The White Coat Investor — Tips for Young Physicians

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"No one teaches you how to think about money in medical school or residency, yet, from the moment you starting practicing, you must think about it."
— Atul Gawande

I was contemplating the subject of my outgoing president's message. I wanted to choose an important topic, one I wish I knew more about as a young physician. Then it came to me: finances. It is often believed that because you're a doctor you are rich, but that isn't the case. First, it costs more to get our job (plagued by student loans with increasing interest rates), the job pays less once you get it (a 2012 paper in *JAMA* showed a decrease in physician earnings of over 28% from 2006-2010), and let's face it — we aren't the best money managers.

So I decided to do something about it. I started reading up on the subject and meeting with a financial adviser. I read financial books targeted to doctors and books on tax strategy. We spend so much of our lives learning to be good doctors. We should also take the time to understand what to do with our hard-earned money. I recently read an amazing book called *The White Coat Investor: A Doctor's Guide to Personal Finance and Investing*, by James M. Dahle, MD. I highly recommend it. Here are some principles I've learned in my quest for financial prowess.

Residents

Learn to save. This is typically the first time in your life you have a regular salary. I remember my intern year, thinking, "Wow, this is the first time I'm earning money rather than paying money in student loans." The typical resident's salary is $45,000-$50,000. This is the same as the median American household income. There is no reason not to be able to live and save on that income. So, learn good saving habits early. Create an emergency fund. This should consist of three to six months of your usual living costs. Invest the money in a safe and easily-accessed way (a savings account or interest-bearing checking account, for example). If eligible, contribute to a Roth IRA. Roth IRAs use after-tax dollars, but this money then grows tax-free and can be withdrawn in retirement tax-free. (A regular IRA uses pre-tax dollars and grows tax-free, but the money is then taxed when withdrawn.)

The golden ticket of residency, and something I wish I knew about earlier, is the Public Service Loan Forgiveness (PSLF) Program. This program allows physicians to have student loans forgiven by working for a public service institution for ten years, **including residency.** Your future job may qualify — I was very surprised to find out mine did! This can save you hundreds of thousands of dollars. Google "Public Service Loan Forgiveness Program" to find out more.

New Attendings

You just graduated from residency and now you're making big bucks. The best piece of advice is to keep living like a resident! Don't grow your spending to match your new income level too quickly. If you live like a resident for a bit longer, the vast majority of your added income can be put toward paying off student loans, saving for the down payment on a home, or saving for retirement. The more slowly you improve your lifestyle, the more wealth you will have later.

Where to Save Now: A Priority list

A question often asked by physicians is "What should I do first?" Here is a "savings hierarchy," a prioritized order of saving that might be optimal for many physicians. Remember: set aside three to six months of living expenses in an emergency fund before you do anything else.

1. **Get the match.** If you have access to a 401(k), 403(b), or 457 plan and your employer offers a matching retirement contribution, take advantage of it. This is free money! And you get the added benefits of tax-deferred growth and compounding returns.
2. Pay down high-interest debt (>9%). If your interest rate is high on credit cards (or car loans, student loans, etc.), use any extra savings to pay down the balance — paying off the debt with the highest interest rate first.
3. **Maximize your tax-deferred retirement plan.** Building tax-deferred savings early makes sense. You may be able to contribute up to $17,500 to your 401(k), 403(b) or other workplace savings account.
4. **Fund an IRA.** As physicians, we often don't qualify for a Roth IRA because of our income level. However, there is no income limit for conversions. That means you can contribute to a traditional IRA with pre-tax dollars and then immediately convert that to a Roth IRA (paying the applicable tax when you do). Remember: Roth IRAs not only grow tax-free, but are tax-free when withdrawn in retirement. Bonus!
5. **Work on key goals.** Are you saving for a down payment on a house? Are you very debt-conscious and feel the need to pay off student debt as soon as possible? Do you want to save for your children's education? (If the latter, consider a 529 college savings plan. It is state-subsidized, with the bonus of tax breaks). Think about what your key goals are and invest your money to focus on them.

This is just the tip of the iceberg. There is so much to learn in the field of personal finance. I suggest you pick up a couple of books and start learning. I am in no way an expert but I continue to learn, because at the end of the day no one cares about my finances as much as I do.