

Who wants to be a millionaire?

AWS – FINANCIAL AND RETIREMENT PLANNING 10/26/2014

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Objectives

- Financial planning 101
- Managing student loans
- Identifying a financial planner
- Understanding insurance
- Protecting yourself
- Investing 101



Disclosures

None

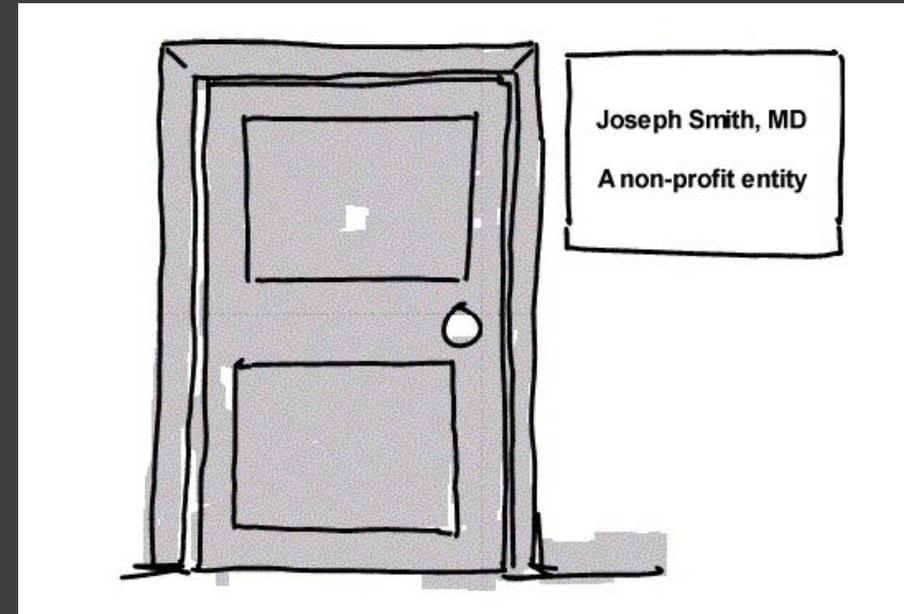


How to begin financial planning

- Calculate your value
 - Net worth
 - Expected physician net worth
- Create goals
 - Landmarks
 - Retirement
 - Paying for med school

Net Worth

- $\text{Assets} - \text{Liabilities} = \text{Net Worth}$



Expected Physician Net Worth (EPNW)

- $EPNW = \text{Salary} \times \text{Years in Practice} \times 0.3 - \$200,000$

Year	Salary	EPNW
0	\$250,000	-\$200,000
1	\$275,000	-\$117,500
2	\$300,000	-\$20,000
3	\$309,000	\$78,100
4	\$318,270	\$181,924
5	\$327,818	\$291,727
6	\$337,650	\$407,775
7	\$347,782	\$530,343
10	\$358,216	\$874,647
15	\$368,962	\$1,460,330
20	\$380,031	\$2,080,186
25	\$391,432	\$2,735,740
30	\$403,175	\$3,428,574

Barriers to accumulating wealth

- Education and wealth
- Business saavy
- Late start
- Status
- Financial professionals
- Charitable
- Busy

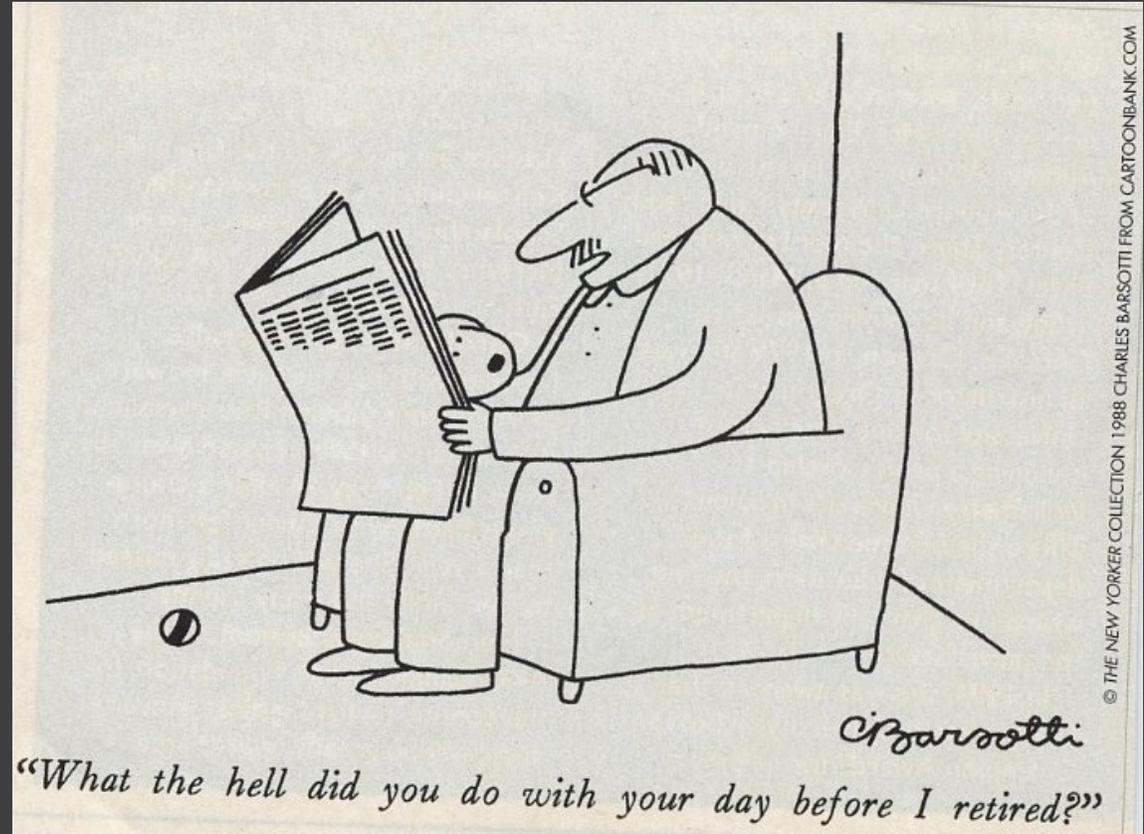


Retirement

- How much do you need to save?
- What variables factor in to the equation?
- What should your savings rate be?

Retirement Goals

- Millionaire?



Retirement

- Four Variables Control Retirement
 - Income
 - Savings Rate
 - Rate of Return
 - Compounding Time



Savings Rate

- Money put into Savings/Total Income = Savings Rate (%)



Most Important Factor

Method	Net Worth at 40
Saving 10%, Earning 4%	\$220,122
Saving 15%, Earning 4%	\$330,183
Saving 10%, Earning 8%	\$269,731

Rule of 72 – Rate of Return

- $72/\text{Interest rate} = \text{doubling time}$
 - Age 35 - \$17,500 in 401 (k)
 - Age 45 - \$35,000
 - Age 55 - \$70,000
 - Age 65 - \$140,000
- Inflation – 3%
 - Cost of living doubles every 24 years
- Age 25 - \$17,500 in 401 (k)
- Age 35 - \$35,000
- Age 45 - \$70,000
- Age 55 - \$140,000
- Age 65 - \$280,000

How much do you need to retire?

Item	Working Physician	Retired Physician
Working Income	\$300,000	\$0
Portfolio Income	\$0	\$155,000
SS Income	\$0	\$45,000
Total Income	\$300,000	\$200,000
Taxes	\$75,000	\$50,000
Retirement Savings	\$60,000	\$0
Mortgage	\$30,000	\$0
College Savings	\$15,000	\$0
Work Expenses	\$2,000	\$0
Children's Expenses	\$15,000	\$0
Life Insurance	\$2,000	\$0
Disability Insurance	\$3,000	\$0
Health Insurance and Health Care	\$7,500	\$15,000
HSA	\$6,400	\$0
Charity	\$30,000	\$30,000
Transportation	\$5,000	\$3,000
Travel	\$10,000	\$20,000
Other Expenses	\$39,100	\$82,000
Total Expenses	\$300,000	\$200,000

Retirement Portfolio Success Rates by Withdrawal Rate, Portfolio Composition, and Payout Period in Which Withdrawals are Adjusted for Inflation

Annualized Withdrawal Rate as a Percentage of Initial Portfolio Value										
<u>Payout Period</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>	<u>7%</u>	<u>8%</u>	<u>9%</u>	<u>10%</u>	<u>11%</u>	<u>12%</u>
100% Stocks										
15 Years	100%	100%	100%	94%	86%	76%	71%	64%	51%	46%
20 Years	100%	100%	92%	80%	72%	65%	52%	45%	38%	25%
25 Years	100%	100%	88%	75%	63%	50%	42%	33%	27%	17%
30 Years	100%	98%	80%	62%	55%	44%	33%	27%	15%	5%
75% Stocks/25% Bonds										
15 Years	100%	100%	100%	97%	87%	77%	70%	56%	47%	30%
20 Years	100%	100%	95%	80%	72%	60%	49%	31%	25%	11%
25 Years	100%	100%	87%	70%	58%	42%	43%	20%	10%	3%
30 Years	100%	100%	82%	60%	45%	35	13%	5%	0%	0%
50% Stocks/50% Bonds										
15 Years	100%	100%	100%	99%	84%	71%	61%	44%	34%	21%
20 Years	100%	100%	94%	80%	63%	43%	31%	23%	8%	6%
25 Years	100%	100%	83%	60%	42%	23%	13%	8%	7%	2%
30 Years	100%	96%	67%	51%	22%	9%	0%	0%	0%	0%
25% Stocks/75% Bonds										
15 Years	100%	100%	100%	99%	77%	58%	43%	34%	26%	13%
20 Years	100%	100%	82%	52%	26%	14%	9%	3%	0%	0%
25 Years	100%	95%	58%	32%	25%	15%	8%	7%	2%	2%
30 Years	100%	80%	31%	22%	7%	0%	0%	0%	0%	0%
100% Bonds										
15 Years	100%	100%	100%	81%	54%	37%	34%	27%	19%	10%
20 Years	100%	97%	65%	37%	29%	28%	17%	8%	2%	2%
25 Years	100%	62%	33%	23%	18%	8%	8%	2%	2%	0%
30 Years	84%	35%	22%	11%	2%	0%	0%	0%	0%	0%

Immediate Annuity

Age	Annuity Payout	Inflation Adjusted Annuity Payout	Life Expectancy
40	4.9%	2.77%	38 years
50	5.6%	3.47%	29 years
60	6.5%	4.49%	21 years
70	8.28%	6.38%	14 years
80	11.38%	9.6%	8 years

Financial Success as a Resident/Attending

- Create a budget
- Buying versus renting
- Insurance priorities
- Investment priorities

Budgeting tools

- [Mint.com](https://www.mint.com)
- [Youneedabudget.com](https://www.youneedabudget.com)

To buy or not to buy? - Resident

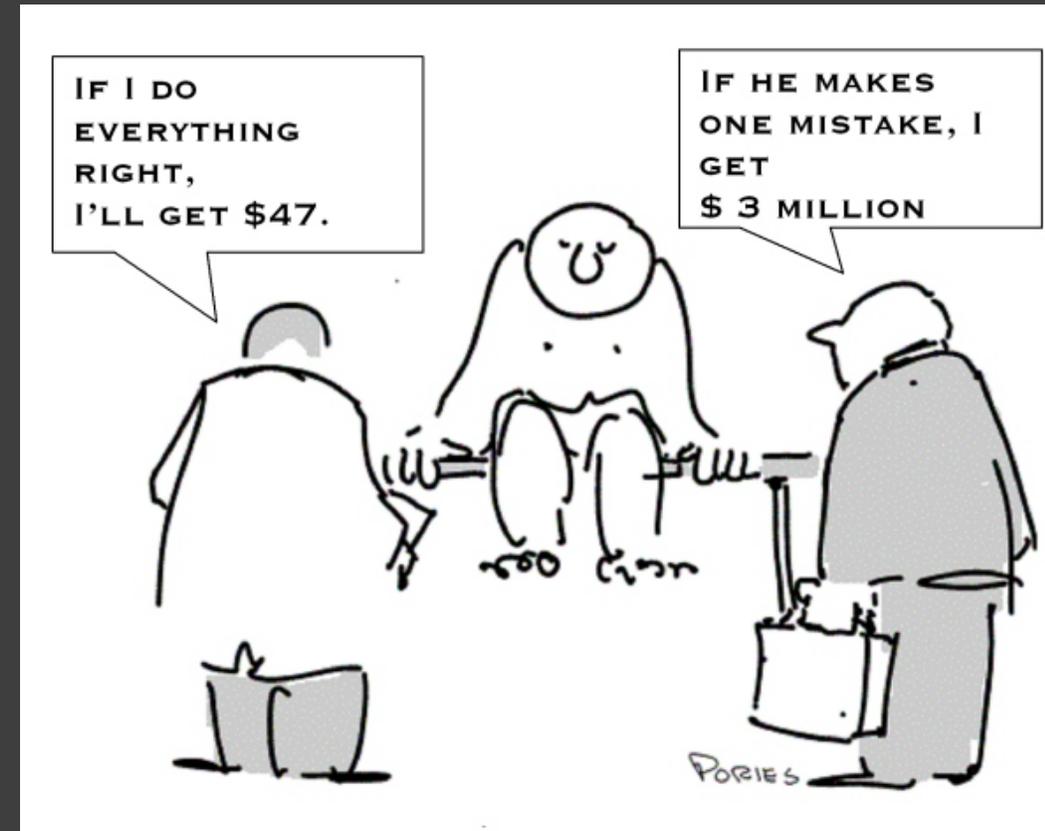
- Break-even period
- 20% down vs physician loans
- Tax breaks
 - Standard deduction - \$12,400 in 2014
 - Property tax \$3,400 - need to pay \$9,000/yr in interest before deductible
 - 4% interest rate = home of \$230,000
 - Monthly payment of \$1,392
 - Summary – need sum of \$15,000 in itemized deductions (25% of income)
 - Might provide 15% tax break – difference between \$15,000 and \$12,400 – results in \$500 tax break
- Home ownership is expensive
 - +5% to purchase
 - +10% to sell
 - +1-2%/year to maintain
- Time costs of home ownership

Housing Plan

- 1) Rent for 1-2 years
- 2) Use a physician loan
- 3) Buy a starter home

Insure against financial disaster

- Own-occupation disability insurance
- Life insurance
- Malpractice/liability
- Emergency fund



Disability Insurance

- Large, high-quality own-occupation
- Individual policy
- Good benefit - \$5,000/month
 - Costs 2-5% of benefit, \$1,200-2,000 per year
- Least expensive as resident
- Riders
 - Cost of living
 - Future purchase
 - Residual disability



“Oh, no, none of us in the insurance business are expected to know medicine, we just make the rules.”

Life Insurance

- Spouse or child
- 20-30 year term level-premium
- Compare rates: <http://term4sale.com>
- Resident - \$500K-1 million
- Attending - \$2-5 million
- Healthy 27-yo female \$1 million for \$400/year for 20 year, \$550/year for 30 years
- Significant chronic illness

Malpractice/Liability

- Employer covers malpractice
- Increase auto and homeowner/renters policies to \$300,000-\$500,000
- Umbrella policy – recommended limits of 1-5 million
 - Cost - \$200-700/year

Emergency Fund

- 3-6 months of living expenses
- Invest safely
 - Cash
 - Certificate of Deposit - CD

“Yes, we billed you \$8,500 for that CAT scan but that’s because you’re not insured. If you were covered, we would charge \$6,200”

Retirement Account Priority List for Residents

- 1) Roth 401(k)/403(b) up to the match provided by employer
- 2) Traditional 401(k)/403(b) if no Roth option up to the match provided by the employer
- 3) Roth IRA up to the limit of \$5,500 per year
- 4) Spousal Roth IRA up to the limit of \$5,500 per year
- 5) Roth 401(k)/403(b) up to the \$17,500 limit
- 6) Traditional 401(k)/403(b) (if not Roth option) up to the \$17,500 limit
- 7) 457 Account

Retirement Account Priority List for Residents

- Don't max out credit cards
- Don't get high-end car loans
- Don't get a large mortgage
- Get family on board



"Please help me congratulate Jim here for completing his residency. He will now go on to finish his training."

Investment Priorities as an Attending

- Live like a resident
- Prioritize
 - Saving for a down payment
 - Paying off student loans
 - Saving for retirement and other long term goals
- Buy financial freedom

Attending Investment Priorities

- Employer matched retirement plan
- Pay off high-interest debt (>8%)
- Maximize tax-deferred retirement contributions
- Fund a Health Savings Account if eligible
- Backdoor Roth IRAs – personal and spousal
- College savings plans – 529 for each child
- Pay off moderate-interest debt (4-8%)
- Save for a home down payment
- Refinance physician mortgage
- Additional college savings
- Invest in risky taxable accounts
 - stock index funds, real estate
- Pay off low-interest (1-3%) debt
- Extra mortgage payments
- Invest in low-risk taxable accounts
 - Municipal bond funds
- Spend your money

Example

- Salary - \$250,000, Student Loans - \$200,000, Taxes \$50,000
- Live on \$85,000 (50% increase from residency) – leaves \$115,000 to build wealth
 - Max \$17,500 to a 401(k)
 - \$11,000 to Roth IRAs
 - \$6,500 Health Savings Account
 - \$35,000 toward retirement
 - \$40,000 to student loans
 - \$40,000 for down payment on home
- Have student loans paid off, nest egg equal to or surpassing nonmedical peers, living in dream house, and debt free except 15-year fixed mortgage in 5 years of graduating residency

Student Loans



Student Loans

- Avoiding Loans
 - MD/PhD
 - Join the Military
 - National Health Service Corps (NHSC)
- Public Service Loan Forgiveness (PSLF)



Public Service Loan Forgiveness

- 1) Income based repayment program
- 2) Qualifying employer = 501(c) 3
- 3) Direct loans from federal government

- Example: Loan \$200,000 @ 6.8%
 - 10-year repayment @ \$2,302/month – **TOTAL \$276,240**
 - IBR @ \$300/month during 5 year residency
 - Full \$2,302 x 5 years – **TOTAL \$156,120**
 - IBR @ 300/month during 10 year residency - **TOTAL \$51,358**

Financial Planners



“Always give them a complete, very detailed financial report. It confuses them.”

Financial Planners

- Mutual fund salesman, stockbroker, insurance salesman
- Qualifications
- You get what you don't pay for
- How they get paid



“And let me assure you that our benefits package is based solely on scientific evidence.”

Planners adding value

- Creating a solid investing plan
- Eliminate asset management chores
- Protect you from yourself
- Professional on the case
- Access to institutional investments

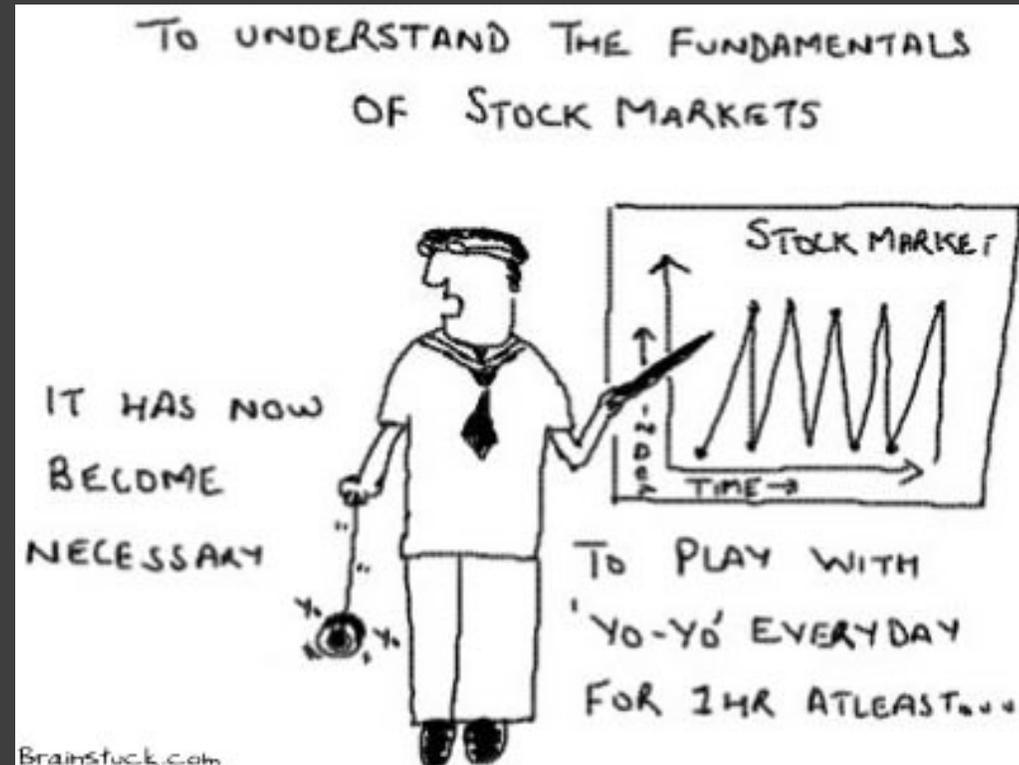


Criteria to look for

- Offers desired services
- Fee-only
- Fairly priced
- Top-Tier Designation
 - CFA – chartered financial analyst
 - CFP – certified financial planner
 - ChFC – Chartered financial consultation
- Gray Hair
- Knowledge of limitations
- Does not mix insuring with investing
- Physician-specific financial planning
- Access to institutional funds

Investing

- “Safe Investing”
- Designing your portfolio
- Real estate
- Planners
- Asset protection
- Estate planning
- Income tax



Definitions

- Stock
- Bond
- Real Estate
- Mutual Fund
- Exchange Traded Fund



Investing Tips

- Don't pick individual stocks
- Don't try to time the market
- Keep fees low
- Use index funds or ETFs with low fees



Don't mix insuring and investing

- Conflict of interests
- Whole Life



I know it sounds self-serving....it's supposed to be."

Designing a Portfolio

- <http://whitecoatinvestor.com/150-portfolios-better-than-yours/>
- Fixed Asset Allocation
 - How to
 - Diversification
 - Risk

Asset Protection

- Prevent asset loss
- Insure your assets
- Give away your assets
- Title your house properly
- Get married once



Estate Planning

- 1) Minimize estate taxes
- 2) Ensure your plans after death are carried out
- 3) Avoid probate

- Estate law changes frequently –
mostly this requires working with an attorney



Real Estate

- Cash flow benefit
- 4 ways to earn money
 - Appreciation
 - Tax break
 - Amortization
 - Cash flow
- Real estate is a second job
- Similar private investments can be very lucrative, weigh each carefully

Income Taxes - simplified

- Credit vs deduction
- Taxes = negotiation
- It pays to be aggressive
- Declare ALL of your income
- “audit triggers”
 - Home office
 - Business mileage
 - Large charitable donations



Income Taxes

- Get married
- Have Children
- Have a stay-at-home parent
- Buy a home with a mortgage
- Pay property and state income taxes
- Save for retirement
- Save for college
- Consume healthcare
- Spread your lifetime income over as many years as possible
- Invest for the long term
- Start a business
- Own rental property
- Give money to charity

Summary

- Physicians get a late start
- You can catch up
- Use your income
- Get the appropriate advice

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Questions?



“Well, thank you! Are there any other questions?”