Live Like a Resident

Some of the best financial advice ever given to me by a colleague is encompassed in these four words: "Live like a resident." Simple, yet profound. There are really five pieces of advice encompassed in this short phrase.

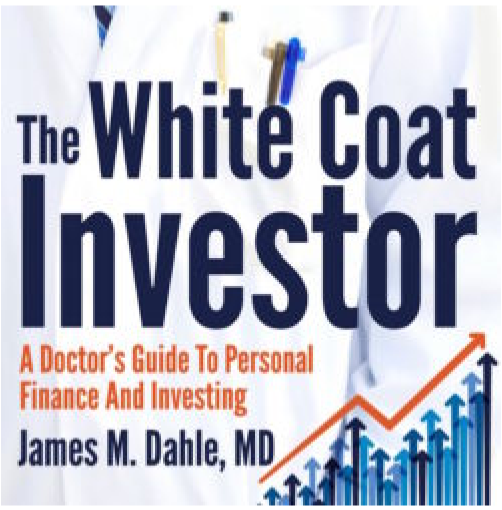
1 When You are a Resident, Don't Live Like an Attending

It appalls me to see someone taking out just as many loans as a resident as they did in medical school. They might be special doctor loans to live off of, it might be a car loan for that car you now feel entitled too, it might be a big mortgage, or it might just be running up the credit car loans. When you're a resident live like a resident. You'll make $40-50K, which is the average household income of an American. These few short years give you perspective on how your patients live that you can carry with you for the rest of your life. Maxing out a $5000 Roth IRA is a big deal when you only make $40,000 a year. You'll sometimes have to decide between an upgraded cell phone plan and taking a road trip. Believe it or not, living within your means doesn't get any easier whether you make $40,000 or $400,000, you're just moving bigger numbers around in your budget.

2 When You Finish Residency, Don't Upgrade to an Attending Lifestyle

If you could live in a 2000 square foot home in a mediocre neighborhood as a resident, you can still do it. Doing so allows you to do several things- First, you can pay off your student loans. Now that they're all at 6.8% rather than the 1.9% my classmates refinanced at, paying them down quickly is much more important. Second, you can get your portfolio jumpstarted. As we saw in a recent post on compound interest, the early years of saving are the most important because they lend more time to compounding. Also, as can be seen given our current relatively low-yield/low-return environment, you'll need to save more to retire comfortably compared to preceding generations. What better time to get started than right out of residency? It will be far harder to cut back your lifestyle later, than never to have upgraded it in the first place. Third, you can save up a down payment on a home. That gets you a little lower fees and interest rate than using a doctor mortgage loan.

3 Work Hard



You’re probably coming out of a residency where you’ve gotten used to 60-90 hour weeks. As one of my emergency medicine colleagues recently said, “I just got done working 20 shifts a month for three years; Why can I now only work 14?” He figures if he only cuts back to 17 he gets an improved lifestyle and a few extra thousand a month, which will go a long way. The marginal utility of money is much higher for him now than it will be in 20 years, and it will probably be worth it to him to trade more of his time for money now than later. Working more has the added benefit of improving clinical skills and establishing business contacts with physicians and others. The learning curve is still steep for a year or two out of residency, so why not pretend you’re a fellow and just upgrade your lifestyle a little.

4 Five Times the Pay Doesn’t Equal Five Times the Lifestyle

When you do upgrade your lifestyle, remember that 5 times the pay doesn’t equal 5 times the lifestyle. You will pay far more in taxes as an attending. You will have a lot more business and CME expenses also. Many doctors in their first years out of residency will find more mouths to feed at their tables. Nicer cars burn more gas and cost more to repair. Bigger houses cost more to heat, insure, maintain, and furnish. You’ll also need to get serious about saving for retirement. Bottom line? 5 times the salary probably only means you can double or triple your lifestyle. The longer you can delay upgrading, the more financial benefit you’ll see. Sure, you don’t want to delay gratification until you’re 90, but just holding on a little longer after residency can make a huge difference later.

5 Doctors Should Save More Than Non-Doctors

Remember that part of your salary is to make up for the fact that you spent over a decade of your life to train for your chosen profession. Your college roommates not only have lower loans, but they also have had more years for their savings to compound. You will need to save a higher percentage of your income (and a much higher percentage of your net income) to get to the same place for retirement as them. Plus, on a relative basis, Social Security will make up for a much lower percentage of your retirement income than for a lower wage earner. Whereas they are likely to do okay with a 10-15% savings rate, you'll probably need to save 20-25% of your income. If your lifestyle upgrade encompasses those extra funds, you'll never catch up.

So if you want to have the financial freedom to work fewer hours, retire early, explore lower-paying niches of your specialty, do medical mission work, or just have nicer stuff down the road, LIVE LIKE A RESIDENT during and for at least a few years after residency.
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What do you think? Did you live like a resident for a few years after residency? Why or why not? How long did you do it for? Comment below!

For how many years after residency should a doctor "live like a resident?"

- ○ None. It's not necessary.
- ○ 1 year
- ○ 2 years
- ○ 3 years
- ○ 4 years
- ○ 5 years

- ○ 6-10 years
- ○ More than 10 years
- ○ Indefinitely
- ○ Until loans are paid off

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