Medical and Dental Students

Top Financial 10

With A Bonus Residency Round

1. **Living Like a Doctor as a Student will May Force You to Live Like a Student as a Doctor**

   Enough said? It is commonplace that education costs are higher now than it has ever been. And most student borrow to pay for it, in some cases borrowing half of what their salaries will be and, in most cases, matching their six-figure salaries with their six-figure debt. It is not necessary to always borrow the maximum, spend all the maximum and continue to borrow the maximum perpetually. Developing a mindset of not thinking much of it, except paying for it after residency will ultimately lead to, according to many doctors surveyed, your debt making future decisions for you in every major financial decision that you will have in the future like it is a part of the family. Whether or not to but a house, can I purchase a practice, can we save for retirement or save for our children’s education, should we take vacation, is the new opportunity to costly to take? Your extra – ordinary amount of debt must be kept at a minimum for the simple fact that you are a student. And you are not earning income. You are borrowing to attend school, not to increase your way of life. The good news is that although education costs lead to more debt costs, that does not mean that lifestyle cost also goes up. That is something that you can control and balance the scale, because you are a student, expected to live a student lifestyle. There will be plenty, and I mean plenty of time to splurge off earned and investable income, not borrowed.

2. **It is Easier to Live Frugal Now Than Later**

   Because you are a student, because you are in school, because you have the opportunity for campus housing, because your social scene comprises of mostly school engagements, because you are studying most of the time and because you are not earning income, it is easier to use this time to maximize your competencies, curb your spending and only spend what you need to spend to get by. Later on, there are so many commitments, responsibilities, families, children, expenses, life and all the demands that come along with it. Developing good and sound financial habits now will pay huge dividends for the many things that you have dreamed of doing post-graduation. Amassing wealth through frugality now will help secure a strong financial future later.

Start developing good habits early and often and they will continue for many years to come.

3. **Begin Your Financial Education Now**

Most of America live paycheck to paycheck (81%) regardless of income. 64% of America cannot cover a $1000.00 emergency without borrowing money. 18% of all students in medical borrow over $300,000 with the average across the country borrowing around $250,000. Are you in the highest quartile, the medium or are you beating the odds? Why is that 80% of the NFL and 65% of the NBA players file bankruptcy upon retirement despite their high income levels? Did you know that most Americans on average, only contribute 5% of their annual household incomes in the defined contribution plans (401k, 403B, TSP etc.)? Finally, only 8% of America has experience in formal instruction on financial education and how to win with money. That means that because you are reading this program right now, you are leaps and bounds ahead of the rest of America. You have an opportunity to game plan your money, your lifestyle and your wealth. Knowledge is the new currency, what you know will save and make you money, what you do not know will take money from you. Take advantage of the opportunity your school has funded for you. It is innovative and leaning in to your financial future.

4. **Minimize Loan Borrowing**

Upon entering Medical or Dental School, you will likely see a variable budget that serves as a guide for likely expenses, to include personal expenses. This is, only, a guide and not your financial blueprint. Because you have not had exposure to the local expenses, it is good that they have prepared this for you. Oftentimes, students borrow the maximum their first year so that they may address these expenses without worry. The idea is to transition the variable budget model into an actual model after you have settled into the school year. The plan should go something like this… borrow the maximum your first semester of school, then create a solid budget, track your spending and adjust your budget with the sole purpose of keeping your expenses as low as possible so that you BORROW as less as possible. A part of your first semester borrowing should create a 2–3-month emergency fund – meaning if your monthly expenses are $2000.00 a month, then $4000.00 to $6000.00 should be kept in a money market account strictly for emergency use. Once that is set, then you do not have to borrow the maximum to deal with, come what may, and that you only have to borrow what your actual expenses are, and, this is based upon you are keeping your expenses as low as possible because it is borrowed money.

5. **Understand Capitalization**

To keep the numbers simple, say a student borrowed $3,000 at 6.8 percent interest to help pay for their first year of school. Every month, $17 in interest accrues on the loan. If the student is in school for three years and nine months, $765 of interest accrues on the loan balance during that time. In addition, $102 accrues during the six-month grace period following graduation. When repayment begins, the $867 of interest is added to the principal of $3,000, making the new principal balance $3,867.
Now the monthly interest charge jumps to $21.91. On a 10-year repayment plan, the monthly principal and interest payment for $3,000 would have only been $34.52, whereas the payment for a balance of $3,867 is $44.50, which is 29 percent higher.

Students, with an average of $250,000 borrowed for medical students, to sum total your interest accrual (growth) it could reach as $25,000 in interest, therefore making your new total $275,000, that's the first capitalization that will take place. If you decide to place your loan in forbearance during residency and not make payments, you will incur interest on your new total that could almost double in interest to over $45,000, thus making your new total $315,000! Making smart strategic decisions to keep your loans low and pay during residency in an income-based loan repayment plan is likely the right play. Otherwise, 10-20% of your earned income will go towards your students loans for many, many years as an attending physician, thus traveling through life with you. Keep the expenses low in school and it will not have more than necessary impact on your financial fate. This impact compounds with marriage, children and other expenses and needs of life.

Tips
If you would like to avoid having unpaid interest added to your loan principal, pay it before capitalization. In the case of student loans, the interest is capitalized when your grace period ends, usually six months after you finish school. Make interest payments while you are in school or during your grace period to pay it off before it is capitalized. For example, if you borrowed $10,000 at 6.8 percent interest, monthly interest payments are $56.67. If you can afford to make these payments while you are in school, doing so will keep the amount you owe upon graduation to only the $10,000 you borrowed.

6. **Explore Loan Forgiveness!**

Student loan forgiveness at its core is a variety of programs that can ultimately erase some or all your student loan debt. They each have unique requirements and approval standards. While not all forgiveness programs will work for every student, most of you will find a program to at bare minimum, get some of your student loan debt wiped away. The core basics, though most vary are, you typically 1.) Have a specific type of student loan (most programs accept only federal student loan borrowers), 2.) Work in a specific job, a high-need field or a low-income area 3.) Agree to work for a specific length of time 4.) Make on-time payments on your student loans while working toward forgiveness. Those are the core criterions that most of them will have. You'll want to check out these links to help you get started… Public Service Loan Forgiveness | Federal Student Aid - Income-driven repayment (IDR) plans can lead to forgiveness of your remaining student loan balance after years of reduced payments. The most common plans are Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), Income-Contingent Repayment (ICR) and Income-Based Repayment (IBR). Each of these plans requires you to pay a percentage of your discretionary income for 20 to 25 years – This site recaps all of them… Student Loan Forgiveness (and Other Ways the Government Can Help You Repay Your Loans) – Federal Student Aid. In addition to many options for doctors. They are willing to give a lot to get a little, are you willing to give a little to get a lot? Check it out!

7. **Purchasing A Home, As a Graduate Student….?**

If you read most medical/financial blogs, the verdict is clear on the fact you should rent during medical school/residency. Renting is lower maintenance and lower hassle while you are in the most time-consuming stretch of your medical training. To BLUF (bottom line up front) it – a perspective on this topic comes from a now attending physician and chose to buy – "All and all, the numbers are horrible, especially if you are moving to a new location, but as bad as they are, they do not tell the REAL story. The hassle factor is, and now having experienced it firsthand through the demanding hours of residency and transition to attending – the HASSLE IS NOT WORTH IT. RENT, DON'T BUY for residency." Let me be crystal clear, just because their selling does not mean you are buying. You will find no shortage of bankers, lenders, merchants, realtors, creditors trying to sell to you on the presumption of your career (Doctor) and on the presumption of your potential income – They have created "Physician's Packages" all souped up and tailored just for you… but when you peel back the onion – they are trying to sell you dressed up in Sunday Best, DEBT. Whether it is a time share, car lease or even a 100% mortgage, no money down, it is to get you on the hook. It is tremendously hard to build enough equity in four years on any 100% mortgage, regardless to what they have told you about the skyrocketing hot market. And even if you do put money down, is it borrowed student loan money? Please do not do that (capitalization for one, and two, live like a student now so that you are not living like a student as a doctor). The same rules do not apply as dress to impress. And, what many realtors and lenders always default to when speaking with students is that if you move, you can always sell it above market value, one, and two, you can use it as investment property. So when will you have time to manage that, and did you know that the national rental occupancy rate hovers around 70%, meaning that 30% of the time it will not be occupied and you will have to pay this, on residency salary, while you are also paying for your current rent? And – what about the student loans? What about the practice that you may want to purchase? It will serve you well to make this move post school/residency and get settled with where and with whom etc. that you will be an attending physician.

8. **Take Inventory Each and Every Year**

   Developing a strong inventory ethic to monitor your student loans is critical now and as you progress forward into your career. This applies to all your debt. List each of them in the debt section so that you can track it in one place. You can find your federal student loan information and holder of your loan by searching The National Student Loan Data System at https://studentaid.gov/ which will lead you to the database for student aid, including loans and grants. It contains information on the kind of loan you have (such as a Direct loan or Perkins loan), the outstanding balance, and its current status. If you have not done so already, create an account, save your username and password and get started in loading in all of your debt into the DFW debt module. Secondly, to accomplish this in other personal debt areas (car loans, credit cards, lines of credit etc.), you will want to pull all three credit reports to ensure that you capture all your debt (as every merchant does not report to all three agencies, so you do not want to omit any item within your debt inventory). Once you have accomplished this, load in the debt's total balance, interest rates, lender(servicer), payment (if applicable) etc. Now you will have a good picture of your total debt picture on paper.

9. **Because with Refinancing Your Loans of Any Kind**

   First, it is important that you keep your federal loans federal so that you do not forfeit your forgiveness options and opportunities. That is the first consideration. Second, most people refi to get better terms on the loan with the most important is for lower payments. This is accomplished by offering you a lower interest rate and with time. Therefore, the number component that the lender will evaluate is your credit score which needs to exceed 740 to get the best rate available. Again, we are talking about private loans, so be sure that you understand fully what you are doing because lenders may not offer up all the important information that you need to know such as credit scores, loan terms, fees, penalties etc. Consulting someone that is not a part of the sales transaction or does not have a dog in the fight is imperative. Secondly, shop around – always get a second opinion, but not at the sacrifice of your credit report being pulled each time because this will lower your score 3-5 point each time. Third, you will want go for fixed, not variable rates in any transaction, as it is best to pay the rate you know, not the one that you do not. The best plan of action is to snowball or cascade your debt. Read the Debt Section within DFW and it will guide you through.

10. **Financial Resources for Doctors**

   Knowledge is currency and it will help you take control of your financial life. If you begin now, which is still early enough, hopefully, you can avoid major mistakes that many doctors make before being more financially educated.

   Here are several relevant reads to your profession that will aid your knowledge currency:
   Whitecoatinvestor.com – basically any and all physician financial topics.
   Physicianonfire.com – tilt towards financial independence and early retirement.

Passiveincomemd.com – how to invest in passive income sources to take control of your financial future.
https://lifeofamedstudent.com/2020/07/03/how-much-do-doctors-make/

BONUS RESIDENCY ROUND –

Top 5 Financial Mistakes made during Residency

(CREDITS: LIFE OF A MED STUDENT)

Residency is a time to finally learn medicine. You work grueling hours, still must study, and every day make medical decisions that can make a difference in a person's life. Where in the world is there time to worry about money? Well, that was my thought at least. Until my own **financial awakening** occurred late in residency and I realized that somewhere in my minimal free time I should have done more to educate myself financially. Now you can learn from my financial mistakes during residency – here were my five worst!

1) Not Funding Retirement Accounts

Residency was the first job I had had that paid enough money to really care about. Every job I had ever had before that was simply spending money. Money to blow on the weekends. Dinner and date money. When residency started, I could not believe my first paycheck – nearly $2000 – JUST for the two weeks of ORIENTATION! WOW! The organization I worked for of course offered retirement packages, a 401k with automatic withdrawals starting at 4% per monthly paycheck. There was no employer match and with the excitement of the new job/paycheck, 4% was enough for me to want to get my hands on while rationalizing it was too little to build a retirement on.

While I still think it was probably ok to avoid the company 401k during residency (though despite its high associated fees even that 4% would likely be nearly $10,000 today given the continued growth of the market), what I really SHOULD have done is make sure I was at least investing in a Roth IRA. I like the Roth IRA in residency for several reasons. These are simple to set up (I recently set one up on Vanguard, and I had investments in the market within just a few days) and use your after-tax money to fund the accounts. You will likely never again be in a lower tax bracket than when in residency. They then grow in a tax-free manner, indefinitely, with no mandated withdrawal periods. In a pinch, you can withdraw the contributions you've made (but not their growth) penalty-free. And since residency is a temporary employment position, you won't be rolling over a traditional employer 401k multiple times from job to job as you go through an intern year, residency, and fellowship in some cases. If you have a little extra money in medical school, you could even open a Roth IRA then.

As of 2016, you can invest $5500 each year in these accounts and one of my biggest regrets is only starting to do this in my last year of residency. Currently, I have a Roth IRA set up for myself and my wife. As an attending, we will continue to add to these, through what is called a “Backdoor” Roth IRA transfer. If you are not familiar with the Roth IRA and the advantages especially as a resident and still while an attending, I strongly suggest looking into it. No matter what, please make sure you start in residency adding to some retirement account. Start the mindset to “pay yourself first” with retirement savings. Even if the amount ends up being relatively small – it is the MINDSET to establish now that will serve you well later. Note: Most financial experts would, in general, recommend maxing out the 401k first (if there’s a match), then contributing to a Roth IRA. I think as an attending or regular joe, this is good advice, but specifically as a resident the simplicity, as well as the flexibility of the Roth IRA, wins out.

2) Rolling Over One Whole Life Policy into Another Whole Life Policy

If you are considering a whole life policy, just please do not. If you need a course on why to absolutely, positively, no excuses, no matter the sales pitch, not to go down the whole life route, read the series on the White Coat Investor blog. It’s very convincing and I couldn’t even begin to match his passion for debunking whole life in this post.

I, of course, did not know all of those things. All I knew what I had some form of life insurance my parents had bought when I was a child. It was a whole life policy, $ 100,000-lifetime coverage for $425/yr, now with a cash value of approaching $14000. Considering I’m 30 and they bought this when I was two, that means their input has been roughly $12,000 and their value is now $14,000. Not exactly a great return on investment if you look at it that way. Even worse if you consider $425/yr invested for 28 years with only 6% returns would be now $30,500.

So, what do I do, I take that $14,000 cash value and roll it over in to a new “universal” life insurance policy which even further mixes investing and insurance – but I did get a great sales pitch on. My policy is now worth a $350,000 guaranteed death benefit and I pay about ($68/month) $800 dollars a year. The “cash value” is invested and thus is subject to the market. Each dollar I add is subject to a 10% fee for the first 5 years, then eventually nothing after about 12 years.

Meanwhile, the 1 million dollar term life policy I just added to that is roughly $32/month. If I would have just taken that $14,000 and invested it and added a term policy for what I need in insurance, I would have been much better off. Probably in the range of $100,000 better off in 20 years.

It was a huge mistake. But I did not know better and am living with it. Why am I living with it? Because the cash value of that $14,000 rollover is now only worth $2000 due to the high penalties associated with quitting a whole life policy. And even worse, I still needed to add a term policy to even be adequately covered. I wasted a lot of money and had a huge opportunity cost from that money, for a policy that did not even adequately cover me.

Which brings me to my next financial mistake…

3) Being Underinsured…

You go to undergrad, medical school, and residency, including high school, it is now grade "Twenty" or more when you are finally done. That time is worth a lot. The good news is that suffering through that time, eventually pays well. The average physician is now making $220,000 + per year. That is a lot of potential income down their road. And while my decent amount ($220k and rising) government-issued student loans are forgivable in my death, not all private refinance companies will be. I should never have been considering whether I need a $300k or $350k life insurance policy like my wife and I debated, but how many MILLION policy. It did not really occur to me until after my daughter was born and my wife stopped working how insignificant that $350k policy (that essentially cost $14k to plus $800 a year to get) would be if something happened to me. Now I have another 1 million term policy and plan to add another 2-3 million term policy next spring before I'm an attending. I should have started with at least a million from the very beginning.

Now each person's situation is a little different. If you do not have a family/child or other people depending on your income, you probably need a lot less. If you are a two-physician family and you could be fine on one of your salary, you may consider having less each. However, a commonly quoted rule of thumb is 10x your salary. As a resident, if you have those people depending on you, I will say 5x your ATTENDING salary is a good start. For me, that would have been about 1.5 million, which is probably a pretty good amount that could pay off our home and my loans, keep my wife at home to raise our daughter, fund the wife's retirement accounts, and send our daughter to college. I finally have nearly that coverage, but I waited a dangerously long time to do so. I plan to have 3-4 million in term coverage before my first day as an attending next July.

With **disability insurance**, I did a little better and have had own occupation-specific coverage the entire time I've been a resident. I started with $2000 of monthly coverage as a medical student, added another $2000 last summer and will add another $3000 this winter to finish out residency. I have two policies and have maxed them both for what the companies will allow at this stage of my career. As an attending, I will then again take the max my salary will allow, which is somewhere in the $15000 per month of coverage range. Again, because of your maximal time investment in medicine, I would strongly consider getting close to the maximum allowed for your salary on this in the case of a permanent injury or disability. When I have the full coverage allowed it will be about $550/month – not cheap by any means but certainly worthwhile to protect the years invested in medicine.

4) Not Having my Attending Contract for after Residency Professionally Examined

I am pretty sure I have a good contract for next year. It's a small group, the contract is short, and even I could understand it. It's more money than I ever imagined. It's in the exact location I wanted to work/live. I beat out two other guys from my residency who were also interested. Then they even agreed to give me a signing bonus! What could be wrong about that? Well, now that it has been a few months since I signed it, I've heard a lot of horror stories from other people/residents/attendings about how their "perfect" contract turned out to be anything but. Will mine be ok? I hope so. It is a salary position with great pay, but it's weak on specifics on how much I'll have to work to earn that – "work and call load equally divided" among the group. Well, what if the group size changes? I could end up working a lot more without any additional compensation. Looking back, I really wish I would have had it professionally examined. At least then I would have a second opinion and maybe would have gotten some negotiation pointers to strengthen those areas. If I end up signing another contract someday or have this one re-done for any reason, I will be spending the minor few hundred dollars to have it looked at.

5) Not Knowing Any or All of This Early in Residency or even Medical School

Let's face it – med schools across the country are terrible at giving you any kind of business or financial advice. And what happens when you start practicing? You constantly are making big-time business and financial decisions, without any education on how to do so. The mistakes I have made in residency have literally already cost me tens of thousands of dollars, if not more, in my lifetime. And had I had an injury, disability, or death in the time periods I have been underinsured – it would have cost my family and me a lot more. I wish I'd known anything about finances prior to residency. I have learned a lot since then, but it's all been on my own time and largely through internet/twitter blogs and websites. My favorite for physician financial help is a website and book called "The White Coat Investor." I have no financial relationship with The WCI – but I can tell you the information I have learned from that site has been worth so much more than money. I've spent hours reading the information on that book/website to get to where I feel more confident about my financial picture. However, if you do not have the drive, interest, or time to do that on your own – I highly suggest getting a good financial advisor. While not always cheap, they certainly are more cost-effective than if you are not well educated and make repeated financial or insurance-related mistakes.

Honorable Mention Mistake: Buying a House during Residency

But wait? Charlie, you had a post a little while back about how you chose to buy a home in residency and do not overall regret it. – True! However, it is still a dangerous financial mistake. I am just a small dip in the market away from losing considerably more than I will ever manage to gain ahead of renting. And with the end of residency and the start of my attending job a set date, I have no flexibility to wait out a market or wait for the perfect buyer. My fingers are crossed, and if I sold today, I'd probably win the gamble against renting, but who knows how things will be when I actually sell in 8-10 months. For a full explanation with all my personal expenses and number crunching on the old rent vs buy dilemma