

# Hofstra North Shore-LIJ School of Medicine



## Office of Financial Aid

### **Budgeting & Money Management: What if I Don't??**

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# What We Will Cover

- Revisit budgeting and money management (*Budgeting in Medical School* and *Managing Your Money in Medical School* presentations)
- Revisit unnecessary expenses (*Managing Your Money in Medical School* presentation)
- Revisit credit cards (*Managing Your Money in Medical School* presentation)
- Long term financial implications: after medical school



# Developing a Budget

## Developing a Budget Cost of Attendance Your Budget Worksheet

Category	August 2012	September 2012	October 2012	Total
Tuition and Fees	1,000	1,000	1,000	3,000
Room and Board	1,000	1,000	1,000	3,000
Books and Supplies	100	100	100	300
Personal Expenses	100	100	100	300
Health Insurance	142	142	142	426
<b>Total</b>	<b>2,342</b>	<b>2,342</b>	<b>2,342</b>	<b>7,026</b>

*What does this mean?*

Although \$2,342 may seem like a small amount, it adds up:

**\$2,342 x 4 years** of medical school = **\$9,368**

**\$9,368** borrowed at 6.8% and repaid over 10 years =

**\$14,357** (of which **\$4,989** is interest)

This example assumes a standard 10 years repayment plan and capitalized interest accrued during matriculation.

Extended repayment plans will increase interest.



# Managing Your Money in Medical School

- Checking and savings – common account related fees (continued):
  - A student example: you open a checking account with a monthly fee of **\$14**, non-sufficient funds (overdraft) fee of **\$35**, and returned check fee of **\$50**:
    - Cost: \$168 in monthly maintenance fees or **\$672** over 4 years
    - At the end of *each* semester, you lose track of what's in your account and overdraft 3 times (per year). Cost: **\$420** during medical school.
    - During medical school, you bounce a rent check 3 times for the same reason. Cost: \$150 and your landlord also charges you \$50 each time so it brings your total to **\$300** during medical school.

The grand total you are charged for not paying closer attention to your account while in medical school is **\$1,392**



# Managing Your Money in Medical School

- Automated teller machines (ATMs)
  - Use only your bank's ATMs (and some banks actually charge for ATM use so avoid these). ATM fees add up quickly:
  - The average ATM fee in the NY metro area is **\$2.70 per transaction\***. If the source is currently a student loan, you're already paying an origination fee and interest to borrow.

*Simple example:* 2 non-branch ATM visits per week @ \$2.70 per visit adds up to:

- \$5.40 per week
- \$21.60 per month
- \$108 per term
- \$216 per academic year
- \$864 during med school

If you are borrowing to cover living expenses:

It will cost you almost **\$1,000 simply to access your money** during medical school

(@ 6.8%, standard repayment)



\*source: <http://www.bankrate.com/finance/banking/cities-with-highest-atm-fees.aspx#slide=3>

# Managing Your Money in Medical School

- ATMs (continued)
  - **If an ATM transaction is \$2.50, it's \$2.50 no matter how much you withdraw. Think of each transaction ATM in terms of the percentage to withdraw.**
    - \$2.50 to withdraw \$20 = 12% → **This is absurd!!**
    - \$2.50 to withdraw \$40 = 6%
    - \$2.50 to withdraw \$100 = 2.5%
    - \$2.50 to withdraw \$200 = 1.25%
  - If you **MUST** use a non-branch ATM, do not use it to withdraw \$20!



# Managing Your Money in Medical School

Item	Cost	Interest if using borrowed money	TOTAL cost	Rationale for purchase	Logical response to rationale
7 for All Mankind Jeans	\$ 225	\$ 86	\$ 311	<i>I need clothing</i>	<i>I understand that people need clothing but the Gap is a fine retailer and usually has decent sales! Besides, it costs you almost 40% more if using borrowed money...would you ever walk into a retailer and pay 40% OVER the ticket price?</i>
De'Longhi Lattissima Espresso Machine	\$ 399	\$ 152	\$ 551	<i>You said it was cheaper to purchase a coffee maker and, who doesn't like espresso?!</i>	<i>When I said stop buying Starbucks I didn't mean buy a \$400 espresso machine. A \$30 coffee pot can brew the same coffee.</i>
Weekend in Bermuda	\$ 824	\$ 314	\$ 1,138	<i>Medical school is exhausting and I needed a break</i>	<i>Medical school IS exhausting but save the lavish trips until you can afford to take them. Take a drive somewhere if you need to get away...besides, the beach is 15 minutes from campus!</i>
Samsung 60" TV	\$ 1,700	\$ 648	\$ 2,348	<i>We need a TV for our place</i>	<i>I understand the importance of watching football on a big screen better than most but, for the next four years, deal with an older model 42" Vizio that you can score for around \$300. Or, have your roommate bring his/her old TV!</i>
Dinner for 2 (once a month)	\$ 2,150	\$ 819	\$ 2,969	<i>I need to eat and I'm tired of takeout</i>	<i>I get it, eating on campus and McDonald's all the time is less than ideal but go to the diner if you have to eat out...it will only cost you about \$30 for 2 people...do it once a month for an entire academic year and it's \$300 rather than \$2,150.</i>
2013 Honda Civic	\$ 18,695	\$ 7,494	\$ 26,189	<i>I need a car, don't I??...and, I can't drive stick.</i>	<i>You have me here...somewhat of an irrational example BUT, not unimaginable. You may very well need a car but, save yourself and buy a decent used car for the fraction of the price of a new car.</i>
<b>Totals</b>	<b>\$ 23,993</b>	<b>\$ 9,513</b>	<b>\$ 33,506</b>		
<b>Totals without the Honda</b>	<b>\$ 5,298</b>	<b>\$ 2,019</b>	<b>\$ 7,317</b>		



# Managing Your Money in Medical School

- Credit cards
  - Credit cards become incredibly dangerous and financially senseless when they are mismanaged
  - Get a credit card through your bank – this will make it easy to monitor your account (online or by using a smart phone app)
  - Credit cards negatively **AND** positively affect your personal credit



# Managing Your Money in Medical School

- Credit cards: never – or temporarily – carry a balance.
    - A student example: not truly understanding the way credit cards work, a student does the following, which may seem harmless at first glance (19% rate):
      - Charges books in the summer of the first year. Fails to pay off the amount in total at the time s/he receives a refund from financial aid and as such, the money is allocated elsewhere. Pays the minimum each month. **Cost = \$1,550**
      - Uses a credit card to purchase a few things for the new place. These costs cannot be included in the cost of attendance and therefore, no financial aid here. **Cost = \$750**
      - Uses a credit card at the end of the semester to buy food for a month...didn't budget properly and ran out of money. **Cost = \$250**
- Card balance at the close of the semester (considering monthly payments made)=**
- \$2,350**



# Managing Your Money in Medical School

- Credit cards: never – or temporarily – carry a balance.
  - What does this mean, financially? First, first-time cards typically do not have a spending **limit this high...but for the sake of argument:**
    - The balance of **\$2,350** has put the student “under water”. There is no allowance in the cost of attendance budget to account for this. Even if the student ***DOES NOT CHARGE ANOTHER ITEM*** over the next 3 ½ years:
      - **\$2,350** accrues **\$1,023** in interest (@about \$70/month). Paid off by the end of medical school.
      - Only pay the minimum (\$47) and takes **25 years** to pay off accruing **over \$6,000 in interest**



# It All Adds Up...

Isolate each example and it doesn't seem *that terrible*. So you spent \$311 on a pair of \$225 jeans...you'll live; however, examining ALL of these examples as a whole...



# It All Adds Up...During Four Years...

Ignoring  
checking  
account fees =  
**\$1,392**

Not modifying  
your budget =  
**\$14,357 /**  
**\$4,989** in  
interest

Ignoring ATM  
fees = **\$1,000**

GRAND TOTAL  
= **\$27,439**  
of which  
**\$10,423** is  
interest or  
unnecessary fees

Carrying  
credit card  
debt from  
your 1<sup>st</sup>  
semester =  
**\$2,350 +**  
**\$1,023** in  
interest

Buying  
unnecessary  
items (not  
including the  
Honda) =  
**\$7,317 /**  
**\$2,019** in  
interest



# It All Adds Up...

... we found that this person just spent over **\$27,000** during 4 years of medical school. This example:

- Is above and beyond the cost of school
- Does not account for any income-based repayment plan
- Does not account for additional credit card charges
- Does not account for any additional unnecessary expenses
- Captures over \$10,000 in expenses with absolutely nothing to show for (interest, fees, etc.)



# It All Adds Up...

According to the AAMC, an average first-year resident's salary is **\$50,274**. Take home pay (after health insurance and retirement contributions) will be closer to **\$29,000**. So you've pretty much just worked as a first-year resident and didn't get paid.




# Take Home Points...

- These examples all only take into consideration very simple scenarios; no credit card “problems”, no IBR or forbearance.
- Pay **close** attention to where your money is going
- Borrow **as little as possible** while in medical school – you’ll have plenty of time later in life
- Don’t pay fees that you can avoid
- **Don’t buy unnecessary items** – especially with borrowed money
- Don’t rack up credit card debt and certainly don’t carry a balance
- Be smart about your money; every decision that you make in medical school with respect to money has long term implications.



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