Money and Medicine

10 Essential Reminders for M.D.s

Most people assume that money and medicine go hand-in-hand, that by becoming a doctor you are virtually guaranteed to earn a healthy income and achieve an enviable lifestyle. Your medical degree not only confers respect, interesting work and the opportunity to help others, it is also seen as a gateway to a financially rewarding career. While becoming a doctor may mean you will own a nice house, an expensive car and pay private school tuition for your kids with ease, these perks are not guaranteed. There are choices to be made along the path to financial stability and success that can either move you forward or lead you astray.

This resource offers **10 essential reminders for M.D.s** that can help you achieve and maintain the financial success your profession has the potential to provide. We address financial realities, choices, pitfalls and opportunities that M.D.s typically encounter over the course of a career. These reminders are categorized in terms of “early stage career”, “mid-career” and “career pinnacle” topics, but whichever stage you are in we believe it is useful to review all of them, as it is rarely too late to go back and correct missteps along your financial path.

The Early Stage
(your 30’s)

You’re (finally) finished with medical school and residency and are just beginning your career as a practicing physician. It is an exciting time, professionally, and often a challenging time financially. Here are our essential financial tips for this stage of your career:

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1. Doctors are late-starters when it comes to earning. You have to catch up.

According to a gastroenterologist we interviewed, “with all the years spent in college, med school, residency and fellowships, I was 31 before I earned much more than minimum wage. Working 100 hours per week didn’t leave much time for spending, but I couldn’t save much either.”

Since you had to postpone earning money for many years, when you begin to earn a decent salary you should accelerate your efforts to save. Start by creating an emergency fund that covers six months necessary expenses, then save aggressively – more than the 15% of income that is typically recommended for retirement savings, if possible.

Don’t fall into the trap of thinking that saving an extra $100 here and there won’t matter in the long run. While you shouldn’t deny yourself some treats every now and then, consider this: If you had invested just $100 extra per month, every month, in the U.S. stock market (the S&P 500, to be exact) over the past 30 years, you would now have almost $194,000 in additional savings. Saving an extra $200 per month would have yielded almost $400,000. That includes all of the market’s ups and downs over that period.

If you are a few years into being a practicing physician, you are probably earning a good living, and as your income increases, so will your tax-bracket. One way to reduce your taxable income and make progress toward catching up on your retirement savings is to make pre-tax contributions to the appropriate type of account. Choices include a 401(k), a traditional IRA, a Roth IRA (using the "backdoor" provision) or, if you are self-employed in a private practice, a SEP IRA or 401(k) (if allowed). Consult with your Financial Advisor to make sure you choose the retirement account that is right for you.

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2. Carrying student loan debt can seriously interfere with other aspects of life. Pay it off aggressively.

You are entering the "big spending" phase of your life. Perhaps you are setting up your own household for the first time and think you need new furniture. Maybe you think you need a new car. By exploring less expensive ways to accomplish these goals (second-hand furniture, public transportation), you can throw more of your income at your student loan debt. Think of the interest rate you are paying on your student loans and ask yourself if you would you borrow money at that rate to buy new furniture. That's essentially what you are doing when you spend instead of using the money to pay down those loans.

3. Congratulations, you're getting married. Your financial lives will be joined, too.

Make sure you and your bride- or groom-to-be have talked a lot about money. That includes your views on debt (student loans, credit cards, etc.), who will be in charge of paying the household bills and whether you'll have only joint accounts or some separate ones. Make sure you both know about every type of debt each of you will bring to the marriage, including your student loans, credit card balances and unpaid medical bills. Your future mate might not understand your inability to save during med school, so be sure to give a full explanation of your current financial status and your plans to pay down debt and save going forward.

Consider the possibility of trading an expensive wedding and honeymoon for more modest versions, and ask that whatever contributions your parents are willing to make be applied toward student loan debt. If you already have pots & pans, ask wedding guests to contribute cash to help with a down payment for a home, or to help with buying furniture. You can take a really nice honeymoon in a few more years.

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4. It's okay to postpone buying a house.

Focus on paying down your student loans (see #2 above) and build that emergency fund to cover six months of living expenses. Although renting may feel like throwing money away, buying a home might be a costly mistake. You can't count on selling at a profit (home prices don't always go up), and the total cost of home ownership is greater than a monthly mortgage payment when you include property taxes, insurance and maintenance costs. Renters don't have to worry about any of those things. To avoid home-buying fever, don't spend your weekends looking at Open Houses. There will be other homes to buy when you're financially ready.

When the time comes to buy a home, consider the quality of the neighborhood schools, even if you do not have children! Having a public school option that works for your kids would greatly reduce the total cost of their education so it might be worth paying more to live in a neighborhood with strong public schools.

Mid-Career
(your 40's to early 50's)

By this time, you have established yourself in your career and there is about a 40-50% chance you are in a private practice. You may have a family and all of the joys and obligations that go along with it. Here are some reminders of issues that can affect your financial health at this stage of your life:

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5. Feeling entitled is the enemy. Live within your means (or below).

You spent many years training to be a physician, you put in your time as the junior member of a team and now you've really hit your stride professionally. Financial peace of mind and early "financial independence" is a better choice. Financial independence has several interpretations. We believe it requires a professionally prepared Financial Plan with reasonable assumptions, projections, risk tolerance assessments and asset protection strategies. We think of it as a set of conditions in one's life in which an individual or family household has sufficient financial assets to live comfortably with their material needs and wants covered, (but not necessarily ALL of their material wishes) without being dependent on income from employment. They have the option but not the financial necessity to work for income.

Even though you're probably making a substantial income at this point in your career, maintaining a household budget can be very helpful so that you know where your income is going – mortgage, food, utilities, entertainment, vacations, savings, etc. If your *net* income (after taxes, of course) is less than the amount you need to cover your spending plus your savings goals, you're not living within your means. In blunt terms, you're trading away a secure retirement for whatever you're buying today.

As an example, one area where physicians often spend a great deal of money is tuition for private K-12 education. As a parent, nothing is more important than your children's future and there are often many reasons to choose private or parochial schools. Sometimes the public school option is truly inadequate for your children. Still, it is important to be mindful that $20K-$30K per year on tuition (more, in some cities) equates to well over $30K-$40K in pre-tax income devoted annually to meeting that expense. Over 12 years, that's close to half a million dollars per child. If private K-12 education is a priority or need, then be sure to factor it into your household budget.

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6. Doctors as business owners: the realities of private practice.

With Medicare reimbursements declining almost every year and private insurance companies paying less to doctors for their services, many physicians in private practice see their revenues decline while their costs rise (consider the costs of complying with mandated electronic health record reporting, for which there is no reimbursement). One M.D. in private practice told us, "As a younger physician, I rarely heard the words 'budgets' and 'doctors' in the same sentence. Now I know better." Doctors in private practice need to know how to track and forecast revenues and expenses, and may want to pursue ancillary sources of income (e.g., telemedicine) that will exceed the costs of providing those services. Remember, your time is valuable, so factor that into your P&L. If you don't know what that means, consider hiring a practice manager and talk to your Financial Advisor.

7. Watch out for burnout and depression.

Unfortunately, mental health issues among physicians is a growing problem; some sources claim it is approaching an epidemic. In addition to their effects on your personal well-being, burnout and depression also have an impact on your financial wellbeing. It may make you less productive or reduce the level of care you provide to the patients you see. This may prompt them to leave your practice, negatively impacting your finances and, even worse, increasing your risk of a malpractice lawsuit. If you are forced to leave your practice or take a sabbatical, this would also damage your financial situation. If you are feeling burned out or depressed, seek professional help (and remember that a physician who treats himself has a fool for a patient).

Career Pinnacle
(early 50's to retirement)

At this point, you have accumulated decades of knowledge as a physician and may be mentoring or even teaching those who are beginning their careers. You are also looking ahead toward a time when you might cut back at work or retire. You are probably in a position to make substantial contributions to your savings to support the lifestyle you desire for your later years. At this stage, keep the following in mind:

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8. Investing is not a medical specialty.

At this point in your career, you have probably accumulated a decent-sized investment portfolio. Perhaps because they are highly educated and intelligent, many doctors think they're smart enough to manage their own money without help from a Financial Advisor. According to one M.D. we spoke with, "in the doctor's lounge at our hospital, the TV is usually on the Business Channel."

Some doctors even get involved with complex trading strategies using options or other financial instruments. Bad idea. When a doctor tells you about a big profit he made from buying and selling options, it's likely that he is neglecting to mention the other five or ten times his trades produced losses.

This isn't a matter of being smart enough. You've spent your time acquiring knowledge, training and experience in the field of medicine, not investment management. In contrast, Financial Advisors have years of experience and knowledge about investing and financial planning and they don't try to practice medicine on the side. Work with an Advisor to protect and grow your wealth.

9. Avoid financial landmines.

Some financial wounds are self-inflicted and can therefore be avoided. One example is divorce. A doctor's long hours can be difficult for both parties in a marriage, but divorce is harmful to any couple's long-term financial health. If counseling could help you avoid it, consider it a wise investment. Physicians who have accumulated savings, a valuable home and other assets over the course of a marriage are particularly at risk. If you are divorced and are considering a second (or third) marriage, talk with your Financial Advisor *before* taking that step, especially if you or your spouse-to-be have children. Seek legal advice regarding the advisability of a prenuptial agreement, how to revise the beneficiaries on your life insurance policy, 401Ks, and IRAs, and how the marriage would affect your estate plan.

Another mistake physicians often make is pouring large sums of money into expensive hobbies, which may include owning one or more vacation homes, boats with high maintenance costs and lavish country club memberships. Be especially careful of hobbies that involve gambling as they can develop into an addiction. One senior doctor who now works in a teaching hospital recalls a colleague who was quite successful financially; he invested in racehorses, bet heavily and lost frequently. Doctors involved in such activities are setting themselves up for regret – don't feel like you're missing out by not spending your money this way.

Finally, avoid the landmine of dying without an estate plan. A will is most likely insufficient for doctors who own a home and have accumulated other assets. Speak with an estate attorney about establishing a trust. Your Financial Advisor can help you find an estate attorney, if you don't currently have one. Be sure to talk to your adult children about your plan to make sure they understand your objectives.

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10. Beware of "great investment opportunities."

Physicians are bombarded with phone calls (which you shouldn't take) and emails (delete them) touting great "investment opportunities." Doctors, who are very busy and therefore may not take time to probe and question as much as they should, may be more vulnerable than most people to getting burned.

Those salespeople who earn big commissions for pushing inappropriate investment products to investors with wealth know that doctors have money, and they are well trained to get you to part with some of it. Be cynical when it comes to any "great investment." Ask important questions like "what risks are involved?" If the answer is "it's risk-free," that's like a pharmaceutical salesperson telling you there's a great new drug you can buy that has zero side effects.

On a related topic, it is extremely important to know whether or not your Financial Advisor has an incentive to sell you certain investments. Stockbrokers earn commissions and other forms of compensation based on the types of securities you buy and sell, and how often you make transactions. Fee-only, independent Financial Advisors do not face those conflicts of interest. Make sure your Advisor is held to a fiduciary standard (see below). Check your investment reports and statements carefully. Ask about every fee, every trade and every commission, and make sure you get a satisfactory answer – you're entitled to that.

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The "fiduciary standard" requires Advisors to put their clients' interests above their own. It consists of a duty of loyalty and care and means the Advisor must act in the best interest of his or her clients. Independent Investment Advisors are typically held to this standard. Brokers (who work for a broker-dealer) are held to a suitability standard, which may not be in your best interest.

Physicians typically have the potential, financially speaking, to achieve an enviable lifestyle, but it doesn't happen automatically. Following these **10 Essential Reminders** over the course of your career can make a big difference. We work with doctors at all stages of their careers to help guide them to a stable and thriving financial life. Combine that with a highly respected, interesting career helping others and you have a recipe for great satisfaction. **Reach out to us to learn more** about how Gold Medal Waters can help.

About Gold Medal Waters

We believe that our client's future happiness depends on the work we do today. That proper financial planning and systematized investment management decreases negative stress and increases well-being, leading to better outcomes. That's why we're dedicated to pairing our clients with real people who deliver advice with warmth, understanding and privacy. A real relationship, not a computer algorithm.

Gold Medal Waters
4551 13th Street
Boulder, Colorado 80304
(720) 887-1299