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Twelve Steps to Financial Freedom for Plastic Surgeons

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Background: Financial stress and lack of financial well-being are significant contributors to physician burnout. Many trainees believe little can contribute to developing financial freedom during their training years. However, residency is a pivotal moment in a young attending's life; strategic financial steps taken during this time can lead to a path of financial freedom and well-being for years to come.

Methods: We introduce 12 effective financial steps physicians can take at the start of their careers. These essential steps were compiled both anecdotally and from published financial resources such as White Coat Investigator and the Millionaire Next Door. Steps include building your "why," becoming financially educated, eliminating debt, attaining insurance, optimizing contracts, awareness of self-net worth, budgeting, maximizing investment strategies, smart investing, wise spending, K.I.S.S, and creating a personal financial plan.

Results: As an example, an IRA is a retirement account set up by you, and to take advantage of the tax benefits, you must have a modified adjusted gross income of less than $124,000 as a single tax filer for 2022. Most physicians are compensated at a rate higher than this; however, there is a legal loophole to take advantage of to allow earners to still contribute to a Roth IRA that is discussed.

Conclusions: Financial education is the first step toward a path to financial success in a young physician's life. Implementation of these 12 financial steps early in a physician's career will enrich one's financial freedom and well-being. *(Plast Reconstr Surg Glob Open 2023; 11:e4990; doi: 10.1097/GOX.0000000000004990; Published online 27 June 2023.)*

Personal finance is a significant component of overall personal well-being.[1] However, it is almost universally overlooked by physicians in general, including plastic surgeons. As rates of burnout and moral injury continue to rise, optimizing physician well-being is becoming a more recognized parameter. Again, however, the impact of financial well-being on physician well-being is rarely addressed within hospital systems, training programs, and on a personal level.[2]

The reasons for the lack of financial literacy and education among physicians, including plastic surgeons, are multifold. First, in our years of education, we rarely, if ever, receive formal education regarding personal finance.[3] Certainly, within our residency and fellowship training, financial education is limited to off-handed advice in the operating room and occasional visits from salespeople masquerading as financial advisors.

Second, as physicians, we are often hesitant to acknowledge blind spots or knowledge gaps. This is something that impacts us surgically as well. However, in the context of a subject with which we again have no formal education, the outcomes can be disastrous.

Finally, there remains a significant taboo within medicine regarding attention to money and finance. A common refrain is, "We did not become doctors to get rich." And, in general, this aphorism is and should be true. As physicians, our main focus is helping our patients. However, to completely ignore our finances leads to sequala like burnout and impairs our ability to function at our highest levels.[2,3] Therefore, by not paying attention to our finances, we actually become worse doctors.

Our goal is to introduce the basic concepts of financial literacy for plastic surgeons. Financial literacy leads to financial freedom. Financial freedom is the idea that one can work because they want to, not because they must.

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The irony is that while many of us view money as a complicated subject that we hire out to other advisors, it is quite straightforward. Certainly, managing one's finances is easier than becoming a plastic surgeon!

As a last note, there is another aphorism stating, "The best time to start was yesterday. The next best time is today." While starting early with habits like saving and investing is ideal, that is not where all of us are on our journey. The key is that there is never a time that is too late to start. We developed twelve simple steps that facilitate achieving financial freedom (Fig. 1).

TWELVE STEPS TO FINANCIAL FREEDOM FOR PHYSICIANS

1. Build Your "Why"

This is the most important step. It is the reason you want to achieve financial freedom and financial wellness. If there is no reason, then it will feel pointless when, and if, you get there. Any roadblock in the way will feel insurmountable. Your "why" is there to pull you through the hard times when you need it.

Our "why" is that we individually want to gain financial well-being to enhance our overall well-being, to spend more time with our family and friends, and to pursue our passions on our own terms.

2. Begin Your Financial Education

Pick up a finance book.[4,5] Start reading 10 pages each day; then try to read one financial book each year. It is minimal effort and will pay huge dividends in the long run. If you are not a fan of reading or want to get up to financial speed faster, we recommend podcasts or blogs.

3. Pay Off Debt

This truly is the first step to financial freedom. You need to stop taking on new debt and get rid of any and all debt you currently have.[6] When you are in a hole, the first step is to stop digging; then start climbing out. You cannot run until you get out of the hole. Each $1 you use to pay off debt is another $1 increase toward achieving a positive net worth.

#	Steps
1	Build your why
2	Begin your financial education
3	Pay off debt
4	Get Insurance
5	Optimize your contract
6	Learn to keep score
7	Budget
8	Use the right strategy to invest your money
9	Invest in the right places
10	Spend intentionally
11	K.I.S.S.
12	Create a written personal financial plan

Fig. 1. Twelve steps to financial freedom.

Takeaways

Question: Many trainees believe that the financial choices they make during residency will have no impact on their financial situation for the better or help them to financial freedom.

Findings: Financial education is a vital step toward a path of financial success in a young physician's life. We introduce and demonstrate 12 effective financial steps young physicians can take at the start of their careers to allow them to be well on their way to financial freedom and well-being.

Meaning: Implementation of 12 financial steps early in a physician's career will allow them to be well on their way to financial freedom and well-being.

4. Get Insurance

If you depend on your income to live (ie, you are not financially independent), then you need disability insurance. Does someone (ie, spouse and kids) depend on your income to live? If so, you need term life insurance (not whole life insurance). Additionally, if you are practicing medicine, then you need malpractice insurance.

Not having sufficient coverage in these areas could set you and your loved ones up for potential financial catastrophe.[7] Consider the idea that it is better to have it and not need it, than to need it and not have it.

5. Optimize Your Contract (Current or New)

Fair or not, contract negotiation is the time when you set the foundation for what you will make and how you will make it.[8]

There is usually some wiggle room within the contract to make more or less over time. However, you largely set the scale of your physician income as soon as you sign on the dotted line. Therefore, if you are negotiating your first contract, take the time to make it as favorable as possible.[9] If you already have a contract, go through it and see what you would change if you could. See how close you are to your renewal time and create a strategy to make the next contract the best it can be.

6. Learn to Keep Score

One of the biggest mistakes that high-income earners like plastic surgeons make is that we confuse income with net worth. And a high income does not guarantee a high net worth, that is, wealth. If one makes $1 million each year and spends $1 million each year, their net worth and wealth are actually $0.

Net worth is calculated as the difference between your assets and your liabilities. Put simply, assets are things that put money in your pocket like stocks, bonds, and cash-flowing real estate. Liabilities, meanwhile, are things that take money out of your pocket, like credit card debt, student debt, car loans, and personal home mortgages. This is why each $1 of debt paid off equals a $1 increase in your net worth.

Categories	Total Expenditure	% Of Income
Rent/Mortgage	$1,800	40%
Transportation	$400	9%
Groceries	$500	11%
Entertainment	$200	4.50%
Loans	$450	5%
Insurance	$150	3%
Savings	$900	20%
Miscellaneous	$100	2%
Total	**$4,500**	**100%**

Fig. 2. Sample budget with a breakdown of the percent of total income based on a $4500 monthly income.

Review your net worth at least every 2–3 months. See what actions are helping your net worth and which are hurting it. Then you can adjust your strategy.

7. Budget

Budgeting can seem quite restrictive. But in reality, it is the opposite. A budget allows us to track our spending to ensure that we can reach our financial goals (Fig. 2).[10] And it is very easy to do using the following steps:

- Come up with a list of broad categories of expenses (i.e. rent/mortgage, groceries, entertainment, taxes, etc.)
- Go to your bank account(s)/credit card(s) and put every single expense from the past month (first of the month to first of the month) in an expense category
- Add up the total for each expense category
- Add up the grand total for the month and make sure it is less than (or at worst equal to) your monthly income
- Do you have enough left over to save for your financial goals?
- If yes, great! If not, what can you adjust to make this happen?
- Aim for a savings rate of at least 20%
- Now, go through each category and decide how much you can spend while still reaching your goals

The end goal of your budget is that you want to create a savings rate of at least 20% of your gross income (Fig. 3). This savings rate is your margin or the difference between what you earn and what you spend. And a simple formula to build wealth is to increase and invest your margin. Your budget helps you do exactly this.

8. Use the Right Strategy to Invest Your Money

Once you have created a savings rate of at least 20% of your gross income, you need to invest that money.[11] If you do not invest it, you are actually losing money due to inflation. The question then becomes, what is the best way to invest your money?

First, an important definition. A stock is a part ownership in a company.[11] You buy one share and you become an owner. Each share has a price tag when you buy it that changes based on various and, at times, arbitrary factors as they are traded in the stock market.

When you buy a company's stock, you are saying that you believe in that company's success. If you are right, like with Apple, you make a lot of money. If you are wrong, like Enron, you lose all of your money. Picking the right company, or horse, can be difficult even for the "experts." Research shows that even "experts" underperform the overall stock market 80% of the time when they try to actively invest by timing the markets and picking stocks or funds.

When you buy the whole stock market, you are saying that you believe in the overall ingenuity and innovation of humankind and the world economy. This is a much safer bet. Over the long term, the overall stock market has always gone up. And you should only be investing money that you do not need in the short term. In this way, the short-term volatility of the stock market does not matter to you. You are now investing and not speculating.

You can invest in the overall stock market or large sectors of it using index funds. An index fund is a collection of stocks strategically picked to mirror some index marker of the overall stock market.[12] For instance, the S&P 500 is an index with a collection of stocks thought to give a good sense of the overall market (eg, is the market going up or down?) An index fund will mirror the movement of the index that it is based on.

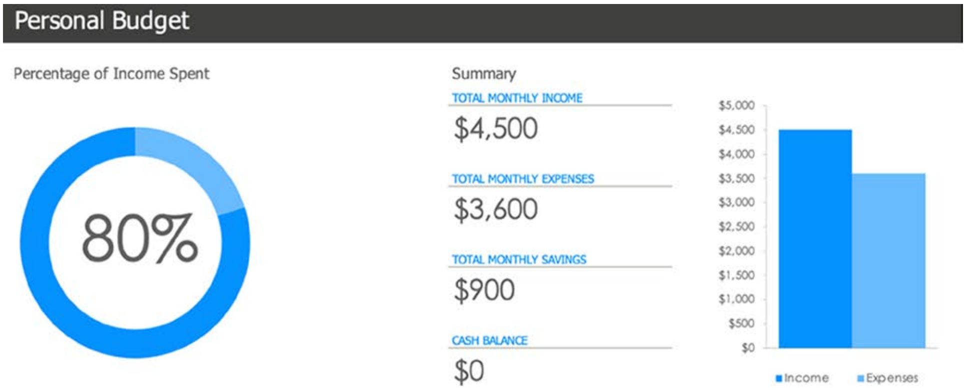

Fig. 3. Graphic depiction of personal budget on a $4500 monthly income.

You can also invest in index funds of bonds and even real estate, called Real Estate Investment Trusts, through just about any investment brokerage.

If you save 20% of your gross income and invest wisely in index funds, as a high-income earner, you will be able to retire and reach financial freedom on your own terms.

9. Invest in the Right Places

Once you have decided how to invest your savings, the next decision is where to invest your savings. You can invest in a regular taxable investment account. Money in this account is taxed when contributed (via income tax) and taxed again when it is withdrawn (via capital gains taxes).

However, there are other investment accounts available that carry significant tax advantages. These include 401k, 403b, and 457 accounts. These are typically available through your practice or employer and are accounts that are not taxed upon contribution and only taxed upon withdrawal (tax deferred). Another available tax-deferred investment account is an individual retirement account or IRA. These accounts are available to anyone earning an income. However, most or all plastic surgeons will be above the income limit to contribute to this account with a tax benefit. However, high-income earners can still contribute to a "backdoor" Roth IRA in which your money is taxed upfront but never taxed again including upon withdrawal. Currently, the contribution limit for this account is $6000.

The best strategy is to maximize contributions to tax-advantaged accounts available to you before utilizing a taxable investment account.

10. Spend Intentionally

Intentional spending is the concept that one is intentional with the money that she or he spends. Meaning that any purchase is well thought out and carries an intended purpose. In contrast, unintentional spending is a reflex when money is spent without focusing on the joy, or lack thereof, it brings.

Unfortunately, research has shown that we are incredibly bad at predicting what will make us happy—especially with our purchases. Therefore, it is important to mindfully practice intentional spending.

Here is a simple formula:

If a purchase meets both of these criteria, you should buy it:

- The purchase fits into your financial plan, and
- The joy derived from the purchase is greater than or equal to the dollar value of the purchase.

If the purchase meets either of these criteria, you should not buy it:

- The purchase does not fit into your financial plan, and
- The joy derived from the purchase is less than the dollar value of the purchase.

Money is simply a tool. A tool that we believe should be used for the betterment of yourself, your loved ones, and your world community. Spending money that you would is not bad. But at the same time, to spend that money unintentionally in a way that does not accomplish those goals would be wasteful. So, the key is to spend money intentionally.

11. Keep it Simple, Stupid (KISS)

We all know surgeons in the operating room who can be complexifiers. And we know those who are simplifiers. In general, it is the simplifiers who are able to break down difficult surgical concepts into understandable and teachable components. Finance is no different.

Seek financial mentors who are able to simplify the concepts of wealth building. If you can understand and practice plastic surgery, you can understand and enact health financial strategies. If someone is explaining an investment that you cannot understand, it is best to avoid it.[12]

12. Create a Written Personal Financial Plan

A written personal financial plan is a document that you create to guide your financial decisions based on your personal goals.[5] With a financial plan, you can constantly refer back when faced with tempting or challenging financial decisions to ensure that you make the right ones—which will be completely personal to you. Creating a written personal financial plan is the culmination of each of the previously discussed steps.

To begin making your personal financial plan, list out your financial goals. Some examples are:

- Pay off consumer debt in 2 years
- Pay off student debt in 5 years
- We will be worth $1 million in 12 years
- Save enough to cash flow at least $250,000 in retirement (goal retirement at least 20XX)
  - This will be via hybrid approach using equity and real estate investing
  - Save $1–2 million in equities for 4% yearly withdrawal of ~$71,000
  - Cash flow >$200,000 from real estate investments in 5 years
- Save $400,000 for kids' college

Everyone's goals should be different and unique to their own philosophy and circumstances. Once you have established these goals, create financial priorities or steps that will serve as signposts on your journey. Some examples:

- Pay down high-interest debt (>8%)
- Establish emergency fund (3–6 months' expenses)
- Maximize 401k retirement account
- Contribute to 529 college savings account
- Maximize 457(b) retirement account
- Pay down medium-interest loans (6%–8%)
- Contribute to back door/spousal Roth IRA (every January if contributing—two steps)
- Contribute to retirement taxable account
- Pay extra to mortgage
- Pay down low-interest loans (<3%)
- Donate to charity with equity dividends

Now, create guidelines for how you will invest to reach these goals. That way, you know exactly what you need to do. After this, all you need to do is follow the plan, and you will reach financial freedom. Here are some example guidelines:

- Our primary equity investment vehicles will be stock index mutual funds and bond index mutual funds, preferably within tax-sheltered accounts
  - In general, we will favor passively managed investments over actively managed investments
  - Our asset allocation will be 75% stocks and 25% bonds
  - We will rebalance back to this allocation once a year
- Our primary real estate investment vehicle will be cash-flowing rental investment properties with goal 10% cash-on-cash return to reach our real estate goals
  - All cash flow from real estate will be reinvested in real estate
- We will strive to achieve a real return of at least 6% per year, averaged over our investment lifetime
- In a market downturn or bear market, we will not panic and sell low; however, we will try to use any truly extra cash (not emergency fund, etc.) to rebalance by buying more stock (or other depressed equity)

With a written financial plan, you have laid out your goals as well as general and specific directions for getting there. That's the hard part. Now, all that you have to do is implement the plan in an emotionless and mindless fashion, and you can rest assured that you will reach your goals.

Personal finance is an important but all too overlooked component of personal well-being for physicians and plastic surgeons. By enacting simple and reproducible strategies, like saving and investing, all plastic surgeons can improve their financial well-being and reach financial freedom.

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DISCLOSURES

The authors have no financial interest to declare in relation to the content of this article.

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