# Financial Tips for New-in-Practice Pathologists

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**Becca Battisfore:**

Welcome to the latest edition of the College of American Pathologist CAPcast. I'm Becca Battisfore, Content Specialist with the CAP. In this episode, we'll be talking with a financial advisor who will share tips on saving for retirement, paying off student loans, and other advice for early career pathologists. Before we get into the questions, let's learn more about our guests. Dr. Abid, would you like to introduce yourself?

**Dr. Abdul Abid:**

Yes. Thank you, Becca. My name is Abdul Abid. I am currently a cytopathology fellow at the University of Virginia. I'm also a member of the New in Practice Committee.

**Becca Battisfore:**

Great. And Brian?

**Brian Truscott:**

Thanks, Becca. My name is Brian Truscott. I'm a certified financial planner and wealth management advisor with Truscott Wealth Management at UBS in Houston, Texas.

**Becca Battisfore:**

Thank you both for joining the podcast today, Dr. Abid. I'll let you take it from here.

**Dr. Abdul Abid:**

Thank you, Becca. So Brian, starting off, I want to ask you, what are different types of retirement accounts?

**Brian Truscott:**

Thanks. That's a great question. So for new career pathologists or physicians starting out, there's a lot to navigate around the types of accounts that one can use to save for retirement. You'll have a broad breakdown between what I will call workplace retirement accounts and personal retirement accounts. So the workplace retirement accounts will depend upon whatever type of entity you're working for. If you're working for a hospital system, if you're working for a private practice, if you're working for a physician's group, you'll have access to a workplace retirement account through that entity. That is separate than some of the, what I will call personal retirement accounts, such as traditional IRAs and Roth IRAs and the like.

**Dr. Abdul Abid:**

Right. So on average, how much would you suggest someone to contribute to their retirement accounts in terms of a percentage of your salary, if you had a choice?

**Brian Truscott:**

Yeah. When someone's starting out, this is probably one of the most frequent questions that I get, or even for people who are later in their career. We're always looking to our peers and what other people are doing to kind of act as a guide for what we should be doing. And a lot of times this gets, I'll say summarized. It tends to be summarized neatly in round percentages. So you'll often hear, if you were to crack kind of a financial planning textbook, that people should be saving 10% of their gross income for retirement. I find that historically, that's been a pretty good guide for clients. You can certainly increase that. There's not going to be a downside to saving more money for retirement, but there can be points at which you over save or saving in ways that you might be able to use that money differently in your life.

If you read economists that talk about this, it's the idea of consumption smoothing. So oftentimes when I'm working with physicians who are newly out of residency fellowship, they're now earning typically more money than they've ever earned before, and they're likely to earn that income in a growing way for some time, especially earlier in their career, that growth that can occur. You've been typically living a, I'll call it a reduced lifestyle during medical school, residency, et cetera. And now that you have these dollars coming in, people are looking for guidance. And so at a minimum, I would like to see people saving 10% of their gross income. For new physicians, sometimes it can be helpful to save more than that just because there's some time to make up for when they were in medical school. Obviously, this has to be contrasted against the other obligations that people have in life. And in particular, debt that people have taken on in their medical education.

**Dr. Abdul Abid:**

Right. So what about pre-tax contributions? How can a new and practice, physician or a pathologist, how can I maximize my pre-tax contributions?

**Brian Truscott:**

Yeah, it's a great question. It's important everybody is going to be in a different situation based upon the type of employer, employment situation they have, what their goals are, and how much debt they have. So this isn't necessarily one that a one size fits all for all listeners. But broadly speaking, you're going to be able to contribute what I'm going to call employee contributions to those workplace retirement plans. There's oftentimes what are called employer contributions. These can be expressed... Common terms are match... How much of a match does one receive into a retirement plan? Sometimes these can be called profit sharing contributions if there are other types of employer contributions into the plan. But ultimately, the goal for most high earning physicians is to maximize those pre-tax contributions in those workplace retirement plans. Oftentimes, I'll see physicians, as their careers grow, they will have multiple sources of income.

And when that happens, perhaps if it's consulting, speaking fees, things of that nature, there can be other types of retirement accounts that people can add. But that's where it's important to work with a good accountant and financial advisor to make sure that all those pieces are working together so that you're getting the right dollars into the right tax buckets.

**Dr. Abdul Abid:**

If you were to invest some of your money, should you do it on your own through an app, or is it better to have a financial advisor involved in the process?

**Brian Truscott:**

Yeah, also a very good question. You would think me being a financial advisor, I'm going to tell everybody to have a financial advisor, but that's not really the case. I have clients from all different walks of life. And regardless of whether they're physician, engineer, et cetera, people have very different levels of desire to learning about and being involved with what I'll call the financial world, for lack of a better term. I talk a lot with clients about having the time and the desire to manage their money. I think a very important principle to me is I care very deeply about my clients, and I care very deeply about their portfolios. No one's going to care more about your money than you do. And regardless of whether you are taking full responsibility for self-directed investing, whether that's through an app or a website, or whether you have a financial advisor, you need to be involved in the process.

And it's kind of a question of whether you want to take on the responsibility for education yourself, or if you want to have a partnership with a good financial advisor. I think the challenges for early career, or even mid-career... The challenge for any of us in our lives is time. And I think probably the most important part of this answer is you have to be accountable to yourself for the level of involvement you want to have. And I tell clients all the time, if you have the time and the desire, I think you should do as much of it yourself as you can. I think as your wealth grows... And different studies have shown that as clients' wealth grows, they become more receptive to having financial advice. You can just think of that as larger percentage terms of movement in the markets become much larger dollars.

As wealth grows, it can be a process. And so if you're going to work with a financial advisor, I generally strongly encourage people to utilize a certified financial planner. That might be considered a selfish piece of advice, but I do think that CFPs have a commitment to ethics and professional education that kind of go beyond the average financial advisor. But it really is... I would say take a good look in the mirror, ask yourself how interested are you? What is your desire level. And then run with that. Some of the best lessons I learned that served me as a wealth management advisor today were from my first few years in my career when I wasn't yet a financial advisor. And learning through the process myself has made me a better, both client and advisor down the road.

**Dr. Abdul Abid:**

If a new and practice pathologist were to invest outside of retirement accounts, what percentage of their income do you think they should aim for?

**Brian Truscott:**

That's a really good question. It really comes down to what your goals are, which can be very difficult to know when you're newly out of the medical school residency fellowship process. The answer's really tied to your desire to both build wealth and/or gain financial independence. I express financial independence a lot of times with clients on a fairly simple line graph. The x axis is time, and the Y is dollars. Over our lives, our wealth generally goes on a line from call it San Diego to the state of Maine. And then the dollars that we need to provide for our and our family's lifestyles over the rest of our life goes down over time as we age, and goes from, call it Seattle to Miami. And at some point, these intersect. And at that point, I would define a client is being financially independent, meaning they can pursue whatever they want to pursue in life without it specifically being about the income that they earn because they have enough dollars to provide for their lifestyle for the rest of their life.

There are certain clients that want to reach that financial Independence point much earlier than what I would call average. For those clients, it's not uncommon to save significant amounts of their income. I've seen 30, 40, 50, 60, 70%. Now, depending upon your geography, what your family obligations are, those numbers might not even be remotely possible for some people. But a lot of it comes down to how much people... Coming out of the residency and fellowship, most people have been living a more Spartan lifestyle, shall we say, that when they have more income in early practice, if they keep their lifestyle the same, there's a significant amount of dollars that can be saved and invested. Not necessarily suggesting that every person do that, but it's kind of this unique opportunity that doesn't exist to other people in other fields. So if one wanted to really try to move that financial independence timeframe up, that would be a great time for them to do that. Earlier we talked about I'd like to see clients saving at least 10% of their gross income into retirement accounts.

If someone really is trying to move that financial independence kind of intersection on that graph up, they're going to want to be saving well north of 20% of their gross income. But that's really a personal choice.

**Dr. Abdul Abid:**

This is a hot topic, so I definitely want to ask you. So should a pathologist, early in their career, should they prioritize paying off student loans early, or should they pay it at a steady base?

**Brian Truscott:**

Yeah, so that's a great question. It is highly dependent upon each person's situation because everyone's debt picture is going to look different. They're going to have different amounts at different interest rates. I tell clients often, you never go wrong paying off debt. Choosing to pay down debt is never going to put you in a bad place in life, but it might not always lead to the most amount of wealth to your name. For some clients, that's a real focus for them, is trying to grow their wealth as quickly as possible. And if you have some debt at lower interest rates, that might make sense for you to save it and invest. If you have debt at much higher interest rates, you might want to lean towards paying off some of those higher interest rate debts. But you want to look very closely at the type of debt that you have and the repayment schedule that you have. Also matters a lot about what your employment situation looks like.

Different jobs at different types of institutions can have different types of repayment, potentially even forgiveness opportunities. So you'll never go wrong paying off debt, but I would tell you it really depends upon the interest rate and the type of loan that you have. The honest answer as well is this becomes an emotional answer for most people, more than a financial answer. I wouldn't tell a client to stifle their own inner voice when it comes to the answer. Debt and how that is perceived by one can be cultural, can be these values given by friends and family communities. It really takes on more of an emotional answer than a financial answer. The financial answer is kind of a raw calculation of what's the interest rate versus what the expected return on an investment can be, which can be difficult when you're making investments and there's no such thing as a guaranteed return. Listen to that inner voice, but at the same time, know that you never go wrong paying off debt, but really look at what the interest rate and the type of loans that you have are.

**Dr. Abdul Abid:**

Thank you for that answer. So how much money should someone save in the unexpected event should they lose their source of income? So some people call it a rainy day fund as well.

**Brian Truscott:**

Most financial planning textbooks will recommend that you have three to six months of living expenses as an emergency fund, and I think that's really good advice for people. Depending upon your relationship/marital situation, if you have a spouse that works, if you have a partner that works or doesn't work, those types of answers can vary. If you have two people and two very stable jobs, you might need a little less in terms of an emergency fund and someone who's solely responsible for their own income.

But I think three to six months of living expenses is a really good guideline, and then you want to revisit that on an ongoing basis. Because as your income grows, as your expenses grow, as your wealth grows, the need for an emergency fund somewhat goes down. But I'll always encourage people to keep enough money liquid on hand so that they don't have to pull from an investment portfolio at the wrong time. Because oftentimes, bad economic situations that can lead to layoffs and the like, or... Take COVID, for example. I have some clients who were practicing physicians who had very significantly impacted income. That was a time where having an emergency fund that was separate from their investment portfolio was handy, because investment portfolios at the same time, were also taking a hit. So I think three to six months of living expenses is a really good guideline.

**Dr. Abdul Abid:**

So lastly, if you had one piece of advice for someone who goes from making near basic sustenance level income to a bigger sum of money, what should it be?

**Brian Truscott:**

So a couple of thoughts on that. The switch from the residency fellowship level income to practicing income is, especially in percentage terms, likely to be the only time in life that this happens for most physicians. Now, if they were to start businesses or things of that nature, you can obviously have that around business sales and real estate transactions and things of that nature. But for quite some time, this level of growth and income is... This is the main time it's going to happen. And I would just encourage people to be very intentional in their decision-making. There are a lot of either outright or tacit expectations of physicians, lifestyle, et cetera, and I would encourage people to really think about what's important to them and not focus so much on what might work for other people. This is a great opportunity for people to set themselves up for financial success, both in the short term, as well as in the long run. Good decision-making practices now around how much we're saving of income, the types of accounts we're using... This is the window to set yourself up for success for the rest of your life.

So really try to resist the temptation to let other people's choices influence your own. And I used to teach junior achievement, and I would teach high school seniors. The same advice I would give them is the same advice I would give here, which is the true path to financial success is being able to spend less than you earn. I have worked with physicians in their early forties who have had their incomes taken off, where they're making... Especially in this one couple I'm thinking of, they're making seven figures. But when you're also spending seven figures, you're not making any progress. You might have a great lifestyle. And if that's important to you, kudos to you. But making a million two but spending a million three is a recipe for stress and anxiety, regardless of how much fun.

It's the key is to be able to find ways to spend less than you earn. And that's regardless of how much income you make in life. The fact that you have this period where your incomes are growing significantly gives you this great opportunity to hide money from yourself, or kind of the old adage of pay yourself first. So if you can find ways to... If you can get it set up to where you are saving the right amounts in your pre-tax accounts, saving some money after tax, building an emergency fund, right sizing the types of real estate that you have... I can't really give specific advice, but doctors have access to mortgages oftentimes that non-physicians do not. Lenders will lend at a much higher value to down payment ratio for physicians. Just because they will lend it to you doesn't mean that it's necessarily the best idea for you to do that. Right-sizing all of those decisions, I think, really gives you the opportunity to really want to set it up to where you can spend less than you earn, both today and in the future.

**Dr. Abdul Abid:**

Thank you very much, Brian.

**Becca Battisfore:**

Thank you both for joining the podcast. This was such an informative topic. I know we've gotten many questions from other new and practice pathologists who need this information, so thank you. And I want to thank you all for listening to this CAPcast. For more information about the CAP, visit cap.org.