

# New Physician Finance: 101

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It is July, you have just graduated from residency and it is time to get the first “real” check of your career. If you are anything like me, you have absolutely no idea how to save for the future. Should I call a financial advisor or phone a friend? When should I start saving for the future? Most physicians

have little knowledge of savings and informed financial planning by the time they graduate residency. While family or friends may give somewhat helpful advice, you may be in very different financial situations than they are. However, with the potential for a large injection of cash into your bank account with a new attending job, it is critical to plan for a sound financial future.

Like many emergency physicians, I started my career as an independent contractor. I quickly learned that I had quite a few decisions to make about retirement and options for pre-tax savings. 403b, Solo 401K, Sep IRA, and 529’s can sound like a foreign language. Let’s take a quick look at the options available to ensure a sound financial future for our generation.

Let’s start with the Solo 401K. If you are an independent contractor, a Solo 401K may pique your interest for retirement planning. A Solo 401K is an IRS qualified retirement plan for employers with no employees besides themselves and a spouse. In this plan, you contribute both as an employer and employee. The plan contributions are made pre-tax, reducing your taxable income for that year. Maximum contribution in 2019 for a Solo 401K is \$56,000. Individuals over the age of 50 may contribute an additional \$5,000 each year.<sup>1</sup>

Similar to the 401K is the Sep IRA. The Sep IRA holds the same maximum contribution as the Solo 401K for 2019. The difference is how the money is contributed. In a Sep IRA, you contribute only as an employee. An employee can contribute up to 25% of their net income to a maximum of \$56,000. Like the Solo 401K, contributions are made pre-tax, reducing a person’s taxable income for that year.<sup>2</sup> Sep IRA’s are considered the “easier” retirement planning tool and there are plenty of online brokers that can help open accounts and get you started.

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There is also the Roth IRA, where you can make post tax contributions. With this option, there is no immediate reduction in your taxable income for the current year. The advantage of the Roth IRA is that the money and interest grows tax-free. The 2019 contribution limits for Roth IRAs is \$6,000. After the age of 50 you can contribute an extra \$1,000 each year. Most attending physicians will not be able to contribute to a Roth IRA directly due to income limits but residents may be interested in contributing to a Roth IRA. Ask your CPA or tax lawyer about rolling over your SEP IRA or Solo 401K into a Roth IRA.

The Solo 401K, Sep IRA, and Roth IRA can all be withdrawn without penalty at age 59 ½. The Roth IRA has an additional requirement of “5

year aging” which means that there is no 10% penalty if withdrawals are taken out after 5 years after establishing the account.

If you have children, another method for tax savings is starting a 529 Educational plan. The 529 “Qualified Tuition Program” started in 1996 by Congress and named after section 529 of the Internal Revenue Code gives you another option for saving money with federal tax free growth. As of 2018, the 529 plan allows up to \$10,000 to be used for “qualified higher education expenses.” These funds can be used to pay for elementary and secondary schooling.<sup>4</sup>



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Lastly, another useful resource for the newly graduated physician is the Health Savings Account (HSA). Health care expenses are an inevitable part of life. HSAs provide immediate tax savings as contributions are pre-tax. In order to qualify for an HSA, a few qualifications must be met. For 2019, you must have a high deductible health insurance policy. Single taxpayers must have a minimum deductible of \$1,350 and maximum out of pocket of \$6,750. The maximum pre-tax contribution is \$3,500. Married taxpayers must have a minimum deductible of \$2,700 and maximum out of pocket of \$13,500. Maximum pre-tax contribution is \$7,000.<sup>5</sup>

As you can see, we have many options for tax savings and investment growth. The above summaries are only a general overview of the programs that may be available to you and your family. Please remember all investment decisions have benefits and drawbacks. Before initiating your financial plan, discuss these with your financial advisor, CPA, or tax lawyer to ensure you qualify for these programs and to know if they will provide you with a good return on your investment portfolio.

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## References

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