# Physician Financial Health 

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## "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

## ????

## 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


## ????

## Health Insurance Cost

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



## ????

## National Average Malpractice Premiums

| Speciality | 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


## ????

## Your Children's College Education Costs

The Ohio State University University of Notre Dame

\$779,487


## ????

## 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

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## Investing 101

## Investment Options

Lowest To Highest Risk<br>1. Savings accounts<br>2. Certificates of deposit<br>3. Money markets<br>4. Bonds<br>4. Bonds<br>5. Stocks<br>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


## Your Effective Tax Rate is Not Your Marginal Rate

| Taxable Income | Marginal Tax <br> Bracket | Effective Tax <br> Rate | Capital Gains <br> 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 <br> investment | Not applicable |

***Except Pennsylvania

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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
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## 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 LNSI 4000000 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)
2036 (14 yrs)
2043 (21 yrs)
2050 (28 yrs)
2057 (35 yrs)
\$70,000
\$137,000
\$266,000
\$520,000
\$1,012,000

## 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



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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
UNITED STATES OF AMERICA
```

BERNARD L. MADOFF,
Defendant.

APPEARANCES:

## BRANDON SAMPLE PLC

Attorney for Defendan
By: Brandon Sample, Esq
Ruland VT 057

AUDREY STRAUSS, Esq.
Attorney for the United State
Acting Under Authority Conferred by 28 U.S.C. $\S 515$
By: Drew Skinner, Esq.
$\qquad$
Assistant United States Attorneys
One St. Andrews Plaza
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
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

## 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? <br> 1. Social Security <br> 2. Pensions <br> - State Teachers Retirement System <br> - Federal Employees Retirement System

3. Annuities


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

## Actively managed mutual funds are more expensive than index funds

> Average Annual Expense Ratios of Managed v. Index Funds in 2020
$0.80 \%$
$0.70 \%$
$0.60 \%$
$0.50 \%$
$0.40 \%$
$0.30 \%$
$0.20 \%$
$0.10 \%$
$0.00 \%$
0.71\%

Stock Funds
$\begin{aligned} & \text { Managed Mutual Funds } \\ & \text { Index Mutual Funds }\end{aligned}$



Bond Funds

## Effect of lower expense ratios

- Expense ratio: percent of total fund balance paid each year to the investment company
- Basis points = expense ratio $\times 100$
- 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 $=\mathbf{\$ 7 7 , 0 7 0}$
- Index funds have lower expense ratios!!!


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

Assume:
\$100,000
$8 \%$ rate of return
20 years to retirement

No percentage fee or front load:
Ending value = \$492,680
1.5\% fee or front load:

Ending value = \$485,290
Difference $=\$ 7,390$
U.S. Stock Index Funds Outperform Actively Managed Funds (2010-2020)


## 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



## 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 Assess Allocation: 1926 - 2019 (94 years)

| Percent <br> Bonds | Percent <br> Stocks | Average Annual <br> Return | Years With A <br> Loss |
| :---: | :---: | :---: | :---: |
| $100 \%$ | $0 \%$ | $5.33 \%$ | 14 |
| $90 \%$ | $10 \%$ | $5.99 \%$ | 12 |
| $80 \%$ | $20 \%$ | $\mathbf{6 . 6 2 \%}$ | 13 |
| $70 \%$ | $30 \%$ | $\mathbf{7 . 2 1 \%}$ | 15 |
| $60 \%$ | $40 \%$ | $\mathbf{7 . 7 7 \%}$ | 17 |
| $50 \%$ | $50 \%$ | $\mathbf{8 . 2 9 \%}$ | 18 |
| $40 \%$ | $60 \%$ | $8.77 \%$ | 22 |
| $30 \%$ | $70 \%$ | $\mathbf{9 . 2 1 \%}$ | 23 |
| $20 \%$ | $80 \%$ | $\mathbf{9 . 6 1 \%}$ | 24 |
| $10 \%$ | $90 \%$ | $\mathbf{9 . 9 7 \%}$ | 24 |
| $0 \%$ | $100 \%$ | $\mathbf{1 0 . 2 9 \%}$ | 26 |

## 13. Diversify

## Diversify by investment types

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



Higher Risk Portfolio


## 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 $401 \mathrm{k} / 403 \mathrm{~b} / 457$ or to make an early payment on a student loan?

## 401k/403b/457 Contribution

- Value of $401 \mathrm{k} / 403 \mathrm{~b} / 457$ 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 $401 \mathrm{k} / 403 \mathrm{~b} / 457$ contribution
Total financial benefit in 20 years $=\$ 24,404$


## Where to get more information

- The Elements of Investing. $10^{\text {th }}$ 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

## Remember to e-mail us your questions.



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Click on the post-test button on the webcast page.




[^0]:    *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

