AMA

Misconceptions about finance that will put residents in the red

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Medical trainees have considerable debt and once they begin practicing, the window in which they can maximize their earnings is smaller than most other professions. It's logical, then, that having the right financial approach from day one of your career as a physician will give medical residents the best long-term fiscal outlook.

An AMA Insurance Agency survey of U.S. medical residents released in 2017 found that the group has numerous financial concerns. Those concerns include repaying medical school debt, being properly insured against illness or injury and even that you might not have enough money to retire.

Starting out on the right foot means understanding the wrongs associated with physician finance. We spoke to Jeffrey D. Hollis, MD, a medical field financial consultant, about the common misconceptions residents hold about their finances. He listed four that can adversely shape a resident's future.

Misconception 1: You can play catch-up when it comes to retirement savings. Between medical school and residency, physicians have at least a seven-year lag when it comes to reaching their peak earning and saving potential. If you wait until you're out of residency to start saving, you'll never make up for the lost time.

When it comes to saving for retirement, even if you start small, Dr. Hollis says, it's worth it.

"We try to tell residents to get some monthly amount auto deducted and put into your retirement savings," he said. "You don't have to think about it. Make your retirement a bill to yourself. The same way you pay your house payment, car payment and electric bill. That creates discipline that will carry forward.

"I was doing a little math, I got on a compound interest calculator website. If you put $5,000 into a Roth IRA and contribute $100 a month, starting when you're a resident, in 30 years, assuming 5.5 percent interest, that could be worth more than $100,000."

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Misconception 2: Paying back loan-related debt should be your top financial priority. In a world where 80 percent of residents are reporting student-loan debt of $100,000 or more, it's understandable that loan repayment can be seen as a top priority, and there are things every resident must do—such as understanding the repayment options available to you.

Still, what you owe can never be paid off entirely if you don't protect your ability to earn. Because of that, Dr. Hollis believes, that addressing your insurance needs as a young physician should be a top priority. These protections should include disability insurance, umbrella insurance and medical malpractice insurance. As a resident, many of these may be available through your employer.

"One of the analogies I like to use is the castle and the moat," said Dr. Hollis, who in addition to practicing medicine works as a licensed producer affiliated with Millennium Brokerage Group, a member of AMA Insurance Agency's Physician Financial Partners program. "I tell residents to think of themselves as living in a medieval castle, they have safety features and guards at the entry points. I look at disability, malpractice and life insurance as the walls that protect you."

To help AMA members develop or refine their optimal repayment strategy, Laurel Road—a preferred provider of the AMA for student-loan refinancing—has created a free student-loan assessment tool . This tool gives physicians the information necessary to make an informed decision regarding their medical student-loan repayment.

Misconception 3: You're better off owning than renting. Owning and building equity in property isn't a bad idea. The pitfall of owning is if a resident physician overextends themselves to do it. If a monthly mortgage payment exceeds more than 15 percent of your income, it's not worth it.

"You're on a limited income as a resident and the best money decision is keeping your payments as low as possible," he said. "Knowing you are going to be leaving soon, probably in three to five years, renting is probably the best, especially when you factor all the costs that go into owning a home."

Misconception 4: Financial advisors aren't willing to work with resident physicians. Some residents view their relatively limited financial means as a potential reason that finance professionals won't work with them. From Dr. Hollis' experience, that simply isn't the case.

"The benefits of being with a professional early on far outweigh any risks," he said. "That's what they do for a living, let them help you just like your physician helps with your health."

To find a financial professional in your area, contact the AMA Insurance Physicians Financial Partners .

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