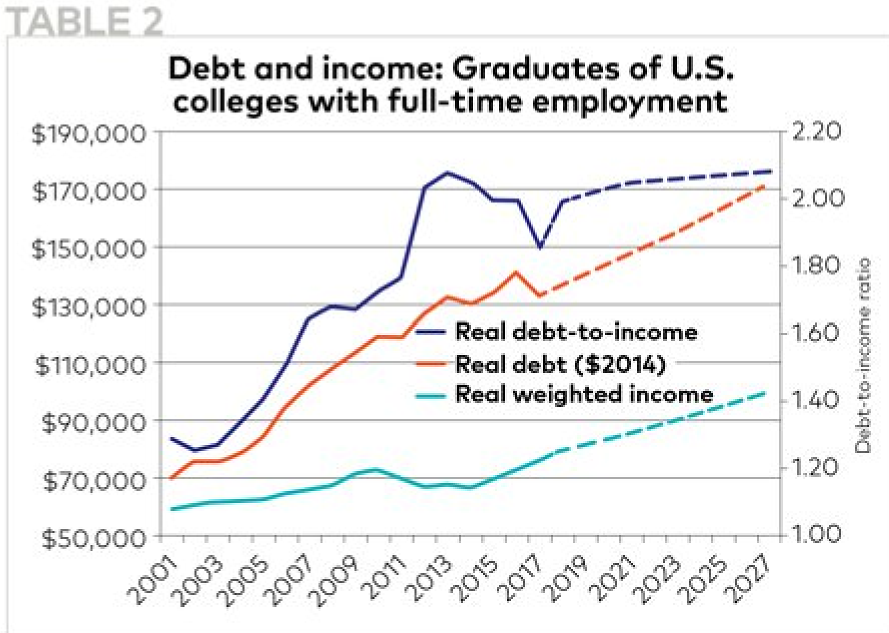
Source: AVMA Veterinary Economics Division

So what's going on? The answer may lie in the debt-to-income ratio (DIR). Let's take a look.

DIR drops in 2017 but trend is still higher

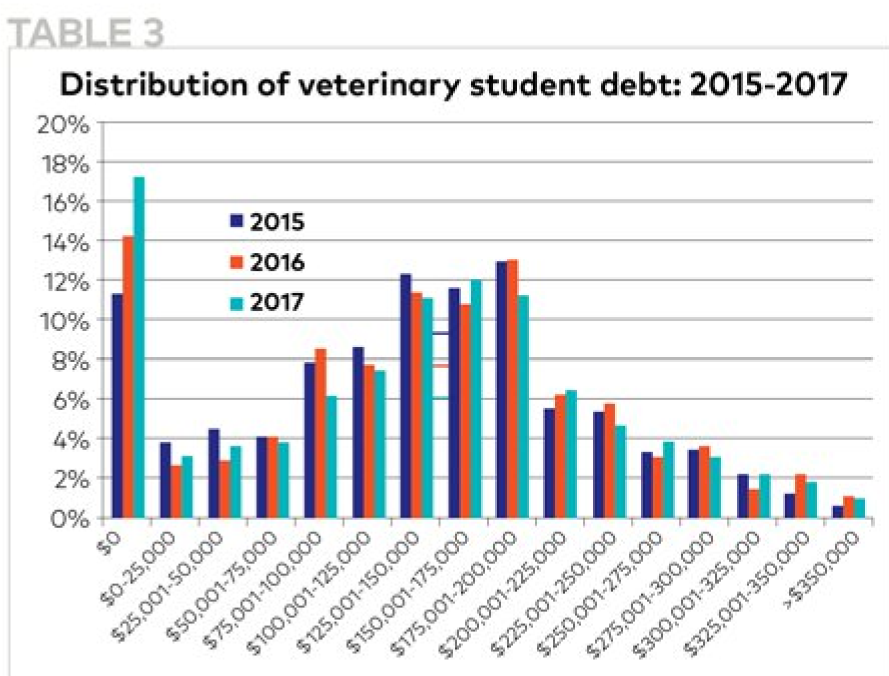
The debt of graduating seniors is the numerator in the debt-to-income ratio (DIR), the key performance indicator for the health and vitality of the veterinary profession. The debt provides an indication of the cost of producing a veterinarian, while starting salary (income) reflects the value society places on the services provided by veterinarians. (A hint to understanding the DIR? The higher the cost compared to the value, the more out-of-whack our three markets are.)

According to the 2001 to 2017 trend, real (corrected-for-inflation) debt is rising at a rate of $4,648 annually while real starting salaries are rising by $808 annually. So the long-term trend in real debt is 5.75 times the long-term trend in real starting salaries (see Table 2). Simply put, growth in debt is outpacing growth in salaries by miles—not news to anyone familiar with the issues plaguing the profession.



Source: AVMA Veterinary Economics Division

While the long-term trend is for the DIR to rise, it actually declined in 2017, the result in part of that surprising drop in total graduate debt. Between 2015 and 2017, the number of graduates with zero debt—those who didn't take out a single loan—increased by 56 percent (see Table 3). It's possible that increasing awareness of the implications of a high DIR by both students and colleges has led to a reduction in total student debt even as the number of students has increased.



Source: AVMA Veterinary Economics Division

Plus, an improving economy has led to a more robust demand for veterinary services and thus for veterinarians. The rising demand for veterinarians has led to a tight veterinary labor market and higher starting salaries, which also contributed to the drop in DIR. All of this is good news—at least for now.

Long-term trouble looms

On a more troubling note, even though the average DIR has declined, the percentage of graduates with a DIR greater than 2:1 has increased, meaning these individuals will likely struggle financially their entire lives. Plus, local economies don’t always improve with the U.S. economy, and as state and local economies falter, so does public funding for education and the demand for veterinary services.

Take the recent case of Oklahoma State University’s college of veterinary medicine. Since 2015, as a result of declining state tax rates and oil prices, state appropriations have declined by 26 percent, faculty positions have gone unfilled and the AVMA’s Council on Education has placed the college on probation, citing major deficiencies in standards for finances, faculty and students.

To counter declining state appropriations, the college has doubled nondiscounted (out-of-state) seats by roughly 50 percent, increasing total enrollment. While the additional revenue from expanded seats will offset the lost state funds, the decline in state funding will continue, following a trend lasting more than 20 years. Plus, the college is reaching its maximum physical capacity and may not be able to continue to add students to offset losses in state appropriation. The alternative—raising tuition and fees—will produce higher DIR levels and put additional pressure on graduates and employers to raise starting salaries faster.

Conclusions

So where does this all leave us? While opportunities remain to increase the demand for veterinary services and thus veterinary salaries, the long-term trends in declining public support for education will continue to drive the DIR higher, adversely affecting the veterinary profession. The ability of schools to use raise tuition and fees or increase numbers of students to maintain the current educational system may be nearing an end.

Perhaps the time is right for the profession to identify the roles of a veterinarian in the future and determine how to most efficiently produce veterinarians that can serve those roles. Structural changes in education may more efficiently train veterinarians that better meet society’s future needs.

Dr. Michael Dicks, director of the AVMA’s Veterinary Economics Division, holds a doctorate in agricultural economics from the University of Missouri. He has worked in Africa on water delivery and energy production technologies and has served with the USDA’s Economic Research Service.

Source URL: http://veterinarynews.dvm360.com/debt-income-ratio-short-term-gains-long-term-problems