Doctors Need to Budget Too

Surprisingly, I’ve had a number of requests to do posts on budgeting. I can’t think of a more boring subject to cover. Let’s see if I can offer something unique on the subject. I once posted my budget on an internet forum frequented by students, residents in my specialty, and a few attendings. It was a ridiculously popular thread. In fact, the ensuing discussion was a major factor in my starting this website. Apparently, people are so hesitant to talk about money that seeing someone else’s budget is more sensational than peeping in their bedroom windows. That’s probably a bad thing, so let’s see if we can get folks talking about this stuff. [Here’s a look at my 2017 Budget. –Ed]

A budget IS a personal thing, since it demonstrates where your priorities are. You might not think of it that way, but if your budget DOESN’T reflect your priorities, it’s time to make a change. For example, some people may spend more on clothes, transportation, vacations, or their home. Others might direct a lot of money toward paying down debt or toward retirement. Still, others may give a lot to charity. Some may even be embarrassed to reveal they’re spending most of what they make, or even more than they make. No wonder no one wants to talk about this.
It does help if you think the process of budgeting not as a constraining, boring process, but rather as a plan for financial independence. Tons of marriages break up over financial issues. Budgeting done properly can essentially eliminate relationship fights over money.

I think some people were hoping to get some kind of percentage guideline—spend 20% on housing, 5% on transportation, 20% on retirement etc. I don’t think that’s necessarily a great idea, since some items are a fixed cost, and as your income goes up you don’t need to spend more on that category. Plus, a doctor in the Bay Area is simply going to have to spend a higher percentage of income on housing than one in Dayton, Ohio.

Guidelines for a Physicians Budget

1) The hardest part is getting started

Any budget is better than no budget. If you’ve never done it, just write down for a 2 or 3 months every dime you spend. That’ll show you what your budget is now, whether you know it or not. Then you can decide if you need to make some changes.

2) Minimize fixed expenses
A surprisingly high percentage of budgets are determined without thinking about it. If you buy a million dollar house on a $150K income, guess what? You’re going to have a high percentage of your budget committed to housing costs. Same with buying an expensive car on credit.

The ideal is to have a relatively small percentage of your budget committed to expenses. That gives you maximum flexibility in the event an unexpected expense comes up, or you decide to make a major purchase, or if heaven forbid, you lose your job (or more likely, have a significant drop in your income.)

Consider two doctors, one who puts 20% of his income into retirement, 10% toward vacations, 529 plans and upcoming car purchases and the other doctor who saves only 5% of his income and has the rest committed to car payments, a large mortgage, and college tuition for his two kids at Princeton. Let’s say their incomes both decrease by 15%. This is inconvenient for the first, but a financial catastrophe for the second.

Fixed expenses are often debt payments. The less debt you take on, the lower your fixed expenses. Other fixed expenses include taxes (income, payroll, and property), insurance, and utilities.

3) Save for retirement off the top

Never, ever grow into your income. As an attending, you should never get to the point (at least before retirement) where you are spending your entire income. If you start in residency, or at least shortly thereafter, putting 20% of your income away toward retirement, you’ll never know what you’re missing. Maxing out your retirement accounts will provide you a lifetime of income, a big tax break, and protection of your assets from lawsuits.
I’ll provide a few examples of what I consider reasonable budgets and one example of what I consider an unreasonable budget:

**Reasonable Budget for a Resident**

**Income $50K**

**Fixed Expenses**

- Taxes $5K
- Housing $12K
- Utilities $3K
- Insurance $2.5K
- Student loan payments $2.5K
- Total $25K

**Variable Expenses**

- Retirement $5K
- Charity $500
- Auto savings $2K
- Vacation savings $2K
- Food $6K
- Gas $5K
- Everything else $4.5K
- Total $25K
Lessons learned from this budget include the fact that even a resident can save for retirement and give to charity. But a resident, like the average American, needs to watch every penny carefully. There’s less than $400 a month for “everything else.”

**Excellent Budget for an Attending**

**Income $150K**

**Fixed Expenses**

- Taxes $30K
- Housing $24K
- Utilities $6K
- Insurance $5K
- Student loan payments $15K
- Total $80K

**Variable Expenses**

- Retirement $30K
- Charity $7.5K
- Auto savings $6K
- Vacation savings $6K
- College Savings $3K
- **Food $12K**
- Gas $8K
- Everything else $7.5K
- Total $70K

This doctor is saving not only 20% for retirement, but another 10% toward upcoming future expenses so he doesn’t have to take on debt for them.

**Another Good Budget for an Attending**
Income $300K

Fixed Expenses

- Taxes $70K
- Housing $36K
- Utilities $7K
- Insurance $6K
- Student loan payments $15K
- Total $134K

Variable Expenses

- Retirement $60K
- Charity $30K
- Auto savings $8K
- Vacation savings $10K
- College Savings $15K
- Food $12K
- Gas $8K
- Everything else $23K
- Total $166K

This attending lives only a little bit higher lifestyle than the last one, but by virtue of having twice the income, can afford to save more money and have more uncommitted spending money each month. Notice that his absolute fixed expenses went up quite a bit, especially the taxes on that extra
Unreasonable Attending

Income $250K

Fixed Expenses

- Taxes $70K
- Housing $60K
- Utilities $7K
- Insurance $6K
- Student loan payments $15K
- Auto payments $12K
- Furniture payments $3K
- Houseboat Timeshare $3K
- Credit card payments $24K
- Total $200K

Variable Expenses

- Retirement $0
- Charity $0
- College Savings $0
- Auto savings $0
- Vacation savings $0K
- Food $6K
- Gas $5K
- Everything else $60K
- Total $71K

There’s a lot to criticize here, as it’s a pretty extreme example but not uncommon. This doctor is spending more than he makes and his fixed expenses account for 80% of his income! This prevents him from putting any money toward the future, as he’s still paying for the past.
One nice thing about being an attending is that you have a high income. If you manage it well, there’s plenty of money to have a great standard of living, pay off all your debts, and save for retirement. But there is usually someone down the street who makes more than you, and there is always someone down the street who spends more than you should. A budget is a plan that helps you avoid blowing the opportunity for financial independence that you’ve earned. Use it.

Also, keep in mind that there are LOTS of reasonable budgets. Just make sure your budget fits YOUR priorities and values. Money is a tool that if used properly can bring you a lot of happiness and do a lot of good.

What do you think? What budgeting tips do you have? What has worked for you and your family?