

FINANCIAL STRATEGIES FOR THE BUSY PHYSICIAN AUDIO PODCAST

From Medical School to Private Practice

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Christian: INTRODUCTION

Christian: Tate Christopher is a registered representative and financial advisor with New England Securities, a broker dealer member of FINRA/SIPC. He also offers insurance brokerage services through Physician Financial and Insurance Services which is not affiliated with New England Securities.

Christian : Our conversation today details financial strategies for the busy physicians from medical school to private practice. Let's start from the beginning, what should a medical school student begin to think about in the world of finances?

TATE:

Many medical students must take out student loans to fund their education. They may have taken out loans from college as well. So they are accruing a tremendous amount of debt at a time when they are making no income.

Christian : I do not know too many professions that can afford to do that?

TATE:

None that I am aware of. And this is why as a medical student you need to start planning your financial future now and have realistic expectations of the type of life you want to live, the medical specialty you want to pursue, area of the country you want to work/live and the income potential within that specialty. By no means is there any guarantee that physicians in the future will earn enough income to pay down their student loan debt, buy a home, put money in retirement plan, pay for their insurances, put kids through school and live a nice lifestyle.

Christian: I always thought physicians made a very good income and lived quite well. Is this changing?

TATE:

The economies around the world are changing and it affects every business sector and career, including medicine. Look I have the up most respect for any person pursuing a career in medicine. I think it is the most honorable profession. To pursue a career helping mankind, sacrificing years of their lives personally and professionally to achieve that goal. Amazing!

The practical matter is, physicians do make a good income once they are done with their medical training in their 30's, but they go from the lowest tax bracket to the highest tax bracket in one year! Hardly fair. And on top of that they need to start paying back their students loans if they have not already.

Christian: Wow, I had no idea. I always had the picture of a physician driving down the road in a Mercedes with a nice home, going on big vacations. Not a worry in the world.

TATE:

Many physicians still can live a comfortable life, but it takes a lot of sacrifice and those that end up living well usually were the ones that started to financially plan for their future in medical school and residency.

Christian: OK, getting back to the medical student before they go onto medical residency, what do you suggest they do and when?

TATE:

I usually start working with a medical student around April/May of their last year of medical school. At that point, they have matched to their medical residency program. They know where they are going to live and hospital they will be working at, such as a VA, Private or University based hospital. Together, we review their student loan debt, credit card debt, savings, health, disability, life insurance plans as well as any retirement plans or assets they may have already accumulated.

Christian: Why is where they work and live important?

TATE:

It is very important. It is how we get started planning. Having worked nationwide since 1993, I am very familiar with the many hospitals retirement, insurance and benefit plans as well as the income a first year intern will make. The cost of living factors into our planning, because some residents have more disposable income than others based on where they live and how much they are paid. If we start a conversation right before a medical student starts training, I can advise them what to expect and look for when completing benefit forms etc. In fact, when they start their new job, many of them email me about their benefit options and insurance plans, so I can get their complete picture and educate them.

Christian: But they do not have any income yet, how can they afford to pay for your professional services?

TATE:

The physician pays no fees to me and I offer a complimentary review of their entire financial /insurance/loan portfolio. Sounds too good to be true? The fact is within most of the financial services industry compensation is paid to us brokers in the form of commissions related to product sales. This means that I can provide education and information that is needed by physicians and which is “neutral” because the physician ultimately decides whether to purchase a product or what product to purchase, from which I am then paid a commission. It is a win /win scenario.

As an independent broker, part of my job is to research what are the most comprehensive life/disability /health insurance plans and ultimately, recommend to my clients what plans best meet their needs based on their unique individual situation.

Christian : It sounds like you would be waiting a long time to earn income from your services, if a medical student or resident began working with you right away?

TATE:

Obviously, the income that I earn from working with a medical student or resident is very limited. My philosophy has always been being a great resource for my clients and in the long term it will work out well for everyone. If I do an excellent job for a young physician making very little income, then when they do make more money in private practice or as an attending, they will purchase higher amounts of life, disability and health insurance through me. Bottom line is, I am in the long term relationship business to help the physician and his/her family with their finances throughout their lives.

Christian: BODY TEXT

Christian : Ok, so let's say I missed speaking with you in medical school and I am in residency or fellowship now. What do I look to do?

TATE:

There are 3 very important components in building your financial portfolio at this stage in their life. And many of the medical students that I meet prior to entering medical residency begin to implement these 3 things as they start medical residency. The 3 critical components in building a successful financial portfolio which I strongly recommend to all physicians in medical training are: Analyze and look to consolidate student loans/debt, purchase an individual long term disability insurance policy and fund a retirement plan. By the way, I have never met a resident that could not afford to implement all of these during training. It comes down to whether or not the individual is serious about getting their financial situation in order.

Christian: OK. Analyze and consolidate student loans, purchase an individual disability insurance policy and fund a retirement plan. That seems reasonable. Lets take the first one analyze consolidate student loans.

TATE:

As I start an analysis of a residents student loans, the most important thing I emphasize when looking at the money they borrowed is what are the terms of the money that they are borrowing. Is it a historically high interest rate or is it low interest rate? If it is historically a high interest rate, one might want to be more aggressive and pay down the debt sooner. If it is very low, then the opposite would be a sound financial strategy for most. Also, does it make sense to consolidate? Some physicians have subsidized loans whereby no interest accrues on their loans during their medical training. Consolidation in this case may not make sense. Of course it also depends on the interest rate and amount of money borrowed. Usually when someone consolidates their student loans, the interest begins to accrue. And currently, if you pay off interest on your student loans during medical training, there are tax incentives to deduct a certain portion of student loan interest that you paid back. You would want to consult with a CPA or tax advisor to make sure you fall within the income limits to qualify for the tax deduction and that it is still available.

Christian: That sounds great, I am sure many physicians want to start getting rid of the debt. Especially, if they owe a lot of money. I have heard that some owe over \$100,000 to \$200,000 in loans. The next component is individual disability insurance policy. Why?

TATE:

There are many reasons to purchase a non cancelable and guaranteed renewable individual disability insurance policy with the own occupation benefit rider during medical residency. It is really this simple. An own occupation disability insurance policy will protect the millions of dollars of future income that would be permanently lost if they were to get injured or sick and could no longer perform the duties of their medical specialty. Think about it. A physician will postpone earning a high income for as many as 12 years when you consider 4 years of college, 4 years of medical school and 4 years of medical residency. And for some it is even longer. On top of that, many have borrowed hundreds of thousands of dollars to advance their education in a highly specialized occupation. What else would they do if they could not be a physician? And what other profession could they earn an income to pay back all the debt they borrowed?

Christian : Wow, great points. I would think every physician would purchase an individual disability insurance policy. With what the own occupation benefit?

TATE:

Yes, I get into greater specifics with that benefit on my disability insurance audio/pod cast or visit my website disabilityforphysicians.com.

Christian : OK and the last component of the 3 are funding a retirement plan.

TATE:

Yes that is correct. Many of the hospitals that the residents work at will have a plan that they are automatically enrolled in, so that is a great start. However, some hospitals do not offer residents retirement plans and some residents want to save more money. In this case, a good starting point would be a ROTH IRA or Traditional IRA account. One important thing to remember when investing in these tax-deferred retirement programs either at work or on their own, is the current tax laws do not allow them to access the money until age 59.5. If they do withdraw the money before age 59.5, there are federal penalties for early withdrawal and income taxes may be due.

Christian : Very informative. In summary for a medical resident the 3 important components in building a financial portfolio are analyzing and consolidating student loan debt, purchasing an individual disability insurance plan and funding a retirement plan.

TATE:

Yes and if you take a moment and think about the overall strategy. You pay down some debt you borrowed and possible get a tax deduction, you are protecting millions of dollars of future income in the event of an unforeseen injury or sickness and you are putting money in a retirement plan for the future. Actually, all of these components are really investments in yourself.

Christian: That is a great way of looking at it. So what are some other financial or insurance considerations during residency?

TATE:

Well if you are married you certainly want to look at life insurance. And if you are married with children it is absolutely necessary. In either case, given the limited income, I advise many of my resident physician clients to purchase a term life insurance policy to begin with. The most popular and affordable choices are typically a term life insurance policy with a 20 or 30 year guaranteed level premium.

Christian : Is life insurance offered by the hospitals to the residents as part of their benefits package?

TATE:

Yes in many cases it is offered to them during their open enrollment period, which usually takes place once a year. However, the amount of coverage available to purchase is usually much less than what is needed by the physician to protect his/her family. If it is available, I recommend they choose the term life insurance option which typically offers them the option of protecting 1-5 times their resident salary.

Christian: Given the limitations of coverage through their hospital employer, they would contact someone such as your self, to obtain additional coverage to protect them adequately?

TATE:

Yes. And they can learn more about life insurance by listening to my audio pod cast on life insurance and visiting my website lifeforphysicians.com

Christian: You mentioned health insurance earlier, anything a resident needs to investigate here?

TATE:

Most hospitals will offer the residents health insurance as part of their benefit package. There are certain hospitals that allow the physician to opt of their health insurance plan and then the hospital will deposit the money normally allocated for them for the health insurance into the physicians pay check. For example, A married resident that has a spouse who already has health insurance at his/her employer might go this route and get put on the spouses health insurance plan instead and collect the extra money in their pay check. Or sometimes it makes sense for a healthy single person to obtain their own private health insurance policy which can be much less expensive that what they pay for out of their benefit plan at the hospital.

Christian: That is sound advice. It really seems like their several ways that a physician can get started in strategizing their finances early on in their career.

TATE:

Yes there really are many opportunities for a medical resident/fellow to get ahead. My advice to residents is to look when they have a light rotation in their schedule and contact me. If they did this once a year, they would get themselves moving in the right direction. It is like when we go get annual physical exam to check our health. Look at this as your annual financial physical exam.

Christian: Where can they find information or educate themselves more on the various insurance and financial products?

TATE:

Start at Tatemoney.com!! From there, there are websites with detailed information for each topic, life, disability, health insurance. And from the investment side, investforphysicians.com where there are E-seminars, newsletters, articles, stock market data. There is new information posted daily, so tatemoney.com should be a favorite in your web browser.

Christian: Hey we made it through medical school and residency in less than 10 minutes, and now we are going into private practice or getting a full time position at a hospital as an attending! What now??

TATE:

A big congratulations for sure!! I have seen thousands of physicians graduate their medical training and it is one of the greatest achievements to witness. Most people have no idea the amount of hard work and dedication these special human beings go through.

Christian: I could not agree with you more.

TATE:

At this point, physicians are looking at job contracts, board exams, buying a home, getting married, starting their own private practice and taking a vacation for a few weeks. From a financial and insurance perspective, this is the most critical time in their lives. First, prior to leaving residency, I would make sure the resident have their credit report checked to see if there are any problems that need to be corrected. They are going to be looking to buy a home, possibly a new car and they want to make sure their credit is good so that they can qualify for these purchases with the best possible financing rates.

Christian: That is quite a bit to take on in a short period of time.

TATE:

Yes and there is more. Since their income is rising considerably, they will need to increase their disability insurance coverage to protect their higher income. Second, they will need to assess their health insurance as the coverage they had at the resident hospital will be ending. They may need to go on COBRA to maintain their existing coverage; however that can be very expensive. They may get a new health plan at their new employer or may need to purchase an individual one. Next they probably have a retirement plan from their residency and we will need to determine where that money gets transferred to. Possibly a new employer plan or leave it where it is currently. If they had some group life insurance coverage, that is probably ending as well. The bottom line is it is time to do the annual financial review.

Christian: CONCLUSION

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