



From Resident to Physician: Smart Financial Moves for New Doctors

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Key Takeaways:

- Acknowledge that medical school doesn't prepare you for managing your newfound income and assets.
- Take a long-term view towards wealth preservation – and don't rush into major purchases or self-rewards.
- Find the right strategy for paying down student loans, selecting the right insurance and navigating the home buying process.
- Don't go it alone. Work with a team of financial professionals that can craft a comprehensive wealth management plan that's right for you and your family.

The transition from resident to practicing physician is one of the most exciting chapters in a doctor's career. But it can also come with significant uncertainty and stress, as newly minted physicians face a long list of important decisions that must be made in a relatively short period of time. Don't rush these decisions, no matter how busy you are.

Think of it this way: Just as you wouldn't suggest that a patient begin running immediately after they have their cast removed, we wouldn't suggest you embark on your new career path without the proper plan in place.

Financial challenges facing young physicians

After years of taking on substantial debt, scraping by and spending virtually all of their time studying, new physicians suddenly find themselves making large incomes—with little guidance about how best to manage their sudden influx of cash. Few medical schools provide doctors with even the basics of managing their income, assets and obligations. That's why you should take steps to make intelligent financial choices right out of the gate and avoid the pitfalls that could cause major financial headaches for yourself and your family down the road.

What's more, doctors are typically thrust into their busy careers and don't have much time to get up to speed on such matters. Finally, new doctors commonly focus on spending and "catching up" with the lifestyles long enjoyed by friends who started working right after college, not to mention with older physicians who've had more time to establish their careers and accumulate wealth.

But the fact is, young doctors need to deal with key financial issues—some familiar, some they might not even be aware of—right from the start. For example:

1. **Student loans.** These days, new doctors can easily leave medical school with \$100,000 or more of debt. Does it make sense to pay down that debt aggressively or take a slower approach that pays the debt more slowly over time? By setting up the right plan, physicians can bring a level of predictability and stability to what will be one of the largest components of their financial lives for years to come.
2. **Taxes.** Taxes on revenues, incomes and any investments can have a sizable impact on a new physician's financial picture. Physicians need to understand the different ways in which they are taxed and how their financial decisions can impact their tax liabilities, both positively and negatively. Armed with that knowledge, physicians and their advisors can put strategies in place to mitigate taxes and keep as much of their wealth in their wallets as possible.
3. **Cash flow.** Some new physicians feel they don't need to set spending limits as their large incomes will be sufficient to pay the bills. But the more money you can save at an early age, the greater it will accumulate over time. What's more, young physicians need to see just how much money they likely need to sock away in order to retire comfortably. The amount is often larger—much larger—than they expect. Most are amazed to see how much less they need to save by starting earlier.
4. **Insurance.** Physicians know better than most that unexpected events can harm even the youngest, healthiest people. Insurance allows physicians to take care of their most important financial asset: themselves. They need to be protected from the risk of career-ending accidents or disabilities, for example, and may also need other types of insurance to provide for their families. Typically we find that many young physicians are substantially underinsured considering their earning potential.
5. **Real estate.** Hardworking young physicians can be tempted to set unrealistically high price ranges for their first "real homes." Sure you've earned it, but buying a house that you can hardly afford, or can't really afford, is one of the worst financial decisions we see clients make. A young physician can be saddled with burdensome mortgage payments—even on a large salary. And overcommitting to real estate can leave you struggling to fund your retirement, or your children's post-secondary tuition bills down the road.

Six smart steps to financial security

Clearly, new physicians have many financial issues to consider—just as they're seeking a desirable full-time position and trying to ensure they start the next phase of their careers successfully.

The good news: By planning deliberately, physicians can respond with smart solutions to these and other financial challenges that will position them for a lifetime of financial security

To get started on the right financial footing, consider these key action steps for success:

1. Insure yourself properly. Insurance may seem complicated or highly technical at times, but here are some basic tenets you should follow: (a) Get insurance while you are young and healthy. That's when it's least expensive; (b) Plan to replace what you need to live on if you are suddenly unable to work.
2. Size up your tax situation and conduct income tax planning. There are key differences between corporate income and personal income, and how each type of income is taxed. Taking money out of your company in large chunks can have adverse tax consequences. For example, a physician might build up \$500,000 in his or her company quite quickly, but then pull it all out for a down payment on a house—not realizing that such a move will require him or her to pay nearly half of that amount in personal tax that year to the CRA. Then, the following year, the doctor will have to pull out a large sum again just to pay the personal tax bill—and on and on it goes.
3. Don't be in a rush to make large purchases right away. Beware of sinking money into large purchases like luxury cars and homes. Even well-paid doctors can feel financially insecure and strapped for cash if they spend too impatiently. It's important to put a game plan in place for both a down payment on a house, and a mortgage. Consider all the costs associated with purchasing a property—including the impact of interest rate shifts in the future, and the tax implications of taking money from a corporation. The key is to understand how a large financial outlay in one area can impact your finances in other areas. That's why you want to build a comprehensive plan so that every important financial decision you make is done not in isolation, but in the context of your other decisions.
4. Find ways to live within your means. Of course, it's natural to want to start living large as soon as you begin practicing medicine, especially after all those years of financial sacrifice. But, the most successful physicians we work with make a point to establish an amount of how much to pay themselves to maintain a reasonable lifestyle and then invest the difference. Most others simply spend most or all of whatever they make. If nothing else, focus on minimizing your three biggest costs—food, transportation and housing. After all, young doctors have a rare opportunity to save and invest a substantial amount of money.
5. Find the right kind of expert team. Many physicians assume that because they have mastered one of life's most complex disciplines, they can easily master financial management. But just as no one would expect a financial advisor to perform surgery on herself, physicians should not be expected to manage their own money. Instead, find a team of professionals who work together to create a comprehensive, customized wealth plan just for you. That team should include a wealth manager to handle investing, insurance planning and budgeting, as well as specialists in the areas of taxes, estate planning and loans.
6. Develop a student loan repayment strategy. Paying down student loans is critically important, but there is no one right way to do it. As with your mortgage repayment plan, your expert team can help you develop a student loan repayment plan that's integrated with your overall financial plan, including how aggressive to be.



Conclusion

Clearly, the decisions you make today can have a huge impact on the quality of life you enjoy in the years and decades to come. So don't rush to start spending all of your newfound wealth—especially on big ticket items. The whirlwind of activity that occurs during the transition from resident to practicing physician demands that you make thoughtful decisions about your finances, or risk jeopardizing your future.

The message is clear: Take the right steps now to protect what you have built thus far and get the help you need to develop a comprehensive, integrated plan that ensures all facets of your financial life are working together in harmony. By making intelligent decisions about your wealth and working with the right professionals from the start, you will set yourself up for a lifetime of financial success.

Based on research by the Canadian Medical Association. <http://nationalphysiciansurvey.ca/wp-content/uploads/2013/03/C3PR-Bulletin-StudentResidentDebt-201303-EN.pdf>