Strategies for Managing Debt

This key skill is an important tool.

BY JON A. HULTMAN, DPM, MBA

Several years ago, while attending an APMA National meeting in Orlando, I bumped into a practice management "expert" who had been a frequent speaker at seminars in the 1970s. At the time, because he was well into his 80s, I enquired whether he was retired. His response: he was not able to financially retire because he was "debt propelled." I was surprised that in spite of his knowledge of practice management and the fact that he had had a successful podiatric practice, he had never gotten out from under a mountain of debt.

Undergraduate requirements for acceptance into medical schools include courses in advanced mathematics and physics. It seems incongruent that as a group, doctors appear to go "brain dead" when a number has either a dollar or percentage sign attached to it. This shortcoming often results in poor financial decisions, especially when those decisions involve taking on debt—decisions for which all of the numbers involved have either dollar or percentage signs attached. Managing debt is critical to the future financial success of all doctors. The last thing you should want is to be "debt propelled" into your 80s. If you choose to continue practicing well into your senior years, you want it to be because you enjoy practicing.

Unfortunately, the completion of podiatric medical school generally requires taking on a substantial amount of student debt. Going forward, most will also take on additional debt in the form of auto loans, home mortgages, and money borrowed for practice acquisitions or office expansions. Compounding this debt is the frequently adopted routine of making credit card transactions for which one gets into the habit of paying only the minimum monthly payment—allowing the majority of former transactions to continue as debt, but at a substantially higher interest rate than other loans.

Regardless of whether you are currently a student, in your residency, just starting out in practice, or decades into practice, a better understanding of finance will help you manage your challenges of debt "payback" more effectively. Let us

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take a look at some of the strategies that you may, or may not, have considered, the understanding of which could help guide you through financially challenging situations.

A Dollar Saved, Saves Two

Whether you are a student, resident, or practicing doctor, remember that there is no disgrace in living "like a starving student." Every dollar that is not borrowed as a student saves two over the lifespan of a 20-year loan. Any family help, part-time job, or grants that you can secure enable you to borrow less while continuing to "live like a starving student." Even though you are no longer a student or resident, but are starting out in practice, there is no shame in living at home if you have this option. This is how many doctors starting out have saved money for down-payments on their first homes.

When you first transition from paying tuition for education to being paid as a resident, you should be careful not to increase your cost of living just because you "suddenly" have more money. Instead, maintain focus on your education, and invest any amount possible with the goal of seeing how much you can save before entering practice or employment. Correspondingly, once employed at a salary higher than that of a resident, you do not want to expand your cost of living in direct proportion to that new, higher salary. A good strategy to adopt is to pay yourself first by saving at least 50% of your "new money." This leaves 50% of the increase for spending, or investing, as you choose.

It might seem that once one is full-time employed, setting aside some money each time your salary increases would be easy; however, a 2015 GOBankingRates.com survey (to which 7,000 adults from all fifty states responded) found that 62% of American adults had savings accounts totaling less than $1,000, with 28% having no savings at all. According to a more recent 2022 survey conducted by Bankrate, 56% of Americans who have a $1,000 emergency expense cannot cover it with savings. Obviously, most people do not seem to possess the skill, or self-control, for planning ahead as their income increases.

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Mindset and Perspective

Another thing that can help "conquer" debt is to develop a healthy mindset and perspective towards paying it off. For many people, debt payments slowly become a negative monthly ritual. Over time, a borrower can begin to resent each payment, and the growing needs of a family can magnify that resentment. There are always multiple things competing for those same dollars. Given that payments on student debt can stretch out over twenty years, the negative impact of this resentment can build over time, with the mental health of the borrower and even his/her family suffering. The same can be said for paying the mounting interest that accumulates when making only the minimum monthly payments on credit cards—much of which was generated by purchases that have already been consumed.

A way to cultivate a healthier mindset is to create a proactive approach towards debt payments. A good tactic is to develop the habit of tracking your net worth on a regular basis. Unless you are from a very wealthy and generous family, the odds are that at the beginning of your career, your net worth was large, but negative. An example: If you have $200,000 in student loans and no assets, your net worth is a negative $200,000. A positive outlook is to recognize that each loan payment you make increases your net worth by the principal portion of that payment. If $433 of your first payment goes toward principal, take note that this payment increases your net worth by $433, and you now have a net worth of negative $199,567.

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In other words, paying down $433 on the principal or putting $433 into a savings account impacts your net worth in exactly the same way. Adopting this mindset can help your mental well-being. Give recognition to the fact that each payment on any type of debt increases your net worth. Attacking debt payments in this manner demonstrates the value of accelerating principal payments as your income increases—every dollar paid toward principal increases your net worth and reduces the amount of interest you will pay over the lifespan of the loan.

Also important to realize is that the principal portion of your payment increases each month. For example, if you owe $200,000 on a 20-year loan at 6%, the monthly payments will be $1,433. $1,000 of your first payment, due in October of 2023, would be applied to interest and $433 to principal. Of the next payment, in November of 2023, $998 would be applied to interest and $435 to principal. The amount applied to interest decreases each month, while the amount applied to principal increases. This is a slow process; yet, if you have the means to do so, you can accelerate the amount being applied to principal even faster by making additional payments towards principal on each payment as you begin to earn more.

If you make no additional princi-

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pal payments on this $200,000 loan, the amounts for interest and principal essentially become equivalent in March of 2032 with $717 applied to interest and $716 to principal. This is the "tipping point" from which, going forward, more of each monthly payment will now be applied to principal than to interest. Reaching this tipping point should further reinforce your positive mindset because the balance owed on the loan decreases at an accelerated pace.

Investment in One's Career

Undergraduate, graduate, and professional degrees all have a high cost. The podiatric degree has an especially high cost. You might wonder, "Is it worth it?" When you intend to use a degree to launch your career, you may want to first determine your return on the investment (ROI). The financial ROI for most undergraduate degrees is less significant than it is for graduate or professional ones because advanced degrees are generally directed towards specific careers. One could certainly consider "finding more interesting work" or "a job about which you are passionate" as being part of the ROI for an undergraduate degree. When undertaking a medical degree, the hope is that the future doctor feels the work will be interesting and that that work will, at least, create enough cash-flow beyond that of an undergraduate degree to make the payments on the necessary additional student loans.

The question for a student undertaking a DPM degree is whether or not this degree will have an ROI that is worth the additional investment necessary to obtain it. Given the wide range of (1) tuition and living costs incurred by students over the four years required, (2) amount actually borrowed to cover those costs, and (3) size of the doctor's salary following residency, a method for achieving a precise calculation of the ROI is not totally possible; however, a practical answer is possible.

The following considers four years as the length of the DPM education. Don't include residency since the average resident's salary is virtually the same as the average salary that a college graduate initially earns.

Data from *Podiatry Management*, ACFAS, APMA, MGMA, and the Bureau of Labor Statistics show the average salary to range from a low of $136,180 to a high of $280,714. ACFAS reported the mean at $211,723, with those who had obtained rear foot and ankle certification at $261,755. Within these numbers, which are expressed both as means and averages, a wide range of potential salaries certainly exists, and there are DPMs making well over $400,000 a year.

By the time they begin practicing, many new DPMs have taken on student debt of more than $300,000. If a student's loans totaled $300,000, monthly payments would be $2,149. For our purposes here, let's present an argument as to whether or not a DPM degree is worth taking on these $2,149 payments. Beginning with the student loan payments of $2,149 a month ($25,788 a year) and assuming a 35% tax payment on the amount of additional money that must be earned to make the loan payments, a DPM would need to earn $39,674 more than the average college graduate's salary of $58,000 a year to make the loan payments and be no worse off than that college graduate. To break-even on the student loan portion of the ROI, a DPM would need to earn $97,674 a year. This salary would give him/her the ability to make payments on a 20-year, $300,000 student loan, at 6% interest, and clear the same $58,000 salary earned by the average college graduate.

Assuming the $136,180 lowest reported average DPM salary, after making these loan payments, we see that this doctor would have an annual "surplus" of $78,180 before taxes. This evaluation is actually conservative given that the vast majority of DPMs entering the workforce in recent years now have had three-year residencies, and their compensation levels are likely to be in the higher ranges—at least $220,000. This would provide $162,000 (before taxes) over-and-above the salary of the average college graduate. Based on these assumptions, the ROI for the DPM degree would certainly be well worth the investment. This means that future practitioners should be able to do well financially—especially if they live within their means—in spite of the significant debt they are likely to have when starting out.

Managing debt and maintaining good credit is an essential skill that everyone needs to develop to succeed in today's world. It is important to understand that when you take on student debt to obtain your DPM degree, it is to enter a fulfilling career for which the cost can be justified. Paying back that money might result in stress for some individuals, but having a better understanding of the justification for that debt and a strategy for managing it can make a difference in the level of stress associated with its payback. Have confidence that in your chosen specialty, sooner or later, the money can be fully repaid. At that point, you will be in the enviable position of deciding how best to allocate the money that had been previously dedicated to those loan payments as you proceed in the future. Then you will appreciate the value of saving and investing 50% of your former debt payments and enjoy spending the other 50% any way you choose. **PM**

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