

Academic Paper About Resident Financial Illiteracy



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Fahd Ahmad, MD, a long-time blog reader known to many of you as [Rogue Dad, MD](#), is an academic pediatric emergency doctor at WashU who teamed up with one of my friends (and former residency faculty members) Kathy Hiller, MD at the University of Arizona to put out a paper highlighting the inadequacy of financial literacy among their trainees. Like much of the academic literature, this comes as no surprise to those of us working in this field, but it is good to see it documented and quantified. There is a lot of interesting data in [this paper](#) published in the International Journal of Medical Education and entitled:

An assessment of residents' and fellows' personal finance literacy: an unmet medical education need

Such a boring title, but that's academics for you. I would have called it "Residents Are Still Financial Idiots," but that's why I have so few "real" publications. If you're interested in Dr. Ahmad's blog post on his paper, it should go live within a couple of hours of this post and can be found

[here](#).

[The paper](#) was the compilation of results of a survey of 20 questions about personal finance (gauging knowledge) and 28 questions about their own finances (gauging behavior.) They sent it out to 2010 trainees and got a 21% response rate. I don't know what to make of the response rate. I suspect it skews the data significantly since those who are more financially literate and those who are in a better position financially are probably much more likely to take the survey. So the average resident is almost surely in worse shape than the average of this survey. Which is terrifying. Since the average grade was an F. Yup. An F. 52% on the 20 question quiz. This wasn't a hard quiz either. Most blog readers would get 100% on it. Let's take a look at the questions. Yes, I'm a little biased since I did give a little input into [the questions](#).

Financial Literacy Questions

Here's an easy one:

Suppose you have \$100 in a savings account earning 2 percent interest a year. After five years, how much would you have?

- More than \$102
- Exactly \$102
- Less than \$102
- I don't know

96% got that one right.



This one was a little tougher:

Which account allows for tax-free withdrawals in retirement?

- Traditional IRA
- Roth IRA
- 401(k)
- 457
- I don't know

65% got that one right. That's like, a D or something.

Then some of the questions were apparently really tough. Like this one:

A "no-load" mutual fund is one that...

- Carries no fees
- Carries no sales charges
- Does not contain high-risk securities
- Has no limits on the period of time in which it can be bought and sold
- I don't know

Only 13% got that one right. Sheer chance should have resulted in 25% getting it right.

Or this one:

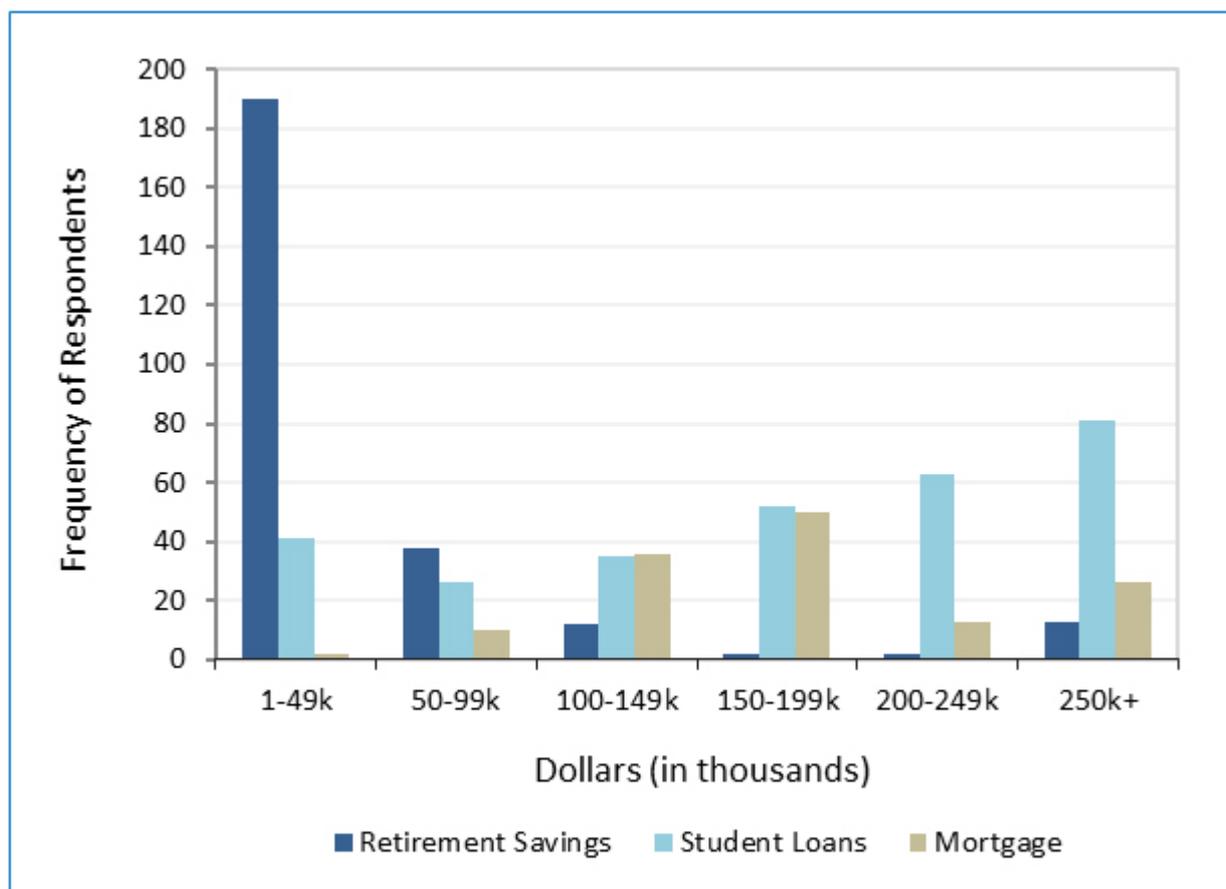
Which of the following organizations insures you against your losses in the stock market?

- FDIC (Federal Deposit Insurance Corporation)
- FINRA (Financial Industry Regulatory Authority)
- SEC (Securities and Exchange Commission)
- SIPC (Securities Investor Protection Corporation)
- None of the above
- I don't know

Only 41% correctly selected none of the above. So 59% of doctors in training think someone insures them against stock market losses. That's kind of scary.

Financial Behavior Questions

So, how bad is the financial situation among our trainees these days? Let's take a look:



This only includes those with retirement savings, with student loans, and with a mortgage. Like usual, I'm disappointed the top student loan category was only \$250K+. That means those with \$251K (probably reasonable) are in the same category as someone with \$550K (not reasonable.) As expected, most residents have little retirement savings. That honestly doesn't bother me. Doctor financial success comes from what you do with your attending income. An interesting data point in this chart is that resident mortgages tended to be in the \$100-200K range, which isn't terrible, but bear in mind these residents are all in St. Louis and Tucson, which are relatively low cost of living areas.

Paying for Financial Advice

Here's another interesting bit, the question on how they paid for financial advice:

How paid for financial advice [†]	
Advice was free	114 (27.0)
Commission on purchased products	28 (6.6)
Yearly retainer	10 (2.4)
Asset under management (AUM) fee	10 (2.4)
Combination of above	22 (5.2)
Doesn't know	10 (2.4)

Bear in mind we're only talking about 46% of the docs here. So of those who got advice, only about 10% of them got it from a fee-only planner. The remainder either paid a commission, have no idea how they paid for the advice (i.e. they paid a commission) or think the advice was free (i.e. paid a commission.) So residents are almost entirely getting financial advice from commissioned salesmen.

Financial Assets

Here's some great news:

Have an emergency fund for 3 month's expenses	278 (65.9)
Can come up with \$2,000 within the next month	321 (76.1)
Have projected necessary retirement savings*	168 (39.8)
Have retirement savings (any)	262 (62.1)
Money set aside for children's college education (any) ^{*‡}	47 (38.5)

I'm actually really impressed with this. These numbers are way better than the average American (who has a similar income.) 40% of residents have projected necessary retirement savings? I know I hadn't at their age. And 39% are already saving for college? That's pretty awesome.

Debt

Have a mortgage (any)*	137 (32.5)
Have credit card debt (any)*	86 (20.4)
Have student loans (any)*	299 (70.9)

71% with student loans, 20% with credit card debt...no big surprises there for me. I'm surprised only 33% have mortgages though given the rush of most residents to run out and buy a house.

The Conclusions

The authors concluded that

We found serious deficits in financial knowledge in a broad range of topics and in financial planning among trainees at two academic medical institutions in the US. Trainees reported high debt levels, minimal retirement investments, and having difficulty with cash flow. In addition, trainees

reported low levels of satisfaction with their financial status and were largely averse to high-risk investments, which generally have potential for greater yield for future expenses, such as for their children's education or their own retirement. Nearly one-third of respondents reported difficulty meeting their monthly expenses and reported spending all or more of their income each month. Despite having an income similar to the national median income, and an expectation of a significantly higher future income after training, our study participants were less satisfied with their personal financial condition than the average US citizen.

They recommended that

Coursework about the basics of personal financial planning and important financial considerations relevant to medical practice and health insurance should be incorporated into the curriculum during medical school and graduate medical education....financial education for medical trainees could show long-term improvements in physicians' financial health, both personally and in practice.

We recommend, at a minimum, that every trainee receive specific instruction in the following aspects of financial education during medical school and residency:

- 1. How to make a monthly budget*
- 2. Debt/loan management and credit scores/reports*
- 3. Savings and retirement planning options*
- 4. Life, health, and disability insurance*
- 5. Estate planning strategies*

I wholeheartedly agree. Kudos to Drs. Ahmad, White, Hiller, Amini, and Jeffe for their important contribution to the physician financial literature.

What do you think? What surprised you from the survey? What do you think should be done to further financial education among residents? Comment below!