Show Me the Money: Finance for the Physician

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Each one of us became a doctor with passion and fire in our hearts, with an aim to excel in one’s chosen field, bring a meaningful change in a patient’s life, and ultimately fulfil one’s dreams. A majority of us who were raised in hinterlands wish to own a house in a metro city, end up taking loans, or utilize a major chunk of precious savings. This satisfies most of us. But don’t we deserve better? Have we not flipped and mugged for more than a decade when everyone around us had already started earning and leading financially independent lives? Are we earning at par with our counterparts in the western world. The fact is that most of us are just living an average lifestyle. Not the one that we actually aspire to or deserve. The top of the lot who are working in the private and corporate sectors, are burning the midnight oil in pursuit of fame and name, and maybe jet-setting across hospitals and conferences. But are they able to spare enough time for themselves and their families? Why is there a financial ceiling for a doctor who sincerely wishes to maintain a work-life balance?

The answer and the secret lie in how we manage our hard-earned money. With our little financial knowledge and learning, most of us park it in savings accounts, and when a substantial corpus is built, we do a bank or company fixed deposit (FD) and renew it on maturity. Some of us make a bank recurring deposit or take a multi-option deposit (MOD) scheme. A MOD scheme allows the auto-transfer of funds over and above a minimum limit from a savings account into the MOD at a higher rate of interest. We also regularly invest in Public Provident Fund to a maximum of 1.5 lakhs a year, which gives a decent 7.1% tax-free return. Investment policies by life insurance companies are another option that we explore. Property as an investment and pensions are another option that we explore. The truth is that we lack the requisite financial knowledge. The mere mention of other ways to manage money gives us jitters. Teaching that was imparted to us in our alma mater was good enough to make money. But how to manage it was never taught. Personal finance was never a part of our curriculum.

The silver lining is that one need not have a very deep knowledge of the financial sector or devote significant hours digging out information from business channels and newspapers. Just a basic but sound knowledge, the right investment instrument, discipline, temperament, and patience would do. Learning and knowing about mutual funds, is the way forward.

National Pension System (NPS) is a good option for everyone. It is not exclusive to government employees. Activating tier-2 in NPS account is a simple process on the NPS portal: enps.nsdl.com. One must have a tier-1 NPS account to activate tier-2. NPS tier-2 is easy and works just like mutual funds, with no exit load and no additional maintenance expenses. One needs to choose a pension-fund-management company from the choices given. Either HDFC, ICICI, or SBI, the largest financial institutions in the country, is a good choice. It is then required to fix a desired percentage allotment in equity, corporate bonds, and government securities to a total of 100, as per one’s risk appetite. The equity portion (E), majorly invested in large-cap companies, gives growth. Corporate bonds (C) and government securities (G), covering the debt portion, provide stability from market volatility. A simple formula that may be followed is to keep the portion in debt equal to one’s age and allot the rest as equity, under active choice. For example, if one is 40 years of age, then one may opt as:

- Scheme C + G: 40% (may be divided equally between two)
- Scheme E: 60%

Investing directly in stocks is a process of buying and selling shares of stocks or companies listed on the stock exchange, and mutual funds do the same. The only difference is that here a group of financial experts (fund managers) do it on your behalf, and they, in turn, charge their professional fees in terms of the total expense ratio of the respective mutual fund. Investing directly in stocks can be risky and require constant know-how of changing market scenarios and company dynamics, with a sound knowledge of when to buy and, more importantly, when to sell. It’s an art that is not easy to master. Investment in mutual funds is more diversified, and if done in a systematic manner (systematic investment plan), it mitigates the risk considerably over a period of more than 10 years. Here the money may remain invested for as long as one wants without a fixed term or tenure, unlike an FD. Only on redemption one has to give tax on the capital gains accrued. One can go for a combination of better performing and rated flexi cap, large-cap index, and aggressive hybrid funds if one is a moderately aggressive investor. Multi-asset and balanced advantage funds hold good for conservative investors. Investment in mutual funds can be made through an investment agency (expenses are more)

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or directly by registering a folio with the respective asset management company. Performance tracking and transactions can be done through Computer Age Management Services (CAMS) and KFin Technologies, which are mutual fund transfer agencies.

After building an emergency corpus in the form of fixed deposit or debt mutual fund to cover expenses of 2-3 years, one should save and invest regularly in equity through mutual fund, to bring forth the magic of compounding. This way, the troika of liquidity of money when needed, returns beating inflation over the longer term, and tax efficiency on long-term capital gains is achieved. After all, it is never too late, and a good doctor can be a great wealth manager too. One may have started late, but there are still enough laps left to sprint and win.