Choose to Be Rich

I saw an interesting tweet the other day which made me pause and think for a minute:

64% of those in, or near, poverty have access to the same information as the elite, and far more access than kings 100 years ago. Amazing.

- 64% of Americans making less than $30K / year own smartphones.
- 95% of Americans making $100K+ / year own smartphones....

A smartphone (and really any connection to the internet, including the free ones in public libraries) can connect you to everything you need to know to become wealthy. Everything. I mean, it’s not a terribly complicated process or anything—it can be readily learned through blogs, internet forums, and books borrowed from libraries by anyone with a middle school level of education. All free for the taking.

How to Get Rich

For those who have forgotten the process, I’ll reproduce it
1. Make a lot of money
2. Don’t spend a lot of money
3. Make your money work as hard as you do
4. Protect your money from financial catastrophes like death, disability, illness, injury, fire, and liability

So why aren’t more people wealthy? Despite having the same access to information as the elite (and more access than kings of 100 years ago), they don’t use it. It’s a choice really. You can choose to be wealthy or you can choose to be poor. Now, I know there’s more to it than that. Being healthy, living in America, growing up on the right side of town, having the right skin color and gender etc are all advantages and make things easier. For the lower socioeconomic classes, becoming wealthy is still easier than it ever has been in the history of the world, although still markedly harder than it is for those born with the advantages available to the upper classes. For those who are reading this site (typically high-income professionals) there is no excuse. Not becoming rich for you is nearly 100% a choice.

**Choice or Choices?**

Now that’s not entirely true. It’s not a single choice. Like weight loss, your level of financial success is really the end result of a life-long series of small decisions. Decisions like:
We all have choices to make. In this case, it was “ski down” or “walk down”? 

- Will I go to college?
- What college will I attend?
- How will I pay for it?
- What career will I pursue?
- What job within that career will I take?
- Will I open a business?
- What state will I live in?
- Will I get married?
- Will I have children?
- Will I budget?
- How much of my income will I save?
- How will I invest that savings?
- How much will I spend on housing?
- Will I buy new cars or used cars?
- How will I pay for those cars?
- What kind of vacations will I take?
- Will I send my kids to private schools or public schools?
- How much of their college will I pay for?
- Will I hire a financial advisor or learn how to manage
investments myself?

- How much will I pay for financial advice?
- How much of a priority will funding retirement accounts be for me?

The answers to these questions will all add up to the answer to the question of “Will you be rich?” Now I’m not talking about Donald Trump rich. I’m talking about reaching a point in your 40s or 50s where you can maintain your desired lifestyle without ever working again. If that’s not “rich” for you, consider that half of Americans have less than $25K saved for retirement and then substitute in any word you like - comfortable, financially independent, wealthy, whatever.

**A Case Study**

Consider an email I received recently:

My spouse has been an attending for about eight months now, and I’ve been practicing law for two and a half years. Together we gross about $380,000 per year. I have about $180,000 remaining on my student loans, which I refinanced through a private company at a variable rate that sits at 3.3% for the moment and which will be completely repaid, at my current schedule, in 7 years. My spouse has about the same amount of debt, but it’s a family loan at 0%. We have about $60,000 saved in taxable accounts now and are adding to that
at a rate of about $10-12,000 per month (I wish that number were higher, but we live in a very high-tax, high cost-of-living city). Given where we live, a house for what we hope will be a growing family will cost at least $1.5 million, so it would take at least a couple of years before we are ready to buy…. The other option would be to start paying down our student loan debt as quickly as possible. I am against this as it would push buying a house (and the associated tax benefits) much further into the future, and there is always the possibility that home prices (and mortgage rates) will make buying a much more expensive proposition at that point. What do you think? Should we be aiming to buy a home? Is there an option we’re missing?

Now I’ve removed some information (including some of this couple’s questions) and changed some information to hide their identity, but the general gist of the email can be seen. This is a high-income couple living in a high-cost of living area. They are the classic HENRYs- High Earning, Not Rich Yet. They have made a few decisions (and most of them well) but have a lot of decisions ahead of them. The results of those decisions will have a profound effect on their ultimate accumulation of wealth. Let’s look at the decisions they’ve made so far:

1. Go to medical school. Generally a great decision for building wealth.
2. Go to law school. Also generally a great decision for building wealth.
3. Keep student loans to a reasonable amount. Their student loan DTI ratio is < 1, my usual guideline.
4. Refinance loans to a low, variable rate. If you’re not going for PSLF, refinance your student loans.
5. They decided to rent for a little bit as a new attending. Also a great decision.
6. They are living like residents. Apparently not counting retirement funds, they’re putting away 1/3 of their gross income.
7. They live in a high-tax, high cost of living city. Not such a great decision.

8. They’re planning on holding student loans for 7-10 years due to low interest rates. A questionable decision.

9. They are planning to buy a house that costs 4 times their gross income. A very questionable decision.

Now let’s consider their future decisions and their financial impact.

**Do They Stay in This City/State?**

Perhaps the best thing they can do for their financial situation is to move to a less expensive, lower-tax locale. The lawyer may end up taking a pay cut for doing that, but the doc is likely to get a raise so it will probably be a wash income wise. But now they can buy a better house for $500K and perhaps even eliminate their state tax completely. In addition, many other costs go down (may no longer need a private school, food, transportation, parking etc may all go down.) Unfortunately, like joining the military to pay for med school, this isn’t primarily a financial decision. They may be in that expensive city because they love living in big cities. Or they have family there. Or whatever. But if you’re not really into Northern California or Boston or NYC or whatever, get out! It might mean working for 5-10 fewer years before retiring.
How Long Do They Continue to Live Like a Resident?

This couple is saving well over 50% of their net income. That will give them an awesome jump start to their financial life and almost guarantee eventual financial success. However, how long they do it for also has a major effect on their ability to accumulate wealth. Living like a resident for 2 years is great. Living like a resident for 5 may give you the ability to retire a decade or so out of residency.

How Long Do They Drag These Loans Out?

While there is something to be said for borrowing at a low rate and investing in hopes of earning a higher rate, I find that the docs who seem to accumulate wealth the fastest don’t seem to do that. They still invest, but they also pay off their student loans within 2-5 years, even the low interest rate ones. You’re really not done with med/law school until you’ve paid for it. So where does that money come from to both invest and pay off debt? From the lifestyle, i.e. living like a resident. I just don’t see how someone who can save $12K a month expects $180K in student loans to last 7 years. I expect them to last 18 months. Maybe 3 years total when you include the doc’s 0% family loan. Family loans are great, but there’s something about owing money to family that isn’t very comfortable. As a senior college student, my parents once gave me their beater Geo in exchange for a $3K 0% interest note I was supposed to pay off as soon as I started making real money. I paid it off in September of my intern year. As Dave Ramsey says, “Thanksgiving dinner doesn’t taste the same when you owe money to other people at the table.” While they may never say anything, every time you buy a car or go on a vacation, they’re going to be wondering why you’re not paying them back instead.
What About That House?

I chose to ski. Mt. Superior-2 1/2 hours up, 15 minutes down.

Let’s get back to that $1.5 Million house. Buying that on a $380K income essentially guarantees they’ll be house poor. Even if they had the cash to buy it outright, the maintenance costs (generally 1-2% of the home’s value each year, although possibly less in really expensive places), property taxes, insurance, and furnishings are not insignificant.

Whether they actually buy a house that expensive and when they do so are two very big decisions with serious financial ramifications. Delaying the purchase may mean it has a higher purchase price and even a higher mortgage rate, but it also means they will be in a better financial position when they do so. The purchase of the house will basically end the “live like a resident” period for them. They’ll be doing well to save 20% of their income after doing that. Even a 30 year 4% mortgage on $1.2 Million is $69K a year (18% of their gross) and that doesn’t include taxes, insurance, maintenance, furnishings, upgrades, utilities etc.

These are all decisions that we all have to make. How we make
them will determine how wealthy we become. Now, don’t get me wrong, the end goal isn’t to die as the richest guy in the graveyard. But choices have consequences. Ignore them at your peril. As a high-income professional, all your friends, family, patients, partners, and clients assume you’re rich. You might as well be rich. Given that you already have a high income, you become that way simply by managing that income well.

What do you think? What have you done to choose “I will be wealthy”? What choices have you made that work against that goal? Comment below!