

Introduction to Financial Literacy for Incoming Housestaff

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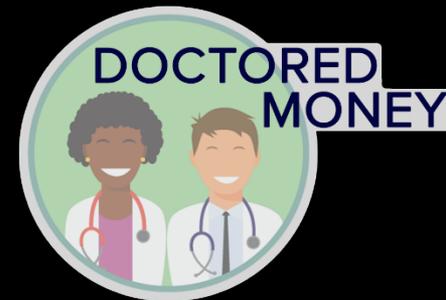
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“Improving Physician Wellness through Financial Education”

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Note, a pdf copy of these slides are available for viewing at:

www.DOCTORED MONEY.org/nyp

You can go there right now on your phone to follow along.

Also, PLEASE note the link to our survey and complete it before you leave today. It will take you no more than 30 seconds

Disclaimers

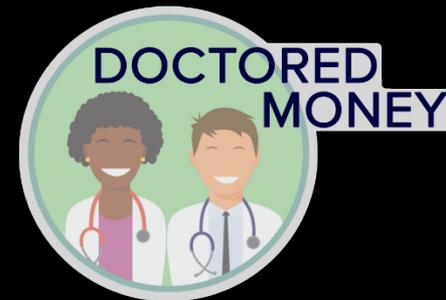
This is not financial advice, this is financial education.

As always, you must do your own due diligence.

Neither DOCTORED MONEY nor NYPH nor Columbia/Cornell 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 (free) lectures to 3000 participants over the past 3 years
 - Website (DOCTORED MONEY.ORG) and questions sent to us through the site
 - Advocacy



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
- IRS, New York, and NYC taxes for interns (and how this affects your budget)
- Public Service Loan Forgiveness
- Introduction to 5 additional “critical” financial topics you’ll need at some point throughout your life (if we have time, but we probably won’t)

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.

Taxes and Your Budget

- You will pay several different taxes on your income
- How much?
- Social Security: 6.2%
- Medicare: 1.45%
- Federal Income Tax. ???
- New York State and NYC. ???

For 2018 you'll have only 6 months income...

PGY-1 Salary: $\$71,250 / 2 = \$35,625$

Social Security: $\$2,209$

Medicare: $\$517$

Federal/IRS: $\$2,645$

NYS/NYC: $\$2,394$

Total Tax: $\$7,765$

You can "spend": $\$27,860$ of it

In 2019 your income will double, but your taxes will more than double...

PGY-1 Salary: \$71,250

Social Security: \$4,418

Medicare: \$1,033

Federal/IRS: \$8,975

NYS/NYC: \$6,018

Total Tax: \$20,444

You can spend: \$50,500.

This is the amount you'll have to live on during residency each year.

Now that you know your taxes, you can begin to create a budget.

How many of you already estimated your taxes, and used this to set a budget?

Seriously? How did you select housing if you don't know your budget?

(Don't forget the cost of health insurance)

Have federal student loans? This may be the most important slide you see today

- None of you are officially employed right now
- Your salary is thus, zero.
- If you were to sign up for an income-driven repayment plan, your payments for the next 12 months would be zero
- These 12 months count towards PSLF
- Your future forgiveness will be much larger
- If you have not already done so... (see next slide)

APPLY TODAY FOR A DIRECT LOAN CONSOLIDATION

- This waves your grace period and payments begin immediately
- You'll be asked to certify your income. You have none. Your payments will be zero for the next year.
- This may save some of you up to \$150,000 in loan payments, for those with large balances

Loan consolidation, practical details

- Read more about consolidation at studentaid.ed.gov, and consolidate at studentloans.gov
- Get more info on our blog post called “10 critical financial items...” posted on May 30th
- You’ll need to choose a payment plan. Single? Select “REPAYE”. Married with spousal income? That’s complicated, you might want “PAYE” (or “IBR” if not eligible for PAYE). Research on our website. More info later in this talk if there is time.
- Beware! Some types of loans with special features (such as Perkins, or LDS loans) will lose those features upon consolidation. Usually PSLF is a better deal IF you end up qualifying.

Back to budgeting, with loans...

- If you have any loans, you NEED to be making payments ASAP for PSLF
 - If you already started payments, your payments are likely “zero”.
 - If not, minimum payments will be about \$440/month, and you can deduct \$2200 in interest (\$2500 is the max) if you make 5 months of payments x \$440
 - Will lower your Federal taxes by about \$260

Income-Driven Plan:

Payment progression (PAYE or REPAYE)

- PGY-1: \$0 or \$440. Depends on when you first certified your income. Verified by paystubs, so no salary = no payments OR paystubs show an annual income of \$71,250
- PGY-2: \$150 (based on one-half year income as per your 2018 tax forms).
- PGY-3: About \$500 (based on a full year of income during 2019)

Don't forget about this tax break

- If you paid any medical school tuition (via loans or otherwise) during the 2018 calendar years, you can take the “Lifetime Learning Credit”
 - Worth up to \$2000
 - Do not take the “American Opportunity Credit” (is undergraduate only) or the deduction for tuition fees. You want a credit, not a deduction.
- Consider finding out from now whether your Jan-December tuition was paid in 2017, or 2018

Or this tax break

- Student loan interest paid during 2018 is deductible on your taxes, up to \$2500
- If you consolidate in 2018, the unpaid interest will be added to the principal of the new loan and counts as interest “paid”
- So be sure to take this into account on your 2018 taxes (can save you \$800 in taxes)

Moving expenses?

- Sorry, no longer deductible.

Summary on Taxes Due in April 2019

- Your federal income taxes for this calendar year will be as much as \$2645, or as little as \$0, depending on credits/deductions you are eligible for.
- Based on this, will you OWE taxes in the spring when you file? Or will you get a refund?
 - It depends. On what? **Your W-4.**

Form W-4

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.		OMB No. 1545-0074 2018	
1 Your first name and middle initial		Last name		2 Your social security number	
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married filing separately, check "Married, but withhold at higher Single rate."			
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card. ▶ <input type="checkbox"/>			
5 Total number of allowances you're claiming (from the applicable worksheet on the following pages)				5	
6 Additional amount, if any, you want withheld from each paycheck				6 \$	
7 I claim exemption from withholding for 2018, and I certify that I meet both of the following conditions for exemption. <ul style="list-style-type: none"> • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶					
If you meet both conditions, write "Exempt" here ▶				7	
Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.					

This is the form you use to tell NYP how much to withhold from your taxes each pay period. Did you fill it out based on a 2018 half-year income? Or a 2019 full-year income? Did you read the instructions? Probably not. I didn't either.

- If you followed the instructions (reminder, single people only without kids, sorry everyone else) ...
 - You entered “single” and “2” allowances
 - This will result in \$4945 in Federal withholding for 2018
 - But your Federal tax will be between \$0 and \$2645
 - So you may end up getting a refund of \$2300 - \$4945 if you selected “single” and “2” allowance
 - You will NOT get much of a refund when filing for 2019!! Many tears have been shed (usually on our shoulders) when PGY-2 think they are getting a \$3000 refund and instead get zero. Don't let this happen to you. You have been warned educated.

Take-Home Tax/Budget Points

- Your after-tax take-home pay will be about \$50,000 throughout your residency. Budget accordingly.
- The “typical” intern who filled out their W-4 as per the instructions will likely get a large (federal) refund the first year you file.
- Don’t assume you will keep getting large refunds
- If you have a working spouse, PLEASE go back to the W-4 instructions and read about “Two-Earners/Multiple Jobs” on the W4
- You need to account for loan payments as well, if any.

PSLF

- For those with substantial Federal Student Loans. You NEED to completely understand Public Service Loan Forgiveness (PSLF) and assume that you will receive it!
- 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
 - Make payments ASAP to begin qualifying for PSLF. Consolidate now to waive the grace period.
 - 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/IBR allows this)

PSLF: Other issues

If you have money to save/invest and are on an income-driven repayment plan, 403b contributions will lower your payments, and increase forgiveness (it's like a 10% match on your contributions)

If you don't have loans, investing in a Roth IRA is better than the 403b

PSLF: Other issues

Make sure you take advantage of the following, if they apply to you:

- medical flexible spending account
- commuter transportation benefit
- dependent care spending account

These lower your AGI will further lower your payments and thus maximize forgiveness (it's like 10% "cash back")

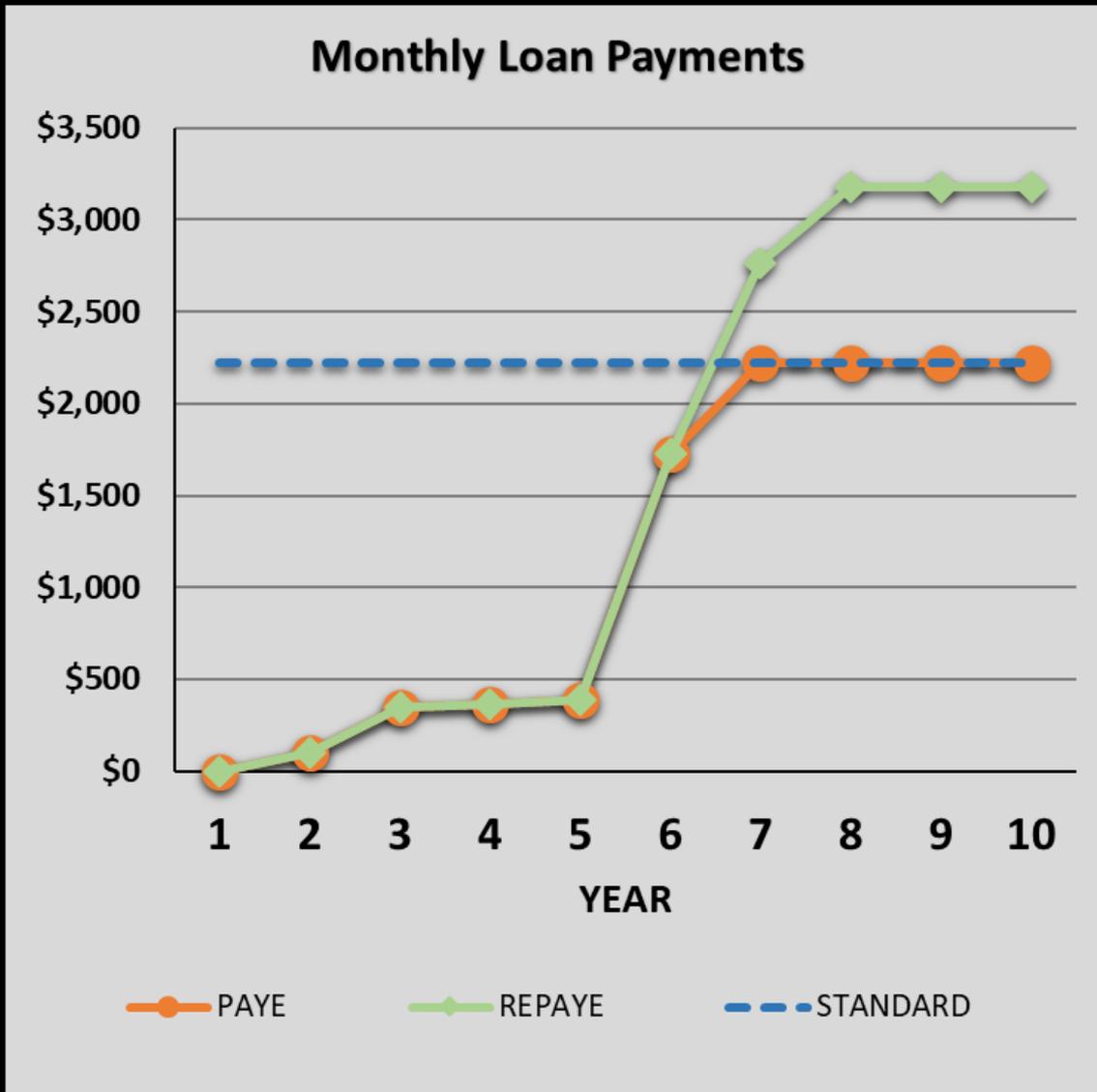
PSLF: REPAYE vs PAYE
Sample charts and graphs
Assuming \$200,000 loans at 6%

PSLF: REPAYE vs PAYE

(\$200,000 loans, 6%)

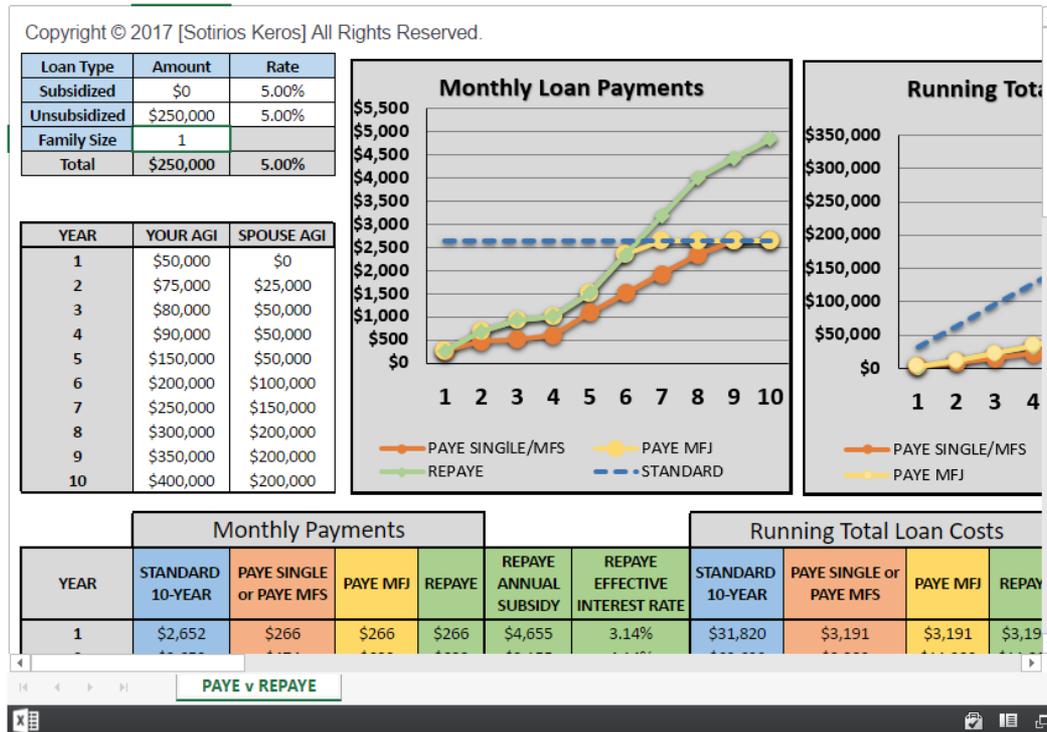
		Monthly Payments				
YEAR	YOUR AGI	STANDARD 10-YEAR	PAYE	REPAYE	REPAYE ANNUAL SUBSIDY	REPAYE EFFECTIVE INTEREST RATE
1	\$0	\$2,220	\$0	\$0	\$6,000	3.00%
2	\$30,000	\$2,220	\$99	\$99	\$5,405	3.30%
3	\$60,000	\$2,220	\$349	\$349	\$3,905	4.05%
4	\$62,000	\$2,220	\$366	\$366	\$3,805	4.10%
5	\$65,000	\$2,220	\$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



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first. Leave "Spouse AGI" at "\$0" for all years if you are not married (or planning to get married). Scroll right and down to see all of the results.



IMPORTANT!!

You can use this calculator on-line. It's the only one of it's kind which is FREE. And does not require you to pay a company \$500-\$2000 for them to do a loan analysis for you.

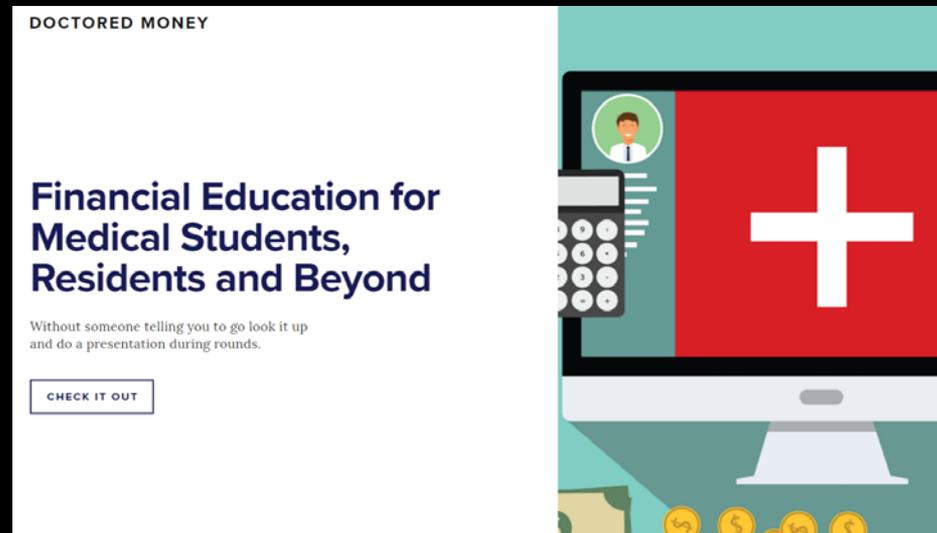
Random additional thoughts

- If you need life insurance (married? kids?) NYPH 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 NYPH.
- If you can afford it, you'll want to get your own disability insurance policy. NYPH provided disability is bare-bones and inadequate. Most can't afford a policy now, but you MUST plan to have get your own disability before you finish training. It's just the cost of being a physician.
- You are mentors, to medical students and to your colleagues. Mentorship which does not include financial mentorship is incomplete.

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Additional links and expanded material based on today's talk are already online

Check out our blog, sign up to receive updates (and no spam!), and please share our site and help us with our mission to empower young MDs!



Please complete our very short
feedback survey before you leave:

www.DOCTORED MONEY.org/nyp

Do it on your phone! It's mobile friendly.

Finally, please help us out with our national housestaff salary and benefit project



Anesthesia

Program	2018-2019 Salary by PGY level							401k/403b:
	1	2	3	4	5	6	7	
Advocate Health Care (Advocate Illinois Masonic Medical Center)								
Albany Medical Center	\$61,500	\$62,000	\$62,750	\$63,250	\$63,750	\$64,500	\$65,000	Yes
Allegheny Health Network Medical Education Consortium (AGH/WPH)								
Baylor College of Medicine	\$56,500	\$58,750	\$60,250	\$62,750	\$65,750	\$68,000	\$70,250	
Beth Israel Deaconess Medical Center								
Boston University Medical Center	\$61,250	\$63,750	\$66,750	\$69,750	\$73,500	\$77,750	\$80,500	No
Brigham and Women's Hospital	\$61,500	\$64,500	\$67,000	\$70,000	\$73,500	\$78,000	\$81,500	Yes
Case Western Reserve University (MetroHealth)	\$54,500	\$56,250	\$58,250	\$60,000	\$62,250	\$65,000	\$67,000	No
Case Western Reserve University / University								

Navigation: Anesthesia | Child Neurology | Dermatology | Emergency Medicine | ENT | ...

This is our attempt to aggregate salaries, 401k/403b, and match information at every program in the country. If you have colleagues at an institution for which we don't yet have data, get them to help out!

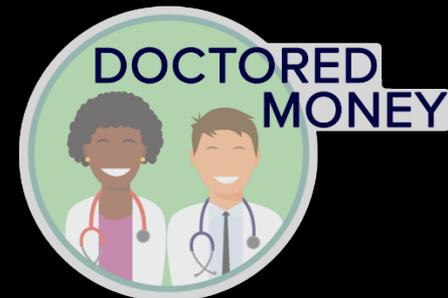
Questions?

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Additional Financial Education

Five Universally useful, life-long points which are critical for you to understand.

#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 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” (can be thought of like as a mutual fund)
- 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 “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 will 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

#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.DOCTORED MONEY.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+Roth IRA, and/or have \$200,000+ invested.
- That should give most of you time to learn a little bit about investing. 😊

Questions?

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