

# *Financial Planning for Young Physicians*

Presented by:



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# *Today's Agenda*

- ◆ Financial Planning Basics
- ◆ Money Management Ideas
- ◆ Retirement Planning
- ◆ Risk Management
- ◆ Wrap-up

# *Financial Planning Basics*

- ◆ Stocks vs. Mutual Funds
  - Stocks – own a share of a company
  - Mutual Funds – Pooled investment managed by a fund manager
- ◆ Advantages & Disadvantages to both
- ◆ Asset Allocation
- ◆ Taxes

# *Why People Fail to Become Financially Independent*

- ◆ No Plan
- ◆ Procrastination
- ◆ Taxes
- ◆ Poor Investment decisions
- ◆ No Investment Management
- ◆ Catastrophes – “plan for the unplanned”

# *Taxes*

	Single	Married filing jointly
10%	Up to \$7,550	Up to \$15,100
15%	\$7,551 - \$30,650	\$15,101 - \$61,300
25%	\$30,651 - \$74,200	\$61,301 - \$123,700
28%	\$74,201 - \$154,800	\$123,701 - \$188,450
33%	\$154,801 - \$336,550	\$188,451 - \$336,550
35%	\$336,551 or more	\$336,551 or more

# *Money Management*

- ◆ Get a handle on your spending – do a BUDGET
- ◆ Understand your loans
- ◆ Borrow from the right place
- ◆ PAY YOURSELF FIRST !!

# *Money Management – Student Loan Example*

## Scenario 1

- ◆ \$100,000 in debt @ 3%
- ◆ Paying \$980/month for 10 years
- ◆ Total Interest paid = \$17,229
- ◆ \$980 payment invested in next 10 years at 8% yields - \$211,411

## ◆ Scenario 2

- ◆ \$100,000 in debt @ 3%
- ◆ Paying \$560/month for 20 years
- ◆ Total interest paid = \$34,491
- ◆ \$420 diff invested for 20 years at 8% return yields - \$249,092

Investment gain by spreading loan over 20 years is **\$37,681!**

# *Money Management – Case Study*

## Jack

- ◆ Started saving early in career ( 24 yrs old)
- ◆ Contributed \$2,000/yr
- ◆ Contributed for 30 years

## Jill

- ◆ Started saving later in career (30 yrs old)
- ◆ Contributed \$2,000/yr
- ◆ Contributed for 30 years

Who had more money at age 60 ?

# *Money Management – Case Study*

## Jack

- ◆ Contributed total principal of \$60,000
- ◆ Investment grew to be worth \$325,000 \*

## Jill

- ◆ Contributed total principal of \$60,000
- ◆ Investment grew to be worth \$202,000 \*

This is an example of what Albert Einstein called the most powerful force in the universe, compounding interest.

This is not representative of any specific investment. Hypothetical rate used was 7%

## *The Advantage of Time and Compounding Interest*

Investing \$100 a month  
at age:

At age 65 will result in:

25

\$ 351,428

35

\$ 150,030

45

\$ 59,295

55

\$ 18,471

## *Retirement Planning Basics*

- ◆ Qualified Accounts (IRA, 401k)
- ◆ Tax deductible contributions
- ◆ Tax deferred growth
- ◆ Can't touch until age 59 ½
- ◆ 10% penalty on early withdraws
- ◆ Withdrawals taxed at ordinary income rate
- ◆ Minimum required distributions at age 70 ½

## ***Roth IRA***

- ◆ Qualified account
- ◆ Contributions **NOT** tax deductible
- ◆ Tax deferred growth
- ◆ Can't touch until age 59 ½
- ◆ 10% penalty on early withdrawals
- ◆ **TAX FREE** withdrawals
- ◆ No minimum required distributions
- ◆ Income limitations
  - Single ~ \$95K - \$100K
  - Married ~ \$150K - \$160K

# *Retirement Planning Basics*

## ◆ Contribution limits for IRA and Roth IRA

2004	\$3,000
2005-2007	\$4,000
2008	\$5,000

## ◆ Contribution limits for 401(k) and 403(b)

2004	\$13,000
2005	\$14,000
2006	\$15,000
2007	\$15,500

## *Maximizing Your Tax Deduction*

- ◆ Utilizing the right type of Qualified Plan

◆ <u>Plan Type</u>	<u>Annual Cont. Limit</u>
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◆ SIMPLE Plan deferrals	\$ 11,000
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◆ 401(k), 403(b), 457, deferrals	\$ 15,500
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◆ Defined Contribution plans	\$ 45,000
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◆ Defined Benefit Plans	\$ 175,000
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## ***ROTH IRA Alternatives***

- ◆ Universal Life Insurance
- ◆ Money contributed w/ after tax dollars (no contribution limits)
- ◆ Tax deferred growth on investment dollars
- ◆ Tax free withdrawal's of policy cash value
- ◆ No income Limitations
- ◆ No 59 ½ IRS limitation

## *Term vs. Universal Life Insurance*

### *32 year old male – Preferred Plus*

#### ◆ Term Insurance

◆ \$1 million face value

◆ Annual Premium \$1,000

◆ Years 30

◆ Total premium cost -  
\$30,000

◆ After 30 year term:

◆ No insurance

◆ **No Cash**

#### Universal Life Insurance

\$1 million face value

Annual Premium - \$10,000

Years 30

Total premium cost -  
\$300,000

After 30 year term:

◆ Still have \$1 million of insurance

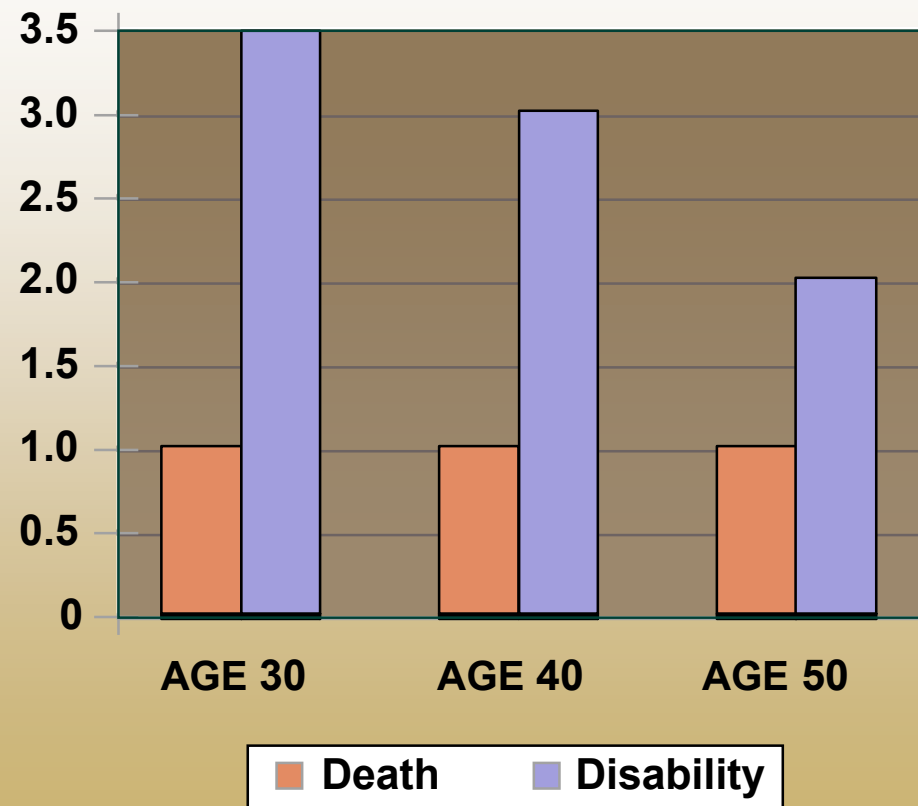
◆ Cash value of policy is \$  
**575,850**

## *Why Disability Insurance?*

- ◆ Provides an income to an individual who is sick or hurt and cannot work.
- ◆ Critical protection for
  - professionals
  - owners of small businesses
  - executives

## *The Risk of Disability*

- ◆ The chances of being disabled for 90 days or more vs death:



Source: 1985 Society of Actuaries CIDA Table and 1980 CSO Table

## *The Risk of Disability*

- ◆ Disability is 16 times more likely than death to cause foreclosure on a home.



# *Definition of Disability*

*Own Occupation coverage . . .  
insures the ability to work  
in **YOUR OCCUPATION.***

# *Own Occupation Protection*

## **Total disability...**

- ◆ because of sickness or injury, you are not able to perform the material and substantial duties of your occupation.
- ◆ The occupation engaged in at the time disability begins.
- ◆ Insured can work in some other capacity and still collect benefits.
- ◆ True “Own Occ” - the most liberal definition available, and part of the ProVider Plus base policy.

## *Young Professional Program*

- ◆ Regardless of current earning, special limits are available to:
  - Medical students
  - Residents
  - First Year Doctors

# *Life Insurance*

- ◆ Lock in Health and Age
- ◆ Term vs. Whole Life/UL
- ◆ Benefits of Life Insurance to High Net Worth Individuals

## *Wrap-up...planning issues*

- ◆ Protect your investment
  - Amount and type of insurance (life & DI)
- ◆ Retirement planning
- ◆ Money management (debt, cash flow)
- ◆ Wills and Trust documents

**DO NOT PROCRASTINATE !!  
THE TIME TO START IS NOW !!**

**QUESTIONS?**



**THANK YOU!!!**