Premeds: Complete this financial checklist before medical school

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If you’re contemplating entering medical school, your career is likely top of mind, and that makes sense. But what about your financial future?

For premeds, there are several key financial decisions and realities on the horizon. What are the biggest ones to keep tabs on? These five tasks are keys to any premed’s financial checklist.

Learn about loan forgiveness

The career path you take will ultimately shape whether loan forgiveness is an option for you. But if you’re going to take loans—and the vast majority of medical students are taking loans in excess of $100,000—you should understand what’s out there.

One popular plan is the Public Service Loan Forgiveness Program (PSLF), which is designed to forgive loan balances after 120 payments—typically, 10 years of payments—for physicians and others who work at nonprofit entities.

Watch your credit score

If you’re heading into medical school, you are unlikely to have a long history of credit. But you can work on improving your credit score—which could factor into your loan-interest rate, among other key financial decisions down the road—by checking into your available credit and trying to create more of it. “Let’s say you have a $10,000 maximum credit limit, and every month you spend $5,000 on it, then you pay it off,” said Alex Macielak, of Laurel Road. “It’s not like you’re racking up credit card debt; you’re living responsibly. Still, you are using more than 30% of your available credit limit, that could
drag on your credit score.”

“A really easy step you can take to improve that credit score is to call your credit card company and ask them to raise your limit to the point where you are using less than 30% of it every month, just note that your card issuer may do a hard inquiry to review your request, which could lower your score a few points in the short run,” Macielak said.

**Minimize bad debt**

Your loans are likely to put you in a hole, but the interest rates on them are likely to be far more reasonable than other types of debt one can accrue.

“There’s good debt and bad debt,” said Chirag Shah, MD, an anesthesiologist and AMA member who spoke during a recent AMA expert panel on medical student-loan debt. “If someone said, ‘I'll give $1 million right now and you can pay me back at 1.8% interest,’ I’d say, ‘Please give me more.’ Inflation annually is at about 2%. That means that your money in the future is worth less than it is today. So if someone is giving you money today at such a low rate, that is actually great debt to have.

“If your credit card company said, ‘Hey, here’s $20,000. Pay us at 20% a year. That's bad debt.’ You just have to be really smart,” Dr. Shah said.

**Prepare a budget**

Budgeting isn’t really optional during medical school and your residency—it is imperative. Student loans typically come in an annual chunk that must be spread evenly to make it through the year. A more detailed budgeting plan will offer financial flexibility as you transition from medical school to residency and beyond.

“I wasn’t so great at [budgeting] the first two years of medical school, getting into a difficult financial situation this past summer,” said Diane Chen, a third-year medical student at Michigan State School of Medicine when she spoke with the AMA. “Since then, I’ve used a couple tools. I’m actively checking my credit score and managing it. I’m using this app called Clarity that finds everything that you subscribe to and it breaks it down in categories of how you spend your money. I’m kind of looking at that on a daily basis and always checking my account and dividing up a monthly allowance.”

**Speak to a professional**
A consultation with a financial adviser might not cost you anything and can offer some great insight for the challenges ahead.

Allan Phillips, a certified financial planner with Taylor Wealth Solutions who has worked extensively with physicians at all levels, believes it is never too early to chart your financial future.

“Start equipping yourself now with expert financial knowledge and advice so you can build the groundwork for a successful financial future in which you’re not stressing over debt repayment, and whether you’ll have enough resources to support elderly parents, send your kids to college and retire comfortably,” he said in an AMA Insurance’s report on medical student financial preparedness.