

DEBT MANAGEMENT GUIDE

Time Well Spent: Your Way to Fiscal Health

Created by:
American Academy of Family Physicians,
Division of Medical Education
2006 – 2007



Table of Contents

What You Need to Know Before Applying to Medical School	1
What You Need to Know Once You Are Accepted.....	3
What You Need to Know About Financial Assistance	4
What You Need to Know As You Approach Graduation.....	8
Terms to Know	14

The material and ideas presented are offered to provide accurate, timely and authoritative information with respect to subjects covered. However, obviously, only generalized comments can be offered, designed to bring relevant topics to your attention, but not necessarily applicable to any given individual's circumstances. The AAFP is not engaged in rendering legal, tax, accounting, investment or other professional advice. For assistance in these areas, or to determine if a particular suggestion herein might be desirable for your circumstances, the services of a competent professional should be sought.

What You Need to Know Before Applying to Medical School

If you have researched medical schools, you know that the cost of attending a public or private school is a serious investment. However, if medicine is your calling and you have the intellectual and personal dedication to get into medical school, rest assured that you will have access to numerous resources to help limit your total costs and debt. From scholarships to grants to loan repayment programs, the options are abundant.

You can afford to go to medical school and pursue the specialty of your choice if you get organized and savvy about your finances before you begin. It is important to develop a plan to finance medical school, identify specific strategies for covering these costs; and create an annual budget and timeline for reassessing these costs. The following information provides you with practical tools to better understand the issues and sources of aid as you apply to medical school.

Preparation

GET ORGANIZED AND CONNECTED

You will find yourself better prepared for what lies ahead if you develop a strategy to track and store your communications, financial information, academic records, scholarship materials and other financial aid resources. For example, one option would be to create a resource box for these materials organized by date, source or other criteria. The key is to find what you need, when you need it.

It is also wise to copy important documents and store the originals in a separate, secure location. Keep in mind that you will need to refer to these materials for years to come. To avoid the risk of identify theft, secure sensitive information that includes personal and financial information about you or your family. If you must throw away copies of information, be sure to shred sensitive documents.

The number and variety of financial aid options and the range of eligibility requirements can easily overwhelm the brightest students. It is important to establish a relationship, in advance of the medical school application process, with an experienced financial aid officer from your college and/or the medical school(s) to which you plan to apply. Their counsel can make a significant difference in your future.

ANALYZE YOUR COSTS

Even before you complete the application process it is wise to begin developing a plan to finance your medical education.

Living Expenses

As part of the process, you will need to calculate the estimated costs of essential living expenses for the next year. The first step is to identify the necessary expenses you will need to live like a medical student. Keep in mind that you can be a successful medical student without some of the amenities you may have had when living at home.

Next, you will want to assign a realistic estimate for each expense. To calculate this estimate, you need to do some homework. If attending medical school requires you to move to a new community, you may want to contact the city's chamber of commerce or the medical school financial aid office to determine the average cost of rent, utilities, and other essential services. A financial aid officer at the medical school may also be able to provide a realistic estimate for other expenses that you may easily overlook. Another way to help estimate costs is to calculate an estimate based on your past experience. This is particularly helpful for expenses such as mobile phone, laundry and personal care expenses.

Medical School-Related Expenses

Identifying medical school expenses for the next year is as important to creating a budget as identifying living expenses. A spreadsheet with appropriate categories and formulas is a useful tool to construct and manage your budget.

Consult with the medical school's financial aid office to determine the cost of tuition, books, and other related costs. Once you have identified living and medical school expenses, you can combine your total expenses for the year. Use this total to estimate how much money you will need for the next year. Listed below is a sample of common medical school expenses.

- Tuition
- Health service fees
- Student activity fee
- Health insurance
- Books, PDA (Year 1), and supplies
- Stethoscope and other components of the diagnostic kit that are not provided by the medical school
- USMLE: Steps 1, 2, 2CS and expenses of traveling to and from the test site

Sample Budget Worksheet

<http://bms.brown.edu/admissions/forms/BudgetWorksheet05-06.xls>

Brown University's Office of Admissions and Financial Aid created a tool that identifies common living expenses and allows the user to calculate total yearly expenses. Use this example to create an individualized budget for your household.

ANALYZE YOUR RESOURCES

Now that you have determined how much money you will need to go to medical school, you will need to determine how much money you and/or your family can contribute. From a medical school's perspective, the cost of medical education is primarily the student's responsibility. Whether you are married or single, before you start looking for outside funding, you need to assess and discuss your financial situation with your immediate family. Key first steps include reviewing your credit record and cataloging assets that may be used to help cover some of

your expenses. Examples of personal and family assets include individual savings, investments, home equity and college savings.

Few families have the means to allocate sufficient resources to cover the entire costs of a medical education. In some cases, your parents or spouse may be in a position to take out bank loans to cover part of the expense or a family member may be able to offer financial support by way of a personal loan.

While your parents, family or spouse seem to be logical choices for financial support, you may also want to consider close friends and neighbors who have taken an active interest in your education and personal development. While accepting help from close friends and family can be risky financially and emotionally, with counsel from an experienced financial advisor and appropriate documentation, it may be a viable option for you.

What You Need to Know Once You Are Accepted

It is never too late to start thinking about financing your medical education. While medical school is an expensive venture, it is also a major investment in your future. Medical students have opportunities to limit and reduce debt by pursuing scholarships, grants, loan repayment programs, and loans through the government. Listed below are suggestions of how to manage your debt once you are in medical school.

ASSESS YOUR FINANCIAL SITUATION

Every year you should reassess your financial situation by estimating your annual income and expenses. Carefully consider all of the other costs that you can't avoid, such as annual and mid-year tuition increases are examples of uncontrollable costs you will encounter during medical school. You may need to allocate funds differently than in years past. Take a look at the following suggestions for help assessing your expenses and creating a budget.

SET UP A BUDGET

When determining a budget for the school year, you will need to account for all of your expenses. It is important to understand the timing of your financial aid and key expenses to ensure that you avoid running short of money later in the year. Your school's financial aid office can assist you in estimating the timing and costs of tuition, books/instruments and supplies, room and board, and frequently overlooked expenses, such as transportation and medical expenses. There are numerous calculators available to help set up a budget; this is just one example http://www.accessgroup.org/calculators/in_schlbud.htm.

KEEP COSTS DOWN

While it may be tempting to accept the full amount of loan assistance offered to you, it is better to borrow what you really need and do without some luxuries that you may have enjoyed while living at home. Listed below are examples of steps you can take to save money.

- Share expenses – If at all possible, find a roommate and avoid unnecessary expenses by cutting back on splurge items like new furnishings, audio equipment and televisions.
- Monitor your transportation costs – Choose housing close to campus and use public transportation. If you have an older car that is reliable, resist the urge to trade it in for a newer model. Life without a car payment will save you money when trying to live within limited funds.
- Resist the urge to shop – if you must, focus on what you really need and try local thrift and consignment stores for quality clothing. Avoid using credit unless you can pay off the balance at the end of the month. You don't want to use your financial aid to make credit card payments.

The key to successful medical student budgeting is buying only what you need and not what you want.

AVOID BAD CREDIT — KNOW YOUR SCORE

According to the Federal Trade Commission <http://www.ftc.gov/credit>, a recent amendment to the Federal Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies to provide you with a free copy of your credit report <https://www.annualcreditreport.com/cra/index.jsp>, at your request, once every 12 months.

The FTC, <http://www.ftc.gov/bcp/online/pubs/credit/gettingcredit.htm>, offers information on how to maintain good credit, while explaining the basics of credit and how it can work for you. It provides suggestions of what to look for when applying for credit cards, how to manage them, protecting your identity, and what to do if you get in over your head.

What You Need to Know About Financial Assistance

It is important to keep in mind that even small stipends, grants and scholarships can add up quickly and reduce your overall debt burden. Take the initiative to explore all your options including grants, scholarships, individual loans, government loans and loan repayment.

- **Free Application for Federal Student Aid (FAFSA)** <http://www.fafsa.ed.gov>
Many students depend on federal government student loans to finance their education. Filling out a (FAFSA) is the first step in determining how much federal aid you can receive.
- **Federal Student Aid** <http://studentaid.ed.gov>
This government site provides information relevant to parents, teachers and students on everything from choosing a school to repaying your loans.
- **FinAid** <http://www.finaid.com>
This well-respected Web site offers resources pertaining to all aspects of financing your education. Keep in mind that

scholarships are competitive, so it is wise to apply for multiple scholarships and grants to increase your chances of getting all of the resources that you may be eligible to receive.

SCHOLARSHIP SEARCH

Scholarships and grants offer funding that you do not have to repay, which translates to less money that you have to borrow. Eligibility may be dependent on your financial need, academic achievement, and/or affiliation with certain organizations or be contingent upon a service obligation. Start your research well in advance of your application to medical school to ensure that you identify scholarships that fit your needs and interests and can meet early application deadlines.

Also check online for scholarships. Web sites such as <http://www.fastweb.com> and <http://www.ed.gov> contain scholarships databases that can help you find opportunities. Avoid companies or organizations that require a fee or make guarantees to help you identify a specific amount of money in scholarship aid. Other connections to pursue might include your local hospital or church, local businesses, and the government.

Local Hospitals

Contact local hospitals and ask to speak to a staff member in the human resources department about scholarship opportunities. Some hospitals and their foundations offer scholarships to medical students or financial aid in the form of tuition assistance in exchange for a specific number of years of employment after completion of residency.

Church/ Synagogue/ Temple

Many religious institutions, through personal endowments, have funds available for members to further their education. Contact your church's business office to inquire about such resources and any eligibility requirements.

Local Businesses or Community Organizations

Check out organizations such as the Optimists, <http://www.optimist.org/> Lions Clubs <http://www.lionsclubs.org/EN/index.shtml> or Shriners <http://www.shrinershq.org/> because they may have scholarships or funding for students with your interests. Consider contacting local businesses as well.

Medical School

Check with the medical schools that you are applying to, including the school's office of minority affairs, for scholarship possibilities. Request a financial aid packet from the medical school's financial aid office and ask about scholarship opportunities that are unique to that school. Many medical schools, for example, offer financial assistance to academically competitive medical students who demonstrate severe financial hardship. Make arrangements for you and your family to speak directly to one of the school's financial aid officers about your situation and the options available to you.

SERVICE-BASED LOAN REPAYMENT PROGRAMS

Loan repayment programs are sponsored by national, state and local governments and some private organizations. Typically after completing a residency, physicians are recruited to practice in designated health professional shortage areas. Benefits vary, but on average participants provide service for two to four years (depending on the number of years they received support) in exchange for living stipends and repayment of educational loans. The programs listed are a sample of those available; contact the financial aid office or the medical school's family medicine department for more information.

American Academy of Family Physicians

<http://www.aafp.org/x18295.xml>

This directory provides information on financial aid programs, scholarships, fellowships, grants, awards and other incentives to attract and retain health care personnel in locations defined as underserved areas.

Association of American Medical Colleges

<http://www.aamc.org/students/financing/repayment/start.htm>

The AAMC provides a directory of state loan repayment programs with service commitments. The programs listed are only a sampling of those available. See your financial aid advisor for more information.

National Center on Minority Health and Health Disparities

http://ncmhd.nih.gov/our_programs/loan/index.asp

Participants are offered loan repayment to develop research programs that reflect an understanding of the variety of issues and problems associated with disparities in health status. Eligible applicants include racial and ethnic minorities and other underrepresented individuals. There is a minimum two-year time commitment required.

National Health Service Corps (NHSC) Scholarships

http://nhsc.bhpr.hrsa.gov/join_us/scholarships.asp

Scholarships are offered to students dedicated to a career in primary care. After residency completion, you will choose a practice site that is in a federally designated health professional shortage area and is identified as having the greatest need. The period of service is one year for each year of scholarship support, with a two-year minimum commitment.

NHSC Ready Responders Program

http://nhsc.bhpr.hrsa.gov/join_us/ready_clin.asp

Upon completion of residency, family medicine physicians are eligible to apply for this program that allows you to serve and respond when national and regional emergencies occur. Loan repayment is available.

NHSC Loan Repayment Program

http://nhsc.bhpr.hrsa.gov/join_us/lrp.cfm

Fully-trained primary care health professionals have the opportunity to repay educational loans through the NHSC Loan Repayment Program. According to NHSC, maximum repayment during the required initial two-year contract is \$25,000 each year. You may be eligible to continue your loan repayment beyond two years, one year at a time to the extent you have unpaid qualifying educational loans and continue to serve at an eligible site. One-year amendments are awarded for a maximum of \$35,000 per year.

U.S. Department of Health and Human Services Bureau of Health Services Primary Care Loan Programs

<http://bhpr.hrsa.gov/dsa/pcl.htm>

Primary care loan programs provide long-term, low interest rate loans to full-time, financially needy students to pursue a degree in allopathic or osteopathic medicine. In order to receive a Primary Care Loan you must agree to enter and complete residency training in primary care within four years after graduation and practice in primary care for the life of the loan.

Armed Forces Health Professions Scholarship Programs

Fully-trained clinicians are eligible for loan repayment in exchange for service in an eligible community. Contact a recruiter at the branch of service that interests you for more information.

Air Force <http://www.airforce.com/education/healthcare/moneyForSchool.php>

Army http://www.goarmy.com/amedd/medical/corps_benefits.jsp

Navy <http://www.navy.com/healthcare/physicians>

GOVERNMENT LOANS

Many students depend on federal government student loans to finance their education. According to the Department of Education, http://www.fafsa.ed.gov/before003a.htm#federal_aid deadlines vary depending on the school and state. Check with the financial aid offices of the schools to which you are applying for verification of application deadlines.

The financial aid office is required to inform you of their aid procedures and deadlines, and how and when you'll receive your aid award. You will be provided with an award package that tells you your Expected Family Contribution (EFC), your family's eligibility for federal loans, and your status regarding the work-study program. It is important to read and understand your school's academic progress policy and keep copies of all enrollment paperwork, especially loan documents that you receive.

Stafford Loans

The Department of Education offers low interest rate loans to students. Subsidized loans are based on financial need. While in school and during the grace period, the government pays the interest on subsidized loans. Unsubsidized loans are available to all students regardless of financial need. You are charged interest on these loans while you attend school. You have the option of paying the interest as it accrues or postponing the interest payments until after you graduate, withdraw or drop below half-time enrollment. Students can borrow up to \$8,500 per academic year under the subsidized Stafford loan program, and they can increase the amount to \$38,500 per year with an unsubsidized loan.

Perkins Loan

A Federal Perkins Loan is a low-interest loan for both undergraduate and graduate students with financial need. It is provided with government funds, with a share contributed by the school. Depending on when you borrow, your level of need and the funding capabilities of your school, you may be able to obtain a Perkins Loan up to \$6,000 per year.

ALTERNATIVE LOANS (PRIVATE LOANS)

Alternative loans sometimes referred to as private loans, can cover educational expenses when federal aid and scholarships do not meet your needs. Alternative loans are offered as an alternative to government-backed loans and work much like consumer loans. Because they are regulated by the U.S. government as consumer loans, which are more flexible, interest rates, repayment terms and other options vary; therefore, it pays to shop around for the best loan.

Most lenders will offer standard repayment, graduated repayment, loan consolidation, and income-sensitive repayment loans. Some will offer incentives if you pay on time or choose to pay electronically. Be sure to check if there are penalties for prepaying your loans. Keep track of who holds your loans and be aware that your lender may sell your loan to another company. Ask your financial aid office which lenders they recommend who have a reputation of catering to medical student needs.

What You Need to Know As You Approach Graduation

While graduation is a time of celebration and excitement for what lies ahead, your obligation to repay your loans is just a few months away. The following information and strategies will assist you in transitioning from borrower to repayment status.

PREPARATION

Take time to plan for the next several months before you have to begin repayment of your loans. Learn what is expected of you, what repayment options are available, and what terminology you need to be familiar with. Listed below are some suggestions of where to begin.

LOCATE LOAN DOCUMENTATION

Now is the time to pull out all your student loans documents that you have kept over the years. It will be easier to locate loan information if your paperwork is organized. Make sure that documents are organized in a usable manner, such as by date or type of loan.

CONTACT THE FINANCIAL AID OFFICE

Keep in mind, when you signed your financial aid documents, you entered a legally binding contract. Therefore, regardless of your satisfaction with your education, your degree completion or current employment status, you are obligated to repay the money you borrowed. It is a good idea to meet with a financial aid advisor before it is time to begin repaying your loans. For example, your financial aid advisor might be able to answer your specific questions regarding your loans and help prepare you for the exit counseling meeting.

DETERMINE IF YOUR LOANS HAVE GRACE PERIODS

A grace period is the time period between being a student and when you begin repaying your loans. No payments are expected during this time. It is important to recognize that each loan has a unique grace period. For example, Stafford Loans have a six-month grace period and Perkins Loans have a nine month grace period before repayment is required. Because the terms for private or alternative loans are decided by the lender, grace periods vary. Contact your lender for more information regarding the terms of your loan.

Before your meeting with the financial aid advisor, construct a simple table showing each of your loans and their corresponding grace periods. Knowing when you must begin repayment is an essential step in preparing for the future.

REPAYMENT

Once you know when you are required to begin making payments on your loans and what the suggested minimum payment is, you need to

determine what would be a reasonable monthly payment for you. Minimum payments will vary, depending on the amount of your loans and the length of the loan. At any time, you can pay more than the minimum monthly payment on Stafford Loans without risk of being penalized. You may also pay off your Stafford Loans in their entirety at any time without penalty. There are advantages and disadvantages to repaying your loans ahead of schedule. Consult your financial aid advisor to determine what is right for you and your situation.

While it may seem ideal to repay your loans before they are due, it is not always a realistic option. There may come a time when you can not make the monthly payment.

UNDERSTAND THE PROS AND CONS OF DEFERMENT AND FORBEARANCE

Certain circumstances may arise throughout the life of your loan that hinder your ability to make payments. If you are at least a half-time student at a post-secondary school, studying in an approved graduate fellowship program or in an approved rehabilitation program for the disabled, or unable to find full-time employment you may qualify for deferment. As soon as you recognize that you cannot pay your loans contact your lender immediately and seek assistance. In most cases, you are not automatically granted a deferment. You must request one through the procedures set forth by your lender.

If you do not qualify for deferment, but need assistance, your lender may be able to offer you a temporary postponement or reduction in your repayment obligation. This is referred to as Forbearance. For example, you may be allowed to simply make a monthly interest payment for a period of time or accrued interest may be added to your principal once the Forbearance period is over. Federal student loans provide for up to three years of deferment and three years of forbearance available to help you during times of financial hardship. Check out the College Loan Corporation's brochure on "Understanding Deferment and Forbearance" <http://www.collegeloan.com>

/ektfiles/Defer_Forbear_Booklet_WEB_0805.pdf to learn more about these options.

AVOID DEFAULT AND DELINQUENCY

If you cannot make your minimum monthly loan payment, it is your responsibility to notify your lender immediately. You do not want to be delinquent in paying your loan. Failure to make a payment within 270 days will put your loans into default. If you default your loans or fail to uphold your end of the loan terms, there are severe consequences. For example, your loans may be turned over to a collection agency. You may lose deferment eligibility and eligibility for future federal and state financial aid funds. Your credit rating may be adversely affected and your wages may be garnished until you repay your loans.

Use Reminder Systems and Electronic Billing to Avoid Delinquency and Default

As a new physician you can count on being very busy. Paying your bills may slip your mind in the midst of a full day seeing patients. Forgetting to pay your loans, even for one month, can cost more than a late fee. Poor management of your loans can impact your ability to qualify for business loans, home loans and other types of credit. Managing your loans has never been easier thanks to electronic billing, often known as electronic funds transfer (EFT), and internet banking. Using these services to make timely payments not only saves you the hassle of postage, envelopes and mailing delays, it makes bill paying convenient for busy people like you. Ask your lender or financial aid advisor about these payment options.

If your lender insists on sending you a monthly bill via the mail, put a reminder note on your calendar or PDA at least two weeks in advance of the due date and make sure your payment is mailed at least one week before it is due to the lender. You can also purchase reminder software or sign up on one of the many Web-based services that you can program to send reminders to your e-mail address, telephone, or pager.

LOAN CONSOLIDATION

Another way to avoid the confusion of juggling multiple loans is to consolidate your loans. In some cases you may be able to eliminate multiple monthly loan bills, lock in lower interest rates, lower monthly payments and extend your repayment period.

Start exploring loan consolidation options during the grace period. If you are a new graduate with federal subsidized loans, the Federal Consolidation Loan Program may allow you to extend the repayment of your loans beyond the standard 10 years, depending on your loan balance. For example, physicians with loan balances in excess of \$60,000 have up to 30 years to pay back their loans after consolidating. This federal program has a number of additional options that can improve your debt situation.

- Reduce monthly payments by up to 50 percent and increase the amount of disposable income you have.
- Lock in your interest rate and save thousands of dollars over the life of the loan.
- Receive a 0.625% rate reduction by consolidating your federal loans before the six-month grace period ends.
- Combine all of your federal loans into one convenient monthly payment — it is much easier to manage one loan than several.
- Incur no penalties if you make additional payments or pay the balance of your student loans early. Keep in mind that these are simple-interest loans; it is wise to pay off higher interest debt such as car notes, private loans and credit cards before low-interest federal loans.

- Improve your credit score — consolidating may improve your loans may improve your credit score, making it easier for you to make significant financial investments (like buying a car or starting a new practice). Making your student loan payments on time is another way to maintain good credit.

KEEP FEDERAL AND PRIVATE LOANS SEPARATE WHEN CONSOLIDATING

There are many loan consolidation programs that offer to consolidate private and federal debt together into one monthly payment. Although one monthly payment for all debt sounds tempting, the resulting interest costs are definitely not worth the convenience. The Federal Consolidation Loan Program is the most cost-effective way to manage your federal debt because the federal loans remain at a simple interest rate — meaning that you only pay interest on the principal balance you borrowed. By transitioning your federal debt into a private loan consolidation program, your federal debt will begin to compound interest and you will lose out on the low interest rates you received with federal loans. Private loans will most likely have higher interest rates than federal loans: therefore, one solution is to defer your federal loans until you can pay off your private loans. To pay less interest on your loans and pay them off faster, keep your federal loans within a federal consolidation program and manage your private loans separately.

Today, there are many lenders offering consolidation programs, all with unique borrower benefits. Physicians should seek out a lender who can answer questions specific to medical loans, and be flexible to a doctor’s busy schedule. Some lenders offer “teaser” interest rates that sound appealing, but are often unobtainable for most borrowers. So check the eligibility requirements of any benefit that is being offered to make sure that you qualify.

REVIEW CONSOLIDATION LOAN PAYMENT EXAMPLES

The government reduces a borrower’s consolidated interest rate by 0.625% if the loans are consolidated during the borrower’s six-month grace period. For example, if the current interest rate for Stafford borrowers in-grace is 4.70%, consolidating during the grace period will fix the interest rate at 4.75%. The following table is based on the 4.75% fixed interest rate scenario and depicts the monthly payments of a borrower who has consolidated during his/her grace period.

Student Loan Debt	Monthly Payments Before Consolidation* 10 year standard loan term	Monthly Payments After Consolidation 20 year loan term	Monthly Payments After Consolidation 30 year standard loan term
\$60,000	\$628	\$388	\$313
\$80,000	\$837	\$517	\$417
\$100,000	\$1,046	\$646	\$522
\$120,000	\$1,255	\$775	\$626
\$150,000	\$1,569	\$969	\$782

Source: College Loan Corporation

* For comparison purposes, this scenario assumes borrower makes monthly payments during grace period at the grace period interest rate.

If the current interest rate for Stafford borrowers in repayment on unconsolidated loans were 5.3%, consolidating during repayment will fix the interest rate at 5.375% over the life of the borrower’s loans. The table provided below is an example of a repayment schedule based on this scenario.

Student Loan Debt	Monthly Payments Before Consolidation 10 year standard loan term	Monthly Payments After Consolidation 20 year loan term	Monthly Payments After Consolidation 30 year standard loan term
\$60,000	\$645	\$409	\$336
\$80,000	\$860	\$545	\$448
\$100,000	\$1,075	\$681	\$560
\$120,000	\$1,290	\$817	\$672
\$150,000	\$1,613	\$1021	\$840

Source: College Loan Corporation

Note: If a borrower takes the entire 30-year term to pay back the loan, he/she could save \$13,680 by consolidating during the grace period (with \$100,000 balance).

College Loan Corporation partners with the AAFP to offer financial aid and debt management to future family physicians. If you are a member of the AAFP and are in need of financial aid advice, please visit the AAFP’s Loan Consolidation Program section or call (888) 972-8266. To learn more about the AAFP Membership and other member discounts visit the AAFP’s Member Discounts section or call a Member Services representative at (800) 274-2237, ext. 6814.

Income

Determining your future income is a complicated process. Numerous variables, such as the region, practice setting and number and mix of patients in the practice, contribute to the income formula. Examining the contributing factors to income can help you sift through the myths and find the truth.

SEPARATE FACT FROM FICTION: YOUR FUTURE INCOME POTENTIAL

A recent study indicates that students often misjudge the typical income of physicians, especially physicians working primary care settings. For example, it isn’t unusual for students to hear that physicians working in family medicine don’t make enough to pay off their

loans. However, the truth is that family physicians make enough money to pay off student loans and have the lifestyle they want.

Family medicine residency graduates can expect to make around \$125,000 after expenses, which compares favorably to the average starting salaries in internal medicine (\$128,000) and pediatrics (\$120,000). According to one of the nation’s largest physician recruitment agencies, the average salary offer made to family physicians in 2004 grew from \$144,000 to 146,000.

Family physician income is highly dependent on region, practice setting and the number and mix of patients. A family physician’s flexibility to tailor clinical services offered to patients can shape income. For example, family physicians who see more patients and see patients in the hospital will have a higher income. In the future, incomes for family physicians are projected to increase as much as 25% in practices that use new technologies and new care models, such as chronic disease management

In 2003, the median level of educational debt of family medicine graduates was \$93,438 compared with \$102,452 for all medical school graduates in 2003.

The best thing you can do to evaluate income potential is to consult credible sources for physician income, such as national and regional specialty societies. Compare median and mean data to get an accurate view of the market. Keep in mind that the mean, or average, can be affected by extreme values. The median is the midpoint with half of the responses above that number and half fall below. Keep in mind that in salary data, the median will almost always be lower than the mean.

Terms to Know

Alternative Loans (Private Loans): Alternative loans (private loans) are an alternative to government-backed loans and work more like traditional consumer loans. Because alternative loans are regulated by the government as

consumer loans, they have more flexible interest rates, repayment terms and other options that may vary widely.

Capitalization: Capitalization is the process of adding unpaid interest to the principal balance of a loan. This will increase the outstanding principal balance of the loan and may increase the monthly payment amount.

Credit Report: A credit report contains detailed information on a person's credit history, including identifying information, credit accounts, loans, bankruptcies, late payments and recent inquiries. It can be obtained by prospective lenders with the borrower's permission to determine credit worthiness.

Default: Failure to repay loans according to the terms agreed upon in a promissory note will default your loans. Default may also result from failure to submit requests for deferment or cancellation on time. Your loan is considered in default at 270 days past due, and the consequences are severe. If you default on your loan, your school, your loan holder and the state and the federal government may take all necessary steps to recover the money.

Deferment: A temporary postponement of your repayment obligation is referred to as a deferment. Except with Perkins Loans, interest accrues during periods of deferment. The federal government will pay the interest during this period for any subsidized loans; for unsubsidized loans, the borrower may choose to capitalize the interest or pay it as it accrues. Your lender is obligated to provide you with a deferment if you meet the eligibility requirements.

Delinquency: Delinquency is defined as failure to make a payment on time. In addition to negatively affecting your credit rating, delinquency may result in late fees. If you fail to make payments for 270 consecutive days, the loan goes into default.

Expected Family Contribution (EFC): A preliminary estimate of a family's ability to cover the cost of attendance to a particular school is the EFC. The EFC is based on the data provided

in the Free Application for Federal Student Aid (FAFSA) and is subject to change based upon the school's verification of information provided. The EFC is used as a basis in determining eligibility for federal student aid. Many schools have their own methodology to determine EFC, in addition to the government's methodology. An EFC is provided on a Student Aid Report (SAR) based on the information a student provides in a FAFSA.

Federal Loan Consolidation: A Federal Consolidation Loan is a loan designed to make education loan repayment easier by combining existing eligible education loans into one new loan with a fixed interest rate.

Financial Aid Office (FAO): This college or university office determines financial need and awards financial aid.

Financial Aid Package: The financial aid package is the total amount of financial aid (federal and nonfederal) a student receives. The school's financial aid office combines various forms of aid into a package to help meet a student's need.

Free Application for Federal Student Aid (FAFSA): FAFSA is a form used to apply for all need-based federal aid. As the name suggests, no fee is charged to file a FAFSA.

Forbearance: A temporary postponement or reduction of a repayment obligation is referred to as forbearance. Interest charges continue to accrue during periods of forbearance. Forbearances typically are granted at the lender's discretion, usually in cases of extreme financial hardship or other unusual circumstances and when a borrower does not qualify for a deferment.

Grace Period: The time period after separation from school and before student loan repayment begins is the grace period. The length of a grace period is dependent upon loan type. Stafford Loans have a six-month grace; Perkins Loans, nine. Private/alternative loan grace periods vary; check with your lender for more information.

Interest: The amount charged to the borrower of a loan for the privilege of using the lender's

money is the interest. It is usually calculated as a percentage of the principal balance of the loan. The percentage rate may be fixed for the life of the loan or it may be variable, depending on the terms of the loan.

Loan: Loans are borrowed money that must be repaid with interest.

Master Promissory Note: Master Promissory Notes are legally binding documents signed upon application for educational loans. The promissory note is a contract between the borrower and lender that lists the conditions under which monies were borrowed and the terms under which they will be repaid.

Perkins Loan: The Perkins Loan is a low-interest loan for both undergraduate and graduate students with financial need. It is provided with government funds, with a share contributed by the school.

Principal: Principal is the amount of money borrowed or remaining unpaid on a loan. Interest is charged as a percentage of the principal. Insurance and origination fees are deducted from this amount before disbursement.

Simple Interest: The interest that is paid only on the principal balance of the loan and not on any accrued interest is called the simple interest. Most federal student loan programs offer simple interest. However, capitalizing the interest on an unsubsidized loan can result in being charged compound interest.

Stafford Loan: A Stafford Loan is a low-cost educational loan sponsored by the federal government. The interest rates are lower than commercial loans and are set by the government on July 1st for the following 12-month period. Stafford Loans differ from Perkins loans in that the school does not contribute to the loan.

Student Aid Report (SAR): The SAR compiles the information reported in a FAFSA to determine student eligibility for financial aid. The SAR is provided to a school's financial aid office for use

in creating an Award Letter. The SAR will also indicate the Expected Family Contribution (EFC).

Subsidized Stafford Loan: The Department of Education offers low interest rate loans to students. Subsidized loans are based on financial need. Students can borrow up to \$8,500 per academic year in subsidized loans. While in school and during the grace period, the government pays the interest on subsidized loans.

Unsubsidized Stafford Loan: Unsubsidized loans are available to all students regardless of financial need. Students who receive a subsidized loan can increase the amount they borrow to \$38,500 per year with an unsubsidized loan. You are charged interest on these loans while you attend school. You have the option of paying the interest as it accrues or postponing the interest payments until after you graduate, withdraw or drop below half-time enrollment.