How To Overcome The 5 Barriers To Financial Success For High-Income Professionals

[I contributed seven articles to [Forbes](#) last November. This was the first one and a bit of an introduction to why personal finance aimed at high earners is worthwhile and unique. I don't have to preach this to most of my regular readers who are well aware that financial blogs for docs are now a pretty good segment of the financial blogosphere.]

I have been assisting and educating high-income professionals like physicians, dentists, and attorneys with their finances since 2011 at The White Coat Investor. Although society, in general, believes that "doctors and lawyers are rich," I have found that a significant percentage of them are nowhere near rich despite their high incomes and that even those who do become wealthy generally do not do so until mid to late career. While I fully acknowledge that it is far easier to become wealthy on a high income than a low income, there are five significant impediments to building wealth as a high-income professional, and each must be overcome for financial success to be realized.

5 Barriers to Financial Success

1 A Late Start

High-income professionals start earning money significantly later than their high school or even college peers. A high school graduate may start earning at age 18, but a typical physician may not even begin her career until 30-35 years old. Four years of college, four years of medical school, and 3-7 years of post-graduate training is often combined with a master's degree, a gap year, or other delay in the educational process. Although residents and fellows do receive a paycheck, it is often 1/4 or less of their value as a fully trained physician. Pharmacists, attorneys, and veterinarians may also have extended educational periods delaying the onset of earnings. Compound interest requires time and high-income professionals have less time for it to work. The only solution to this obstacle is to simply save more money. Instead of a typical guideline like saving 10-15% of income for retirement, doctors and lawyers should be saving 20% of their gross income for retirement.

2 High Educational Debt

The median debt at medical school graduation is now over $200,000, but that figure has a very wide distribution. It is not unusual to see a medical school cost of attendance of $80,000-$110,000 per year. Borrowing enough money to cover that entire expense can easily reach $400,000, not including any money borrowed for the undergraduate portion of the education. Graduate school loans are no longer subsidized and rates are often in the six to ten percent range. $400,000 compounded at seven percent during a three-year residency and a three-year fellowship can leave a doctor starting her career with a student loan burden of $600,000 and an income of just $200,000. Under a ten-year payment plan, making those payments could require dedicating 57% of net income to student loan payments for the first decade of a career. It is difficult to build wealth like that. Solutions to this obstacle involve choosing the least expensive school you can get into, living frugally during and after the education and training periods, taking advantage of federal income-driven repayment and forgiveness programs, and refinancing loans when appropriate.

3 High Taxes

Our progressive income tax system has no “memory” of prior years. It doesn’t matter that you are 35 years old and have never made a dime. If your income is high this year, you pay a high percentage of it in taxes. It is not unusual for a high-income professional to pay one-third of her gross income in payroll and income taxes, and that money cannot be used to build wealth. Solutions include taking advantage of all legal tax reduction techniques such as maximizing the use of tax-advantaged accounts like 401(k)s, Indirect (Backdoor) Roth IRAs, Health Savings Accounts and 529s.

4 Targeting by the Financial Services Industry

High-income professionals, particularly doctors, are often viewed by brokers, insurance agents, financial advisors and bankers as “whales” to be harpooned. When combined with a lack of financial literacy and business training and a taboo in the profession preventing the discussion of financial topics, it is no surprise to see doctors repeatedly fulfill their reputation as financial rubes. It is difficult to build wealth when an entire industry is focused on transferring your earnings from your pocket to theirs. The solution to this dilemma, of course, is basic financial education. This is beginning to occur in medical schools and residencies, but the primary burden still rests upon the individual professional. Doctors and lawyers who wish to eventually retire comfortably must either learn to manage money well themselves and/or hire someone to provide good advice at a fair price.

5 Societal Expectations

Chilling in the limo, picking out a hotel for WCICON20. Even living like a resident is temporary.

Doctors and lawyers face a surprising amount of social pressure to spend. This comes from friends, family, patients/clients, and even themselves. “You’re a rich doctor now, why are you still driving a Civic?” a young physician with a net worth of negative $400,000 may be told. The solution to this dilemma is to "live like a resident" for the first two to five years out of training. By earning like a physician and living like the average American household, a doctor can rapidly pay off student loans, save up a down payment on her dream home, and catch up to her college roommates with retirement savings.

High-income professionals can overcome these five obstacles to building wealth, but it will not happen automatically.

What do you think? Why aren't doctors as rich as everyone thinks they are? What other barriers keep high-income earners from being financially successful? Comment below!