



Physician Financial Health

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MedNet21
Center for Continuing Medical Education

THE OHIO STATE UNIVERSITY
WEXNER MEDICAL CENTER

*How much educational
debt do you have?*

Average Medical School Debt

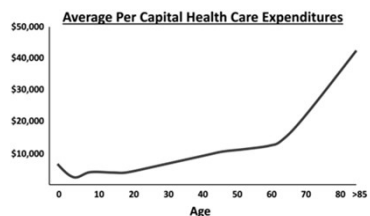
- 71% have some debt
- Median:
 - Medical school alone \$235,000
 - Medical school + undergraduate \$265,000
- Payment (PAYE):
 - \$333 per month residency
 - \$1,600 - \$2,400 per month post residency
- Total repayment cost: \$375,000



*How much will health
care cost?*

Health Care Cost

- Average healthcare expenditure per American: \$14,570
- If > 65-years-old: \$23,000
- National average health insurance premiums for family of four = \$24,000



***How much will
malpractice insurance
cost?***

National Average Malpractice Premiums

Specialty	Average Premium	
	California	Florida
Internal Medicine	\$8,274	\$59,736
General Surgery	\$41,775	\$243,988
OB/GYN	\$49,804	\$243,988

Source: American Medical Association

***How much will your
children's college
education cost?***

Your Child's Four-Year College Education Costs In 18 Years Will Be:

The Ohio State University

\$281,426



University of Notre Dame

\$830,562



University of Dayton

\$655,978



Source: <https://vanguardcollege.sunc.cloud/calcost.php>

How much do you need to save for retirement?

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

- \$378,000 gross income
- Expenses = \$125,000
 - Retirement savings, mortgage, college savings, life insurance
- Income taxes = \$98,000
- Disposable Income = \$155,000
 - Food, clothes, entertainment, property taxes, travel, healthcare, etc.
- **\$517,000** annual after-tax retirement income needed to maintain current disposable income in 35 years due to inflation
- **\$15 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

These are scary numbers!



Fortunately, there is...



Investing 101

Ranking 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?

Stock mutual funds

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

Bond mutual funds

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

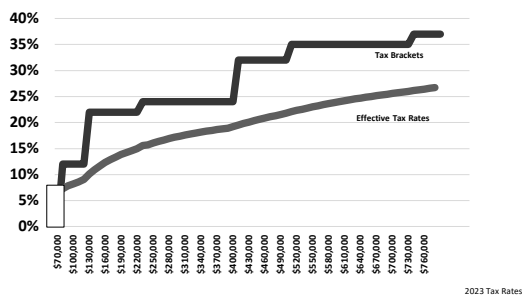
Taxes 101

2025 Federal Income Tax Brackets

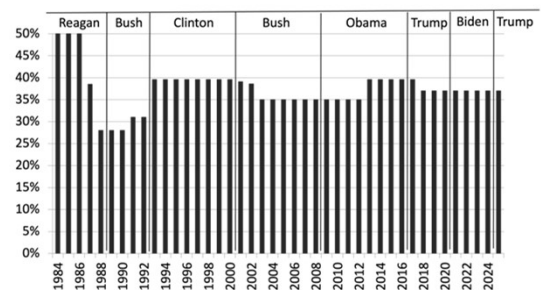
Tax Bracket	Taxable Income	Tax Rate*
< \$23,850		10%
\$23,850 – \$96,950		12%
\$96,950 – \$206,700		22%
\$206,700 – \$394,600		24%
\$394,600 – \$501,050		32%
\$501,050 – \$751,600		35%
> \$751,600		37%

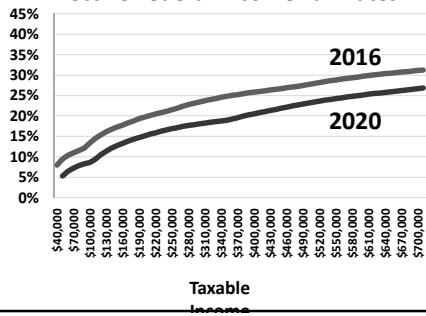
*Married, filing joint return

Your Effective Tax Rate is Not Your Tax Bracket



Top Income Tax Bracket 1984-2025



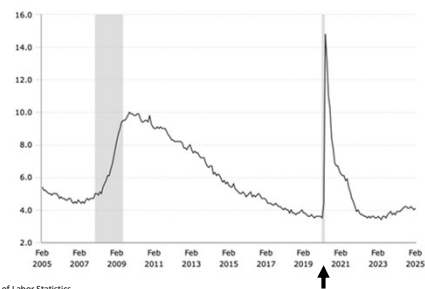
Effective Federal Income Tax Rates**When Do You Pay Taxes?**

Type Of Tax	Disposable Income	401k/403b/457/415m/IRA	Roth Accounts
Federal income tax	Earnings year	Retirement years	Earnings year
State income tax	Earnings year	Retirement years*	Earnings year
Local income tax	Earnings year	Earnings year	Earnings year
Social security tax	Earnings year	Earnings year	Earnings year
Medicare tax	Earnings year	Earnings year	Earnings year

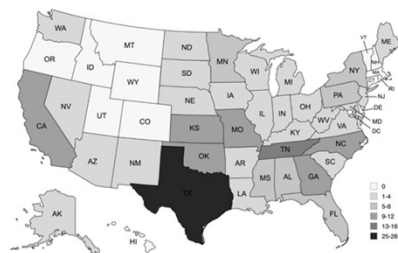
*Except Pennsylvania

The 15 Commandments Of Healthy Finances

1. Have an emergency fund



Source: U.S. Bureau of Labor Statistics



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2. Eliminate excessive debt

Beware of your own pent-up consumption



Making a budget

1. Estimate your annual gross income
2. Estimate your annual taxes
3. Estimate your annual basic living expenses
 - Loan and mortgage/rent payments
 - Insurance premiums
 - Previous credit card annual summaries
 - Previous checking account annual summaries
4. Determine your annual retirement contributions
5. What is left is your estimated discretionary income

3. Buy insurance judiciously

What insurance do I need?

- **Homeowner's, automobile & health Insurance:**
 - Everybody for their lifetime
- **Term life insurance:**
 - Children at home
 - Sole family income-earner
- **Whole life & universal 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 will be too high and they are expensive

4. Start saving for retirement early

Compounding interest is your greatest tool

- Single 2025 retirement investment: \$36,000
- Assume 10% annual investment return*

2032 (7 yrs)	\$70,000
2039 (14 yrs)	\$137,000
2046 (21 yrs)	\$266,000
2053 (28 yrs)	\$520,000
2060 (35 yrs)	<u>\$1,012,000</u>

*Average stock market annual return 1957 – 2024 = 10.13%

Compounding interest is magic

- Assume 8% average annual investment return
- Investment amount per year:
 - \$10,000 per year 2060 (35 years) = \$1.8 million
 - \$20,000 per year 2060 (35 years) = \$3.7 million
 - \$30,000 per year 2060 (35 years) = \$5.6 million
 - \$40,000 per year 2060 (35 years) = \$7.4 million
 - \$50,000 per year 2060 (35 years) = \$9.3 million
 - \$60,000 per year 2060 (35 years) = \$11.2 million
 - \$70,000 per year 2060 (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
- The parent controls withdrawals
- Unused funds can be rolled over into another child's 529
- 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 child's fund when born
- \$100/month into child's fund
- Goal = Ohio public college expenses in 18 years

What I Would Have To Do Today:

- \$16,000 into child's 529 fund when born
- \$450/month into child's fund
- Goal = Ohio public college expenses in 2043 (\$282,000)

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 PLC
Attorney for Defendant
By: Brandon Sample, Esq.
F.O. No. 280
Rutland, VT 05702

AUDREY STRAUSS, Esq.
Attorney for the United States,
Acting Under Authority Conferred by 28 U.S.C. § 533
By: Drew Sklarer, Esq.
Louis A. Pellegrino, Esq.
Assistant United States Attorneys
One W. Andrews Plaza
New York, NY 10007

CHEN, 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 < \$126,000*
 2. Post-tax contribution: income > \$146,000*
- **Roth IRA** – tax-free retirement fund, anyone
 - Direct post-tax contribution: income < \$236,000*
 - Conversion (“backdoor Roth”) from traditional IRA: any income
- **Regular investments** – post-tax contribution, anyone

*Married, filing jointly

How are retirement investment options taxed? (state and federal income tax)

Type of Investment	Type of Tax	When Tax is Paid
401k, 403b, 457	Income tax on all	Year of withdrawal
SEP IRA	Income tax on all	Year of withdrawal
Pension	Income tax on all	Year of withdrawal
Traditional IRA (pre-tax contribution*)	Income tax on all	Year of withdrawal
Traditional IRA (post-tax contribution)	Income tax on gains	Year of withdrawal
Roth IRA	Income tax on all	Year of contribution

*Income limit for traditional IRA pre-tax full contribution:
 < \$79,000 Filing single
 < \$126,000 Married filing joint

How are non-retirement investments taxed?

Type of Investment	Type of Tax	When Tax is Paid
Interest	Income tax	Year interest earned
Ordinary dividends	Income tax	Year dividends distributed
Qualified dividends	Capital gains tax*	Year dividends distributed
Capital gains	Capital gains tax*	Year investment sold

*Capital Gains Tax

Taxable income (filing single)	Taxable income (married filing jointly)	Capital Gains Tax Rate
< \$47,025	< \$94,050	0%
⇒ \$47,025 - \$518,900	\$94,050 - \$583,750	15%
> \$518,900	> \$583,750	20%

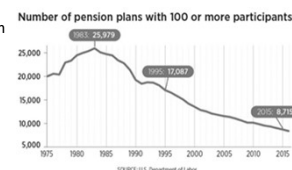
Retirement contribution priority list

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

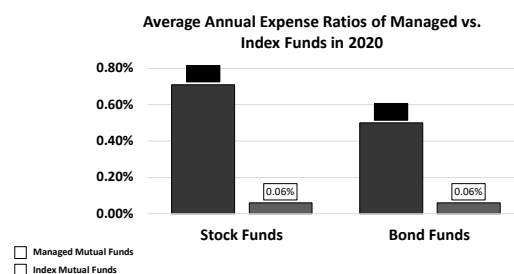
What About Fixed Income Retirement Options?

1. Social Security
 - average benefit = \$23,712
 - maximum benefit (age 70) = \$61,296 per year
2. Pensions
 - Federal Employees Retirement System
 - State Teachers Retirement Systems
3. Annuities



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

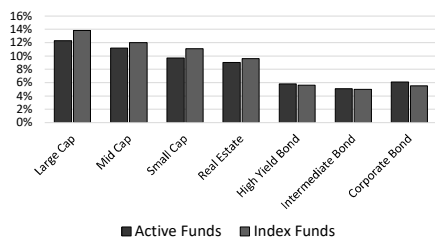
- Expense ratio: percent of total fund balance paid each year to the investment company
- Assume:
 - \$100,000
 - 8% rate of return
 - 20 years invested
- Index fund expense ratio: **0.02%**
 - Value at 20 years = \$430,054
- Managed fund expense ratio: **0.87%**
 - Value at 20 years = \$370,093
- Difference = \$59,961**
- 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
 0.02% annual expense ratio

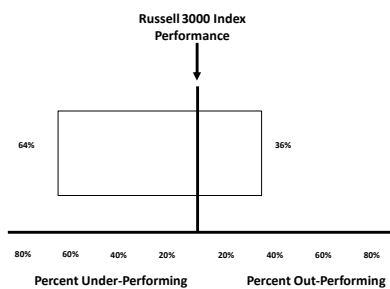
No percentage fee or front load:
 Ending value = \$430,054
 1.5% fee or front load:
 Ending value = \$423,603
Difference = \$6,451

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



9. Don't buy individual stocks

Total Returns of Individual Stocks Versus Russell 3000 Index, 1983 - 2006

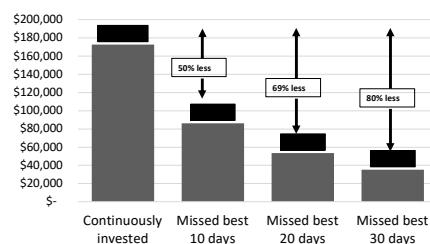


10. "Timing the market" doesn't work

Time in the market beats timing the market



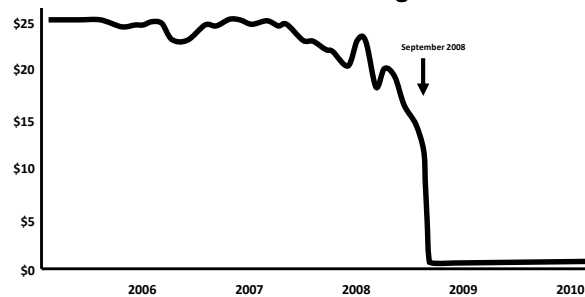
\$10,000 invested 1990 - 2020



Source: Morningstar

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

Lehman Brothers Holding Co.



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 – 2022 (97 years)

Percent Bonds	Percent Stocks	Average Annual Return	Years With A Loss
100%	0%	5.1%	14
80%	20%	6.4%	14
70%	30%	7.0%	17
60%	40%	7.5%	19
50%	50%	8.1%	20
40%	60%	8.5%	23
30%	70%	9.0%	22
20%	80%	9.4%	24
0%	100%	10.1%	26

Source: Vanguard

13. Diversify

Diversify by type of investment

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



How much risk can you personally take?

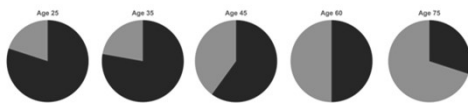
Low Risk

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

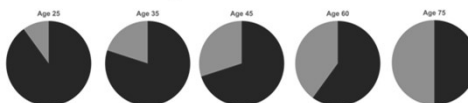
High Risk

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

Lower Risk Portfolio

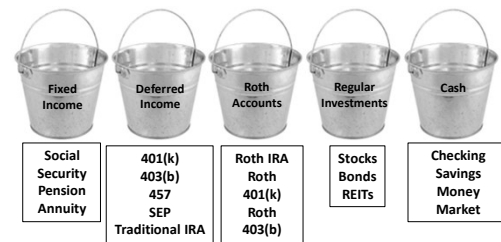


Higher Risk Portfolio



■ Bonds
■ Stocks

Diversifying By Type Of Account



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

Public Service Loan Forgiveness (PSLF)

- Federal direct student loans
- Be employed by a government or non-profit organization
- Work full-time
- Income-based repayment plan (eg, PAYE or REPAYE)
- 10 years of monthly on-time payments
- Submit a PSLF application and certification every year
- After 10, years, remaining loan principal is forgiven!

Public Service Loan Forgiveness Strategy

- Consolidate loans into federal direct loans if possible
- Always make on-time payments
- Do not make early payments
- Do not defer start of payments
- Consider filing taxes separately if your spouse has a high income
 - Only for PAYE plans; not for REPAYE plans

Public Service Loan Forgiveness: Caveats

- It might go away
- Don't sell your dreams when choosing your employer
- You might change your mind and change jobs
- You might be better off without PSLF

I have loans that are not eligible for PSLF: Is it better to put \$10,000 in a 401k/403b/457 or to make an early payment on the 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 taxable 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 2021. 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