GoldMedalWaters

Client Profiles

Dealing With Medical School Debt

Married M.D.s with High Incomes and Big Debts

Given our focus on 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. Nevertheless, this information is applicable to anyone with large amounts of debt and either high income or great earning potential. In the first of our Client Profiles, we discuss the financial challenges experienced by real individuals. We have changed certain details to protect their privacy and their identities, but the important points have been preserved.

Profile: Married couple, both M.D.s

Ages: 39 and 38

Annual Income: Approx. $500,000

Children: 2, ages 4 and 7

This profile illustrates a married couple we'll call John (age 39) and Sarah (age 38). Both are M.D.s, and together they generate a healthy income of approximately $500,000 per year. John and Sarah have two young children and know they need to save for retirement and future **college educations.** However, they still have some medical school debt to repay, a big house with a large mortgage, two nice cars purchased with 5-year loans, and they carry a credit card balance of about $7,000. As with most M.D.s, neither of them started putting money into retirement savings until they completed their residencies. They are contributing to their 401(k) plans, but only up to the amount needed to obtain the employer matching funds. They feel they cannot do more than that because of their student loans, mortgage and credit card debt.

John and Sarah's financial advisor at Gold Medal Waters is helping them to see the choices they are making with their income and to prioritize their spending while tackling their debt. One of the first things the advisor introduced was the notion of tracking their expenses. John and Sarah initially resisted the idea; as high earners they didn't feel they should have to track every dollar they spent every day. Their advisor reassured them that "budgeting" doesn't have to be overly precise. For John and Sarah, it was a matter of simply looking back over the last few months at their major expenses by category, which their advisor was able to do for them using some intuitive visualization tools.

Reviewing their expenditures helped John & Sarah to clearly see the reality of where their money was going and proved to be a powerful way to help them prioritize their spending. This exercise showed John and Sarah that they were spending a surprisingly large amount of their income on dining out – perhaps understandable for a family where both parents work at demanding jobs and have little time for cooking, but it comes back to that question of priorities. With their advisor's help, John and Sarah decided to cut back on dining out, and to choose less expensive restaurants when they did go out. Their advisor showed them that by paying down their credit cards aggressively they would save over $1,000 per year in interest that could be redirected towards their children's 529 college savings plans. Their advisor also recommended increasing both of their **life insurance policies**, since their lifestyle depends heavily on both of their incomes, and adding a Personal Liability Umbrella Policy, which provides important **asset protection** for high earners. Lastly, their advisor reviewed the existing disability policies that John and Sarah purchased during residency to be sure they had adequate coverage.

If their GMW advisor had met John and Sarah some years earlier, she might have discussed having them wait before buying the big house – with their ability to generate a high income they could trade up after their student loans were repaid. Similarly, she would have advised them to buy less expensive cars so they would be adding less additional debt. That certainly doesn't mean John or Sarah would have to drive a clunker or take the bus, but it would have freed up cash flow to throw at their retirement savings deficit. Their advisor is currently helping them investigate the potential benefits from refinancing their mortgage since property values have appreciated considerably in their neighborhood. Refinancing would allow John and Sarah to extract some of the equity value in their home, which they could use to pay down higher interest loans, rapidly grow their retirement savings, or save more for their children's education.

Key Takeaways:

- Tracking expenditures brings clarity to choices and trade-offs.
- It's often not a choice of "*either/or*," but a question of *when* and *how*. Postponing big purchases like a larger home or more expensive cars doesn't mean depriving yourself; it actually allows you to have more of what you truly want and need.
- Having adequate disability and life insurance policies in place is absolutely critical when others depend on your income.
- Disability insurance can be more important than life insurance. Many M.D.s are sold disability policies when they are residents; in some cases, those policies need to be reviewed and compared with their group plans to decide if more coverage is needed.

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

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