Introduction to Financial Literacy

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Goals for Today

To introduce you to the following topics/points:

- What is “retirement”
- What do I need to save for retirement
- Retirement accounts (IRA, 401k, 403b, etc)
- Student Loans and Loan Forgiveness

What is retirement?
Why save for retirement?

- Retirement is NOT the day you stop working
- Retirement begins the day you CHOOSE to work because you WANT to, and not because you HAVE to
- You may love your job, and feel you'll work forever. But you may not feel the same way 30 (or even 5) years from now!

How much do I need to save before I can retire?

- This answer relies on the following variables:
  - At what age will you die?
  - How much do you want to spend during retirement?
  - At what age do you want to retire?
  - What will your money earn during retirement?
  - How certain do you want to be that you won't spend all of your money prior to dying?
  - What will your social security benefits be?
  - How much will you spend in taxes during retirement?

- From these values, we can find your "number"
- When you reach your number, you can retire! ☺

A Retirement Rule of Thumb

- You can retire when you have accumulated 25 times the amount you need/want to live on each year.

- For example, if you want to retire and spend $125,000 each year, you need about $3,000,000+.

How do I get there?

You MUST invest in stocks (mostly) and bonds (some) in order to have any meaningful period during your life in which you don't have to work.

You must take advantage of these "tax-friendly" retirement plans:

401k/403b and Roth IRAs.

Retirement Accounts Available to you

- Now:
  - Roth IRA (not employer based)
  - 403b (NYPH-based)

- Possible future accounts:
  - 401k/401a (basically the same as a 403b)
  - 457 (kinda like a 401k but with important differences)
  - Other random accounts we don’t have time to talk about

Roth IRA

- Anyone is eligible if they have a job
- Limit is $6000/year per person (but you can put in $6000 for your non-working spouse too)
- Not tax-deduction when you put money in
- ALL contributions can be removed tax and penalty free at any time, for any reason

Roth IRA

- At age 60, all money which come out is always tax free (generally), including earnings
- If your income is more than a certain limit ($118k/$186k), you cannot make a direct contribution
- If above the income limits, you must contribute via a “backdoor Roth”, which is just a two-step method. Everyone here NEEDS to know about and invest via a “backdoor Roth” at some point.

403(b)/401(k)

- Always through an employer
- Money contribute only through payroll, and contributions are deducted from your taxable income (e.g. you get a tax deduction)
- Yearly limit is $19,000

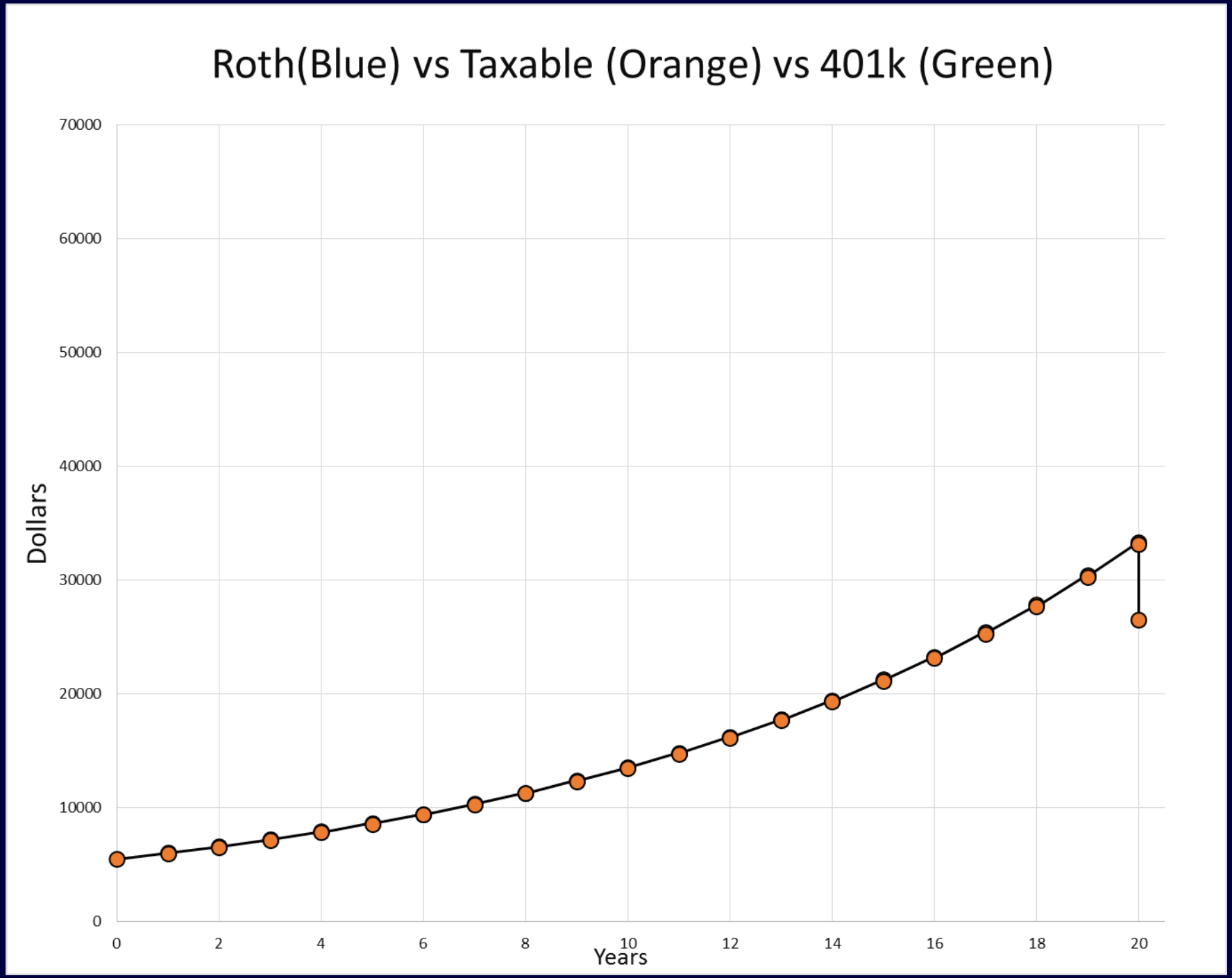
403(b)/401(k)

- Some plans have a “Roth option” too
- Withdrawals after age 59 (and when not working) come out penalty free, but withdrawals are taxed like regular income
- 10% extra tax if money taken out “early” (prior to age 60)
- Mandatory withdrawals (aka “RMDs”) start after age 70.

Which retirement plans to use?

- Resident/fellow level salary in NYC?
  - Hoping for PSLF → 403b
  - Not planning for PSLF → Roth IRA
    - Already filling up Roth IRA? Great → 403b
- Salary over $170,00?
  - Max out 403b first
    - But you SHOULD also be maxing out a Roth IRA TOO!!
      - Via “backdoor” method

Example of a $10,000 contribution (Tax-free vs tax deductible, e.g. Roth vs. 401k)


Roth(Blue) vs Taxable (Orange) vs 401k (Green)
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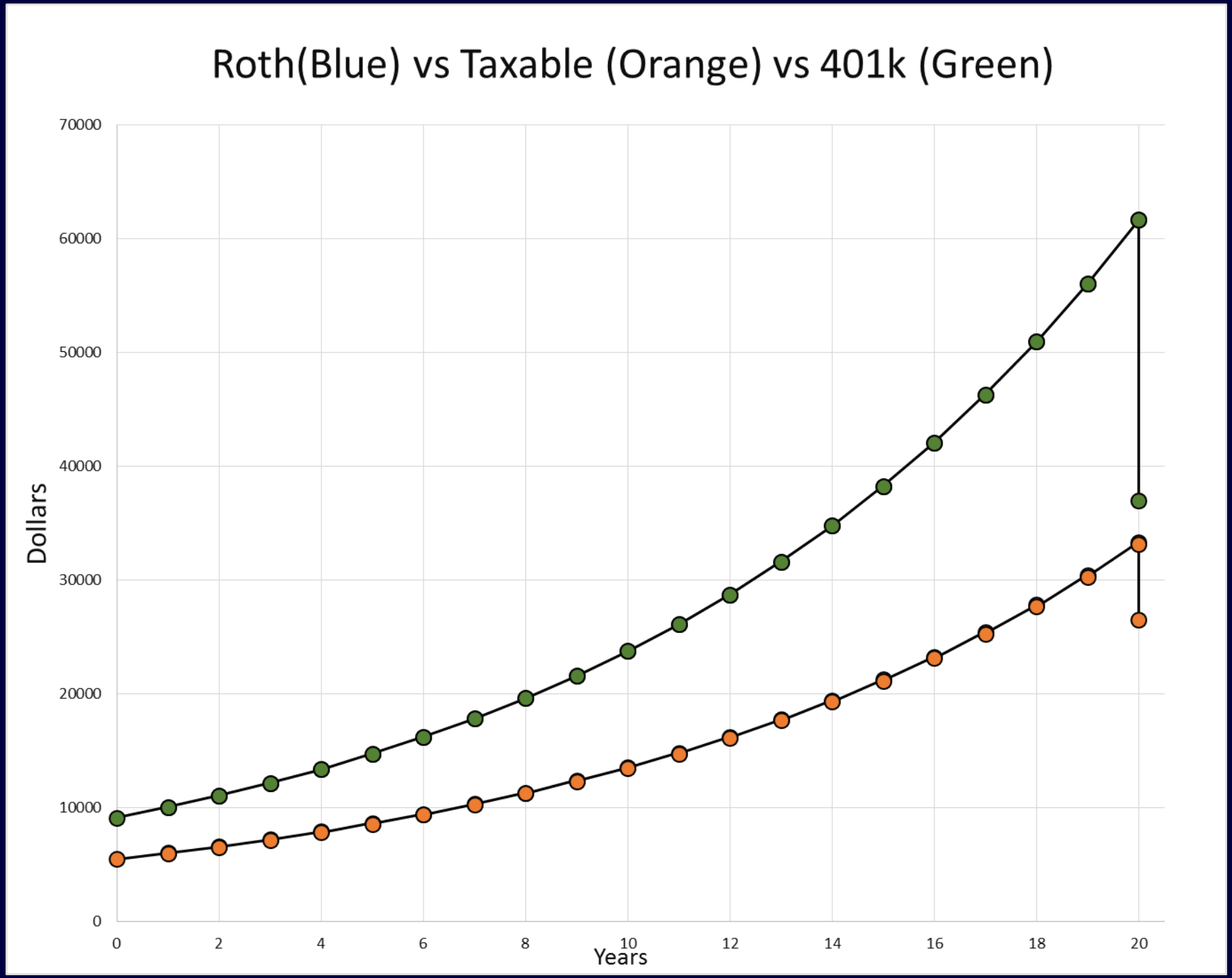
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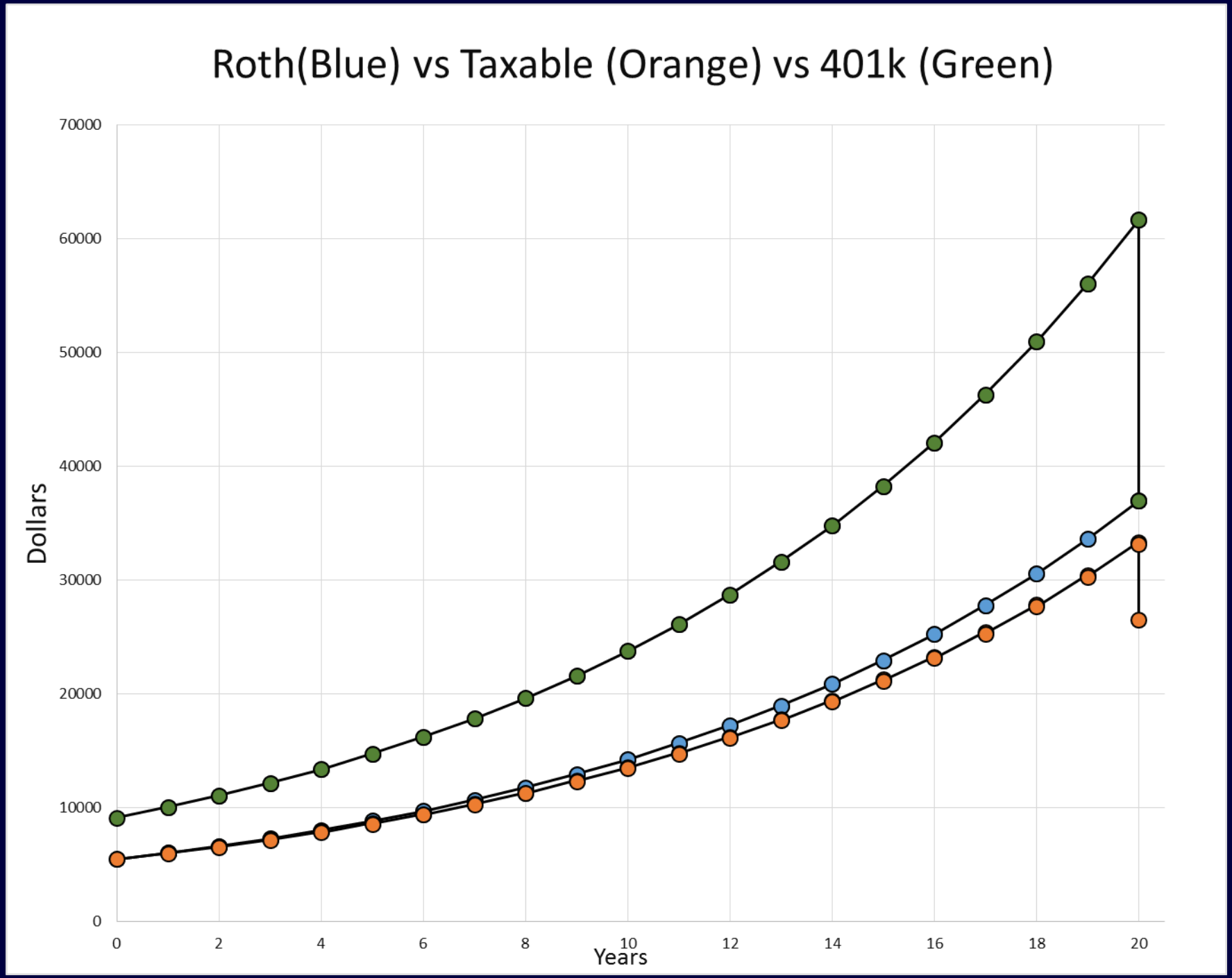
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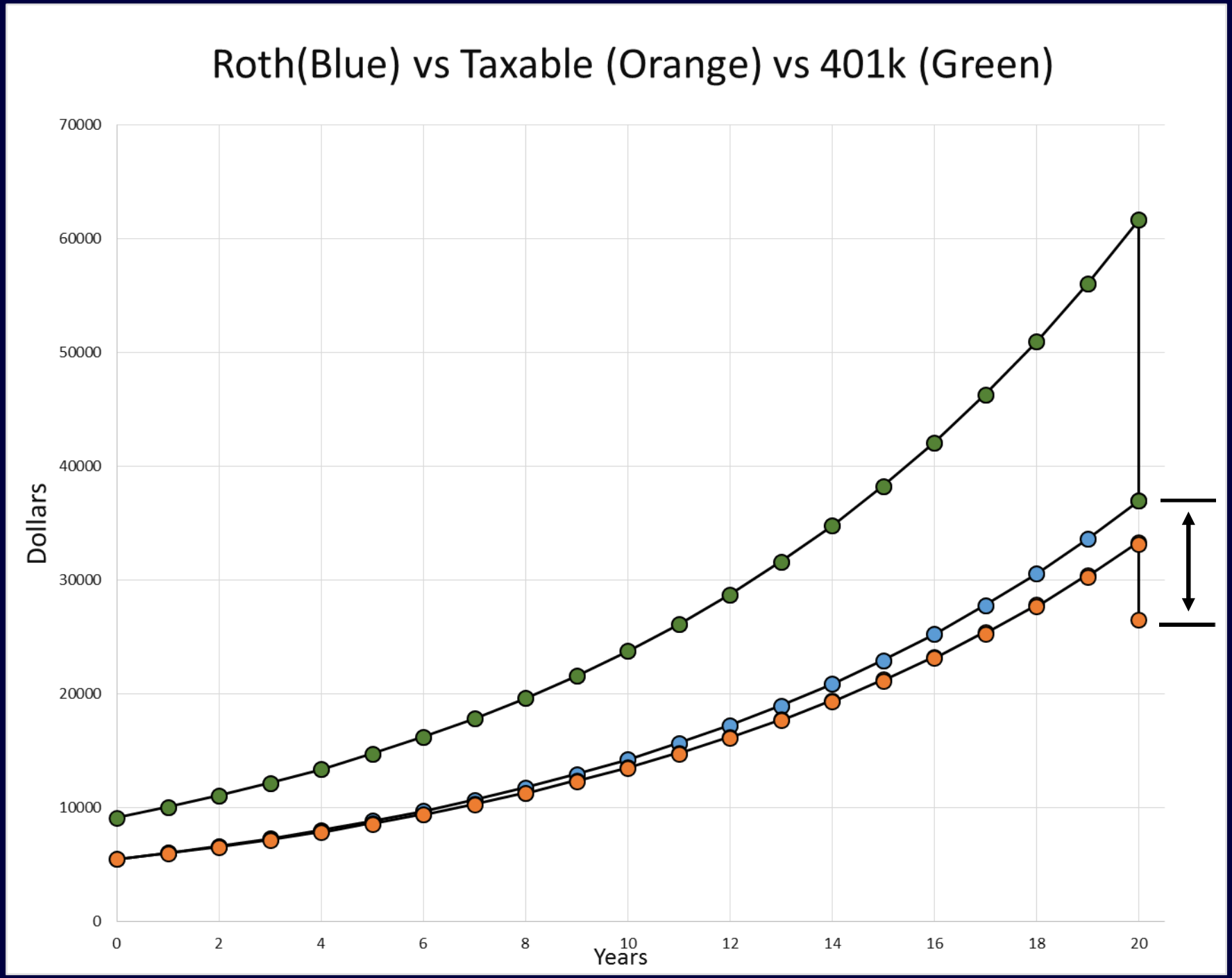
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What to invest in?

- Retirement accounts will generally be used to hold stocks and bonds in the form of mutual funds.
- What is a stock? What is a bond?

More Details: Retirement Investing

Requires investing in stocks.

-what is a stock?

Requires investing in bonds.

-what is a bond?

You invest in stocks (and usually bonds) via a mutual fund or ETF.

-what is a mutual fund?

Stocks vs Bonds

- Stocks represent ownership in a company. You share in the profits.
- Bonds represent money you lend to a company or government entity.
- By definition, stocks will always make more than bonds over long periods of time.

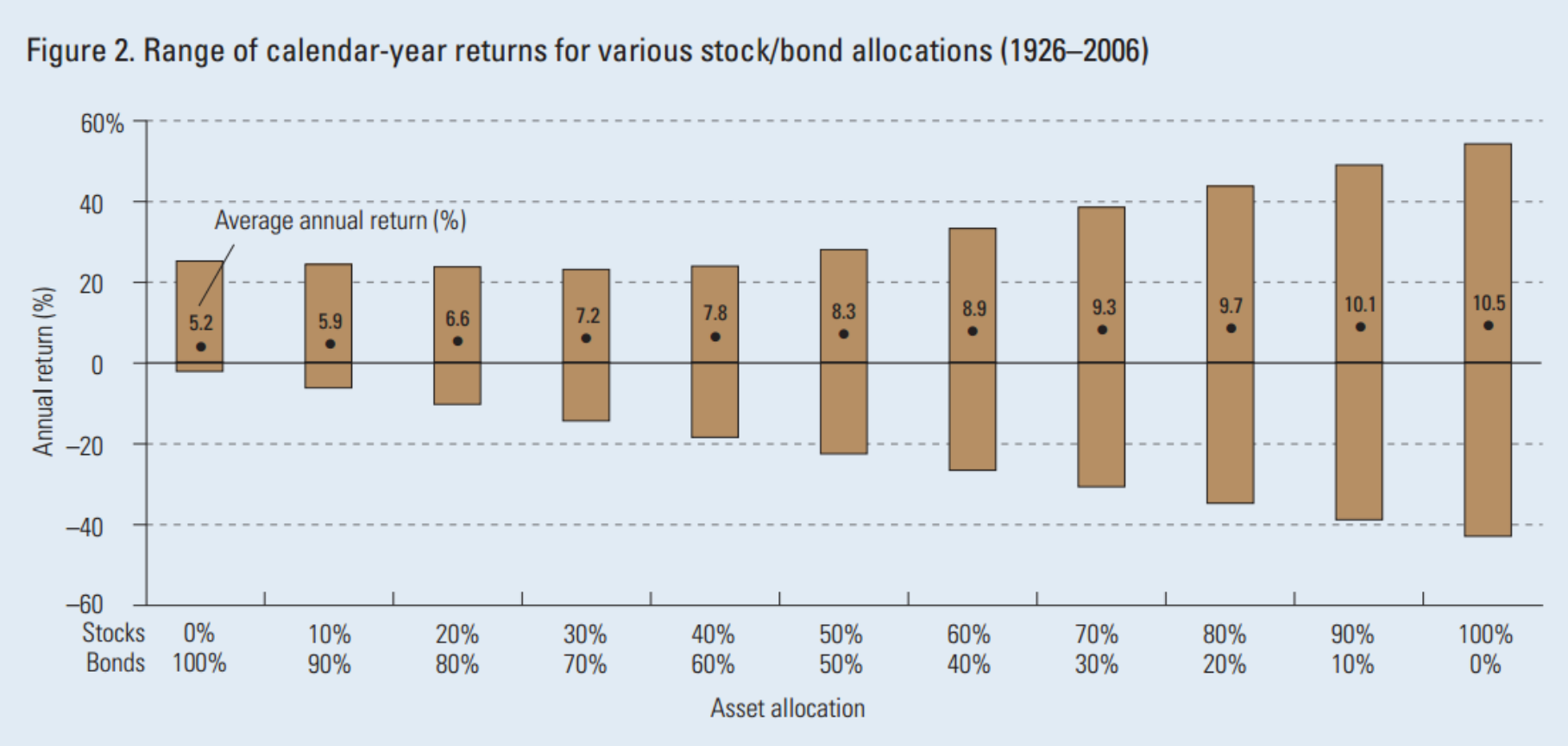
What if I don't feel comfortable investing in stocks?

- A 30 something who wishes to retire at age 65 and live on $125,000 a year until age 90 needs to save:
  - $168,000 per YEAR in a savings account

    or
  - $24,000 per year if 100% stocks*

*It is not prudent to invest in all stocks

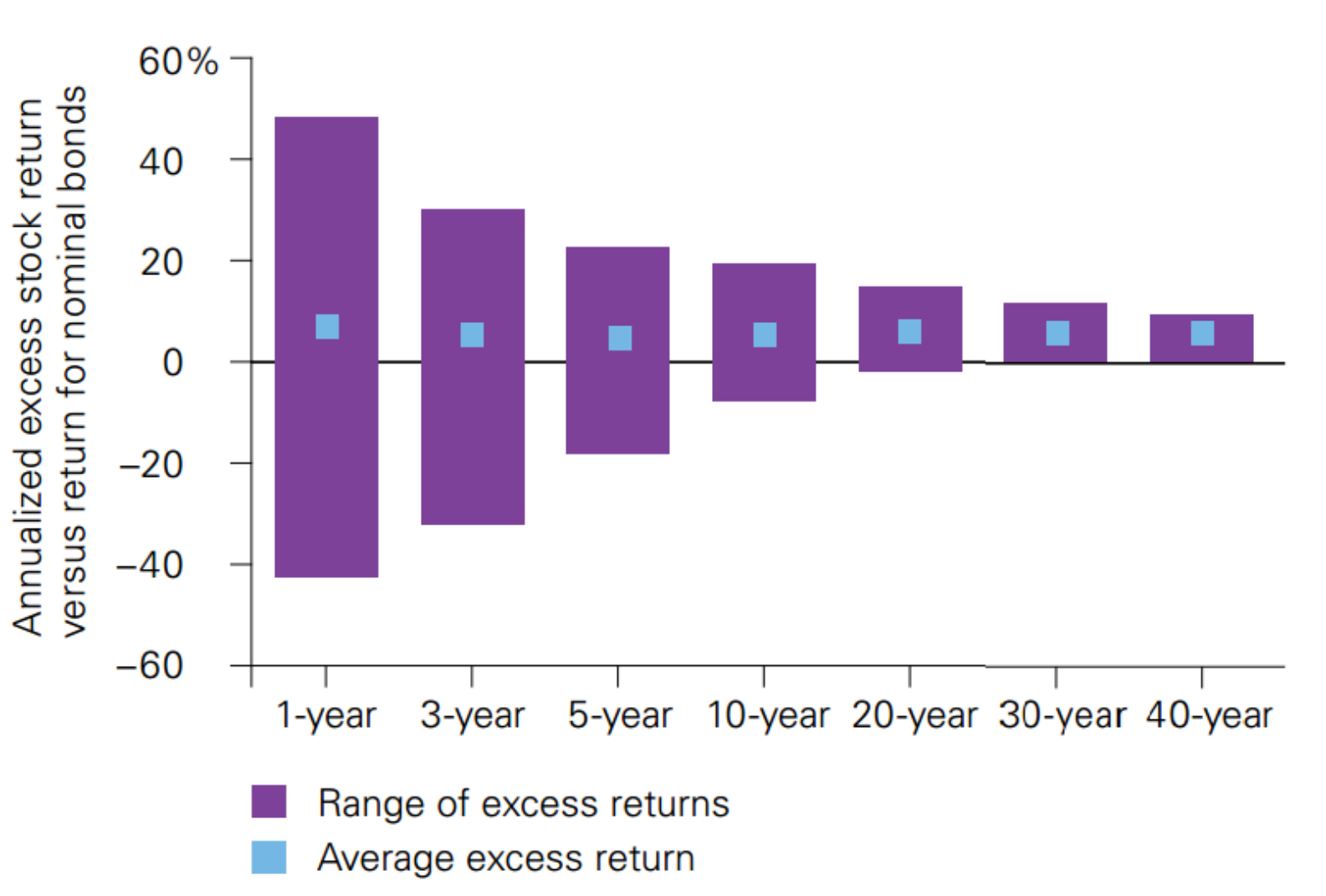
Adding bonds to a Portfolio is a MUST in order to reduce volatility and/or risk



Adding bonds to a Portfolio is a MUST in order to reduce volatility and/or risk

Be prepared to lose up to 40% of your retirement account balances at least twice in your lifetimes

The longer one can be invested in stocks, the less “risky” they can be

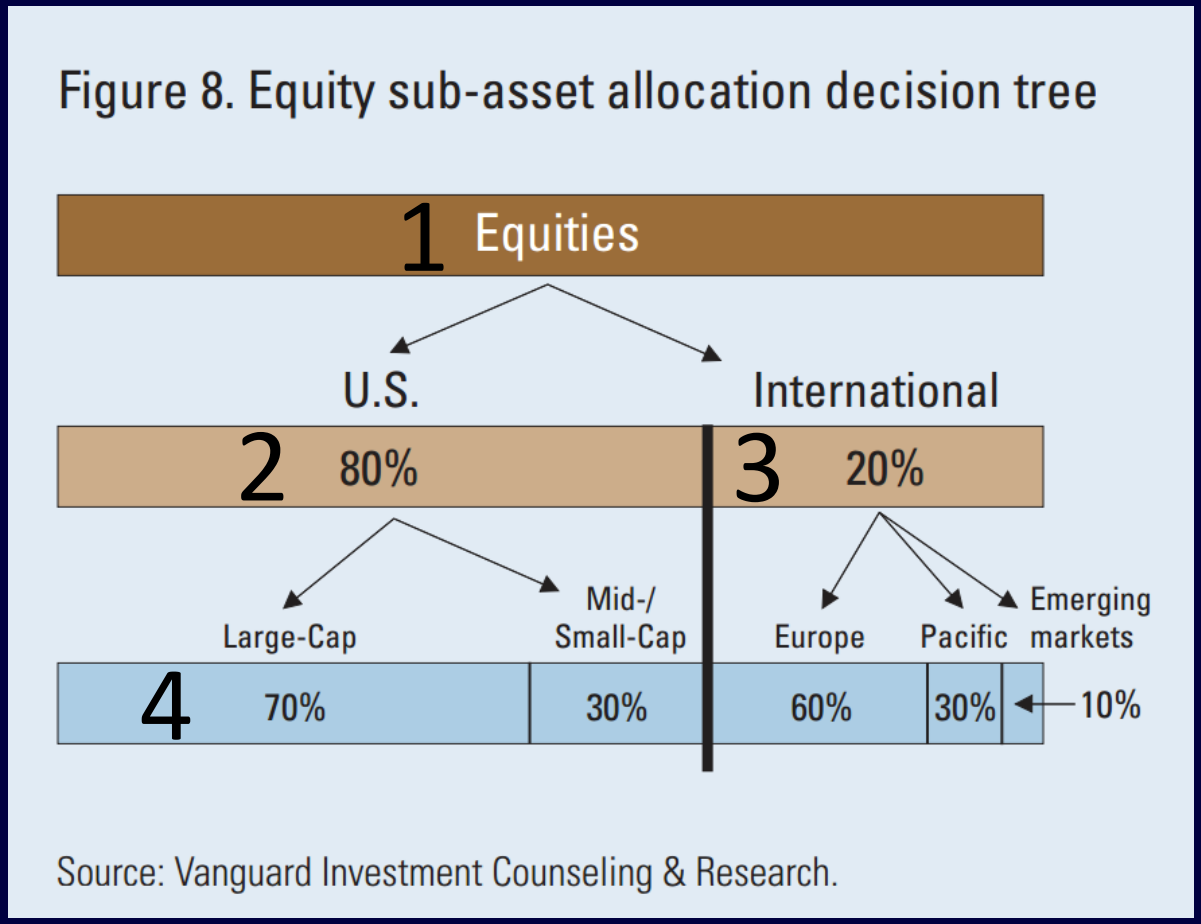


If these represent stocks of individual companies:

This is a mutual fund

These are also mutual funds:

There are mutual funds which invest in each of these asset classes



1. Total World Stock Index Fund

2. Total Stock Market Index Fund

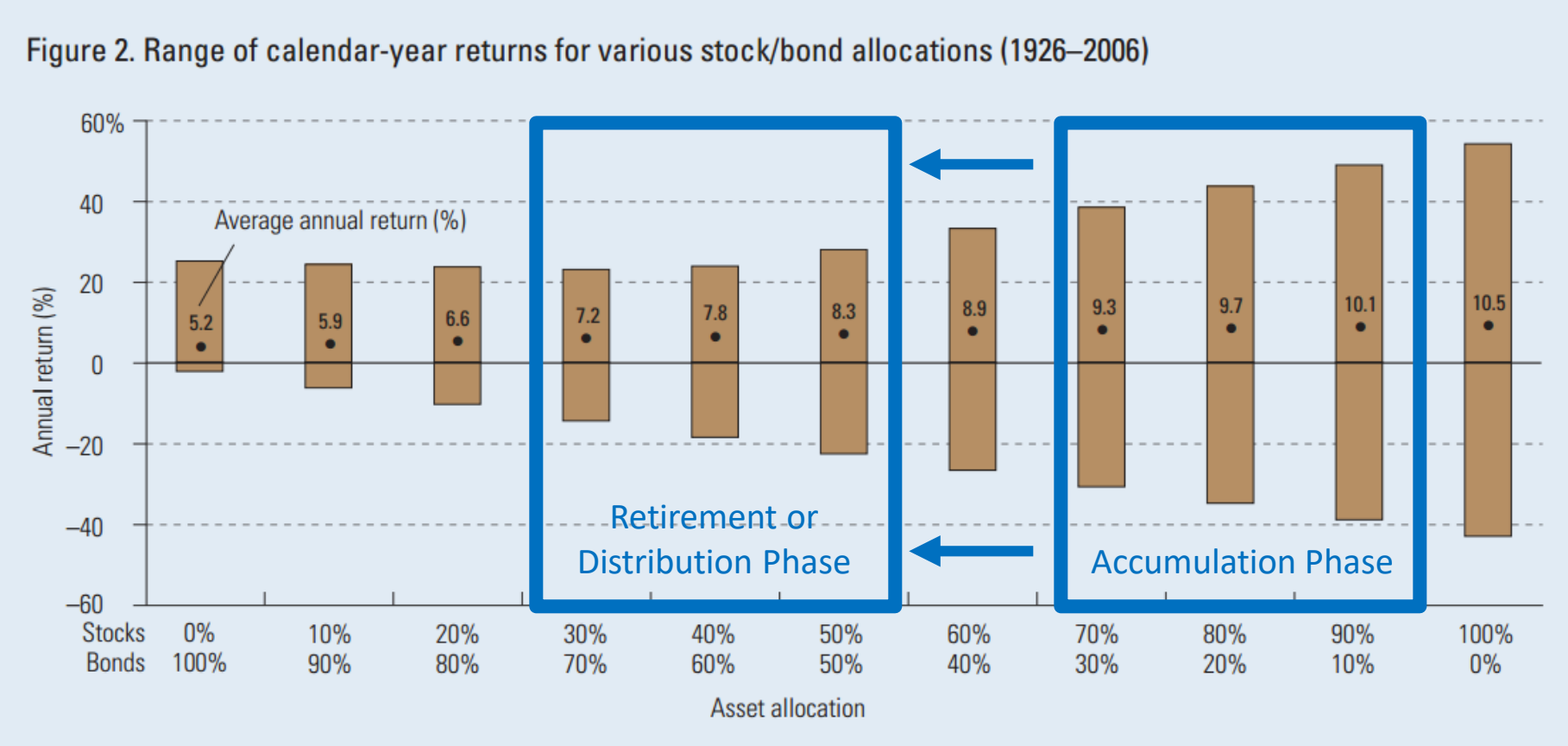
3. Total International Index Fund

4. SP500 Index Fund (and others)

Etc, etc, etc….

A Similar framework exists for Bond investments (i.e. a Total Bond Fund, or smaller divisions)

Rule of Thumb: less bonds (more risk) early in life, then "glide" toward more bonds (less risk) later



“Target Date Mutual Funds”

- All-in-one funds designed to be your only investment
- They now exist in just about every 401k/403b
- 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.
- If you have to ask whether a Target Date fund is right for you, that’s what you choose until you can figure out whether it’s right for you.

Choose low-fee mutual funds

Choose low-fee mutual funds: Examples from the NYPH 403b

Choose low-fee mutual funds: Examples from the NYPH 403b

Name	Fee (%)
Vanguard Institutional Target Retirement 2010	0.09
Vanguard Institutional Target Retirement 2015	0.09
Vanguard Institutional Target Retirement 2020	0.10
Vanguard Institutional Target Retirement 2025	0.10
Vanguard Institutional Target Retirement 2030	0.10
Vanguard Institutional Target Retirement 2035	0.10
Vanguard Institutional Target Retirement 2040	0.10

Name	Fee (%)
American Funds EuroPacific Gr R6	0.50
Vanguard FTSE All-World ex-US Index I	0.10
DFA Emerging Markets Core Equity I	0.53

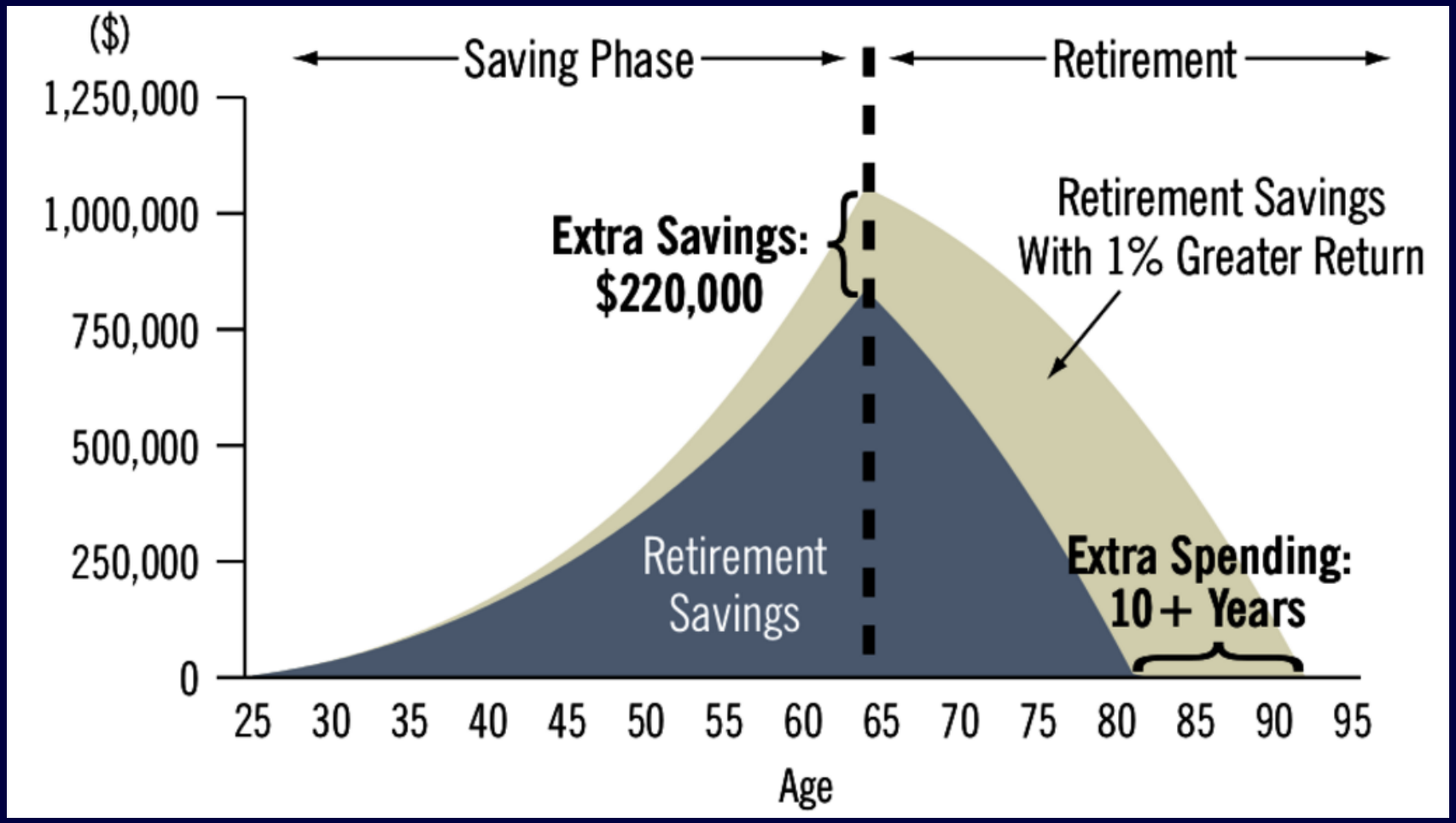
The deadly impact of fees to your retirement dreams

- Some of you may need $5,000,000 to retire
- You pay an advisor 1%/year in order to help you get there
- He puts you in mutual funds with 0.5% fee
- You invest $80,000/year for 30 years, which earns 6%
- You will indeed have $5,082,178 in 30 years. Hooray!

The deadly impact of fees to your retirement dreams

- You have $5,000,000
- You paid the mutual fund company $630,000
- You paid your advisor $1,200,000
- They have 40% of your money.
- And this is just the “accumulation phase”.

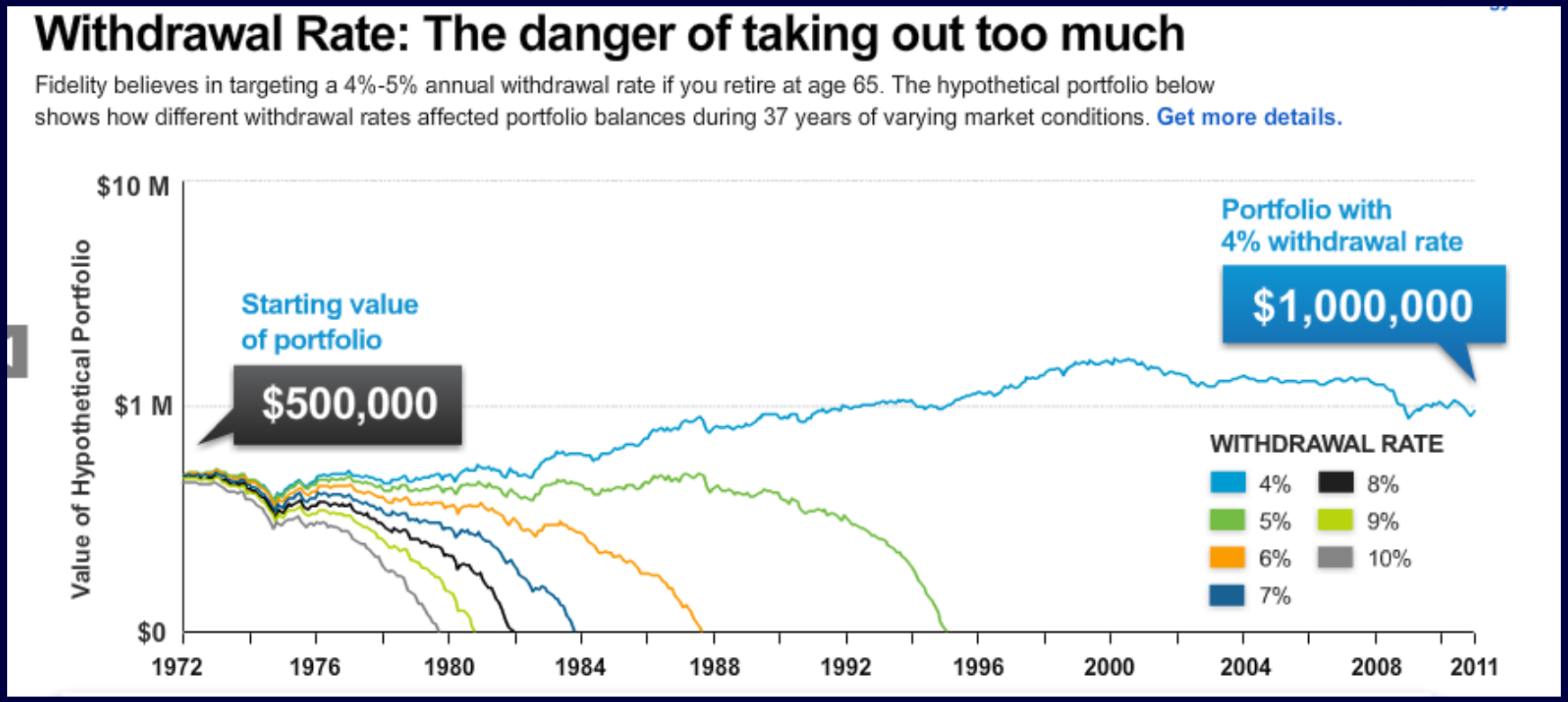
The deadly impact of fees to your retirement dreams



The deadly impact of fees to your retirement dreams

- If you pay an advisor 1% throughout your lifetime, you can expect to pay him/her $4,000,000 in lost fees.

The “safe withdrawal rate” concept



Various action items spanning multiple lectures

- Research PSLF if you have federal loans!!
- Never mix investing and insurance (term life insurance only)
- Minimize fees by:
  - Using low-cost index funds
  - Avoiding advisors fees
- If you don’t know if a Target Date fund is for you, choose a Target Date fund

Random additional points

- Research the “Backdoor” Roth IRA for when you are an attending

- NO child college savings (e.g. 529) until YOUR loans are 100% paid off

Questions?

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