Moderation in All Things

Insulated groups of people tend to eventually push themselves to ridiculous extremes. This is easily seen with political parties. For instance, in my state the political parties have a caucus and convention system. It is not uncommon at all for the most extreme candidate to be favored at the convention, but then fail to be elected in the primary election because the overall party membership is far less extreme than those who are willing to spend days just to place their vote through a caucus and convention. It also occurs with groups of investors and forum participants. I sometimes see it on the Bogleheads forum where a significant percentage of forum members pooh-pooh any form of entrepreneurship and push for ever lower safe withdrawal rates. I witnessed it on the Reddit FIRE (Financial Independence/ Retire Early) sub in response to a post I wrote suggesting that perhaps the costs of early retirement weren’t worth the benefits for some people. And I even see it here occasionally in the comments threads or on the forums, particularly in regard to your finances as a resident.

Resident Finances

I have seen some extremely impressive examples of financial discipline and acumen among residents who frequent the blog. For example, this post by Amanda Liu (RIP) who hit a net worth of $0 as an intern. More and more, I am seeing residents who are not only maxing out a Roth IRA, but also maxing out their 403(b). And maybe even a 457(b). Now, given a typical resident salary of $50K, and contribution limits of $5.5K, $18K, and $18K, you can see this requires a savings rate of 50-80%. That’s extreme. One med student just emailed me with a plan to live on $60K a year for his first 10 years out of residency so he could be financially independent as early as possible. I even ran a post recently about a cool trick to start making REPAYE payments even earlier in order to maximize PSLF. Sometimes I worry that these sorts of examples, and our glorifying of them, will lead people to the wrong conclusion-i.e. that this sort of discipline and personal sacrifice is required to be financially successful as a physician. The truth of the matter is that it isn’t required. Not even close. These folks are the “Early
Retirement Extreme” folks of the physician financial world. If you’re not familiar with the extreme early retirement community they are basically people trying to retire in their 20s and 30s primarily by virtue of living an extremely frugal life both before and after retiring. You know, going grocery shopping on your bicycle, making your own clothing, and reusing paper towels and ziploc bags.

Personal Finance is like bathwater - not too hot or too cold. Moderation is key.

The Importance of the First Year

The truth of the matter is that what you do in your first year as an attending will have a much larger effect on your personal finances than anything and everything you do as a resident. There is simply more raw material (i.e. income) to work with. By keeping your living standard somewhat similar to what it was as a resident, you should have a six figure amount each year with which to build wealth. That can be used to rapidly pay off your student loans, save up a down payment on your dream home, and max out your retirement accounts. Most readers will agree that my wife and I have been reasonably financially successful. Our “loans” were paid off 47 months out of residency, we were millionaires 7 years out of residency, and we should be financially independent by our mid 40s and now enjoy a lifestyle where we live in a 4400 sq ft mansion with a 100 mile view, go on vacation every month, buy automobiles brand new, and even purchase expensive toys from time to time. So what was our savings rate in residency? Well, in 2004, my first full year as a resident when my wife was working as a teacher, we saved 9%. The second year, after she was a stay at home mom, that dropped to 5%. Sure, the year I graduated (half of which I was an attending) that rate went up to 47%, but we still had a small upgrade in lifestyle that year including buying a town home, a second cell phone, and a second car. No ramen noodles. No reusing paper towels.

A Little Consumption Smoothing
Consumption smoothing is an important personal finance concept to understand. This is the idea that you keep your lifestyle the same throughout your entire life. You do this by borrowing money early on until your income is high enough to both support the lifestyle and pay off the previously taken out debt. I think it is generally a bad idea. I think you’re probably better off with a slowly, but constantly increasing standard of living throughout your life, and I really dislike the idea of living on debt early on rather than learning to live within your means. Clearly, many residents take consumption smoothing too far by driving “attending cars”, living in “attending houses”, and borrowing to fund lifestyle choices as residents. However, it is probably just fine to consumption smooth a little. What I mean by a little is to have a little lower savings rate in residency and a little higher rate your first few years as an attending. Financial priorities for residents should be adequate disability and life insurance, some financial education, a smart student loan management plan, and some Roth savings. That’s it. You don’t need to be building home equity. You don’t need to moonlight 8 days a month. You don’t need to develop some complex asset allocation.

Advice For the Minority

The vast majority of doctors, and even residents, aren’t saving enough money and aren’t paying enough attention to their finances. So this post is for the tiny minority that is trying to do it all at once. Unless you hate being a doctor (or other high income professional) there is no reason you need to rush this process. Patience is a virtue. You will eventually have millions in savings. You will eventually be able to supply your every need and most of your reasonable wants. You will eventually be debt-free. You will eventually own the house of your dreams. Don’t kill yourself to rush the process. It doesn’t do you any good to be financially independent three years earlier if you have already molded your life into exactly what you want it to look like. Moderation in all things.

What does moderation look like specifically? It looks like this:

- Saving 20% of your gross income throughout your attending years for retirement
• Having your student loans paid off within 5 years of residency graduation
• Paying off your house within 20 years of residency graduation
• Reaching financial independence (savings equal to 25 times expenses) at some time in your 50s
• Never feeling financially deprived

Don’t get me wrong. I appreciate your enthusiasm for the process. I’m totally impressed with your dedication and discipline. You will someday be able to either spend, give, or leave behind gobs of money. But look inside yourself and make sure your financial habits are bringing you and those you care about real happiness, and not just financial independence.

What do you think? Have you found yourself inappropriately going to extremes? How do you fight against that tendency? Should you fight against that tendency? Comment below!