How To Punch Out of Medicine in 10 Years

As of July 1st of this year, I am ten years out of residency. I saw a post by a physician recently on an internet forum. She was 60 years old and had just paid off her student loans and was asking how she should start saving for retirement. I couldn’t believe how negative most of the responses were—“You’re too late,” “Don’t bother,” “You’re hosed,” etc.

I have been reflecting lately on how, in reality, almost no physician is ever more than 10-15 years away from financial independence. No, you can’t live like a typical physician and achieve that, but by virtue of their high income, it is nevertheless true. Many readers are familiar with the story of Mr. Money Mustache and his wife, who came out of college, squirreled away almost their entire very low six figure income, and retired at 30 or so before ever having a child. They now live on something like $24,000 a year. My 10 year plan for physicians doesn’t require anywhere near that level of sacrifice, although there will definitely be some sacrifice required.

Before I explain the plan, consider why you might want to follow it. The truth is, you probably don’t. I certainly didn’t, and that’s why I’m not yet financially independent. But there are some people who value financial independence very highly (they don’t buy wakeboats BTW) and others who
simply hate medicine. They might have realized it in med school, during residency, or perhaps even a few years out of residency. But then they realized they owed so much in student loans that they didn’t really have any other good options. Or they realized it would be easier to practice medicine for a few years than to do whatever else they were interested in doing for 30 years. Or perhaps they just hate working at anything and want to be done as soon as possible. Who knows? Whatever your reasoning, here’s how you can do it. And for those of us who don’t necessarily want to punch out in 10 years, there are probably some lessons to pick up here too.

There are basically four things I think you need to do before punching out of medicine permanently. You need to pay off your student loans, pay off your house, save up a nest egg sufficient to last the rest of your life, and save up enough to take care of any other financial priorities you may have, such as your children’s college. We’ll address each of these in turn, but first let’s discuss some of the sacrifices that will be required.

**You Can Never Live Like a Doctor**

If you really want to punch out of medicine in 10 years, you can’t live like a doctor now, and you can’t do it later. What you really need is a middle class lifestyle. And I’m not talking about the middle class where one spouse is a pharmacist and the other is an engineer. I’m talking about the middle class where the household income is $50,000. The difference between a physician income and a middle class lifestyle is where the money to pay for this early financial independence comes from. The more you can convince yourself this isn’t a sacrifice, the better this is going to work for you. But don’t plan on putting your kids in private elementary schools, sending them to fancy pants colleges, driving brand new cars, or vacationing in France. Your vacations are going to be hiking in national parks and visiting family, not skiing
You Have To Live In A Small, Inexpensive House

Likewise, you don’t get to live in a big fancy doctor house. Houses are investments, but they’re not very good ones. The bigger your house, the more it costs you to finance it, pay for it, insure it, maintain it, repair it, landscape it, clean it, upgrade it, and furnish it. To make matters worse, when you live in an expensive house, your neighbors are relatively wealthy and in order to keep up with them, you’ll have to spend more than you would in a more middle class neighborhood. That’s not going to be compatible with a 10 year exit plan.

You Need To Maximize Income

For this plan to work out, you will also need to maximize your income. No “silly” fellowships that don’t boost your income. Avoiding low-paying specialties will be important, and if you choose one you’ll need to make sure you pick the type of practice that pays the best (for example, if you go into IM, be a hospitalist or do urgent care work.) No lengthy training periods either. You don’t want to eat up the first four of your 10 years with an extended residency and fellowship. The goal of this 10 year plan isn’t to dedicate your life to the relief of the sick and injured. It’s to make money and get out. [Don’t send me hate mail- I’m not on this ten year plan.] Forget academics, where you are paid 13% less on average than in private practice. You’re going to need that 13%. You’ll need to work hard, take some extra call, maybe do some locums, and really spend that 10 years with an income well above average for your specialty. A second job, such as locums, also provides an additional retirement account or two, which will help.

Now that we’ve got the sacrifices out of the way, let’s move on to the four goals.

Paying Off Student Loans Rapidly
The best way to pay off student loans rapidly is to never take them out in the first place. Picking an inexpensive school in an inexpensive city, getting as much family help as possible, working when possible, and living like you’re worse than broke goes a long way toward minimizing your debt. Managing it well throughout medical school and residency and refinancing when appropriate makes a minor difference. The real bang for your buck comes when you finish training and start throwing massive sums at that debt every month. When you’re putting $10K a month toward your student loans, $200K in debt will melt away very quickly. If you want to punch out in 10 years, you better be rid of the student loans within 2-3 years at the latest.

A Paid Off Home

When you punch out in ten years, you won’t have a massive nest egg. It’s not going to be able to support both your lifestyle and mortgage payments. So you need to pay off that mortgage while you’re still working. If you paid off your student loans within a couple of years, perhaps you could spend the next year saving up a down payment, then spend the final 7 of those 10 years paying off the mortgage. That means basically getting a 15 year fixed mortgage and making double payments on it. Needless to say, this is a lot easier to do when the value of the house is 1X or less of your annual income.

A Retirement Nest Egg

Your largest expense is going to be the money you’ll be living off the rest of your life. Since you’ll be retiring so early in life, Social Security isn’t going to factor in much. You
will also need to be careful about how much you withdraw from your nest egg each year. The 4-5% that would probably work fine for someone retiring in their mid to late sixties has significantly more risk when you retire at 40. You might even want to be as low as 3% depending on how big a deal it would be for you to go back to work if this early retirement thing doesn’t work out.

You’re also going to have to take significant risk, both before and after punching out. That means plenty of stocks and real estate in the portfolio. 80% bonds and CDs isn’t going to cut it. But don’t kid yourself. Very little of this initial nest egg is going to come from compound interest on your investments. Almost all of it will come from brute force saving.

You’ll want to especially take advantage of tax-deferred retirement accounts. Since you’ll be putting this money away at a physician’s marginal tax rate, but spending it at a middle class tax rate, there will be a significant arbitrage there. Don’t worry about the age 59 1/2 rule; you can avoid penalties on your withdrawals simply by taking advantage of the SEPP rule. You’ll also be putting some money into a backdoor Roth IRA and a taxable account since you’ll need to save such a high percentage of your income.

**College and Similar Expenses**

You may also want to save up some money for your children’s
college educations or other similar expenses. You really need to have this mostly done before punching out, although if the child is still young you can assume that the investments will grow somewhat between your retirement date and their enrollment date. Due to the very short time period, you’re not going to be able to save up a lot, so you either need to limit the number of kids or limit how much each of them will get from you. Sending them to inexpensive schools and requiring them to work, get scholarships, and or take out loans will help dramatically.

**The Nuts and Bolts**

So what does this really look like where the rubber meets the road? Well, you’ve heard me advise young docs to live like a resident for 2-5 years after residency. In this situation, however, you have to live like a resident not for 2-5 years, but for 10, and really, indefinitely even after that. If that doesn’t sound appealing to you, then you’d better look into some alternative plans. Here is a sample attending budget for someone with two kids under this plan:

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**Annual Budget for A Doctor in the First Two Years**

- Gross Income: $300,000
- Taxes: $70,000
- Student Loan Payments: $100,000
- Housing expenses: $15,000
- Retirement Accounts: $40,000
- Taxable Accounts: $15,000
- College: $10,000
- Everything else: $50,000
- Total Spending: $300,000

**Annual Budget for a Doctor in the Later Years**

- Gross Income: $300,000
- Taxes: $70,000
- Mortgage payments: $50,000
- Retirement accounts: $50,000
- Taxable accounts: $70,000
- College: $10,000
- Everything else: $50,000
- Total spending: $300,000

**Total at Retirement**

Assuming 5% real returns on your investments, here’s what you have after your 10 years:

- Zero student loans
- A paid off house
- A $1.38M nest egg (at a 3% withdrawal rate= $41,400 per year, at 4%= $55,200 per year)
- A college savings account of $66K for each kid, which if they have another 10 years before going to school, should grow to $108K each.

Not too bad, right? But wait, there’s more. This could get even better in one of three situations:

1. You have a spouse who doesn’t hate their job.
2. You open up an entrepreneurial business on the side
besides medicine, further boosting income both before and after retirement.

3. You retire to another career.

Each of these options will allow you to spend much more than a resident salary and still punch out of medicine in 10 years.

Does it sound a little extreme? Yes, it’s a little extreme. But it will provide a lifestyle twice as nice as Mr. Money Mustache’s. If it’s too extreme for you, put yourself on a 15 year plan or get yourself into one of the three situations at the end (working spouse, side business, second career.) Personally, my plan was always to front load my savings, then cut back a bit at work to get a nice balanced life, and then enjoy the “good life,” working until fifty (a 19 year plan for me) or sixty (a 29 year plan.) The “good life” allows for a big fancy doctor house, a wakeboat, a few nice cars (eventually), plenty of fun vacations, donating to charities I support, and telling my children “no” to avoid spoiling them, not because I have to. But I like practicing medicine. If you don’t, consider the merits of the “10 year plan.”

What do you think? Would this work? Why or why not? Are you one of those who would like to get out of medicine ASAP? What are you doing to facilitate that? When do you plan to retire? Comment below!

At what age do you plan to retire?

- o Before 50
- o 50-52
- o 53-55
- o 56-58
- o 59-61
- o 62-64
- o 65-67
- o 68-70
- ☐ After 70

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