

Financial Planning for Physicians

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Disclosures

I am not a financial planner

I am not getting paid to give this talk

This information is based on my personal research and is general advice for residents and trainees

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About me

Undergrad: Iowa State 2007-2010 – no debt upon graduation

Medical school: University of Iowa 2010-2014

- Total cost of medical school ~ \$200K, I took out loans to cover \$105K
- Married after first year of medical school

Residency: UIHC 2014-2017

- PGY-2 year: Ryan went back to school & transitioned from full time → part time employment
- Total student loans for Ryan between 2 bachelors degrees: ~\$80K

Work: Hospitalist at Methodist Hospital in Des Moines 2017-2019

No children

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Financial Pyramid



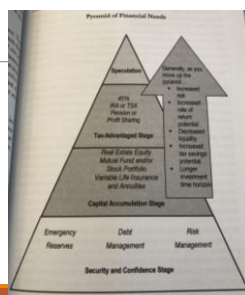
Source: <https://www.money.com.au/columns/the-priority-pyramid/>

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Another Pyramid

More specific to physicians

Emphasis on risk management, capital accumulation & tax advantages



Source: Real Life Financial Planning for the New Physician (book)

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Phase I Security & Confidence Stage

EMERGENCY FUNDS
DEBT MANAGEMENT
RISK MANAGEMENT

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Budgeting is important!

Monitor income
Track cash flow
Ensure savings goals are on target

20% of income should be used for savings/debt management

Suggested apps to monitor cash flow:



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Reverse Budgeting

Emphasizes savings goals and fixed expenses, remaining funds are discretionary income



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Emergency Funds

Essential for financial security & peace of mind
Unexpected expenses will come up – avoid using credit cards or loans
Suggested 3-6 months of monthly expenses
Liquid funds: savings account



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Debt Management

- Credit card debt
- Student loans
- Personal loans
- Car loans
- Money owed to family/friends
- Mortgage
- Others



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Debt Management

Spend less than you earn
Prioritize paying off high interest rate debt

- Once one debt is paid down, roll that payment into your next payment

Avoid high interest credit card debt

- Interest rates ~15-20%
- Negatively impacts credit score



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Student loan repayment options

- Income Driven Repayment Plans
 - Revised Pay As You Earn Payment Plan (REPAYE)
 - Pay As You Earn Payment Plan (PAYE)
 - Income Based Repayment Plan (IBR)
 - Income Contingent Repayment Plan (ICR)
- Defer payments
 - Verify eligibility criteria
 - Know which loans will accumulate interest
- Forbearance on payments
 - Less restrictive than a deferral
 - Subsidized and unsubsidized loans accrue interest
- Consolidation

Visit www.studentaid.gov for details



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Loan Forgiveness Options

- Public Service Loan Forgiveness
- Indian Health Service
- NIH Loan Forgiveness for researchers
- Employer based options
- Probably others

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Risk Management: Insurances

- Health, auto and homeowners/renter's insurance
- Life insurance
- Disability insurance
- Umbrella liability policy

(will discuss malpractice & tail insurance later)

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Life & Umbrella Insurance

How much should I have??

Life insurance – enough to repay any debts that will not be forgiven, funeral costs, and additional monies to support your family

- Depending on debts, \$250-\$500K

- Umbrella liability
- For high net worth individuals at risk of being sued
 - Personal liability coverage that goes beyond typical homeowners, renters or auto insurance
 - Protects your assets in case of lawsuits
 - ~ \$100/year for \$1 million in coverage
 - Addition to insurance policies you already have

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Disability Insurance

Provides income if disability prevents individual from working

Group vs personal policies

Own occupation vs any occupation

Riders:

- Cost of living adjustment
- Future purchase option
- Elimination period
- Gender neutral policy
- Maximum benefit period
- Guaranteed renewal / non-cancelable policy
- Others

Need to purchase through an insurance agent / financial advisor

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Phase II & III Capital Accumulation & Tax Advantages

- RENTING VS BUYING
- RETIREMENT PLANNING
- INVESTING – MUTUAL FUNDS, STOCKS & BONDS

GOAL: INCREASE NET WORTH

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Net Worth

Net Worth = Assets – Liabilities

Assets	Liabilities
Emergency Fund \$5,000	Student Loans \$170K
Checking account \$2,000	Vehicle Loan \$4,000
Roth IRA \$7,500	Credit Card \$1,500
Mutual Fund \$3,000	
Vehicle \$15,000	
Total assets: \$32,500	Total liabilities: \$175,500
Net Worth: \$32,500 - \$175,500 = -\$143,000	

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Renting vs buying a home

- Duration of training program
- Funds available for down payment?
- Ability to pay for routine maintenance / home repairs

Home value – suggested not more than 2-3x annual salary
 Resident salary: \$63K, maximum home value ~ 180-190K during residency

Home ownership – excellent long-term investment for capital accumulation

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Retirement Planning

- Essential to start saving during residency
- Compounding
- Pre-tax contributions vs post-tax contributions
- Penalty for early withdrawal (before 59.5 years)

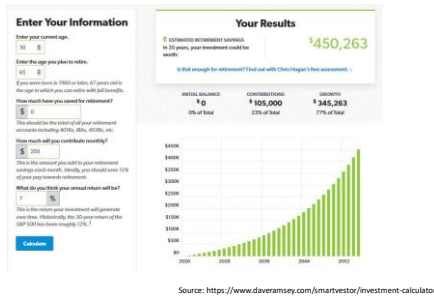
- Roth IRA – post-tax contribution
 - Pay taxes now (lower tax bracket)
 - Tax free withdrawal in retirement
- 401K/403B – pre-tax contributions
 - Tax free savings now (reduces taxable income)
 - Money taxed on withdrawal during retirement

Tax rate	Single filers	Married filing jointly*	Married filing separately	Head of household
10%	\$0 – \$9,700	\$0 – \$19,400	\$0 – \$9,700	\$0 – \$13,850
12%	\$9,701 – \$20,475	\$19,401 – \$39,850	\$9,701 – \$19,475	\$13,851 – \$20,450
22%	\$20,476 – \$84,200	\$39,851 – \$168,400	\$19,476 – \$84,200	\$20,451 – \$84,200
24%	\$84,201 – \$160,725	\$168,401 – \$321,450	\$84,201 – \$160,725	\$84,201 – \$160,700
32%	\$160,726 – \$204,100	\$321,451 – \$408,200	\$160,726 – \$204,100	\$160,701 – \$204,100
35%	\$204,101 – \$510,300	\$408,201 – \$1,020,600	\$204,101 – \$510,300	\$204,101 – \$510,300
37%	\$510,301 or more	\$1,020,601 or more	\$510,301 or more	\$510,301 or more

Source: <https://www.irs.gov/irb/2019-01/brackets>

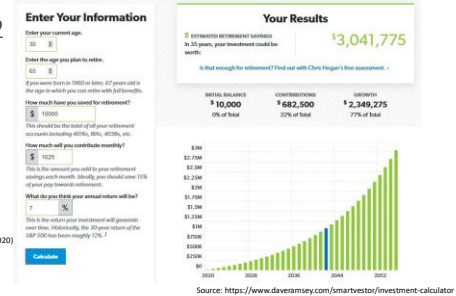
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Example 1



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Example 2



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Which company to use?

TIAA
 Non-profit
 Originally started in 1918 as a pension plan for teachers
 Everyone working at U Iowa is eligible
 Free financial advising
 Offices in Coralville
www.tiaa.org

VANGUARD
 Vanguard clients own the company
 Founded by Jack Bogle in 1974
 Expense ratio much lower → investors keep more money
 Financial advising available (minimum \$50K investment)
www.vanguard.com

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Definitions

Stocks	vs.	Bonds
An equity instrument carrying ownership interest.	Meaning	A debt instrument with a promise to pay back the money with interest.
Dividend	Return	Interest
No	Return Guarantee	Yes
Voting rights in the company	Additional Benefits	Preferential treatment when liquidated.

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Mutual Funds = one investment fund with a variety of individual stocks and bonds

Index funds = type of mutual fund with portfolio of stocks and bonds designed to mimic the financial market index
 Ex. Dow Jones, S&P 500

Active vs passive management
 Passive = less cost and possibly better performance

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General tips

- Make regular contributions regardless of the market being up or down
- Always invest in mutual funds (i.e. don't pick your own stocks)
- Don't pay too much in fees: max of 0.15%
- Invest in passively managed index funds
- Rebalance your portfolio annually, then leave it alone
- Don't sell stocks if the market crashes

Source: NPR Life kit Podcasts, Dec 2018
<https://www.npr.org/tags/797021180/life-kit-money>

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How to pick an investment fund?

- Investment horizon – short, mid or long term
- Willingness to accept risk
- Costs
- Hands-on vs hands-off approach

<https://investor.vanguard.com/investing/investment-products>

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Asset Allocation – DIVERSIFY!

Advice from David Swensen, manager of Yale University's \$30 billion endowment

- 30% in U.S. stocks
- 20% in domestic U.S. real estate
- 15% in U.S. Treasury bonds
- 15% U.S. Treasury Inflation Protected Securities
- 15% in developed country stocks
- 5% in emerging market stocks

Source: NPR Life kit Podcasts, Dec 2018
<https://www.npr.org/tags/797021180/life-kit-money>

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Miscellaneous Topics

- FINANCIAL ADVISORS
- TAIL AND MALPRACTICE INSURANCE
- HSA ACCOUNTS
- 529 COLLEGE ACCOUNTS
- CONTRACT REVIEW
- RESOURCES

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Financial Advisors

PROS

- Establish current financial position
- Debt management
- Retirement planning
- Tax planning
- Investments
- Insurance's
- Estate planning

CONS

- Is paying for financial advice necessary?
 - Personal finances aren't that hard
 - Learn as you go
- Will you re-coup the cost of the financial advisory fees?

Many financial advisors will not charge fees to medical students / residents

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Malpractice & Tail Insurance

Malpractice insurance

- Protects in the case of a lawsuit DURING current employment

Tail insurance

- Protects in the case of a lawsuit AFTER employment
- Can cost \$5-15K
- May be at your expense, depending on how long you've been employed
- Expectations about tail insurance will be in your contract

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Health Savings Account (HSA)

- Tax-advantaged savings plan for people with high-deductible health insurance plan
- Funds can roll over into the next year
- Funded by employer and/or employee
- Pay for qualified medical expenses

Different than an FSA (flexible saving account)

- Tax-advantaged account for medical expenses expenses and dependent childcare costs
- Funded by employee through payroll deductions
- All the funds need to be used within one calendar year

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529 College Savings Accounts

- Tax-advantaged accounts to cover education expenses
- K-12 and college/technical/apprenticeship programs
- 2 types: savings plans and pre-paid tuition plans
- Administered by individual states
- Tax free withdrawals if money used for educational expenses
- Contributions aren't tax-deductible for federal tax purposes, but states may provide a tax credit or deduction

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Contract Review

Office of Statewide Clinical Educational Programs

Reviews to ensure contract is reasonable, customary and competitive

Cost: ~ \$250

- Cost for an attorney review: ~\$75/page

Limited slots available per month, so contact OSCEP in advance

- (319) 335-8618 or oscep@uiowa.edu
- <https://medicine.uiowa.edu/oscep/community-service/contract-review-service>

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Resources



All large investing websites have excellent information

- Vanguard, TIAA, Fidelity, etc...

Blogs

- Physician specific:
 - The White Coat Investor
 - Physician on Fire
 - Many others

TIAA Advisor

Family members

Many others

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Thank you for your attention!

Please feel free to reach out at anytime

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