Establishing good financial planning habits early will help radiology residents manage income in the future.

CHICAGO — It is well known that resident salaries are falling below those of practicing providers. But, if you establish good financial planning habits now, it will be easier to manage your income and prepare for retirement.

During the Resident Forum at this year’s Radiological Society of North America meeting, Greg Wikelius, a financial planner with Chicago’s North Star Resource Group, offered guidance to help radiology residents map out their future financial security.

“The most critical time in your financial life is when you transition from training as a radiology resident into practice,” he said. “The reason is you’re not yet used to spending the higher income. This is the easiest time to get on track – if you make the necessary cuts in your income now, you’ll never miss what you’re cutting out. It’ll be much harder to do 10 years from now if you’re accustomed to spending the money.”

Your most important first step, he said, is eliminating your debt.

“Debt is the most emotional component of a financial plan,” he said. “If you’re debt-averse, you’ll want to pay it off aggressively.” If you have debts with an interest rate of 8% or higher, pay those down first. Debts with interest rates of 5% or less can be paid off more slowly, Wikelius said.

But there’s much more to your financial life than managing your debt.

Insurance

Disability insurance: This type of insurance can offer you significant protection if you’re ever injured to the point where you can’t work. Most residents and fellows, he said, would need enough coverage to pay out $5,000 per month. Ameritas/Union Central, Guardian, Mass Mutual, MetLife, and Principal Standard are strong companies to consider, he added.

Life Insurance: If you’re single or married without children, investing in life insurance is largely unnecessary, Wikelius said. However, if you have children, it’s a must. Select your amount of coverage based on this rule: Every $1 million of coverage translates to between $40,000 and $50,000 in annual income. If invested with a 4% to 5% return, a life insurance policy could provide 25 years of income.

Automobile/Home/Umbrella Insurance: These policies are often overlooked, but they can offer you significant protection in a variety of circumstances. If you’re ever found liable in a car accident, sufficient auto insurance can safeguard not only your current salary, but your future earnings, as well. Your home owner’s policy can also shield you in unexpected situations, Wikelius said.

“If you have a party at your house and a friend who drinks too much drives and gets into a wreck, you could be named in the suit,” he said. “Your home owner’s insurance will cover you in that case.” Umbrella policies are affordable, additional layers of coverage on top of your existing automobile and home insurance policies. For roughly $150 to $200 yearly, you can add $1 million of coverage.

Retirement Planning

401K/403B: Depending upon whether you join a private practice or an academic department, you will have access to 401K or 403B retirement accounts, respectively. The annual maximum you are able to contribute to both is $17,500. This means, if you make $318,000 in your first year and contribute the maximum, you will only be taxed on $300,500.

Private Practice Profit Sharing: Although this option goes by another name, it’s similar to a 401K or 403B. However, instead of making the contributions yourself, your practice does it for you. The maximum annual contribution is $52,000.

Pension Plan: This retirement option is generally only available at academic institutions, though not all of them offer this type of plan. It uses an algorithm based on your annual salary – usually an average of your top three earning years – to determine how much income will be available to you in retirement. For example, for each year you work, you would receive 2% of your salary. If you work
30 years, that equals an annual income during retirement of 60% of your work-time salary. Regardless of the plan, Wikelius said, set it up for an automated withdrawal from your paycheck. It starts the savings habit early so you will always be on track for having enough money when you no longer practice.

_Estate Planning Documents:_ As soon as you can, get these papers in order - especially if you have children. Talk to a lawyer about creating a will, medical directives, and establishing a power of attorney relationship. You can even create a simple will yourself by downloading personal software, such as Quicken Wills, for as little as $40. Having these documents in order ensures your state government won’t determine what happens to your assets when you pass on.

**The Most Common Mistake**
The most important lesson you can learn, Wikelius said, is that there’s a difference between having the money to pay for something and actually being able to afford it. The most frequent misstep in this regard, he said, is how much money residents and new practicing providers pay for their homes. For residents in most parts of the country, the recommendation is to cap the amount you spend on a home to two times your annual income. Wikelius acknowledges, though, that abiding by this suggestion could be difficult in many larger, more expensive cities.


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