Introduction

Your Goals During Residency
  • Live within your box
  • Build a solid credit profile
  • Build savings
  • Protect for important new expenses
  • Smart tax planning

Wrap-Up
## A Few Basic Facts...

<table>
<thead>
<tr>
<th><strong>Working for you:</strong></th>
<th><strong>Working against you:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term earning potential</strong></td>
<td><strong>Time</strong></td>
</tr>
<tr>
<td>- A 22 year old graduate earning $60,000 and receiving 3% annual raises will, by age 65, earn a total of $5.3 million with average earnings of $121,000</td>
<td>- A 22 year old will need to save $10,536/year earning 7% annually to accumulate a $3 million nest egg by the time she’s 65</td>
</tr>
<tr>
<td>- A 30 year old Attending Physician with first year earnings of $200,000 and 3% annual increases thereafter will by age 65 earn a total of $12.7 million with average earnings of $352,000</td>
<td>- To reach the same $3 million, a 32 year old would need to save $21,860/year</td>
</tr>
<tr>
<td><strong>Steep earning curve</strong></td>
<td><strong>Age</strong></td>
</tr>
<tr>
<td>- Earnings can increase at a dramatic pace over the next several years</td>
<td>- Increased life insurance and disability income premiums due to higher age and potential for health issues during residency</td>
</tr>
</tbody>
</table>

---

## ...And A Couple Big Unknowns

### The Future of the ACA

- Full *Repeal* or *Repeal and Replace*?
- Replaced by what?
- Death by a thousand cuts?
- Tinker around the edges?
- What does it mean for hospitals, group practices and sole practitioners?

### Income Taxes Under ACA

- Additional 0.9 percent Medicare tax on earnings ($200k S / $250k MFJ)
- Additional 3.8 percent tax on net investment income ($200k S / $250k MFJ)
- Phaseout of Personal Exemptions and Deductions beginning at $250k (S) and $300k (MFJ)
So what can and should you do as a House Officer to set yourself up for success?

Your Primary Goals During Residency

1. **live within your box**
   - know your paycheck
   - budget of expenses
   - keep personal distractions out of your professional life

2. **build a solid credit profile**
   - prudent use of revolving and installment credit
   - pay your bills on time

3. **begin to build emergency and long-term savings**
   - contribute to your 401(k)/403(b) and/or IRA

4. **protect for important new expenses**
   - disability income insurance
   - life insurance
   - student loan payments

5. **smart tax planning**
   - tax opportunities
   - tax pitfalls
### How Big is the Box You Must Live In?

![Image of a person in a box](image)

### Understand Your Paycheck

<table>
<thead>
<tr>
<th></th>
<th>Per Month</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
<td>$4167</td>
<td>Assume $50,000 annual</td>
</tr>
<tr>
<td>FICA (Social Security)</td>
<td>($258)</td>
<td>Fixed 6.2%</td>
</tr>
<tr>
<td>Medicare</td>
<td>($60)</td>
<td>Fixed 1.45%</td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td>($625)</td>
<td>Target 15% Effective</td>
</tr>
<tr>
<td>State and City Income Tax</td>
<td>($229)</td>
<td>Estimate 5.5%</td>
</tr>
<tr>
<td>Elective Benefits</td>
<td>($150)</td>
<td>Health Insurance, etc.</td>
</tr>
<tr>
<td>Net Pay</td>
<td>$2845</td>
<td>Approx. Deposit to checking</td>
</tr>
</tbody>
</table>

You will likely take home about 70% of your gross pay

Check out: paycheckcity.com
Make Your Personal Life Fit Within Your Box

Your Box is about $2845/month

Always Know Where Your Money is Going!

You have several options available to you to automatically:

• track and categorize your spending
• aggregate and update financial accounts
• alert you to potential shortfalls

Quicken

mint
Keep Distractions From Affecting Your Professional Life

How?

Prioritize!
Don’t Overfill Your Box!

Reduce Your Financial Footprint!

Prioritizing Needs vs. Wants – How Much Can I Fit?

**Needs**
- Rent
- Student Loan
- Food
- Transportation
- Professional Costs
- Gas/Electricity
- Cell Phone
- Emergency Savings

**Wants**
- Internet/Cable
- Streaming Services
- Starbucks
- ...

www.physicians-financial.com 11
How Can You Reduce Your Financial Footprint?

- Set a rent budget and stick to it
- Keep your old car, or if you can’t...
- ...Public transportation/Uber/Zipcar instead of a new car
- Cancel memberships you no longer use
- Don’t trade up your cell phone after it’s paid off
- Automatic bill payment instead of “receive and react”
- Use your hospital’s shredder or secure document disposal
- Don’t use credit cards to increase the size of your box
- Ignore the Jones family

Is Renting *Really* Throwing Your Money Away?

Assume $150,000 30-year mortgage at 7% ($998/month), $300/month taxes and insurance

<table>
<thead>
<tr>
<th></th>
<th>Payments</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>After 1 Year</td>
<td>$15,575</td>
<td>$148,476</td>
</tr>
<tr>
<td>After 2 Years</td>
<td>$31,151</td>
<td>$146,842</td>
</tr>
<tr>
<td>After 3 Years</td>
<td>$46,726</td>
<td>$145,090</td>
</tr>
<tr>
<td>After 4 Years</td>
<td>$62,302</td>
<td>$145,090</td>
</tr>
</tbody>
</table>

- 6% Commission ($160,000 Selling Price) $9,600
- New Roof $12,000
- Sewer Replacement $15,000
- Sidewalk Replacement $2,500
This Guy **Needs** Your Undivided Attention

Your Primary Goals During Residency

1. **live within your box**
   - know your paycheck
   - budget of expenses
   - keep personal distractions out of your professional life

2. **build a solid credit profile**
   - prudent use of revolving and installment credit
   - pay your bills on time

3. **begin to build emergency and long-term savings**
   - contribute to your 401(k)/403(b) and/or IRA

4. **protect for important new expenses**
   - disability income insurance
   - life insurance
   - student loan payments

5. **smart tax planning**
   - tax opportunities
   - tax pitfalls
Bad Credit Uses Up Some of Your Box

Some potential costs for not maintaining good credit:

<table>
<thead>
<tr>
<th>Penalty for Poor Credit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Car Payment</td>
<td>extra $75/month</td>
</tr>
<tr>
<td>Credit Card Interest</td>
<td>extra $100/month</td>
</tr>
<tr>
<td>Car Insurance</td>
<td>extra $40/month</td>
</tr>
<tr>
<td><strong>Total Extra</strong></td>
<td><strong>$215/month</strong></td>
</tr>
</tbody>
</table>

- Pay your bills on time
- Don’t carry a balance of more than 20% of your available credit

Know What Credit Bureaus Are Saying About You

**Check your credit reports regularly**

- Get a report from each bureau at least once annually.
- Check all three scores at least once annually

**You are guaranteed by law** one free credit report from each credit bureau once per year

AnnualCreditReport.com was established by the three primary credit reporting agencies and is the only truly free service to obtain your free reports
Your Primary Goals During Residency

1. live within your box
   - know your paycheck
   - budget of expenses
   - keep personal distractions out of your professional life

2. build a solid credit profile
   - prudent use of revolving and installment credit
   - pay your bills on time

3. begin to build emergency and long-term savings
   - contribute to your 401(k)/403(b) and/or IRA

4. protect for important new expenses
   - disability income insurance
   - life insurance
   - student loan payments

5. smart tax planning
   - tax opportunities
   - tax pitfalls

Employer-Sponsored Retirement Plans

I. 401(k): For-profit employer
   • Your most important retirement investment vehicle as a W-2 employee
   • Deducted from your paycheck before federal income taxes assessed
   • Contribute up to $18,000 of salary into a tax-deferred account
   • Employer will frequently match contributions up to a maximum $ or %
   • Under most circumstances, withdrawal before age 59 ½ results in 10% penalty
   • After-tax accounts (Roth) now available with many 401(k) and 403(b) plans

   Strategy during residency:
   1) If your employer matches your contribution (some will, even as a resident), budget to contribute at least the minimum required to obtain the full employer match
Example: A Tale of Two Savers

- Annual earnings of $50,000
- Marginal federal income tax of 25% (pretend federal income tax is the only deduction)
- Defer 5% of salary ($2500)
- Employer matches first 5% 1-for-1

### Saver A does not use 401(k)/403(b)

<table>
<thead>
<tr>
<th>Gross Earnings</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contrib.</td>
<td>($0)</td>
</tr>
<tr>
<td>Taxable Earnings</td>
<td>$50,000</td>
</tr>
<tr>
<td>Income Tax</td>
<td>($12,500)</td>
</tr>
<tr>
<td>Net income</td>
<td>$37,500</td>
</tr>
</tbody>
</table>

### Saver B uses her 401(k)/403(b)

<table>
<thead>
<tr>
<th>Gross Earnings</th>
<th>$50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contrib.</td>
<td>($2500)</td>
</tr>
<tr>
<td>Taxable Earnings</td>
<td>$47,500</td>
</tr>
<tr>
<td>Income Tax</td>
<td>($11,875)</td>
</tr>
<tr>
<td>Net Income</td>
<td>$35,625</td>
</tr>
</tbody>
</table>

401(k) or 403(b) Account:
- Employee Contrib. | $2500
- Employer Contrib. | $2500
- Account Balance | $5000

Individual Retirement Accounts

<table>
<thead>
<tr>
<th>IRA Type</th>
<th>Tax Treatment</th>
<th>2017 Contribution Limit</th>
<th>2017 Income Limit</th>
</tr>
</thead>
</table>
| **Traditional IRA** | • Pre-tax Contributions  
• Grows Tax-Deferred  
• Taxed at personal rate when withdrawn | $5,500/ year | • Single: $62,000-$72,000  
• Joint: $99,000-$119,000 |
| **Roth IRA** | • After-tax Contributions  
• Grows Tax-Deferred  
• Tax-free withdrawals  
• Contributions can be withdrawn tax-free and penalty free (NOT earnings!) | $5,500/ year | • Single: $118,000-$133,000  
• Joint: $186,000-$196,000 |

- You can contribute to both a Traditional and a Roth IRA, but only to a combined limit of $5,500
- Under most circumstances, you will pay a 10% penalty if you withdraw funds from your IRA prior to age 59½
Afraid to Take on Risk?

Goal: $5 million retirement savings in 35 years

How much do you need to save each year?

<table>
<thead>
<tr>
<th>Rate of Return*</th>
<th>Annual Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>.02% (6 month CD)</td>
<td>$142,371</td>
</tr>
<tr>
<td>3% (Conservative Bond Fund)</td>
<td>$82,585</td>
</tr>
<tr>
<td>6% (Blend of Stocks and Bonds)</td>
<td>$44,695</td>
</tr>
<tr>
<td>9% (Aggressive Stock Fund)</td>
<td>$22,999</td>
</tr>
</tbody>
</table>

*Returns not guaranteed

Your Primary Goals During Residency

1. live within your box
   - know your paycheck
   - budget of expenses
   - keep personal distractions out of your professional life

2. build a solid credit profile
   - prudent use of revolving and installment credit
   - pay your bills on time

3. begin to build emergency and long-term savings
   - contribute to your 401(k)/403(b) and/or IRA

4. protect for important new expenses
   - disability income insurance
   - life insurance
   - student loan payments

5. smart tax planning
   - tax opportunities
   - tax pitfalls
Income-Driven Student Loan Repayment

Income Based Repayment (IBR): Pay as You Earn (PAYE):

15% of Discretionary Income 
10% of Discretionary Income

Discretionary Income is the difference between your income and 150% of the poverty guideline for your family size and state of residence.

For a single person in the 48 contiguous states and Washington D.C., 150% of the poverty guideline is $18,090

Therefore, if your Adjusted Gross Income is $50,000, you should budget:

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>AGI</th>
<th>150% of Poverty Guideline</th>
<th>Discretionary Income</th>
<th>Required Annual Payment</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBR</td>
<td>$50,000</td>
<td>$18,090</td>
<td>$31,910 x 15%</td>
<td>$4,787</td>
<td>$399</td>
</tr>
<tr>
<td>PAYE</td>
<td>$50,000</td>
<td>$18,090</td>
<td>$31,910 x 10%</td>
<td>$3,191</td>
<td>$266</td>
</tr>
</tbody>
</table>

Disability Income Insurance

Why Might I Want My Own Disability Income Policy as a House Officer if Coverage is Already Provided by the Hospital?

As a House Officer, you will receive Group Long-Term Disability coverage. Typical coverage is 60% of your gross income, and you will pay income tax on the benefit.

$50,000 x 60% = $30,000 = ~ $27,500 after tax

⇒ Your “Box” Shrinks from $2,886/month to ~ $2,250/month
Disability Income Insurance

But my student loans will be discharged if I become disabled...

...Possibly (high hurdle)

What happens if they aren’t discharged?

And if they are discharged?

Disability Income Insurance

How do I show that I am totally and permanently disabled?

You can show that you are totally and permanently disabled in one of the following three ways:

1. If you are a veteran, you can submit documentation from the U.S. Department of Veterans Affairs (VA) showing that you are unemployable due to a service-connected disability.

2. If you are receiving Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) benefits, you can submit a Social Security Administration (SSA) notice of award for SSDI or SSI benefits stating that your next scheduled disability review will be within five to seven years from the date of your most recent SSA disability determination.

3. You can submit certification from a physician that you are totally and permanently disabled. Your physician must certify that you are unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that:
   - Can be expected to result in death,
   - Has lasted for a continuous period of not less than 60 months, or
   - Can be expected to last for a continuous period of not less than 60 months.

Source: studentaid.ed.gov
Disability Income Insurance

Benefits of an Individual Disability Policy as a House Officer

• benefit of $5000/month free of income tax
• Future Purchase Option of additional $12,000/month with guaranteed insurability
• permanent “True Own Occupation” coverage
• affordable graded premium option

Helps you afford loan payments if a discharge is denied, or to pay the IRS if a discharge is approved.

Life Insurance as a House Officer

Typical Group Life $30-$50,000 provided free of charge by your employer with option to buy additional coverage

Probably enough for final expenses, but consider:

- Will a dependent suffer from the loss of your income?
- Did someone cosign for your student loans?
Your Primary Goals During Residency

1. **live within your box**
   - know your paycheck
   - budget of expenses
   - keep personal distractions out of your professional life

2. **build a solid credit profile**
   - prudent use of revolving and installment credit
   - pay your bills on time

3. **begin to build emergency and long-term savings**
   - contribute to your 401(k)/403(b) and/or IRA

4. **protect for important new expenses**
   - disability income insurance
   - life insurance
   - student loan payments

5. **smart tax planning**
   - tax opportunities
   - tax pitfalls

---

**Tax Opportunities**

1. **Contribute to your 401(k), 403(b), or Traditional IRA**
   - Directly reduces AGI (the earnings your income-based loan payment is calculated against)

2. **Deduct up to $2500/year of student loan interest you paid** *(per tax return)*
   - Reduces AGI
   - This deduction not permitted for married filing separately and income limits apply

3. **If you buy a house or condominium during residency...**
   - Mortgage interest and property taxes are deductible expenses

4. **Moving Expense Deduction**
   - your new workplace must be at least 50 miles farther from your old home than your former workplace was from your old home
   - Reduces AGI
Michigan Homestead Property Tax Credit

The Michigan Homestead Property Tax Credit helps low income individuals offset a portion of their property taxes incurred as a homeowner or as a renter.

- The credit is worth up to $1200 annually
- You are NOT required to file an income tax return to claim the credit.
- You CAN be claimed as a dependent on someone else's tax return and still qualify to claim the credit.

Michigan Homestead Property Tax Credit

You are permitted to file retroactively for FOUR TAX YEARS (same as calendar years).

Until April 18, 2017 you may file to claim:

- 2016
- 2015
- 2014
- 2013
- 2012

After April 18, 2017 you may only claim back to 2013.

Again, these are calendar years, not academic years.
Tax Pitfalls

1. Be aware that most deductions and credits come with income limitations
   - Spousal earnings can prevent you from qualifying
2. Almost no case can be made for Married Filing Separately
   - MFS disqualifies you from many credits and deductions
   - Can work to your advantage if trying minimize your income-driven loan payment
3. You will probably not qualify to deduct job hunting expenses
   - Not available to individuals seeking their first job or a job in different field
5. The big one -- Moonlighting
   - Prepare to send 40-45% of your moonlighting income to the tax authorities.
   - Must be submitted quarterly

Client Success Story – Emergency Medicine

[Graph showing financial data related to Emergency Medicine]
But I’m Going Into Family Medicine

![Graph showing income levels with withholding and excess amounts.

Important Disclosures and Disclaimers

Views of the Speaker
All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

Tax Disclaimer
Tax laws are complex and subject to change. This material was not intended or written to be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer. Individuals are urged to consult their personal tax or legal advisors to understand the tax and related consequences of any actions or investments described herein.

Investment Disclaimer
Investment returns are not guaranteed. Past performance does not guarantee future results.