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Reuters Money

Six-figure student loans? Credit medicine for MDs

By Ashleigh Patterson
JULY 12, 2011

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By year's end, Stephanie Bourque will owe approximately $165,000 in federal student loans. It's an especially daunting debt load for the first-year University of Colorado pediatric resident whose annual income will likely fall between $40,000 and $50,000 during her three-year residency.

"I think it's going to take a lot of effort and a lot of budgeting," she says. "Even if my take-home salary increases, I still have a lot of educational debt to pay back."

Debt-laden and highly educated, doctors face unique challenges when it's time to start repaying their loans: they're often older graduates — some with dependents — facing six-figure loans with the prospect of years of reduced income while in residency. And while they excel in book smarts, they often don't make the grade when it comes to financial prowess, failing to access professional help and repayment resources.

Bourque has seemingly done everything right. She has no student debt from her undergraduate days and chose a state medical school to decrease her tuition costs — she's a recent graduate from LSU's medical school in New Orleans. She was awarded scholarships on academic merit and others based on financial need. She even participated in federal financial loan counseling sessions and attended repayment presentations, yet still lacks confidence about her financial future.

"You really have to take it upon yourself to understand what your loan means and what your repayment options are; understand what it means for yourself and your family long term. I wouldn't say advice was handed to us in an easy-to-read, accessible manner," she says.

Bourque is not alone. Last year, student debt surpassed credit card debt for the first time in history. America's student loan debt is growing at a rate of $2,853.88 per second, meaning total debt owed in this country will likely surpass the $1 trillion mark later this year, according to finaid.org.

Medical school students who graduated in 2006 owed $130,000 on average, according to the Association of American Medical Colleges, and the American Medical Association estimates 87.6 percent of medical school students graduated with an average debt load of $155,000 in 2008.

Currently-enrolled medical students have access to up to $40,500 per year in Stafford loans — federal loans awarded on a financial need basis — with a cumulative cap of $224,000. These loans are subsidized up to $8,500 per year of enrollment, meaning the government will pay the interest during your time in school and for the six-month grace period after graduation. Grad PLUS loans — government-guaranteed loans with a fixed interest rate — and private loans are also available, if needed, leaving no shortage of funding.

To put the debt load into perspective, primary care physicians practicing in the eastern U.S. had a median income of $194,000 in 2010. Recent graduates aren't so lucky — primary care physicians with little to no experience can make anywhere from $70,000 to $90,000 per year, says Mark Kantrowitz, publisher of finaid.org and fastweb.com. "There are some students who borrow more than $200,000 for their medical school education and if those students are going into primary care, than they are going to have a 2:1 debt-to-income ratio and they're going to struggle to repay that debt," he says.

Even after landing employment, the cohort of high-borrowers continues to lack

guidance from the financial services industry. Bryce R. Danley, a private wealth adviser with Ameriprise Financial, says many financial professionals refuse to work with recently graduated MDs despite their earning potential.

"If the broker says, 'I only work with people that have a million or $500,000,' graduates wouldn't qualify for that type of help. What we see is a gap of service for this group," says Danley. "We've learned they can become excellent

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As personal finance producer, Ashleigh aids the team in building personal finance coverage at Reuters.com and other Thomson Reuters platforms. She first joined the Thomson Reuters online desk in 2008 as an editor for Reuters.com, Reuters.ca and Reuters.co.uk.
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clients over time but it takes work on our part and work on their part. They become good clients through consistent planning, but there are a lot of people in the industry that don't have that kind of time and are looking for their next big client."

So what's a highly educated, debt-laden professional to do? Here's how to strategize your repayment:

Get some professional help
If your school or lender offers exit counseling, repayment tutorials or a financial literacy course, sign up. "It will not only help you make better borrowing decisions and avoid some of the many pitfalls that medical students run into but it will also help you after you graduate because you'll be able to make better investment decisions," says Kantrowitz.

If an adviser agrees to work with you, they can not only help navigate repayment options available, but will help to put your debt load in perspective.

"They look at their loans and they think 'My God, I owe the equivalent of a mortgage and I don't have a house to show for it.' What we try to do is normalize the experience for them. It's very normal for someone in their situation to owe that amount of money and it's not insurmountable. It can be handled," says Danley.

Use the tools available
Rather than sweat out your residency, take advantage of the repayment options available**.** Income-based repayment was made available for Stafford and Grad PLUS borrowers as of July 1, 2009. Monthly payments are calculated based on a percentage of your monthly discretionary spending — usually under 10 percent for most borrowers — and are adjusted annually for family size and income changes.

"The reason why students should consider this over an economic hardship deferment or forbearance is that during forbearance your interest continues to accrue until you're actually making no payments and just sinking yourself into a deeper hole," says Kantrowitz.

Federal borrowers also have access to the Public Service Loan Forgiveness program, which was designed to attract workers to careers in the public sector. Successful applicants will have their remaining loan balance wiped out, providing they've made 120 consecutive monthly payments while employed full time in the public sector or an accredited 501 (c) (3) hospital, which, in this case, is a tax-exempt nonprofit scientific organization.

Coupled with income-based repayment, it makes sense for primary care physicians, says Kantrowitz and is the strategy Bourque hopes to utilize. "The standard route for me would mean a monthly payment starting this year at $1,800, which on a residency salary isn't feasible. So my plan is to do a reduced, income-based repayment option where we pay about $400-$500 per month as a resident. At the end of that, I'm hoping to be eligible for a public service loan forgiveness."

Don't forget about your other life goals
If you're an older graduate saddled with a mortgage, worried about building your nest egg and saving for your children's future, Danley suggests extending your repayment horizon from 10 to the maximum of 30 years. By extending, borrowers in repayment can effectively cut their monthly loan payment in half, freeing up vital cash flow to tackle other saving and expenditure goals.

"Sometimes they have credit cards that have a much higher rate of interest and we need to pay that down. If they have a shorter loan with a much higher payment, they don't have the money to pay for immediate things," Danley says.

In addition to high-interest debt, Danley suggests taking full advantage of any workplace retirement savings vehicles available. "If they work at a hospital or for some employer that offers matching dollars for a 401(k) plan, than we need the cash flow to put the money in those plans. If they're so focused on debt and using every dollar to pay that off, usually, they miss other important priorities," he says.

Borrowers need to find the best repayment solution for their needs. You don't want to still be paying your student loans while your children are in college, cautions Kantrowitz.

"If you happen to be a financial whiz and are earning 10 percent on your investment than you're better off putting your extra cash flow to your investment, but if you're not a financial whiz, and most doctors are not, than you're better off using that money to accelerate repayment of your educational loans because when you pay down a 7.9 percent loan, that's like earning a 7.9 percent tax-free return on investment," he says.

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JUL 13, 2011
8:55 AM EDT

My wife is in the same situation for much more in debt. A couple points on this article:

A. A financial advisory firm is highly recommended. We use GLAdvisor, and they have cut our monthly payments to nothing.

B. We will be leaving the east coast to make substantially more money in the midwest and the "boomtowns" of the dakotas. Thank you oil shale!

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C. "Danley suggests extending your repayment horizon from 10 to the maximum of 30 years." This is a baby boomer mentality. My wife and I will find the highest paying jobs possible and pay her debt down in under 5 years so as to break the golden shackles around us, and maximize our savings over our lifetime.

I personally and not convinced of the future financial viability of the US healthcare system, we intend to become debt free and liquid as soon as possible. Oh, and the cost of a medical education is a huge scam 😉 . Our "non-profit" university is most certainly making a LARGE profit.

Posted by billt568 | Report as abusive

JUL 13, 2011
9:52 AM EDT

Lawyers, too. Pretty much every 'prestige' field is under attack this way.

And Billt, while I agree with most of what you're saying, I'd be hesitant to blame the university for its practices. Most public universities receive next to no funding from the state, and private institutions are the choice of the student to attend. The change needs to start at the top.

Posted by io999 | Report as abusive

JUL 13, 2011
10:23 AM EDT

Duh. Don't take out loans. Read Debt-Free U. Higher ed is the next bubble… cost is ridiculously inflated because of too-easily available credit, which the colleges never see again but can ruin the lives of the former students. Colleges offer "aid," which is largely composed of loans. That's not aid they are offering, it's a business deal.

Posted by okeydokey | Report as abusive

JUL 13, 2011
12:10 PM EDT

Excessive student debt is a huge problem – while I agree that medical professionals have to endure the burden of larger debt they also make significantly more income than most professionals. Using Primary Care incomes for comparison though is like using the least paid person in the county to judge the nations prosperity. PCPs comprise only 30% of the Physician workforce and are (sadly) the lowest paid – most specialists make well over 300k annually and a good proportion make significantly more. I can sympathies with the incredible debt burden that medical students carry but they are no different than most other indebt students and potentially much better-off than most

Posted by notspecial1 | Report as abusive

JUL 13, 2011
12:48 PM EDT

US doctors are pretty useless i find. All they know how to do is order tests. Why can't a computer do that?

I get my medical care in places with strict regulation and state funded education which makes sure people become doctors for the right reason. Thanks UK, France, Sweden and Australia… we hope we can immitate you one day

Posted by GA_Chris | Report as abusive

JUL 14, 2011
8:24 PM EDT

Just another article about a government program that is completely unsustainable.

Posted by M.C.McBride | Report as abusive

JUL 15, 2011
6:59 PM EDT

As mentioned above, we at GL Advisor are working with many interns to help reduce their monthly payments, manage their finances, and maximize the substantial savings available through federal programs and other strategies. It's an incredibly valuable service for residents who don't otherwise have the time to do all of this themselves.

Interested students and residents can get a free personalized assessment on our website: http://www.gladvisor.com. The assessment will estimate savings and outline the action plan.

Posted by jcdilo | Report as abusive

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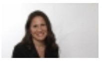
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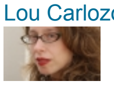
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