Financial Planning for Medical Graduates

Vanderbilt University School of Medicine

Presented by
Michael C. Waters, CEBS
Aaron D. Waters
FINANCIAL PLANNING 101
Pyramid of Financial Strategies

Level 4:
**Investing Aggressively**
Speculative Investments for Greater Growth Potential

Level 3:
**Financial Growth**
Wealth Accumulation
Overcoming Inflation

Level 2:
**Financial Foresight**
Capital Accumulation
Saving for the Future

Level 1:
**Necessary Foundation**
Risk Management

Art
Metals
Oil & Gas
Commodities
Venture Capital

Investment Real Estate
Growth Stocks & Mutual Funds
Variable Life Insurance & Annuities

Buying a Home
Vacations
Providing for your Family (e.g. College Savings)
Retirement Plans
Money Market Accounts
Corporate/Municipal Bonds
Conservative Equities

Medical Insurance
Disability Insurance
Life Insurance
Auto & Property Insurance
Emergency Savings
Debt Management

- **Long Term Perspective**
  - View your school debt in relation to your next 10 years of income, not just your resident’s salary

- **Pay Yourself First**
  - Prioritize retirement plans, savings, investments

- **Rate Reductions**
  - Auto-Pay and timely payments can significantly reduce your interest rate

- **Repayment Extensions**
  - Stretch out your repayment period to lower monthly payments
Student Loan Deduction

- Deduct interest for life of loan
- Maximum deduction is $2,500
- Income phase-out ranges apply
  - Single: $60,000-$75,000
  - Married: $120,000-$150,000

When phased out, consider using a home equity loan or consolidate to lower interest rates
Tuition Deduction

- Maximum deduction of $4,000 on higher education expenses
- Income phase outs
  - $130,000 to $160,000 for married, filing jointly
  - $65,000 to $80,000 for single filers
- No need to itemize
- Education Credit vs. Deduction
  - Could claim deduction in lieu of education credits.
  - Need to compare which would yield greater benefit.
American Opportunity Credit

- $2,500 annual tax credit for education expenses
- 40% of credit amount is refundable
- Available for undergraduate, graduate & professional degrees
- Income up to: Single $ 80,000  
                 Married $160,000
- Need to coordinate with new tuition deduction
Buying a House?

- How long will you live in the house?
  - Usually a good idea to plan on being in the area at least 5 years

- What are the taxes?

- What is the cost of insurance?

- What is the re-sale market?
Buying a House?

- Deductible mortgage interest on first and second homes
- Deduct up to $100,000 in home equity loan or line of credit interest
- Deduct points paid on mortgage or refinancing
- Deduct real estate property taxes
Planning for Your Future

INVESTMENT STRATEGIES
Key Investment Questions

Application question: *What do I invest the money in?*

- What are your investment goals?
- How liquid does the investment need to be?
- What is your risk tolerance?
- What is the impact of income taxes?
- What is the economic outlook?
- Is the skill and knowledge needed to manage the investment available?
- How much money is available to be invested?
Compound Growth: Rule of 72 and 115

- How long for your money...
  - To double? ...Divide 72 by the interest rate.
  - To triple? ...Divide 115 by the interest rate.

![Chart showing time to double or triple with different interest rates.](chart.png)

With a 12% rate of return, your money will double in approximately 6 years.
Asset Allocation

Sample Financial Portfolio

Sample Equities Portfolio
*Moderately Aggressive Allocation*

<table>
<thead>
<tr>
<th>Category</th>
<th>Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>20%</td>
</tr>
<tr>
<td>Large Value</td>
<td>24%</td>
</tr>
<tr>
<td>Large Growth</td>
<td>26%</td>
</tr>
<tr>
<td>Small Cap</td>
<td>6%</td>
</tr>
<tr>
<td>International Equity</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total Allocation</strong></td>
<td><strong>100%</strong></td>
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</table>
How a Roth IRA Works

- Establishing an account
  - Open anytime between Jan 1st of current year and the due date of the tax return
  - Account is typically self-directed
  - A separate Roth IRA may be established for a spouse with little or no earnings

- Contribution considerations
  - $5,500 contribution limit in 2013
  - Earnings accumulate tax-deferred
  - Contributions are not tax deductible

- Distributions typically during retirement or at death
  - Also, option for first time home buyers
Income limits for contributions

- **Single Filers:**
  - $112,000 for full contributions
  - $127,000 for partial contributions

- **Joint Filers:**
  - $178,000 for full contributions
  - $188,000 for partial contributions

Good idea to take advantage of Roth IRA contribution allowance while income below limits
Establish an Emergency Fund

- An emergency fund is a necessary piece of foundation to any sound financial plan.
- Emergency savings help in the event of hardships or unexpected occurrences.
  - At least 3 months of income saved
    - Especially helpful in the event of a disability
  - 6 months if possible
Summary / Action Points

- Establish a financial plan
- Develop the habit of paying yourself first
  - Establish an “Emergency Fund”
  - Roth IRA, 403(b), Money Market account, etc.
- View your debt with a long-term perspective
  - Refinance High-Cost Loans
  - Consolidate Loans
Risk Management

- If injured or sick, will you have income?
  - Disability Insurance

- If deceased, how will debts be covered and your family afford living expenses?
  - Life Insurance

- If engaged in legal proceedings, how will expenses be covered?
  - Malpractice Insurance
  - Umbrella Policy
  - Property & Casualty
Everything you own, plan to own, or plan to pay off, depends on your future ability to earn an income.

**DISABILITY INSURANCE**
Post-Disability Income

Disability income is typically broken into two categories: business and personal.

It typically takes multiple types of coverage to cover all your expenses through the duration of a disability.
The Impact of Disability

[Chart showing the impact of disability on income and expenses over a period of 10 years, with a significant increase in expenses and decrease in income post-disability event.]
What is the Likelihood I File a Claim?

- Approximately 30% of all people aged 35 to 65 will suffer a disability for at least 90 days, and approximately 15% will be disabled for five years or more.*

- This is higher than the probability of filing a claim for life insurance, homeowners’ insurance, or car insurance.

*Health Insurance of America, 2000
Types of Disabilities

- **TOTAL** – Inability to work in any occupation

- **RESIDUAL/PARTIAL** – Ability to work in your occupation, but with a reduced capacity and earning potential

- **OWN OCCUPATION** – Inability to work in your occupation or specialty, but ability to work in another occupation
Those doing residency in California or Florida

- Own-occupation definition of disability is imperative to have for physicians
  - Protects education, years of training, future earning potential
  - ONLY TWO INSURANCE CARRIERS PROVIDE THIS TYPE OF COVERAGE IN CALIFORNIA
    - Extremely expensive if applied for in CA and choices are very limited.
    - Other states such as Florida and New York offer limited choices
If planning to do training or reside in one of these states it is very important to obtain coverage before moving there.

- Secure TN rates and own-occupation definition in contract and is portable wherever you go and cannot change from state to state.

- Have the ability to increase your benefit later on in CA, NY, FL, etc. with TN rates and specialty-specific coverage with no medical questions
# Group vs. Individual Disability Insurance

<table>
<thead>
<tr>
<th>Feature</th>
<th>Typical Group</th>
<th>Quality Individual</th>
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<tbody>
<tr>
<td>Tax Free Benefit</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Non-cancelable by insurer</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Guaranteed Rates</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Portable to new job</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Own Occupation Benefit</td>
<td>Sometimes</td>
<td>Yes</td>
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<tr>
<td>Benefit Amount</td>
<td>% of Income</td>
<td>Full Benefit</td>
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</tbody>
</table>
Recommended Insurers for Physicians

GUARDIAN

UnionCentral
A UNIFI Company

MassMutual
FINANCIAL GROUP

Principal
Financial Group

MetLife

The Standard
Disability Insurance – Standard Rate

Disability Income Insurance Illustration
Premium Summary Report
Prepared for Medical Student

Policy Information

Disability Benefit
- After a 90 day elimination period, your maximum monthly benefit is $2,000 from day 91 to Age 67
  - Total maximum monthly benefit is $2,000

Occupation Class: 5A-M

Nonsmoker

State Residence: TN

Total Potential Benefit*: $978,000
*This does not reflect any potential COLA increase.

Premium Before Riders and Discounts: $588.40

No Additional Premium Riders:
- Benefit Update
- Capital Sum Benefit of $24,000.00
- Future Benefit Increase
- Mental/Nervous Disorder Limitation
- Presumptive Disability Benefit

Additional Premium Riders:
- 3% Cost of Living Adjustment
- Regular Occupation
- Residual Disability and Recovery Benefit

Total: $384.20

Premium Before Discounts: $972.60

Discounts:
- Mental/Nervous Disorder Limitation
Total (10.00%): $97.26

TOTAL ANNUAL PREMIUM: $875.34

<table>
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<th>Premium Payment Options</th>
<th>Annual Premium Payment Frequency Charge</th>
<th>Annualized Premium</th>
<th>Premium Amount</th>
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<td>$887.32</td>
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<tr>
<td>Quarterly</td>
<td>$43.98</td>
<td>$919.68</td>
<td>$229.83</td>
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<tr>
<td>Monthly/Electronic Funds Transfer</td>
<td>$44.34</td>
<td>$919.68</td>
<td>$78.64</td>
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Disability Insurance – Discounted Rate

Disability Income Insurance Illustration
Premium Summary Report
Prepared for Medical Student

Policy Information

Disability Benefit
After a 90 day elimination period, your maximum monthly benefit is $2,000 from day 91 to Age 67
Your occupation period is to age 67
Your total maximum monthly benefit is $2,000

Premium Before Riders and Discounts: $443.80

No Additional Premium Riders:
- Benefit Update
- Capital Sum Benefit of $24,000.00
- Future Benefit Increase
- Mental/Nervous Disorder Limitation
- Presumptive Disability Benefit

Additional Premium Riders:
- 3% Cost of Living Adjustment
- Regular Occupation
- Residual Disability and Recovery Benefit
- Total

Premium Before Discounts: $728.60

Discounts:
- Mental/Nervous Disorder Limitation
- Multi-Life
- Total (30.00%)

TOTAL ANNUAL PREMIUM: $510.02

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<th>Premium Amount</th>
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<td>$535.68</td>
<td>$133.92</td>
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<tr>
<td>Monthly/Electronic Funds Transfer</td>
<td>$25.90</td>
<td>$535.92</td>
<td>$44.66</td>
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</table>
Summary / Action Points

- Disability Insurance is one of the most under-rated Risk Management tools
- Locking in now protects against changes in your health status as you buy more coverage in future
- Take advantage of BPG’s negotiated discounts and unisex rates
  - These are only applicable while in medical school at Vanderbilt and not offered by other firms
  - Saves women up to 60% compared to other contracts
  - Can save men 20% or more on premiums
Providing for Your Family, Protecting Your Assets

LIFE INSURANCE
General Purposes of Life Insurance

Death Benefit Uses for Life Insurance

- Create an estate
- Pay death taxes and other estate settlement costs
- Fund a business transfer
- Pay off a home mortgage
- Protection from the loss of a key employee
- Replace a charitable gift
- Pay off loans
- Equalize inheritances
- Accelerated death benefits
Types of Life Insurance

- **Term**
  - Level Term - Premium level for duration of term
  - Annually Increasing Term – Premium increases each year
  - Decreasing Term – Premium remains level, death benefit decreases

- **Permanent**
  - Universal Life – Guaranteed premium and death benefit
  - Variable Life – Few guarantees, cash value tied to the stock market
  - Whole Life – Guaranteed premium, death benefit, and cash value
## Life Insurance
### Premiums for $1 Million of Coverage

<table>
<thead>
<tr>
<th></th>
<th>Male, Age 26, Preferred Plus</th>
<th>10 year</th>
<th>15 year</th>
<th>20 year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guardian</strong></td>
<td></td>
<td>$33</td>
<td>$37</td>
<td>$50</td>
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<tr>
<td><strong>Banner</strong></td>
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<td>$25</td>
<td>$28</td>
<td>$37</td>
</tr>
<tr>
<td><strong>MetLife</strong></td>
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<td>$28</td>
<td>$35</td>
<td>$45</td>
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<tr>
<td><strong>AIG</strong></td>
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<td>$27</td>
<td>$29</td>
<td>$45</td>
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<tr>
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<td>$33</td>
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</table>
Summary / Action Points

- Will you have life insurance during residency to cover debts and provide for family?
- Term insurance is inexpensive while you’re young and in good health
Questions?

If you have questions or would like to see personalized quotes, please give us a call.

(800) 225-7174
www.myBPGinc.com | info@myBPGinc.com

The Benefit Planning Group, Inc.
3400 Croasdaile Drive, Suite 206
Durham, NC 27705