What young physicians should know about personal finance

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Andis Robeznieks
Senior News Writer

Often faced with staggering debt while working long hours or adjusting to life in new a practice setting, it can be easy for medical residents and young physicians to feel overwhelmed. While no one strategy applies to the myriad variables individual doctors face, it behooves them all to get started with a solid financial plan.

“Options are increasing” when it comes to paying off medical student-loan debt, said Wende Headley, a financial adviser with Abacus Wealth Partners in Los Angeles, addressing a topic on the minds of many who attended a recent education session on the topic.

Medical student-loan debt is the top financial concern for U.S. medical residents, according to a 2017 AMA Insurance survey cited at the session. But it is not the only concern. In addition to worrying about paying back money they borrowed in the past, residents are concerned about their long-term future.

The good news for residents and young physicians is that there are multiple options and flexible strategies for paying off that debt. The AMA offers tips for managing your medical-student loans and understand your options for repayment.

Headley began by describing the differences between 10-year fixed, 10-year graduated and 25-year loans. She was followed by Benjamin Meyer, MD, a Medical College of Wisconsin diagnostic radiology (pictured above) resident, who discussed strategies for debt consolidation and managing the six-month grace period new doctors are granted between graduating medical school and making their first loan payment.

Income versus spending

These options were put in perspective by Mohammed Minhaj, MD, professor of anesthesia and critical care at the University of Chicago Pritzker School of Medicine who also teaches a course called "Money Management: What Every Young Physician Should Know."

"In general, in med school, you're always taught there's a right answer and a wrong answer," Dr. Minhaj said at the session, hosted by the AMA Resident and Fellow Section during the 2019 AMA Annual Meeting. "In business school, if you started every answer by saying, 'It depends,' you were right."

The situation of a resident paying $3,000 a month for a studio apartment in San Francisco varies greatly from someone training in Arkansas and paying $600 monthly rent for a three-bedroom apartment, he noted. But a general rule of thumb, he said, is to take stock of your situation every year and assess where you are in terms of net worth, income and spending.

"The thing you will have the most control over in your entire lifetime will be spending," Dr. Minhaj said. "The worst situation is to be overwhelmed by the amount of debt you're in, and how little money you're making compared to the hours you're working as a resident."

If you develop financial discipline as a resident, you will be rewarded in the future when your compensation is higher, he advised.

Headley agreed.

"Financial success is about what you keep, it's not what you make," she said.

Putting away versus paying off

A related question arose regarding the age-old question of whether to save more money to invest instead of using more to pay off debt.

Headley said that residents should "absolutely" take advantage of any matching retirement fund contribution an employer may offer. She also noted that "pure financial theory" states that, to be worthwhile in this equation, the income earned from the investment must be higher than the interest from the debt.

But, beyond theory, this is also a matter of personal priority, she said. It's a matter of deciding whether you feel better knowing that you have some money saved or whether you feel less burdened with every dollar of debt that's removed.

Because there are no one-size-fits-all solutions, Headley recommended seeking the advice of a certified financial planner.

Doctors who don't already have a financial planner can contact AMA Insurance and inquire about their Physicians Financial Partners program. This program provides physicians access to vetted financial professionals across the country.

"If you're a medical student or have started training, you will be approached by multiple financial planners," Dr. Meyer said. He recommended to first develop criteria for evaluating a planner and then you will be prepared to assess them when they offer their services.

A self-evaluation of goals and plans is also important. "Have that conversation with yourself," Dr. Meyer said.