

Looking ahead to residency? 5 key financial moves to make

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As a physician's career grows, so too, will their fiscal options. Residency is the first step in building a strong financial foundation. Here are a few tips that will help with the financial transition from medical school to residency.

Select the best loan-repayment strategy

If you are on an income-based repayment plan, your payments will be relatively manageable. It is also worth keeping in mind that, at the rate investments can grow, it might be worth investing money instead of making additional or higher payments on your loan. Setting aside cash to help pay for unexpected expenses also is a smart move, according to Allan Phillips, a Certified Financial Planner™ with Taylor Wealth Solutions who has worked extensively with physicians at all levels.

If physicians ever wonder whether to put any extra money toward an extra student-loan debt payment or into their savings, there is a straightforward answer, Phillips said.

"You don't ever really go wrong putting it in savings. Then you can have periods throughout the year where if you have money building up in your savings that you take some of it and apply it to debt.

"In that approach," he explained, "you will carry a little bit more interest, but it is more balanced financially and puts the doctor on better footing should something unexpected happen."

Maintain a rainy-day fund

A cash reserve that is equal to at least three months' salary should be a top financial priority. The potential for unanticipated expenses that can arise during a four-year residency is vast. Such expenses can include unexpected travel costs for family emergencies or interviews, transportation

problems or missed pay from an illness that does not qualify for disability insurance.

“Having cash on hand can add confidence when someone is first investing in the market and they experience a loss,” Phillips said. “Knowing bills can be paid out of cash for a while might be all it takes for someone to increase retirement contributions. An emergency fund allows you to raise deductibles on auto and health insurance and save money on premiums. More cash helps you take advantage of opportunities and more effectively deal with setbacks.”

Secure needed insurance coverage

Residents have already invested significantly in their medical education, and buying a comprehensive disability insurance policy protects that investment. Ideally, disability insurance will protect your income through the age at which you plan to retire. In addition, as for any other professional, life insurance to protect your dependents is a must-have. Plans offered by employers may not come with the long-term financial protection that can support a family. If that is a concern, it may behoove the physician to purchase supplemental insurance policies.

Make prudent housing decisions

If you have significant debt, renting might be a better option than owning property. Financial arrangements such as having a hefty emergency fund more financial flexibility. You also have to take into account the expenses that come with home ownership, such as taxes, repairs and maintenance, and homeowners' insurance.

“Some residents I've worked with have managed to buy and it has worked out well for them,” Phillips said. “They have tended to owe less on loans than average or had help from family when purchasing their home. Most have also had a pretty clear view of their career and have stayed in the same place for a while. It can make sense, but it should not be the default plan to buy.”

When, how to save for retirement

Your employer is very likely going to offer you some sort of retirement plan with a matching contribution. Ideally, residents are maxing out their contributions. That having been said, you should probably have significant cash reserves before fully funding a retirement plan.

“Once the emergency fund is built up, funds can be used to increase retirement contributions or fund



another goal,” Phillips said. “This is what a financial plan helps you do. Well-defined goals are prioritized and this informs how you save.”

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