Planning for Success: 1, 3, and 5 year Personal Financial Plan

By:

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Background about Financial Plan

The following financial plan contains the 1, 3, and 5 year outlooks for my future financial life. For reference, I plan to attend medical school next year, so this plan will start the year after I graduate medical school and enter a medical residency program, hopefully in Chicago, Illinois. For this reason, one of my main priorities will be to design a way to manage my student loan debt from medical school; thus, a large part of this financial plan will be dealing with calculations and strategies relevant to overcoming my student debt.

Some financial strategies that I have employed in this plan and hope to implement in my life are the following:

- Paying off debt as fast as possible and remaining debt free
- Starting to save early, even in little amounts, in order to maximize the benefit of compound interest
- Resisting temptation to splurge on “wants” and, at least until I am debt-free, deeply considering the consequence of each purchase
- Building up credit to help me qualify for lower future interest rates—done by paying bills on time and in full every month, and not carrying any credit card balance
- Letting my saving dictate my spending, and not the other way around[1]

And perhaps my most important goal in this financial plan is to work hard and be strict with my budget in my earlier years so that I can set myself up for financial success as I continue to get older and progress throughout my career.

Year 1

Tackling the Major Liability: Student Debt

Year 1 of my plan starts in 2020, the year that I will graduate medical school. Upon first glance, my financial situation looks rather bleak. Since I will mostly be using loans to cover the cost of tuition for medical school, my calculated student loan debt stands at a total of $261,808.70. Calculations for total student debt are shown in Figure 1, and account for a yearly 3% expected tuition increase as well as continuous accrual of interest at 6.8% throughout the four years.

Figure 1. Expected student loan debt from University of Pittsburgh School of Medicine.

	MS1	MS2	MS3	MS4
Tuition	53,045.00	54,700.00	56,300.00	58,000.00
Previous loan amount	-	56,652.06	118,924.00	187,139.23
Total loan amount	53,045.00	111,352.06	175,224.00	245,139.23
Total amount after interest (6.8%)	56,652.06	118,924.00	187,139.23	**261,808.70**

Projected Income and Cash Flow

To make the situation even more high-stakes, for the first several years after graduation from medical school, I will be required to complete a medical residency in a specialty of my choosing. Median income during medical residency usually starts at around $51,000 and increases an average of $1000-2000 for each year post-MD (Figure 2)[2].

Figure 2. Resident/Fellow stipends during residency (Academic Year 2014-2015)[2].

	Year of Training	Institution Count	Mean Actual Stipend	25th Percentile	Median	75th Percentile
Current Year Stipends	1st Post-MD Year	184	$51,586	$49,396	$51,250	$53,273
	2nd Post-MD Year	184	$53,500	$51,156	$52,949	$55,338
	3rd Post-MD Year	184	$55,502	$52,818	$55,029	$57,135
	4th Post-MD Year	182	$57,682	$54,677	$57,201	$59,723
	5th Post-MD Year	175	$60,023	$56,771	$59,542	$62,306
	6th Post-MD Year	165	$62,379	$58,911	$61,755	$64,684
	7th Post-MD Year	150	$64,775	$60,827	$63,809	$67,737
	8th Post-MD Year	89	$67,236	$62,380	$67,167	$70,597

Obviously, the combination of a strikingly high student debt and relatively low starting salary is far from ideal. For this reason, it will be imperative for me to stick to a very strict budget and financial plan for the first few years so that I can achieve eventual financial independence. Keeping this in mind, I have created a monthly expenditures cash flow chart based on an expected annual income of $51,250 for the first year, which translates into an after tax net income of roughly $37,825/year or $3,152/month (Figure 3). Some important points to note are the following:

- **Rent/Utilities:** I plan on living with a roommate the first few years to control expenses. This, along with the fact that Chicago is not as expensive to reside in as some other major cities, should keep my total rent below $950/month.
- **Student Loan Payment**: Due to loan repayment programs that physicians commonly utilize, such as Income-Based Repayment (IBR), the minimum payment for my loan amount would be based solely on my salary and would only be about 10% of my disposable income[3]. Despite this fact, I am going to try to contribute the maximum I can, which according to my Year 1 budget, is around $833.33/month (Figure 3). Although this payment will not even cover any of the principal amount of the loan, making the maximum payment means that I will be paying less overall interest, and thus a lower total amount, over the life of the loan[1].
- **Emergency Fund/Roth IRA**: For my savings, I plan to contribute the maximum amount to a Roth IRA each year. Since contributions to a Roth IRA can be withdrawn at any time without penalty, this method doubles as both a general emergency fund as well as

retirement savings. This, coupled with the fact that I will be in a low income tax bracket for the first few years as well as the fact that very few hospitals offer 401(k) accounts for medical residents, makes using a Roth IRA as a retirement savings vehicle the most attractive choice.

- **Transportation**: Like most major cities, Chicago, where I plan to go for residency, has a decent public transportation system. For this reason, as least in my first year, I only budgeted $200/month for transportation, which I figured would be sufficient to pay for Chicago Transit Authority (CTA) buses[4] and the occasional Uber ride.

My main goals, financial and otherwise, during this first year are to save a minimum of $5,500 as well as any extra in "Misc" (Figure 3) that I do not end up spending, get into a good habit of paying as much as I can on my student debt, and of course—to survive residency.

Figure 3. Projected Income and Cash Flow.

	Yearly	Month
Expected salary	**51,250.00**	**4,270.83**
Federal income tax	8,606.25	717.19
State income tax for Illinois (3.75%)	1,921.88	160.16
Social Security tax	2,152.50	179.38
Medicare	743.13	61.93
Total Taxes	**13,423.75**	**1,118.65**
Total Disposable Income After Taxes	**37,826.25**	**3,152.19**
Rent/Utilites	11,400.00	950.00
Student Loan Payment	10,000.00	833.33
Emergency Fund/Roth IRA	5,500.00	458.33
Food	3,000.00	250.00
Healthcare	1,200.00	100.00
Transportation	2,400.00	200.00
Misc (clothes, entertainment, insurance, phone bill)	4,320.00	360.00
Sum of Expenses	**37,820.00**	**3,151.67**

Year 3

Continued Debt Payoff and Budgeted Living

During the first three years, my financial and working situation will not change too much. Because medical residencies are essentially contracts for a set number of years, I will be working for the same employer in the same city. The only thing that will change is my salary, expected to currently be about $55,030 (Figure 2). Most of this increase, as well as the $1700 increase from Yr 1 Post-MD to Yr 2 Post-MD, will be channeled towards student debt repayment. If all goes as expected, I will be able to increase student loan payments to $12,000 in Year 3 (Figure 4).

However, as seen in Figure 4, despite my diligent efforts to repay my student debt, at the end of my third year, the balance would actually be higher than it was at the end of medical school—about $281, 387—due to the fact that my payments will only be covering part of the accruing interest and not even touching the principal. Unfortunately, I still have one more year of residency and relatively low income to go before I can start making a serious dent in the student debt. Nonetheless, even when it doesn't seem to be making much of a difference, it is still important to pay the maximum amount possible on loans in order to limit the total interest paid.

On the savings front, I will still be fully funding my Roth IRA each year to stock up on emergency fund/retirement savings. In a similar manner, most other expenses, such as transportation and rent/utilities, are expected to remain the same.

Figure 4. Student loan debt payments and balance throughout residency.

	1st Post-MD yr.	2nd Post-MD yr.	3rd Post-MD yr.	4th Post-MD yr.
Loan	261,808.70	268,931.69	275,471.05	281,387.08
Payment/yr	10,000.00	11,000.00	12,000.00	13,000.00
Balance after payment	251,808.70	257,931.69	263,471.05	268,387.08
Balance plus Interest (6.8%)	268,931.69	275,471.05	**281,387.08**	286,637.40

Year 5

Finally, Some Relief!—Life as an Attending

Assuming a four year residency, my fifth year after medical school graduation will be the year I finally transition from a resident to an attending. The most significant change this will bring is an increase in income. According to Medscape, the average primary care physician income is around $195,000 [5]. Although compensation varies quite significantly among more specialized fields, on the basis of assuming a four year residency (on the "shorter" end in the realm of medical specialties), it would make sense to also assume a subsequent entry into a primary care field.

Paying Off Debt for Good

At the beginning of the fifth year, with a debt burden of around $286,637 (Figure 4), my first priority with an increased income will be to finally attack all of my rapidly growing debt. Using the loan calculator on FinAid.org, I was able to calculate the annual as well as monthly amounts needed to pay off the remainder of my debt[6]. Figure 5 shows these amounts based off of whether I decide to opt for a 3, 5, 7, or 10 year repayment. Also shown is the total amount of interest that I would pay over the life of the loan depending on the total number of years it takes for complete repayment (Figure 5).

Figure 5. Monthly/annual payments and total interest/amount paid for various repayment periods.

	3 years	5 years	7 years	10 years
Payment/month	8,824.33	5,648.75	4,298.15	3,298.63
Payment/year	105,891.96	67,785.00	51,577.80	39,583.56
Interest paid during period	31,038.92	52,287.86	74,407.64	109,198.27
Total amount paid during period	317,675.92	338,924.86	361,044.64	395,835.27

An important thing to note is how drastically the interest payments, and subsequent total amounts, add up the longer it takes to pay off the loan. Because of the effect of compound interest, it would be in my best interest to pay off the loan as quickly as possible, even if that means resisting upgrading from a used car, buying a house, or going on fancy vacations.

Based off of an annual salary of $195,000, I have generated another projected income and cash flow statement—one that reflects my major goals of saving and reducing debt.

Figure 6. Projected Income and Cash Flow Part 2.

	Yearly	Month
Expected salary	**195,000.00**	**16,250.00**
401(k) or 401(b) Contributions	18,000	1500
Total Taxable Salary	**177,000.00**	**14,750.00**
Federal income tax	42,631.25	3,552.60
State income tax for Illinois (3.75%)	6,637.50	553.13
FICA tax	7,434.00	619.50
Medicare	2,566.50	213.88
Total Taxes	**59,269.25**	**4,939.10**
Total Disposable Income After Taxes	**117,730.75**	**9,810.90**
Rent/Utilites	14,400.00	1,200.00
Student Loan Payment	63,730.00	5,310.83
Savings	21,600.00	1,800.00
Food	4,200.00	350.00
Healthcare	3,000.00	250.00
Transportation	4,800.00	400.00
Misc (clothes, entertainment, insurance, phone bill)	6,000.00	500.00
Sum of Expenses	**117,730.00**	**9,810.83**

Some new considerations in my plan are the following:

- **401(k) or 403(b) Contributions:** After I complete residency, one of my major goals is to start catching up on retirement savings, especially since I will be 30 at this point. Since my income after this year will likely be above the limit to be able to contribute to a Roth IRA, I will probably utilize a 401(k) type plan in order to save money to reach my retirement goals. Since I will have catching up to do because of the years that I have not been able to save as much during residency, I plan on contributing the maximum possible amount each year. A side benefit of this will be that contributing to a 401(k) will lower my taxable income, effectively putting me in a slightly slower tax bracket.

- **Student Loan Payment:** I plan to continue contributing the maximum I can towards paying off my student debt. My goal is to pay around $63,000 per year; according to Figure 5, if I stay on track with this amount, it will take me about 5.5 years to finally pay it all off.

- **Savings:** Although I have retirement savings covered, I would still like to save about $1800 per month to build up a more solid emergency fund. In addition to that, I would eventually like to buy a house in the future; but for that I will need to have a down payment that is at least 20% of the home value[1]. Thus, some part of this savings will also go towards a down payment fund.

- **Transportation:** By this time, I will most likely own a car. However, another one of my priorities is to keep transportation costs low, mostly by resisting the urge to buy a pricier car and thus not falling prey to exorbitant monthly car payments. For this reason, I think a monthly $400 budgeted toward transportation should suffice.

Future Plans

Although this plan only extends five years, it provoked some thinking about my future financial goals and how to eventually achieve financial independence.

For example, in the future, after I have finally accomplished paying off my student debt, I would like to get started in investing some of my extra income. For instance, I could take advantage of Traditional IRAs, which do not have an income limit and are also good vehicles for tax-free growth. Besides retirement accounts, I could also look into opening a regular taxable account if I choose to save more and have exhausted other tax-advantaged account options.

In addition, one of my other future goals is to always “pay myself” first before calculating the money that I have left over to spend and to just generally live below my means. By sticking to these two things and setting clear goals for myself, I hope that I will be able to achieve financial independence. After all, although money cannot buy happiness, when wisely saved and invested, it *can* buy freedom and the ability to control your own destiny.

References

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