Bryan Rudolph, MD, MPH July 3, 2018

Financial Wellness for Pediatric Fellows

Introduction (and disclaimers)

I am not a certified financial planner or financial professional; I am an academic pediatric gastroenterologist with an avid interest in business, finance, and investment. Today's talk is meant to share my experience and knowledge about "financial wellness" with all of you, the incoming pediatric fellows at CHAM.

The Consumer Finance Protection Bureau (CFPB) defines financial wellness as "having financial security and financial freedom of choice, in the present and in the future." This is a vague, highly-personal threshold in which tradeoffs are assumed. And I hate to be the bearer of bad news, but as a pediatric subspecialist…well, let's just say there's going to be a lot of tradeoffs.

I am structuring this talk as if you don't know much about investment vehicles, financial products, or financial wellness – which is probably a fair assumption given the current state of medical education in the U.S. and my own experience. For those with a financial background and more advanced questions, however, please feel free to contact me to discuss these topics further. I am always happy to help where I can or, at least, point you in the right direction.

Lastly, financial literacy is becoming an increasingly necessary skill for modern physicians and healthcare delivery leaders. And, clearly, one cannot learn financial literacy in one 30-minute talk. I therefore encourage you all to continue reading and learning about financial issues independently. To quote Warren Buffett, *"The best investment you can make is in your own abilities."*

Savings

Most financial planners recommend having 3-6 months of salary in savings at all times. More conservative planners even recommend 12 months of savings. The rationale is simple: if you can't work, or have a large unexpected cost, it is important to have freely accessible money in order to pay every-day living expenses.

In general, it is smart to build a savings account before others (like a retirement account). Personally, I keep my savings in a high-yield, online savings account. Remember, the goal here is to have the money a) immediately available and b) not lose value. I'd therefore recommend avoiding any high risk investment (like stocks).

Retirement

To me, retirement is personal. Sure, there are guideposts as to how much you should save or how to invest, but they are just that: guideposts. Ultimately, how much you save, and what you have to give up in order to save it, is a personal decision.

How much should I invest?

In general, most financial advisors recommend saving at least 10% of your annual salary for retirement. In truth, this is probably an oversimplification (and discussed in additional sections below) and underestimate. If you have the means, I would consider a consultation with a fee-only financial planner. Such individuals can be easily found online and can help with calculating individual retirement needs.

"When a person with money meets a person with experience, the one with experience ends up with the money and the one with money leaves with experience."
- Warren Buffett

For those with some degree of financial sophistication, try using one of many online retirement calculators (many more can be found online):

https://retirementplans.vanguard.com/VGApp/pe/pubeducation/calculators/RetirementIncomeCalc.jsf

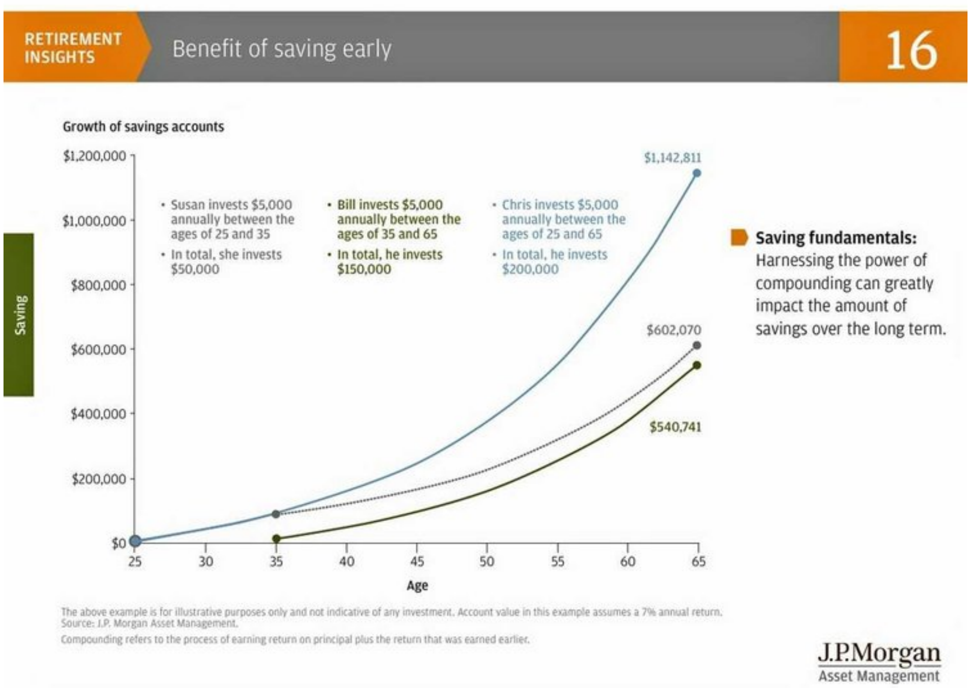
https://www.kiplinger.com/tool/retirement/T047-S001-retirement-savings-calculator-how-much-money-do-i/index.php

The Magic of Compounding

Saving works best when allowed to "compound" over long periods of time. Therefore, it's best to start saving as soon as possible!

$$A = P\left(1 + \frac{r}{n}\right)^{nt}$$

Where:
A = the future value of the investment/loan, including interest
P = the principal investment amount (the initial deposit or loan amount)
r = the annual interest rate (decimal)
n = the number of times that interest is compounded per year
t = the number of years the money is invested or borrowed for



**Above image shamelessly stolen from the internet. Thank you, Google (and presumably J.P. Morgan)*

What Type of Retirement Account Is Best for Me?

After you decide how much money to invest for retirement, it's time to determine where – both in the investment account (Roth IRA, Traditional IRA, or 403 (b)) and vehicle (stocks, bonds, etc.).

To start in reverse order, here are CHAM, fellows are automatically enrolled in a 403(b) retirement account through Fidelity. This type of retirement account is specifically designed for non-profit companies like hospitals. In a 403(b) retirement account, money is taken out of your paycheck before taxes are paid – therefore, the total amount of taxes you owe to the government is decreased – and you instead pay taxes when the money is withdrawn during retirement. Keep in mind that with a 403(b) you must pay a penalty for withdrawing money before 59 ½ years of age and that the penalties for doing so are *huge*: 10% on the withdrawn money upfront plus 25% in taxes to the IRS.

Here at CHAM, there is no "matching" for house staff and, therefore, very little benefit for participating. You can elect the participation amount or un-enroll entirely, should you choose.

A traditional IRA ("individual retirement account") is similar to a 403(b) in that you put "pre-tax" money into the account. Money grows, hopefully, with interest and you pay taxes on the money in retirement when the money is withdrawn. Also similar to a 403(b), there is an early withdrawal penalty for traditional IRAs.

Lastly, you can choose to invest retirement savings in a Roth IRA. <u>I strongly recommend you consider investing in a Roth IRA, should you qualify and have the resources to do so</u>. Roth IRAs are different from other retirement accounts in that the money you invest are "post-tax" or after tax dollars. This way, you can withdraw the money in retirement *without* paying any additional taxes. This is beneficial for house staff because your tax bracket in retirement is almost certainly going to be higher than it is now; therefore, you pay less money in overall taxes by investing in a Roth IRA. Moreover, you can withdraw up to $10,000 of the account balance *without penalty* IF you have the account open for more than 5 years AND you're using the money to buy your first home. If there's a Roth IRA for you and a spouse, each spouse can withdraw $10,000 ($20,000 total for a married couple).

There are limitations on Roth IRAs, however. Namely, in 2018, if you are single, you must have a modified gross adjusted income under $135,000, but contributions are reduced starting at $120,000. If you are married filing jointly, your modified gross adjusted income must be less than $199,000, with reductions beginning at $189,000. Further, you can only invest a maximum of $5,500 per year in a Roth IRA, though limitations may apply.

Where should I invest the money?

If you participate in the 403(b) account through Montefiore, you must choose among a group of pre-selected investment vehicles (mutual funds, index funds, etc.). If you open an IRA (either traditional or Roth), however, you can essentially invest the money however you'd like.

Decisions on where to put your money are highly personal and depend largely on your risk tolerance. In general, stocks are considered more risky investments and bonds or U.S. treasury bills are considered safer. However, with safety often comes with lower returns.

The best options for retirement accounts are, for most fellows, going to be low cost index funds or mutual funds. Mutual funds are professional managed investment vehicles in which you pool money with other investors to purchase securities (stocks, bonds, etc.). An index fund is a type of mutual fund designed to mirror a given index (like the S&P 500 or Dow Jones Industrial

Average). There are a near-infinite number of options available but most index funds have lower costs than mutual funds (because they're not professionally managed) and are therefore – again generally – preferred by many investors.

"If you aren't willing to own a stock for 10 years, don't even think about owning it for ten minutes."

- Warren Buffett

Educational Loans

There are several loan repayment options for those with educational debt; I think two options warrant mention. The first, the Public Service Loan Forgiveness (PSLF) program will pay off (i.e. forgive) the remaining balance on your DIRECT student loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer. Montefiore is a qualifying employer. For additional details on the PSLF program, visit https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service

The second major loan repayment option is the National Institutes of Health (NIH) Loan Repayment Program (LRP). The LRP was established by Congress in order "to recruit and retain highly qualified health professionals into…research careers." Acceptance into the LRP program pays off $35,000 in educational debt in return for a commitment to engage in NIH-mission-relevant research. Acceptance is difficult, but a wonderful option for those interested in a research-oriented academic career. For more information, visit https://www.lrp.nih.gov/

Additional tips:

- Consider contacting your loan servicer to set up direct debit. Many lenders offer an interest rate reduction for those who set up direct debit, which could save you hundreds or thousands of dollars over the life of the loan!

- If your budget allows for it, and you have already set aside some funds for emergencies, then you could consider making a payment for more than what is required. You'll pay off your loan faster and pay less in interest. For most federal loans and private (non-federal) loans, you can make additional payments at any time without a penalty

- If you do pay more than the minimum payment, be sure to apply these payments to your loan with the highest interest rate first

529 Savings Accounts

A “529 plan” is designed to encourage saving for education costs. Similar to a Roth IRA, money is invested into a 529 account on an after-tax basis; money can then be withdrawn to pay for college or qualified educational expense *without* having to pay taxes. If you have children, see the section on compounded interest and consider investing as soon as you’re able!

How Much Money Should I Invest in Savings, Retirement, Educational Loans, and a 529?

The short answer: as much as possible.

The long answer: it depends on your long term financial goals; the likelihood of having outside support (e.g. parents, inheritance, etc.) to deal with emergency expenses; the interest rates on your current loans; future interest rates on any mortgages or investments; the number of children you have (or want); the lifestyle you want in retirement; and many, many other factors.

The practical answer: do your best. First, calculate your monthly take home pay. Next, subtract your monthly expenses using the worksheet on the next page. Make sure you use honest answers based on current spending patterns. This is the amount of money (income – expenses) you have to invest each month. Lastly, divide the investment amount among each “pot” (savings, retirement, loans, 529) as applicable to you.

If you don’t have enough money left over each month to invest…well, welcome to fellowship. Your only options are pretty obvious a) spend less money b) earn more c) save less or d) marry well.

Income Ideas: Moonlighting!

If you’re like me and have a hard time spending less money, then your best option is to try and earn more. During my fellowship and first 2-3 years of being an attending, I moonlighted here in the CHAM ED. I’m not going to lie…it was usually not fun. But, it supplied extra money that I used to save for various life events (a trip, bedroom furniture for my first born child, etc.).

It’s important to recognize that there are limitations to moonlighting here at CHAM. If you’re interested in doing so, you may contact Irma Gonzalez in the ED.

Use this **budget** tool to see how much you make and spend each month.

1. List your income
2. List your expenses
3. Subtract your total spending from total income to build your budget

Month of ____________________

Type of income	Amount gained
Job	
Government program	
Disability benefits	
Financial support	
Other income	
Total income this month	0.00

Type of spending	Amount spent
Housing (rent or mortgage)	
Utilities (gas, water, electricity, sewage)	
Groceries + other supplies	
Health expenses	
Transportation	
Education + childcare	
Cell phone	
Internet + cable	
Service animals + Pets	
Debt payments	
Other spending	
Total spending this month	0.00

Build your budget

0.00	–	0.00	=	0.00
Total income this month		Total spending this month		If your income is more than your expenses, you have money left to save or spend. If your expenses are more than your income, look at your budget to find expenses to cut.

FINANCIAL PLANNING WORKSHEET

MY NEW MONEY GOAL

Consumer Financial Protection Bureau

Sometimes we set new goals, have changes in income, or switch priorities in our lives. Making a plan is the easiest way to navigate these changes.

You wouldn't start a road trip without mapping it out first, and the same is true with your finances. This guide will help you gain a clear view of where your money goes now so you can more easily decide where you want it to go in the future.

These are ______________________'s **goals as of** ____ / ____ / ____

YOUR NAME MM / DD / YYYY

1 What is my new money goal?

I want $ ______________ **by** ____ / ____ / ____

GOAL AMOUNT MM / DD / YYYY

Keep this in a visible place, like on your refrigerator or near your desk to remind you of your new money goal!

because I want to save for ______________________________

WHAT ARE YOU SAVING FOR?

2 What am I saving now?

List your savings goals in the spaces below. Include some money for retirement and rainy days. Try to give each goal a dollar amount and set a target for when you'd like to reach each goal. Then write down the monthly amount you'll need to reach your goals. After completing the income, savings, and expenses sections on the pages that follow, write down how much you plan to commit this month.

Priority	Goal	Total needed	Months to goal	Monthly amount	This month's commitment
	Emergency savings				
	Retirement				
	My new goal				
	Other:				
	Other:				
	Other:				

3 What are my sources of income?

List your sources of income. Include wages, salary, tips, government benefits, investment income, etc. List your actual take-home pay for last month in the **month 1** column.

Under **month 2**, list the income you expect for this month. Enter any difference between the two. At the end of this month (**month 2**), write down your actual income and compare it to the amount you expected.

Source	Month 1	Month 2	Difference	Actual
Total				

4 What are my expenses?

List your expenses by category in the **expense** column in the table on right. Continue your list on additional sheets of paper if more space is needed.

Here is a list of sample expenses to help get you started. Create your own categories as needed.

- **Home** mortgage, rent, utilities, telephone, maintenance.
- **Debt** credit cards, loans.
- **Food** groceries, restaurants, take-out, coffee, snacks.
- **Family** day care, child support payments, alimony payments, tuition, school supplies, activities, clothing, laundry and dry cleaning, allowances, toys.
- **Transportation** fuel, parking, tolls, public transportation, maintenance, car insurance.
- **Health** doctor visits, dentist, medications, insurance, personal care items, gym memberships.
- **Entertainment** movies, events, books, subscriptions, music, and movie or game rentals.
- **Miscellaneous** charity or tithes, gifts, pet food and supplies.

5 What is my new money goal?

Total your **month 1** income and expenses. Then subtract the expenses from your income to see what's left over.

Last Month: $ ______ − $ ______ = $ ______

TOTAL INCOME — TOTAL EXPENSES — WHAT'S LEFT?

6 Budget for the coming month

Are you spending more in some areas than you thought? What changes do you want to make? Enter your future spending targets in the **month 2** column of your expenses list.

Keep track of the difference between your **month 1** and **month 2** expenses in the difference column. Enter your **month 2** total budgeted income and expenses on the lines below.

This Month: $ ______ − $ ______ = $ ______

BUDGETED TOTAL INCOME — BUDGETED EXPENSES — MONEY TO PUT TOWARD YOUR TOTAL GOAL

7 See how you did & make adjustments

At the end of the month, list what you spent and compare your real-life numbers to your projections.

You may not hit all your targets the first month. That's okay. No one can predict the future. But now you have been working toward your goals for at least a few weeks. You've probably made some progress. So make a few tweaks and try again.

About us

The CFPB is focused on making consumer financial markets work for families by enforcing federal consumer laws and by empowering consumers to take more control over their financial lives. We are working to foster a marketplace:

- Where customers can see prices and risks up front and where they can easily make product comparisons.
- In which no one can build a business model around unfair, deceptive, or abusive practices.
- That works for American consumers, responsible providers, and the economy as a whole.

Contact us

Website
consumerfinance.gov

General inquiries
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC, 20552

Submit a complaint online
consumerfinance.gov/complaint

Submit a complaint over the phone
(855) 411-2372

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twitter.com/cfpb

Other Helpful Tips: Physician Mortgage

There are specific mortgage products for physicians which differ from typical mortgages in several important ways. **Here are the common features of a physician mortgage:**

- Zero (or very low) down payment required
- No private mortgage insurance "PMI"
- No rate increases on jumbo loans (typically, loans larger than $417,000)
- Lending based on a physician's signed employment contract
- Less critical of student loan debt

A "qualified borrower" is usually considered a medical resident, fellow or attending physician with a signed contract for employment. Some lenders also include dentists, veterinarians, and other doctors. You can apply for a physician

Who Offers Physician Mortgage Loans?*

- Fifth Third Bank
- Republic Bank
- BB&T Bank
- Huntington Bank
- Bank of America
- Regions Bank
- Citizens Bank
- SunTrust Bank
- Bank of Nashville
- US Bank
- Central Bank
- Citizens Bank
- Physician Loans

** Mortgage options frequently change. You may be unable to take out a physician mortgage in some states or some parts of states with some banks.*

Monitoring Your Credit

At some point in the next 5 years, you will likely consider buying a home or making another large purchase (i.e. car). And, if you're like most, you'll need a loan for these purposes.

There are things you can – and should – do now to prepare for these purchases, however.

First, check your credit with the "Free Yearly Credit Report" link below. This free credit report is provided by federal law and will not impact your credit if accessed. Pay attention to anything on that report which is incorrect and address them with the creditors or with the Consumer Finance Protection Bureau link below. This link will not provide an exact credit score but, personally, I do not think this information is critical unless you're planning a major purchase (i.e. home) within the next several years. With that said, several credit cards will provide your credit score for free if a concern.

Second, keep healthy credit. Make sure you have at least one credit card, use it regularly, and pay off the balance in full each month. Having at least one long-standing account will improve your credit score, as will having a low credit utilization ratio (the ratio of the total spending to the total available credit).

Helpful Links:

Free Yearly Credit Report:
AnnualCreditReport.com

CFPB Credit Builder:
https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/