

When Your Income Becomes Your Enemy



[Editor's Note: Today's WCI Network post is written by [Physician on FIRE](#) and discusses some of the issues that high income professionals run into when trying to build wealth.]

What's the first thing that comes to mind when you hear the question "How do you get rich?"

You might envision someone winning the lottery or receiving a large inheritance, but the most common and likely response is something along the lines of "make a lot of money."

If you want to be wealthy, and don't have a rich uncle or 1 in 100 million luck, you're best off working hard and earning a boatload of money.

Of course, earning money is only half of the equation, but it's the sexier half, so you probably didn't immediately come up with "save and invest most of your earnings." We've talked about [living on half of your takehome pay](#) and the benefits of [relative frugality](#).



Today, we're going to explore what it's like to have a high income, and how a high income can actually get in the way of wealth-building. [Mo' Money, Mo Problems](#), as the late Biggie Smalls would say.

When Your Income Becomes Your Enemy

As a physician, I earned a high income. As an anesthesiologist, I earned more than most physicians, but even the lowest-paid specialties now average at least \$200,000 per year for full-time (often 50 to 60+ hours a week) work.

Many readers of this blog, whether physicians or not, are aiming for a [fatFIRE](#) post-work existence, and earning six-figures in a variety of careers.

I have absolutely enjoyed and benefitted from a generous income, and I don't expect any sympathy for high-earning individuals. That's not what I'm going for here. What I do want to impart, based on what I've seen and what I've learned, is that a high income most certainly does not guarantee financial success. At times, your income can become your enemy.

A Whole New World... of Investments

No one, no matter what their income, is immune to making a bad investment. In fact, the poor and underinformed are preyed upon by payday lenders, infomercials promising riches, and unsavory websites offering get-rich-quick schemes.

High-income individuals are also targeted, and the targets and the ammunition are larger and more powerful, respectively. The more money you have, the more money you have to lose.

The higher your income, the more risks you're able to take with your money, or it may seem that way, at least. Nevertheless, I've worked with physicians who have had to file for personal bankruptcy after being over-leveraged in business and real estate investments that turned sour.

If you have a net worth of \$1 Million or more, excluding equity in your primary home, or you earn more than \$200,000 as an individual or \$300,000 as a household, you are by definition [an accredited investor](#).

Accredited Investor Status

As an accredited investor, you've either got a net worth of a million dollars or more, excluding your primary home, or you've got steady income of at least \$200,000 as an individual or \$300,000 as a couple.

You're legally able to make investments that aren't available to just anyone. That exclusivity might make you feel special, like you've earned a privileged status that the serfdom can never touch. Your wealth can only snowball with these newfound opportunities, right?

Not so fast! Think about the reason the status exists. Accredited investor status gives you access to investments with potentially higher reward but paired with concomitantly

higher risk.



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The reason you're given access to those investments is that our benevolent leaders have deemed you to be in a position to be able to afford a substantial loss of principal.

I've made a handful of investments in [crowdfunded real estate deals](#) based on my accredited investor status (and there are some crowdfunded investments available to everyone via places like [FundRise and Realty Mogul](#)), but I've made them knowing that the generous returns are far from guaranteed.

Friends and Family... and Business?

We all know it's best not to mix business and pleasure, but many a physician or other high-income professional has been targeted as a source of funding by family and friends for business ventures that a bank wouldn't touch with a thirty-nine-and-a-half foot pole.

How many failed business ventures have your coworkers and classmates been involved in? You can stop counting when you start using your toes.

When your college roommate or not-so-rich uncle is looking for seed money for a business idea, who will he turn to? The person he knows who has the highest income, of course. That

might mean you.

Before you even consider investing, consider the fact that even a successful business can ruin friendships and strain family relations. A failed business is even more likely to create ill will, and something like 90% of new businesses will fail.

As a high-income or high-net-worth individual, you will be targeted. Why did Willie Sutton rob banks? For the same reason that Bernie Madoff went to people like Steven Spielberg, John Malkovich, and Kevin Bacon. Because that's where the money is.

When you earn less, you will have a lesser opportunity to build substantial wealth, but you'll also have fewer opportunities to squander it on risky investments.

A Whole New World... of Toys

If you had all the gold and jewels from that cave in [Aladdin](#) – you know, the Disney movie they've remade that features “A Whole New World” – just think of all the stuff you could buy!

Most of us will never see riches like that, but if you're making several hundred thousand dollars a year or more, you will be tempted to spend money on things you could never (or at least should never) dream of buying on a five-figure salary.

A Lamborghini, a mountain home you'll use two weeks a year, a NetJets subscription, or a box suite at the stadium.

If you level up your wealth further, the temptations become more costly. Your own plane, a million-dollar car, or [a mega-yacht like the one Arthur Blank bought himself](#).

While there's theoretically no limit to how much more you can earn, the same is true of how much more you can spend.

The higher your income, the wider the options you'll have to spend it. The more you make, [the better you'll want to get at saying No](#). No to yourself, maybe no to your family members, and no to savvy marketers who want nothing more than for you to transfer some of your wealth to them.

A higher income only helps you become wealthier if you increase the gap between your earnings and spending. If an extra \$50,000 in takehome pay is paired with an additional \$50,000 in lifestyle creep, all you've done is add at least \$1.25 Million to the amount you'll need to become financially independent (based on a 4% safe withdrawal rate).



A Whole New Tax Bracket

It's another good problem to have, but the more you earn, the higher your marginal and effective tax bracket will be. Depending on where you live, when you have earned income in the upper six-figures, half of or more of every additional dollar you make can go towards income taxes.

With a [seven-figure income](#), you'll have to decide if it's worth an extra six-figures annually to you to live in a place like California, Hawaii, Minnesota, Oregon, or New York City. Imagine the palace you could have in Florida if you were putting \$10,000 towards a mortgage payment instead of state income taxes.

That brings us back to the previous section on lifestyle inflation, but with that much money, you could probably buy four nice places in Florida (or Washington, Texas, South Dakota, Wyoming, Nevada, or Alaska) and rent out three of them to cover the costs of paying for all four. Think about that!

You should never let the tax tail wave the dog, and all else being equal, I'll gladly take an extra dollar of income even if I can only keep half. Just realize that tax management and mitigation becomes more important as your income increases and can give you new things to think about, like where to call home, for example.

Ethical Dilemmas

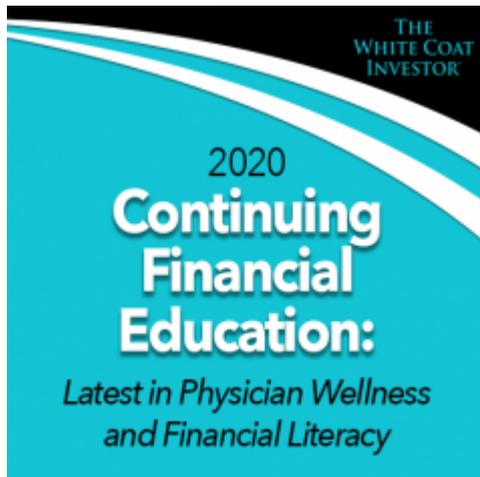
Your income can become your enemy if it causes you to do or say things that you might otherwise not do.

Conflicts of interest are highly prevalent when it comes to money matters, and many professions are subject to them. They exist to a varying degree, and some people are more susceptible to them than others, but no one is immune, whether consciously or subconsciously. Conflicts of interest can and do influence our thinking and behavior.

For a while, [I had two jobs](#). Job A as an anesthesiologist and Job B as a blogger. Neither are immune to conflicts of interest.

Conflicts of Interest in Medicine

Some physicians deal with significant conflicts of interest. If pay depends on production, as it often does, there is a financial incentive to do more procedures. If pay is tied to patient satisfaction, as it sometimes can be, there is a financial incentive to acquiesce and prescribe an antibiotic or pain medication that may not be indicated.



I am not saying physicians routinely respond to these incentives (and I'm not saying we never do, either), but the incentives absolutely exist.

In my job A, I was salaried with a small group production bonus. Since I could do little to influence production (cases are scheduled by surgeons), the conflict here was small. I did have the ability to cancel a case if the patient was not medically appropriate or optimized for the procedure, and I guess that gave me a tiny incentive to avoid canceling a case.

On the other hand, canceling the case lowers the risk of an adverse outcome, and I had both an emotional and financial incentive to avoid those. I did take that Hippocratic oath to do no harm. A canceled case at the end of the day might also get me home earlier, so there can be an incentive to lean towards canceling a case late in the day as opposed to first thing in the morning.

A small conflict may exist as to whether or not I offered the patient a peripheral nerve block. On one hand, if the procedure is potentially painful, the block may give the patient better pain relief and patient satisfaction. I would also create a few units of production by doing it.

On the other hand, I'd be exposing the patient to additional risk of nerve damage or infection, however small that risk is, and increasing the likelihood of a lawsuit against me. Sharif

Floyd [sued the team that worked on his knee for \\$180 Million](#), blaming effects from the peripheral nerve block for his declining career with the Vikings.

A block also takes some time and effort on my part, and depending on the timing, might delay the start of the surgical procedure by a few minutes. On the third hand – a third hand? – the block may be the difference between the patient requiring only light sedation versus a general anesthetic and the risks associated with general anesthesia. The more diseased the patient's cardiopulmonary system is, the more important the block could be.

I mention these factors – and there are many more that consciously and subconsciously go into the decision-making process – not to give you insight into my thought process when evaluating a patient preoperatively. I'm simply pointing out that monetary and other incentives exist whether we're aware of them or not, and the greater the role money can play, the more difficult those incentives can be for some to ignore.

If you've succumbed to lifestyle inflation and your pay drops, as is not uncommon in this era of declining reimbursements, taking the moral high road can become more difficult.

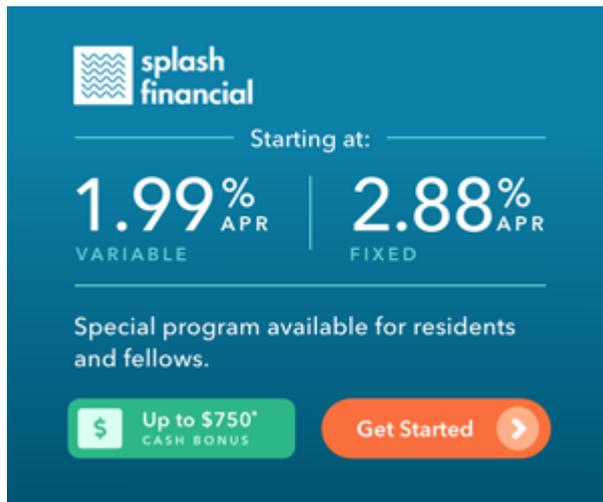
Unfortunately, some take the low road and end up in the news. These bad apples, like the [pill mill operators](#) and the [willy-nilly chemotherapy subscriber](#), cast the entire medical profession in a poor light.

Conflicts of Interests in Blogging

In my other job, as a blogger, the conflicts of interests are actually greater and are almost certainly more influential.

I don't feel terrible about that. For one thing, the consequence of those conflicts altering my behavior are probably less serious than the consequences of me choosing to cancel a case or whether or not to place a peripheral nerve

block.



The image is a promotional graphic for Splash Financial. It features the company logo in the top left corner. Below the logo, it says "Starting at:" followed by two interest rate options: "1.99% APR VARIABLE" and "2.88% APR FIXED". A horizontal line separates this from the text "Special program available for residents and fellows." At the bottom, there are two buttons: a green one with a dollar sign icon and the text "Up to \$750* CASH BONUS" and an orange one with the text "Get Started" and a right-pointing arrow.

For example, if there are two products that are equally good, and this site can profit from recommending one and not the other, I have an incentive to recommend the more profitable product.

Given [our charitable mission](#), you are also incentivized to choose that product over the equally-good product that doesn't benefit the site, as you know the profitable one will lead to some money being directed to charity. And that should make you feel good.

I also realize that [my reputation hinges upon my recommendations](#), so when I make them, I'm incentivized to do what I can to ensure I'm not recommending garbage. I'm incentivized not to send you to a high-cost or suboptimal product or service when there's a better alternative.

Make Sure Your Income Remains Your Ally

Money can be used for wonderful purposes, and I'm never going to opt-out of or advise against increased income.

When you understand the ways in which your income can become

your enemy, you are better prepared to hold onto that income and use it in ways to benefit yourself, your family, and your fellow man.

What do you think? In what ways have you seen a high income become the enemy? What do you do to keep your income an ally? Comment below!