

Debt Management:

Planning for Life After Medical School

*This topic is one of several
in Access Group's
Personal Finance and
Debt Management Series.*

Dealing With Your Student Loan Commitment

Your decision to borrow money to finance your medical education represents an important investment in your future. How well you manage your student loans and other personal finances while you're in school will determine how quickly you can achieve your financial and professional goals after you graduate. You can make it easier to deal with this long-term financial obligation by implementing sound debt management practices - both while you are in medical school and after.

The following suggestions may be helpful in determining a personal debt management strategy:

- *Estimate your monthly loan payments.*
- *Analyze your income projections.*
- *Evaluate your debt-to-income ratio.*
- *Consider your lifestyle requirements.*
- *Continue effective debt management strategies during repayment.*
- *Consider your repayment options, including loan consolidation.*
- *Avoid default on student loans.*

Estimate your monthly loan payments.

When you begin planning for your financial future, you should first examine your student loan debt and other credit obligations. Although knowing your total indebtedness is important, it is even more critical that you calculate what your monthly loan payments will be, based upon your total debt. After all, it is the monthly

loan payment that you must deal with in terms of your budget. You can use the "Interactive Calculators" in the Student & Families section of Access Group's Web site (accessgroup.org) to estimate the monthly payment amounts for each of your student loans, regardless of the type of loan and the lender.

Analyze your income projections.

Your future income is an important factor in determining what constitutes manageable payments on your student loans, so the second step in your financial plan should be to assess your future income realistically. With the recent focus on health care reform and the implementation of managed health care, it is important that you have a realistic view of your potential income. The Office of Student Affairs at your medical school may be a useful resource in obtaining potential starting salary estimates as well as important career planning information. You also may find the Internet useful in researching potential starting salaries in your chosen field. Use a search engine such as google.com or yahoo.com to search for sites with information about starting salaries. In addition, check out the Web sites of any professional organizations that are affiliated with your career/profession (e.g., American Medical Association at www.ama-assn.org).

A few sites are listed below to help get you started.

- salary.com
- monster.com
- jobweb.com
- medicaleconomics.com
- physiciansearch.com/physician/salary1
- aamc.org (American Association of Medical Colleges)



Evaluate your debt-to-income ratio.

Once you have estimated your monthly loan payments and have determined a realistic starting salary projection, you are ready to evaluate your debt-to-income ratio. Opinions vary about the amount of student loan debt you should incur relative to your projected starting salary. Ultimately, it is your responsibility to determine what percentage of your income you are willing to commit to student loan repayment.

Consider your lifestyle requirements.

In addition to projecting your potential income while you repay your student loan obligations, it is important to consider the type of lifestyle you wish to maintain as a physician. A realistic examination of your individual needs should be made to assure that your lifestyle expectations are consistent with your financial resources and obligations. Many students have unrealistic expectations about the type of lifestyle they will be able to afford while repaying student loans.

The difference between what you earn and what you have to pay for (taxes, student loan payments, and other credit obligations) is what you'll have available to pay for your lifestyle. When planning for your financial future, it is important to distinguish what you have to pay for and what you want to pay for.

Start by calculating an out-of-school budget. In this case you may want to focus on the point where you've completed your residency (and fellowship, if applicable) training. Be sure to list: basic living expenses including housing, transportation, food, utilities, and insurance; personal living expenses including clothing, dependent care, and household goods and furnishings; and miscellaneous expenses including recreation, entertainment, and interview expenses. Don't forget to include your estimated monthly student loan

payments, taxes, and any other credit obligations, such as credit card payments. *Note: Although you may consider housing something you have to pay for, it does not become an obligation until you've signed a lease or obtained a mortgage. You may find that you cannot afford to meet your lifestyle expectations while repaying your student loans. Consequently, what you can afford to pay for housing and other living expenses will depend upon how much money you have left over after meeting your other financial obligations.*

Continue effective debt management strategies during repayment.

Debt management should continue after your graduation from medical school (and completion of residency/fellowship training) in order to ensure that you are able to meet your repayment obligations. Your debt management strategy should include:

- *understanding and selecting among repayment options provided by your loan holder(s)/servicer(s);*
- *budget planning;*
- *understanding and exercising your deferment rights when applicable, and using the forbearance option if necessary (including mandatory forbearance while in residency);*
- *understanding the advantages and disadvantages of loan consolidation and the repayment options available through loan consolidation; and*
- *tracking your loans and maintaining accurate records to assist you in communicating with your loan holder(s)/servicer(s).*

Use the "Interactive Calculators" in the Students & Families section of our Web site, accessgroup.org.

Access Group is a nonprofit organization dedicated to providing access to education through affordable financing and related services.

Consider your repayment options, including loan consolidation.

There are alternatives available to lessen the burden of repayment following medical school. Through the Federal Loan Consolidation Program, you can reduce your monthly student loan payments by as much as 20 to 40 percent by extending the repayment period of your loan. The following information may help you determine whether refinancing your federal loans through federal loan consolidation is right for you.

Advantages:

- *You can make a single monthly payment for all of your federally guaranteed student loans that are included in the consolidation loan.*
- *You can have a lower, more manageable monthly payment.*
- *You can realize greater disposable income by retaining more of your monthly income.*
- *You can lock in the interest rate for the duration of your loan repayment.*
- *During authorized deferments, the U.S. Department of Education may make interest payments on your behalf.*
- *Married borrowers can consolidate eligible loans if they agree to be held jointly and severally liable for repayment of each other's loans.*
- *Delinquent/defaulted borrowers who agree to re-enter repayment through consolidation may be eligible.*
- *You can avoid potential payment problems and the resulting damage to your credit rating.*
- *You can still make loan prepayments without penalty at any time.*

Drawbacks:

- *You will pay more in interest expenses over the course of an extended repayment period. (However, you can reduce the amount of interest paid by prepaying your loan at any time.)*

- *You may forfeit some of your authorized deferment options available under each of the federally guaranteed student loan programs. Contact your loan holder(s)/servicer(s) for more information.*
- *You may pay interest at a higher average annual rate.*
- *Married borrowers who consolidate eligible loans are equally responsible for payments, even after a divorce.*

Consolidation options also may be available to refinance your private student loans. Consult your loan holder(s)/servicer(s).

Avoid default on student loans.

Failure to repay student loans can result in the seizure of funds held in your bank accounts, your personal property, and/or any income tax refunds. Your wages may also be garnisheed. Student loan default can damage your credit rating and employment opportunities. All student loan defaults are reported to the three national credit bureaus (Equifax, Experian, and Trans Union). If you default on a student loan, it may be difficult to qualify for a subsequent federal student loan until the default is cleared up. If you have defaulted on a student loan within the past seven years, it also may be impossible to receive a private student loan, even if the debt has since been repaid.

Looking Ahead

While you may have a clear picture of your educational and professional career goals, it is important to view them in conjunction with a realistic picture of the job market and your financial obligations. By using the strategies explained above, you can effectively manage your student loan debt, both while you are in medical school and as you pursue your professional career.

For more information, visit our Web site at www.accessgroup.org.