AMERICAN ACADEMY OF DERMATOLOGY · AAD · 1938

Directions in Residency

Summer 2012

Official Publication of the Residents/Fellows Committee, American Academy of Dermatology

How would you diagnose your financial picture?

5 questions residents should ask themselves

Residency is consumed with clinical work, clinical learning, and sleep. Precious free time exists to spend with loved ones and on other activities that keep you sane. It doesn't leave a lot of time to think about finances and insurance. But, at some point, there are a few financial moves that you can't ignore. Directions in Residency *asked two financial experts that specialize in working with physicians, Jim Dahle, MD, and Lawrence Keller, for a list of five key questions residents should ask themselves.*

1. Do you have an individual disability insurance policy?

Your greatest asset as a dermatologist is your ability to practice your specialty. Over your career, that asset is likely to be worth over $10,000,000. You must protect it. You do this by purchasing a non-cancellable, guaranteed renewable disability insurance policy with a true "own-occupation" definition of total disability. This type of policy will provide you with income if you are disabled and cannot work as a dermatologist — even if you can earn the same or more income in another occupation or medical specialty.

You will want a policy that provides benefits to the age of 65 or longer as well as a residual disability rider, a cost of living adjustment (COLA) rider, and a future purchase option rider. An individual policy is generally far superior to the group policy your hospital may provide to you as a house staff member. Not only are you more likely to actually get paid in the event of disability, but you can take the policy with you when you graduate.

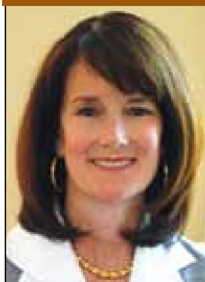
You may need to eventually purchase policies from two separate companies in order to maximize your coverage, as any one company is unlikely to issue a policy with a monthly benefit of more than $17,000.

You may save a lot of money by getting a policy that includes a "multi-life" or association discount. While this can provide male dermatologists with a savings of 10 to15 percent off of their policies, female dermatologists can save as much as 60 percent if a gender-neutral

or "unisex" rate is available. There may already be existing multi-life discounts in your hospital that an insurance agent that specializes in working with physicians can help you obtain. Otherwise, you'll need 2 to 4 employees from the hospital, in addition to yourself, to pur-

See **FINANCIAL** on p. 3

ethical considerations



Karen Scully, MD, is a board-certified dermatologist in Canada and the United States, and has an MA in ethics from UNC, Charlotte.

Truth telling and the doctor-patient relationship

What's a physician's obligation to absolute honesty?

By Karen Scully, MD

As physicians, are we obligated to be truthful to patients? The answer to this question is not as straightforward as it seems. In this column, I will discuss our obligation of honesty to patients and the subtleties involved in telling the truth.

Honesty in the informed consent process has replaced a paternalistic approach in which physicians of the past told patients little or nothing about their diagnosis, particularly if it was cancer or a terminal illness. Physicians made decisions for patients, and they decided on treatment without patient involvement. The physician was not questioned. Frank dishonesty on the part of the physician was not unusual.

Today, conformed consent involves patients in their health care process. Autonomy is now one of the four important principles involved in ethical medical care.

There are three arguments which justify the ethical obligation of honesty to patients.[1] First of all, honesty is based on respect for others. Secondly, honesty has a close connection to fidelity and promise keeping. When we enter into a relationship with a patient, we implicitly promise not to deceive them. Lastly, doctor-patient relationships depend on trust, and being truthful is essential to trust.

Although deception in medicine is wrong, the obligation of complete honesty to patients is not absolute. Put another way, physicians

See **ETHICS** on p. 2

Inside *this* issue

4-5 Boards' Fodder

6 Race for the Case

7 Residents in Jeopardy

8 Message from the Chair

FINANCIAL from p. 1

chase policies from the same insurance company in order to establish a multi-life discount.

2. Do you have a level premium term life insurance policy?

If there is anyone besides you who relies on your future income, you absolutely must purchase a 20-30-year level premium term life insurance policy. If you are concerned you may become uninsurable in the future, you may want to purchase a policy to protect a future spouse or child. Term insurance is extremely cheap, and it would be wise to get a policy of at least a $1,000,000 as a resident, and double or triple it shortly after residency graduation.

Term life insurance is for the most part a commodity, so the pricing is very competitive and comparison shopping is easy. Websites such as www.term4sale.com can compare the premium rates for several insurance companies as well as the pricing for various death benefit amounts and guarantee periods. You'll see that a $1,000,000 20-Year Level Premium Term Life Insurance policy, for a 29-year-old male dermatology resident in the best underwriting classification can cost as little as $425 annually. You should employ the services of an experienced insurance agent who represents several companies to help you get the best rates, especially if your health is less-than-perfect. The agent will know which carriers are likely to provide you with a better underwriting classification based on your height and weight, family history, and/or other medical issues to allow you to secure a lower premium rate.

Additionally, we advise against permanent life insurance while you are in training (whole life, variable life, universal life, equity indexed universal life, etc). In fact, some physicians believe that they will never have a need for a permanent life insurance policy.

3. Do you have an umbrella in addition to your other insurance policies?

It's not just getting sued at work that you need to worry about. Even though you don't have any assets yet, many people view you as their lottery ticket. You should have high liability limits on your auto and renters/homeowners insurance policies. In addition, you should purchase an umbrella insurance policy of at least $1,000,000. Umbrella policies are inexpensive, generally in the $200-300 per year range.

A personal umbrella liability policy supplements the basic liability protection you already have by insuring you against large losses or losses not covered under your other personal liability policies. Although an umbrella policy is often added to an existing homeowners or automobile policy, it can also be purchased as a stand-alone policy from a different insurer. In either case, your insurer will ordinarily require you to carry basic liability insurance with certain minimum limits. If all of your policies are with the same company, substantial discounts may be available. Please note that an umbrella policy does not protect you in the event of a malpractice claim.

4. Have you "maxed out" your contributions to a Roth IRA?

A Roth IRA is an Individual Retirement Arrangement named after the late Senator William V. Roth, Jr., (R-Delaware) that allows you and your spouse to save for retirement. You can just think of it as Uncle Sam's gift to residents. Unlike a traditional IRA (and most other retirement accounts), you don't get an upfront tax break for contributing. But as a resident, that isn't worth much. What is worth a lot, however, is the fact that the money in this account will never be taxed again.

You can contribute up to $5,000 per year into your own Roth IRA, and another $5,000 into a spousal Roth IRA. Even with a working spouse, residents generally have income low enough to qualify to contribute. (Your ability to contribute begins phasing out at $110,000 if you're single, $173,000 if you're married.) Even as an attending, however, you can still contribute via the "Backdoor Roth IRA" through a loophole that allows anyone to convert a non-deductible IRA. Learn more at http://whitecoatinvestor.com/retirement-accounts/backdoor-roth-ira/.

A withdrawal from a Roth IRA (including both contributions and investment earnings) is completely income tax and penalty-free if (1) made at least five years after you first establish any Roth IRA, and (2) one of the following also applies:

- You have reached age 59½ by the time of the withdrawal.
- The withdrawal is made due to qualifying disability.
- The withdrawal is made for first-time homebuyer expenses ($10,000 lifetime limit).
- The withdrawal is made by your beneficiary or your estate after your death.

Withdrawals that meet these conditions are referred to as "qualified distributions." If the above conditions aren't met, any portion of a withdrawal that represents investment earnings will be subject to federal income tax and may also be subject to a 10 percent premature distribution tax if you are under age 59½.

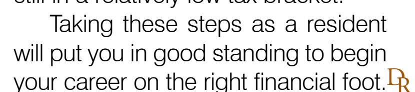
5. Have you considered using other retirement plans?

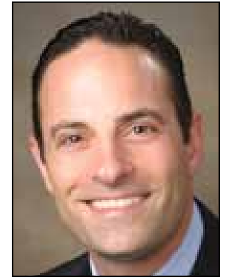
Your hospital may offer other retirement plans, such as a 401(k) or a 403(b).

As of 2012, you can contribute up to $17,000 per year to these plans to reduce your taxable income. This is likely the biggest tax break available to you as a resident. In addition, some plans provide a "match." This is basically free money to you. It's really part of your salary, but to get it you must contribute some money into the retirement account. A typical arrangement is for your employer to provide a 50 percent match up to 6 percent of your pay. So if you make $45,000 per year, and if you put $2,700 into the 403(b), the hospital will put $1,350 into the 403(b), in addition to the tax deduction (probably worth around $400) and possibly even a retirement tax credit of up to $100. All in all, that $2,700 contribution may be instantly worth $4,550.

Yes, you'll have to pay taxes on that money when you pull it out later, but deferring taxes can make you a lot of money in the meantime. However, since residents are probably in a lower tax bracket than they will be throughout their careers and probably even in retirement, you should give preference to a Roth IRA over a 403(b), at least after you collect the free money from the employer matching. IRAs often have much lower investment expenses and better investment choices as well. Many 401(k)s and 403(b)s also offer a Roth option, which you should probably take advantage of while in residency. Even if your residency doesn't offer a Roth option, you should consider converting the account to a Roth IRA the year you graduate when you're still in a relatively low tax bracket.

Taking these steps as a resident will put you in good standing to begin your career on the right financial foot.





Lawrence B. Keller, CLU, ChFC, CFP® is the founder of Physician Financial Services, a New York-based firm specializing in income protection and wealth accumulation strategies for physicians. He can be reached for questions or comments at (516) 677-6211 or by email to Lkeller@physicianfinancialservices.com.

Jim Dahle, MD is a practicing board-certified emergency physician and editor of the website www.whitecoatinvestor.com. He provides investment and personal finance information to physicians, dentists, residents, students, and other highly-educated, busy professionals. He can be reached for questions or comments by email at editor@whitecoatinvestor.com.

Articles in Directions in Residency represent the perspective of the individual author(s) and should not necessarily be construed as advice from the American Academy of Dermatology or the Resident/Fellows Committee.