RLI Kickstart Your Career

Smart with Money! Personal Finance Steps for Your Transition from Training

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I am not a Certified Financial Planner (CFP) or Certified Public Accountant (CPA.)

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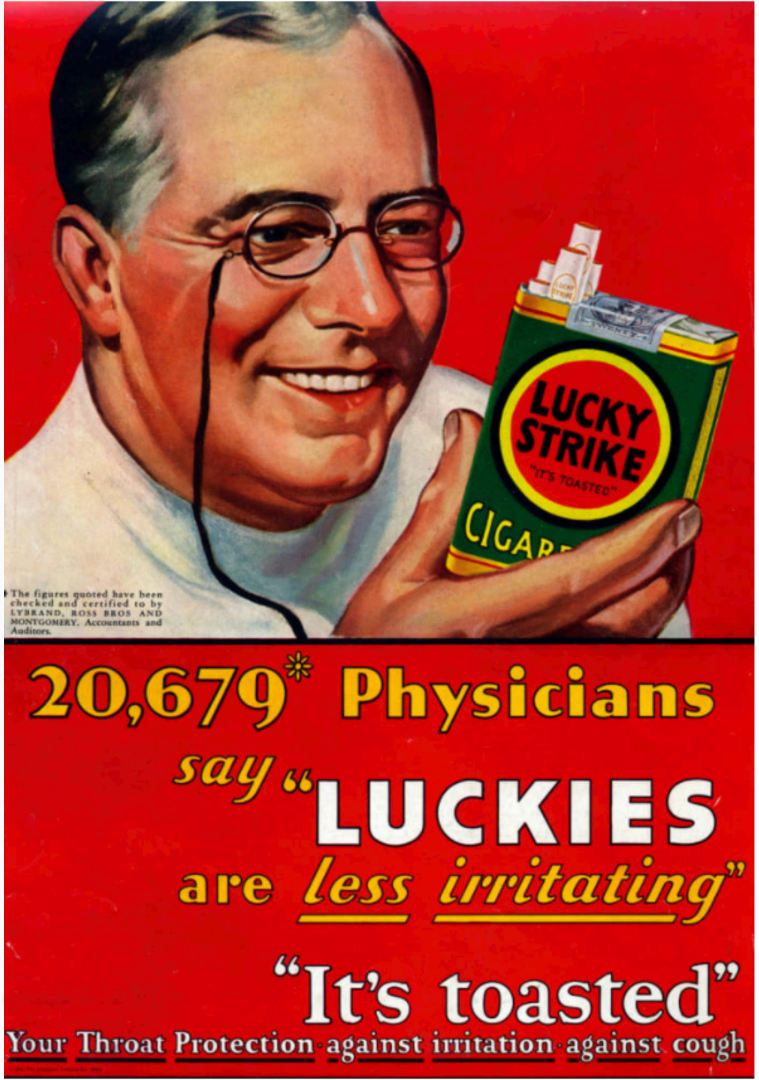
LUCKY STRIKE
"IT'S TOASTED"
CIGAR
* The figures quoted have been checked and certified to by LYBRAND, ROSS BROS AND MONTGOMERY, Accountants and Auditors.
20,679* Physicians
say "LUCKIES are less irritating"
"It's toasted"
Your Throat Protection against irritation against cough


He's one of the busiest men in town. While his door may say *Office Hours 2 to 4*, he's actually on call 24 hours a day.
The doctor is a scientist, a diplomat, and a friendly sympathetic human being all in one, no matter how long and hard his schedule.
According to a recent Nationwide survey:
MORE DOCTORS SMOKE CAMELS THAN ANY OTHER CIGARETTE
DOCTORS in every branch of medicine—113,597 in all—were queried in this nationwide study of cigarette preference. Three leading research organizations made the survey. The gist of the query was—What cigarette do you smoke, Doctor?
The brand named most was Camel!
The rich, full flavor and cool mildness of Camel's superb blend of costlier tobaccos seem to have the same appeal to the smoking tastes of doctors as to millions of other smokers. If you are a Camel smoker, this preference among doctors will hardly surprise you. If you're not—well, try Camels now.
CAMEL
Your "T-Zone" Will Tell You...
T for Taste...
T for Throat...
that's your proving ground for any cigarette. See if Camels don't suit your "T-Zone" to a "T."
CAMELS *Costlier Tobaccos*

Smart with Money! topics

- Hire someone to help you be smart with money.
- Make yourself smart with money.

I Want to be Smart with Money

- . . . but mostly I want someone else to do this for me.

- Taxes
- Investing
- Retirement Planning
- Estate Planning
- Insurance

- How do I know who is smart with money?

Who can help me be Smart with Money?

- **CFP** – Certified Financial Planner
- **ChFC** – Chartered Financial Consultant
- **CPA/PFS** – Certified Public Accountant/Personal Financial Specialist
- **CFA** – Chartered Financial Analyst
- **Broker** – no. Just, no.

Where can I find these folks?

- National Association of Personal Financial Advisors (NAPFA) https://www.napfa.org
- Garrett Financial Planning Network https://garrettplanningnetwork.com
- White Coat Investor suggested planners https://www.whitecoatinvestor.com/financial-advisors/

May or may not be Smart with Money

- Wealth Manager
- Financial Representative
- Financial Consultant
- Financial Advisor
- Client Advisor
- Wealth Advisor
- Private Wealth Specialist
- Financial Planner
- “Independent Firm” (probably dually registered advisory business), but basically meaningless.

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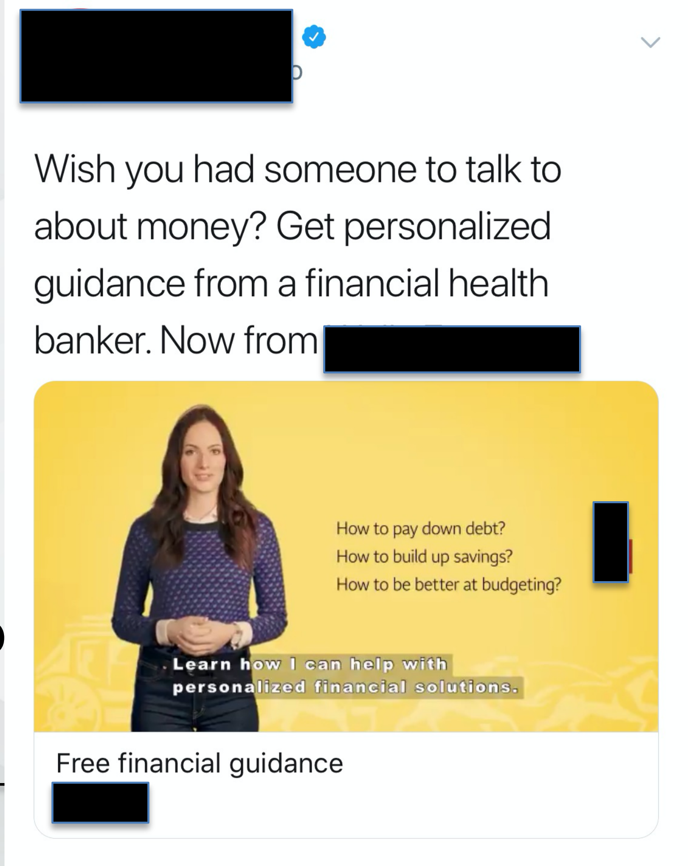

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

FA PLAYBOOK

Your financial advisor may not actually be an 'advisor'

PUBLISHED TUE, MAY 5 2020•1:09 PM EDT | UPDATED TUE, MAY 5 2020•4:23 PM EDT

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KEY POINTS

- Brokers currently are allowed to market themselves as financial or wealth advisors.
- The SEC's Regulation Best Interest is requiring many brokers to stop the practice next month in order to reduce investor confusion.
- Investor advocates believe the change will do little to solve the problem.

https://www.cnbc.com/2020/05/05/sec-rule-requires-brokers-to-stop-calling-themselves-advisors.html

What’ll it cost me?

- Commissions. One-time front-load or back-load fees up to 5.75% + 12b-1 fees (0.25-0.75% annually).
- Most common: “Asset Under Management.” (AUM): 1% typically
- Hourly: $200 - $450 an hour
- Flat fee, annual subscription, and retainer models

What’ll it cost me?

- $200 – 450 an hour per my own observation and opinion.
- Maybe $2000 - $5000 for the initial plan.
- Can find the fees on the planner’s or company's Form ADV-2
- If not an hourly model, ask them: How much time do you expect to spend working with me and my portfolio on an annual basis? Then divide their total annual cost by the number of hours they quote you to get the equivalent hourly rate.

What will they invest in me?

- “The median time to create a financial plan . . . was 10 hours.” – Michael Kitces, “Nerds Eye View” blog

- “31 hours for the full first-year planning process across all team members.”

- “The median cost of a standalone financial plan was $2,500 (up from $2,250 in 2018), though advisors reported charging anywhere from $250 and $12,000 for a standalone comprehensive plan.”

https://www.kitces.com/wp-content/uploads/2020/08/Kitces-Report-Volume-1-2020-How-Financial-Planners-Do-Financial-Planning-FINAL1.pdf

New: subscription models

- Charles Schwab “Schwab Intelligent Portfolios Premium”: subscription based - $300 to start then $30 a month. https://www.schwab.com/invest-with-us/automated-investing

- Physician Wealth Services (focused on med students/new docs) - $500/month minimum. https://physicianwealthservices.com

- Facet Wealth: $1,200-$6,000 annually depending on services rendered. https://www.facetwealth.com

Financial Planner Interview Questions

- What services will you provide?
- Taxes, investments, insurance, estate planning, retirement?
- How do you get paid?
- What type of clients do you normally work with?
- How will we communicate, how often, and how available will you be to me?
- Are you a fiduciary when you work with me?

I think I can handle this myself!

- What steps can I do *right now* to start being Smart with Money?

The Smart with Money Hierarchy

1. Write out a list of your goals.
2. Figure out your net worth and identify your cash inflows (not "income.")
3. Write out a plan to achieve your goals (a spending plan or budget).
4. Identify and obtain any <u>needed</u> insurance, such as term life or disability.
5. Begin a regular plan to fill up an Emergency Fund.
6. At work, defer enough income to fully obtain the company match in your 401k/403b.
7. Pay off high-interest debt (like credit cards) with interest rate greater than 7%.
8. Max out tax deferred portion of your workplace retirement plan.
9. If available, max out contribution to Health Savings Account (but use as a retirement account, not to pay medical bills.)
10. Contribute to a Roth IRA or "backdoor" Roth IRA.
11. Contribute to a 529 college savings account, if relevant to your life situation.
12. Pay off moderate interest rate debt (interest rates 5-7%.) Note: whether this includes your student loans depends on whether you are pursuing loan forgiveness.
13. Set aside money for current use goals like house down payment or automobiles.
14. Begin investing money into broad market index mutual funds or Exchange Traded Funds (ETFs) in a normal, standard, taxable investment account with a company such as Vanguard, Fidelity, Schwab, etc.
15. Pay down debt with interest rates below 5%.

1. Write out/list your goals

- What is important to you right now?
- What is the vision of the future that gets you excited?
- What specific steps can I take to start heading there?

- Prioritize simplicity.
- Avoid big long-term commitments at this stage (whole life insurance, 12-plex apartment building, big “doctor house.”)

2. Calculate your net worth and identify your cash inflows (*not income*)

- Net Worth is not Income.
- Income is not Cash Flow.
- Your monthly cash inflow is the money that you can use to achieve your goals.

Where am I now? = Net Worth Statement

- Assets = what do I own?

- “Current” assets/”Liquid” assets/Cash
- “Invested” assets: Retirement vs nonretirement accounts
- “Personal use” assets

- Liabilities = what do I owe?

- “Current” liabilities: due in one year or less)
- “Long term” liabilities

- Net Worth =

ASSETS

Liquid Assets
Cash
Checking accounts
Savings accounts
Money market funds
CDs (<1 yr maturity)
Other
Other
Other
Other
TOTAL LIQUID ASSETS: ________________

Investments
Individual stocks
Individual bonds
CD's (>1 yr maturity)
Mutual funds
Investment real estate
529 plans
Other
Other
TOTAL INVESTMENTS:_________________

Retirement Funds
401k
403b
IRA
Roth IRAs
Pension benefits (vested)
Other
Other
Other
TOTAL RETIREMENT FUNDS:___________________

Personal Use Assets
Home
Second home
Auto
Auto
Jewelry/Art/Coins
Home furnishings
Other
Other
TOTAL PERSONAL USE ASSETS:_________________

TOTAL ASSETS:________________

LIABILITIES

Current Liabilities (payable <1 yr)
Credit card balances
Bank line of credit balances
Personal loans
Other
TOTAL CURRENT LIABILITIES:___________________

Long-term Liabilities
Home mortgage
Second home mortgage
HELOC
Student loans
Car loans
Personal Loans
Other
TOTAL LONG-TERM LIABILITIES:________________

TOTAL LIABILITIES:___________________

NET WORTH (ASSETS – LIABILITES):_____________________

Net Worth Statement Year-End 2018

ASSETS:

CASH/CASH EQUIVALENTS		
WIFE		
bank checking	$100	
bank family checking	$200	
CU savings acct.#1	$300	
CU savings #2	$400	
CU checking	$500	
LifeInsCashValue	$600	
HUSBAND		
bank checking	$100	
bank CD - (Emer.Fund)	$100,000	
Total Cash Assets		**$102,200**
INVESTED ASSETS		
taxable		
W brokerage	$5,000	
H brokerage	$7,000	$12,000
tax deferred		
H 401k	$1,000	
W 403b	$2,000	
W Trad IRA	$3,000	$6,000
tax free		
W Roth IRA	$4,000	
H Roth IRA	$5,000	
W Roth 403b	$6,000	
H Roth 401k	$7,000	$22,000
S-corp stock		
Prof. Practice, value	$100,000	
Total Invested Assets		**$40,000**
tax deferred, education		
529 for H	$10,000	
529 for W	$20,000	$30,000
USE ASSETS		
auto #1	$9,000	
auto #2	$9,000	
Jewelry	$15,000	
Personal Prop.	$10,000	
House#1	$400,000	
House#2	$200,000	
Total Use Assets		**$643,000**
Total Assets		**$815,200**

LIABILITIES:

Mortgage	$400,000
Auto #1	$20,000
Auto #2	$15,000
parent loan	$40,000
student loan #1	$187,000
student loan #2	$17,000
Credit card	$1,000
Tot. Liabilities	**$679,000**
NET WORTH	*$136,200*

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Radiology income (Iowa) and cash flow

Gross Income/"Pay":	$200,000	$300,000	$600,000
Taxable income (Single)	$168,800	$268,800	$568,800
Effective Fed tax rate	17%	23%	29%
Federal tax	$35,300	$69,270	$175,440
Iowa state income tax	$10,500	$23,400	$49,000
TOTAL TAX	$45,800 (23%)	$92,670 (31%)	$224,440 (37%)
Cash flow in	$154,200/$12,850	$207,330/$17,278	$375,560/$31,300
Taxable income (MFJ)	$156,600	$256,600	$556,600
Effective Fed tax rate	13%	17%	24%
Federal tax	$26,000	$49,900	$145,200
Iowa state income tax	$14,600	$23,150	$48,800
TOTAL TAX	$40,600 (20%)	$73,050 (24%)	$194,000 (32%)
Cash flow in	$159,400/$13,300	$226,950/$18,900	$406,000/$33,800

https://www.nerdwallet.com/blog/taxes/federal-income-tax-brackets/
https://tax.iowa.gov/idr-announces-2020-interest-rates-standard-deductions-and-income-tax-brackets

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3. Write out your goals and a spending plan to achieve your goals

- Mint.com: free
- YNAB (You Need A Budget): $6.99 month
- Personal Capital: free
- Excel worksheet
- Paper and pen also works

BUDGET WORKSHEET

Use this worksheet as a guide to help allocate the monthly living expense budget.

INCOME: List all sources of income

Salary (after deductions)	______
Spous salary (after deductions)	______
Investment income	______
Financial aid (In excess of tuition & fees)	______
Gifts	______
Income tax refund	______
Other (child support/alimony)	______

FIXED EXPENSES: These are monthly or yearly expenses that are usually unavoidable and tpically unchanging in their amounts. There is no clear-cut distinction between fixed and variable expenses; it is up to the individual. You may not have all of these expenses.

	Yearly	Monthly
Tuition & Fees (not covered by financial aid)	______	______
Books & supplies	______	______
Regular savings	______	______
Rent/Mortgage	______	______
Utilities	______	______
Telephone (base rate)	______	______
Taxes (federal, state)	______	______
Vehicle payments	______	______
Other transportation	______	______
Charge card payments	______	______
Personal loans	______	______
Education loans	______	______
Life insurance	______	______
Health insurance	______	______
Home/Renter insurance	______	______
Auto insurance	______	______
Auto registration/Taxes	______	______
Professional fees/Dues	______	______
Child care	______	______
Other (child care/alimony)	______	______
Total Fixed Expenses	______	______

VARIABLE OR FLEXIBLE EXPENSES: After determining your fixed expenses, list variable expenses. When trying to figure out variable expenses, you will be most successful if you write down all of your expenditures for two weeks. Be as realistic as possible.

	Budgeted	Actual
Food/Household suplies/Toiletries	______	______
Eating out (meals/snacks)	______	______
Clothes	______	______
Laundry/Dry cleaning	______	______
Gas/Oil/Auto Repairs & Maintanance	______	______
Parking	______	______
Medical/Dental/Eye care	______	______
Hobbies/Recreation	______	______
Entertainment	______	______
Travel/Vacation	______	______
Pets, supplies, food	______	______
Sports	______	______
Journals/Newspapers	______	______
CD's & Books	______	______
Child care	______	______
Health & beauty aids	______	______
Haircuts	______	______
Postage	______	______
Memberships (gym, AAA, etc)	______	______
Cable/Satelite television	______	______
Long-distance calls	______	______
Cell phone	______	______
Gifts	______	______
Charity/contributions	______	______
Savings for interviews/relocation	______	______
USMLE	______	______
Other	______	______

Total Variable Expenses		______
Total Fixed Expenses	+	______
Total Monthly Expenses	=	______
Total Income		______
Total Expenses		______
Total Discretionary Income		______

CASH IN
Take home pay #1
Take home pay #2
Interest inflow
Other inflow
TOTAL CASH INFLOW

CASH OUT
SAVINGS (goal 20% of gross income, not cash inflow):

STUDENT LOANS:

HOUSING:
- Rent/Mortgage #1 (PITI assumed):
- (If not): Property tax
  - Renter or Home insurance
- COOP/Condo/Homeowners Association fees
- Electric
- Gas
- Water/Sewer
- Cell phone
- Land line
- Cable (TV)
- Internet
- Furniture

FOOD:
- Groceries
- Restaurants
- Adult refreshments

CLOTHING:
- Spouse #1
- Spouse #2

TRANSPORTATION:
- Public transport pass
- Lyft/Uber/taxi
- Auto #1
  - Gas
  - Insurance
  - Repairs/oil/tires
  - Taxes
  - Parking pass
  - AAA dues

CHILD EXPENSES:
- Daycare
- Diapers/clothing
- Bottles/toys/etc

PETS:

MEDICAL:
- Clinic out-of-pocket
- Medications
- OTC meds
- Counnseling
- Physical Therapy

DENTAL:
- Insurance
- Out-of-pocket

VISION:
- Insurance
- Out-of-pocket

INSURANCE PREMIUMS, INDIVIDUALLY OWNED POLICIES:
(Auto under Transportation, Renters/Home under Housing)
- Disability
- Life Insurance
- Umbrella policy

PERSONAL CARE:
- Gym membership
- Salon/Hairdresser
- Toiletries

CHARITY:

ENTERTAINMENT:
- TiVo
- Hulu
- Netflix
- Amazon Prime
- Sirius
- Spotify/Apple Music/Pandora
- iTunes
- Movies
- Magazines
- Cigarettes/Vape supplies

VACATION/TRAVEL: (either vacation fund or actual expenses):
- Transportation
- Lodging
- Food
- Activities

TOTAL CASH OUTFLOW:

4. Identify and obtain any needed insurances

- Lesson 101 in risk management is work backwards. Eliminate/mitigate what would ruin you. Prioritize unknowns that can blow up your plan. Match the product with the problem.

- Medical/Health – workplace
- Professional Liability (medical malpractice) workplace
- Auto – personal – maxed for umbrella coverage $1,200 annually/$100 monthly
- Home/Renters – personal $1,100 annually/$92 monthly
- Umbrella – personal ($1-3 million) $163 annually/$14 monthly for $2 million
- **Disability –** via workplace and personal – prior to leaving training institution $6,060 annually/$505 monthly = costs about 2-3% of payout., For me that is $15,000 monthly
- **Life –** workplace & personal – “term life” (NOT “whole life”/“permanent life” insurance). 20-30-year term depending only on your personal situation. $690 annually/$58 monthly for $1 million 20-year term.

- Total for my insurances - $9,228 annually /$769 monthly

- Read the White Coat Investor blog for discussions of life insurance.

5. Start your Emergency Fund

- How much? To cover your expenses until . . .
  - you could find a new job (3 – 12 months?)
  - your disability insurance starts paying you (3 – 6 months)

- *This is why you have to know your cash inflows and outflows.*

5. Start your Emergency Fund

- Appropriate assets for an EF:
  - Cash/cash equivalents (savings, money market funds)
  - Short-term Certificate of Deposit (<90 days)
  - Savings
  - Checking: but reserve an amount equal to 1 month's expenses/operating cash

- Inappropriate assets for an EF:
  - Stocks
  - Home Equity Line Of Credit and other debt instruments
  - Life insurance cash value
  - Anything that creates a debt or liability

6. Get your company retirement plan (401k, 403b) “match”

- Some % of your deferred retirement plan savings will be “matched” by your employer.
- Example: “We match up to the first 3% of your salary, then 50% of the next 2% of your salary.”
- This is **free money** and **really part of your salary.**
- If you make $100,000, then that is $4,000 total, because first 3% is $3,000, (50% of the) next 2% is $1,000.

7. Pay off high interest debt

- Anything with interest rate above 8%.
- Credit cards, payday loans.

8. Max out tax-deferred part of work retirement plan

- Up to $19,500 in 2020.
- Goes **PRE-TAX** into your retirement account to grow, protected from taxes and creditors.
- Max $57,000 combined employee and employer in 2020.
- This counts towards goal of saving 20% of your GROSS salary (***not*** *post-tax salary*) for retirement.
- *Other financial savings goals are **in addition to** the 20% of gross income saved for <u>retirement</u>.*

9. Max out your Health Savings Account (HSA)

- An HSA is a special type of savings account (not a Flexible Savings Account [FSA.])
- May not be available to you.
- Money goes in tax free, grows tax free, and can be taken out for medical expenses tax free.
- $3,550 individual, $7,100 family maximum in 2020.

10. Contribute to a “backdoor” Roth IRA.

- Go online, open an account at a place like Schwab, Fidelity, or Vanguard. Taxable brokerage account, Traditional IRA, Roth IRA. See Point 14 on this list.

- Contribute to a Traditional IRA (Individual Retirement Account), then immediately convert to a Roth IRA (gets around income limitations).

- Max $6,000 in 2020.
- A little technical, but easily learned. https://www.whitecoatinvestor.com/backdoor-roth-ira-tutorial/

11. Contribute to a 529 educational savings plan, if appropriate for your situation

- You can use this to pay for your kid's tuition at college and now high school.
- Can also be used by you to get another advanced degree.
- State tax benefit: $3,439 state tax deduction per account/per person in 2020 in Iowa.
- Tax free growth, tax free withdrawal if used for educational purposes.

12. Pay off moderate interest rate debt (5 - 8%)

- This may include your student loans or may not if you are doing IBR or REPAYE with loan forgiveness – very complex issue.
- Read Ben White's free e-book on loans at: https://www.benwhite.com/studentloans/
- AAMC FIRST website: https://students-residents.aamc.org/financial-aid/

13. Fund current goals

- Set aside money in liquid savings for things like a car or a house down payment.
- This goes in a savings account with no risk, not an investment account that is going to have a fluctuating value.
- CDs (Certificates of Deposit) or savings accounts at your bank, or Money Market Savings Accounts at a brokerage firm.

14. Start funding a taxable investment account ("brokerage account")

- Open a "brokerage account" at Vanguard, Fidelity, Schwab, TDAmeritrade, or a similar company.
- You do this online in minutes.
- You will buy 1-3 passive broad market index mutual funds: Total US Stock market fund, Total US bond market funds, & Total international stock market fund; or
- A Target Date Retirement Fund 20XX, ex: "Vanguard Target Retirement Fund 2050."

15. Pay off low interest rate debt

- “Low interest” = interest rates below 5%.

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- THANKS!