The Business of Medicine:

Entry & Exit

New Physician Adjustment to Having Money

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Becoming a new, practicing physician involves a lot of adjustments, not the least of which is having more income than ever in your life. While it is tempting to spend like never before, wise physicians are prudent with their new-found increase is disposable income.

Steve Young, the former San Francisco 49ers quarterback, was an example of someone who was very disciplined and responsible with his new wealth. Steve started playing in the now defunct USFL, then moved over to play for Tampa Bay. By the time Steve got to San Francisco and started the prime of his career, he had already earned many millions of dollars as a pro football player. But rather than go on a spending spree and buy all the things he had been denied in his life, Steve saved his money. Steve was driving a 10 year old car when he got to San Francisco. Steve didn't feel the need to keep up with the spending of the other pro football players, but instead thought more long-term. It is a prudence lesson for all those beginning their careers.

We all know stories about persons who have suddenly come into money, pittled it away, or made bad investment decisions and wound up with nothing. Unfortunately, some of these stories are about successful physicians. No one wants to be there. Physicians have learned a profession that has the potential to give them a very comfortable lifestyle. How a physician runs his business and his personal financial life will determine his/her long-term lifestyle as well as those of spouse and children.

It all starts with basics. As a physician comes out of residency, the most prominent financial issue faced is that of debt; college and medical school debt. Consolidating loans and looking for the best terms under which to consolidate loans has to be a very high priority. Look for low interest rates, fixed interest rates (in this low interest rate environment) and sufficient time to repay the loan to keep payments manageable. It's okay to spread this debt over many years, as it will probably be the lowest interest rate debt available to you. BCMS, TMA and your medical school can help direct you towards reliable student loan consolidators. Check the BCMS website for more details.

Credit card debt must be given priority for urgent payment. With credit card interest rates running as high as 36% or more, it is possible to make minimum monthly payments and have to make those payments for decades. Prioritizing debt by paying off the highest interest rate debt first is always the right thing to do.

Purchasing a home is great investment for the long term. Speculating on short term run-ups in real estate prices is gambling. The recent real estate crunch and sub-prime debt crisis has exposed the myth of "buy more house than you can afford, and ride the real estate market up". Real estate markets and financing costs and availability trend up AND down. The most conservative posture to take in buying a new home is to get a 30 year, fixed rate low interest loan that equates to monthly payments not exceeding 25% of gross income. Unless your income ceases, it will mean you will always be able to make the payments and very probably will see the burden become less than 25% of your income as the years go by. If you have extra income that can be used to pay down the mortgage, and since there is no pre-payment penalty in Texas, you can apply accelerated payments directly to the principle balance and save tens of thousands of dollars in interest payments. As income and equity grow, periodically the home choice can be re-evaluated.

The market is very competitive for physician start-up loans. These are loans to start a new practice or buy an existing practice (if assets come with it). Calling around to ten or twenty banks to find who is most willing to loan you money and at the lowest rates and terms is homework you must do to ensure the best deal. Again, anytime you are borrowing money, it should be based upon what you can afford to repay. If you have not done a business plan which forecasts your business income and expenses for several years out, you are gambling. Study the trends of reimbursement to physicians, determine your mix of clients (Medicare, Medicaid, private payors, and uncompensated care). What are your fixed expenses? Personnel costs and lease costs will be major expenses you will need to get your arms around. Of course, if you join a practice, ask lots of questions of other partners about the finances of the firm; even consider hiring a consultant to evaluate the deal being offered to you before you sign on as a partner.

Finally, manage your money as if you do not know where your next paycheck is coming from. For the first two or three years of practice, spend only what you have to to meet your basic needs. Save some money. Pay down high interest debt. Start yourself on the road to financial independence. You have plenty of years to enjoy the money you will eventually earn.