

How young physicians can make the most of a signing bonus

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Upon entering that first job after training, a physician will see a significant spike in income. A signing bonus can be a contributing factor to that change in station.

Signing bonuses are very common in today's physician job market. According to a 2022 report (PDF) released by the physician recruiting firm Merritt Hawkins, a division of AMN Healthcare, more than 90% of physician job searches the firm conducted over the past year included a signing bonus. The average signing bonuses came in at \$31,000, the firm's report says.

That sudden infusion of cash can be an asset for a young physician. How is it best used? Jason Combs is the executive vice president of Millennium Brokerage Group LLC, a strategic marketing partner of AMA Insurance. He has been working with physicians to plan their finances for more than a decade and offered insight on that question.

Understanding your debt

For most physicians entering practice, medical student-loan debt—a figure that, on average, exceeds \$200,000 upon the completion of undergraduate medical training—is a major part of their financial picture. Understanding all debts you owe and determining whether you are in the best repayment plan is important, Combs said.

“The first thing you'd want to do is take a look at the debt that you carry and see if you have favorable terms,” he said. “There could be some programs out there that could help you refinance or restructure some of the debt that you have to some more advantageous terms.” Applying a portion of your signing bonus to your medical student-loan balance can help a physician borrower get a lower rate upon refinancing. It also can offer a measure of relief to see that number take a substantial dip.

Paying down your loan balance, however, is not always a prudent move, particularly if you plan to pursue the Public Service Loan Forgiveness program, which offers debt relief to physicians who make 120 qualifying payments on educational loans while working for a nonprofit or government-run entity.

“If there's a good chance that you're going to have some of your loan forgiven, then I would urge you to pay as little as possible,” he said. “You pay what you are obligated to pay and aim to have the highest amount of your loan forgiven.”

Learn more with the AMA about physician contracting and what to look for in pay and benefits.

The big three

After assessing your debt and whether to apply any of your signing bonus to your balance, there are three other key areas of a young physician's financial picture that would be good candidates to consider.

“First and foremost, get an emergency fund set up with three to four months of living expenses in the event that something happens,” Combs said. “Then, you want to get the right type of disability insurance coverage in place to protect your ability to work. And then, you want to set aside funds for savings and retirement.”

Combs said that applying a portion of the signing bonus to an individual retirement account could allow for that amount to be deducted from a physician's taxable income. It is also worth noting that bonuses are taxed at a federal bonus tax rate of 22%, on top of state taxes. If your employer doesn't deduct that from your signing bonus, it's very prudent to set aside that portion of the bonus.

Read about the eight steps young physicians can take when deciding where to practice.

Avoid the big purchases

In terms of what not to do with your signing bonus, Combs had some simple—and stern—advice.

“Don't blow it,” he said. “That could be a big challenge for a lot of a lot of people who come out of training and haven't really made a lot of money. All of sudden, there's a major increase in what you have coming. It could be real easy to overspend.”

To avoid overspending, Combs touted the importance of setting a budget.

Not overspending means avoiding unnecessary luxuries such as a new car. Another big-ticket item new physicians might want to avoid is buying real estate. Combs, who lives in Nashville, said his area's market, like many across the country, is not at an advantageous point for buyers.

"We've seen home prices here in this area double in the last five years," he said. "If that's the case with real estate in your area, I would look at putting that type of purchase off until the market adjusts."

As you continue the journey to being a young physician, the AMA Transition to Practice series has guidance and resources on deciding where to practice, negotiating an employment contract, managing work-life balance and other essential tips about starting in practice.