



Financial Planning Issues

for Dental Students

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America's leading advocate for oral health

Financial Planning Issues

Let's face it—dental school is expensive. And while your education is an investment in your future success, the financial choices you make as a student will impact your career later. Take control of your money management now and stay on track for a bright financial future.

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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.

Over 77% of graduates have a debt over \$100,000

Source: Annual ADEA Survey of Dental School Seniors: 2009 Graduating Class

Educational Debt

The education debt of dental students is daunting and continues to grow. More than 90% of dental students graduate with debt. The debt amount varies greatly depending on whether attending a public or private school, as you can see in the table below. Over 77% of graduates have more than \$100,000 in debt while almost 50% have more than \$175,000. Although scholarships and grants are available to some, the main source of financial support is still loans.

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



Educational Debt for All Dental School Graduates

	2002	2003	2004	2005	2006	2007	2008	2009
Graduating Debt								
All schools	\$107,503	\$118,748	\$122,263	\$129,639	\$145,465	\$156,810	\$170,367	\$163,535
Public	\$85,840	\$93,622	\$99,553	\$104,483	\$124,700	\$136,047	\$142,671	\$140,831
Private & Private State-Related Schools	\$136,060	\$147,967	\$155,234	\$161,500	\$174,241	\$186,218	\$204,734	\$194,665

Source: ADEA Survey of Dental School Seniors 2009 Graduating Class

Credit Reporting

All forms of credit—student loans, credit cards, auto loans, even utility bills have one important rule: Make all payments on time, every time. Late payments or non payments can be reported to your credit history (your ‘permanent record’ of finances). Most credit agencies keep your credit history for seven years, so it’s easy to see how a poor credit history could affect future efforts to buy a practice or purchase a home.

Check your own credit report regularly

Mistakes can happen, so check your report for accuracy—are all transactions for you, or for someone with a similar name or social security number? Does the report show a delinquency that is yours, but that you’ve already paid? The process to correct 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 sending a written or online request to 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

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.

For more information, or to request your free annual report online, visit www.annualcreditreport.com. To maximize this benefit, you may request your credit report from a different agency every four months.

And finally, remember, it’s much easier to damage your credit score while in school than to improve it!

Safeguard your financial information

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 do not use 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.ftc.gov/idtheft.

Have loans? You're not alone. In fact, 90% of seniors reported the use of one or more loans to finance their dental education.

Source: Annual ADEA Survey of Dental School Seniors: 2009 Graduating Class

Loan Information

Be sure to contact the financial aid office at your dental school. The officer(s) will be available to assist you in understanding the school's estimated cost of attendance (COA), your financial options and their implications. When securing your financial aid, you should always discuss your minimal needs and the loan's future repayment. Exhaust eligibility for federal loans first before considering private loans. And always investigate scholarship options.

Subsidized vs. unsubsidized loans

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 (the interest is subsidized) during school, grace, and any authorized deferment periods. Someone (usually the government, is subsidizing the loan during that time.)

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

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



At 6% interest, it only takes 12 years for your debt to double.

Interest

Compound Interest

All that interest begins to accumulate interest which, in turn, accumulates interest in a process known as compound interest.

Compound interest is like a snowball rolling down a snowy hill, getting bigger and bigger as it goes. Compounding the interest on your savings and investments will grow your assets, increasing your personal wealth. On the other hand, compound interest on your debts will increase the total amount that you owe, impacting your financial picture.

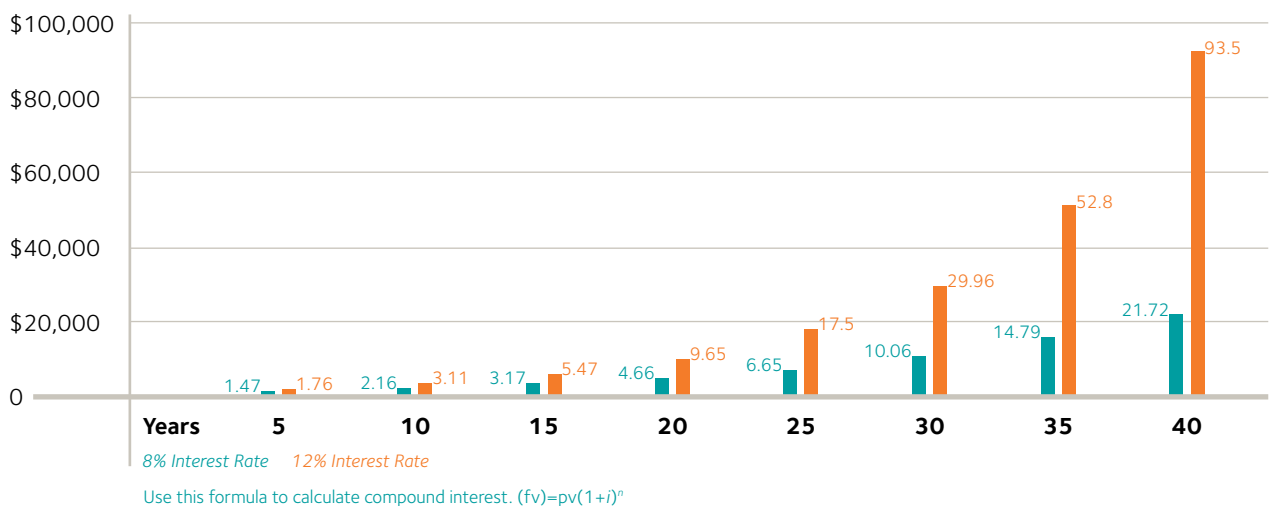
Figure 1 shows the effects of compounding over time at an interest rate of 8% and 12%. As you can see, money allowed to compound over time grows very rapidly.

Rule of 72

A quick and easy way to determine the effect of compounding is to use the “Rule of 72.” The “Rule of 72” determines the number of years it will take to double your money, or when borrowing—to double the amount paid. It works like this. The number of years required to double the money is 72 divided by the interest rate. Let’s say you have a credit card that charges 18% interest—72 divided by 18 is four years. If you have student loans at 6% interest —72 divided by six is 12 years. The important thing to remember is that you want to put the power of compound interest to work for you, not for those who loan you money.



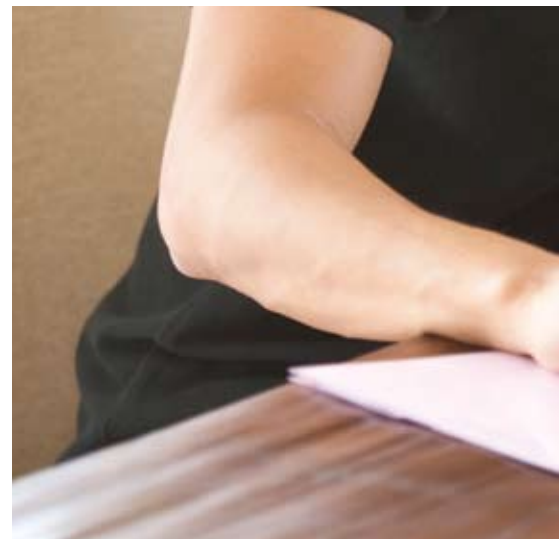
Figure 1
Future Value of Current Dollar



Loan Repayments

For every \$10,000 you owe, it can be another \$110 in monthly payments.

Another way that compound interest can affect you is through your loan repayments due as part of your student debt. Right now, these payments probably seem so far away that it is hard to even think about them. But once you graduate and any grace periods end, your lenders will expect repayment of these loans. To help you plan a repayment schedule, Figure 3 shows the factors that are used to estimate the monthly payment amounts on \$1,000 at various interest rates.



How to use this chart:

For example, if you owe \$120,000 and your loan is 8% for 10 years, take the factor 12.13 from the table and multiply it by 120 (because you owe 120 thousands—get it?). Your monthly payment is \$1,456. At 15 years, it's \$1,147. This amount repays both the principal and the compounding interest.

Figure 2
Monthly Payments on \$1,000

Years	4%	6%	8%	10%	12%	14%	16%	18%	20%
5	18.42	19.33	20.28	21.25	22.24	23.27	24.32	25.39	26.49
6	15.65	16.57	17.53	18.53	19.55	20.61	21.69	22.81	23.95
7	13.67	14.61	15.59	16.60	17.65	18.74	19.86	21.02	22.21
8	12.19	13.14	14.14	15.17	16.25	17.37	18.53	19.72	20.95
9	11.04	12.01	13.02	14.08	15.18	16.33	17.53	18.76	20.03
10	10.12	11.10	12.13	13.22	14.35	15.53	16.75	18.02	19.33
11	9.38	10.37	11.42	12.52	13.68	14.89	16.14	17.44	18.79
12	8.76	9.76	10.82	11.95	13.13	14.37	15.66	16.99	18.37
13	8.23	9.25	10.33	11.48	12.69	13.95	15.27	16.63	18.04
14	7.78	8.81	9.91	11.08	12.31	13.60	14.95	16.34	17.77
15	7.40	8.44	9.56	10.75	12.00	13.32	14.69	16.10	17.56



Repayment schedules for two different student borrowers paid over 10 years.

	Student A	Student B
Amount Borrowed	\$85,000	\$100,000
Length of Loan (Years)	10	10
Interest Rate	6%	6%
Monthly Payment	\$943.50	\$1,110.00
Total Amount Paid over 10 years (120 months)	\$113,220	\$133,200

As you can see, the larger the loan, the greater the impact on monthly cash flow. Many students are tempted to lower their monthly payments by extending the terms of their loans, for instance changing from a 10-year repayment schedule to 15 years.

Repayment schedules for two student borrowers paid over 10 and 15 years.

	Student A	Student B
Amount Borrowed	\$100,000	\$100,000
Length of Loan (Years)	10	15
Interest Rate	6%	6%
Monthly Payment	\$1,110.00	\$844.00
Total Amount Paid over 15 years (180 months)	\$133,200	\$151,920

While the monthly payments are smaller, the total amount paid is much larger. Remember, compound interest is like a snowball rolling down a hill; the longer it rolls, the bigger it gets!

Understand Delinquency and Default

Delinquency is late payment

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

“...Student loans are among the most ironclad debts, on par with child support, alimony and overdue taxes. They stick with you no matter what. Bankruptcy usually doesn’t provide relief, except in the most dire of circumstances. Even death isn’t a good enough excuse for discharging some private loan debts. And the government can wield a heavy hand to collect what it is due: If you fail to repay your federal loans, it can garnish up to 15 percent of your wages or take your tax refund or part of your Social Security benefits.”

Tara Siegel Bernard, *In Grim Job Market, Student Loans are a Costly Burden*, New York Times, April 17, 2009

Bottom Line: If you can’t repay your loans for any reason, contact your loan provider immediately. You may be able to put your repayment on hold temporarily without negatively impacting your loan agreement. Deferment options vary and it’s not available to defaulted loans—so understand the terms of your loan before you sign a loan agreement.

Strategies

How much will I owe?

Online calculators can help you assess your monthly and total loan repayments. Check out: www.finaid.org/calculators. You may be surprised at the numbers!

Strategies for Managing Student Debt

- 1 Borrow only the amount that you need.
- 2 Explore student loan consolidation programs—find more information at www.loanconsolidation.ed.gov.
- 3 Look into Graduated Repayment Programs that offer smaller loan repayments in the early years with larger payments over time, assuming that the borrower's income increases over time. Check with your lender regarding this possibility.
- 4 Consider service-connected repayment programs—by practicing in a designated service loan repayment area, the government may forgive a predetermined amount of your loan for each year that you practice in such a designated area. The ADA produces Dental Student Loan Repayment Programs & Resources, available for free from ADA Office of Student Affairs—send an e-mail with your name, school, and phone number to studentaffairs@ada.org.

Keep Track of Your Obligations

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

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

Check in at least once a year to make sure all your loan information (especially e-mail and snail mail) is current with each lender.

These resources can help you further your financial planning knowledge, track finances and plan your loans.

Check it out:

Resources

ASDA Resources

Getting Through Dental School: ASDA's Guide for Dental Students contains comprehensive scholarship, grant and loan information.

American Student Dental Association
800.621.8099, ext. 2795
www.asdanet.org

Financial Aid and Scholarships

www.federalstudentaid.ed.gov

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

www.dl.ed.gov

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

www.finaid.org

This Web site includes various calculators (www.finaid.org/caclulators) 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.

Financial Aid Office

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

Loan Repayment Programs

Dental Student Loan Repayment Programs & Resources,

available for free from ADA Office of Student Affairs—send an e-mail with your name, school, and phone number to studentaffairs@ada.org.

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

www.usphs.gov

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

National Health Service Corps

www.nhsc.hrsa.gov

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