ADVENTURES IN MEDICINE

Career & Life Planning

Survival Guide

A New Physician's Guide to Personal Finance

Discovery Resource

ST-23

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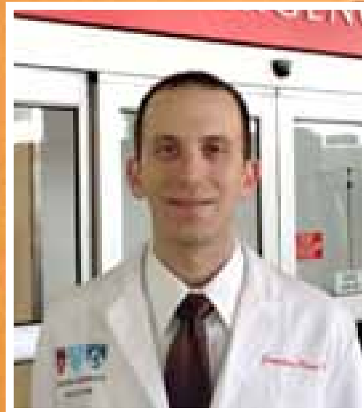
Jonathan Rogg, MD is completing his Residency in Emergency Medicine in June 2013 at the Harvard Affiliated Emergency Medicine Residency at Brigham and Women's Hospital and Massachusetts General Hospital in Boston. He holds two undergraduate degrees from MIT, one in Biology and one in Finance from MIT's Sloan School of Management. He received his M.D. with research honors at Tufts University School of Medicine. Starting in July 2013, Jon will begin working as an attending physician at Massachusetts General Hospital and serve as the Emergency Department's Administrative Fellow while he concurrently works on his MBA at Harvard Business School starting fall 2013.



Jon Rogg, M.D.

Throughout his training, several of Jon's Co-Residents and attending Physicians asked Jon about taxes, financial planning, and loans. Through these conversations, Jon realized how poorly physicians are prepared to manage their own finances. As he noticed that many Residency Programs and Medical Schools provide very little on financial planning, Jon began giving several lectures on Financial Planning to several Residents and young physicians.
Jon is not a financial professional and is not compensated for such.

Joe Capone

Joe Capone

Is a dedicated advisor who works with individuals, families and business owners to help them purposefully build and protect their wealth. Joe Capone utilizes a process which integrates a wide range of financial solutions that organizes his clients' financial world, integrating individual strategies into a consolidated, comprehensive plan. This process ensures that planning is completed with the goal of maximizing wealth and with the ultimate purpose of helping clients realize their goals, hopes and dreams.

He currently resides in Braintree, Massachusetts with his wife Lori.

OmniMed Financial and Insurance has been providing finance advice and services to the medical community for 5 years. We help medical practitioners to plan for today and tomorrow, while managing their current business and personal finances in the most tax-effective fashion possible.

We also work with residents, fellows and new practitioners throughout the country to help them get on the right track early on so they can live a meaningful and successful life while confronting the challenges of a demanding profession.

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Introduction

To the consternation of young physicians, the general public perception is that all medical practitioners are wealthy, which may be the reason why we hear so much grumbling over the cost of health care costs. What is largely lost on the public is that the vast majority of physicians begin their careers deep in a hole both in terms of money and time. It is difficult for the average person to fully gauge, let alone appreciate the monetary and time commitment that goes into preparing for the profession. Even before they confront the lifelong challenge of building personal wealth from a medical practice, new physicians are lined up well behind the starting line for a number of reasons:

- As a result of their extended educations, they enter the workforce much later leaving them with fewer productive years.
- Entering practice with an average school-related debt of $170,000, they must commit a higher portion of their income from their least productive years to debt.
- Many physicians delay starting families which pushes the need for college savings into a critical period necessary for accumulating retirement capital.
- The focus on debt-repayment often results in restricting career opportunities.

The ongoing demands of continuing education and practice development precludes many practitioners from learning basic financial management skills and subverts their ability to manage personal and business finances.

Certainly, new physicians have much better prospects for earning a high income than most people; however the initial delay and expense of launching their careers puts them at a distinct disadvantage in their efforts to build wealth. So, unless they quickly grasp the financial implications of these early challenges, even high-earning physicians can run into financial difficulties.

Young medical professionals are particularly disadvantaged when it comes to acquiring the essential financial knowledge they should begin to plan and manage their finances starting during their residencies. Most are so deeply engrossed in advancing their careers and acquiring the knowledge required to keep on top of their professions they have little time to even think about their financial future, let alone plan for it.

This report was developed especially for new or soon-to-be medical practitioners to help them navigate the early stages of their personal financial life. With the proper foundation and focus on personal finance issues they can control, new practitioners stand a much better chance of overcoming the obstacles that have prevented many physicians from achieving true financial independence.

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Managing Your Personal Finances

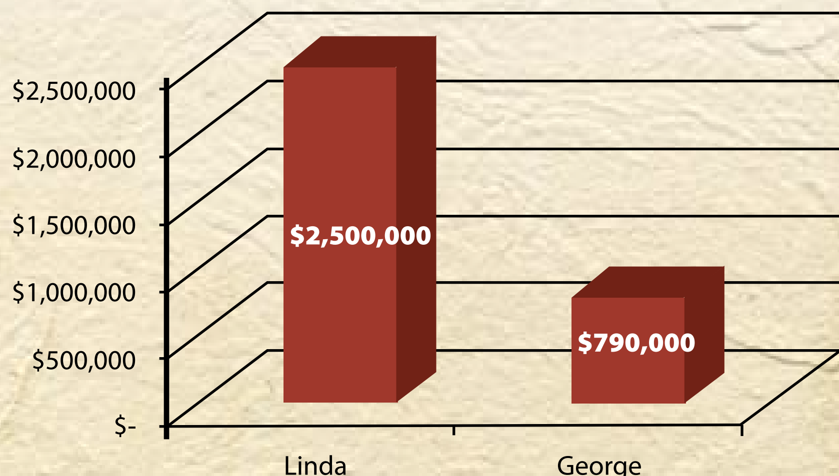
Medical residents are universally lauded for their mastery of "delayed gratification," and no one can fault them for wanting to play catch-up once the money starts rolling in. But, the transition from medical student to MD is laden with some unique financial challenges that, without the tools to confront them, could postpone life's ultimate gratification (retirement) well into the future. Beginning a career ten or twelve years late with six figures of debt can place an enormous burden on new physicians who aren't prepared to manage their finances with their future in mind.

Caught between the temptations to step up their lifestyles and to quickly pay down their debt, new physicians can find themselves running out of money without any consideration for savings. But then, they're only at the beginning of their income potential and there will always be time for savings, right? Wrong. The most powerful resource we all have for building wealth is time. You really don't have control over how much money you will make, but you do have control over how much time you have to save what you do make. The more time you have, the more opportunity you have to build wealth.

The "cost of waiting" is best illustrated with an example of two young physicians who choose two different timeframes for their savings program.

> *Linda invests $20,000 per year from age 25 to 45, and then stops contributing to her investments.*
>
> *George doesn't invest from age 25 to 45, but then invests $20,000 per year from age 45 to 65.*
>
> *Assuming an investment return of 6%, by age 65, Linda would have $2,500,000, whereas George would only have $790,000!*

To accumulate the same amount of capital as Linda, George would have to invest $60,000 a year. His cost of waiting is that he will have to invest an extra $800,000 in earnings to make up for lost time, and that doesn't factor in the added cost of inflation and taxation over that period of time.



The takeaway from this is that new physicians already have to make up for lost time, so there is much less time to waste. Even in residency, physicians can begin saving. It is, therefore, vitally important to save early and save often.

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Defining Your Ambition for a Good Life

A common mistake that many new physicians make when their earnings increase is, instead of increasing their savings by the amount of increase, or at least a proportionate amount, they spend more to maintain their lifestyle. Spending more money may be a cultural norm, but it does little to improve long-term happiness.

A good-life narrative is not built from having more money; rather, it is from knowing how much money is needed to produce the situations that result in a good life. That requires having clarity in your beliefs and values, but more importantly, it needs to be placed in a context that clearly addresses the question, "but for the sake of what?" What is it that you believe, value and care for? How do you protect those things without spending just to accumulate "more"? If you don't understand what it is you're after, you can't put any kind of math to the plan. For a good life today, money can produce certain situations. But a good life today isn't enough, as you need to be able to develop a strategy for living a good life for the rest of your life.

The Late Reality Check

After years of endless study and enduring 15-hour shifts, the transition from resident to full-time MD seemed like a blur to newly minted obstetrician, Dr. Kyle Wilson, whose income more than tripled to $225,000 almost overnight. After relocating to Orlando, Florida to join a private practice, Dr. Wilson immediately engaged one of the top realtors in the area to find him a house to buy. He had saved up $30,000 for a down payment and he set his parameters based on what he thought he could comfortably afford – a $300,000 mortgage with monthly payments of $2,000.

The realtor, who typically works with affluent homebuyers in the million-dollar market, convinced the young doctor to go upscale because it would be a better investment. He would "live among other professionals and enjoy the country club lifestyle that he richly deserves." He rationalized the bigger mortgage and $4,500 monthly payment with his expectation of higher earnings in the near future. With 25 percent of his income going towards housing, Dr. Wilson had little available for savings.

While his income did increase over the years, so did his lifestyle, and so did his tax bite. Now at the age of 47, with a family of 4, he is still contributing far less than 5 percent of his income to his retirement plan. Realizing that he will have to continue working until at least until age 65, and that he will need to contribute at least 30 percent of his income towards retirement going forward, Dr. Wilson is forced to make some difficult lifestyle choices.

As a new physician, the time for a reality check is now, before you become enslaved to debt or lifestyle. It is, therefore, important to envision your professional life cycle in stages, and plan for each one. By planning around your professional life cycle, you can avoid the issues and pitfalls faced by those who simply react to the evolving circumstances.

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Personal Finances through the Professional Life Cycle

Early Stage

Typically, life as a physician in an academic setting or in a private practice is marked by high expectations, high debt and marginal cash flow. The challenge for new practitioners is to build their cash flow sufficiently in order to pay down their debt quickly or risk impeding the growth of their practice.

Physicians in the early stage of their practice are usually in the early stage of their family life as well. Marriage, kids, and a new home become priorities that compete for the cash flow generated from the practice, leaving other, long-term goals, such as retirement, on the back burner. What many physicians eventually realize, albeit much too late, is the missed opportunity for early contributions to their qualified retirement plan, which costs them tens of thousands of dollars over the course of their retirement fund accumulation phase. (See the example of Linda and George above).

Mid-Stage

After five to ten years, the physician is steadily rising up the income ladder. While student loan debt may be getting under control, it is at this stage that a fledgling practitioner begins to take on personal debt in the form of a mortgage or new car loans. At this point, their cash flow is sufficient to be able to make maximum contributions to their qualified retirement plan; however, they are playing catch up, and even maximum contributions won't be enough to fund a timely retirement.

Still mired in a long workweek, most mid-stage physicians have neither the time nor inclination to properly study their personal financial situation to know the predicament they are creating for themselves. Meanwhile, the retirement time horizon continues to grow shorter.

Late Stage

In the late stage of their practices, physicians are generating maximum cash flow and their debt is well under control if not eliminated all together. They have educated their children and are living in an empty nest of a large home in a desirable area. They have been making maximum contributions to their retirement plan for some time, and they have built up other assets, such as investment property and securities portfolios. The issue at this stage is whether they are achieving the maximum tax efficiency in their overall retirement plan. Their retirement plan will not be sufficient to generate an adequate income, so they scramble to pull together other investment assets to augment their retirement plan. Up against a shrinking time horizon, they sometimes find themselves taking more risk than they care to tolerate.

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Retirement Stage

For most physicians, their peak earning years are those just prior to retirement. This significant cash flow, combined with lower debt obligations and family expenses, means they can retire comfortably. The real question becomes whether that retirement comes earlier or later than anticipated.

For a physician, retirement (or semi-retirement) is more about having the option to work or not. With active minds, physicians sometimes choose to work part-time in practice or education, or to be involved in charitable work. At this stage, physicians are also spending more time with their families and enjoying their grandchildren. With an increasing awareness of their own mortality, the retired physician starts to consider his or legacy to family and society at large.

We all know that change is inevitable, so we are left with two choices: react to change while it is happening to us, or plan for change and capitalize on the opportunities. The difference lies in the planning you do now.

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Setting Your Professional Life Cycle's Vision

Take moment to visualize your professional life cycle. Where will you be in terms of your debt, your cash flow, your retirement plan contributions, your family life and obligations, and your lifestyle? Understanding the demands and requirements at each stage will help you to make wiser choices from the very beginning.

Early Stage	
Lifestyle: Rent or own; car – new or used; leisure activities, etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	
Mid Stage	
Lifestyle: Rent or own; car – new or used; leisure activities, etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	
Late Stage	
Lifestyle: Rent or own; car – new or used; etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	

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Late Stage	
Lifestyle: Rent or own; car – new or used; leisure activities, etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	
Retirement Stage	
Lifestyle: Rent or own; car – new or used; leisure activities, etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	
Late Stage	
Lifestyle: Rent or own; car – new or used; etc.	
Financial situation: budget; debt payment; savings goal	
Retirement plan: max contributions?	
Family obligations	
Professional goals	

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Budgeting for Prosperity

Once you understand your own ambition for a good life, now and in the future, you can begin mapping out a course to get there and then apply the math that will help you make the right decisions today. It begins with prioritizing your spending and adhering to a strict budget. And, don't let the "budget" word put you off. Most people think of a budget as a constraint and an annoyance, but the real purpose of a budget is to enhance your financial freedom, both now and in the future. To that end, a budget is your most important financial planning tool.

The big mistake most people make is to prioritize their spending around their expenses – first their essential expenses (rent/mortgage, debt, food, transportation, insurance and utilities), and then their variable expenses (entertainment, clothing, dining out, household items, misc.). If anything is leftover, they might apply to savings.

Generally, when savings is treated as an afterthought or a leftover, it usually doesn't materialize. Instead, establish a savings goal first, be it 10 percent or 20 percent of your income, and lop that off the top of your budget. That will happen automatically when you enroll in your employer's 401k plan. But, if you don't have access to a 401k plan or the contribution limit is below your monthly savings goal, you need to account for the difference at the top of your budget.

But you have other savings goals besides retirement. Your most immediate savings goal should be to accumulate an emergency fund equivalent to six months worth of living expenses. Beyond that, your savings can be applied to longer term goals, such as a car or home purchase. Whatever the goal or the timeline, by saving first, you will then be forced to prioritize your spending based on your remaining income.

Next, you should create some spending guidelines for the rest of your budget. The guidelines are meant to keep you on track, so they should be reasonable for your desired lifestyle while allowing you to adhere to your savings plan. Spending guidelines will vary from one person to the next based on their needs as well as the actual cost of living in the city or region they reside.

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As an example, the spending guidelines for an attending physician who earns $150,000 and who lives in an east coast city might look something like this:

Essential Expenses	Annual Income	% of income
Taxes	$35,000	23%
401k / 403(b) / Other Savings	$30,000	20%
Housing	$20,000	13%
Debt payments	$16,000	11%
Food	$ 9,000	6%
Transportation	$ 6,000	4%
Utilities	$ 5,000	3%
Insurance	$ 7,000	5%
Professional Development	$3,000	2%
Total Essential Expenses	$131,000	87%

Non-Essential Expenses		
Entertainment	$4,500	3%
Dining out	$2,500	2%
Clothing	$2,500	2%
Household needs	$2,500	2%
Misc.	$7,000	5%
Total Non-Essential Expenses	$19,000	13%
Total Expenses	$150,000	100%

**Percentages are rounded*

This physician has set up her spending guidelines to meet her savings goals while paying down her debt. She has managed to create a surplus of $32,000 ($17,000 into 403(b) / $10,000 into savings accounts / $2,000 applied to principal of student loans) that can be applied to debt payments, savings, or both, with enough left over for an occasional splurge. If additional essential expenses arise, such as childcare, she would have to adjust non-essential spending first and then essential spending to cover the expense. She should do everything she can to avoid using any part of her savings allocation.

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Budgeting for Prosperity

Now it's your turn. Using the example as a framework, try establishing spending guidelines around a savings goal and see how much surplus you can create that can be used to further your goals.

Estimated Income:

Essential Expenses	Annual Income	% of income*
Taxes		
401k / 403(b) / Other Savings		
Housing		
Debt payments		
Food		
Transportation		
Utilities		
Insurance		
Professional Development		
Total Essential Expenses		

Non-Essential Expenses		
Entertainment		
Dining out		
Clothing		
Household needs		
Misc.		
Total Non-Essential Expenses		
Total Expenses		

**Divide the amount of expense by total income*

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Budgeting for Prosperity

Your next step is to plan your budget over a 12 month period carrying your surpluses forward to see how much progress you can make in adding to your savings or paying down your debt. Once established, tracking your spending takes only a matter of minutes. Software programs such as Quicken or Mint.com, can automate much of your tracking by linking with your bank and credit card accounts. They can also automatically categorize your spending and project future cash flow.

Taking the time now to prioritize your spending and building the habit of prudent and diligent financial management will not only enable you to meet your goals on your time horizon, it will form the foundation for serious wealth accumulation as you enter your peak earning years.

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