Financial Planning for Physicians

Harvard Medical School

March 20, 2014
Presented by: Richard Sentnor
Introductions

• 8th year speaking at Harvard
• Focus: Residency to retirement
• Doctors all around the united states
• Specialty: financial literacy for new professionals
Session Goals

• What should you be thinking about prior to graduation?
• Understand the financial issues pertinent to a medical student/resident
• Prioritize the issues
• Create an action plan
• Offer a personalized consultation
Benefits

Get you started

Create strong habits now to last a lifetime

Prepare you for the 1st of 3 Financial Hotspots

Start to plot the course of your financial life
The Financial Pyramid

Protection

Insurances – Disability, Health, Home Auto, Life, Malpractice, etc.
Estate Planning – Will, Power of Attorney, Trust, Letter of Instruction, etc.

Accumulation

Mutual Funds
401K IRA

Speculation

Real Estate

Stock
Budgeting Basics

- What comes in
- What goes out

The Difference!
Create a Budget

1. Identify your goals (write them down)
2. Estimate income (paycheckcity.com)
3. Understand your liabilities and expenses
4. Earnings - expenses = discretionary income
5. Prepare multiple “trial budgets”
6. Review how decisions impact the result
### Budgeting Basics

#### Fixed Monthly Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage payment or rent</td>
<td></td>
</tr>
<tr>
<td>Automobile note</td>
<td></td>
</tr>
<tr>
<td>Credit cards</td>
<td></td>
</tr>
<tr>
<td>Life insurance</td>
<td></td>
</tr>
<tr>
<td>Disability insurance</td>
<td></td>
</tr>
<tr>
<td>Renter's Insurance</td>
<td></td>
</tr>
<tr>
<td>Homeowner's insurance</td>
<td></td>
</tr>
<tr>
<td>Automobile insurance</td>
<td></td>
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</tbody>
</table>

#### Discretionary Monthly Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other/Public transportation</td>
<td></td>
</tr>
<tr>
<td>Personal care</td>
<td></td>
</tr>
<tr>
<td>Automobile gas</td>
<td></td>
</tr>
<tr>
<td>Entertainment/dining</td>
<td></td>
</tr>
<tr>
<td>Recreation/travel</td>
<td></td>
</tr>
<tr>
<td>Gym membership/Association dues</td>
<td></td>
</tr>
<tr>
<td>Hobbies</td>
<td></td>
</tr>
<tr>
<td>Gifts / Donations</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
</tr>
</tbody>
</table>

#### Variable Monthly Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td></td>
</tr>
<tr>
<td>Gas</td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td></td>
</tr>
<tr>
<td>Cable TV</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
</tr>
<tr>
<td>Licensing/Testing</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
</tr>
<tr>
<td>Laundry</td>
<td></td>
</tr>
<tr>
<td>Child care</td>
<td></td>
</tr>
<tr>
<td>Annual Miscellaneous</td>
<td></td>
</tr>
</tbody>
</table>
Example

$55K of income (after taxes, benefits etc.) = $3,300

IBR payment ($375)

Rent – 1 bedroom apartment ($1,200)

Utilities, groceries, auto gas, cable, cell ($750)

Entertainment, travel, clothes ($250)

Car payment @$10K/5%/5 yrs ($189)

Basic Insurances (auto, renters, disability, life) ($300)

Discretionary Income = $236
Example #2 – Importance of trial budgeting

$55K of income (after taxes, benefits etc.) = $3,300
IBR payment ($375)
Rent – 2 bedroom apartment w/ roommate ($800)
Utilities, groceries, auto gas, cable, cell ($650)
Entertainment, travel, clothes ($200)
Car payment @$10K/5%/5 yrs ($189)
Basic Insurances (auto, renters, disability, life) ($300)

Discretionary Income = $786
Track Your Budget

Software

Internet

Pen & Paper
Pay Yourself First

Bill to Me!

- Short-Term
- Mid-Term
- Long-Term
- Debt Reduction
Protect Your Credit

- Open your mail
- Know your debt
- Occasionally review ALL 3 scores and reports:
  - Equifax
  - Transunion
  - Experian
- Be organized
Debt

• Everyone has a different situation and philosophy
• Pay off debt without sacrificing savings
• The rule of 72 and compounding interest
• Be organized
• Create a debt consolidation spreadsheet
• Review re-payment options, everyone is different

*The rule of 72 is based on a hypothetical example that is not guaranteed. It does not represent any specific investment and there is no assurance that your funds would double.
Why Disability Insurance

• Provides an income to an individual who is sick or hurt and cannot work

• Critical protection for
  – Professionals
  – Owners of small business
  – Executives

• Discounted coverage available before leaving Harvard
Purchase Individual Insurance Before Graduation

• Protect your post residency salary now
• Hospital provided “Group” coverage is not adequate
• “True own occ” vs. “modified own occ” definition based on specialty
• Insures your ability to work in “Your Occupation”
Importance of Individual Insurance vs. Group Coverage

- You own it - Non-cancellable and Guaranteed renewable
- Portable – goes with you wherever you go
- No premium increase or changes to policy
- Ability to increase coverage
- Tax free benefit paid in addition to group coverage
✓ Life insurance
✓ Renters insurance
✓ Health insurance provided by employer
✓ Malpractice covered by employer
✓ Property and casualty (Auto, Home, etc.)
## Typical Retirement Options

<table>
<thead>
<tr>
<th>IRA</th>
<th>Roth IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Retirement Account</td>
<td>Type of IRA</td>
</tr>
<tr>
<td>$ Mutual Funds typical investment vehicle</td>
<td>$ Tax benefits while growing and coming out</td>
</tr>
<tr>
<td>$ Tax benefits <strong>going in</strong> and while growing</td>
<td>$ Phased out as income increases (good for during residency)</td>
</tr>
<tr>
<td>$ Age requirements</td>
<td>$ Higher contribution limits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>401K</th>
<th>403B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer-Sponsored Retirement</td>
<td>Functions like 401K</td>
</tr>
<tr>
<td>$ Contribute to own account</td>
<td>$ For educational institutions and some non-profit employees</td>
</tr>
<tr>
<td>$ Tax benefits <strong>going in</strong> and while growing</td>
<td>$ Age requirements</td>
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What Do I Do Now?

- Create an action plan and get started
  - Review check list in your folder
  - Take the next few months to “step back”
  - Making decisions in the context of a plan is always best
  - Monitor and review
QUESTIONS?

THANK YOU!!!