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INFOpak

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Managing Student Finances

OFFICE OF STUDENT AFFAIRS

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Note: This publication is intended to provide general background information on financial planning issues to dental students. It does not constitute policy of the American Dental Association, nor is it intended to provide legal, accounting or financial advice. Appropriate professionals should be contacted for such services.

Introduction

No doubt about it, attending dental school represents a serious investment of time and money.

Let's look at some figures from recent surveys conducted by the American Dental Education Association (ADEA) (*Survey of Senior Dental Students: Graduating Class 2006 and 2007*).

- The average student who graduated from dental school in 2006 entered school with educational debt of \$26,365
- More than 90% of dental students graduate with debt
- Almost 45% of 2007 dental school graduates had student debt over \$175,000

But wait, there's more

According to the *ADA 2006 Survey of New Dentist Occupations*, average income for new dentists (those who are fewer than ten years out of dental school) is promising:

Private Practice (More than 32 hours/week) \$179,215
Private Practice (Fewer than 32 hours/week) \$113,718
Dental School Faculty/Staff \$ 108,645
Federal Dental Service \$ 84,168
Graduate Student/Intern/Resident\$ 38,819
Other Health/dental organization staff member \$104,953

Because your financial future is so promising, you may find a lot of companies are interested in lending you money while you are in school.

Borrowed money can feel different than money earned in a paycheck. Borrowed money can feel loose, like something you are free to enjoy—it doesn't feel like real money. .Of course borrowed money *is* real money that will have to be repaid in the future (along with the accrued interest!)

The more you borrow today, the more future earnings you will need to repay the loan.

The financial aid officer can assist you in understanding your school's estimated cost of attendance (COA), your loan options and the implications of those options.

Good record keeping today means less hassle tomorrow. Whether you maintain them electronically or on paper, retain a list of all your loans including:

- The cost (interest rate, capitalization, fees)
- Information about grace, deferment and forbearance options
- Copies of applications, promissory notes and correspondence from lenders

Subsidizing, and Snowballs

As you know, loans charge interest. But the interest rate clock starts ticking at different times for different loans.

Subsidized loans have no interest cost to the borrower during school, grace, and any authorized deferment periods (someone, usually the government, is paying for or subsidizing the loan during that time).

Unsubsidized loans charge the borrower interest from the date of disbursement.

Federal loans can be either subsidized or unsubsidized. Private education loans, from a bank or other financial institution are almost always unsubsidized.

Who cares? This is where the snowballs come into the picture.

All that interest begins to accumulate interest which, in turn, accumulates interest, as part of a process known as *compound interest*. Your debt is like a snowball rolling down a snowy hill, getting bigger the longer it has to roll. Unsubsidized loans have a longer time to roll down the hill and get bigger.

What About Scholarships?

Maybe you've researched scholarships (if you haven't, there's some resources in this section) and noticed that many of the scholarships don't look very large, especially when compared to the cost of attending dental school.

Here's another way to look at the situation. Let's take an imaginary example, the Big Grin Scholarship, good for \$2,500 for each of the four years of dental school. Without the scholarship you could write a check for \$111 every month for the next ten years!

This example assumes \$10,000 (four years at \$2,500) borrowed at 6% interest for ten years—the monthly payment works out to \$111/month. Even small grants and scholarships can help your long-term financial picture.

The American Student Dental Association (ASDA) maintains a wealth of scholarship and loan information online for ASDA/ADA members in chapter 3: Money Matters of their publication *Getting Through Dental School*. Members can find the PDF at www.asdanet.org/_PublicationPage.aspx?id=518

More Money for Education

The Health Professions Scholarship Program (HPSP) offers a paid medical education in exchange for service as a commissioned medical department officer in the armed services. The United States Army, United States Navy and the United States Air Force all offer HPSPs—contact the branch that interests you.

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

The United States Navy
<http://www.med.navy.mil/sites/navmedmpte/Pages/default.aspx>

The United States Air Force
www.airforce.com

The National Health Service Corps (NHSC) is a program where the federal government forgives a pre-determined portion of student loans in exchange for service in an underserved community. Find more information, including an FAQ about the loan

repayment program at nhsc.bhpr.hrsa.gov/index.asp

In addition to the NHSC at the federal level, many states offer programs to encourage dentists to practice in underserved areas. You can find contact information for all Constituent (State) Dental Societies at www.ada.org/goto/constituents.

"This will go on your permanent record"

Whether you are looking at education loans or other forms of credit—credit cards, auto loans, even utility bills—there is one important rule: Make payments on time, every time.

Late payments or non-payments can be reported to your credit history—your “permanent record.” Most credit agencies keep your credit history for seven years.

So a missed payment today could result in a poor credit history tomorrow, which could make future loans --to buy a practice, for instance, or a home mortgage-- difficult, expensive or even impossible.

Here are two good words that describe bad situations:

Delinquency is late payment.

Default means 270 days of repayment delinquency. In addition to putting your credit at great risk, it could even jeopardize your license in some states.

And one final piece of scary news: student loans are almost never discharged during bankruptcy proceedings.

Investigate yourself--check your own credit report regularly

Mistakes happen! Check your credit report for accuracy – are all transactions for you, or for someone with a similar name or social security number? Does it show a delinquency that is yours, but you’ve already paid? Correcting errors on your credit report can take several months, so it’s smart to monitor your report on a regular basis.

You can get a copy of your credit report by contacting any of the following agencies.

Equifax
800.685.1111
www.equifax.com

Experian
888.397.3742
www.experian.com

Trans Union
877.322.8228
www.transunion.com

For more information, or to request your free annual report online, visit www.annualcreditreport.com. Hint: have you memorized the catchy TV commercial for a different online credit report Web site? That company is actually a subscriber-based service and is not, in fact, free!¹

¹ Information from the Consumer Reports Web site Consumerist.com. Find the original at: <http://consumerist.com/5064518/yet-another-reader-scammed-by-freecreditreportcom>

Under the FACT ACT amendments to the Fair Credit Reporting Act, consumers are entitled to one free Personal Credit Report in a 12-month period from each agency. To maximize this benefit, request your credit report from a different agency every four months.

My interest rates went up – what’s the deal?

“Universal Default” means a lender, such as a credit card, may penalize you for a late payment you made to *someone else*. For instance, a late cell phone bill might trigger universal default on a credit card, even if you never use that card to pay bills! Universal Default is controversial and some lenders do not apply this provision. However, the best strategy is always to make payments on time, every time.

A Spending Plan to the Rescue!

A spending plan isn’t a recipe for drudgery. It’s a roadmap that allows you to control your finances, instead of your finances controlling you. Here’s how to get started:

First, estimate your expenses. There’s regular expenses-- rent, utilities, insurance, anything that comes with a bill. Everything else—groceries, household, entertainment, miscellaneous, is probably a guess. That’s okay—just make a note of your guesses.

Next, track your actual expenses. Everything from a credit card payment to a parking meter, write it down. You’ll use this data to refine your spending plan. Maybe you estimated that you spend \$35 a week on groceries when the real total is closer to \$75.

Ultimately a spending plan helps you stay true to yourself, not just stay within your means. For instance, maybe you love the movies, but you’ve stopped going because it seems too expensive. If your expense tracking shows that you spend \$25 a week grabbing breakfast on the run, consider eating breakfast at home and spending the money where you enjoy it—at the box office.

Most spending plans can accommodate a double latte, a new pair of shoes and concert tickets, but your plan may not accommodate all of them at the same time.

Adjust as you go, lather, rinse, repeat. And congratulations! These financial planning skills will serve you throughout your professional life!

Stop (Identity) Thief!

Use these tips to help safeguard your financial information:

- Use a shredder to destroy credit card statements. Throw those pre-approved card offers and high-interest “checks” from your credit card company in the shredder too.
- When creating passwords and PINs avoid the last four digits of your Social Security number, mother’s maiden name, birthday, middle name, pet’s name, consecutive numbers or anything else that could easily be discovered by thieves. It’s best to create passwords that combine letters and numbers.

If the worst happens, the Federal Trade Commission (FTC) has a site for those victimized by identity theft at www.consumer.gov/idtheft.

Retirement (or Making the Snowball Work for You)

ADA Members Retirement Program

Tax deferred retirement accounts are one of the most effective ways of saving for retirement. You not only don’t have to immediately pay taxes on the money you put in, but

your investment earnings will compound tax-free until you reach retirement age and start withdrawing the funds. Taxes are deferred until withdrawal of the funds, and penalties can be incurred for early withdrawals. Through your ADA membership, you have a variety of tax-deferred retirement accounts from which to choose. The ADA Members Retirement Program offers a Profit Sharing Plan with a choice of four 401(k) options - a traditional 401(k), the SIMPLE 401(k), the Safe Harbor 401(k) and the Owners 401(k) for dentists who have no employees. You also have 29 investment options for investing your money including target date and asset allocation portfolios, a wide range of portfolios subadvised by investment managers including Alliance Capital, Templeton, Van Kampen, JP Morgan, T. Rowe Price and Lord Abbett and guaranteed rate account options offered by AXA Equitable Life Insurance Company. For more information you can call the Plan Administrator, AXA Equitable, at 1-800-523-1125.

ADA-Endorsed Individual Retirement Account

The ADA-endorsed IRA Program offers Traditional or Roth IRAs, Rollover IRAs, and for business owners, SEP or SIMPLE IRAs. The ADA-endorsed IRA offers you a choice of 16 investment options. For information, call the Plan administrator, AXA Equitable, at 1-800-248-2138.

Resources

American Student Dental Association
800.621.8099, ext. 2795

- www.asdanet.org
- *ASDA Handbook: Getting Through Dental School: ASDA's Guide for Dental Students* contains comprehensive scholarship, grant and loan information.

Financial Aid and Scholarships

- www.federalStudentAid.ed.gov

This government site gives information on both federal and non-federal sources of financial aid and includes an online FAFSA application.

- www.dl.ed.gov

This government site allows you to service your federal loans, including make payments, change billing options, and enroll in electronic services.

- www.fastweb.com

This Web site is operated by the same company that owns the Monster online job search engine. The site offers free information on scholarships for higher education and includes various calculators (www.finaid.org/calculators) to help with estimating repayment plans, as well as glossaries to explain loan terms, information about plans that offer loan forgiveness in exchange for service, and tips on how to spot scholarship scams.

- www.finaid.org

Financial Aid Office

- Contact the financial aid administrators at your school for additional options.

Loan Repayment Programs:

Army

- www.goarmy.com

Navy

- www.navy.com

Air Force

- www.airforce.com

U.S. Department of Veterans Affairs

- www.va.gov

U.S. Public Health Service (Includes Federal Bureau of Prisons, Health Resources and Services Administration, Indian Health Service, National Institutes of Health and U.S. Coast Guard.)

- www.usphs.gov

National Health Service Corps

- www.nhsc.bhpr.hrsa.gov