Laying the Foundation for Financial Wellness

AMERICAN
OSTEOPATHIC
ASSOCIATION

Laying the Foundation for Financial Wellness

Whether you have just earned your medical degree or are working to establish your career as an osteopathic physician, this is a time to celebrate all that you've accomplished. It's also a good time to plan your financial future so that all of your hard work is protected.

Like most medical school graduates, paying off student loans is one of your top concerns. In fact, medical school debt levels have quadrupled in the last 20 years, according to the American Medical Student Association, to an average of $200,000. But other financial challenges, such as undergraduate loans, and credit card debt, may loom large as well.

While retirement is a bit far off in the future, you may be thinking about buying a car or a home, having a baby, saving for a child's education or caring for aging parents. It's a lot to consider. That's why the American Osteopathic Association has created *Laying the Foundation for Your Financial Future,* a guide to help you meet your goals. You'll find resources on finding the right financial adviser, learning how to budget, and how to manage your student debt.

Whatever your goals or concerns, the AOA is here to support you throughout your career.

Finding a Physician-Friendly Financial Planner

Working with a financial planner can be a great help in managing your money effectively and in developing a financial strategy. But finding one who understands the unique needs of physicians can be a challenge.

"Unfortunately, many don't understand the dynamics of being a physician today, especially for DOs who are often primary care physicians that don't make as much money as specialists, but often carry more medical school debt," said Brandon Barfield, co-founder of Doctors Without Quarters, a student loan advisory firm in St. Louis, Missouri. The AOA has partnered with the firm to offer discounted services for those interested in managing their medical school debt.[1]

But there are things to look for and questions to ask that will help you find the right person.

Barfield encourages residents to seek an adviser who is willing to work for low or no cost until they are done with their training and to test their knowledge of student loan repayment options.

"Doctors always work in the best interest of the patient, so they have a hard time relating to the fact that not all financial professionals are bound to do so."

Joel Greenwald

1 http://www.dwoq.com/aoa.html

What to Look For

Joel Greenwald, MD, a former internist who now works as a certified financial planner (CFP) for physicians and dentists, suggests finding someone who is a fiduciary. A fiduciary is someone who is legally bound to work in their client's best interest when there are competing interests involved. All CFPs are required to be fiduciaries.

"Doctors always work in the best interest of the patient, so they have a hard time relating to the fact that not all financial professionals are bound to do so," said Greenwald, founder of Greenwald Wealth Management in St. Louis Park, Minnesota.[2] "Those who have a fiduciary duty are held to a much higher standard."

Once you've determined a financial planner's credentials, Greenwald suggests asking the following questions:

- *What percentage of your clients are doctors?* "If they say 'none,' then pass, but if it's at least 10 or 20 percent, that's good enough," he says. "Just because someone touts themselves as physician friendly, it doesn't mean that they are."

- *Do you understand the nuances of medical school loans?* "Debt is the single most important thing that a financial planner will help you with in the early stages of your career, so they better really know their stuff."

- *How do you get paid?* It's important to understand how financial planners are compensated. Some get paid commissions by investment companies, others charge asset fees, but fee-only advisers don't make money from the sale of products so they have fewer conflicts of interests. They also provide more comprehensive advice. This is a better option for younger physicians, according to Greenwald. "Some financial planners are basically investment advisers who make commissions, but most young doctors don't have many investments. They need help with questions like, 'how much house should I buy?'"

2 http://joelgreenwald.com

Budgeting After Your First Paycheck

You've worked hard to get through medical school and most likely made financial sacrifices. Once you get your first big check, the urge to reward yourself with a fancy new car or a down payment toward your dream house might be strong, but resist, says financial planner Ryan Inman.

"Stop and take inventory," he says. "Treat your personal finances like a business. Do you have credit card debt? Pay it off immediately. Continue living like you were before until you pay off all the high interest stuff.

The AOA has a number of resources and articles to help you make the right decisions.

- **Financial Checkup–**We've put together this **budget guide** to help you make smart decisions with your first big payday.

- **Car Buying–**A luxury car often tops the list of desired splurges. **Consider these tips** on *The DO* before getting behind the wheel. When you're ready to buy, lease or resell, visit **Mobilus Solutions**, an AOA Member Value benefit provider.

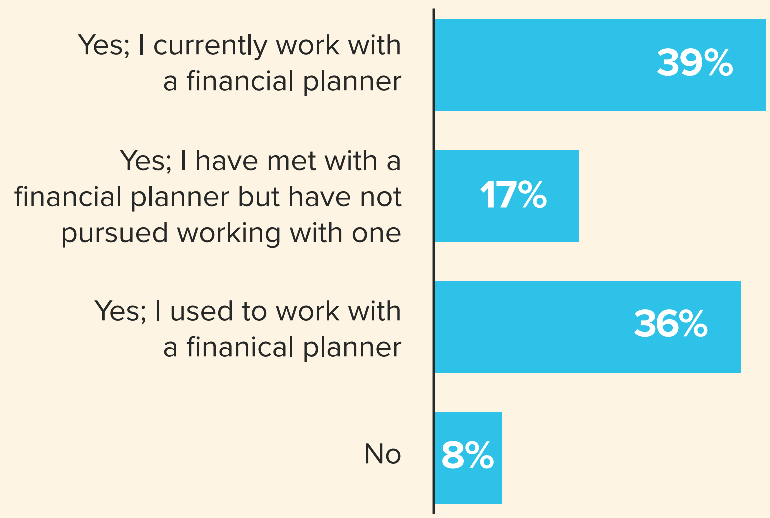
- **Home Buying–**You're probably eager to buy a new home and now have the means to do so, but young doctors are in a unique financial situation when applying for their first mortgage. In considering the pros and cons of a physician loan, **this resource** on *The DO* can help you through the process. When you're ready to purchase a home, visit **PhysicianLoans**, an AOA Member Value benefit provider.

Greenwald says that interviewing a few financial planners with a ready list of questions is the best way to find one who understands your unique needs and can help you secure your financial future.

Managing Student Loan Debt

Starting your career with a heavy debt load can feel overwhelming, especially when you're trying to establish yourself. Most physicians incur an average of $200,000 in student loans and for DOs that number is even higher. In 2016, 86 percent of new osteopathic medical school graduates had an average debt burden of $240,331, according to a survey[3] by the American Association of Colleges of Osteopathic Medicine.

Have You Met or Worked With a Financial Planner?



Source: https://www.medscape.com/slideshow/2018-physician-wealth-debt-report-6009863#22

But there are several ways to successfully manage your debt. Here are a few things to consider.

Assessing Your Debt–Knowing exactly what you owe in student loans, credit cards and private debt and when your student loan repayments are scheduled to begin is key to setting up an appropriate repayment system. It will also help you to stay on top of your loan payments and avoid default.

Using Your Grace Period–Most federal student loans offer a grace period that typically lasts six months after you graduate, during which you won't have to make payments. However, interest usually keeps accruing. Use this time to financially prepare for paying back your loans.

Understand Your Options–Choosing the right repayment plan based on your income, job status and type of loan can save you a lot of money. There are a few options. You can make reduced payments through a payment plan, highlighted below. You can

Starting your career with a heavy debt load can feel overwhelming, especially when you're trying to establish yourself.

3 https://thedo.osteopathic.org/2017/03/aacom-survey-shows-debt-doesnt-dictate-students-specialty-choices/

postpone making payments or temporarily reduce your monthly payment through deferment if you are eligible. You can also stop making payments or pay a reduced amount temporarily through forbearance. However, most financial experts caution against these options. Although principal payments are postponed under deferment and forbearance, interest continues to accrue, which will cause your balance to increase.

Consider Consolidation–There are pros and cons to combining all your existing qualified federal loans into one new federal loan. But it's important to consider because it can make more of your debt eligible for an income-driven repayment (IDR) program and public service loan forgiveness (PSLF). "Not consolidating is one of the biggest mistakes that new physicians can make," says Ryan Inman, a fee-only financial planner and founder of Financial Residency in San Diego, California.[4] "Consolidating any loans as soon as you finish medical school will ensure that you have more repayment options."

> **"Not consolidating is one of the biggest mistakes that new physicians can make. Consolidating any loans as soon as you finish medical school will ensure that you have more repayment options."**
>
> **Ryan Irman**

Find an IDR Plan–An income-driven repayment plan allows you to make a monthly loan payment based on your income and family size. There are four types of

4 https://financialresidency.com

Laying a Strong Foundation

- **Pay yourself first.** Start saving from Day 1. Put 20 percent of your monthly salary into savings, knowing that just one unanticipated crisis can upend your finances.
- **Develop a budget beyond debt repayment.** Bank 10–20% of your monthly salary if you can.
- **Establish an "emergency fund."** One unexpected crisis can create havoc so put money aside in case things don't go as planned.
- **Understand the financial aspects of your employment contract.** *Get educated on contract negotiations,* and seek out older physicians for advice. Look beyond salary to things like office expenses, life and disability insurance, and employer-matching retirement funds. Experts recommend consulting with an experienced health care attorney before signing an employment contract but you should know the basics. Access this primer to help get you started.

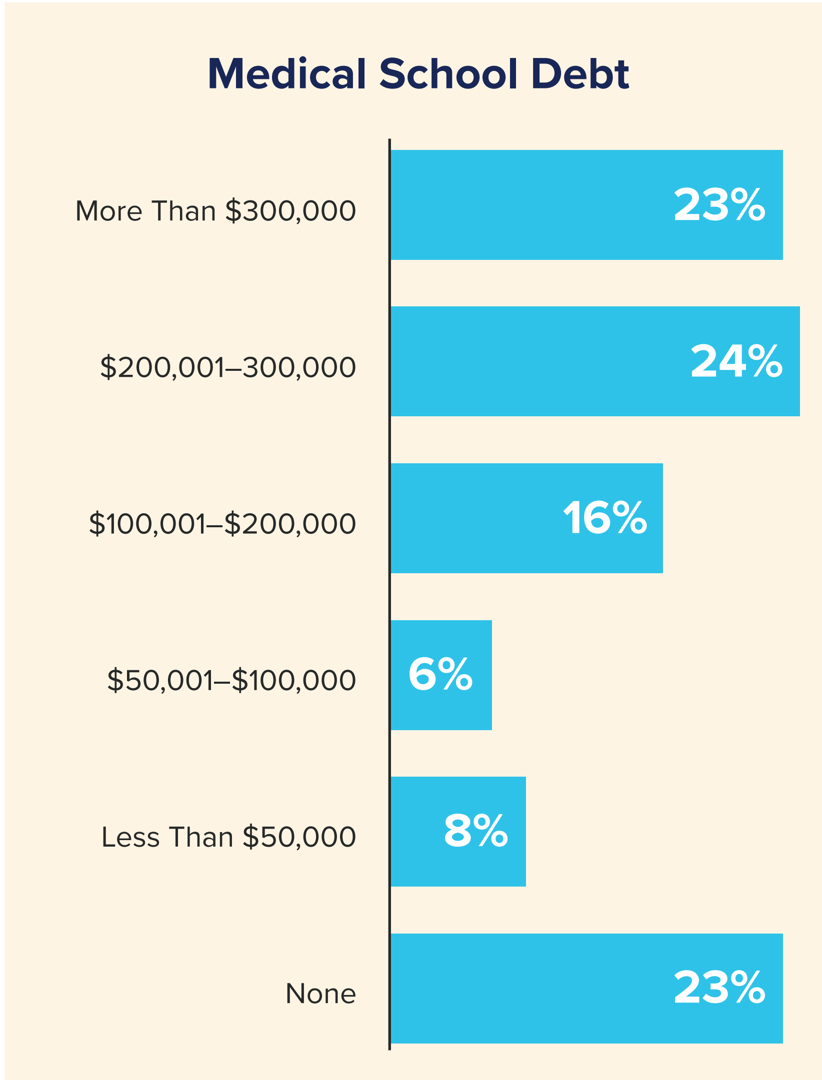
Partner with **PhysicianWealth**, an AOA Member Value benefit provider, or hire a financial adviser, preferably a certified financial planner (CFP), who can offer you more holistic advice.

Source: https://www.acponline.org

IDR plans for federal loans that can make your debt more manageable: Income-Based Repayment (IBR), Income-Contingent Repayment (ICR), Pay as You Earn (PAYE) and Revised Pay as You Earn (REPAYE).[5]

“A doctor in training has such a high debt to income ratio it makes sense to do federal IDR,” says Barfield, of Doctors Without Quarters. “A resident making $55,000 a year could be paying half of his or her take home pay without an income-driven plan.”

Apply for Loan Forgiveness– If you go into the non-profit sector you can apply for loan forgiveness under the Public Service Loan Forgiveness (PSLF) program. This is a federal program that forgives student loans after 120 payments. To remain eligible, borrowers must work for the government or a non-profit entity while they’re making payments. Private practices and private hospitals are ineligible. Inman advises his clients to apply for PSLF even if they don’t know if they will work in the non-profit sector.



Source: https://www.medscape.com/slideshow/2018-residents-salary-debt-report-6010044#13

“You are already going through the heavy lifting of understanding and organizing your student debt and choosing the correct repayment program,” he says. “Even if you are unsure of your plans after residency, for the little bit of time and effort of filing the annual certification form, it will save you considerable time later on in the process.”

Medical school loan repayment can be complicated and most financial advisers don’t understand the ins and outs, according to Inman. He advises new physicians to do their homework, even if they decide to work with a professional.

5 https://thedo.osteopathic.org/2017/10/6-smart-ways-manage-student-loans-residency

AMERICAN
OSTEOPATHIC
ASSOCIATION

Join now at
osteopathic.org/joinAOAnow

Call toll-free
888.626.9262