A Net Worth Rule of Thumb for Doctors

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Stanley and Danko, in their classic *The Millionaire Next Door*, discussed a rule of thumb to determine if you were an average accumulator of wealth, an under-accumulator of wealth, or a prodigious accumulator of wealth. The formula was basically this:

Expected Net Worth = Age X 0.1 X Gross Income

A prodigious accumulator of wealth (PAW) has a net worth over 2 times as large as the expected net worth (ENW), and an underaccumulator of wealth (UAW) has a net worth of less than half of the ENW.

It’s only a rule of thumb, so you can’t expect too much from it. (In fact, they revised it in *The Millionaire Mind* to ENW = Age X 0.112 X Gross Income). This formula has been criticized as being particularly inaccurate for young people early in their career. It is completely useless to a typical physician. For example, despite saving over 20% of my income and having no significant non-mortgage debt since getting out of medical school 8 years ago I’ve barely got more than half of my apparent expected net worth.

I think it might be useful to doctors to have a good rule of thumb designed just for them. You could make a complicated formula using average indebtedness coming out of school and age and prior careers and inheritances etc, but part of the benefit of a rule of thumb is that it is simple and easy to use. Here’s what I suggest:

Expected Net Worth of a Doctor (ENWD) = Average Post-Residency Income X Years Since Training X 0.25
Using this formula, a family doctor averaging $150,000 a year for 10 years since leaving residency should have a net worth of $188,000-$750,000. An orthopedist averaging $500,000 for 5 years since leaving residency should have a net worth of $313,000-$1.25 Million. Using this formula, I actually qualify as a PAW (which seems reasonable to me). Run your numbers and see how you stack up. Can you think of a better (simple) rule of thumb for doctors?