SEASON 2, EPISODE 10

STUDENT LOANS 101: WHAT DOCTORS NEED TO KNOW WITH RYAN FRAILICH, CFP®, CSLP

David Mandell:

Hello, I'm David Mandell, I'm host of the podcast. Welcome to the program. Today we've got a great guest and I'm interested to hear what he has to say, and I think you'll learn a lot. Let me tell you about Ryan Frailich. So I'm going to read Ryan's bio. We're going to link to it in the show notes. I'm going to read it, just pieces of it, but it's written in the first person. So I'm going to say I, as is, I'm Ryan, it's going to be fun thing.

I worked as a teacher and a school administrator overseeing HR, becoming a fee only financial planner. Working in HR revealed a lot about the financial lives employees and a light bulb went off. Too many smart talented people feel overwhelmed with finances, and I think that's true to some degree of physicians, right? That's why you're listening. Always wondering if they're making mistakes. Also too many people who want help are taken advantage of or shut up by the large financial institutions. I changed careers, became a Certified Financial Planner and just started deliberate finances.

I work with young couples to solve pieces of their financial puzzle, from getting married, managing student loans, which is what we're going to talk about today, and what to expect financially when a baby's on the way. When I'm not working, I spend my time exploring my adopted home city of New Orleans with my wife and two young kids.

So with that, Ryan, welcome to the program.

Ryan Frailich:

Thanks so much, David.

David Mandell:

Now, before we get into it, on your bio, you have CFP, which we just talked about Certified Financial Planner, we know about at OJM, we've got a number of those. What is CSLP? What designation is that?

Ryan Frailich:

Sure. That's the Certified Student Loan Professional. So it's the first FINRA recognized designation about expertise in student loans.

David Mandell:

Excellent. Well, I'm glad I asked that and I think that's why Michael from our firm referred us because this is a topic of extreme importance to physicians, whether they're old and kind of say, "God, I'm glad I'm past that." Or they're younger, and they're in the middle of it. A lot of firms, even like ours, who work with so many doctors, and have CFPs, Certified Financial Planners who are somewhat knowledgeable, one of the reasons we wanted to reach out to you as a resource to our folks is having that designation. Going through that training and really understand the ins and outs of student loans is something that I think physicians really can benefit from. And thank you for doing that and being part of this today. Let's rewind a little bit, tell us where you grew up -- obviously you've been living in New Orleans now, what got you interested in personal finance? Sounds like starting from HR, but tell us in your own words how you ended up there.

Ryan Frailich:

Sure. So I'm from Minneapolis, Minnesota. I still hope to someday live a life of four months a year there and eight months a year here in New Orleans. I haven't quite figured that out with two young kids, but that's the goal, to spend summers there, someday. And so I moved to New Orleans in 2010. If I'm being honest, sort of on a whim of I got a couple friends there, it's been a fun city to visit. So how about I move there? And here I am 11 years, and a couple of kids, and all that later, life. So, always been interested in personal finance. I think, generally, tried to figure it out myself in my twenties, I graduated with some student loans, though nothing like what a lot of doctors come out with, I had about $30,000, but also my salary was $28,600. So I actually had more on student loans than I made my first year as a teacher.

And then over the years, I taught for a few years, and then I became the HR director of a chartered school. And so when you're working in HR, you learn a lot about people's finances, right? You know who's saving for retirement, and who's not, and who drove in with a new car the day after their first paycheck from their receipt, and who is maxing out their 403(b), and who's asking insurance questions. You can kind of get a picture. And I was just realizing how many really smart, really talented, well educated, successful people who really don't know about this. And I think we don't do a particularly good job of educating people on personal finance, but we've also over complicated it in so many ways, and student loans being a prime example of that.

Anyhow, so through that process I was realizing more and more how many people out there could use help, and started researching the industry, and actually through conversations with my own fee-only financial planner. He kind of pointed me in the direction of the CFP, and what it takes to start a firm, and talked about kind of what his journey was. And that kind of got me going. And so that was in 2016, and started

the CFP coursework, and launched my own firm actually almost five years ago to the day as we record this.

David Mandell:

Oh, very cool. That's great. Well, congratulations on that. And tell me how you gravitated to student loans -- ,obviously it was from your clients, I'm sure, and hearing about their challenges with student loans. When did you go for that designation? How'd you find out about it? What was your journey just on that designation and then we'll get into specifics on the student loans.

Ryan Frailich:

Yeah. So I graduated with my own student loan debt and then as I started talking to people about their financial questions, it just kept coming up over and over, "I have debt, but my fiancé doesn't. How is that going to work?" Or I've heard of, "I work in a school, should I use this forgiveness program or that forgiveness program?" It just felt like every person I talked to, and Grant and I focused from the get go mostly on young professionals, so people in their twenties and thirties, sometimes early forties. It just felt like 75, 80% of the time, the questions were about student loans or about how do student loans connect to retirement? How do student loans connect to taxes? How do student loans connect to other debts? Whatever it is, but it's always there.

And so I did a couple of short online trainings, and I took an eight hour workshop at a conference on student loans. And what that workshop taught me was how much more I had to learn, because once you learn a little about student loans, you realize how much more there is to learn. And I think that was sort of my aha moment, was that that workshop opened my eyes to just the complexity involved here and that this doesn't operate like other debt, right? Financial planners or general people who give financial advice are used to saying, "Okay, if you owe this much, and this is the interest rate, the longer you take, the more interest you'll pay, but the smaller your payment will be per month." It's always that seesaw, right? Of total repayment to monthly costs. And it doesn't work at all like that. That's not how this works.

So then from the eight-hour workshop, went on to take the CSLP coursework in 2018, I want to say, maybe in the early 2019. Like most things financial, yeah, you can learn it from the internet, but having a really structured process, having a really clear... Going from the very basics, to the extremely complex, in a systematic way, helped me wrap my brain around how to advise on different situations. What are the implications of things like changing jobs, or getting married, or moving across states. And how do those things impact your student loan decisions?

David Mandell:

Makes sense. I think it is funny how in a lot of topics in finance, or medicine, or what have you, it's like once you learn a little bit, you realize how much you don't know, you got to keep going. Before you do that, you think, "Ah, it's pretty simple, pay it off, whatever, refinance that's it." But when you dig down, there's a lot more there. So before we get into four or five specific questions, big picture, when let's say, let's just talk about physicians since that's who'll be listening. When you're working with a doctor, when you talk to them or it could be anybody with sort of graduates level student loan, in terms of the numbers, and where they are, maybe already having college education, college loans, what are kind of the biggest questions you get? Or what are the main issues that people are asking you about? And then we'll get into some of these specifics.

Ryan Frailich:

Yep. So I think I'll start with, the average medical school graduate comes out with, depends on the start and the year you look at, but somewhere between, $230,000, 240, 250 in terms of student loan debt. So we're talking about a mortgage here. And oftentimes these are people in their late twenties. So it's a big number. This isn't coming out with my undergrad debt of $30,000.

And so it's looming for a lot of people and they're wondering, they know that on the horizon is the leap in salary, right? Going from med school and then there's residency of varying lengths, but then onto to the attending job and the big jump in salary, sometimes going up 4 or 5, 6, 7 times what you were making the year before.

But then you've also got this big number, right? Trying to figure out what to do with. So I think, the first question that oftentimes I just hear from people is just like, "What are my options?" Great. The options aren't just as simple as pay it off in five years, pay it off in 10 years, pay it off in 15 years, there's actually a lot of different options. And it really depends kind of what your best guess of what the future holds. So in terms of options there's, if you do nothing, you come out in the 10 year repayment plan, the standard 10 year repayment plan. So if you have federal student loans, and only federal student loans, and you don't do consolidation or anything else, they'll put that on a 10 year repayment and it works a lot like other debt, flat payment.

Of course, the problem is you're a resident. We just said the average person comes out with $230,000 or more in debt. So you're talking about a multi-thousand dollar a month student loan payment on that plan. That doesn't work for most people in residency making $50-60,000 a year, sometimes less. So right off the bat, you have a problem between what you get defaulted into and what your finances can actually do. So… then you start getting into the income-driven repayment plans.

So income-driven repayment is a blanket term, there's actually five plans underneath it. So you go into income-based repayment, Pay-As-You-Earn plan, revised Pay-As-You-Earn plan, now there's a new income-based repayment. Why they name them all

similar things, but have different rules is beyond me. But each of those essentially works the same way with very different details. But the gist is that each of those takes your student loan total debt and sets it aside and it no longer is the determining factor of what you're going to repay.

And it says, "What do you make? And what's your family size?" So if you have two kids, you'll pay less than a person is single just because of discretionary income, and they'll peg it to 10 or 15% of your discretionary income and say, "That's your payment every month." So you can make a payment that might be $2-400 a month instead of the $2,000 a month payment that the other plan might require you to make.

David Mandell:

Jump in with a question, not to derail you. But is there any geographic element, meaning is there somebody in New York going to pay, are they going to use the same straight percentage as somebody in, wherever, any place outside of that, that's less, right?

Ryan Frailich:

Basically yeah, they would. There's no adjustment, the way that calculation works is it's based on the federal poverty line. So it's basically adjusted gross income, minus 150% of the poverty line for your family size, and then taking a percentage of that number.

David Mandell:

Got it.

Ryan Frailich:

Now where it could potentially matter where you live is in community property states. So if you live in a state that looks at all household income as being 50% accrued to each person in the household, then you could get into a situation where it might make sense to split it in a way that could lower your payment depending on who your spouse is, what they do for a living, whether they make more or less than you, that sort of thing. So each situation's a little bit different. But for the most part, geography doesn't matter outside of that.

David Mandell:

Thank you for that. So you're talking about IDR plans, the income-driven replacement plans, five different types, and sounds like for a lot of folks in residency and fellowship, they kind of have to do that based on your point of, if they don't, then they default to this 10 year amortization, where it's fine if you got the loan in

your last year fellowship, and then the next year you have a big income. But if you got a long list of long training where your income is low, that's not going to work.

Ryan Frailich:

Not for the very, very large majority, right? Because it's just the practical reality is if you're making $52,000 a year, and someone says your student loan's going to cost you $25,000 of those $52,000, that doesn't work unless you happen to be married to someone five years older, who's also in a high paying job that maybe it works or something. But for many people it doesn't. Now, there is a downside to those IDR plans. I think that they're all well intended. The challenging piece of it though, is that for most people what's going to happen is you're going to make payments for those two, or three, or four years, however long your residency is, and at the end of it, you're going to owe more money than you start with, which is extremely counterintuitive.

So I see this all the time. You get internet posts about it, "I've been paying my loans for four years, I've paid $300 a month." So whatever that works out to, "And yet my loans have gone up $25,000 during that time." And the reason for that is what's called negative amortization, just a fancy way of basically saying the interest accrues faster than your payments hit. So every month you pay 300 but 450 of interest accrues. There are some mechanisms in those plans that try to reduce that in various ways. So there are some limitations on it, but it goes up, right? So you might graduate with $250,000 of debt, make payments for three years and come out with $280,000.

David Mandell:

Yeah. That makes sense. As a finance person, you just realize, if the interest you're paying on a monthly basis does not cover what the interest rate of the loan is, then they're allowing you to do it, but you're not making the minimum payments essentially. And so the difference would accrue up as a principal, right? I mean, that's sort of basic finance. But I can understand how it would be frustrating if someone doesn't really understand it.

Another question, and then we also want to talk about the public Student Loan Forgiveness and some other things, but in terms of refinancing, and this is probably a big question you get like, "Hey, interest rates are low. I read everywhere people should be refinancing their mortgages and all this." I'm sure you've got this question a ton in the last couple years is, "Rates have been low, can I refinance my student loans? Is it able to do that? How do you do it? What are options?" I'll throw that on your plate. I'm sure there's a lot of things you can go with that.

Ryan Frailich:

Yeah. And it actually connects right into the Public Service Loan Forgiveness question that you mentioned, which is, yes, refinancing can be a great option depending on who you are, and what you foresee your next 10 years being. Now we're looking into our crystal ball here to the best of our abilities and trying to figure out, where am I going to work? And what's my specialty going to be? And am I going to work for a public hospital, or a private hospital? Or all those things. So here, the deal with private refinancing is there's lots of companies that offer it. I'm sure if you're listening to this podcast, you've gotten targeted online with messages that follow you on the internet from Earnest and SoFi, Incredible, and CommonBond, and LendKey, and there's two dozen others I'm not even naming, that basically say, "We'll refinance your student loans and instead of paying the 6% interest rate that you got from your government student loan, you can pay three and a half, 4%, four and a half percent."

That can be great if your ultimate goal is to work your debt down to zero, right? So if you know you're going to work for a private hospital system, or a private physician group, something like that, you know you're going to want to work your debt down to zero, maybe that makes sense to go and refinance it. Do something like a 30 year, four and a half percent loan, make some small payments, but at least you're going in the right direction, at least you're going down not up in those years in residency. And then when you leap to the bigger salary, then refinance it again. Because there's nothing stopping you from refinancing again, and maybe do like a 10 year and pay it off a little bit faster because you don't want to be keeping your medical debt around until your forties and fifties.

However, it's irrevocable, right? So once you've privately refinanced it, essentially what's happened is, this private institution has paid off your federal government loans and now you owe the private institution instead. There's no undo button, right? And so if you're going for something like Public Service Loan Forgiveness, or you think there's a reasonable chance that you're going to be working in a qualifying employer for Public Service Loan Forgiveness, which I keep saying I should probably explain better and in a second here I will, you do not want to refinance. I will just put that stick in the ground, it is not worth it because you cannot access Public Service Loan Forgiveness and that's a mistake that can cost you tens of thousands of dollars. So let's talk about what the Public Service Loan Forgiveness program is.

David Mandell:

Let me stop for one second.

Ryan Frailich:

Yeah.

David Mandell:

So just to the folks listening, so for those of you who are, many of you may already heard of this, maybe you're listening to it for a child or something, but for those of you going through it, I think, just to kind of summarize as somebody who's not an expert in this. If you know your path is private practice, or employed at an institution that's not going to qualify for any kind of benefits that you're going to discuss in a minute here, Ryan, then in some ways you're looking at that debt with your 10 year crystal ball, which I like you're phrasing there, like any other debt, right? I mean, you're looking at it in terms of, "Hey, I'm going to pay this off because I'm not going to be able to get out of it. And we know we can't with bankruptcy anyway, but I'm not going to find an alternative route."

So now I'm looking at this like, "How can I be as efficient as possible, take advantage of rates when they come down, maybe refinance again," as you've said, "when my income's up, and I can, even if the rates the same, I can then make it from a 30 year, to a 20, or 10, or whatever. Because I can afford the larger monthly payments." And I think for a lot of clients, that is what they have done. They may or they may not have any other options, but they at least knew about that because you can't go anywhere without hearing about refinancing any debt, right? Especially as we are now, it's a big business. So I just wanted to sort of reiterate that. So I understand it, and it sounds like I've got it right. So now let's talk about this PSLF, Public Service Loan Forgiveness. What is that program? How would someone qualify for it? And then you can circle back say, "Hey, this is why you wouldn't want to refinance it because you could have gotten this." So let's talk about that.

Ryan Frailich:

Yep. So Public Service Loan Forgiveness was announced back in 2009, I want to say, well seven-ish, but it didn't really roll out in waves. We didn't start hearing about it till 2018, 2019, because that's when people had actually hit 10 years. So the way the program works is this, there's essentially five requirements. And if you hit all five requirements, whatever remaining balance you have on your student loans is forgiven tax free. So let's talk about the five requirements. The five requirements are, you need to work for a qualifying employer, that means a government or 501(c)(3). So 501(c)(3), where this gets complicated, sometimes with hospital groups that have a public arm, and a private arm, and which one is actually paying you, you may or may not qualify. So you should be certain that it's a 501(c)(3). If you're getting paid by the private entity of the hospital, that that doesn't count.

But if you work for any sort of government institution, any university hospital, that sort of thing, all those are going to qualify. So 501(c)(3) or government, you need to have direct student loans. Direct loans will literally say 'direct' in the name of them. All loans issued after 2010 are generally going to be direct loans, but if you had loans from pre 2010, you might have other types of loans that, well, they did not qualify. Although now due to a recent waiver, they are trying to make them qualify, so we'll

talk about that too. So, right kind of employment, the right kind of loans, you need to make the type of payment. The right type of payment is a payment on one of those income-driven plans. There's a payment plan called the Extended Payment Plan and the Graduated Repayment Plan, and historically those plans have not counted.

Now, currently they're going to go back and recount them. So everything I'm saying is coming with a big asterisk, but in theory, those aren't supposed to count, and they have haven't historically counted. So you need the right type of employment, the right type of loan, the right type of repayment plan, and you need to do all those things in the same month, 120 times. So to be clear, it's 120 months, it's not 10 consecutive years. Sometimes people think, "Oh I was going to take a maternity leave," or something like that. "I need to take three months off for a family issue." That doesn't break Public Service Loan Forgiveness. It's 120 months, they don't need to be consecutive.

So as long as you've made a payment on the right type of loan, while in an income-driven repayment plan, while working for a 501(c)(3) or government, and then you document it. There's a form, you Google PSLF certification form, it's a piece of paper. You get it signed by your employer. They say, "Yep. David did in fact work here during these months." Then your servicer will look at that, say, "Yep, you did all these things." You get credit for 30 months, or 40 months, or 60 months, or however months, you worked at that employer. And when you get to 120, you file the final form, and poof there goes the rest of your loans.

This is a huge thing. People who privately refinance but work in a public hospital could have cost themselves potentially six figures, right? It's a huge decision to get right. The challenge is, it's hard to look into the future and what fundamentally, the first thing that I say when I'm talking to anyone about their issue with loans is, "You need to kind of get an idea of, are you trying to pay this down to zero? Or are you going for some sort of forgiveness?"

And that's a fork in the road that once you go on one path or the other, it's very difficult to cross back to the other path. If you're going for Public Service Loan Forgiveness, there's an entire set of strategies and ideas that are completely different than if you're trying to pay your debt down to zero. So if you start on the public service path, and then you get three years in, or five years in and decide to go private practice, that's going to be painful to do. You can do it, but it's going to cost you a lot. Now maybe the salary increase is worth that cost, right? If you're making up more than enough of it in an increased salary, then perhaps that's worth it, but it's going to sting.

And similarly, if you go for the process of trying to pay the least overall, and pay your debt down to zero, and then you decide you want to go for Public Service Loan Forgiveness, then you've spent all this time paying stuff down aggressively that maybe you wouldn't have had to pay as much money so you've paid a lot extra that

ultimately was going to be forgiven. So it was actually wasted dollars. I'll stop there and let you ask any questions or clarify, but that's the gist of it.

David Mandell:

Yeah. Great explanation. My only question is, on the hundredth month, is there any pro rata rule, meaning, let's say you did 40 months, or 80 months, or 90 months, or is it all or nothing? You got to stick it out for the whole a hundred months to get the full forgiveness? Or in 40 months could you get 40% forgiveness?

Ryan Frailich:

Yeah. So it's 120 months.

David Mandell:

120 I'm sorry. 120, that's right.

Ryan Frailich:

Yep. I just want to make sure-

David Mandell:

I wrote down a 100 but it's 10 years times 12. Yeah. I got that, 120. So just use the same concept.

Ryan Frailich:

And there is no pro rata and that is one of the challenges of it. There have been some proposals in Congress, I believe, I want to say Chuck Schumer sponsored one, nothing's gotten serious on that. There is a negotiated role making process going on right now in Congress. I've seen stuff about at five years you get half of it forgiven or pro rata, like you said, a certain percentage every year, because to my previous comments, you're 27, you've just finished medical school, you're going to residency, and you get your job and you're at... I'm here in Louisiana, you're at LSU's public hospital, right? So you know the first three years of your career, you're going to qualify for Public Service Loan Forgiveness. So you're like, "Oh, okay, great."

But then, you don't know what the next seven years after that are going to hold for you. You might have a guess, you might not, you might change your mind as you get into residency, or maybe decide to do a fellowship or something like that. And so what's really hard about that is you have to make the best decision that you can. And that's why I generally tell people, unless you are really, really certain that you are not going to be eligible for Public Service Loan Forgiveness, you shouldn't refinance your loans. Even though you could potentially save some small amount of money in the

interest costs, until you know for sure the door is closed on me going for Public Service Loan Forgiveness, you should keep the door open.

I know people get scared off by the headlines. There've been a lot of bad stories over the years, and it has been a mismanaged program, it has been a poorly run program. I agree with all those things, but some of the headlines, I think put fear into people that didn't need to have fear of this program. Admittedly, the hoops are large, but if you do the things that I laid out, you will get forgiveness. Just in the last few weeks, something like $700 million of loans has been forgiven. So the program does exist, it does work, it's not fake. Sometimes there are headlines that literally say like, "It's an illusion." None of that is real. But it is true that the initial rollout of the program has been really sloppy, but I don't want that to dissuade people from using it because choosing not to use it because you're scared of the paperwork bureaucracy is generally not worth it for most people. It's worth it to go through those headaches because the dollars you can save are so huge.

David Mandell:

Yeah. That makes a ton of sense. I appreciate those comments and insights. Let's talk about marriage implications for a second, right? So a lot of folks coming out of the medical world end up marrying in this timeframe, A, and B, oftentimes to someone else who also is not going to have student loans, right? So either in medicine, or another profession, law, or something else. So how does that play in? How do you see that playing out? And what advice do you give in terms of that scenario?

Ryan Frailich:

Yeah. So the big picture is thinking about what is total household income, and how household debt is going to look like, and when, right? So if you have someone who's already graduated, gotten say, they're attending job and their spouse's in residency, well, then you've got a very different picture than if two people are both in residency at the same time. Similarly, if you've got a spouse that has happened to come out and I don't know, gotten a big law job that doesn't have student loan debt, well, then you might be able to afford to pay what I said previously you couldn't pay in residency, because you've got a spouse that makes your household income such that you can do it. Where it's really tricky is if both spouses have federal student loan debt and you're on income-driven repayment plans, remember those plans we talked about earlier that determine your payment based on your income.

If both of you have federal student loans, the possibilities become a little bit head spinning, because what they do is basically take the household and prorate the amount of your student loan payment based on the percentage of the total household debt that you have versus the total household debt that your spouse has. So you can get into some situations where it makes sense for say, one spouse to be on the Pay-As-You-Earn plan but the other spouse to be on the income-based

repayment plan or something like that. So in terms of making this more actionable for people, I think, if you have student loans and you are about to get married to someone else who also has student loans, I just can't emphasize strongly enough, hire someone with expertise in this to help you wade through the options. Because there's dozens of options depending on each of your future career paths, how long until you're going to hit that big bump in salary, those sorts of things.

And the other piece with that depending on what state you live in. So the other marriage implication touched on earlier is, I live in Louisiana, we're a community property state. So if you're going for Public Service Loan Forgiveness and say, I'm a doctor making $250,000 a year, but I work in a public hospital. I'm going for Public Service Loan Forgiveness, and my spouse is a teacher making $50,000 a year. Well, if you do that allocation of income calculation, instead of mine saying 300 for the household, it's 150 in my name. I just lowered the amount that I have to pay for my student loans by splitting the income equally across the two spouses. And if you are going for Public Service Loan Forgiveness, you always want to pay a lower amount. So you could have just saved yourself seven, eight, $900 a month in payments by doing that, by allocating the income across both spouses equally.

That's not possible in every state. So it's getting pretty far into the weeds. But it just goes to show kind of the complexity of, you got enough decisions to make as you're getting married, but it's kind of wild. I mean, I've even heard stories of people throwing a wedding, and having a big wedding and never signing the official paper. So they are publicly married as far as anyone knows but not on paper because the student loan implications would be so negative for them. So it's just, the stakes are big.

David Mandell:

Yeah. Kind of as a lawyer thinking around those rules, right? Just it's not surprising that would happen, because what you're saying and what you're really revealing, here's a couple things. One is, it really is like 3D chess times three. When you get in, depending on the situation, right? It could be very simple, one spouse, you're going to make enough money, you're going to pay to zero, refinance, that's it. Two, two spouses each potentially going for public student loan or one maybe thinking maybe they're not, thinking about refinancing maybe not, trying to qualify for the income-driven, but how do you use each one of them income and then there's the state layer, okay, now what state are you in? So this is why they need [crosstalk 00:30:12]

Ryan Frailich:

And what if you move after residency from one state to another?

David Mandell:

Right, exactly.

Ryan Frailich:

Now you've got changes.

David Mandell:

What if one lives in one state, one lives in the other for a couple years as they train, it becomes, yeah. It sounds like a law school exam all of a sudden. Now it's just like you read it for three paragraphs and you got to write for two hours on all the different issues that it raises. So it can be complex stuff. That's why people need folks like you.

So last question here, this is something that we get in our CFPs, which is a little broader and longer term, which is, what should we be doing once we're... Let's just assume now, okay, this is a subset. So we're not getting forgiveness. We're kind of standard refinance, and now we're out there making money, right? And we're making money enough to refinance and prepay, or I don't know if some of these are prepayment penalties whatever, we could pay more in the minimum, or should we be putting in an IRA? Or should we be saving for the first house? Kids come along, how do we start putting in the 529? Kind of where do you put the... And again, I know it's all specific to a particular client, but what are the questions you get, and what sort of the general concept or way of thinking about it, when someone says, "Hey, we have extra dollars, should we pay down the student loan? Should we invest? Should we put away for the kids' education." Kind of capital allocation once they're kind of in that frame.

Ryan Frailich:

Yeah. For sure. I think that the tricky part with that is that, it's not either-or, right?` I think oftentimes people say, "Should I pay up all my student loans and then start investing?" And it's like, well actually you can do both of these things, right? So, if we're talking about the range from paying five, six, $7,000 a month and just literally throwing every available dollar and living on beans and rice and living in a one bedroom apartment with a newborn just to get rid of your student loans, I personally think that's a little too extreme. I also don't want you to take 30 years of paying $800 a month, $900 a month, and be 57 years old before you've paid off your medical school debt, right? So you can do both those things. So I think, one, if your employer has a match, you get the match, no matter what. Two, if you have other forms of debt, I would prioritize getting rid of those as fast as possible, right? Just because student loans tend to have more flexible options.

Even if you privately refinanced, usually there's a little bit more flexibility there than now. I should say that wasn't kind of 15 years ago, then you have credit card debt and the rates are much lower too. So definitely if you have credit card debt, pay the minimum on your student loans and get rid of that credit card debt and then focus on paying more on the student loans. I like to tell people, if you're making a true attending salary, so I'm talking three, four or $500,000 a year, depending on your specialty, there is just no good reason you can't pay off most student loan balances in 10 to 12 years. Even if you have kids, even if you buy a house, even if, whatever those things are like you are in the top two, three percentile of income earning in the country. So yes, you might be having to pay $3700 a month on your student loans. And that's a lot, and I'm not trying to dismiss it, but you're compensated in a way that should allow you to pay that.

So, I think the thing I would think is, probably don't think of it as sequential, you can do all of it in proportion. And then just making sure that as you do pay off student loans like, "Hey, take some of that to enjoy it." Right? I'm not going to tell you, you need to finish your student loan payment and immediately the next month, every single dollar that has to go into savings. But 70, 80% of it can go into savings, and 20 to 30% can go to your current lifestyle. And you do that a few times, you'll still get to the things you want to get, whatever that life is that you want to lead, but you'll be able to get there without the burden of a six figure student loan debt hanging over you. So, back in the envelope, I think a 10 to 12 year payoff period is reasonable. If you can do it in shorter, even better, but I don't think you need to go out of the mindset of the only thing you need to pay for student loans and not fund an IRA or anything else.

David Mandell:

Yeah. That makes sense. I agree. I agree. I think it gets a bigger question. We have clients who are even on mortgages like, "Oh, I've got to pay off my mortgage. That's it. I'm not going to invest till I pay off my mortgage." And we're often, sometimes trying to turn their thinking around and say, "Listen, it's cheap money, and you have an asset tied to it, and you can still pay that down, but you could take advantage of investing at the same time and guess what? You could always pay it off if you had to in the future if your balance gets big enough." But some people, debt gets into emotional issues and one of the other.

We've interviewed, and you probably do a little bit of this too, but we had on this podcast in the first season, Greg Glo and his partner who are financial therapy. And what people's money scripts are with debt in general, and some people look at it more scientifically as part of the balance sheet, and other people think it's a scourge meant to be gotten rid of at all costs. You have to take some clients as they are. So this has been really helpful. One last question, you'd say as someone starting out,

literally a medical student starting, what's the one big thing you would leave them with? One idea as they start their journey when it comes to this piece of the puzzle.

Ryan Frailich:

That's a great question. I feel like I always talk to people after they've got the student loans, not going in. I mean, I think just to be cognizant of what's happening with your student loans along the way. So many people look up, and they just see and they click the button online, click, click, the transfer happens. They don't even know how much they've taken out, they don't know how much it's going to cost. And then they get to the end of medical school, and they look up and breathe finally, because it's been such an intense experience and they have $430,000 of student loans and it just floors them. So having some idea going into medical school and what does this medical school cost, what does the average graduate come out with in terms of student loan debt, what does the average graduate come out with in terms of income potential, so you can see, if your average graduate is earning $180,000 a year, and has $360,000 in debt, that's a rough starting place.

And I've never applied to medical school, but that would dissuade me from wanting to go to that medical school unless they had some really compelling reason why those two numbers are so out of whack. So trying to really make sure that you know both going into medical school, and along the way, kind of what is your future situation going to look like. I know you can't fully picture it because when you're not earning money, it's hard to picture what it's going to look like when you're earning a large salary. But I think the more you know along the way, the better decisions you'll be able to make about what field you want to enter, residency programs, whether you should do a fellowship or shouldn't do a fellowship, what types of residencies to look at, those sorts of things.

David Mandell:

Makes a lot of sense. Ryan, I really appreciate it. This was really interesting for me, someone who doesn't know the area that well, a lot of good common sense and specific information. And well put for the folks listening, in the show notes, link to Ryan's site and his bio, and you can get a hold of him that way. And really thanks for being on. Really appreciate it.

Ryan Frailich:

I enjoyed the conversation a lot. Thanks David.