

Financial Advice for Young Physicians: Part 2

BY ANDRE J. WITKIN, MD; NIKOLAS J.S. LONDON, MD; AND ALOK S. BANSAL, MD



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 2 of this 2-part series, we interviewed Craig Molldrem, an associate partner and financial advisor with North Star Consultants Medical Division, a group based in 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; Nik London, MD; and Alok S. Bansal, MD

PURCHASING A HOME

When is the best time to buy?

Craig Molldrem: There is never a certain time to buy a house because the market is continually changing, as are a number of other personal factors such as job satisfaction, family size, and other needs. Typically, it is difficult to make a real estate investment profitable unless you are planning on keeping the house for more than 5 years. Therefore, I recommend that real estate not be purchased until you are certain that you want to stay in the same location for a long period of time. Remember, many new physicians end up with a different job than the one they started immediately after training ended.

Andrew Lam, MD: If you are moving to a new area to join a practice, I recommend renting to start out. We all hope that our first job is our last, but that is not often the case. You will learn more in the first week at a new practice than you would in 100 interviews. It could even be argued that it is wisest to not buy a house until your acceptance into partnership is assured. Moreover, renting first provides more time to learn about the different towns, neighborhoods, schools, and commuting routes available, which are all factors in making the best choice in where to ultimately buy your home.

Allen Chiang, MD: You will hear family or friends tell

you it is a good time to buy because the economy is still trying to recover from the 2008 collapse. However, my mentors cautioned me that buying a house is not a good idea when starting out after fellowship. Real estate is not what it used to be; we can no longer presume that a house will provide a nice return in the future. You also cannot be sure that your first job will be where you end up staying forever. There is so much to deal with when going from fellowship to practice that adding house-hunting to that transition is asking for trouble. Even if you are dead-set on buying, it is worthwhile to rent and get a feel for the area (real estate market, schools, and neighborhoods) first.

Omesh Gupta, MD, MBA: Buy a house when you are sure that you are going to settle in an area. Often people jump into the decision to buy a house because they feel it is the right thing to do. You hear that "renting is throwing money away," but I know plenty of people who ended up worse off financially because they bought a house instead of renting.

FAMILY/COLLEGE FUNDING

When should I start planning?

Mr. Molldrem: Whenever you are considering family finances and college funding strategies, as with many

long-term strategies we are discussing for this article, the earlier you start, the easier it becomes to reach the end goal. College funding should begin the day your child is born if you have the savings capacity to address this goal. There are a number of different options for college funding vehicles, such as 529 plans, Coverdell accounts, etc., but the most important thing is to start early.

Dr. Lam: Start early. Utilize tax-advantaged 529 plans that accrue tax-free and can be withdrawn tax-free. Use each parent's annual gift exemption (each parent can give each child up to \$13 000 free of gift tax) to fund the 529; or 5 years can be front-loaded at one time. Check to see if your state offers a tax deduction for 529 contributions. If there is no deduction, feel free to use any state's 529 plan; try to find one with very low management fees.

Dr. Gupta: For me, this was a lower priority. The new physician is stretched financially in so many ways that this is something that I would start within the first 5 years of practice.

What are the best investments?

Dr. Lam: If the kids are young and you have a longer-term outlook, allocate a high percentage of the portfolio to stocks. If college is approaching, it may be wise to shift the balance to less volatile fixed-income investments. Keep in mind that many 529 plans restrict your investment choices to a menu of mutual funds.

Dr. Chiang: It is best to begin saving for your child's college education from day 1, especially because the cost of a 4-year college education in 15 to 20 years will be astronomical. Tax-advantaged 529 plans are offered in each state and are a good starting point. Money in a 529 plan can be used to pay for tuition and required educational expenses at colleges, universities, and certain vocational schools. Savings grow tax-deferred and can often be deducted from state income tax, although exact benefits vary by state and plan. These 529 plans are low-fee, relatively hands-off investments because the plan's assets are professionally managed. This is convenient because you will be busy building a practice. However, as the donor, you still maintain control and can withdraw money at any time for any reason, although a penalty of 10% plus income tax on any earnings will apply for unqualified withdrawals.

Dr. Gupta: The 529 college plans make the most sense. This money can be reserved for educational expenses and be tax shielded.

RETIREMENT PLANNING

How should I invest in retirement accounts?

Mr. Molldrem: This is a complex topic, and the decisions will vary depending on the goals of the individual.

In a nutshell, there are 2 types of retirement plans: qualified and nonqualified. Qualified accounts include your 401k, 403b, etc. They all have Internal Revenue Service tax codes and are generally salary deferral plans. These accounts are usually the first to invest in, as they are tax-preferential. In particular, it is worth investing in qualified accounts such as 403b accounts when your institution matches your investment; this basically counts as free money toward your retirement. The downside of qualified accounts is that they are illiquid until you reach the age of 59.5 years, and there is a limit to the amount that can be invested. Nonqualified accounts can be a variety of investments, including equities and bonds. The downside is that these accounts are not tax preferential, but the benefit is that money can be withdrawn from them at any time, and they are unlimited.

Dr. Chiang: Exhaust your tax-advantaged options first. As I mentioned earlier, look into your practice's profit sharing plan or 401k. If you will be employed at an academic institution, this would be a 403b instead. In general, it is prudent to maximize the amount you are permitted to invest into this account. Next, although taxable, you can consider opening an investment account with a reputable brokerage firm so that you can begin investing in mutual funds and other financial instruments. You can research and learn more about basic investing principles as you go along.

Dr. Lam: Definitely max out your tax-advantaged options, including Roth IRA (invest post-tax dollars, withdraw tax-free), traditional IRA (defer tax until withdrawal in retirement), and 401k/403b. However, your adjusted gross income (AGI) will probably exceed the threshold that permits contribution to a Roth IRA (for joint filers, no contribution if AGI is more than \$183,000 in 2012). Keep in mind that you can choose to direct your 401k salary deferral (up to \$17,000) to a Roth 401k, if desired. Many practices employ profit-sharing plans or defined benefit plans to significantly increase the level of income the physicians put into retirement accounts, but this is usually only an option once you become a partner.

How much should I invest and when?

Mr. Molldrem: Once higher-interest debts are paid off and a 3- to 6-month emergency fund is created, I usually recommend maximizing qualified accounts first if possible. After that, nonqualified accounts can be opened. The goal is to maintain financial independence after retirement, which depends on your salary and lifestyle before retirement. If an individual is thrifty and maintains a fairly economical lifestyle, he or she may be comfortable with less revenue after retirement and can invest less in retirement accounts. People who tend to lead

more expensive lifestyles may want to invest more in their retirement accounts so that the same lifestyle can be maintained after retirement. In the end, you need to discuss what kind of lifestyle you want to live in today's dollars. A financial advisor should be able to develop a wealth accumulation strategy to get you to that goal based on assumptions. It will be up to the physician to have a savings rate to match that strategy.

Dr. Lam: Save as much as you can, especially if you hope to retire early or have a large family. Maximize your tax-advantaged accounts and try to keep high dividend-paying stocks and mutual funds with unpredictable capital gain distributions in these accounts, as taxes are deferred. Conversely, municipal bonds and other growth stocks (with low to no dividends) are better held in taxable accounts. The power of compounding dictates that it is advantageous to save and invest more earlier. In addition, there are many ongoing threats to current levels of physician reimbursement. Looking ahead, it is likely that doctors will be paid less, and this may curtail the amount you will be able to invest in the future.

Dr. Chiang: I think this is a philosophical question that depends on your lifestyle. If you are a big spender or have 5 children, you will have to work longer and invest much more than someone who is frugal or has only 1 child, unless you have attained an unusually high salary or are independently wealthy. Identify the maximum amount that you can realistically save in light of your personal situation and commit to that goal. Be sure to involve your spouse in your financial planning so that everyone is on the same page, which will also help minimize arguments over finances. You have worked extremely hard for your high income; you owe it to yourself and your family to handle it wisely, especially because it looks like we will all be working harder for less in the future.

Any additional advice?

Dr. Lam: Learn as much as you can about taxes, which will be your biggest expense over your lifetime. Be an active participant in your practice's management and continually try to find ways to reduce overhead. Get interested in your own financial planning, even if you don't feel a penchant for this initially. If you have children, make sure you have a will to appoint guardians, avoid probate, and maximize your unified gift credit (which reduces estate tax). If you don't want to hire a lawyer, there are inexpensive computer programs that help you write your own will. One of the best books I have read on wealth accumulation is *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko. This insightful and entertaining book emphasizes that

most multimillionaires in America accumulated their wealth by living frugally and saving a lot. Looking ahead, this might also be the best gift you give your teenage children.

Dr. Gupta: Do not get too fixated on accumulating wealth. You are in a great profession with an income that places you in the top 1% of working Americans. Strike a balance between making wise financial decisions and living a comfortable lifestyle. Most important, you can accumulate a lot of wealth, but if you do not have a living will or trust, your family may not be the beneficiaries. Be sure to file these documents and not put off this important decision. ■

Craig Molldrem is a registered representative and investment advisor representative of Securian Financial Services, Inc., and CRI Securities, LLC, Securities and investment advisory services offered through CRI Securities, LLC, and Securian Financial Services, Inc., Members FINRA/SIPC. CRI Securities, LLC, is affiliated with Securian Financial Services, Inc.; North Star Consultants, Inc.; North Star Consultants Texas, Inc.; and North Star Resource Group. North Star Consultants, Inc.; North Star Consultants Texas, Inc.; and North Star Resource Group are not affiliated with Securian Financial Services, Inc., and are independently owned and operated. North Star Consultants, Inc., doing business as North Star Resource Group in PA and as North Star Consultants Texas, Inc. in TX. Mr. Molldrem can be reached at +1 214 599 8340. He does not provide tax or legal advice and suggests you consult your tax and/or legal advisor regarding your specific situation.

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.

