



Physician Financial Health

Jim Allen, MD

*Professor Emeritus, Department of Internal Medicine
The Ohio State University Wexner Medical Center*

MedNet21
Center for Continuing Medical Education

THE OHIO STATE UNIVERSITY
WEXNER MEDICAL CENTER

**“Money can’t buy
you happiness”**

**“Money can’t buy
you happiness”**

**(But it can help you
avoid things that cause
you unhappiness)**

The financial mistakes real physicians made:

1. The 65-year-old world-famous cardiologist
2. The 64-year-old academic physician
3. The 34-year-old with a mortgage
4. The 68-year-old solo practitioner
5. The 55-year-old with kids in college
6. The 46- year-old ophthalmologist who golfed

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Average Medical School Debt

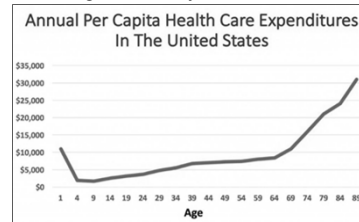
- 73% have some debt
- Median:
 - Public \$200,000
 - Private \$215,000
- Repayment (PAYE):
 - \$320 - \$370 per month residency
 - \$1,600 - \$2,400 per month post residency
- Total repayment cost: \$416,000



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Health Insurance Cost

- Average healthcare expenditure per American = \$12,530
- National average for family of four = \$25,011



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National Average Malpractice Premiums

Specialty	Average Premium
General Medicine	\$15,896
Critical Care Medicine	\$20,215
General Surgery	\$60,299
Neurosurgery	\$92,582

Geographic differences – general surgery in:

- \$42,000 in Los Angeles
- \$191,000 in Miami

Source: Medicare PFS Update to the GPCIs and MP RVUs FINAL REPORT

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Your Children's College Education Costs

The Ohio State University
\$262,309

University of Notre Dame
\$779,487



Source: <https://vanguard.wealthmsi.com/colcost.php>

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How Much Will You Need In Retirement Savings In 35 Years?

- \$248,000 average salary (internal medicine)
 - Expenses = \$49,000
 - Retirement savings, mortgage, college savings, life insurance
 - Taxes = \$63,000
 - Disposable Income = \$120,000
 - Food, clothes, entertainment, property taxes, travel, healthcare, etc.
- **\$398,364** annual after-tax retirement income needed to maintain current disposable income
- **\$7 million deferred income needed to retire**

*Assumes married filing jointly with 2 dependent children

*Assumes 9.2% annual investment return & 3.5% annual inflation rate

*Assumes 30 years life in retirement

*Assumes \$20,000 annual Social Security and no pension



Investing 101

Investment Options

Lowest To Highest Risk

1. Savings accounts
2. Certificates of deposit
3. Money markets
4. Bonds
5. Stocks

Lowest To Highest Potential Return

1. Savings accounts
2. Certificates of deposit
3. Money markets
4. Bonds
5. Stocks

What is a mutual fund?

Bond mutual funds

1. Managed funds
2. Index funds
 - U.S. Government
 - Municipal
 - Corporate
 - International

Stock mutual funds

1. Managed funds
2. Index funds
 - Large capitalization (Dow Jones)
 - Small capitalization (Russell 2000)
 - Sector (health care)
 - Total stock market
 - Foreign stock markets

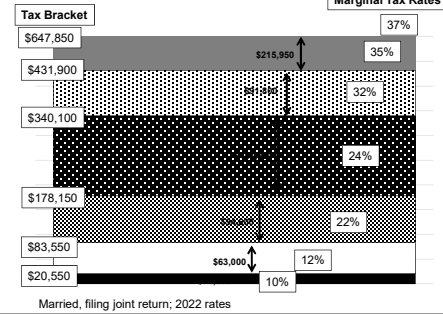
Taxes 101

2022 Tax Brackets

Tax Bracket	Taxable Income	Tax Rate*
< \$20,550		10%
\$20,550 - \$83,550		12%
\$83,550 - \$178,150		22%
\$178,150 - \$340,100		24%
\$340,100 - \$431,900		32%
\$431,900 - \$647,850		35%
> \$647,850		37%

*Married, filing joint return

How Marginal Tax Rates Work



Your Effective Tax Rate is Not Your Marginal Rate

Taxable Income	Marginal Tax Bracket	Effective Tax Rate	Capital Gains Rate*
\$50,000	12%	7.5%	0%
\$100,000	24%	10.9%	15%
\$200,000	32%	16.1%	15%
\$300,000	35%	18.5%	15%
\$400,000	35%	21.2%	15%
\$500,000	35%	23.7%	15%
\$600,000	37%	25.5%	20%
\$700,000	37%	27.1%	20%

Capital Gains Tax Rates (taxable income):

Less than \$80,800 = 0%

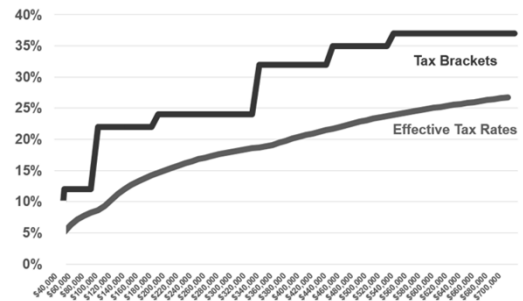
\$80,800 - \$501,600 = 15%

Greater than \$501,600 = 20%

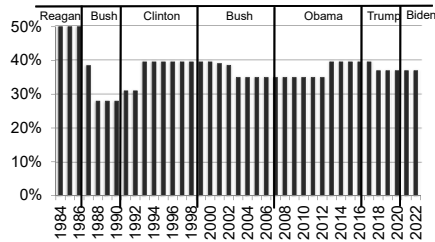
*Married, filing joint return; 2021 rates

*Taxable income = gross income - \$25,100 standard deduction

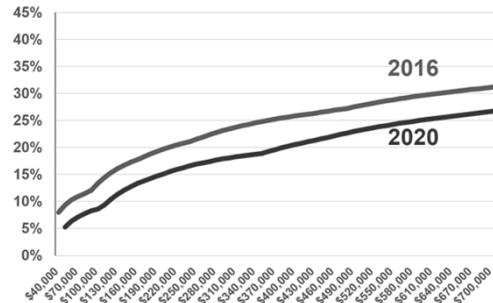
Your Effective Tax Rate is Not Your Marginal Rate



Top Income Tax Bracket 1984-2022



Effective Federal Income Tax Rates



When Do You Pay Tax On Retirement Contributions?

Type Of Tax	When Paid	401k/403b/457/415m/IRA
Federal income tax	Distribution year	Retirement years
State income tax	Distribution year***	Retirement years***
Local income tax	Contribution year	This year
Social security tax	Contribution year	This year
Medicare tax	Contribution year	This year
Capital gains tax	Year you sell investment	Not applicable

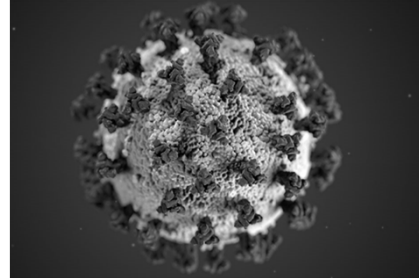
***Except Pennsylvania

Contribution year = when you earned the money and put it into the retirement fund

Distribution year = when you take the money out of your retirement fund

The 15 Commandments Of Healthy Finances

1. Have an emergency fund



U.S. Unemployment Rate 1945-2021



Source: Created by CRS using data from the Bureau of Labor Statistics (BLS). Series LNS14000000 extracted using the Labor Force Statistics data series at <https://www.bls.gov/data/>.

Notes: Shaded regions indicate recessionary periods as identified by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics



136 Rural Hospitals Have Closed Since 2011



2. Eliminate excessive debt

Beware of your own pent-up consumption



3. Buy insurance judiciously

What insurance do I need?

- **Health Insurance:**
 - Everybody for their lifetime
- **Term life insurance:**
 - Children at home
 - Sole family income-earner
- **Whole life insurance:**
 - Practically no one
- **Disability insurance**
 - Until you are close to retirement
- **Umbrella insurance:**
 - Most physicians need a \$1 million policy
- **Annuities:**
 - Avoid them – your income is too high

4. Start saving for retirement early

Compounding interest is your greatest tool

- Single 2022 retirement contribution: \$36,000
- Assume 10% investment return*

2029 (7 yrs)	\$70,000
2036 (14 yrs)	\$137,000
2043 (21 yrs)	\$266,000
2050 (28 yrs)	\$520,000
2057 (35 yrs)	<u>\$1,012,000</u>

*Average stock market annual return 1971 – 2021 = 10.9%

Compounding interest is magic

- Assume 8% investment return
- Investment amount per year:
 - \$10,000 per year 2057 (35 years) = \$1.8 million
 - \$20,000 per year 2057 (35 years) = \$3.7 million
 - \$30,000 per year 2057 (35 years) = \$5.6 million
 - \$40,000 per year 2057 (35 years) = \$7.4 million
 - \$50,000 per year 2057 (35 years) = \$9.3 million
 - \$60,000 per year 2057 (35 years) = \$11.2 million
 - \$70,000 per year 2057 (35 years) = \$13.0 million

5. Use 529 plans for your children's college savings

Why a 529 plan?

- Investment grows tax-free
- Withdrawals not taxed if used for educational expenses
- In Ohio, first \$4,000 annual contribution is tax-deductible from state taxes (per each child)

➤ **No other college savings investment can beat this!**

Saving For A Child's College Education:

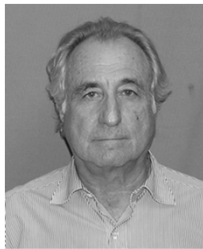
What I Did In 1988:

- \$5,000 into each child's fund when they were born
- \$100/month into each child's fund
- Goal = Ohio public college expenses in 18 years

What I Would Have To Do Today:

- \$15,000 into each child's 529 fund when they are born
- \$400/month into each child's fund
- Goal = Ohio public college expenses in 2040 (\$262,000)

6. Don't pay someone to invest your money



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA :
-v- : MEMORANDUM DECISION
BERNARD L. MADOFF, : 09 Cr. 213 (DC)
Defendant. :

APPEARANCES: BRANDON SAMPLE P.C.
Attorney for Defendant
By: Brandon Sample, Esq.
P.O. Box 210
Ballston, NY 12010
AUDREY STRAUSS, Esq.
Attorney for the United States,
Acting Under Authority Conferred by 28 U.S.C. § 515
By: Drew Sklarow, Esq.
Louis A. Pellegrino, Esq.
Assistant United States Attorneys
One St. Andrews Place
New York, NY 10007
CHIN, Circuit Judge
On March 12, 2009, defendant Bernard L. Madoff pleaded guilty to 11
counts of securities fraud and related crimes. On June 29, 2009, I sentenced him to a
term of imprisonment of 150 years. Mr. Madoff now moves for a reduction in sentence

Who lost money to Bernie Madoff?

- Former Disney Chairman Jeffery Katzenberg
- Nobel Prize winner Elie Weisel
- Actors Kevin Bacon, Kyra Sedgwick, & John Malkovich
- TV host Larry King
- Director Steven Spielberg
- Senator Frank Lautenberg
- Billionaire businessman Ira Rennert

7. Choose retirement investment options strategically

Retirement investment options

- **401(k)** – deferred pre-tax compensation, for-profit companies
- **403(b)** – deferred pre-tax compensation, non-profit companies
- **457** – deferred pre-tax compensation, government institutions
- **415(m)** – deferred compensation for highly paid employees, government institutions
- **SEP IRA** – deferred pre-tax compensation, self-employed
- **Traditional IRA** - taxed deferred compensation, anyone
 1. Pre-tax contribution: income < \$204,000*
 2. Post-tax contribution: income > \$204,000*
- **Roth IRA** – tax-free deferred compensation
 - Post-tax contribution: income < \$204,000*
 - Conversion from traditional IRA: any income
- **Regular investments** – post-tax contribution, anyone

*Married, filing jointly

How are retirement investment options taxed?

- **401(k)** – income tax
- **403(b)** – income tax
- **457** – income tax
- **415(m)** – income tax
- **SEP IRA** – income tax
- **Traditional IRA**
 1. Pre-tax contribution - income tax on entire value
 2. Post-tax contribution – income tax on gains
- **Roth IRA** – tax-free
- **Regular investments**
 - Selling price minus purchase price = capital gains tax
 - Interest & ordinary dividends – income tax

Retirement contribution priority list

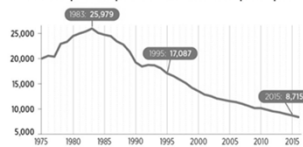
1. Employer-matched 401(k) or 403(b)
2. 457(b)
3. Non-matched 401(k) or 403(b)
4. Simplified employee pension plan (SEP IRA)
5. Roth IRA ("backdoor Roth")
6. 415(m)
7. Regular investments
8. Avoid traditional (post-tax) IRA*

*Except as a tool to immediately convert into a backdoor Roth IRA

What About Fixed Income Retirement Options?

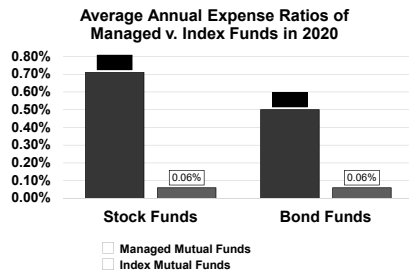
1. Social Security
2. Pensions
 - State Teachers Retirement System
 - Federal Employees Retirement System
3. Annuities

Number of pension plans with 100 or more participants



8. Your first mutual fund should be a no-load index fund

Actively managed mutual funds are more expensive than index funds



Effect of lower expense ratios

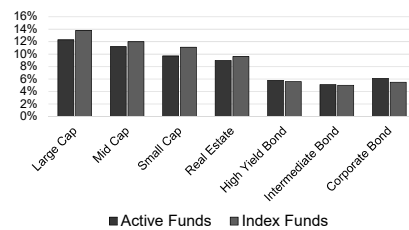
- Expense ratio: percent of total fund balance paid each year to the investment company
 - Basis points = expense ratio x 100
- Expense ratio: 0.21%
 - Expense/20 years = \$19,190
- Expense ratio: 1.15%
 - Expense/20 years = \$96,260
- Difference = \$77,070
- Index funds have lower expense ratios!!!

Effect of percentage fee ("commission") or front load expense

Assume:

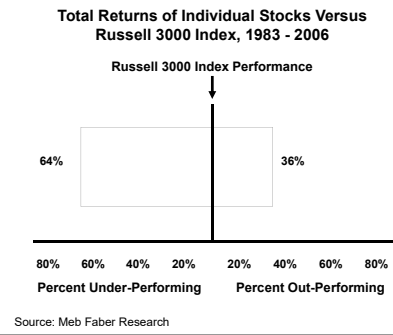
\$100,000	No percentage fee or front load:
8% rate of return	Ending value = \$492,680
20 years to retirement	1.5% fee or front load:
	Ending value = \$485,290
	Difference = \$7,390

U.S. Stock Index Funds Outperform Actively Managed Funds (2010-2020)



Source: Morningstar

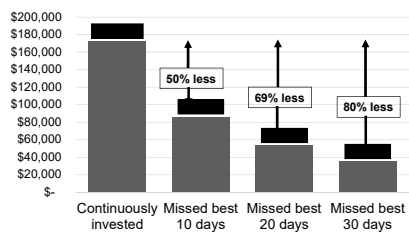
9. Don't buy individual stocks



10. "Timing the market" doesn't work

Time in the market beats timing the market



\$10,000 invested 1990 - 2020

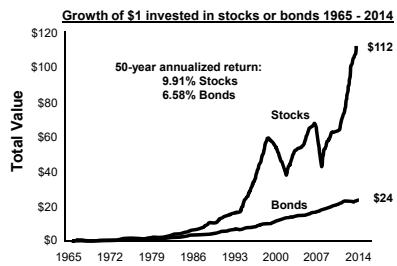
Source: Morningstar

11. If you don't understand it, don't buy it



12. Know your investment horizon

**Stocks are more volatile than bonds short-term
Stocks out-perform bonds long-term**



**Historical Rates of Return by Asset Allocation:
1926 – 2019 (94 years)**

Percent Bonds	Percent Stocks	Average Annual Return	Years With A Loss
100%	0%	5.33%	14
90%	10%	5.99%	12
80%	20%	6.62%	13
70%	30%	7.21%	15
60%	40%	7.77%	17
50%	50%	8.29%	18
40%	60%	8.77%	22
30%	70%	9.21%	23
20%	80%	9.61%	24
10%	90%	9.97%	24
0%	100%	10.29%	26

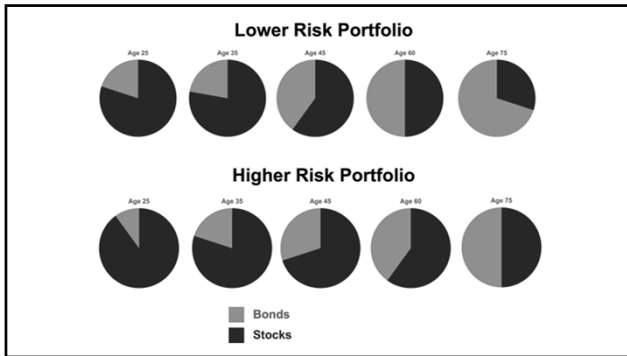
Source: Vanguard

13. Diversify

Diversify by investment types

1. U.S. Stocks
2. Foreign Stocks
3. U.S. Bonds
4. Foreign Bonds
5. Real Estate (REITs)





How much risk can you take?

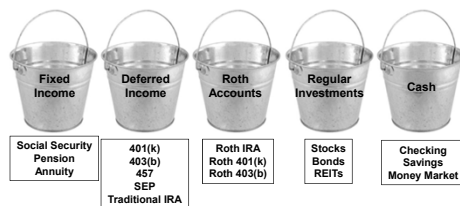
Low Risk

- Market volatility causes anxiety
- Do not have a pension
- Shorter life in retirement
- Retirement income close to retirement expenses

High Risk

- Market volatility does not cause anxiety
- Have a pension
- Longer life in retirement
- Retirement income much higher than retirement expenses

Diversifying By Type Of Account



14. Pay off your student loans on-time (but not too early)

Is it better to put \$10,000 in a 401k/403b/457 or to make an early payment on a student loan?

401k/403b/457 Contribution

- Value of 401k/403b/457 in 20 years = \$49,268
 - Post-tax value = \$40,892
- Disposable income this year = \$172,690
- Total financial benefit in 20 years = **\$40,892**

*Assume 5.3% student loan
 *Assume \$248,000 annual income
 *Assume married, filing jointly, 2 children
 *Assume 8.3% return on investment

Extra Loan Payment

- Net principal and interest reduction in 20 years = \$17,466
- Disposable income this year = \$179,628
 - \$6,938 more compared to 401k/403b/457 contribution
- Total financial benefit in 20 years = **\$24,404**

15. You are your finances best friend and worst enemy


Where to get more information

- ***The Elements of Investing***. 10th edition 2020. Burton G. Malkiel & Charles D. Ellis.
 - This short book can be read in one evening and covers the basics of investing. It was written by the authors for their grandchildren. I gave a copy to each of my own children when they finished college.
- I keep a number of posts about physician finances and retirement planning on my blog website:
 - www.hospitalmedicaldirector.com



Shengyi ("Jing-Jing") Mao, MD


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