Financial Planning for Academic & Hospital-Based Physicians 1 – 10 Years Out of Training.

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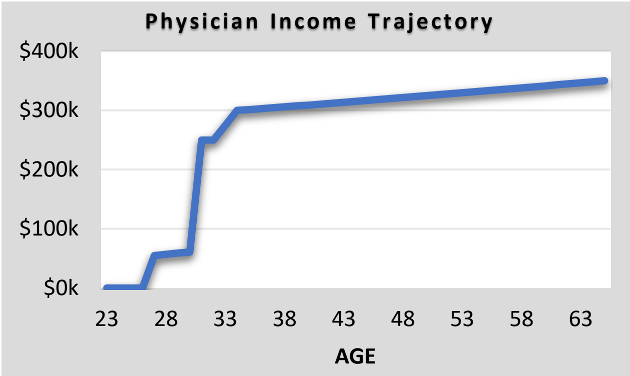
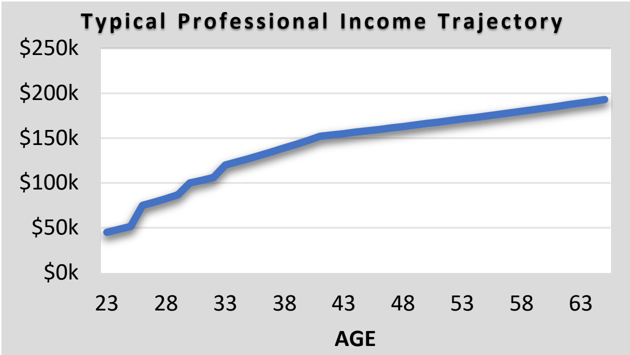
What makes you unique?

As a physician, your financial situation is unique.

Unlike other professionals, after undergrad you have at least seven years before starting your "real" job as an Attending. Then, upon completing your training, your income increases fivefold and instead of earning $5,000 each month, you are now earning $25,000. Furthermore, many physicians leave medical school with a mountain of student loan debt. The combination of these factors leads to a myriad of financial planning implications.





For most young physicians, student loans are their biggest concern. Developing and executing a strategy will help to alleviate that stress. Each situation is unique and there is not a one size fits all solution. Two physicians may have the exact same loan balance, however, for one Public Service Loan Forgiveness (PSLF) may make the most sense while the other would benefit from simply paying it off.

While most professionals begin saving for retirement from the time they graduate from college, you are just getting started. The good news is that your ability to save is much higher given your income level. How much to save will depend on your vision of financial independence or when you can live your desired lifestyle without having to work.

Your vision and goals should dictate your financial plan and cash flow management strategy. Allocating capital to appropriate account types while utilizing a tax efficient low-cost investment strategy will lead to further compounded growth of your assets over time.

This paper will help provide you with a framework to develop a financial plan. However, it is important keep in mind that execution of the plan will be integral to your long-term success.

What is your student loan strategy?

Student loan debt is one of the biggest challenges facing young physicians. While each situation is unique, there are common threads that can help you determine an appropriate strategy.

Strategy 1: PSLF

There are three requirements in order to qualify for PSLF.

- You must work for a qualified institution such as a not-for-profit or 501(c)(3)
- You must have direct loans through the Federal Government
- You must make 120 payments (does not need to be consecutive) in an income driven plan such as Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), or Income Based Repayment (IBR).

Reasons for PSLF:

- You have a large loan balance.
- You are comfortable paying towards loans for ten years.
- You are projected to have significantly more discharged than you will pay over the ten years.

Strategy 2: Pay down over time

If you are not going for PSLF, then you will have to pay off loans yourself.

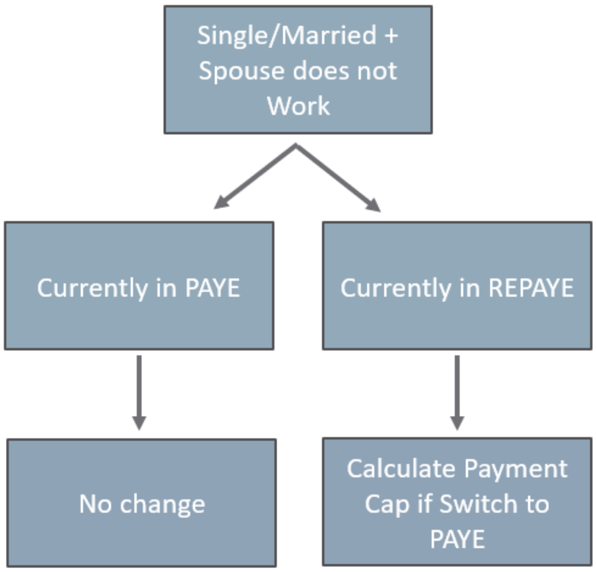
Reasons for paying down:

- Do not want to wait ten years for loans to be paid off.
- Projected savings from PSLF is not significant enough to warrant waiting ten years and want the "win" feeling of the debt being paid off.
- Receiving student loan bonus(es) through employer that cover a significant portion of the balance.

Once you determine your strategy, it is time to pick a repayment plan.

PSLF

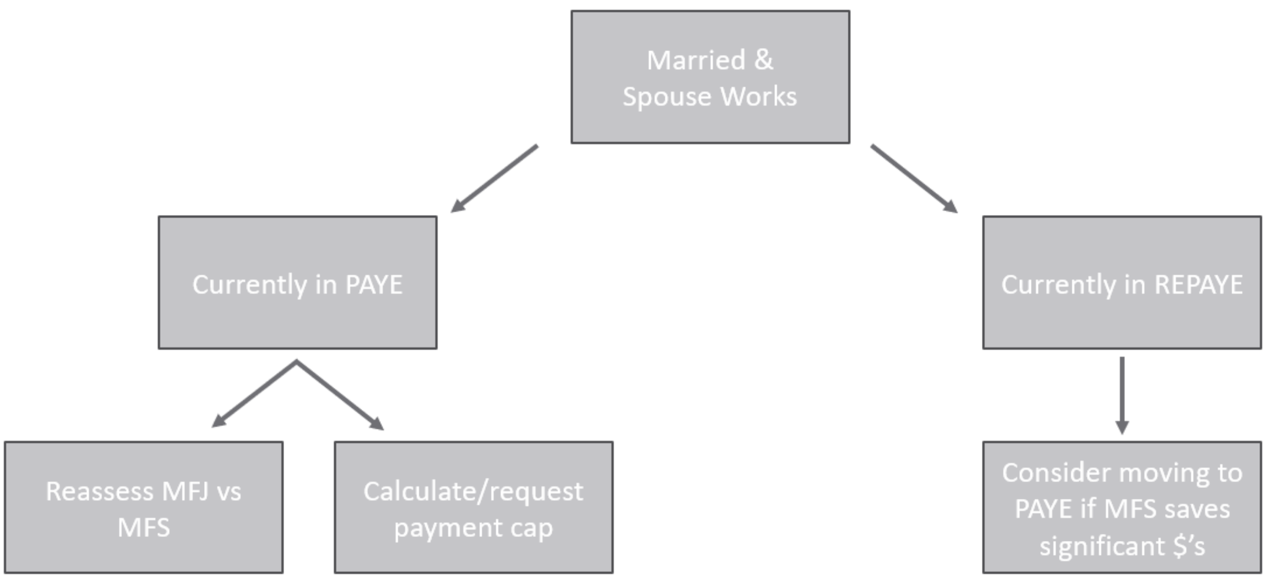
If you are going for PSLF then you will need to be in an income driven repayment plan. You have likely been making payments since starting training, however, here is a quick refresher. The two most common are PAYE and REPAYE. Both use a 10% discretionary income factor to calculate the payment. REPAYE comes with an interest subsidy so long as your payments are less than the monthly interest. This will likely only apply your first year as an attending. PAYE allows you to file taxes separately from your spouse which can have a huge impact on your payment if your spouse is also a high earner. The charts below will provide you with a roadmap.



If you are currently in REPAYE, you will want to understand your payment cap by moving to PAYE.

Use your current principal and interest balance to calculate a 10-year repayment. If you are projected to exceed this threshold at some point during the remaining period before loan forgiveness, then consider making the switch assuming you are eligible.

Note that any accrued interest will capitalize increasing your principal balance and therefore future interest. However, if you receive loan forgiveness it is a moot point.



If you are currently in PAYE, calculate the payment assuming both filing taxes jointly (MFJ) and separately (MFS). Next, calculate your projected tax liability under both scenarios. Assuming the payment savings is greater than the additional (if any) tax liability, then filing MFS is the appropriate course of action.

If you are in REPAYE and would save a significant amount on your payment by filing taxes MFS, then consider making the switch to PAYE, assuming you are eligible. Similar to the above, any accrued interest will capitalize increasing your principal balance and therefore future interest. However, if you receive loan forgiveness it is a moot point.

As you can see, there are many factors to consider depending on your situation. Remember, these are guidelines, but the right solution may be different if your situation is more complicated than what is listed. For example, does your spouse also have Federal student loan debt? Are you in IBR and if so, might you hit the payment cap so switching to REPAYE does not make sense? Be sure to consider all factors that can affect your payment before deciding on a plan.

The last step for PSLF is tracking your progress over time. For some, this is really simple while for others it can be the biggest hurdle to overcome. Each year, best practice is to submit a PSLF Employer Certification Form (https://studentaid.gov/sites/default/files/public-service-employment-certification-form.pdf). Once submitted and approved, you will receive a letter with the number of qualified payments for each loan. If the numbers appear correct and are consistent across all loans, then you are in good shape. However, all too often, the number of payments differs across loans. This is normally due to partial information being transferred from a prior loan servicer to FedLoan Servicing. If you fall into this bucket, be sure to request a recount.

Other issues to be on the lookout for that can affect the number of qualified payments listed:

- Consolidated loans splits into two after balance exceeds $500k causing qualified payments to appear back to 0.
- Tax ID on paystub is not considered a not-for-profit even though the broader institution is a not-for-profit.
- A missed payment causes subsequent payments to not count initially.
- A submitted PSLF ECF form was denied.

Ensuring your payments are correct throughout the years will make the process easier on the back end.

Finally, remember the goal of loan forgiveness is to pay in the least amount in order to maximize the amount forgiven. The government calculates your payment based on adjusted gross income. As such, maximizing pretax accounts such as a 403b, 457, FSA/HSA, DCFSA, etc. can drastically reduce your payments over time.

Paying down over time

The options are much simpler. Refinancing your loans to a private lender such as SoFi[1] or Laurel Road[1] is likely going to make the most sense. The advantage of refinancing is your interest rate will almost certainly be lower than your government loans. The primary reasons to stick with Federal debt are you require a lower monthly payment due to your circumstances or you do not want to give up the flexibility of being able to request forbearance.

Next is deciding on a term. It is important to remember that you can always prepay the loan without penalty meaning you can pay more than the minimum payment. If you are refinancing to a private lender, review the interest rate options by term. If for instance you want to pay down the loan in five years but the seven year rate is the same as the five year, it is better to go with the seven year term and pay more than the minimum while having the flexibility to reduce your payment if needed.

Having a plan to tackle your student loans will likely be one of the biggest decisions you make in the short term. Developing, executing, and then monitoring that plan may lead to enormous financial savings over time.

Footnotes

1. IFG Advisors, LLC has no affiliation or compensation arrangement with any lender. The companies listed herein are simply examples of available student loan refinancing companies.

What is the cost of not being protected?

You trained for seven plus years to be a physician and are now in a position to have long-term financial success. You need to protect your biggest asset - your earning power.

The three biggest risks to you and your family's financial security are death, a long-term disability, and an unforeseen event leading to a lawsuit.

Unlike homeowners or auto insurance, life insurance, disability insurance, and excess liability coverage (umbrella policy) are a want not a need. Each family's circumstances are different but here are my recommended starting points.

I typically recommend around 10x your income in term life insurance. You likely have basic coverage through your employer that is around 1x your salary. While supplemental coverage is probably available through your employer, we encourage you to consider private coverage for two reasons: it is typically less expensive if you are healthy and you own the coverage regardless of where you work.

Similar to life insurance, you probably have basic long-term disability coverage through your employer. Group long-term disability (LTD) coverage is normally a percentage of income up to a maximum monthly benefit ie 60% of salary up to $10,000/month. It is important to remember that if you go on claim, the benefit is taxable assuming your company covers the premium. Further, the benefit will be reduced by SSDI (Social Security Disability Insurance) and any other income sources except for private individual disability coverage. To better illustrate, consider an individual earning $300,000 annually before taxes:

- After tax estimate[1]: $195,000
- Monthly after tax: $16,250
- Group LTD after tax estimate[2]: $7,500
- Remaining uncovered monthly income: $8,750

There is an $8,750 gap between income and coverage, how would you continue to live, pay debt, or even save?

As a physician, the public knows you are a high earner. This opens you to potential lawsuits should an unforeseen event occur such as someone being injured on your property or getting into a severe car accident. An umbrella policy, joint registration on taxable accounts, and proper estate planning can help safeguard your assets from creditors and the like.

Protecting yourself now can help avoid a burden on your family later.

Footnotes

1. Assumes an all-in tax rate of 35%.
2. Assumes an all-tax rate of 25%. This differs from footnote 1 due to the lower income level.

How will you manage tax liability?

A fivefold increase in income means more taxes to pay. We would rather pay more tax than less because that means income is increasing, however, minimizing the liability means more money in your pocket.

If you are a household with two high earners, you could be in the 35% or 37% federal marginal tax bracket not taking into consideration state income taxes. At that level, reducing your taxable income can save you thousands.

Here are some ways to minimize that burden.

Tax advantaged accounts

Company benefits such as your 403b, FSA, HSA, and DCFSA all reduce your taxable income. Further, consider a "back-door" Roth IRA contribution as well as 529 contributions (state income tax deduction provided in some states).

Investments

Exchange Traded Funds (ETFs) & Mutual Funds:

- You can think of ETFs and mutual funds as baskets of securities such as stocks and bonds. Both can hold the same types of securities, however, the way each are structured may lead to different taxable events over time.
- Mutual funds can produce capital gain distributions at year end meaning even if you do not trade the position, you can receive a tax bill. ETFs rarely, if ever, have this issue based on their structure.

Asset Location

- Asset location involves allocating securities based on their tax efficiency to specific account types.
- For example, REITs and taxable bonds produce ordinary income which is taxed similar to your salary. Holding these positions in tax advantaged accounts such as a Roth IRA or 401k will help you avoid unnecessary taxation.

Tax Loss Harvesting

- Tax loss harvesting is the process of selling loss positions in a taxable brokerage account to offset future gains and/or reduce your taxable income by up to $3,000 in the current year.
- I recommend buying a proxy position to remain invested at all times.
- Watch out for Wash Sale rules to avoid the losses being disallowed.

Physician Specific Opportunities

Physician Mortgage or Doctor Loan

- Physician loans come in all shapes and sizes; however, the common theme is no private mortgage insurance (PMI) and a low or $0 down payment on new home purchases.
- Look for lenders that offer traditional 30-year fixed rate loans. If that is not available in your area, then consider a longer-term adjustable rate mortgage (at least 10 years).
- Be sure to pay close attention to fees.

Student Loan Discounts for Physicians

- Laurel Road AMA 0.25% Discount: https://www.ama-assn.org/residents-students/resident-student-finance/refinancing-medical-student-loans
- SoFi AAFP 0.125% Discount: https://www.aafp.org/membership/benefits/discounts/advantage/sofi.html

Private Individual Disability Insurance

- Look for carriers that have specialty specific language in the definition of disability as that will be considered your occupation.

AT&T First Responder Discount

- Available for those physicians who take call.
- https://www.att.com/offers/firstresponders.html

Is Hiring an Advisor Right for You?

Working with an Advisor is not for all physicians. The biggest factor in determining whether it is right for you comes down to interest. If you enjoy managing finances, are willing to dedicate the time to stay current on changes within the industry and can execute your financial plan, then a do-it-yourself strategy likely makes the most sense.

However, the following are some reasons to consider partnering with the right Advisor.

- *Time*. Intelligence will not be what limits your financial success; it is not having the time to dedicate.
- *Execution*. The best financial plan is worthless unless it is fully executed. For example, completing an estate plan is fantastic, however, if you do not get around to updating your account registration and beneficiaries, then it is meaningless.
- *Emotions & Behaviors*. It is hard to think objectively and stay emotion free with your money. You fall in love with a house, it is more than you wanted to spend but you love it. Did you consider all of the implications of a higher payment? How does that impact your other goals? Physicians are not allowed in most cases to treat immediate family members as personal feelings may influence the care being delivered. Similarly, managing your own finances can be challenging as emotions will always come into play.

Choosing the right Advisor is the most important piece. Do you have shared values? Does the Advisor understand your needs at this stage of your life? Does the Advisor share your background of academic rigor? Most importantly, does the Advisor seem to have integrity?

Physicians are in rare air. The dedication and commitment it takes to earn the title is more than most can comprehend. You have earned the financial rewards you will receive. Now it is time to act. We hope this paper provides you with a starting point to achieve financial independence.

Our mission is to be an advocate for our client's vision.

By partnering with our clients to create their vision, we provide an unrivaled client experience.

With over 30 years of experience serving physicians and dentists, our unique knowledge base allows us to provide the most specialized guidance to medical professionals.

Student Loan & PSLF Strategies

Cash Management

Contract Review and Negotiation

Home Purchase and Financing

Tax Planning

Investment Management

For a complimentary student loan analysis or more information please visit

www.ifgadvisors.com

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