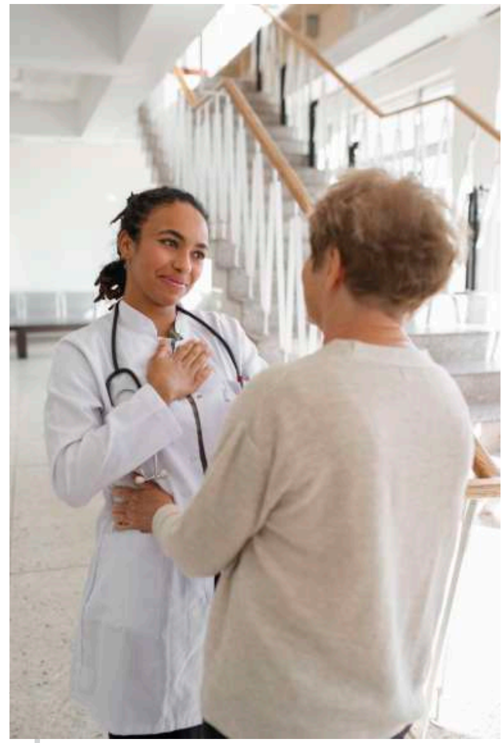
Financial Challenges During Medical Residency:

A Guide to Financial Wellness

Residency is an exceptionally demanding period of a physician's life. Marked by long hours and high performance standards, residency has long been considered an implicit "rite of passage". Unfortunately, its arduous and time-consuming nature leaves little time and energy for important financial activities.

Financial wellness is a critical aspect of well-being, and residents often face unique financial challenges. Understanding and managing finances more effectively can alleviate stress, enabling residents to focus on their clinical responsibilities. By prioritizing financial wellness, residents can cultivate healthier habits, make informed financial decisions, and set the foundation for a more secure financial future. A proactive approach will not only enhance their personal lives but also contribute to their ability to provide quality care to patients.

This guide addresses some financial challenges that residents commonly face. It provides both information and soft advice but not personal recommendations. Importantly, this guide also seeks to inspire and encourage. The first step to a healthier financial life is knowledge!



BUDGETING

- ☐ **Prioritize necessities**
- ☐ **Practice mindful spending**
- ☐ **Allow some "guilty pleasures"**
- ☐ **Manage debt**
- ☐ **Build emergency savings**

Creating a monthly budget is crucial as medical residents begin receiving their first paychecks. Sit down and write down your LIVING expenses and income. You don't need to be super precise, amount-wise, but try to be comprehensive with the list and consider lumpiness or seasonality. Now, live off that list. Consider using an app tracker (e.g. Quicken Simplifi, YNBAB, PocketGuard). Residency incomes are modest, but they are well above median income levels; you can make it work!

Be "mindful" of your spending, especially with discretionary and/or big ticket items. Don't make a big decision or wait to complete an important filing/application after coming off a 24-hour shift! Allow non-essential purchases to sit in your Amazon cart for a day or two. That will give you some time to reflect at the point of purchase, perhaps preventing you from making an impulsive or unnecessary purchase, which may create additional stress for you.

Allow yourself some inexpensive "guilty pleasures", but look to cut that daily latte to a latte 4-5x a week. It's important to have things to look forward to every day and week.

Keep up with your education loans, and don't let the paperwork slip. If you have high interest rate debt (e.g. credit card debt), prioritize paying that down with excess funds. Call the card issuers and try negotiating current rates and balances.

Create an emergency fund (use a highly liquid account, like a high yield savings account at a bank). Fund it enough to cover 4-12 months of ESSENTIAL living expenses. Where you land depends on whether you are married, have kids, whether your spouse has job, and the income level and security of your job and spouse's job.

EMPLOYER BENEFITS

- ☐ Health insurance
- ☐ Dental insurance
- ☐ Vision insurance
- ☐ Malpractice insurance
- ☐ Life insurance
- ☐ Disability insurance
- ☐ Retirement savings

Take advantage of employer benefits! They are part of your compensation. Review your options carefully, but don't miss deadlines.

Having the right health, dental, and vision insurance coverages is vital; wrong elections can lead to higher-than-expected costs. Understand how much you'd have to pay out-of-pocket if the worst case scenario occurred. Consider all insurance options and choose the coverage that aligns with your/your family healthcare needs.

Malpractice insurance is mandatory to practice in your profession. Make sure you fully understand any obligations you might have to ensure you are covered.

Your employer likely provides you some group life insurance. Make sure your beneficiary elections fit properly with your estate plans.

Disability insurance is an extremely important benefit, but it is often overlooked. Young, healthy interns will likely have better access to affordable coverage. Lock in those premium rates now! The cost of disability insurance tends to increase annually, often 4-6%. By obtaining disability insurance during residency, medical students can lock in lower rates, potentially saving a significant amount of money over the course of their careers.

Ensure the policy includes "Own Occupation" coverage. This protects individuals in their specific medical specialty, ensuring that if they are unable to perform the duties of their chosen occupation due to disability, they will still be eligible for benefits. Social Security Disability Insurance doesn't offer this protection; you can't rely on it if you suffer a serious medical condition that strips away your ability to perform within your field.

You might be living paycheck-to-paycheck, but it's still important to start thinking about the future. Automate paying your future self before you spend a dollar. Participate in your employer's retirement plan and contribute, at a minimum, the amount needed to obtain the employer's maximum match. This match is FREE money. Participate via a percentage, not a dollar amount (raises raise your contribution!). Start today; don't wait! Start small and up your game as your means increase. Trust the process, diversification, and consistency.

STUDENT LOANS

- ☐ The Public Service Loan Forgiveness (PSLF) program and Income-based repayment options

Managing student loans is one of the most important financial activities for many physicians in residency. The Public Service Loan Forgiveness (PSLF) program offers a valuable opportunity for medical residents to have their loans forgiven after ten years of qualifying payments while working in public service. It is imperative to begin income-based repayments during residency to start the ten-year clock for loan forgiveness eligibility.

Income-based repayment plans offer residents low and affordable monthly payments based on their income. This ensures that residents can allocate a portion of their earnings towards loan repayment while still maintaining a manageable budget. By incorporating these payments into their monthly expenses, medical residents can gradually adjust and adapt to new financial responsibility, making it a seamless part of their routine.

Initiating income-based repayments early in residency serves two essential purposes. First, it allows residents to take advantage of the PSLF program’s ten-year requirement, putting them on track for loan forgiveness at the completion of their residency and subsequent years of service. Second, it helps residents develop a disciplined approach to budgeting and managing finances, which will prove invaluable when they transition into higher income brackets and face more substantial financial obligations in the future.

CHILDCARE SERVICES

- ☐ Shop around!
- ☐ Payment method
- ☐ BCH direct reimbursement
- ☐ Nanny Shares & Care Co-ops
- ☐ Dependent Care Flexible Spending Account (DCFSA)
- ☐ Child & Dependent Tax Credit
- ☐ Department of Early Education and Care (EEC)

Childcare is one of the biggest expenses faced by residents with minor children. Over the years it has exploded in cost, exacerbated by the massive drop in supply kick-started by the COVID-19 Pandemic. Childcare in MA now typically costs $20K-$40K **per year per child**. Not surprisingly, residents with childcare needs are often overwhelmed by the financial obligation given their modest compensation.

Shop around to find the best provider option. Local centers might be cheaper than larger regional/national chains. It might also be helpful to check local schools for before/after-school care options.

When negotiating with providers, residents should ask for discounts (e.g. multiple child enrollment, preferred payment method) or waivers of registration/onboarding fees. If providers accept a fee-free credit card option, charge childcare on a cash-back card (or a card with points that you'll definitely use!)

You can also consider nontraditional childcare options like nanny shares or childcare co-ops, which might significantly cut costs.

If your employer offers a DCFSA (dependent care flexible spending account) option, maximize contributions in that program ($5K/yr per household). If, hypothetically, your compensation is ~$85K/yr, your marginal tax rate is 22%, meaning your benefit would be $5k x 22% = $1,100.

For residents with dependents 13 or under, apply for the Child and Dependent Care tax credit (20-35% of qualifying childcare expenses, up to $3K/qualifying person or $6K/2+ qualifying people). This phases out as your income climbs, and you can't "double-dip" with a DCFSA. Maxing out a DCFSA would drop this credit to $1K for +2 qualifying people (likely a $1K x 20% = $200 benefit).

Many states offer assistance. MA's Dept of EEC subsidizes families earning less than 50% of median income (85% with disabled child), so larger families living on a resident's income might qualify (e.g. the income threshold for a family of 6 is ~$104K).

OTHER CONSIDERATIONS

- ☐ Basic estate planning
- ☐ Self-Care
- ☐ Long-term financial vision

Most residents do not have basic estate planning documents, but they all should. Without proper estate planning, medical practitioners could be financially impaired or neglected by unplanned life events like illnesses, disabilities, and death. Dependents and other loved ones could also suffer financial harm and undue stress. At a minimum all residents should create a will, Power of Attorney, and Health Care Proxy to protect their financial legacy and to provide loved ones guidance and agency.

In the hustle and bustle of residency, it's very easy to neglect self-care. Don't! Find ways to protect your physical, mental, and spiritual health. You must be your greatest advocate. Difficult as it might be, find ways to carve out time to do things that provide you joy, rest, and refresh. Find a sanctuary, i.e. your "happy place".

The medical profession is a profession marked by its employment stability, not its massive financial upside. Moreover, physicians typically begin acquiring wealth much later than most other professionals because physicians require more education and training. This late start, as well as the resulting shorter working lifetime period, makes it all the more important for physicians to be pro-active, starting in residency. It's perfectly OK to start small, but it's imperative to start today. Time is limited, and that makes time precious. Create plans and make decisions that are consistent with your long-term financial vision, whatever that might be.

SUMMARY

- ☐ Create a monthly budget and stick to it
- ☐ Understand and maximize employer benefits
- ☐ Address student loans
- ☐ Treat childcare like a dual investment
- ☐ Think big picture, look to the future, and practice self-care

Managing finances during medical residency is a critical aspect of setting up residents for long-term financial success.

Budgeting helps residents allocate their limited income to essential expenses and financial goals. As a resident, you should focus on prioritizing necessities, practicing mindful spending, enjoying select discretionary purchases, managing debt, and building an emergency funds cushion.

Employer benefits can be a huge financial positive for residents. Employers tend to provide terrific health, dental, and vision insurance coverage options, but it is critical to make the elections that best suit your needs. Life and disability insurance are often free to residents, and you should consider supplementing both (especially "Own Occupation" disability), if offered inexpensively. Take advantage of employer matching contributions and free professional advice (legal, tax, etc.) to jump start your retirement savings and reduce professional expenses as they are needed.

Student loans is a front-and-center issue for many residents. Initiating income-based repayments early on not only puts you on track for loan forgiveness through programs like Public Service Loan Forgiveness but it also helps develop good financial habits for the future.

Childcare can be a daunting expense for residents with young children. If this applies to you, then explore multiple options, including nontraditional ones. Ask providers about discounts and fee waivers. Speak with your employer about its programs, including childcare stipends and DCFSAs. You may also want to contact the state to see if you qualify for childcare financing assistance.

Think big picture! Your investments today will benefit your future self. Put together a set of key estate documents. Find ways to practice good self-care - physically, mentally, and spiritually. Don't worry about starting small. The primary goal is to start setting goals TODAY.

Be proud of your vocation! It is a noble pursuit. Your impact will be felt in ways you can't even imagine, but you need to take care of YOU in order to make that happen, and that includes your finances. Follow this guide, commit to walking a life of growing financial literacy, and you will set yourself up for a life of greater financial security and independence.

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