



# Tasik Financial Strategies LLC

Independent Financial Planning and Wealth Management  
www.tasikfinancial.com

## Managing Your Student Debt

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# Managing Your Student Debt

Guiding our Clients to Intelligent Financial Decisions™



**Tasik Financial  
Strategies LLC**

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[www.tasikfinancial.com](http://www.tasikfinancial.com)

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## Overview

### Part 1

- Financial Planning
- Budgeting
- Understanding & managing education debt

### Part 2

- Protecting yourself by managing risks
- Investment basics
- Saving for retirement





## Dentists by the Numbers

- According to the American Student Dental Association (2013 study):
  - 75% of dental students will have more than \$100,000 of debt
  - The average dental student graduates with \$241,079 of debt
- According to a recent study by CSDS (2015) in CT:
  - 79% of dentists graduate with education debt
  - The average dental student graduates with more than \$100,000 of debt and as high as \$365,000 of debt
  - The average interest rate is 4% with a high of 8%
- According to a 2013 US News and World Report survey, the average dentist earned a median salary of \$146,340 with the best paid exceeding \$187,999 and the lowest paid earning less than \$72,240.



## Take Away Resources



It's not just a handy bottle opener, its an 8GB flash drive with a copy of this presentation and several others providing more information on the topics we'll be discussing tonight...  
***so crack them open and crack one open!***



## Financial Planning

- A process, not a product
  - Establish & prioritize your goals
    - Needs
    - Wants
    - Wishes
  - Assess your current situation
    - Budget
    - Savings habits
    - Liabilities
    - Investments
  - Make financial projections around your goals
  - Chart your course & plot your changes
  - Understand and plan for risk
  - Implement your plan
  - Review regularly





## Budget

- **NOT** a dirty word
- A plan for saving and spending the money you make each month
- A tool everyone needs
  - Organizes your income & outflows
  - Customizable to your needs
  - Provides peace of mind
  - Helps you stay in control of your money
  - Makes decisions easier to make
  - Gives you the power to deal with bumps in the road
- Helps you to live within your means & achieve your goals





## What's in a budget?

- Income
  - Salary
  - Bonus
  - Interest and investment income
  - Gifts
  - Other...
- Taxes
  - Federal, State, FICA, Medicare
- Other Deductions
  - 401(k) and/or other retirement plan contributions
  - Insurance
  - Other benefits





## What's in a budget?

- Expenses

- Fixed

- Mortgage, rent, loans, insurance, etc.

- Variable/Flexible

- Food, entertainment, clothing, charity, cable, gas, etc.

### Income

- (Taxes + Other Deductions)

= Disposable Income

- (Fixed + Variable Expenses)

= Personal Working Capital



## Personal Working Capital

The money you have left after meeting all of your obligations that you can use to invest in yourself and in your future.

The more working capital you have the greater your likelihood of long term success.





## Budgets Help You Make Decisions

\$8/day or \$240/month



+



**VS.**

\$4/day or \$120/month



+



+



Savings of \$1,440/year which could be used to repay student loans





## Understanding Costs = Better Decisions



**Going to the Movies 2x times per month**

\$45/trip or \$1080/year

**VS.**



**NETFLIX**

\$9/month or \$108/year



**Brown Bagging**

\$5/day or \$1305/year

**VS.**

**Deli Lunch**

\$10/day or \$2610/year







## Understanding Student Loans: Cost

- **Factors that contribute to their cost:**
  - Interest rate; and
  - Capitalization policy
- **Interest:** the cost to use somebody else's money
- **Capitalization:** the addition of any unpaid (accrued) interest to your loan
  - You end up *paying interest on interest*



## Repayment Plans

- **These plans are available for direct loans and for Federal Family Education Loan (FFEL) Program Loans**
  - Standard Repayment Plan
  - Extended Repayment Plan
  - Graduated Repayment Plan
  - Income Driven Repayment Plan
  - Income Sensitive Repayment Plan
- **Private loans are often less flexible. You need to check with each lender to see what repayment plans they might offer**



## Repayment Plans – Standard & Extended

- 1) Standard Repayment – Equal payments through the term.
  - The “default” option for most loans, if you do not inform the servicer otherwise
  - Higher payment amounts as payments are fixed for up to 10 years or between 10 and 30 for consolidated loans
  - Lower interest cost since principal is repaid faster
- 2) Extended Repayment – Fixed or graduated payments
  - Allows you to stretch your repayment term from 10 years to up to 25 years.
  - Must meet the following requirements:
    - Outstand balances in excess of \$30,000 on either FFEL or Direct Loans
    - All loans must have been issued AFTER 10/07/1998 and no outstanding balance on a FFEL or Direct Loan as of 10/07/1998
  - Generally lower monthly payment vs. Standard or Graduated
  - Significantly higher interest payments due to longer term



## Repayment Plans - Graduated

- 3) Graduated Repayment – Payments start out smaller and increase every two years over the repayment term.
  - Higher payment amounts versus Income-based loans as payments are fixed for up to 10 years or between 10 and 30 for consolidated loans
  - Useful if you have an expectation that your income will increase steadily over time
  - Payments:
    - Will never be less than the amount of interest that accrues between your payments, and
    - Won't be more than three times greater than any other payment





## 4) Income Driven Repayment Plans

	Payment Amount	Repayment Period	Eligibility
<b>Income Based (IBR) after 07/01/2014*</b>	10% of your discretionary income, but never > 10-year Standard amount	20 years	Payment must be < what you would pay under Standard Plan
<b>Income Based (IBR) prior to 07/01/2014*</b>	15% of your discretionary income, but never > 10-year Standard amount	25 years	Payment must be < what you would pay under Standard Plan
<b>Pay As You Earn**</b>	10% of your discretionary income, but never > 10-year Standard amount	20 years	Payment must be < what you would pay under Standard Plan
<b>Income Contingent (ICR)</b>	Lesser of a) 20% of discretionary income or b) amount paid on fixed plan over 12 years income adjusted	25 years	No initial income eligibility. Pymt based on family income and size. Can be > than Standard payment

\*For the IBR Plan, you are a new borrower on or after July 1, 2014, if you had no outstanding balance on a William D. Ford Federal Direct Loan (Direct Loan) Program loan or Federal Family Education Loan (FFEL) Program loan when you received a Direct Loan on or after July 1, 2014. (Because no new FFEL Program loans have been made since June 30, 2010, only Direct Loan borrowers may qualify as new borrowers on or after July 1, 2014.)

\*\*Must be new borrower as of 10/01/2007 and received a disbursement of a direct loan on or after 10/01/2011



## 4) Income Driven Repayment Plans

- Annual income reporting
- Payments subject to annual revision
- IBR and Pay As You Earn can NEVER exceed 10 year Standard Payment but ICR can exceed Standard Payment
- Can lower your payment but if you extend beyond 10 years you will likely pay more interest
- May be subject to income tax on amounts forgiven at the end of your repayment plan for income-driven plan



## Repayment Plans – Income Sensitive

- 5) Income-Sensitive(FFEL)/Income-Contingent(DL) Repayment – Based on documentation of your expected income, repayment is based on a percentage of your monthly gross income *from all sources*.
  - Monthly payments are increased or decreased annually based on your annual income
  - Requires annual application
  - Helps those with financial hardship or those with low incomes that need assistance making payments



## Deferment and Forbearance

- **Deferment** – A period of time when repayment of Principal & Interest is temporarily delayed
  - Subject to various circumstances, interest may or may not be accrue, application required
- **Forbearance** – Stopping or reducing payments for up to 12 months
  - Interest will always accrue.
  - Discretionary – for financial hardship and illness
  - Mandatory – Serving in medical or dental residency and you meet specific requirements, total amount you owe exceeds 20% of your total monthly gross income, serving in a national service position, performing teaching that would qualify for teacher loan forgiveness, qualify for partial repayment under Dept. of Defense Student Loan Repayment and you are a member of National Guard and have been activated but are not eligible for military deferment





## Capitalization & Repayment

- Capitalization – When interest that accrues while you are not making payments is added to the loan balance and is capitalized before you begin making regular payments. Can significantly increase the cost of borrowing.
- Have a **PLAN** to repay your debt as quickly as possible.
- Include the repayment schedule in your budget
- Consider working with a **CERTIFIED FINANCIAL PLANNER™** to help you create a budget and a repayment plan



## Managing Your Debt

### Interest

- If you cannot service all of your debt at once, pay down high-rate debt first.

### Capitalization

- Pay off accruing interest prior to capitalization with partial or full interest only payments
- File deferment forms on time!

### Important!

Be an educated borrower. Understand the terms, conditions and policies of every loan you take and each lender from whom you borrow.

If you created credit card debt while a student, it's part of your student loan debt and often has the highest interest rate.

Quantify, even in your mind, how much it costs to delay repayment of your loans AFTER you complete your residency.



## Managing Your Debt

- Stop building new debt!
- Grace Periods: Take advantage of grace periods on subsidized lower rate loans to make larger payments on higher rate loans, if available. Generally, this is on credit card debt.
- Deferments: Utilize deferments, if eligible, to delay payments on lower rate loans while making larger payments on higher rate loans if you cannot afford to pay back both concurrently.



## Managing Your Debt

- **Direct Loan Public Service Forgiveness**
  - Only for Direct Loans
  - Requires 10 years work for a 501(c)(3) organization, public health, government, military, or public education WHILE making required payments to DL
  - Is not considered taxable income
- **Borrower Benefits**
  - Some lenders offer benefits like money back, reduced rates, reimbursed fees, etc. in exchange for uninterrupted timely payment or letting them debit from your bank account. Check with each lender to see if you have benefits and how to qualify.





## Managing Your Debt

- **Tax Deductible Student Loan Interest\***
  - You can reduce your income subject to tax by up to \$2,500
  - While this benefit phases out with incomes above \$80,000 (single) and \$160,000 (married), it can help you as a resident
  - There is no penalty to make interest payments as a resident nor does it effect your grace period, deferment or forbearance status!
  - It does REDUCE your overall cost of borrowing and it may be tax deductible, so it is a smart thing to do.
- **Federal Loan Consolidation**
  - This is now a very complex area and you should consult with your lenders and perhaps even a professional, to learn more before you take any action.

\*You should consult your tax advisor regarding tax deductions and your personal situation.



## Managing Your Debt

- Avoid Delinquency and Default
  - Stay organized and in touch.
    - Post deadlines & reminders on your calendar
    - Keep lenders aware of address changes, etc.
    - Utilize email to receive statements and notices
  - Delinquency aka late payments
    - May be reported to credit agencies
    - Will likely force you to forfeit any borrower benefits
  - Default – nonpayment after 270 days
    - Loan becomes payable **IN FULL**
    - Wages may be garnished
    - Schools may withhold your records
    - Will be on your credit report for at least 7 years



## Steps to Take if You Cannot Pay

Call your servicer as soon as you know there might be a problem!

They are aware of all of the options available to you and can help you devise a plan to avoid default.





## Student Debt and Bankruptcy

- Requires proof of “undue hardship” to be wiped out in Chapter 7 or Chapter 13 bankruptcy
- Burden of proof is on the borrower
- It is very uncommon to see student debt wiped out in a personal bankruptcy







## Student Debt and Death of Borrower

- If the borrower dies Federal student loans will be discharged.
- Private Loans are more complex and subject to individual lender policies. Co-signers may still be held responsible for loans after the student dies and in community property states a surviving spouse can be held liable for the loan balance.\*
- If you have loans you think may be subject to repayment by your estate and/or heirs you should consider life insurance to transfer this risk.

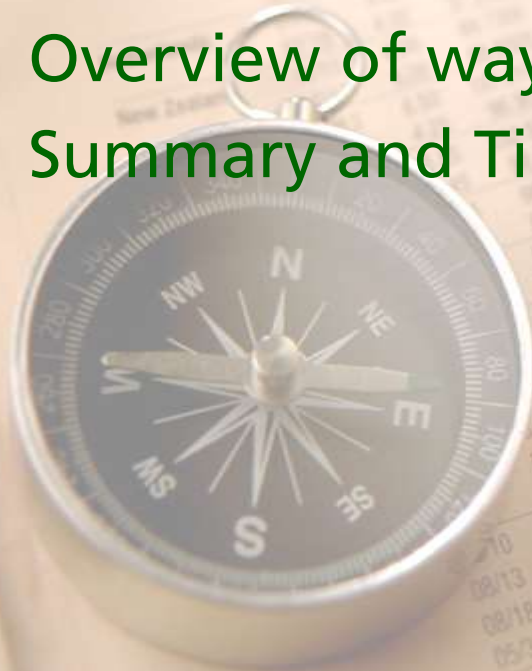
\*You should consult and estate attorney regarding your personal situation.



## Part 2

# Risk Management & Investments

- Understand risk and risk management
- Overview of basic investment type
- Overview of ways to save for retirement
- Summary and Tips





## Risk

- **Risk:** A situation that might lead to adverse consequences (i.e. risks of speeding include tickets, higher chance of accidents, higher insurance rates, injury or death to self and others, etc.)
- **Hazard:** A situation which poses a threat to life, health, property or environment (i.e. oil slicked road, flying your own plane, etc.)
- **Risk Management:** A systematic process for defining and managing your risks



## Ways to Manage Risk

- **Avoid** – Change your behavior to avoid activity that would cause the risk. (stop flying your own plane)
- **Reduce:** Taking steps to reduce the severity or likelihood of the loss. (install a smoke alarm, asset protection strategies)
- **Transfer:** Shifting some or all of the adverse consequence of risk to a third party. (buying insurance, buying a warranty)
- **Retain:** Accepting all or part of the loss when it occurs. (insurance deductibles, self insurance)





## Common Insurance Policies to Transfer Risk

- **Auto and Home Owners:** Don't buy on price, buy on reputation for paying claims.
- **Disability:** Own your own policy, don't rely on group benefits.
- **Life Insurance:** When you have a family, protect them but consult with a CFP® to determine how much you really need and monitor over time as your needs will change
- **Review all coverage annually or anytime you have a significant change.**



## Investment Basics

- **Investing:** Redirecting resources from current consumption to future use. Specifically, a way to manage and accumulate money.
- **How does money grow?**
  - **Time** – Generally the more time you have the better your odds are of achieving growth from your investments
  - **Return** – Either in the form of interest or dividends or a capital gain when an asset is sold.
- **Inflation** – The erosion in purchasing power of money such that it buys less in the future



## Risk Tolerance

- Risk Tolerance – ability of an investment portfolio to bear losses.
- Personal Tolerance for Risk – a measurement of how comfortable an individual is in their ability to handle investment losses
- Personal Rate of Return – the rate of return that one needs to achieve their investment goals
  - Should be reasonable and consistent with your risk tolerance
- For example, Treasury Bills are considered very low risk while options and futures are considered highly risky



## Basic Types of Investment Vehicles

- Cash
- Stocks
- Bonds
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Other
  - Institutional Investment Strategies
  - Real Estate but NOT your primary residence
  - Commodities
  - Collectibles
  - Options and Futures





## Asset Allocation\*

- Asset Allocation - With a mix of asset classes in your portfolio (such as stocks, bonds, real estate and cash), you increase the probability that some of your investments will provide satisfactory returns even if others are flat or losing value.

*\*Asset allocation strategies do not assure profit or protect against loss in a generally declining market.*

Source: [www.finra.org](http://www.finra.org)



## Diversification\*

- **Diversification** - When you diversify, you aim to manage your risk by spreading out your investments. You can diversify both within and among different asset classes. You can also diversify **within** asset classes. In this case, you divide the money you've allocated to a particular asset class, such as stocks, among various categories of investments that belong to that asset class.

*\*Diversification strategies do not assure profit or protect against loss in a generally declining market.*

Source: [www.finra.org](http://www.finra.org)



## Saving for Retirement

- Start early
- Set goals and develop a plan
- Use tax advantaged investments
  - IRAs
    - Traditional
    - Roth
  - 401(k)
- Monitor and revise





## Saving for Retirement

- Start early
  - Time is one of your strongest allies thanks to compounding
  - Allows you to weather multiple market cycles
- Set goals and develop a plan
  - Estimate how much you will need based on current income
  - Set a target year to retire
  - Develop investment plans based on your risk tolerance
  - Implement your plan
  - Monitor plans annually and revise as needed







## Retirement Savings Vehicles: IRAs

- IRAs – Individual Retirement Accounts
  - Traditional (Tax deductible): Investments made using pre-tax dollars. Can be invested across various asset classes. Investments grow tax deferred. Taxable withdrawals MUST begin by age 70 ½.
- ROTH IRAs
  - Investments made using after-tax dollars. Can be invested across various asset classes. Investments grow tax deferred. No requirement for withdrawal during investor's lifetime. Withdrawals made after age 59 ½ are not subject to Federal income tax. Qualified distributions permitted after the 5-year period beginning with the first taxable year for which a contribution was made to a Roth IRA. Subject to income limitations and other factors.
- Maximum contribution is \$5,500 with an additional \$1,000 catch up if you are over age 50 or over. (2015)



## Retirement Savings Vehicles: 401(k)'s

- Employer sponsored plans often with a matching component to encourage participation
- Traditional
  - Traditional (Tax deductible): Investments made using pre-tax dollars. Can be invested across various asset classes. Investments grow tax deferred. Taxable withdrawals MUST begin by age 70 ½.
- ROTH 401(k)
  - Investments made using after-tax dollars. Can be invested across various asset classes. Investments grow tax deferred. No requirement for withdrawal during investor's lifetime. Withdrawals made after age 59 ½ are not subject to Federal income tax. No income limitations. Employer match will be in a traditional tax deferred account.
- Maximum salary deferral is \$18,000 with an additional \$6,000 catch up if you are over age 50 and over. (2015)



## Why work with a professional?

- Establish financial and personal goals and create a plan to achieve them;
- Evaluate your financial well-being with a thorough analysis of your assets, liabilities, income, taxes, investments, and insurance;
- Identify areas of concern and help you address them by developing and implementing a financial plan that emphasizes your financial strengths while reducing your financial weaknesses;
- Review your plan periodically to accommodate your changing personal circumstances and financial goals; and
- Provides you with a personal CFO so you can stay focused on developing your medical career/ practice





## Ideas to Consider

- Live more like a student for an extra five years to tackle your debt more aggressively.
- If you are married, live off one income and use the other to pay down debt. If you are single, live with your parents...
- Delay buying a practice until after you have paid down a meaningful portion of student debt.
- Beware of “shiny metal objects”. That new tool may be awesome but it will probably be more awesome 3 to 5 years from now!
- Take advantage of resources from the ADA, the CSDS, the ASDA and other societies.





## Summary

- Educate yourself about money and debt.
- Plan early, update regularly, and balance priorities.
- There is no shame in living like a resident while you are a resident BUT you probably won't want to live that way 15 years into practice!
- It's better to OWN your possessions than to allow them to own YOU.
- Live within YOUR means, not somebody else's!
- Consider hiring professional expertise, your patients do.
- Trust, but verify.
- They probably won't stop selling BMW's and Porsche's so don't rush to buy one after residency! And imagine what Tesla will be up to!

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## Questions?



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