Residency and Your Finances

The first years of practice after completing medical school can be wrought with financial peril and stress. Newly christened physicians who have borrowed money to attend medical school emerge with huge debt; the average is $190,000. But starting your career intelligently includes getting started toward establishing financial security and building wealth early, including addressing medical school debt.

Here are some steps you can take to get started:

1. BUDGET CASH FLOW, WHETHER OR NOT YOU HAVE LOANS TO REPAY.

If you have loans to deal with, you'll need to budget for payments according to the repayment schedule. You have the option to defer while in residency, but if your loan amount is in the neighborhood of the average, the deferral cost of approximately 6.5 percent annual interest will be about $12,000 per year, in addition to your principal. It is therefore best to start making payments against the principal as soon as you can.

The new tax law continues to limit deductibility for interest on loans to $2,500. Also, the deduction phases out as your income grows, starting at $65,000 for a single individual, $130,000 for a married couple filing jointly. If your income is above the phase-out level, you'll want to be even more aggressive in paying down your loans.

You could consider working for an employer who will help pay off your medical school loans, the trade-off typically being your commitment to stay for a designated period of time. But remember that those payments will be taxable as income.

If you made it through medical school without loans, please give a big thank-you to whoever supplied the financial support, including yourself if you worked in addition to attending classes. You will be able to get a head start on building your wealth and protecting your future assets and cash flow.

2. START BUDGETING EARLY FOR RETIREMENT.

Hopefully, your current employer offers a retirement plan, such as a 401(k) or 403(b). Make sure you sign-up for this benefit. At a minimum, contribute to the extent the company offers a matching contribution. For example, if the company matches your contributions dollar for dollar up to 5 percent, find a way to contribute in kind. This is a 100 percent return on your money, plus any market growth. Also, if the plan offers a Roth IRA option, where your contributions are after-tax as compared to pre-tax dollars, consider it while your income is lower, and therefore taxed lower, than it will be in the future.

If your company does not offer such a plan, consider opening your own IRA or Roth IRA. The current tax law allows you to contribute up to $5,500 per year to your plan.

3. PROTECT FUTURE INCOME WITH A LONG-TERM DISABILITY POLICY AND LIFE INSURANCE.

Both insurance options are more affordable the younger you are, so it is prudent to implement both early on. Your current employer may offer these programs, but if you leave that employment, your individual policies can follow you.

There is a lot to consider when addressing these policies. Be sure to consult with an independent financial advisor for a full understanding of your options.

4. BUILD A CASH RESERVE.

It's important to take advantage of the retirement accounts noted above, but they come with restrictions on accessing the funds. Create a cash reserve you can access without any penalties for such things as a down payment on a house or business. Building a cash reserve of $10,000 to $15,000 is a good starting point.

5. ESTABLISH AN INVESTMENT ACCOUNT.

You can access the money in an investment account similar to how you might draw on your cash reserve, that is, without penalty, but your goal for your investment accountis to earn more than you can by setting aside cash. You can tie contributions to your investment account nicely into your budgeting process, setting aside an amount each month. Spreading your contributions out evenly over the months is referred to as "dollar cost averaging," a smart approach to investing that can smooth over up-and-down swings in the markets.

6. NOW YOU CAN ENTERTAIN OTHER ASSET-PROTECTED SAVINGS OPTIONS, SUCH AS WHAT I REFER TO AS A "PRIVATE INDIVIDUAL PENSION PLAN."

In a profession where litigation is common, you need insurance to help protect you as a practitioner. But also consider "asset protection" as you build out your financial plan and begin to accumulate wealth. Each individual's financial situation and goals are unique and regulations differ from state to state. To achieve your financial goals, you'll require expertise at multiple levels — accountant (a CPA), financial planner (a CFP), attorney. Educate yourself on financial matters and consider working with professionals who can guide you along your financial journey.

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