Chapter Six
The Secret to Becoming a Rich Doctor

"If you do wish to splurge a little, to loosen up, do it after there is $1 million in the bank and after the mortgage has been paid."
— Robert Doroghazi, MD, FACC

I'd much rather be a good physician than a rich one, but I don't see any reason why a doctor can't be both. Your patients, family, and friends all assume you're rich, so you might as well be rich. Medicine is a difficult career. It requires intelligence, perseverance, attention to detail, and a lot of hard work, and that's just to get into medical school.

Getting through the long pipeline requires even more of these attributes, many nights of lost sleep, and a decade of lost earnings. Even once you're out of training, you have to deal with constant liability, many more sleepless nights in many specialties, excessive government regulations, and the constant emotional drain of dealing with drug seekers, serious illness, death, and social catastrophes.

Although society at times almost makes you feel criminal for making a high income, the truth is that the vast majority of people agree that physicians should be highly paid for their work. Incomes may be trending down, but physicians are always going to be earning more than the average American household. Whether a doctor becomes wealthy with that high income, however, is entirely up to him and his family.

Live Like a Resident

The most important year in a physician's financial life is his first year out of training, and the most important advice this book can give you is contained in just four words.

Live Like A Resident!

Did you get that? I cannot emphasize it enough. You've just finished living on $40,000–$60,000 for three to five years. You know you can do it. The biggest single financial issue that most physicians face in their quest for "the good life" is the sudden quadrupling (at a minimum) of their income upon leaving residency. Too many doctors grow into this income much too quickly, often immediately. Those who aren't living on less than their income during residency often find they are actually spending more than their impressive salary within a year or two of residency completion. An even worse predicament happens to those residents who start building the staff physician lifestyle even before they graduate from residency by maxing out credit cards, getting high end car loans and a large mortgage in anticipation of the larger paycheck.

If a new attending physician can manage to live the same lifestyle he has been living as a resident, the vast majority of that additional income can be put toward increasing his wealth by paying for a significant down payment on a home, paying off student loans and other debt, and saving for retirement and other long-term goals. In addition, a graduating resident may be used to 80-hour workweeks. If he continues to work that hard in establishing his practice, he will not only enjoy an "attending income" but also a very high income for his specialty. This is not a very good long-term solution, as it can often lead to burnout and unhappiness, but doing it for a few years or even just a few months can really get you started off on the right foot in your new career.

Of course, this is very hard to do, and few new attendings honestly have the discipline to do it. I certainly didn't. Upon leaving residency, I entered a period of active duty with the US Air Force. My salary tripled from about $40,000 to about $120,000 a year. Did we live the same lifestyle we had as a resident? No. We had been renting a 2-room duplex for $800 a month in residency. Now we bought a 3-bedroom townhome for $138,000. We had just one cell phone between the two of us, so we bought another. We had been a one-car family, and we decided to get a second one (it literally cost $1,850.) Our lifestyle definitely improved, and it was wonderful. But it didn't triple. It probably didn't even double. Where did all that extra money go? First, it went to pay off a short-term loan my parents gave me to help with our down payment, but within a couple of months, we had a couple of thousand extra dollars every month that we had to decide what to do with. That's a great feeling. The money went into a 401(k), into Roth IRAs, toward paying down the mortgage, toward saving for the car we really wanted, toward college saving accounts for our children, and toward an emergency fund.

But there is a lot of room between living the same lifestyle you had as a resident and the lifestyle attainable by spending every cent of attending income. The slower you improve your lifestyle, the more wealth you will eventually attain. Moderation in all things, of course, but trust me when I say you'll still feel rich even if you only double your income instead of quadrupling it.

That First Paycheck

At the end of July after you graduate from residency, someone is going to put $15,000–$45,000 into your bank account. Whether you ever become wealthy or not depends on what you decide to do with that first paycheck. Show me what happened to the money you made in your first year out of residency and I can predict your financial future with surprising accuracy.

Did you pay off all your consumer debt?
How much of it did you put toward retirement?
How much of your student loans did you pay off?
What are you now driving?
How much did you pay toward a mortgage?
What was your tax burden?

You might think you deserve to have a high income just because you went to medical school and completed residency, but you do not deserve to be wealthy unless you show you can carve out a significant chunk of that high income and put it toward building wealth. You've got a huge advantage over many of the millionaires profiled in *The Millionaire Next Door* who managed to get rich on a middle-class income of $50,000 to $100,000 a year. Don't blow it! It will be far easier for you to become

wealthy than for them, but it still requires you to do a few things right, and the most important one is to not just live below your means but to live far below your means. An upper middle-class income combined with a middle-class lifestyle is a sure route to wealth. So is a "top 1%" income combined with an upper middle-class lifestyle.

Location, Location, Location

Some of my favorite places in the world are in California. I love the beaches of San Diego, the High Sierras around Mt. Whitney, the walls of Yosemite, the deserts of Joshua Tree, the cool little mountain towns like Idyllwild and Mammoth and, when traffic and smog are not too bad, even its thriving cities. However, California is a toxic wasteland for physicians, particularly the big cities.

The pay may be slightly higher, but the cost of living is dramatically higher. A house that may cost $300,000 in Arizona, Nevada, or Utah could run as much as $3 million in parts of California. Combine the cost of living with poor Medi-Cal reimbursement, high state income taxes that are ridiculously progressive (the 9.3% bracket starts at less than $48,000) and competing with dot-com millionaires for housing in the best school districts, and it is easy to see that it will be difficult to get ahead as a doctor while practicing in the Bay Area. There are many similar places across the country on both coasts. You don't have to live there, and you will be much better off financially if you choose not to. States like Indiana and Texas offer low taxes, a low cost of living, a favorable medico-legal environment, and incomes comparable or even better than you'll find in California or Manhattan. You only live once, of course, and money isn't everything. If your entire family and everything you want to do is located in San Francisco, then you'll need to deal with the consequences of that. Just realize you'll be swimming upriver from a financial perspective.

Get Your Family on the Same Page

In personal finance, there is little that is more important than you and your spouse being on the same page. The spouses of physicians have their own subculture and lore concerning the jump from resident to attending pay. Remember that they have been deferring gratification in anticipation of your residency graduation as much or more than you have. You may have even foolishly promised a new car, a big house, an unaffordable vacation, or an expensive piece of jewelry for that first year. It might not just be your spouse you need to convince of the merits of living like a resident. Many doctors have teenagers by the time they finish training, who are also ready to enjoy the fruits of your labors. It is important to start talking about your financial plans as far in advance as possible (preferably before marriage) so that there are no surprises for the other members of your family when your disposable income merely doubles upon residency graduation.

The benefits of growing into your income slowly are just as large for your family members as they will be for you. You don't need to be an extremist one way or the other. Moderation in all things. But following a solid financial plan should reduce the tension in your home around finances, not increase it. It also helps if you do not marry someone who views shopping as recreation or therapy.

Ordering Your Priorities

I am often asked by physicians about what they should do first. These physicians are usually choosing between many good options, such as paying down debt, contributing to retirement accounts, or saving for

a down payment. If you will live like a resident for your first few years in practice, you will find that you do not have to choose; you can actually do all of them at once through careful planning and budgeting. Consider a graduating resident with a salary of $250,000 and $200,000 in student loans. He may pay $50,000 in taxes, leaving him $200,000. If he can live on $75,000 per year (a 50% raise from his residency pay), he will still feel quite wealthy. He will then have $125,000 per year with which to build wealth. He may be able to contribute $17,500 to a 401(k), $5,500 to a Roth IRA, $5,500 to a spousal IRA, and another $6,550 to a Health Savings Account, for a total of $35,050 toward retirement. He can also put $50,000 toward his student loans and nearly $40,000 more toward the down payment on a house. By living like a resident, he can truly do it all. That said, I feel obligated to provide some guidelines to new attendings for allocating their income. A worthy goal for a new physician is that within five years of residency graduation the student loans will be paid off, the retirement nest egg will have caught up to those of your nonmedical peers, you will be living in your dream house, and you will be debt free except for a low interest rate, 15-year fixed mortgage.

Develop a Housing Plan

The first priority is to develop a plan for your own housing. There are three approaches that are reasonable for a new attending. The first is to rent for a year or even two as an attending. This allows you to make sure you're a good fit for the job, boost your income, save up a 20% down payment, and get a great deal both on the house and on the mortgage.

The second approach is to use a "physician loan" to buy the dream house right out of residency. Although a physician loan will allow you to avoid the dreaded PMI (Private Mortgage Insurance simply insures the lender against your default on the loan), the fees and interest rate will be higher for a physician mortgage than a conventional 15-year fixed mortgage with 20% down. Instead of saving the down payment before buying a house, you would save it after buying the house by paying down the mortgage to the point where you could refinance it with a better mortgage. Alternatively, you could use the money that would have gone toward a down payment and put it toward the student loans or the nest egg. If you choose to use a physician mortgage, be sure you don't just fritter away the money that would have otherwise gone toward a 20% down payment.

The third option is to buy a "starter home" and save the down payment for the dream house within the starter home. This was the approach I took, since I knew I would be moving after four years anyway when I left the military. I wasn't able to come up with a down payment on a dream home quickly upon residency graduation, but I could scrape up enough to buy a little town home. We nearly had it paid off after four years and were able to take that home equity and use it as a down payment on the dream home. If you use this approach, you can either sell the starter home to get the equity, or you can take the equity out by refinancing and turn the starter home into an investment property.

Develop a Student Loan Elimination Plan

The second priority is to determine a plan for your student loans. The two most common options with standard interest rate student loans (5%–8%) are 1) to pay them off as soon as possible or 2) to pay the minimum due and get the rest forgiven through the Public Service Loan Forgiveness (PSLF) program. By the time you complete residency or fellowship and your Income Based Repayment (IBR) payments become the equivalent of regular payments, you should know if you are going to qualify for any forgiveness.

A third option, for those with very low interest student loans (1%–3%), such as those graduating from medical school in the early 2000s, is to stretch them out as long as possible, trying to arbitrage the rate by borrowing at 1%–3% and investing at 5%–8%. There is additional risk in investing "on margin" like this, but it seems unlikely that over a long period of time a broadly diversified stock index fund will do worse than 3% per year, even after tax.

Financial Priority List for Attending Physicians

Once you have developed a housing plan and a plan for your student loans, meld it into the following financial priority list for attending physicians.

1. **Get the match**. Employer-provided retirement plan matching funds are really part of your salary. Don't leave the match on the table by not contributing.
2. Pay off any **high-interest debt** (>8%), such as credit cards, car loans, expensive private student loans, etc. This is a fantastic guaranteed investment return.
3. Maximize your **tax-deferred retirement plan** contributions, including 401(k)s, profit-sharing plans, 403(b)s, 457s, and defined benefit/cash balance plans.
4. Fund a **Health Savings Account** (HSA) if eligible (more on these "Stealth IRAs" in chapter 8).

The following four items can be reordered, according to your financial priorities.

5. Fund a personal and spousal **Backdoor Roth IRA** (more on this in chapter 8).
6. Fund a **college savings plan** (529) for each child up to the amount that your state subsidizes with tax breaks.
7. Pay off **moderate-interest debt** (4%–8%) such as student loans (unless you anticipate forgiveness).
8. Save for a **house down payment** (if not using a physician loan).

The next four items can be reordered, according to your financial priorities and comfort level with debt.

9. If you used a physician mortgage, pay it down to **enable refinancing** into a lower rate conventional mortgage.
10. Add additional funding if desired to **college savings** (529) accounts.
11. Invest in a **taxable account in risky investments** (stock index funds, real estate, etc.).
12. Pay off **low-interest (1%–3%) student loan** debt (unless you anticipate forgiveness).

The final three items can also be reordered according to your priorities.

13. Make e**xtra payments** on your mortgage.
14. Invest in a **taxable account in low-risk** investments (municipal bond funds, etc.).
15. **Spend your money** on what makes you happy.

If you follow this plan, then within just a few years of residency graduation, your student loans can be paid off, you can have a portfolio worth several hundred thousand dollars, and you should own at least 20%–30% of your dream home with the remainder financed at a very low rate. At that point, put 20% of

your income toward retirement and enjoy the rest of your money. Notice that the priority list doesn't include luxury cars, brand-new furniture, expensive trips, or other expensive motorized toys. There will be plenty of time and money to buy all these things. However, that time is after the student loans are gone, after you have a good-size nest egg, and after you own a good portion of your dream home. It is perfectly fine to have a few empty rooms in your dream home. You don't need to finance $50,000 in furniture and upgrades as soon as you move in. Buy them over time, paying cash.

The good life is not making payments on a mansion and two luxury cars upon residency graduation. The good life is having a job you love where you are making an important contribution to society. The good life is rebuilding relationships put on the back burner for the last decade. The good life is having thousands of dollars of unneeded income every month and getting to decide how you want to use it. You can use it to purchase financial freedom in the form of part-time work or early retirement; to pay for expensive toys, vacations, or a lake house; to send your children to an Ivy League college and grad school; to help your family; or to support your favorite charities. The good life is not only having your dream job but also being able to walk away from it if it stops being your dream job. The best way to do this is to live as much like a resident as you can for as long as you need to after finishing your training. Done properly, within just five years, most physicians can pay off all their loans, catch up to the retirement funds of their college roommates, and save a 20% down payment on their dream house. They can then be appropriately proud of both their professional and financial success.

Summary of Chapter 6

- Live like a resident until your student loans are gone.
- Grow into your salary slowly.
- Never grow into your salary completely.
- Work together with your family to ensure financial success.
- Deploy your income according to your priorities in order to get your dream house, pay off debt, and hatch a nest egg.