

## Phase III

## I. General Financial Skills Every Resident Needs

### A. Financial Strategies During Residency

By Donald J. Germano, ChFC  
AXA Advisors, LLC, Rochester, New York



#### ***Why do you need to know this?***

*As a resident, you will earn an income and, in all likelihood, be managing a substantial amount of educational debt as well. The key to handling your financial responsibilities and preparing for a more secure future is the ability to set short- and long-term financial goals and understand the basic components necessary to accomplish them.*

#### **Four Simple Strategies**

Setting and monitoring your financial objectives during residency is not a complex process. For most residents, investing will not be a high priority since disposable income is low and the demand for cash is high. Those who do have funds to invest should consider applying the money to either debt reduction or possibly saving for a down payment on a home. That being said, the following should be addressed while a resident:

1. Broaden your understanding of financial issues that may affect you,
2. Prepare a household budget,
3. Protect your credit rating, and
4. Open your mail.

***Open your mail and verify that your creditors are being paid on time.*** Make sure that deferments, forbearances, or loan consolidations have been processed correctly. Most importantly, pay your bills on time regardless of the circumstances that may tempt you to let things slide. Keep in mind that debt exerts an enormous amount of control. After you complete your training, the amount of debt you carry can influence some key future decisions, such as: how many patients you see per hour; whether you choose private practice or academic medicine; and whether you work full-time or part-time. For these reasons, it is highly recommended that you reduce your debt as quickly as possible.

***Life insurance and disability insurance*** are two components of a sound financial strategy that can be addressed while in residency. You should consider purchasing a sufficient amount of life insurance to allow your loved ones to maintain the lifestyle your family deems important should you die prematurely. Placing a dollar figure on that lifestyle is a function of your budget. I have found residents typically purchase between \$250,000 and \$500,000 of coverage; however, after training is completed, many physicians carry between \$1,500,000 and \$5,000,000 of protection.

Term insurance may make the most sense for residents. These contracts provide a death benefit to the beneficiary of your choice at what is generally considered an affordable cost during the early years of the policy. If you are single, you may want to consider life insurance if: 1) someone co-signed a loan for you; 2) you are concerned about future insurability (medical approval by the insurance company); or 3) you anticipate a need for coverage. The following features are important to understand before purchasing a life insurance contract: portability, convertibility, and the number of years that the premium (your cost) is guaranteed by the insurer.

**Phase III**

Disability income insurance protection is generally considered important to physicians and, for many residents, is the first insurance contract they purchase. Disability income insurance can pay you an income if you're sick or injured and cannot work in accordance with the terms of the contract. Although the cost of the policy is an important factor, do not overlook the insurance company's definitions of disability. If you discover substantial differences in cost between two different companies, you may not be reviewing comparable programs.

There are generally two types of disability income protection: group insurance contracts and individual insurance contracts. Group contracts can be secured through your employer and/or various associations. Individual contracts are purchased directly from the insurance company and can be non-cancelable (on the part of the insurance company) and/or guarantee renewable. The balance of my remarks will address these contracts.

It has been my experience that approximately 50 percent of all residents purchase an individual contract. This coverage is quoted as a monthly (income tax-free) benefit. The maximum amount of coverage you will be allowed to purchase as a resident is typically \$3,500. Upon request the contract can include a feature at an additional cost, allowing you to expand the protection without providing new medical history; however, financial underwriting will be required. The amount of coverage available is always dependent on your income at the time you request coverage. Having this ability to expand your coverage may be important because many physicians in practice find they need to carry between \$5,000 and \$15,000 of monthly coverage.

Before you purchase a contract, understand the key definitions of the policy: total disability, residual disability, residual payout calculation, waiting period, recurrent disability, future income options, and exclusions. It is important to know that substantial changes have occurred within the industry since 1995. These changes have affected the definition of disability, as well as the cost for coverage.

Ask your employer if they have an arrangement with any specific insurance company. Employer-arranged programs can be voluntary; the residents are responsible for premium payments. These programs typically can be obtained at a more favorable cost than you can secure on your own. Many have liberalized underwriting-which means that coverage may be issued as long as you are not currently disabled or in the elimination period (disabled but not yet collecting benefits). Premiums are calculated using unisex rates and a discount which can be as much as 30 percent! Without Unisex rates, women are required to pay substantially more for coverage than men-as much as 40 percent more!

Lastly, the financial decisions you make as a resident will generally be less complex, yet, all decisions should take into consideration your short-term and long-term goals. These goals can be affected by the five main stages in your career: (1) medical school, (2) residency/fellowship, (3) the first 3 to 5 years of practice, (4) your maturation years, and (5) your retirement years. To receive appropriate advice at any particular stage, it is important to work with professionals who understand the overall picture. You can find such professionals by asking your colleagues (residents and attendings) for the names of those with whom they feel comfortable and whom they trust.

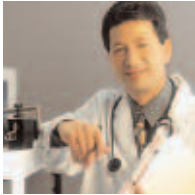
---

Donald J. Germano offers securities through AXA Advisors, LLC (member NASD, SIPC) 175 Corporate Woods, Suite 250 Rochester, NY 14623 and offers annuity and insurance products through an insurance brokerage affiliate, AXA Network, LLC and its subsidiaries.

AGE-35177

*Phase III***B. Selecting a Financial Advisor**

By **Mary Jean Allen**  
SUNY Stony Brook School of Medicine  
**Deanna Filosa, CLU, ChFC**  
Island Financial Group, Woodbury, New York

***Why do you need to know this?***

*During your residency and practice years, you can benefit from the professional assistance of various types of financial advisors. You should be able to select competent advisors that you'll be comfortable working with.*

You may be considering seeking help from a financial planner for a number of reasons—for example, deciding whether to buy a new home, setting up a practice or partnership, planning for retirement or your children's education, or, more commonly, simply not having the time or expertise to keep your finances in order. Whatever your needs or reasons, working with a financial planner can be a helpful step in securing your financial future.

There are several questions you should ask, and steps you can take on your own, before choosing the financial planner who will help you meet your short-term needs, as well as your long-term goals. Following these steps should result in a successful partnership.

You should ask:

- 1. *What experience do you have?*** Find out how long the planner has been in practice, as well as the number, and types, of companies he or she has worked with. Choose a planner with a minimum of three years' experience in counseling individuals on their financial needs. Most importantly, you want to choose a planner who has extensive experience in, if not specialization in, working with physicians.
- 2. *What are your qualifications and credentials?*** Many financial professionals use the term "financial planner." Ask the planner whether he or she holds a financial planning designation, such as CLU (Certified Life Underwriter), ChFC (Chartered Financial Consultant), CFP (Certified Financial Planner), RIA (Registered Investment Advisor), or PFS (Personal Financial Specialist). If the planner holds one of these designations, check on his or her background with the CFP board or other relevant professional organization. You may also ask for references, from current clients and other professionals, such as accountants and attorneys that the planner has worked with. Find out if the planner has ever been fined, reprimanded, or suspended by contacting your State Insurance and Securities Departments, the NASD, or the SEC (see the listing of these agencies at the end of this section).
- 3. *What services do you offer?*** These will vary, depending on a number of factors, including professional credentials, license, and areas of expertise. Ask yourself if this planner offers services that are compatible with your immediate and long-term needs. Review a sample of a completed plan, to determine whether the planner offers the particular services that meet your personal financial needs.
- 4. *What is your approach to financial planning?*** Ask the planner about the types of clients and financial situations that he or she typically likes to work with. Make sure the planner's viewpoint on investing is not too cautious, or too aggressive, for you.

**Phase III**

5. ***Will you be the only person working with me?*** The planner may work with you alone, or have others in the office assist. You may want to meet everyone who will be working with you. If the planner works with professionals outside his or her practice (e.g., attorneys, insurance agents, tax specialists), get a list of their names and check on their backgrounds.
6. ***How will I pay for your services?*** Planners can be paid in several ways. They can be salaried, commission-only, fee-only, or compensated through some combination of commission and fee. As part of your financial planning agreement, the planner should disclose to you clearly—in writing—how he or she will be paid for the services to be provided.
7. ***How much do you typically charge?*** While the amount you pay will depend on your particular needs, the planner should be able to provide you with an estimate of possible costs, based on the work to be performed.
8. ***Could anyone besides me benefit from your recommendations?*** Some business relationships that a planner already has in place could bias his or her professional judgment while working with you, thereby inhibiting the planner from acting in your best interest. Ask the planner to provide you with a written description of his or her conflicts of interest. Don't hesitate to walk away from any planners who promote only their own financial products, or those of the companies with whom they have a business relationship or partnership.
9. ***Can I have it in writing?*** Ask the planner to provide you with a written agreement that details the services that will be provided. Keep this document in your files for future reference.

A qualified financial planner will have a proven track record, and should welcome these questions. It's critical to feel confident that you can trust the planner to handle your personal and business finances in an ethical, confidential manner. Keep in mind that you want to be working with this person for many years—perhaps, for the rest of your life. Above all, you should feel comfortable in the relationship.

**To check on the professional record of a financial planner, you can contact the following organizations:**

Certified Financial Planner Board of Standards, Inc  
1670 Broadway, Suite 600  
Denver, CO 80202-4809  
888-CFP-MARK  
FAX: 303-860-7388  
[www.cfp-board.org](http://www.cfp-board.org)

North American Securities Administrators Association  
888-84-NASAA

National Association of Insurance Commissioners  
816-842-3600

National Association of Securities Dealers  
800-289-9999

Securities and Exchange Commission  
800-732-0330

**Phase III**

**To find a financial planner in your area, you can contact the following organizations:**

Financial Planning Association  
800-322-4237

National Association of Personal Financial Advisors  
888-FEE-ONLY

The Society of Financial Service Professionals  
800-392-6900

**References:**

- “Financial Planning Tips” (Society of Financial Services Professionals)
- “Talking to Your PFP. Client Checklist” (Journal of Accountancy)
- “10 Questions to Ask When Choosing a Financial Planner” (Certified Financial Planner Board of Standards)

**C. Maintaining Financial Records**

**By Barbara Warren**  
**Mercer University School of Medicine**

***Why do you need to know this?***

*During your residency, you will save time, and diminish anxiety, if you establish a system for maintaining personal financial records and monitoring your progress toward meeting financial goals.*

Accepting the fact that repaying a medical school debt is your responsibility is the first step toward meeting your goal of repayment. Do not shift the tasks of filing deferment and forbearance forms or making payments on time to others. Although your medical school financial aid officer will be happy to help you understand and organize your borrowing portfolio, do not expect your medical school’s financial aid office to do your record-keeping. Once you graduate, you must be able to handle this on your own. The following are suggestions on the best way to do this.

**Keep up with your exit interview information.** Prior to graduation from medical school, you probably received from your financial aid office a detailed accounting of all your educational loans. When you start your residency, keep that information with you, not in Mom’s attic or in a storage unit somewhere. Be sure that folder or notebook makes every move with you throughout your years of internship, residency, fellowship, and practice.

**Keep up with your mail.** As previously noted, open and read all your mail when it arrives. Do not miss a deadline or a notice regarding a change in the status of your loans by tossing an unopened envelope into a drawer or a box. Lenders expect you to stay abreast of the details regarding your loans. Missing a deadline can eventually throw you into a default status.

**Phase III**

**Set up a logical filing system that works for you.** Up to now, you have probably filed all your financial aid papers by academic year so they would be easy to refer to while you were in school. It is time now to change that filing system so that it will help you remain aware of lenders and due dates. Make a file folder for each lender/servicer. (Note: you may deal with a servicer hired by your lender to service your loans). Put into this file the promissory note and other papers relating to each loan you received from that lender. Keep a record of each lender's address and phone number(s) in the file.

**Keep accurate, complete records.** Put a log sheet into each lender's file, and use it to make notes about every phone call you make or receive and each form you mail to the lender/servicer. Jot down the date, amount, and number of the check you write when you make every payment. These canceled checks can prove when payments were made, and they may be essential for taking advantage of tax benefits for loan repayment. Keep track of the dates, the names of people you contact, what was discussed, and who is supposed to do what next. Knowing the name of the person you spoke with the first time will make follow-up calls easier and less stressful for you, and for the customer service representatives as well.

Always, always keep a photocopy of any form you mail to your lender/servicer. Note the date when you mailed it. Consider using registered mail, and a return reply card, so that you know when your mail was delivered and who signed for it. This may require a little more time and a little extra expense up-front, but it may save you lots of money and anguish later on.

**Set up a long-range calendar.** Set up a calendar that covers at least enough years to get you through residency. Mark on the calendar the dates you need to submit forbearance and deferment forms. Keep in mind that grace periods and deferments vary in length. Remember that most forms must be submitted annually, and you are not likely to get a reminder from your lender/servicer. Do not wait until the last possible minute to request from your school or your hospital the information you need to send in with those forms. Keep this calendar in a prominent place, and make a habit of referring to it regularly. (Further information can be found in "The Layman's Guide to Loan Repayment," available at this Web site: [www.aamc.org/students/financing/debthelp/laymansguide](http://www.aamc.org/students/financing/debthelp/laymansguide).)

**Keep your lenders/servicers informed of changes.** Be certain that you notify your lender/servicer when you change your address, telephone number, or name. Undeliverable mail can quickly become stumbling blocks for your financial future. Below is an example of a Lender Contact Log.

