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TWO CRITICAL FINANCIAL ITEMS TO ADDRESS WHILE IN MEDICAL TRAINING

We've had thousands of conversations over the past 20 years with clients and attendees of the many presentations hosted for residency and fellowship programs. Universally the question is asked, "What are the things I should do while in training?" Generally, resources are the primary factor in whether people are able to execute these items. However, if someone does have the resources, they should strongly consider the following two strategies.

1) INVESTING IN A ROTH IRA*

If you are able to put money away for the long-term, funding a Roth IRA is a no-brainer. What is a Roth IRA? A Roth IRA is a retirement account which grows on a tax-deferred basis. Further, withdrawals after age 59½ are entirely tax free. You may be asking, "Why it is so important to fund this vehicle and further, why are tax free distributions so critical?"

- Federal Tax Brackets: We believe tax brackets will be higher in 20 to 30 years than they are today. For more on this, see my article entitled "Scary Math" (available upon request).
- Compound Interest: earning interest on interest earned on interest earned equals maximum growth!
- Time: you already are late to the wealth accumulation game thanks to your years of additional schooling. Time is NOT on your side. More money now equals more money later. Consider this example**:
  - Person 1 begins contributing into an IRA at age 25 for ten years @ 10% Rate of Return. Total Contributions: $50,000
  - Person 2 begins contributing into an IRA at age 35 for twenty five years @ 10% Rate of Return. Total Contributions: $125,000.
  - Result: At age 60, Person 1 has $1,029,084. Person 2 has $552,847. Even though Person 2 contributed over twice as much as Person 1, the difference in Person 1's favor is significant because they started earlier.
- Eligibility: upon completion of training, your income will likely preclude you from funding a Roth IRA due to federal income funding limits.

2) RISK MANAGEMENT

What is the number one risk you face? Consider what would happen if you lost your ability to earn the income you've worked so hard to achieve because of an accident or illness. You've already delayed your income many years relative to your undergrad friends. Couple this delay with the large hole you've dug via school loans, you cannot afford to lose your income. Therefore, protect against this risk with True Double Dip Own Occupation Disability Insurance. This definition of disability means that if you are unable to perform the material and substantial duties of your specialty (own occupation) you are considered disabled and eligible to receive disability benefits. Now, why would I suggest purchasing this coverage while in training? The reasons are as follows:

- We've negotiated premium discounts on your behalf afforded to you pending you acquire coverage while in training.
- You protect against something occurring which would otherwise preclude you from acquiring coverage.

- You are able to pre-insure for an increased income.
- Female physicians: Due to the unisex discount given in residency, your cost will be approximately 30% more expensive than your male counterparts after completion of training.
- The amount of private disability you are able to purchase AFTER joining a group providing group disability is decreased.
- Group disability benefits are often sub-par compared to private coverage.
- Private disability insurance is portable and attached to you, NOT your employer.
- Definition Clarification: often people will say, “I have own occupation disability insurance.” After review of this coverage the definition is vastly different (and inferior) from what I’ve suggested above, e.g. the inability to perform the material and substantial duties of your specialty AND are not working in any other capacity.

There certainly are other strategic and planning ideas to consider. However, in terms of allocating your resources to areas of importance while in training, funding a Roth IRA and protecting your income are at the top of the list.

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*To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59 ½ or due to death, disability, or a first-time home purchase ($10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

Eligibility to contribute to a Roth IRA phases out a higher modified adjusted gross income level. IF ELIGIBIGLE, you can withdraw all or part of your Traditional IRA and roll it over into a Roth IRA. You will owe taxes on the portion of the conversion that represents the earnings and the contributions distributed from the Traditional IRA that were not previously taxed. The amount you convert will be taxable in the year the rollover is made.

**Hypothetical for illustrative purposes only and is not intended to represent the past or future performance of any specific investment and should not be considered and individualized recommendation or personalized investment advice. Rates of return will vary over time, especially for long-term investments. Actual results will vary. The rates of return shown are used only to illustrate the effects of the compound growth rates and are not intended to reflect the future values of any specific investment. Investments in securities will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost. Investments offering the potential for higher rates of return also involve a higher degree of risk. For specific advice on these aspects of your overall financial plan, you should consult you professional advisors.

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