

Introduction to Essential Financial Literacy Topics for MDs

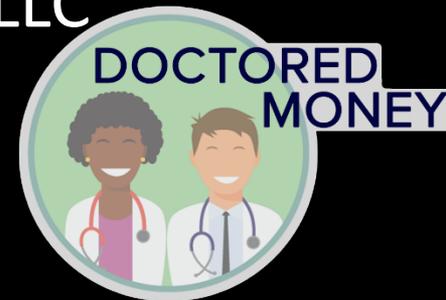
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Disclaimers

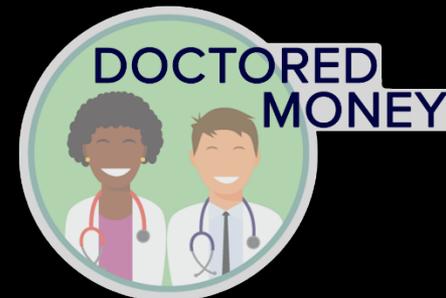
This is not financial advice, this is financial education.

As always, you must do your own due diligence.

DOCTORED MONEY does not know anything about your specific financial situation. You are responsible for figuring out which, if any, of the material in this talk is appropriate for you.

DOCTORED MONEY™

- A not-for-profit organization devoted to improving physician well-being and job satisfaction, through...
 - Lectures like these. We have given over 50 lectures to 3000 participants over the past 3 years
 - Website (DOCTORED MONEY.ORG) and questions sent to us through the site
 - Advocacy



Note, a copy of these slides are available now for
download:

DOCTORED MONEY.org/medicine

The site is mobile friendly. Go there now to follow
along or look ahead.

Slides are “text-heavy” for future reference

Please fill out our online feedback survey!

We would love your feedback. There are 12 or so very short questions related to the talk. All questions are OPTIONAL and anonymous. Answer only what you wish, and only what you have time for. Skip the annoying questions. Your time is very valuable. We rarely answer surveys ourselves, so we understand.

Did you feel the Financial Literacy lecture was worth your time to attend?

- Yes
 - Maybe
 - No
-

Would you take the time to attend another similar financial lecture on another topic, if conveniently available?

- Yes
 - Maybe
 - No
-

Agenda for Today

- How to conceptualize the dual role of a physician as:
 - 1) “healer” with an obligation to patients and society and
 - 2) a business/job/career
- You have less to spend than you think you do
- Introduction to 6 basic but critical financial topics absolutely need to know

Why are you getting this talk?

- MDs spend lots of time in school, get our first “real” job very late in life. Have no “real world” money experience, and it is financial “sink or swim” after residency/fellowship. We did not get any financial education during medical school.
- Many of us have a lot of debt, which makes our salaries an “illusion”, i.e. that money has already been spent. This leads to bad decisions because we think we make more than we really do.
- We have a compressed earning career (long training times)

Why are you getting this talk?

- Investment advisors (who are usually just salespeople) know (assume) we have a high salary, and they know we know very little about money and investing. We choose poorly when hiring someone to help us with money. We pay way too much for advice, and the advice is usually very very bad.
- MDs are trusting in general, and assume that financial professionals have the MD's best interests in mind. Usually NOT TRUE.
- You HAVE to have a minimum amount of education in order to avoid being taken advantage of.

Why are you getting this talk?

- You are self-employed. You invested time/money (with substantial personal sacrifice and much more to come) to develop a skill which will compensate you, financially and personally.
- Although making \$\$ is not why (most of us) went into medicine, the more dollars we get to keep of what we earn, the better we feel about our profession, the better our quality of life, and the more likely we'll continue to work hard for our patients.
- If you not feel your job was worth the investment, your mood/morale will suffer. Your family will suffer. And your patients will suffer.
- By re-calibrating your expectations, and learning to make prudent financial decisions, you will maximize your “compensation”, which will lead to increased career satisfaction, which is good for you, and good for society.

#1) Minimize your fees

- Your personal return (total \$\$\$) = investment return – fees
 - This is just math
 - You can't control your investment return (this is unknown)
 - You CAN control your fees
 - All investments have a fee
 - Learn where to find the fee for all investments you are considering
- Best way to minimize most fees?
 - Invest in low-fee mutual funds
 - Avoid unnecessary advisor fees whenever possible

Minimize your fees, continued

- Retirement investing requires investing in stocks
- The best way to invest in stocks is through mutual funds and or “ETFs”
- Mutual funds have fees
- “Index”, “passive” and other similar low-fee mutual funds do better due to 1) lower fees and 2) better investment “decisions”

#2) Only buy “term” life insurance

- The only life insurance you should own is “term life insurance”.
 - Avoid any/all “permanent” life insurance, such as whole life, universal life, indexed life, convertible life.
 - Seriously.
 - Pay attention. You just saved hundreds of thousands of dollars.

Insurance, continued

- Do not mix insurance and investing during your “accumulation” phase.
- An “annuity” is another type of insurance/investment hybrid. These are expensive, and you almost certainly don’t need one while saving for retirement.
- One exception, possibly, is the TIAA “Traditional Annuity”.

#3) You aren't saving enough for retirement

- You have to save more than you realize
 - You likely need to save at least 20% of your salary to have any meaningful “retirement”
 - In order to know if you are saving enough, you need to define “retirement”
 - If an attending MD, you must max out your 401k+457b+Roth IRA (18.5k+18.5k+5.5k = 42.5k)
 - You'll need a minimum of 25x to 30x your desired retirement spending if you want to retire at 65.
 - E.g. If you are used to living on \$200,000 per year, you need \$5,000,000 to retire.

Retirement savings, continued

- Retirement is not the day you stop working
 - Retirement is the day you could stop working if you wanted to
 - You have the power to move this date earlier
 - Even if you choose to keep working, knowing you COULD stop at any time is a wonderful, powerful feeling
 - This is what you are “buying” when you put away for retirement

Please calculate your AFTER-TAX, AFTER-LOAN, AFTER-SAVINGS “take home” future salaries!

Don't wait until later to “budget”. Be prepared.

Salary	IRS	NYS/NYC	SS/Med	Total Tax	After-Tax
\$100,000	\$15,410	\$9,138	\$6,650	\$31,198	\$68,802
\$150,000	\$27,410	\$14,233	\$10,136	\$51,779	\$98,221
\$200,000	\$41,850	\$19,308	\$10,861	\$72,019	\$127,981
\$250,000	\$59,440	\$24,468	\$11,586	\$95,494	\$154,506
\$300,000	\$77,390	\$29,693	\$12,311	\$119,394	\$180,606
\$350,000	\$95,340	\$34,918	\$13,036	\$143,294	\$206,706
\$400,000	\$113,290	\$40,143	\$13,761	\$167,194	\$232,806

Example

- \$250,000 salary → \$150,000 after tax
- You'll need at LEAST \$32,000 for retirement investing (taking into account tax deductions)
- That's \$118,000 / year or about \$10,000 month you can spend.
- If you have loans and are on an IDR plan, loans will cost you about \$1800/month.
- So now spending is \$8000/month with loans
- THIS IS NOT NEARLY AS MUCH AS YOU THINK!

#4) The financial industry is not on your side

- You should be highly skeptical of financial advisors and other financial professionals
 - They only make money by taking it from you, and in general their cost to you far exceeds their value to you.
- “Act as if every broker, insurance salesman, mutual fund salesperson, and financial advisor you encounter is a hardened criminal, and stick to low-cost index funds, and you’ll do just fine.”
- “Most investment advisors can’t invest their way out of a paper bag.”
- Sadly, it’s true. 😞

Homework:

Read “If You Can...” by Bill Bernstein

(It’s free at www.DOCTOREDMMONEY.org and
you can read it in 20 minutes)

Financial professionals, continued

- Most financial advisors work on commission or as a percentage of your assets “AUM” (or both).
- Commission-based advisors represent a conflict-of-interest to be avoided
- AUM advisors are expensive
- Advisors typically “sell” you investment management, which is relatively easy, at high rates
- “Financial planning”, however, is harder and most advisors don’t really offer it

#5) Retirement investing is *easy*

- By simply choosing a “Target Date” mutual fund for all of your investments, you will likely do better than 90% of all investors in the US.
- These are now universally available, and are a series of mutual funds with a range of future dates
- Pick the fund with a date at which you’ll turn 60ish, for each of your investment accounts (401k, Roth IRA, etc)
- That’s it. You’ll never need to do anything else if you don’t feel like it.

Retirement investing, continued

- You can make incremental improvements to a Target Date fund by moving to a “3-fund portfolio”
- A 3-fund portfolio consists of 1) US-based mutual fund, 2) International mutual fund, 3) Bond mutual fund
- Improvements are due to 1) slightly lower fees, 2) more efficient tax placement
- You probably don't need to consider moving to a 3-fund portfolio until you are maxing out your 403b/457b+Roth IRA, and/or have \$200,000+ invested.

#6 Public Service Loan Forgiveness

- 50% of residents are hoping for or expecting PSLF
- It is no longer good advice to tell young MDs to “aggressively pay off your debt!”
- Instead, that money should go towards tax-deductible retirement investing, if one has any possibility for future forgiveness (which is 80% of residents with loans).

- For those with substantial Federal Student Loans. You NEED to completely understand Public Service Loan Forgiveness (PSLF) and assume that you will receive it if you work in an eligible job!
- PSLF will pay off any remaining federal student loan debt after 10 years of “qualifying payments” on “qualifying loans” made while working in a “qualified job”.
- Do not be scared about any political uncertainty. No one has ever proposed eliminating PSLF for anyone with existing loans. It’s likely not even legal.

PSLF continued...

- You should be making payments under an “Income-Driven” based repayment plan NOW
- These include: PAYE, REPAYE, IBR
- Everyone with federal loans is eligible for REPAYE and IBR
- Most of you are eligible for PAYE
- Your choice should always be between REPAYE and PAYE if eligible for PAYE, and if not, then between REPAYE and IBR
- Remember, “Income” is actually “Adjusted Gross Income”

PSLF: REPAYE vs PAYE

- Key points
 - Almost all of you with loans (not married) should sign up for the REPAYE plan now
 - Switch to the PAYE plan (maybe) when your income jumps after residency/fellowship or before marriage
 - If you are married now, or getting married soon, consider filing as “married filing separately” to minimize your payments and maximize forgiveness (only PAYE allows this)

PSLF: Other issues

If you have money to save/invest and are on an income-driven repayment plan, deductible 403b contributions will lower your payments, and increase forgiveness

(If you don't have loans, investing in a Roth IRA or Roth-403b option is better than deductible 403b contributions)

PSLF: Other issues

Make sure you take advantage of the medical flexible spending account, commuter transportation benefit, dependent care spending account, etc (if eligible) as these will also further lower your payments and maximize forgiveness

PSLF: REPAYE vs PAYE Comparison

Sample charts and graphs

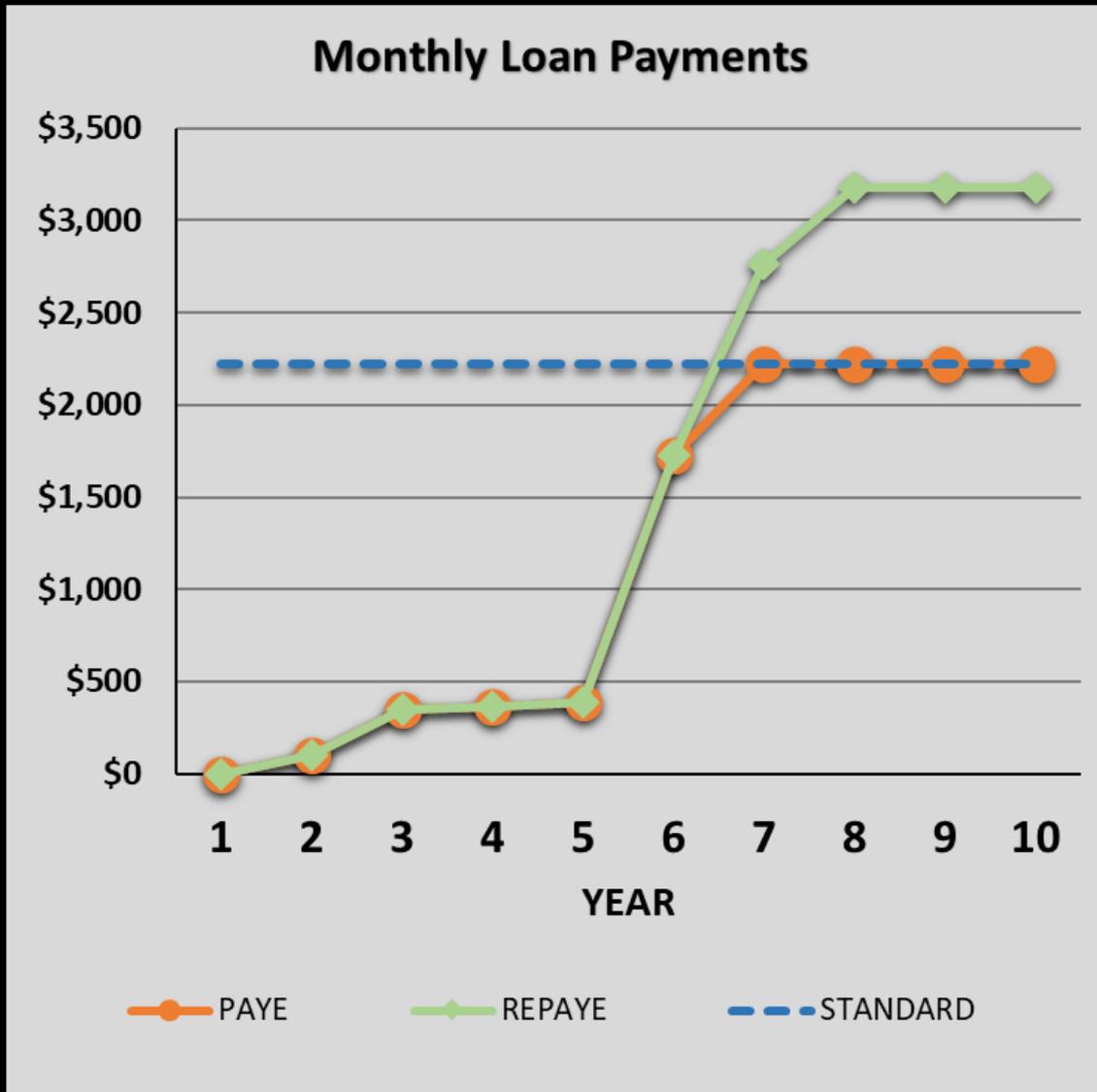
Assuming \$200,000 loans at 6%

PSLF: REPAYE vs PAYE

(\$200,000 loans, 6%)

		Monthly Payments				
YEAR	YOUR AGI	STANDARD 10-YEAR	PAYE	REPAYE	REPAYE ANNUAL SUBSIDY	REPAYE EFFECTIVE INTEREST RATE
1	\$0	\$2,220	\$0	\$0	\$6,000	3.00%
2	\$30,000	\$2,220	\$99	\$99	\$5,405	3.30%
3	\$60,000	\$2,220	\$349	\$349	\$3,905	4.05%
4	\$62,000	\$2,220	\$366	\$366	\$3,805	4.10%
5	\$65,000	\$2,220	\$391	\$391	\$3,655	4.17%
6	\$225,000	\$2,220	\$1,724	\$1,724	\$0	6.00%
7	\$350,000	\$2,220	\$2,220	\$2,766	\$0	6.00%
8	\$400,000	\$2,220	\$2,220	\$3,183	\$0	6.00%
9	\$400,000	\$2,220	\$2,220	\$3,183	\$0	6.00%
10	\$400,000	\$2,220	\$2,220	\$3,183	\$0	6.00%

PSLF: REPAYE vs PAYE



We have TOOLS!

FREE
Calculator, the
only one of its
kind

IDR PAYMENT and CAP CALCULATOR

Inputs

Loan balance:	\$200,000
Interest rate:	6.00%
Income:	\$85,000
Family Size:	1

Monthly Payments

"Old" IBR:	\$835
PAYE and "New" IBR:	\$557
REPAYE:	\$557

PAYE and IBR Cap

Your cap amount is:	\$2,220
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PFH Threshold (Income Needed to Reach Cap)

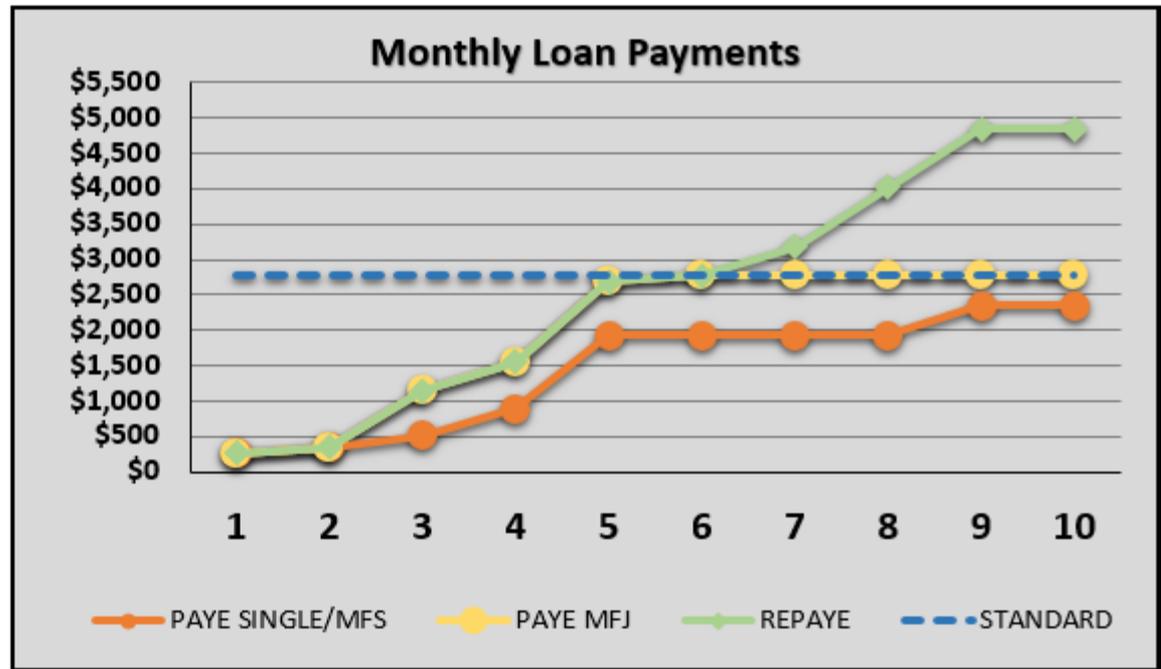
"Old" IBR:	\$195,843
PAYE and "New" IBR	\$284,659

Loan Forgiveness Maximizer

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Loan Type	Amount	Rate
Subsidized	\$0	5.00%
Unsubsidized	\$250,000	6.00%
Family Size	1	
Total	\$250,000	6.00%

YEAR	YOUR AGI	SPOUSE AGI
1	\$50,000	\$0
2	\$60,000	\$0
3	\$80,000	\$75,000
4	\$125,000	\$80,000
5	\$250,000	\$90,000
6	\$250,000	\$100,000
7	\$250,000	\$150,000
8	\$250,000	\$250,000
9	\$300,000	\$300,000
10	\$300,000	\$300,000



<https://www.doctoredmoney.org/tools-and-calculators/>

Random additional thoughts

- If you need life insurance (married? kids?), employer provided life insurance is not enough (only \$100,000). If you are healthy, it's much cheaper to purchase your own policy (term-life insurance only!) rather than purchase extra through your employer.
- You are mentors, to medical students and to your colleagues. Mentorship which does not include financial mentorship is incomplete.
- Extra money: Invest or pay down mortgage or loans? Very hard question. Our rule of thumb is to max out all retirement accounts (401k, 457b, backdoor Roth) first. Then pay off any loans over 7%. It is OK not to pay off the mortgage early. It is OK to hold only low-interest student loans. However, it is never "wrong" to pay down debt! This is partly a psychological issue
- If you are eligible for, but not taking advantage of the "backdoor" Roth IRA, the system has failed you. Research this today! Note, almost all of you are eligible for Roth IRA contributions via the indirect aka backdoor method.
- If aiming for PSLF, make sure you are on the right payment plan. If married, make sure you explore the potential benefits of filing taxes separately.

Future Talks?

Insurance: Disability, Life, Umbrella

Basic Investing Principles: Stocks vs Bonds,
Asset Allocation, Fees

Retirement Accounts: IRAs, 403b/401k, 457b

Employment Contracts, Job Interviews, Negotiations

Compensation methods, the “business” of
medicine

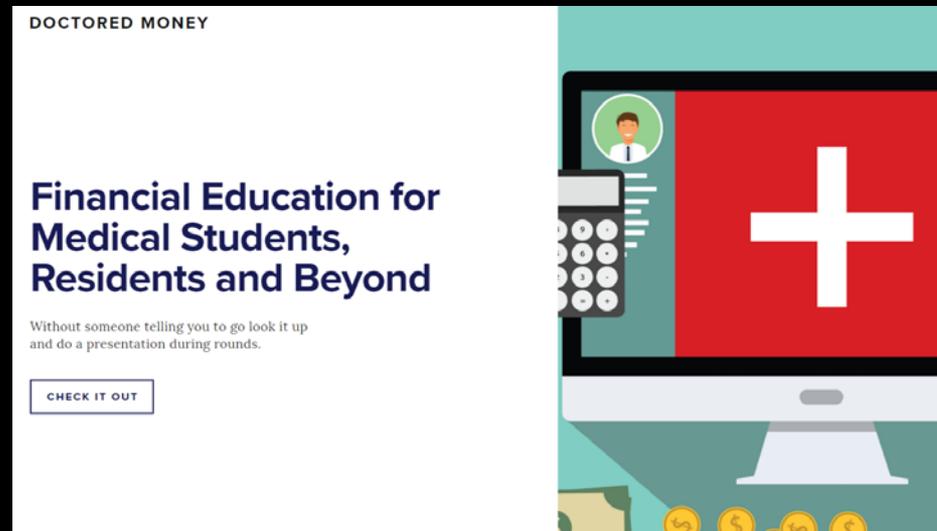
We can use help!

Convinced? Interested? Get involved.

- Research collaborations
- Financial lectures
- MENTORSHIP!!
- Advocacy in the medical school, hospital, GME, professional organizations, national meetings, etc.

Remember, go to:
DOCTORED.MONEY.ORG/medicine

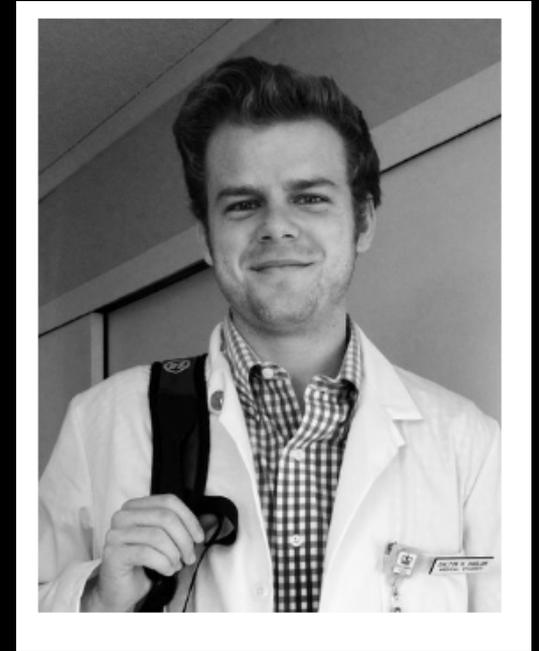
Please share our site and help us with our mission to
empower young MDs!



I must acknowledge...

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Thank you!

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