



"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







Average healthcare expenditure per American = \$12,530

• National average for family of four = \$25,011





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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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
- <u>\$7 million deferred income needed to retire</u>
 - *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 <u>Risk</u>

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

Lowest To Highest Potential <u>Return</u>

- 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



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	



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%
ed, filing joint retur	n; 2021 rates	Capital Gains Tax F Less than \$ \$80,800 - \$ Greater that	Rates (taxable income) 80,800 = 0% 501,600 = 15% n \$501,600 = 20%







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

<u>Contribution</u> year = when you earned the money and put it into the retirement fund <u>Distribution</u> year = when you take the money out of your retirement fund

The 15 Commandments Of Healthy Finances

















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





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 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
- college expenses in 2040 (\$262,000)





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*</p>
 - 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







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
- Assume:
 - \$100,000
 - 8% rate of return
 - 20 years invested

- 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: N \$100,000 8% rate of return 20 years to retirement 1	No percentage fee or front load: Ending value = \$492,680 1.5% fee or front load: Ending value = \$485,290 Difference = \$7,390
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Time in the market beats timing the market



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Historical Rates of Return by	Assess 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: V	anguard		

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





Is it better to put \$10,000 in a 401k/403b/457 or to make an <u>early</u> 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





Shengyi ("Jing-Jing") Mao, MD





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