GOLDMEDALWATERS

Client Profiles

Dealing With Medical School Debt

M.D. with Public Service Loan Forgiveness

At Gold Medal Waters, we are deeply committed to understanding the financial issues associated with our clients' professions. Given our specialty in financial planning for M.D.s and other health care professionals, we have seen how medical school debt and other facets of a physician's career trajectory can affect our clients' financial wellbeing. In this Client Profile, we discuss some of the financial challenges experienced by actual GMW clients. We have changed certain details to protect her identity and privacy, but the important points have been preserved.

Profile: Single, Neurologist

Ages: 37

Annual Income: Approx. $250,000

Children: None

Our second profile involves an M.D. we'll call Amy (not her real name). Amy, who is not married, completed her residency in neurology eight years ago and works in a not-for-profit hospital. She has been making monthly payments on roughly $200,000 of medical school debt under an income-based repayment plan since she finished her residency, with the goal of obtaining loan forgiveness through a **Public Service Loan Forgiveness** (PSLF) program in two more years. For those who are not familiar with PSLF, after completing a residency a doctor who works full-time for a not-for-profit or public institution (many hospitals qualify) or in an under-served area with a high need for medical professionals, can obtain loan forgiveness on the remaining balance of federal student loans after making qualifying monthly payments for 10 years (PSLF-qualified work must continue for the entire period.)

It has been widely publicized that, although many people apply for PSLF, few actually qualify because of the program's many strict requirements – For example, a single missed payment or incomplete documentation will disqualify the applicant. Amy's financial advisor at Gold Medal Waters has been helping her to stay on track, so she has never missed a payment. He also made sure Amy knew not to make any extra payments or reconsolidate her loans, as doing either would violate the PSLF rules and would force the ten-year clock to restart. Amy also makes sure the hospital files the necessary paperwork every year to maintain her compliance with the PSLF rules.

Amy's earnings are now ramping up and she is thinking about getting married and buying a house. Her significant other also has student loan debt and is also making his payments under an income-based repayment plan. Amy's financial advisor provided some unexpected counsel: Maybe don't get married yet – consider waiting until Amy obtains her loan forgiveness. While the advice is certainly not romantic, the logic is compelling. Amy's significant other has income that is quite a bit lower than hers. If they were to get married now, his loan payments under his income-based repayment plan would dramatically increase. That would leave less of their combined income available for other priorities, such as home buying. Combining incomes through marriage affects both income-based repayment plans and loan forgiveness programs, something Amy's advisor knew but many people overlook.

Another issue her advisor addressed was that, like many doctors, Amy was a target for life insurance and annuity sales pitches. Since she is employed by a hospital that provides life insurance as a benefit and she does not have a spouse or dependents who rely on her income, her advisor pointed out that she didn't need the extra life insurance policy purchased during her residency. However, Amy lacked adequate **disability insurance**. The Social Security Administration has reported that one in four of today's 20-year-olds will become disabled before reaching retirement age.[1] Disability insurance is especially important for physicians, given the physical requirements of the job. Amy's advisor helped her shift into the right amount and type of coverage.

He also showed Amy how getting into the habit of saving for retirement early, even just a small amount, could make a huge difference in her future. She now contributes to a Roth IRA using the **"back-door" contribution strategy**. Even though purchasing an annuity in residency may not have been the best choice for her situation and her advisor counseled her to wait another year until she is eligible to withdraw the money without penalty. In the meantime, Amy and her advisor will consider what to do with the annuity money; using it for a down payment on a home is one option.

Key Takeaways:

- Public School Loan Forgiveness is achievable, but you must be meticulous in adhering to the requirements.
- Getting married may not be a financial decision, but it does affect your financial life. If you or your future spouse have an income-based repayment plan for your student loans, understand the implications when your incomes are combined. All marriages, especially if this isn't your first, should involve careful financial planning before any "I do's" are spoken.
- Life insurance, disability insurance, and/or annuities, are often oversold to medical professionals and should be regularly re-evaluated whenever your current situation changes. Doctors often end up with more than they need of one type of insurance and less than they need of others.

[1] https://www.ssa.gov/planners/disability/

We can also identify advice that applies many other physicians who want to get a better handle on their financial lives.

1) Consider your student loan repayments in the context of your entire life – that includes saving for retirement, having the right insurance coverage, getting married, buying a house (when the time is right), putting money aside for your children's education and managing credit card debt.

2) Doctors are intelligent, highly educated and tend to make a good living. However, that doesn't mean they like to spend time organizing their complex financial lives. It makes sense to consult with a specialist in this area – a qualified financial planner.

3) Many physicians commit "unforced errors" by buying things that are not a good fit for their lives right now. That might be too much house, expensive cars, high-end vacations, and other luxuries that can damage one's financial wellbeing. This may stem from a subconscious feeling doctors often have related to working so hard for so many years with little or no income. When they finally start making good money, they feel like they should be able to spend rather freely. It is important to acknowledge this impulse and to be aware of the associated pitfalls.

If you have colleagues or friends that might identify with the clients we profiled here, please forward this resource to them. And, if you would like to invite a friend or colleague to **meet with a Gold Medal Waters advisor** for a no-pressure, conversation, we'd be happy to host you both for breakfast or lunch, or after the workday is done.

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