Financial Planning for Young Physicians (Part II)

By Dave Denniston, CFA [4]

How can young physicians live a reasonable lifestyle today while also saving for retirement? Here's some advice from financial expert Dave Denniston.

Source: Physicians Practice

Last week, we looked at addressing student and consumer debt as a young physician. This week, we continue our look at successful financial planning with what you need to live today and how to plan for tomorrow.

Enjoying a Reasonable Lifestyle and Saving for Retirement
What is a reasonable lifestyle? Although this means different things to different people, I consider it to mean that you aren’t just squeaking by. Perhaps you are able to eat out frequently, go on a vacation, or do things you enjoy while still being committed to keeping your expenses within limits.
To help keep an eye on your living expenses, use free budgeting and wealth management tools such as Mint.com, Emoneyadvisor.com and creditkarma.com.
Next, how do you balance all of this with saving for retirement?
• First, contribute to your 401k. It not only counts towards retirement, but it lowers your income taxes.
• Secondly, make sure to contribute at least up to the maximum match that your employer provides. If your employer matches dollar for dollar, this is like an automatic 100 percent return. Even if your employer matches 50 cents or 25 cents on the dollar, that is still like a 50 percent or 25 percent return just for contributing.
• Lastly, if you are a highly compensated specialist get close to maxing out your maximum contribution in order to lower both your federal and state income taxes. If you are under 50 years old, the maximum you can put in the 401k is $17,500 in 2013.

Be Smart About Big-Ticket Items
After years of living in small houses or apartments or driving older vehicles, many young physicians feel they’re more than ready to purchase a new home or car when they finally get their first "real" job.
Instead of rushing out to buy such big-ticket items, take a moment and think about how those purchases might affect your ability to achieve your long-term financial goals. And bear in mind that your lifestyle can change as you pay off your debt.
Here are a few of things to consider when you are ready to make those purchases:
When buying a home, make sure you can put at least 20 percent down on the property. If you put only 5 percent or 10 percent down, you may be required to have private mortgage insurance (PMI), the cost of which could raise your monthly payment by a couple of hundred dollars.
Note that there are some physician-specific loan programs that may not require PMI. However, getting in the practice of savings towards a goal is a wonderful form of financial discipline.
Remember that cars are depreciating assets. The second you drive a new car off the lot, you typically lose $5,000 to $10,000 of the value. Why put a significant chunk of your hard earned dough in something that you know you will lose money on?
Instead of buying a new car, consider buying a used one and holding onto it as long as possible. Financially speaking, buying a low-mileage used car (say with 20,000 to 50,000 miles on the odometer) and holding it for five years or more makes much more sense than leasing or buying new. I strongly suggest paying cash for a car. If you already have a high-interest car loan, consider paying it off as soon as possible. If you do decide to get a new car, remember that buying can be a better deal than leasing, especially if you hold on to the car for five years or more. If you lease a $20,000 car over three years at 6 percent interest and pay $1,000 down, the total cost over three years will be $12,600 plus the down payment.
At the end of the lease, you will have paid $4,200 toward the principal of the loan and can either purchase the car or return it to the dealer. If you purchased the same $20,000 vehicle with the same down payment and finance it at 6 percent interest, you would pay $7,500 per year ($22,500, plus...
the down payment over three years). At the end of the loan period, you will own the car. If you look at the cost of leasing over 10 years (let’s say that you renew your lease every three years) and get the latest model car, the costs for leasing will be at least $42,000 plus down payments. Whereas, if you bought the car and held on to it, the cost will have been $22,500 plus regular maintenance. Buying rather than leasing would save you nearly $20,000. Physicians have big hearts and big dreams. They may want to pay for their kids’ college education, buy the cabin or second home, buy a boat or RV, or give lots of money to worthwhile charities. My advice: Hold off on these things until you are debt-free. Remember that once your debts are paid, you’ll have the cash to fund these other projects.

**Final thoughts**

As a physician, you’ve made a commitment to helping others and your community. Now you need to make a similar commitment to your finances. If, as a young physician, you focus on paying off your debts, save for a rainy day, live within your means and put money away for retirement, you can then do the things you’ve long dreamed of doing and be well down the road to financial independence.

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