Loan repayment vs. investment for young physicians

For newly-minted physicians, a big financial decision is: Do I pay off my loans or invest for retirement? Here's help.

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You're a newly-minted physician — congratulations. If you're anything like my young physician clients, you're trying to balance paying off your student loans with saving for retirement and potentially making big purchases, such as a home. So what should you do with your money?

The question comes down to two main issues: your attitude towards having debt, and the interest rate on your student loans.

If having debt keeps you up at night:

Peace of mind is priceless. If having debt stresses you out and keeps you up at night, then throw every spare dollar you have towards the loans until they are completely paid off — regardless of the interest rate.

If having debt doesn't keep you up at night, and your interest rate is high:

If your interest rate is over 4 percent, look first into refinancing. I recommend using studentloanhero.com. It is a wonderful (and free) tool you can use to keep track of loans, organize loans, and compare refinancing options. If you have multiple student loans from multiple loan services, this site could be your best friend.

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If after refinancing, your interest rate is still high, then put all of your extra money towards paying down the loans rather than towards investing. The return on money invested in the stock market may not be higher than the interest rate you are paying on your student loan debt.

If having debt doesn't keep you up at night, and your interest rate is low:

If your interest rate is low *and* having debt doesn't keep you up at night, then it makes sense to make your monthly loan payments and invest any extra money you have in a retirement account for long-term growth.

Your first priority in this regard should be maxing out your allowable salary deferral to your employer-sponsored retirement plan —especially if they match contributions — that's free money. If you do that and would like to save more, you can make a contribution of up to $5,500 to a traditional IRA. As a physician, it's likely that your income will be too high for you to make a tax-deductible IRA contribution or a Roth IRA contribution. The caveat here is that you can make a tax-deductible IRA contribution regardless of your income level if you are not covered by a qualified retirement plan through your employer.

NEXT: Think carefully about additional debt

If you work in public service:

If you work for a public service entity like the Veterans' Administration or an eligible nonprofit, you may qualify for the Public Service Loan Forgiveness Program. Under this program, certain loans can be forgiven after you have made 120 on-time, full monthly payments in no less than 10 years. Make sure to ask your employer if your job makes you eligible for this plan.

If you are considering taking on additional debt:

Think very carefully about taking on additional debt, and consider your total debt burden versus your income. It is not unreasonable to consider delaying a home purchase until your student loans are significantly paid down. History has shown that real estate is not always a great investment.

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I'm sure that as doctors, you're smart enough to know that you should absolutely NOT be financing a car — ever — especially while you are paying off your student loans. When you do need to buy a car, buy something you can afford — meaning pay cash. It's lunacy to pay interest on a rapidly depreciating asset while your student loans continue to accumulate interest.

Finally, consider hiring a financial advisor who is a fiduciary and is legally obligated to act in your best interests. Many will work with you on a flat fee or hourly basis. These are complicated issues you face as young doctors, and having an expert in your corner will set you up for future financial success.

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