# Untangling 5 confusing terms related to physician personal finance

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As physicians transition from training to practice, effective management of your finances requires a clear understanding of some foundational concepts that can help drive success over the long term.

Experts from Laurel Road, selected by the AMA as a partner to help you navigate your financial future, offered insights on a few confusing terms that can affect a physician's financial future. Here's a look at some key terms to keep in mind.

## The 50/30/20 rule

The 50/30/20 rule is a simple budgeting method that residents are often advised to follow. It allows for expenses to be divided into three buckets—50% of your income on essential needs (housing, groceries, loan repayment); 30% on nonessential items (dining and entertainment); and 20% of your money to savings.

For young physicians, following the 50/30/20 rule even after residency can help you grow your savings as your income makes a significant jump.

"The right budget doesn't have to feel restrictive, if you know how you're spending your money," said Kaitlin Walsh-Epstein, Laurel Road's chief marketing officer. "Whichever method you use, setting up a budget early can keep you tracking toward your financial goals—even early in your career."

## Compound interest

Compound interest can work both ways. On investments and savings, it helps you build wealth. The bigger danger related to compound interest, however, is related to student loans. If your loans charge compound interest—and it's important to understand your loan terms—a lender can charge interest on your balance and on unpaid interest that accrues over time.

"Managing your debt will probably seem like a daunting task, especially in the beginning," said Chirag Shah, MD, an anesthesiologist who works with Laurel Road in an advisory capacity. "But the sooner you create a plan to manage your student loans and/or pay off credit card debt, the sooner you can focus on other financial goals."

## Debt consolidation

The Public Service Loan Forgiveness (PSLF) program offers significant loan-relief options. To qualify, however, physicians need to work in a nonprofit setting for 10 years. As you move from residency to practice, your career may take you out of one of those settings. Whether you're going into private practice or remaining at a nonprofit, consolidating your student loans may be a prudent option to consider, especially for federal loan repayment programs.

"The right plan will depend on your personal circumstances, but a student loan specialist can help you explore your options during or after residency," Walsh-Epstein said. "And there may be certain advantages to consolidating your loans sooner—especially given all the changing regulations around potential forgiveness."

## Lifestyle creep

As a young physician, you are going to see your salary take a significant jump from what you were making during residency and fellowship. A temptation to start splurging on big ticket purchases is only natural. Still, keeping your spending in check—and avoiding overspending—can pay big benefits down the road.

"It's much easier to avoid spending more now than it is to cut back later," Dr. Shah said. "Most physicians are typically dealing with a sizable student loan debt, even with a significant jump in salary, so planning ahead can help you avoid lifestyle creep before it begins. So, before you take on a hefty mortgage or buy a luxury car, make sure your daily financial decisions line up with your overall financial goals."

## Credit utilization

Credit utilization refers to the amount of debt you owe compared to your overall credit limit. It typically makes up 30% of your credit score.

“While there’s no single magic number for credit limits, it’s recommended that you keep your credit utilization under 30%,” Walsh-Epstein said. “Med school debt may mean your overall debt-to-income ratio is higher than the average, so checking and, if possible, lowering your credit utilization, by paying off credit cards or other debts, can definitely help improve your credit score.”