STUDENT LOAN MANAGEMENT

You should investigate consolidating your student loans under the Federal Direct Consolidation Loan program.

This program provides government consolidation of loans with modified/reduced interest, and extended payback periods. Extended payback periods, up to 30 years, can greatly reduce current monthly payments. The drawback is that over the full term of the loan, the total interest payments paid will be higher.

A good strategy for many students is to **consolidate loans into the longest period possible at the lowest interest rate possible**, resulting in the lowest current monthly payment. This will increase your current borrowing power to purchase a home or obtain other business loans, and increase the money available to fund retirement plans.
Then, in two, three or four years, when you are stable in your employment with maximized income, re-evaluate the loan and the current market interest rates to determine if you should accelerate pay-down of the balance of the loan to reduce total interest to be paid.

Advantages:

- **Lower Interest Rate** For In-School and In-Grace Consolidation Borrowers who have a Direct Loan or FFEL loan in an in-school or grace period at the time we receive their consolidation application, may benefit from a lower fixed interest rate on the new Direct Consolidation Loan. Interest cannot exceed 8.25%.
- **One Lender and One Monthly Payment** With only one lender and one monthly bill, you will find it is easier to manage your debt. You will have only one lender, the U.S. Department of Education, for all loans included in your Direct Consolidation Loan.
- **Flexible Repayment Options** You can choose from four different plans to repay your Direct Consolidation Loan, including an Income Contingent Repayment Plan. These plans are flexible to meet the different needs of borrowers. With a Direct Consolidation Loan, you can switch repayment plans at anytime.
- **Grace Period** If you consolidate while in-school, you may receive a 6-month grace period before repayment begins.
- **No Minimum or Maximum Loan Amounts or Fees** Direct Consolidation Loans do not exclude anyone based on the size of their loan debt! In addition, consolidation is free.
- **Varied Deferment Options** Direct Consolidation Loans offer several deferment options. If you have exhausted the deferment options on your current Federal education loans, a Direct Consolidation Loan could renew those deferment options.
- **Reduced Monthly Payments** A Direct Consolidation Loan may lower your monthly payment. The minimum monthly payment on a Direct Consolidation Loan may be lower than the payments on your federal education loans.
- **Retention of Subsidy Benefits** You will keep any subsidies on your old loans.

Information Sources:

Direct government information: **LoanConsolidation.ed.gov** 1-800-557-7392

Private vendors: www.SallieMae.com CollegeLoanCorp.com, GraduateLeverage.com, www.helploans.com, others

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STUDENT LOAN MANAGEMENT EXAMPLE FOR NEW PHYSICIANS

Given $100,000 in student loans:

Amount	Interests rate	Term/Years	**Monthly Payment**
$100,000	4%	5	**$1,841.65**
$100,000	4%	30	**$447.42**

This monthly payment reduction of $1,394.23 would allow payments on an additional $225,000 in home-purchase loans, or an additional contribution of $16,728 per year into your retirement plan.

If this is your lowest interest rate loan, why pay it off? Pay everything else first!

THE IMPACT OF FICO SCORES ON CREDIT

A FICO score is a credit score developed by Fair Isaac & Co. . Credit scoring is a method of determining the likelihood that credit-users will pay their bills.

Credit scores analyze a borrower's credit history considering numerous factors such as:

- Late payments
- The amount of time credit has been established
- The amount of credit used versus the amount of credit available
- Length of time at present residence
- Employment history
- Negative credit information such as bankruptcies, charge-offs, collections, etc.

The higher your FICO score, the lower your loan interest rates so *build your FICO score*.

- Pay your bills on time. Late payments and collections-actions hurt your score.
- Do not apply for credit frequently. Having a large number of inquiries on your credit report can hurt your score.
- Reduce your credit-card balances. If you are "maxed" out on your credit cards, this will affect your credit score negatively. Consolidate loans.
- If you have limited credit, obtain additional credit. Not having sufficient credit can negatively impact your score.

There is a FICO score estimator at http://www.bankrate.com/brm/fico/calc.asp
or ask your current lender for your score.

LIFE INSURANCE : TERM VERSUS WHOLE LIFE

Do you even need life insurance?

It depends.

As a young physician; if you are single, with no dependants, don't owe family or friends money, and have no co-signers on your loans or debts that would burden others upon your death; what purpose would life insurance serve for you?

I suggest that better-quality disability insurance may be more important to you if you meet the above qualifications since you have a far higher chance of becoming disabled rather than dying, and disability is more expensive than death.

For most people, the right type of life insurance can be summed up in a single word: term. But before we explain why, it's important to understand the differences between the most common types of insurance available. The basic difference between term and whole life insurance is this:

> **A term policy** is life coverage only. On the death of the insured it pays the face amount of the policy to the named beneficiary. You can buy term for periods of one year to 30 years. Premiums for term insurance are downright cheap for people in good health up to about age 50. After that age, premiums start to get progressively more expensive.
>
> **Whole life** insurance, on the other hand, combines a term policy with an investment component. The investment could be in bonds and money-market instruments or stocks. The policy builds cash value that you can borrow against. The three most common types of whole life insurance are traditional whole life policies, universal and variable. With both whole life and term, you can lock in the same monthly payment over the life of the policy.

Whole life insurance is expensive: You're paying not only for insurance but also for the investment portion. That extra cost might almost be worth it if these policies were a good investment vehicle. But usually they aren't. Insurance agents like to call these policies retirement plans, emphasizing the "forced savings" inherent in forking over the premiums each month "for retirement."

Leaving aside the fact that there are many better ways to save for retirement, these policies come with high fees and commissions, which sometimes lop off as much as three percentage points from the annual return. On top of that, there are up-front (but hidden) commissions that are typically 100% of your first year's premium. Worse, it's often impossible to tell what the return on the investment will be, and how much of what you pay in goes toward the insurance and how much toward the investment.

Source: Hibernia Bank

SAVINGS/INVESTMENT BASICS FOR YOUNG PHYSICIANS

You, as a physician, will be the target of many salespersons of investment opportunities.
Be skeptical of financial planners who are commissioned for selling investments to you.
Broker sponsored fund families by Merrill Lynch, Shearson, Dean Witter and Oppenheimer either ranked among the worst performers or performed consistently below the average fund and S&P 500. (source: *Fund Family Performance Survey*)

In the stock market, approximately **85% of financial planners and stock brokers do *worse* than the No-Load S&P Index 500 Mutual Funds (NLI500s),** therefore NLI500s are usually a safe, simple and prudent investment for young physicians' retirement funds (source: *Morningstar*).
Leading sources of NLI500s are at Fidelity.com and Vanguard.com.

Good financial planners are available at hourly rates, avoiding conflicts of interest (ie commissioned fees). **Good basic financial planning information is available free online from many sources such as Morningstar.com, Fool.com, and Fidelity.com.**

Conservative strategy suggests putting 25% of savings into a money-market fund.

At your age, stage of profession, and for the next 3-5 years, you should devote your energies and thoughts to your profession rather than sophisticated outside investment strategies. Ignore the investment chatter and stock-tips in the hospital physicians' lounge!

INVESTMENT SUGGESTIONS FOR NEW PHYSICIANS, IN ORDER OF PRIORITY:

- Professional ICD/CPT coding training (*very* high return on investment in income)
- Catastrophic-care medical insurance with a high deductible and low premium, such as a Healthcare Saving Account (HSA) , info at www.hsaresourcecenter.com
- Elimination/avoidance of revolving (credit card) debt
- Retirement plan funding to the maximum possible (75% NLI500s, 25% money market funds)
- Disability insurance first; then life insurance when you have dependants
- Tax-deductible investment in your practice that increases income (marketing, revenue-producing skills and instrumentation)
- Purchase of a personal residence
- Savings outside of your retirement plan
- Investment in minimal-care rental real-estate or Real Estate Investment Trusts (REITs) (except that investing in owning your own medical office is often a bad investment)
- Buying a new car is a terrible investment. Buy cars 18 months old, or older.
- About 25% of you will leave your first job within 18 months. Rent housing the first year until you are sure of your position, like the area, and know the good schools for your kids.
- If you are employed, consider a small, easy, home business for you and/or your spouse that allows you legal losses and deductions (see the book *Small Time Operator* for details)

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	Income tax rate deferred until retirement in a state with no state income tax.	35%
+	Tax deferred return in retirement plan (est)	8%
=	(Over-simplified) first-year deferral plus return minus lower tax rate at withdrawal after retirement (estimate 15%) {(35% +8%) -15%}	28%

Only fund investments instead of a retirement plan that safely give you better than a 28% return. (Then call me so I can invest there too!!!)

Given the income tax breaks, and the deferred income tax until retirement, with the ability to compound returns tax-deferred, I suggest that ***funding your retirement plan is more important than paying off your student loan or buying your first house.***

The earliest years of retirement plan funding are the most important because they have the longest time to grow.

After being a student, your income as a new physician will seem like a lot. Now is the time to start "saving" behavior, and spending conservatively, rather than becoming dependant on a "spending" lifestyle. I have clients who earn over $500,000 per year and can't make ends meet; having become used to big houses, fancy cars, and expensive vacations.

Learn to live on 75% of your take-home income and save/invest the rest.

Have your retirement contribution deducted from your paycheck directly into your retirement plan every pay period, so you "never see it".

ADDITIONAL READING:

- *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* by Thomas J. Stanley
- *Stocks for the Long Run* by Jeremy Siegel
- *Rational Investing in Irrational Times* by Swedroe
- *The Number* by Eisenberg
- *The Intelligent Investor: A Book of Practical Counsel* by Benjamin Graham
- *Landlording* by Leigh Robinson (if you purchase investment real estate and have tenants)
- *Small Time Operator* : *How to Start Your Own Business, Keep Your Books, Pay Your Taxes, and Stay Out of Trouble*, by Bernard B. Kamoroff (good for employed doctors to read too)

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