# Financial Planning Focus: Physicians

## A Three-Part Series Addressing the Financial Stages of a Doctor's Career. Stage One: Residency

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Ian is a Financial Advisor in the Pittsburgh, Pennsylvania office of HBKS® Wealth Advisors. He previously interned in HBK's Erie office following working as a financial advisor at Merrill Lynch in 2012. As a financial advisor, he will continue to serve the clients he has worked with in recent years as well as assist with the firm's existing clients. Among his clients he counts several fellow professional football players and plans to focus much of his effort in Pittsburgh on players and others he has met through football.

Upon earning an accounting degree from Mercyhurst University in 2012, Mr. Wild signed with the Buffalo Bills, then played with Winnipeg in 2013 and 2014 before signing with the Steelers in 2015. Mr. Wild will play June through November with the Blue Bombers and return to full-time with HBKS in December.

Doctors face more financial challenges than one might think. To start, most do not start earning a living wage until their 30s. Four years of undergrad, four years of medical school, three-to-five years of residency – that's over a decade of higher education before their first real job. Not to mention that the eight years of undergrad and grad schools come with tuition costs of between $200,000 and $300,000. On the other hand, the high demand for physician services and the increasingly escalating cost of health care combine to generate earnings that rank doctors among the top earners of all professionals. As a result, financial planning for physicians is its own unique practice. Managing debt, starting a family, buying a home, saving for retirement, and the cost of required malpractice insurance are just a few of the financial planning items important to discuss early in a doctor's financial journey.

For purposes of examination, let's look at a doctor's financial lifecycle as three stages:  Residency, The First Five, and The Prime Time. Following is the first of a series of articles addressing each stage.

### RESIDENCY

Doctors who have reached the residency phase likely do so with a sense of relief. You've passed your boards and are beginning your professional life. For the next three-to-five years, you'll earn at least some money as an intern as you continue to hone your skills in your specialty. From a purely financial outlook, earning between $50,000 and $80,000 is a decent start, but with student debt in excess of $200,000 it can be difficult to live like other 30-year-old professionals.

A few key financial moves to make during the residency stage of your financial lifecycle:

#### Home Purchase

After years of apartment hopping, it is tempting to finally buy your own place. If your residency is somewhere you plan to stay for longer than five years, it probably makes sense to buy a home, condo or townhouse.  Luckily physicians

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are a favored client of bankers, allowing you to purchase a home with little or no down payment, which is helpful when balancing a relatively modest income with huge student debt.

If you do not plan to stay in the location of your residency or plan to buy a larger home when your residency is completed, it might make sense to continue to rent or to buy with an interest-only loan. An interest-only loan will come at a lower interest rate than a longer term, providing for lower monthly obligations and giving you more flexibility when you are ready to move elsewhere or upgrade.

**Starting a Family**

Statistically, the most popular time in life to start a family is between the ages of 26 and 34. This major life event not only changes your lifestyle but also your financial foundation. It is important to have estate-planning agreements in place, such as a will, power of attorney, and adequate life insurance.

Depending on the types of loans you have – public, private, co-signed – your estate may be on the hook for the balance if you die. Student loans, along with your mortgage and any other debts that you and your spouse may have should be covered with some type of life insurance.  Many employers offer group term life insurance as part of the overall benefit package, however even if you have such coverage it is important to check and make sure that it is enough at least to cover your debts. Term life insurance is relatively cheap and a good option to ensure your family's well-being.

**Disability Insurance**

Disability insurance is something you should consider during your residency phase. Disability insurance provides an income if you were unable to work because of an accident or illness. This is a particularly wise purchase if you are earning a substantial monthly income and your lifestyle includes large amounts of monthly expenditures. As a high earner, it would be difficult to replace your income with another job if a physical or mental disability prohibited you from practicing. The earlier you open a disability policy, the cheaper it will be to insure yourself and your family.

**Retirement Savings**

The law of compounding interest over long periods of time has served to build substantial wealth for scores of savers. It is important to start saving and investing at an early age. Most importantly, take advantage of your company's 401k plan, especially as the company will match a certain amount of your contributions – essentially free money toward your retirement. Depending on your ongoing loan obligations – interest rate, balance, and so on – it typically makes sense to apply any extra money you might have against your loans. Student loan interest rates average in the 6 to 8 percent range; it's not likely you'll find a guaranteed rate of return like that in an investment. If you have a low-interest student loan rate, say, less than 5 percent, you could consider investing part of your excess income in a Roth IRA, which will grow tax free and has the potential to earn greater than 5 percent in the long term.

**Student Loan Payments**

As you are earning an income, you will be required to make student loan payments during the Residency phase of your financial lifecycle.  Depending on the interest rate and other sources of income, such as from your spouse, consider making the minimum payments as outlined by the loan company. If you have money left over at the end of a month, you might do as mentioned above, working down the loan balance while also adding to your retirement savings.

There are many different types of loan repayment programs, such as REPAYE and Public Service Loan Forgiveness, as well as opportunities to refinance your loans at a lower rate, which will also decrease the total amount of interest you pay and increase your chances to build wealth more quickly.

While there are many financial factors to consider and deal with at the Residency stage, the above are general principles to follow. In the next article in this series, I will discuss some key financial moves to make in The First Five Years phase, that is, the first five years following residency.

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