



Association of Women Surgeons

35 E. Wacker Drive, Suite 850, Chicago, IL 60601 | 312-224-2575 f: 312-644-8557 | WomenSurgeons.org

AWS Financial Planning Breakout

BY: Meredith Duke

- **Objectives:**
 - I want you to be motivated enough after leaving here to make the first proactive step in addressing your financial health, and decrease the level of intimidation associated with even thinking about retirement planning.
 - Financial planning 101
 - How to find a financial planner and what are the different types available
 - How to manage student loans
 - What to do if you can no longer operate
 - Different types of insurance available and what you should look for in a plan
 - How to protect yourself in case of divorce
 - Investing 101
- **Disclosures:**
 - No financial
 - White Coat Investor – Dr. Jim Dahle
- **Financial planning 101**
 - Avoid the intimidation and abstract nature of retirement – break it down into digestible chunks and be proactive
 - **Create goals** – “Financial security is much more comforting and lasts much longer than that new Audi A6 that zips past me on the freeway.” – Ophthalmologist – pg 24
 - Maybe your goal is to be a millionaire by age 40
 - **Determine your value now** - calculate new worth- do this annually
 - Simple formula = Assets-Liabilities = Net Worth
 - Assets – bank accounts, investments, property values
 - Liabilities – student loans, car loans, credit card loans, mortgages
 - Leave out consumer goods bc they depreciate anyways- furniture, clothing, cars
 - So now when you look at your net worth, can break down into where it came from...savings, paying down loans, appreciation, investment returns
 - A better option for physicians is the “Physician net worth rule”
 - EPNW – expected physician net worth = salary x years in practice x 0.3 - \$200,000. Using this formula, with example of resident with salary of \$250K, growing to \$300,000 rapidly, and then increases at just the rate of inflation. Net worth should turn positive by post-residency year 3, hit \$1 million after 11 years, and at year 30 – near retirement age, would expect to have a net worth of over \$3 million. See table 5 pg 37.

- Physicians tend to be UAWs...for 7 reasons:
 - 1) Among those earning \$100,000 – negative correlation btwn education and wealth. – potentially due to late start earning and saving caused by extended periods of time in higher education.
 - 2) Business owners don't become successful overnight, have to establish habits in their business life and build slowly leading to financial success. Physicians, athletes, and artists don't need to be good with money to earn a high income.
 - 3) Docs get a late start. Av 7-11 yrs behind college roommate who took high first paying job at 22. Race analogy – doc has to start fifty yards behind starting line (student loans), roommate gets 15 sec head start (lost earning years), run with parachute tie to his waist (higher tax burden). Doc has to be REALLY FAST (high earner WITH a very high savings rate) to win race.
 - 4) Afflicted with status. No one expects a painter to be living in a nice neighborhood, driving a jaguar, but every attending has a friend, family member, or neighbor who refers to them as “that rich doctor”. Society does judge a book by its cover, professionals are somewhat required to dress for success. If you live in a lousy neighborhood, dress in less-expensive clothes, drive a beater – assumption that they are not as good of a doctor, lawyer, investor...
 - 5) Physicians targeted by financial professionals...AKA financial salespeople. Study shows that both nonfinancial professionals and financial professionals are more likely to charge a higher “doctor price”. Beware of the financial advisors that “specialize in physicians,” they may just specialize in marketing to physicians. If you get burned may try to invest yourself...or invest too conservatively and not accumulate wealth like you should
 - 6) docs are charitable – while most PAWs tend to consider themselves their favorite charity, docs get targeted as well as participate in donating to charity. While PAWs consider every dollar given to charity is a dollar that isn't going toward building wealth.
 - 7) docs are busy. They focus on important issues of life, death, and health. They work a lot of hours helping patients and their families make life-altering decisions. Boring but necessary tasks, such as budgeting, meeting with advisors, and planning for their own financial future often fall to the wayside.
- Good life – Money might not bring happiness, but having been both rich and poor, I definitely prefer rich. Financial goal is probably not to die with a million in the bank or in investments either. Good life = live comfortably. Never fight about money. Don't have to check bank account prior to making a purchase of less than five figures. Never have to tell our children they can't participate in an activity because we can't afford it. Our vacations are limited more by our available time than money. Good health, disability, property, life, and liability

insurance to protect us from financial catastrophes. Donating over 6 figures to charity.

- Setting a retirement goal
 - **Determine what you want your value to be...retirement**
 - Being a millionaire – 8% of the population of the US has a net worth of \$1 million or more – nine million households – not including their primary residence. Not exactly an exclusive club.
 - To be a 1914 millionaire equivalent, need \$23 million – unusual physician to reach that mark.
 - Variables - The formula that dictates how much money you will end up with at retirement uses four variables – your income, what percentage of that income you save (your savings rate), the rate of return on your saved money, and the amount of time you allow that money to compound. The only one you really control is your savings rate
 - Savings Rate vs compounding time
 - $\text{Savings rate(\%)} = \text{money put into savings} / \text{total income}$
 - As you can see, a physician making \$200,000 a year would end up with 20% more net worth in ten years saving just 5% more of his income than by doubling his investment return. Early in your career there just isn't much money available to compound no matter how good your returns. Nothing matters more than your savings rate.
 - Rate of Return
 - Ultimate retirement number is a function of:
 - What percent of current income do you expect to need in retirement
 - Some financial planners recommend aiming to replace 80% of your preretirement income, but that number is probably too high for the typical physician.
 - Consider what you are paying for now, if you plan properly you will not be paying in retirement. 20-30% of gross in taxes – this will be reduced in retirement.
 - You won't be paying for retirement savings, a mortgage, work expenses, or childcare expenses...hopefully.
 - Might cut back to a single car or smaller home, lower property taxes, lower utilities, lower maintenance costs. You'll drop your life, disability, and malpractice insurance. You may even spend less on health care in retirement thanks to medicare.
 - Social security – A physician turning 67 who has paid in the max in SS tax for the last 30 yrs will receive an inflation-adjusted income of over \$30,000 a year, if married to a similar professional the spouse may get that much but at least half.
 - Is social security going away? Probably not. You might not get quite as much as you anticipate, or you might get it a year or two later than you expect, or more likely you'll have to pay a little more in SS tax, but it seems unlikely that it will disappear completely. OK to run your projections without it. Also remember, if you retire prior to being eligible for SS, you need to replace that income in your calculations.

- Some expenses will go up – you may want to travel more or spoil the grand kids, but the net change will be decreased income necessary to live a similar lifestyle
 - It's different for everyone, but most doctors should be putting away 20-25% of gross income to provide a comfortable retirement. If you are the rare physician that puts away “too much” you can retire earlier, cut back on work, or enjoy a more comfortable retirement
 - Once you achieve a nest egg – what percent of that do you expect to take out annually
 - Most financial planners recommend spending no more than 4% of your nest egg in retirement. For a million dollars this would be \$40,00/year. Some might argue that a “safer value would be 3-3.5%, but you can't spend 6, 8, or 10% that many financial advisors had been recommending and expect your money to last. If you want to spend 10% of retirement fund per year, wait until you are really old...or really sick.
 - Immediate Annuity - another way to convert wealth to income is to look at the current rate being offered on an immediate annuity. You give a lump sum of money to an insurance company. In return, the insurance company will give you a guaranteed income for the rest of your life. Con – unlike typical investments nothing is left when you die. But you can convert wealth to income at a higher rate.
 - How long do you plan on being retired?
- Financial Success as a Resident/Attending
 - Budget - Resident: There is a lot to do in residency and your chief concern should be learning how to be a great doctor. Your personal finances should not consume a great deal of your time and effort, but there are still a few things you need to make sure you do as a resident.
 - Technique many millionaires use – PAY YOURSELF FIRST – then spend the rest.
 - Resident salary range is around \$50,000-\$60,000. That's higher than the average household income in this country, and far above the poverty level. It is easy to spend more than that? –absolutely. Instead of living on 50-59, live on 45-50. Remember that there is someone down the street making a little less than you. Live like him and pocket the difference. It is certainly easier to save money on an attending salary than on a resident salary, but the more important matter is creating the habits. Remember that the first dollars saved have the longest amount of time for compound interest to work on them.
 - Don't look at budgeting as limiting, but how to plan to achieve your financial goals. Write where all of your money went last month – or keep track this month. If there is a disconnect btwn what they want to spend money on and how they are actually spending their money. Online budgeting tools: mint.com, or youneedabudget.com – helpful tools.
 - Home Management
 - Resident - Buying a house is not always a smart financial move. The pressure from heavy marketing as well as pent-up desire to have a normal life and live the American dream are difficult to deny.

- The break-even period is the same or longer than the length of many or most residencies. Most calculations reach 3-5 years as the break-even period...less than that is results in a house purchase costing money.
 - Residents don't usually have down payments – YES, there are physician's loans that will loan you 100% of the price and closing costs while avoiding PMI – private mortgage insurance. What is the cost of this? You lose protection against a decline in the value of your house that a down payment provides. You pay more in fees and a higher interest rate than when you put less than 20% down.
 - Tax breaks are not worth much to a resident – To get a tax benefit from home ownership:
 - Owning a home is expensive – Add 5% of home value to purchase it, 10% to sell it, and 1-2% a year to maintain it. Don't just compare mortgage to rent.
 - Don't plan on living in the same home from residency into attendingship. Hard to predict future, may move, do unexpected fellowship, get an unexpected job, children come along, unlikely to be content living in a home you could afford on 50K when making 250K.
 - Residents are busy – it costs time and money to buy, maintain, and sell a house – which is an extremely valuable commodity for residents. You might also end up as an “accidental landlord.”
 - Attending - **Develop a Housing Plan-3 approaches**
 - Rent for a year or 2, make sure you are a good fit for the job, boost your income, save 20% down payment, get a great deal both on the house and on the mortgage
 - Use a “physician loan” to buy a dream house right out of residency. Allows you to avoid the dreaded PMI – private mortgage insurance. The fees and interest will be higher than a conventional 15-yr fixed mortgage with 20% down. Save a “down payment” after for buy the house, pay down the mortgage to the point where you can refinance with a better mortgage. Or use the down payment money to put toward the student loans or retirement. Just don't waste the money that would have been used towards a down payment if you go down this route.
 - Buy a starter home, save the down payment for your dream house. Aggressively pay down mortgage, then take the home equity to use as a down payment on the dream home. You can either sell the starter home to get the equity or take the equity out by refinancing and turn the starter home into an investment property.
- **Different types of insurance available and what you should look for in a plan**
 - Disability - Buy as large of a high-quality, specialty-specific own-occupation individual disability insurance policy as an agent is willing to sell you. Group policy offered by many hospitals and residency programs is less expensive, but provides less coverage and no longer covers you after graduation. A good individual policy will have a benefit of around \$5,000 per month. (\$60,000 annually – tax free) The cost is usually 2-5% of the benefit, or \$1,200-2,000 per year. It is LEAST expensive while you are a resident.

Purchase from an independent agent that can sell from multiple companies. Ask about discounts available through a medical association – may decrease premiums up to 30%. Residents should purchase cost of living riders, future purchase option riders, and residual disability riders.

- If you have a spouse or child – need to buy 20-30 year term, level-premium life insurance. Far easier than buying disability insurance. Term life insurance is essentially a commodity, and by using an online service such as <http://term4sale.com> you can quickly compare prices. As attending may want 2-5 mill, but get at least 500K to 1 mill. Healthy 27-yo female can buy 1 mill 20-year level term policy for about \$400 a year. 30-year will run \$550 a year. If you develop a significant chronic illness during your early thirties you will find yourself uninsurable or insurable at a very high rate.
 - Residency program will take care of your malpractice, but you can also have a very high liability from events that occur outside of work. Attendings should have an umbrella policy with limits of 1-5 mill. Residents may not want to spend the \$200-700 a year for this type of policy, but at minimum you should increase the liability limits on auto and renter's/homeowner's policy to \$300,000 to \$500,000.
 - Emergency Fund – save 3-6 months worth of your living expenses. Needs to last at least as long as your disability waiting period. It should be invested in a safe way, cash in home is ok for part too. A savings account or CD is also reasonable. CD = certificate of deposit. Bears a maturity date, a specified fixed interest rate, and can be issued in any denomination. Generally issued by commercial banks, insured by FDIC. Terms ranges from 1 month to 5 years. – This allows you to avoid taking on debt in the event of an emergency. Second it to allow you and your family to worry less about fluctuation in value of your other investments.
 - **Investing – Resident:** - Roth IRA (anyone can buy) or Roth 401(k) of Roth 403 (b) available from your employer is an ideal place for a resident to save money for retirement. Roth IRAs instituted in 1997 by a law sponsored by Senator Williams Roth of Delaware. Roth 401 (k)s instituted in 2010, many 401 (k)s have added this option. Instead of allowing pretax contribution like a traditional retirement account, such as a traditional IRA or 401 (k), you to Roth IRA, 401 (k) or 403 (b) with after-tax dollars. The contributions grow in a tax-free manner just like a tax-deferred retirement account, but upon withdrawal in retirement the money withdrawn is tax free. Since residents are generally in a lower tax bracket than they will be in for the rest of their career, and probably in retirement, it makes sense to pay the taxes up front. General rule for contributing money to retirement accounts: Insert table pg 62
 - Don't live like an attending until you become one...don't max out credit cards, get high end car loans, or a large mortgage in anticipation of the larger paycheck.
 - Get your family on board – they too have had to delay satisfaction while you are in training – so beware the promise of a new car, house, jewelry etc.
- **Attending:** Investing as a new attending
 - Live like a resident:
 - Decide what happens to the money you make the first year out of residency by answering these questions, your financial future can be predicted with surprising accuracy:

- Did you pay off all your consumer debt?
 - How much of it did you put toward retirement?
 - How much of your student loans did you pay off?
 - What are you driving now?
 - How much did you pay toward a mortgage?
 - What was your tax burden?
 - Prioritize, saving for down payment, paying off student loans, saving for retirement and other long term goals, the good news is that you do not have to choose if you budget appropriately.
 - Example: \$250,000 salary, \$200,000 in student loans, pay \$50,000 in taxes. Live on \$85,000 a year (50% increase from residency), leaves \$115,000 to build wealth. Max the \$17,500 to a 401 (k), \$11,000 (\$5,500 each) to an individual and spouse Roth IRA. Add \$6,550 to health savings account - \$35,050 towards retirement. Put \$40,000 to student loans, leave \$40,000 for down payment on a house. At this rate you can have student loans paid off, retirement nest egg will have caught or surpassed that of nonmedical peers, living in dream house, be debt free except for a low-interest 15-year fixed mortgage.
 - **Save for other long term goals** – If you follow this plan, then within a few years of graduation, your student loans can be paid off, you can have a portfolio worth several hundred thousand dollars, and you should own at least 20-30% of your dream home with the remainder financed at a very low rate. At that point put 20% of your income toward retirement and enjoy the rest of your money. The priority list does not include luxury cars, brand-new furniture, expensive trips, or other expensive toys. It's ok to have some empty rooms in your dream home. Buy over time and pay cash.
 - **USE YOUR INCOME TO BUY FINANCIAL FREEDOM**
- **How to manage student loans - Paying for medical school** - student loan debt is water under the bridge for most of you – it's there so move on. For those of you that aren't there are a number of novel ways to pay for medical school – there are pros and cons to all and are outside the scope of this talk, but you can consider:
 - Avoid student loans
 - Public service loan forgiveness_Public Service Loan Forgiveness (PSLF) Program – MAY allow physicians to have 100's to 1,000's of dollars in loans forgiven in the future. So new that no one has actually had their loans forgiven yet. 3 Key Requirements:
 - 1) Pay as little as possible toward your loans for ten years. Do this using the Income based repayment program – or the new improved version, the income contingent repayment (ICR) program. Residents and fellows in the IBR program are making lower payments and once they get out of training they are making their regular payments (which are amortized over a 10-yr period) After making these payments for 10 years the loan is forgiven. IBR is based on 10% of your “disposable income.” If you have a working spouse – you may wish to file your taxes as “married filing separately” while in residency. Examples:If you owed \$200,000 at 6.8%, 10 year repayment would require \$2,302 per month. BUT, if you paid \$300 IBR per month during residency, then the full \$2,302 for the next

five years, would save \$120,000. (pay \$156, 120 instead of \$276,240.) If you are a surgeon – or Shun and spend 10 years or more in training then you can save even more money

- 2) work for a qualifying employer – generally a nonprofit or government employer. Most residency and fellowship programs are at qualifying 501 ©3 hospitals. After training you must also seek employment with a 501 © 3 hospital or other employer – NOT JUST A GROUP THAT CONTRACTS WITH THE HOSPITAL.
 - 3) Make sure as much of your loan burden as possible is composed of direct loans from the federal government (Stafford and direct plus loans). Private loans and refinanced loans are not eligible for forgiveness. Credit card loans, auto loans, home equity loans, parental loans, and other creative ways to pay for school are also not eligible.
 - Pay off as soon as possible, especially high interest loans first (>8%)
 - If you have very low interest loans (1-3%) – stretch them out as long as possible, try to arbitrage the rate by borrowing at 1-3%, and investing at 5-8%. There is a little extra risk investing “on margin” like this, but with a broadly diversified stock index fund, very unlikely that over a long period of time that it will do worse than 3% per year, even after tax
- **How to find a financial planner and what are the different types available**
 - **Planners** – Most physicians will hire a financial advisor – that’s fine. Will discuss fair price and qualifications. Financial advisor, wealth manager, financial consultant..AKA mutual fund salesman, stockbroker, insurance salesman.
 - What does it take to be this person? No college degree required, no registrations or license required, no advanced degree or time-consuming certifications required. Experience typically preferred in SALES. MD requires 8 years of school, 10-20,000 hours of training...they take company-sponsored sales presentations and studied for 40 hours for a couple of tests.
 - You get what you DON’T pay for. 2% is actually a lot. If you invest \$50K over 30 years, compare 0.2% to 2% - difference is \$2 million dollars. Can find your 401(k) fees on <http://morningstar.com>
 - You can buy good mutual funds yourself with minimal costs through vanguard, DFA, bridgeway, fidelity, and T. Rowe Price. Your advisor may be “captive – can only buy through their company” again, conflict of interest.
 - Find out how your advisor gets paid. You don’t want a commissioned salesman as a financial advisor. You want a fee-only advisor. Different from “fee-based – fee and commission.” Some charge hourly fee or an annual retainer, others charge a percentage of your assets under management (AUM). Or combo.
 - Recommend splitting financial planning and asset management – even if from same person. Pay for financial planning with an hourly fee or flat annual fee. Try to pay for asset management as an annual fee, but AUM is ok if not too high. Good asset management is available for as little as \$1-5,000 per year. Expect \$200-400 an hour for financial planning, much of which should be spent face-to-face. Fee-only services may

be more expensive than buying commissioned products, but getting good advice is worth it.

- Good planners or expensive planners like to say that they should be paid based on the value they provide. You as a surgeon don't get paid for extra "value". Their fee should be set by market at a reasonable amount reflective of the education and training of the professional, risk undertaken by professional, work put in by the professional, and the rarity of the professional's skills.
- How advisors add value:
 - 1) create a solid investing plan
 - 2) eliminate asset management chores – rebalance the portfolio, harvest tax losses, track returns, write up regular portfolio statements
 - 3) protect you from yourself
 - 4) provide reassurance that a professional is on the case – freedom from worry can be valuable
 - 5) some can provide access to institutional investments – hedge funds, private equity funds, venture capital funds, mutual funds from DFA or AQR
- Criteria to look for:
 - Offers the services you want – don't use insurance agent for asset management, don't use estate planning attorney to sell you disability insurance
 - Fee-only
 - Fairly priced
 - At least one top-tier designation – really only 3 designations used by financial advisors that deserve any significant respect
 - CFA – chartered financial analyst – best designation for asset manager and hardest to get.
 - CFP – certified financial planner – several months of coursework and passage of exams and probably best designation for a financial planner.
 - ChFC – chartered financial consultant is a similar insurance-based designation.
 - Notable mention – CLU = chartered life underwriter for insurance agent. JD for estate planning or asset protection attorney. CPA for tax preparation and advice, and MBA for management, financial, and accounting education.
 - Gray hair – at least 10 yrs of experience – hopefully experienced at least 1-2 bear markets as an investor
 - Knowledge of his limitations – knows when accountant or attorney is necessary to deal with an issue.
 - Does not mix insurance and investing
 - Physician-specific financial planning – should be an expert dealing with income based repayment and public service loan forgiveness. Most financial advisors who "specialize" in doctors, specialize in marketing to them.
 - Access to institutional funds – one benefit it company such as DFA or vanguard-certified. They likely weed out for you. They only authorize and train advisors

who have a commitment to passive investing and staying the course – 2 criteria for investment success.

- **Investing 101**

- **Safe investing** – “Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the...results [of] the great majority of investment professionals” – Warren Buffett
 - There are many paths to financial success, some are faster and more reliable. You may be able to find shortcuts along the way, but this is a safe default investing method for a busy professional.
 - Stock – share of a company, when company grows/succeeds – pays dividends to shareholders
 - Bond – loan to a company or government entity (US treasury). Entity pays you yearly interest on the loan, at the term will pay for back the principal.
 - Real estate – physical property that charges rent to its tenants.
 - Mutual fund – group of investors who pool their money together to buy dozens or hundreds of different stocks, bonds, or properties in order to provide diversification. Some mutual funds are “actively managed” and try to predict which stocks and bonds (securities) are going to do well in the future. Others are “passively managed,” simply try to capture the return of the market by buying all the securities. These passively managed, “index funds” own both winners and losers, but do so at such a low cost that they outperform the average actively managed fund, especially over the long run. Many studies demonstrate that it is very difficult for an active mutual fund manager to outperform an index fund by more than the additional expenses incurred by the active management.
 - There are 5 factors you CAN CONTROL risk, diversification, investment expenses, taxes, and your own behavior – that can keep you on the road to success
 - Risk – you risk the money you put into the market. Don’t invest money that you need anytime soon. Don’t look at the market when it is doing poorly. Everyone has a fear of deep risk – sometimes the value of an investment does not come back at all. There are a number of other risks: individual security risk, sector risk, manager risk, credit risk, default risk, and interest rate risk that are outside the scope of this talk. The other significant factors out there working against you as a physician are time and inflation. Limited time might make you take more risk than you would like. Inflation forces you to take enough risk to overcome inflation. This is why most experts advise you to include risky assets in your portfolio. Safe assets such as bonds are likely to have a return ranging from just below to just above the inflation rate.
 - Diversification – Don’t put all your eggs in one basket. You want to spread your money out between different asset classes (stocks, bonds, and real estate), but also within those asset classes. You are not compensated for taking individual security risk, so you should buy dozens or even hundreds of individual securities

in each class. This can be done easily for most asset classes using mutual funds or exchange traded funds (ETFs – mutual funds traded on stock exchanges)

- Investment expenses – “You get what you don’t pay for” – Jack Bogle, founder of Vanguard. If 2 investors make the same 8% per year before expenses on a lump sum investment and the first is paying 2% per year in investment expenses and the second paying 0.1% per year, then after thirty years the second investor will have 70% more money than the first.
 - Again studies have shown that index funds outperform the vast majority of actively managed mutual funds primarily because their costs are so much lower, and they don’t have manager risk. Very few outperform and nearly impossible to pick which ones will.
- Taxes – Physicians tend to be in the highest tax brackets, and taxes are frequently their most significant investment expense. Investing in a tax-efficient manner can cut years off the time required to become financially independent. Retirement accounts are a good way to do this.
 - Employer provided – 401 (k), 403 (b), 457 (b)
 - Nonemployer provided – Roth IRA, Self-employed retirement investment accounts, individual 401 (k), simplified employee pension IRAs (SEP-IRAs), Savings Incentive Match Plan for Employees (SIMPLE IRAs)
- Your own behavior – Studies show that investors make the same errors over and over again. Your investing brain does not just add and multiply and estimate and evaluate. When you win, lose, or risk money, you stir up some of the most profound emotions a human being can ever feel.
- Don’t mix insuring and investing. You don’t need these products to be financially successful. They are complex products and the more complex, the better for the insurance agent, and the worse for you. Conflict of interests – whole life insurance policy with premium of \$40K per year, will pay commission of \$20-45K for agent. Many of the worst policies offer the highest commissions. 80% or more of those who buy this product get rid of it prior to death. Whole life insurance typically paid monthly or annually for a defined period or until you die. The longer you pay, the lower the premiums. When you die your beneficiary gets the proceeds. Every whole life policy guaranteed to pay out if you hold onto it to your death, so the premiums are much higher than a comparable term life insurance policy. Cash value grows in tax-protected manner, can even borrow money from the policy tax free (but not interest free). Problem is that for every use of whole life insurance, there is usually a better way to deal with the financial issue. Investors generally find that they will be much better off covering their life insurance needs with an inexpensive term policy and investing the difference into a portfolio of index funds.
- **Fixed asset allocation of index funds** – You don’t have to predict the future to be successful. This is an annually rebalanced, fixed asset allocation of 3-10 asset classes invested in low-cost index funds. You might decide on an asset allocation that is 40% US stocks, 20% international stocks, and 40% bonds. OR 150 other reasonable investing

portfolios that will get you on the road to financial success.

<http://whitecoatinvestor.com/150-portfolios-better-than-yours/> To implement your plan, purchase low-cost index funds invested in these asset classes available to you. If stocks do poorly, and bonds do well, direct our new contributions to the stock asset classes and if necessary even sell some of the bonds to buy more stocks. At the end of the year, your balance is higher, but you still have the same asset allocation. Reasonably diversified allocation helps your nest egg to outpace inflation without taking on unnecessary risk. Retirement accounts and low-turnover index funds minimize your tax bill and investment costs. Fixed asset allocation ensures you are constantly buying low, avoiding the need to predict the future. Allows you to avoid the behavioral errors likely to torpedo the best designed investment plan. In times of market turmoil, you merely need to refer to your written investment plan and follow it. You can go literally for months without looking at your investments or investment-related news.

- **Asset Protection**

- **Asset Protection** – Tort law, portion of law concerned with civil suits such as malpractice and personal liability is state specific. For example – Texas has a homestead law that protects your residence no matter how expensive (up to 100 acres) from a liability judgment, but North Carolina in contrast protects your IRA but not your home from liability claims.
 - Best Asset protection is prevention – live your life and practice medicine in such a way that you minimize your risk of getting sued. Communicate well with your patients, provide good follow-up and good documentation practices can be useful in preventing lawsuits in the first place.
 - Insurance is the first line of defense. Be sure to buy a policy similar to what other physicians in your specialty and state carry. If you don't expect to stay in the same job for long, then consider getting an "occurrence" policy rather than "claims-made." The claims-made requires a tail to be purchased. Occurrence covers liability claims resulting from an act that occurred while you were covered under the policy. Many claims-made policies will provide a free tail upon retirement if that occurs after age fifty. Increase your auto and homeowner insurance to several hundred thousand dollars. Then buy an umbrella policy on top of it. For just a few hundred dollars a year you can have 2-3 times as much personal liability coverage as your malpractice insurance coverage. Rec 1-5 mill umbrella policy. Should put in place near graduation time for residents.
 - Best way to protect is to give away. Fraudulent transfer laws require to be done long before the lawsuit comes along. UGMA/UTMA - uniform gift to minors or uniform transfer to minors accounts - 529 – are generally protected from creditors, but you still control. You can fund up to 5 years in advance, you and your spouse can shield up to \$140,000 per child from creditors provided you place it there at least 2 years prior to a successful judgement.
 - Can have assets such as home, boat, auto, bank accounts, brokerage accounts, solely in spouses name –

- Title your house properly – “Meredith and Chad Duke, husband and wife, tenants by the entirety” – means both of you own 100% of the home. Successful lawsuit would not be able to obtain 100% of Chad’s house
 - Most states do protect 100% of retirement accounts and cash value of insurance policies – so pretty safe option.
 - Place risky assets – rental property, RV, side business, construction/farm equipment, into LLC – will discuss later.
 - Biggest risk to your assets is divorce – far more common than successful malpractice suit that wipes you out. Consider prenup, be choosy when picking a spouse
- **Estate planning** – I’m not going to go into specifics, but estate planning is meant to serve 3 purposes. 1) minimize estate taxes. 2) ensure that what you want to happen with your children and your assets actually occurs after you die. 3) avoid expensive and inconvenient process of probate. Estate law frequently changes, mostly this will require working with an attorney in your state specializing in this area.
 - You can die with up to 5.34 million in retirement (10.68 married) and avoid FEDERAL income taxes. States on the other hand have much lower inheritance tax exemptions.
 - Make a will – purpose is to make sure your money and minor children go where you want them to go when you die.
- **Real estate investing**
 - One of the biggest benefits of investing in real estate is that it is generally safer to leverage income-producing real estate when compared with other investments, such as mutual funds. Investors typically buy a property with just a 20-50% down payment, yet they control the cash flow, appreciation, and tax benefits for the entire investment. Real estate earns money in 4 ways: appreciation, tax breaks, amortization, and cash flow
 - Appreciation
 - Tax break- You get to depreciate rental properties in taxes – depreciated over 27.5 years. Multiply 3.6% x your basis in property (what you bought it for) and subtract from your income on the property each year. Allows a portion of your income to be tax free. Depreciation is recaptured upon selling
 - Amortization – Money that is used to pay down your loan. You might not have extra money in your pocket, but the loan gets paid down a few thousand dollars per year
 - Cash flow – each property has a capitalization rate – basically what you rent it for vs what you bought it for. Most follow the 55% rule which helps you determine your net operating income. Multiply gross rents by 55% - 45% goes to maintenance, mgmt. fees, taxes, insurance, and vacancies. Divide this by purchase price. There is not great cap rate, but clearly 10% better than 3%. Doesn’t mean poor investment, it just defines the cash flow.
 - Real estate is a second job

- Some guidelines for personal home purchasing. Never carry a mortgage larger than twice your gross income. Spend less than 20% of your gross income on housing, including mortgage, utilities, property taxes, insurance, and maintenance. Lenders will lend you much more than this amount.
 - Most physicians will be approached with an opportunity to invest in a surgical center, urgent care, imaging center, or some other type of business. While each is an opportunity, also a risk that needs to be weighed on an individual basis.
- **Income taxes** – trying to really simplify this – HOW TO LOWER INCOME TAXES
 - The federal government wants you to do some things, and they will reward you financially for doing this:
 - 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
 - Tax credits different than deductions – pay \$2000 to charity avoid \$500 in taxes. But if you get a \$2000 credit – that is subtracted from your total tax bill.
 - Avoid income taxes by placing in tax-deferred accounts – you don't have to spend money to get a deduction. You are saving at your marginal tax rate (last dollar taxed) then taking out at your effective tax rate in retirement
 - Consider taxes like a negotiation with the IRS. Don't be scared of an audit – can be time consuming, unpleasant, and expensive, but not common 4% of the time. Once audited, can just pay the difference – and penalties, or have the option of continuing to negotiate with auditor, or ultimately take to tax court. If you do this, av paid is 27% of what IRS sought. Look at taxes as a business decision, not legal decision.
 - It pays to be aggressive and there are gray areas in tax code, take advantage. If you are able to claim business expenses (internet, phone) on something previously personal, you save 30% of cost. Discussing CPA is pertinent here because tax preparers may not want to be as aggressive. He may assume you would rather pay more in taxes than increase the possibility of an audit even a tiny bit. He doesn't want to spend his time and money defending you in an audit, especially if he guarantees his return by offering that service for free. He is incentivized to be less aggressive than he has to be. John T. Reed author of

Aggressive Tax Avoidance for Real Estate Investors, likes to say, "I'll pay every cent I owe, but I'm not going to leave a tip."

- Some tax deductions such as home office, business mileage, and large charitable donations are thought to be audit triggers, because they are frequently abused, but if you legitimately qualify and have the documentation to prove it, it is foolish to not take them.

○

•