Wilson Chen
BSc DDS CFP

Managing Student Debt

With some simple strategies, insights, and a focus on work, you can manage your financial circumstances and pay off your large student loan in a fairly short time.

For young dentists, finishing school and starting their career is an achievement that should rightfully be celebrated. However, after the initial exuberance wears off, many of you might feel overwhelmed by the amount of student debt you've accumulated through your university years. Rather than concentrating on the size of your debt, it is important to put your situation into context. Your education has provided entry into a profession that is meaningful and rewarding on many levels. With some hard work, your financial returns will far outweigh the cost of admission.

Know Your Repayment Options

Most students will use government loans (both federal and provincial) to finance their education. When the time comes to repay this loan, you have two options to choose from: you can maintain the loan through the government or through a line of credit from one of the major banks. All of the big banks have a professional program for dentists.

The main differences between the two are the interest rate charged and the deductibility of the interest payments. Government repayment schedules have a higher interest rate than the banks. The government floating rate is set at prime rate plus 2.5 percent for the federal portion and prime rate plus 1.0 percent for the Ontario portion. Bank lines of credit are offered at prime rate. The interest portion of the government loan is tax deductible against your income. Interest payments through a bank line of credit are not deductible.

So which option is better? Individual scenarios vary and your financial advisor or accountant can break down your particular situation. Dental tax specialist David Chong Yen favours the bank line of credit for most situations. “The lower interest rate generally gives better value than the interest deductibility,” he says.

Get Working

Without question, you need income to pay down your debt. The first order of business is to find gainful employment which, for many, consists of associating in an established practice. Especially in the larger urban centres, steady associateships are hard to come by, and in order to fill your schedule, you may be working at multiple locations and/or working non-traditional hours. Be open to busier associate opportunities outside of the major cities. Underserviced areas can provide a higher patient flow, which will allow you to gain clinical experience quickly and generate above-average income towards paying down your debt.

Maintain a Modest Lifestyle

You’ve just finished almost a decade of post-secondary school and you are looking forward to releasing some pent-up consumerism. Cars, vacations and fine dining are tempting. Unfortunately, this is also the best time to make a significant dent in your student loans. If you contribute extra payments against the principal of your loan right from the start, you will decrease the life of your loan and significantly reduce the amount of overall interest that you pay.

Here’s an example: Consider a loan for $200,000 at the prime rate of 2.7 percent, payable over 10 years. Minimum payments would be approximately $1,900 per month and the interest paid over the 10-year term would amount to almost $30,000. If you repay an extra $1,000 per month against the principal, it would shorten the loan term to just over six years and save you almost $11,000 in interest charges. If you can manage it, putting in an extra $2,000 per month drives down your repayment period to four and a half years and saves you more than $15,600 in interest.

Dr. Wilson Chen is a Financial Advisor with Raymond James Ltd. The views of the author do not necessarily reflect those of Raymond James. This article is for information only. Raymond James Ltd. member of Canadian Investor Protection Fund.

Straight from university, maintaining a modest lifestyle and diverting extra cash to debt service will pay huge dividends down the road.

Don't Forget Taxes

When you first start receiving a pay cheque, it is easy to forget that a portion will go towards income tax. In order to get an idea of the monthly loan payments you can afford, work with your accountant to estimate taxes owing. An experienced dental accountant can minimize your taxes through the use of appropriate tax deductions and credits.

By optimizing your tax situation early, you can free up additional funds to use towards debt repayment.

Debt Repayment vs. Retirement Savings

Ideally, dentists should be repaying debt and contributing to a retirement fund. Starting an investment program early will allow your savings the maximum time to compound and grow. However, since debt repayment is still the surest way to increase your net worth and reduce stress, early in your career, when your debt level is high, concentrate on aggressively paying off your loan. As your cash flow increases and your debt decreases, look to a balanced approach of debt reduction and investments through your RRSP, your TFSA or inside your professional corporation.

At the end of the day, it is important to remember that reducing debt is never a wrong decision.

Reward Yourself

When faced with a daunting task, most of us tend to lose momentum and prefer to ignore the problem. An effective solution is to break down your loan repayment into manageable pieces. Every time you pay off 10 percent of your original loan, treat yourself to something special. This could mean a great dinner with friends, a night away, or tickets to a show. Planning small rewards will make you look forward to the next step. You will be surprised at how quickly these small milestones will add up – and how quickly your debt will go down.

Dr. Wilson Chen received his DDS from Western University in 1992 and practises general dentistry in Hamilton. Dr. Chen has been a certified financial planner for the past 12 years, and helps dentists with their financial goals. He has lectured to dentists and dental students on business strategies, relationship building and personal financial planning. You can reach Dr. Chen at 416-777-7185 or at wilson.chen@raymondjames.ca.