

Basic Budget Goals Breakdown for Residents

Income/Money In:

- Housestaff stipend/salary (gross & net)
- Personal Cash/Savings/Investments
- All Other Sources

Expenses/Money Out:

50% - 70% Must Have Committed Expenses:

- Rent/Mortgage
- Insurance premiums
- Utilities
- Basic food needs (dine in/groceries)
- Taxes (property & other)
- Personal care
- Student loan payments that cannot be deferred/postponed
- Transportation
- Child care
- Child-support or alimony payments
- Ongoing contractual obligations
- Charitable giving

20% - 30% - Selected Wants:

- Cable TV
- Nonessential food purchases
- Dinners out
- Babysitters
- Personal care
- Recreational fees and gear
- Entertainment
- Birthday presents/gifts
- Vacations
- Magazine subscriptions

10% - 20% - For Savings/Investment Goals:

- Emergency fund savings in an interest bearing federally insured account first accumulating \$500 then building to 1 – 3 month's of expenses
- Retirement contributions (IRAs, 401 Plans)
- College savings accounts
- Money-market accounts
- Other investments
- Payments in excess of monthly minimums to lower and eliminate high interest debt
- Irregular expenses (auto, medical, home repair/maintenance)
- Spare of the moment/just because
- Taxes for any loan forgiveness
- Ultimate goal to invest 15% - 20% of household income in equity investments

As with any financial, legal or tax program consult with your appropriate professional advisors. Managing debt may mean renegotiation of terms and rates with the lender of your private student loans and if absolutely necessary private student loan consolidation with the original or new lender. Managing debt may also entail federal/state loan service and forgiveness programs, military service, negotiations with employers and home refinancing or equity loans/lines of credit.

See MEDebt Solutions *The Art of Managing Medical School Debt* for Free Budgeting Tools - www.medebtsolutions.com <<http://www.medebtsolutions.com>>. You may also contact an experienced MEDebt Solutions consolidation counselors at ASLCC for a no obligation, no pressure review of your repayment options by calling toll-free **1-800-741-4704**. Be sure to reference AMSA.

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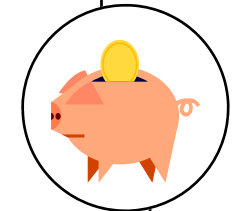
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Budgeting Essentials for Residents



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MEdebt Solutions Budgeting Essentials for Residents

Budgeting as a resident has similarities but is very different than budgeting as a student. As a resident you will be crossing the threshold from borrowing money and obligating future income to earning money and managing repayment. Hopefully, you have minimized your education borrowing and all other debt. However, as a medical school graduate you most likely will be over-leveraged with debt payments greater than the availability of money to make required payments – at this time. You will need to be committed to basic minimum living expenses that are more “student-like” than “doctor-like” so that you can begin to bring your debt obligations into a manageable balance with your income and create positive net worth where your assets are greater than your liabilities. Based upon American spending statistics, housing and transportation expenditures provide the most margin for cost reductions – in essence roommates/living at home and no new car.

In order for a highly indebted resident to begin creating positive net worth it is critical to formulate a budget (money in/money out plan) where personal and professional goals, your financial literacy quotient and debt comfort levels are priorities. The initial draft of the PGY1 resident budget should be developed before graduation so that it can serve as an “affordability” guide when relocating and making spending decisions for the newly acquired regular pay-check.

For most medical graduates, student loans will represent their largest debt obligation; with over 75% of indebted medical school graduates at or above \$100,000 and over 18% at or above \$200,000 in 2007. From your own research (National Student Loan Data System - www.nslds.ed.gov provides data on your federal student loans) and monthly payment calculations (loan repayment calculators can be found on the www.medebsolutions.com and www.bankrates.com sites), financial aid exist interview documentation and consultations with your financial aid office and with trusted and knowledgeable student loan consolidation counselors you should have and understand your repay-

ment options and payment amounts.

With income and student loan repayment, other debt, relocation and cost of living expense information in hand you should be able to create a “good and certainly not extravagant” PGY1 budget and life for yourself. Be prepared to do several revisions as you sort through student loan, other debt repayment and living expense scenarios in relationship to your income. Do remember that when budgeting, your gross salary/stipend will be subject to deductions, such as taxes, social security, Medicare, etc. Therefore only budget based upon your net income (take home pay), which is the amount available to you for loan repayment and all other expenses.

Also note and understand that contributions to certain retirement plans such as 401 (k) plans are made from pretaxed dollars so the affect on take home pay is less than the actual dollar contributed to the retirement account. Residents are strongly encouraged to take full advantage of such plans up to the maximum of the employer match which may be as much as a dollar-for-dollar or more. A \$0.25 employer match per dollar represents an immediate 25% return on you contribution.

On a regular basis, at least twice a year, preferably and even better monthly, you should review your budget. Compare your actual income and expenses with those you had projected and make necessary adjustment to income and/or expenses. You want to avoid deficits and manage your money so that you have something left over that can be used to further your savings and/or reduce the cost of high interest/bad debt by making additional principal payments to high interest/bad debt.

Next, continue to look toward the future, review your goals and timeline and project future income and expenses being sure to pay yourself by saving/investing. Financially, it is very important that you begin to build personal assets, net worth and improve your credit history and score; all vitally important to developing future long-term financial strength which will support your goals at the best interest rates and terms possible, thus lowering your cost. Highly indebted residents are strongly advised to NOT take on new borrowing! A resi-

dent's first financial priority should be to organize their debt in a manner that will allow them to manage their debt (make or officially postpone payments) and first save \$500 for those common emergencies and then work on saving \$1000 then at least three months of expenses even if this means taking longer to pay-off debt or making minimum payments on other low rate debt and smaller added principal payments on high interest debt.

As a resident you do not have a school approved budget to guide you. For most residents your take home pay is what you have to meet all expenses and begin building net worth

Deduction can consume as much as a third or more of your gross income. For example a 2007 PGY1 annual stipend of \$44,747 nets approximately \$2,685 per month in take home pay. The median 2007 indebted medical school graduate's debt of \$140,000, assuming the maximum Stafford loans of \$139,500 at 6.8% and \$500 of PLUS loans at 8.5% would require \$1,611 per month payments over the ten-year standard repayment plan, \$972 per month with a 25-year extended repayment plan and \$913 per month with a 30-year consolidation.

Every resident must decide how much of their take home pay they wish to spend on each cost item in their budget such as housing, food, transportation, entertainment and personal expenses. For most indebted residents, student loan repayment is an unrealistic/unmanageable budget option consuming as much as 30% to 60% of take home pay even when living a “student-like” lifestyle. But just as with everyone, bad things will happen if you do not make accommodations for your student loan repayment or if you allow your expenses to exceed your take home pay. Understanding repayment options, money and debt management strategies are imperative for residents if they are to rise about their over-leveraged debt impairment status. A budget is the main financial tool in organizing and managing this interactive symbiotic process.

As a resident your first savvy financial move should be to creatively reduce your living expenses and commit yourself to “living below your means.” Residents can use the following Basic Budget Goals Breakdown template and recommendations to create a budget.