

Financial Advice for Young Physicians



Medical training can be a challenging time for young physicians, not only in terms of the wealth of new knowledge accumulated, but also in terms of financial planning. Medical school tuition rates have become extremely high, and most physicians end their training with tens or hundreds of thousands of dollars of debt. The transition from residency to fellowship to clinical practice can be difficult financially, as physicians start having families and begin making significant long-term investments in retirement accounts, college funds, real estate, and other venues.

In part 1 of this 2-part series, we interviewed Craig Molldrem, an associate partner and financial advisor with North Star Consultants Medical Division, a group based out of Texas and Philadelphia that specializes in advising physicians, including 3 former retina fellows at Wills Eye Institute in Philadelphia, PA. Allen Chiang, MD, who finished fellowship in 2011, is now an Associate Physician with East Bay Retina Consultants in Oakland, CA. Omesh Gupta, MD, MBA, who finished fellowship in 2009, was an Assistant Professor and Co-director of Research at the Temple University Hospital, and is now an Associate with Mid Atlantic Retina, the Retina service of Wills Eye Institute. Andrew Lam, MD, finished fellowship in 2008 and is now an Assistant Professor at Tufts University School of Medicine and a Partner at New England Retina Consultants in Springfield, MA.*

— Andre Witkin, MD; Alok S. Bansal, MD; and Nik London, MD

GENERAL FINANCIAL ADVICE

How can I maximize my savings?

Craig Molldrem: After paying off debts that have higher interest charges associated with them, you should have a set percentage of income set aside for savings. This can be split up into any number of different venues depending on the individual, including buying a house, retirement accounts, or other investments. I usually recommend that 20% of a person's income be set aside into various savings vehicles. This will help you set a path for financial independence, and after working a certain number of years, eventually allows you to maintain the same quality of life even after retirement or stopping work for any other reasons. The key to the savings rate is to automate so you never "see the money." If it is not automated, it can be very difficult for some clients to resist spending the money that is left in savings and checking.

Andrew Lam, MD: The best way to maximize savings is to live below your means. Twenty percent is a good goal. More is always better. If you hope to accumulate wealth, your most important decision isn't how you invest your money, it's your savings rate.

Allen Chiang, MD: This is precisely the question you should be asking yourself upon completion of fellow-

ship training when annual income suddenly increases five- to sixfold. This overnight boost in spending power can easily precipitate overspending, particularly after 10 years of arduous schooling and training. Begin with the basics. Rework your budget or if you never had a budget, sit down and make one. After accounting for educational debt payments and your new monthly expenses, aim to save as much of your hard-earned income as possible. Remember that investing money now, at a young age, permits a longer timeline for growth of your savings and ultimately, generation of wealth.

Omesh Gupta, MD, MBA: We are in a profession that fosters delayed gratification. Once we are out of training, it is very difficult to think in those terms. For the first couple of years, a strong effort should be made to get rid of all high interest and risky debt. This includes credit card debt and educational loans with variable rates. The key to saving is living within your means. You need to find your personal line between "need" and "want" and try to stick to it.

How do I start investing?

Mr. Molldrem: After high interest debts are paid off, the first thing I recommend is to set aside an "emergency fund" with 3-6 months' salary. Although interest

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returns may be low on a savings account, this emergency fund ensures the maintenance of your quality of life should anything untoward happen to you. Most long-term disability does not kick in until at least 90 days after diagnosis or injury. Investments after that can be made at the discretion of the individual to address the primary goals or objectives as discussed with his or her financial professional, as long as the focus is on saving at least 20% of your salary.

Dr. Lam: After establishing an “emergency fund,” focus on the following: paying off debt, maximizing funding of tax-advantaged retirement accounts, saving for childrens’ college expenses, and finally, beginning your own investment portfolio. In each of these accounts, you will want exposure to stocks. Current interest rates are extremely low, and the yield from money market and savings accounts will not keep pace with inflation. Although there is inherent risk to investing in stocks, historically, the return from stocks has outpaced other forms of investment over the long-term. Firms like Vanguard, Fidelity, TD Ameritrade, and others make low-cost trading easy. Begin with a diversified portfolio of index funds or exchanged-traded funds. As your portfolio grows, you might choose to buy individual stocks and consider employing a financial advisor.

Dr. Chiang: Maintain some liquidity by opening a savings account that is tied to a money market account. Although the interest gained is negligible, the goal is to build an easily accessible cushion of money that can cover at least 3 months’ worth of salary. Next, make use of the available tax-deferred investment vehicles. If your practice has a profit-sharing plan such as a 401K, maximize your allocation into that account. If you are not able to participate in such a plan, open your own individual retirement account (IRA) with a brokerage firm, such as Fidelity or Vanguard, and select either an index fund or a mutual fund with a targeted retirement date, also known as a lifecycle fund. Maximize your savings into that IRA, which is limited to \$5000 annually. Start simple; you can choose to get fancier with your invest-

ments later on when you are more established, have more income, and are more financially savvy.

Dr. Gupta: The largest and most important investment that you can make early in your career is your house. Some physicians have purchased a house during residency and fellowship, but most make this “grown-up” decision once they have their first job. The down payment, mortgage, and necessary renovations are all important decisions that must be thoroughly researched. Tax-deferred investment entities are the obvious next step, but I would encourage investors to reserve a small portion of their savings for more risky, more volatile investments. Stocks, and in particular growth stocks, can be too risky for many physicians to tolerate. We are risk-averse by nature, but exposing a small portion of your investment portfolio to risk also opens it up to reward.

STUDENT LOANS AND DEBT

When and how should I start paying student loans off?

Mr. Molldrem: All physicians should develop a clear strategy for paying off their loans. How you choose to pay off your loans depends on the interest rate. If your loans have a low interest rate (2-4%), then it may be better to pay them off slowly, as you can make more money by investing elsewhere vs sending excess savings to low-interest debts. If your loans are high-interest, it may be worth considering paying them off more quickly, as that is essentially a guaranteed return on your money that is close to or more than what you may get from your wealth accumulation strategy.

How do I prioritize debt payments?

Mr. Molldrem: The first thing you should do before thinking about saving into any accounts is to prioritize debts, from highest to lowest interest. If you've accumulated high-interest debts, those should be paid off before any investments are started. Credit card debts can be transferred for limited time to a 0% interest credit card, which can help through fellowship until making more money as an attending physician.

DISABILITY/LIFE INSURANCE

When should I purchase long-term disability insurance

Mr. Molldrem: Long-term disability insurance (LDI) is one of the most important investments a physician can make. Years and years of training went into becoming a full-fledged attending physician, and all that training is at risk if you become ill or have an accident. Therefore,

it is critical for a physician to not only acquire LDI, but to ensure that it is the correct type. The sooner you obtain LDI, the better. Rates go up every year you're in training and as an attending. In addition, a health condition prior to having the coverage may result in a decline from the carrier or a modification to the policy. And conversely, once you purchase a base LDI plan, you can add coverage later without needing another entry physical as long as you qualify for that feature.

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Dr. Lam: Devote some time to finding the best policy now, because you will be paying this premium for decades and making a change in policy or company becomes more difficult and expensive as the years go by.

Dr. Chiang: My cofellows and I started researching LDI in the last few months of our fellowship. Some statistics demonstrate that one is almost 5 times more likely to become disabled than die. As a retina physician and surgeon, your most valuable asset is your ability to practice your trade for the next 30 years. LDI provides protection from a disabling accident or medical condition, though it does not usually kick in until 90 days have elapsed. It can pay up to 70% of your pretax income. Obtain LDI now when you are young—the premiums are lower and you can purchase the option to increase your coverage amount in the future without the need for another physical (as you get older and develop health conditions, obtaining additional coverage becomes more expensive).

Dr. Gupta: Research LDI policies and enroll early while you are healthy. There are options available that allow you to increase your coverage amount as your income increases.

How do I go about purchasing LDI?

Mr. Molldrem: I think the best option is to shop the market for LDI packages with the help of an independent financial advisor, like myself. Advisors who are independent are able to shop the market without answering to a specific insurance company, and are

probably the least biased way to go. Otherwise, you can use an agent from a specific company if you have a particular company in mind.

Dr. Lam: It is helpful to use an independent insurance agent who is able to provide quotes from multiple insurance companies and has no financial interest in steering you toward one company over another.

Dr. Chiang: Speak with mentors, junior attendings, and friends or family for trustworthy recommendations for an independent financial planner. This is very helpful if you just don't know where to start. They have access to many different policies offered by many different companies and can help you pick a good product from a dependable company. If you are moving to a new geographic location, you may want to wait until you are out there in order to do this in person. On the other hand, if you know the product that you want to purchase, you can connect with an agent from that company to complete the transaction.

Dr. Gupta: The practice you are joining may already have someone that has a proven track record and understands the change in income that will occur during your salaried, junior partner, and senior partner years. Make sure that agent is independent and has no financial interest over one company or another.

What should I look for?

Mr. Molldrem: True *own occupation* DI is the type of insurance to look for, as it covers you for a predetermined benefit amount if you become incapacitated to perform your own specialty. Other types of disability insurance only cover you if you can't perform ANY medical specialty, or in some cases only if you can't perform any occupation, even if not as a physician. There are about 6-8 carriers today that provide true own occupation DI coverage, and these carriers should be utilized by physicians.

Dr. Lam: I agree that it is important to get own occupation, specialty-specific disability insurance. Finding this is more difficult than in decades past because many insurance companies have stopped offering it. Try to obtain as much disability coverage as you can. Of course, this will usually not approach the amount of income you actually make. At the time I chose my policy, the highest maximum monthly benefit I could find was \$15,500 per month.

Disability insurance is expensive (expect to pay about \$5,000-6,000 annual premium for this amount of cover-

age), and keep in mind that the premium should be paid with post-tax dollars (the expense is not deductible) so that the future benefit will not be taxed. The ideal policy will have fixed annual premiums (not escalating). One way to reduce the premium is to increase the elimination period from 90 days to 6 months or even a year.

Dr. Chiang: Regarding own occupation DI, ask and read the fine print to make sure that the class that you fall under in the underwriting of the policy encompasses ophthalmic/retinal surgical procedures.

Dr. Gupta: Also, make sure that the option to increase coverage does not require another physical exam.

When should I purchase life insurance?

Mr. Molldrem: Life insurance is most helpful for those with families. Unmarried people who want to have families can also think about obtaining life insurance. Again, it's best to obtain insurance before you get any illnesses, as insurance premiums can skyrocket. It's always a gamble between paying money while healthy vs waiting until you get sick and then purchasing insurance at a higher rate.

Dr. Lam: If you are married, and especially if you have children, it is worth getting life insurance. Term life insurance is inexpensive: www.term4sale.com is a good website that many agents use. Use an agent to buy the insurance, but use this website to double-check the rates and to make sure your agent is quoting a good number of reputable insurance companies.

Dr. Chiang: Definitely purchase this if you are married and/or have kids, which is what I did. Just like with LDI, it is cheaper and far easier to purchase life insurance when you are young and healthy. There are two types: term life insurance and whole life insurance. Term life provides coverage for a specific time period, eg, 25 years, and pays out only if you die. Whole life provides coverage for your entire life and can be considered an investment vehicle because your premium payments generate cash value (tax-deferred) as they accumulate and grow with compounding interest. With whole life, you have the option of forfeiting the death benefit in exchange for the accumulated cash value. Unfortunately, whole life insurance is much more expensive than a term life policy, so I would suggest starting with a term life policy and look into a whole life policy later.

Dr. Gupta: Life insurance is a great investment vehicle. Purchase it when you are young and healthy and starting a family. Make sure that it has a convertible option that allows you to start out with a term life policy and switch to a whole life policy when you can afford it. ■

Part 2: Buying a home; family/college funding; best investment strategies.

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Allen Chiang, MD, is an Associate Physician with East Bay Retina Consultants in Oakland, CA. He may be reached via email at chiang.allen@gmail.com.

Omesh Gupta, MD, MBA, is an Associate with Mid Atlantic Retina, the Retina service of Wills Eye Institute in Philadelphia. He may be reached via email at ogupta1@gmail.com.

Andrew Lam, MD, is an Assistant Professor at Tufts University School of Medicine and a Partner at New England Retina Consultants in Springfield, MA. He may be reached via email at andrewlam2105@hotmail.com.

Andre Witkin, MD; Alok Bansal, MD; and Nikolas London, MD, are second-year vitreoretinal fellows at Wills Eye Institute, Thomas Jefferson University in Philadelphia and members of the Retina Today Editorial Board. Dr. Witkin can be reached at ajwitkin@gmail.com; Dr. Bansal can be reached at alok.s.bansal@gmail.com; and Dr. London can be reached at nik.london@gmail.com.

