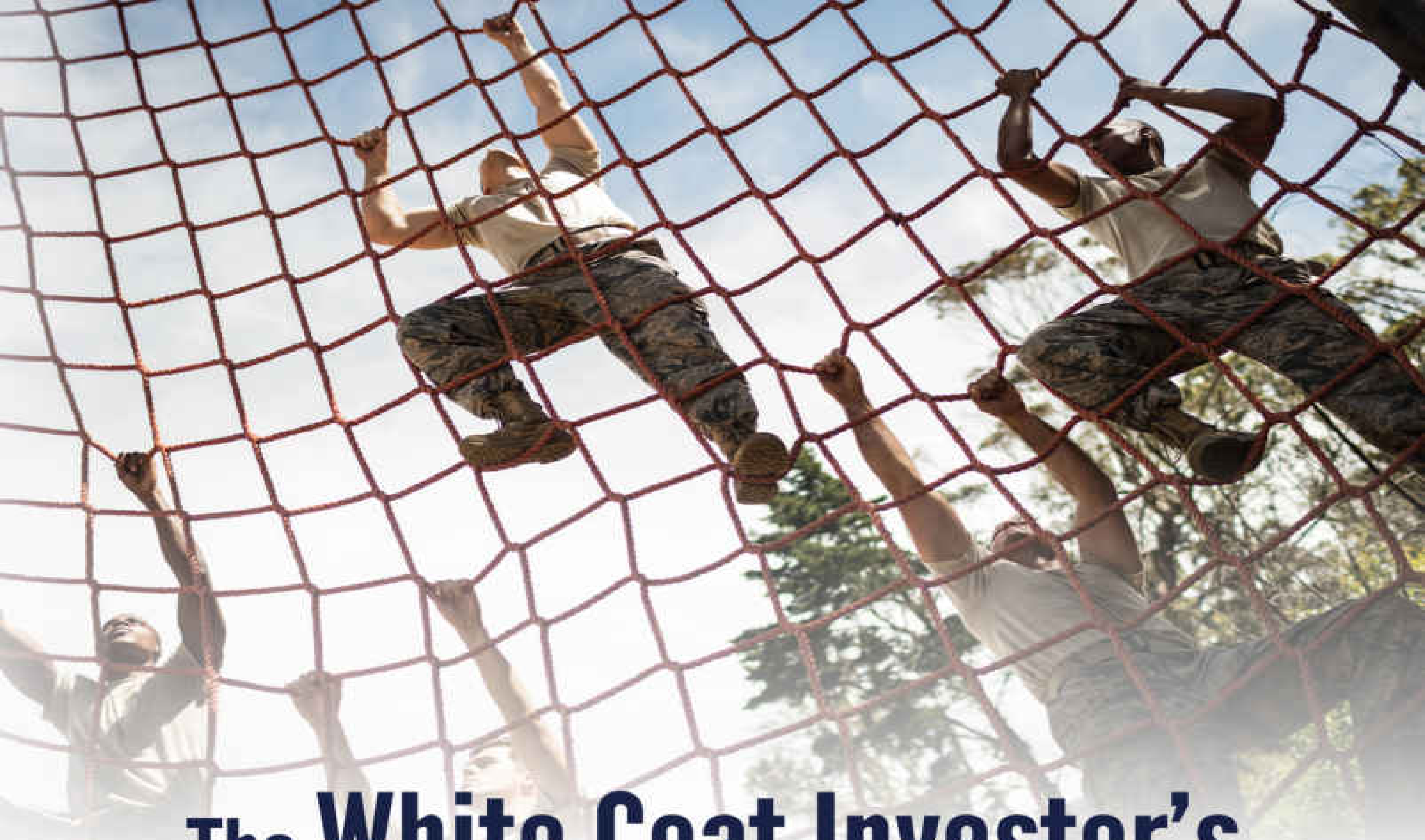

The White Coat Investor's Financial Boot Camp

A 12 Step High-Yield Guide to Bring Your Finances Up to Speed

Foreword by Jonathan Clements

James M. Dahle, MD

Why You Should Buy This Book

I have a pretty good idea why you opened this book. You have recently discovered a gap in your knowledge base, despite the lengthy educational process you have undertaken willingly (and at times endured) in order to dedicate your life to the healing and comfort of the sick and injured. If you are like most doctors, nobody taught you anything about business, personal finance, or investing during your undergraduate years, professional school, or residency.

Yet you have found yourself with the responsibilities of a pension fund manager in our 401(k) world. Your family, and perhaps even your business, rely on you to be Chief Financial Officer, but you have never been given the tools to succeed. This book will provide them.

Very few doctors go to medical or dental school with the primary goal of becoming rich. However, nearly all of them thought it would be a side effect of the process. You thought you would do well by doing good. The results so far, however, have been disappointing. You came out of a long training pipeline in your early 30s without a cent to your name. In fact, thanks to the skyrocketing costs of college, medical school, dental school, and even dental residencies, you probably exited that pipeline with a net worth (everything you own minus everything you owe) of less than zero. Much less than zero. Sometimes owing half a million dollars or more in student loans.

Upon finishing training, your income dramatically increased, but an increased income did not solve very many of your financial problems. Regular payments on those student loans are now due. You may also have a substantial practice or partnership loan, and you almost surely have a mortgage on a big fat doctor house and a fancy doctor car or two. Just covering the interest on all this debt eats up a good portion of your work every month.

Things get worse though. You thought you were paying taxes before. You had no idea. Now 20, 30 percent or more of your earnings are going toward taxes thanks to our progressive tax code. Uncle Sam does not care that you have a negative net worth. Like most Americans, he has mistaken income for net worth as the most important indicator of wealth and has chosen to tax that.

You find yourself in the upper tax brackets phased out of tax credits you used to receive. Between federal income tax, state income tax, Social Security tax, Medicare tax, PPACA taxes, capital gains taxes, dividend taxes, perhaps various self-employment taxes, property taxes, and sales tax, you wonder if you are funding the government singlehandedly.

You also find that your spending has increased dramatically. It is not just the natural tendency we all have to spend everything we make. You delayed gratification for a long time and put off purchases that your peers made a long time ago—homes, cars, vacations, even clothing. You also ran into a serious cultural expectation. People know you are a doctor. In fact, even though you may have been in residency or fellowship for the last three to seven years, you have been a doctor for a long time already. Doctors are rich, right? You are supposed to drive a nice car and go on nice vacations. You are supposed to pay when you go out to eat and be the one to help your parents in their golden years. The pressure to spend and "live like a doctor" comes from your friends, family, patients, your children, your partner, and probably even yourself.

When you add all of this up, it is a recipe for financial disaster. Adding financial literacy to the mix practically ensures you will never become rich despite earning a top five percent income for decades during your career. This book will wipe out your financial illiteracy. By the time you are done, you will know more about personal finance and investing than most of your peers and many who consider themselves financial advisors.

Maybe you have been out of training for a long time and are now realizing that you have made a few mistakes. You may feel like your finances are a mess. Maybe you still owe hundreds of thousands in student loans and mortgages. Maybe your nest egg is so small a cockroach could run off with it. Maybe you're worried you are being ripped off by some advisor you've hired. Financial professionals seem to speak in a foreign language you have no interest in learning. You may feel a little embarrassed at how naïve you were when everyone around you seemed to have it all figured out. Trust me when I say that your situation is normal. Very few doctors have managed to avoid all of the common mistakes. This book will describe these mistakes and show you how to fix them.

I know you are busy. I am busy too. I still see patients in the emergency department. I still bang my head onto my keyboard out of frustration at the designer of my electronic medical record. I still try to balance my own health and family life with the needs of my patients and my business. What I do not have, however, is financial worries. I have eliminated those from my life, and I can teach you how to do this for yourself.

A financial book might be the last thing you would want to read on a vacation, and you wish someone would just tell you what you need to do so you can get it done and move on with life. This book is the list of what you should do. It will take you step by step through every important aspect of your financial life, tell you exactly what you should do, and give you just enough background information so you understand why, but not enough to drown you or confuse you. If you want to learn more, there will be links to additional information, but my goal is to keep this book short enough that you will actually get through it. Many readers will read it all in one sitting. That is fine, but I hope those who do will then go back and take it step by step, following the instructions as they go to make sure they have not missed anything important. Even if your finances are not a mess, there is likely some fine-tuning that could be done to improve your current plan.

Most importantly, the real-life anecdotes in this book from doctors just like you will inspire you to take control of your financial situation and turn your financial life into a source of support and happiness rather than stress and worry.

I know you didn’t go into medicine, dentistry, law, accounting, or engineering just to become rich (or wealthy or financially secure or comfortable or independent or whatever word feels most pleasant to you). But if you’re like most of us, you assumed it would be a nice side effect of the process. You figured if you helped enough other people, the money would take care of itself. I agree that every doctor should be able to become financially comfortable, but you need to understand the process is not automatic. You actually have to do a few things besides just go to work and care for others. This book will tell you what those things are and inspire you to do them. Given your income, the first really good financial book you read could be worth $2 million to you over the course of your career. This book might not be as entertaining as Harry Potter, but even if it is only worth one-tenth of that amount, would it not be worth exchanging a few hours of your valuable time to read it?

Despite the ever-worsening financial stresses, medicine is still a viable pathway to the good life. I define “the good life” as a life free from financial worries, a career where you make a real contribution to society, a few luxuries along the way, the ability to help others financially throughout your life, and a comfortable retirement at a time of your choosing. This book is going to take you by the hand and guide you to the good life.

Does that sound good to you? Then turn the page, and we will get started down the road to the life you deserve.

Praise for Financial Boot Camp

Financial Boot Camp gave us the confidence to lay a solid foundation for our financial future. —**Katy and Nick Derfler, DO**

The Boot Camp series really did “light a fire” for me, serving as a catalyst to recognize this stuff is not only doable but interesting. I think I have now read about 20 finance-specific books in the last year. I want to thank you for all the excellent information and resources that you provide to our community. Since stumbling onto The White Coat Investor, I got my finances under control and it feels great! —**Alexander Voldman, DO**

Jim Dahle’s WCI Financial Boot Camp was instrumental in elevating my personal financial literacy from fairly basic to confident enough to manage my family’s finances independently. It serves as a great resource to those looking to take control of their finances, while providing a manageable blueprint (along with motivation and confidence) that helps to demystify the seemingly impossible task of personal finance. It provides just enough information to understand where each topic fits into an overall financial plan. It helped us to put an investment policy statement in place to guide our asset allocation and future investment strategy, and we are more confident with our insurance, retirement, estate, and asset protection plans. —**Darin R. Goldman, MD**

Financial Boot Camp is a high yield overview of how to get your finances in order, applicable to both new residents/fellows and experienced attendings, regardless of one's financial literacy to start. I will be gifting this book to my partners and colleagues for years to come in hopes of increasing the financial literacy of my peers and hopefully sparking discussion amongst ourselves in a pseudo-financial-journal club on how to improve our lot. Thank you for putting this in print!

—**Jimmy L. Kerrigan, MD**

The WCI Financial Boot Camp provides 12 easy steps to help you get a financial life. —**Daniel Grabell, MD**

This book should be required reading for every medical student and physician. It will replace your first book that I give out at talks to students and residents. —**Bonnie Koo, MD**

I read your first book years ago when my husband was a med student. However, the most useful thing you've done was the 12-step Boot Camp emails. It was the first time we actually started acting and taking control of our finances (more than just being frugal and saving), and we now have a financial plan. Something about the steps made it doable. Thank you!

—**Laura Money**

I am a general dentist in Putnam County, N.Y., who recently had the opportunity to lecture to the local dental residents about financial planning and index investing. I bought them each a copy of your book because it is truly a gem. I graduated dental school in 2008 knowing less than nothing about investing and financial planning. Your book and blog have been instrumental in giving me the keys to become financially independent within seven to 10 years. —**Alexander Bogler, DDS**

It is hard to overestimate how much better off my family is financially due to the education I received from Dr. Dahle. —**Kyle Myers, MD**

Physicians need this in the early, foundational years. Early attention to finances allows one to live a life of meaning and value far beyond the confines of medicine. —**Chris Caramia, MD**

Thank you for all that you do. I enjoy the book, website, and podcast. My father, also a family doctor who I practice with, gave me your book as a medical student and I am on a solid financial footing because of the guidance from my father and The White Coat Investor.

—**Michael Kalkhoff, MD**

In the new year, I plan to keep reading and following the advice of the WCI. And learn how to worry less. —**Christine Moore, DO**

I had made mistakes that I was afraid I could not make right. The confidence and peace I have in knowing that my life is in my control is priceless. Thank you WCI, you saved us! —**Anonymous Physician**

This book should be required reading for every resident prior to graduation! **—Mary C. Snyder, MD**

No matter where you are on your financial journey, once you decide to put your finances under the microscope, it's easy to become overwhelmed and struggle to find a starting place. I found this step by step guide easy to follow and, more importantly, implement. A more accurate title of this book is "How to Get Your S*** Together 101”. —**Laci L. CRNA**

Although we are still working to get back to broke, this book gives us a roadmap to know that we are doing the right things financially.

—Lisa Hisaw, MD and Jonathan Lin, MD, MBA

This book should be required reading for every first-year medical student (and their spouse)! It is an invaluable resource for educating yourself on how to become a financially savvy and independent physician without over complicating things or leaving you with more questions than answers.

—Genell and Rachel Wheeler, DO

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Foreword

Medical professionals have one huge financial advantage—and one notable disadvantage. And, no, your salary isn't your huge advantage. We are a nation with countless families earning six-figure incomes but sporting three-digit bank balances. A high income may ease the path to wealth, but it's no guarantee of financial success.

Instead, your huge financial advantage is your ability to delay gratification. You've already proven you have that skill: Others entered the workforce after college and, in many cases, immediately snagged decent incomes. You took the harder route, going on to medical or dental school. As part of that bargain, you sacrificed today's financial rewards for a much larger reward tomorrow. That ability to delay gratification is, without a doubt, the most valuable financial skill. If you can spend significantly less than you earn, and sock away the difference, you'll put yourself on the fast track to financial independence. As Jim Dahle so succinctly puts it, the key is to continue to "live like a resident."

But your medical training also potentially sets you up for failure. You know that knowledge, training and experience bring expertise—and every day you confidently use that expertise to ease pain and prolong life. After that, managing money should be a cinch, right? Which explains why you're the numbskull who brazenly sticks every dime in a hot little growth stock, only to see your wealth swiftly dispatched to the pockets of wiser investors.

In short, your edge in delaying gratification could easily be undone by your unwarranted overconfidence.

Let me impress upon you all the things you do not know: You have no clue where the financial markets are headed. You don't know what misfortunes will strike in the years ahead. You have no idea which investments will outperform the market averages. You think you know what will make you happier, but there's a good chance you don't.

Sound grim? Here's the good news: If you tamp down your overconfidence, ignore your hardwired instincts, and take a little time to learn and reflect, you can build a financial life that protects against the unknown—and squeezes greater happiness out of the dollars that you have.

That journey begins with Jim's fine new book. In the chapters that follow, you'll learn the nuts and bolts of disability insurance, retirement accounts, handling debt and more. My advice: As you read each chapter, think less about winning the financial game—and more about controlling the range of outcomes. How can you exert that control? You'll find the answers fall into five broad buckets.

1) **How much you save.** This is the part you're good at. After years of graduate school living, saving more than 20 percent of your six-figure income should be a breeze.

2) **How you spend**. Even if you save diligently, you'll still have plenty of dollars to throw around. But how should you spend them for maximum happiness? That's something you'll need to reflect upon. But here are a few hints: Resist impulse purchases. Limit material possessions. Use your dollars to get others to do chores you find burdensome. Take the time freed-up and spend it with friends and family—and together look to have memorable experiences, whether it's a family reunion, a concert, travel, dinner out, or simply a walk in the countryside.

3) **How you invest.** You can't control which way the financial markets are headed and it's unlikely you'll identify investments that allow you to regularly beat the market averages. Instead, you should view the financial markets as wonderful wealth creation machines—and aim to capture as much of that wealth as possible. As Jim explains, a great way to do that is with index funds, which simply mimic the performance of the markets while charging tiny investment costs.

4) ***What risks you take.*** You can't prevent misfortune from striking the financial markets or your personal life. But you can make sure you're prepared.

If you spread your investment bets widely, you will avoid seeing your financial progress derailed by a few rotten investments—and you'll ensure that, if the stock and bond markets post gains, you'll go along for the ride. Global diversification is a key strategy for managing risk.

But it isn't the only one. You also need to think hard about what insurance coverage to buy. The fundamental principle: Purchase policies that'll protect you from major financial risks, while assuming smaller risks yourself. For instance, you could probably get by if a disability prevented you from working for three months. That's a manageable risk. But if you never worked again, the financial impact would be devastating—which is why you need disability insurance that kicks in after that initial three-month waiting period.

5) **What money management costs you incur.** Wall Street is a middleman, making nothing and instead simply moving money around. That's a useful service, but not one you want to pay too much for—because the more Wall Street makes, the less you keep.

Looking to get wiser in your money management? Read on, and let Jim explain how you can get your finances under control, so you not only grow richer, but also have a richer life.

Jonathan Clements

Jonathan Clements is the editor of ***HumbleDollar.com*** *and the author of eight personal finance books, including "How to Think About Money" and "From Here to Financial Happiness." Jonathan spent two decades at The Wall Street Journal, where he was the personal finance columnist.*

Dedication

To Afton Samantha,
whose infectious smile can brighten any day

Introduction

In 2011, while practicing emergency medicine full-time in suburban Utah, I started a blog called The White Coat Investor, dedicated to "helping those who wear the white coat get a fair shake on Wall Street." While the readership has been predominantly physicians and dentists along with their trainees and students, many other high-income professionals and even non-high income earners have found useful information there. My efforts have expanded into an emailed monthly newsletter, a podcast, a videocast, a scholarship program, speaking events, a book ("The White Coat Investor: A Doctor's Guide to Personal Finance and Investing"), an online course ("Fire Your Financial Advisor"), and even a live continuing medical education conference ("Physician Wellness and Financial Literacy Conference"). The community of White Coat Investors has expanded through social media, an online forum, a private Facebook Group, and even a subreddit.

I am happy to hear that the lives of hundreds of thousands of doctors and others have been improved by this work. One of my favorite parts of the whole endeavor has been providing one-on-one assistance to individual doctors and their families. This occurs in person or more frequently by email. While it is never fun to come home after a busy shift in the emergency department to find more than 100 emails in my inbox, I have discovered that I enjoy teaching the principles of personal finance and investing to my peers and colleagues just as much as I enjoy teaching patients how to maintain and regain their health. It is truly fulfilling to me.

Over the years, my efforts have gradually turned toward the 25 percent or so of physicians in real financial trouble. While that trouble is often of their own making—through bad decisions, lack of discipline, or simple financial illiteracy—I still feel very passionately about getting them to a place where they can eliminate financial stress from their life and refocus on their families, their own health, and their patients. I view this work not as "helping the rich get richer" but as "healing the healers." I firmly believe that teaching financial literacy to doctors reduces stress, decreases burnout, lowers the risk of suicide, and in turn, improves patient care.

Many doctors are doing just fine financially. While this is not true for all doctors, about one-fourth of doctors graduate from school with no student loans whatsoever thanks to scholarships, parental help, hard work, spousal/partner support, and even a bit of luck. The other three-fourths of us leave school with student loans, often hundreds of thousands of dollars worth, that continue to grow during residency or fellowship. Tuition continues to skyrocket at a rate faster than the general rate of inflation. Medicine or dentistry as a career is probably still a great investment for the person who achieves the average doctor income and accumulates only the average student loan debt. However, for those with higher than average debt and lower than average income, those who have had personal hardships such as illness or divorce, and those who have simply made bad decisions due to a lack of financial literacy and/or discipline, there is a real tragedy occurring. Net worth surveys of physicians reveal that approximately one-fourth of doctors in their 60s have a net worth of less than $1 million.

While that doesn't seem terrible at first glance (after all a million dollars is still a lot of money to the average American), it looks a lot worse when you run the numbers. A typical physician graduates from residency around age 30 and earns $200,000 to $300,000 per year. Over the next 30 years, that adds up to a total of at least $6 million in earned income. Net worth is everything you own minus everything you owe, including the bank accounts, retirement accounts, investments, home equity, cars, and all that stuff in that big doctor house. After earning $6 million, having less than a million left is really quite shocking, especially when you consider the effects of compound interest and inflation. If that was not bad enough, the 2016 Medscape Physician Debt and Net Worth Survey also showed that 11-12 percent of physicians in their 60s have a net worth of less than $500,000. An immense amount of wealth has slipped through their fingers, going just as quickly as it came, with little to show for it. I think it is a real tragedy for a brilliant person to dedicate his or her entire life to the healing of the sick and injured and then face financial stress in their golden years. Or worse, have to work until they keel over at the patient's bedside simply because they never learned to manage money well on their own and their schools and training programs did not teach them these critical skills.

Rarely is the problem a lack of income. About once a year, my wife and I have medical students over to the house for dinner. I always joke with them that “If you can’t live on $200,000, you have a spending problem, not an earning problem.” They laugh because the statement is so obviously true. “Of course, anyone can live on $200,000,” thinks a student who may be spending less than $10,000 to $20,000 per year on living expenses. However, when I use that statement while speaking to a group of doctors in their 40s and 50s, they do not think it is funny at all. Many of them find it challenging to live on just $200,000 per year. How does that happen? It happens a little bit at a time, like the classic (although mythical) story of a frog in a pot of boiling water who never jumps out until it is too late.

I hope that, if necessary, this book will shock you into jumping out of your boiling pot of water. Many early career physicians actually have a negative net worth—they owe more than they own. Net worth is the Hemoglobin A1C, a laboratory measure of long-term diabetic control familiar to physicians, of your financial life. Your net worth is how we keep track of how you are doing over a long period of time and should be not only rising but rising at a pretty good clip, especially early in your career. When your net worth is negative, the bum living under the viaduct with nothing but the shirt on his back is technically wealthier than you are. While your income is obviously a huge advantage, you need to actually do something with it in order to have the life you thought just becoming a doctor would bring to you. You need to convert that high income into a high net worth as quickly as possible.

I often receive emails or forum/social media messages from physicians in dire financial circumstances. Here are some examples:

Hi. I’m an intern. I currently have $570,000 in med school debt. How do I even start?

Or

I know you hear lots of people’s financial woes. I almost never read articles that include situations similar to ours and am beginning to feel that we are way out of the norm. My partner and I both went to one of the most expensive medical schools in California. With tuition and living expenses, our combined debts currently stand at $840,000 (about $420,000 each), with interest accruing at about 6.5 percent for half the amount, and 7.6 *percent for the other half. We are both in residency, Psychiatry and Internal Medicine. We have been trying to live as frugally as possible in California and our families are both here.*

Or

Hi. Late to medicine. 50 years old. No retirement yet. Should I buy disability insurance if that takes a significant chunk of money away from maxing out retirement investments?

Or

I need help and I need it fast. I purchased a condo in 2006 as a resident at the worst possible time. I am no longer underwater, but now the monthly HOA fee is either going to double for the next 10 years or a special assessment of $30,000 will need to be paid due to severe water damage after a fire. My plan at the beginning of the year was to sell, but I got sidetracked with boards and family issues. After this assessment was announced, eight units in the building went on the market in one week. Given the active construction and the new potential disclosures or increase in HOA fees, I just don't see how I am going to sell my unit.

Or

My husband and I purchased very expensive whole life policies in our early 30s. I am almost 55 years old now…This year I started looking at our finances and taking an active interest. We fired our financial advisor and are managing on our own. I can't believe how much we paid for fees over the years…As I researched whole life insurance, I got so upset that we ever got it in the first place…sometimes I can't help but get a pit in my stomach when whole life comes up in discussions.

Or

I am a very good saver/investor but got a divorce eight years ago that cost me $1.5 million, and I'm really trying to play catch up.

Or

I work in a primary care specialty and I am a solo parent to young children. It's challenging to find an affordable childcare situation that will accommodate my work schedule, plus they have some special needs and I need to be available for certain therapies and appointments throughout the week so can only work part-time. I could not work during the majority of my pregnancy, and then for many years after the majority of my paycheck went toward our mortgage, childcare, and medical expenses so I could not *save. I need to have a plan in place to care for them, provide enough funds to live on, but also fund my own retirement.*

As you can see, doctors face all kinds of financial challenges despite their high income. In 2017, in an effort to help doctors just starting to become financially literate (and to encourage them to sign up for my free monthly newsletter), I began a series of automated emails that I called Financial Boot Camp. This was a series of 12 weekly emails that would be automatically sent out to anyone who signed up to get the newsletter. The idea behind it was to take someone that was completely financially illiterate but an otherwise intelligent person with a high income from zero to hero as quickly as possible. Just like Sgt. Joe Friday from Dragnet, it was “Just the facts, ma’am.” I wanted to keep the emails short, sweet, and actionable with clear descriptions of the steps that needed to be taken that week. Those emails formed the backbone of this book.

Why boot camp? Like some of my readers, I actually attended a military boot camp early in my career—commissioned officer training with the U.S. Air Force. While this month-long course for physicians, dentists, nurses, attorneys, pharmacists, and chaplains was a far cry from the experience shown in Hollywood films such as “Full Metal Jacket” or “G.I. Jane,” it certainly was not a pleasant experience I remember fondly. What it was, however, was effective. In less than a month we became physically, emotionally, and intellectually ready to function in a culture and environment that was foreign to us at first. We learned that we could do hard things under extreme stress. We learned to trust and be trustworthy. Like residency, it is an experience no one wants to do again despite being grateful at having done it once.

Similar to my experience at boot camp, you may not find Financial Boot Camp to be a particularly pleasant experience. What it will be, however, is effective. Effective at taking you from your realm in the non-financially literate world of doctors who are stressed, wasteful, unhappy and burned out to a new culture where doctors talk about money but don’t worry about it. Where doctors can focus on their family, friends, patients, and health. Where money has transitioned from a source of stress to a tool. You will gain new knowledge. You will learn new skills. You will learn that you can do hard things that you are not currently comfortable doing. You will gain confidence that while you might not know the answer to every question, you know where that answer can be found. You will feel a camaraderie with other doctors and high-income professionals who are managing their money well. You will have a community you can rely on that will help you to achieve your financial goals.

Speaking of community, I knew when I wrote the original twelve emails that this book was not yet ready to be written. The White Coat Investor Community consists of hundreds of thousands of high-income professionals, and I knew that the end product (this book) could be improved by the input of all these smart people. So I sent the emails to everyone on the list and asked for feedback, which has been subsequently incorporated into this book. I also asked readers to submit anecdotes of how the information you will read in this book changed their lives and included many of those anecdotes in this work. By doing so, I hope the book not only gives you the information you need, but also provides the inspiration you need to take action in your own life.

Like weight loss, getting rich is simple, although not necessarily easy. The formula has four required components:

1) Make a lot of money.
2) Do not spend a lot of money.
3) Take the difference between what you earn and what you spend and invest it wisely.
4) Protect that growing nest egg from financial catastrophe.

It really is that simple. Most of those who read this book have already accomplished the most difficult of these four tasks—making a lot of money. In reality, doctors are 90 percent of the way to wealth already. It reminds me of the ending of the Super Bowl a few years ago. You do not need to be a football fan to appreciate this analogy.

The Seattle Seahawks played the New England Patriots in Super Bowl XLIX in 2015. The Seahawks had the ball on the New England five-yard line, trailing 24 to 28 with less than 30 seconds to go. On first down, they ran the ball to the one-yard line. They had the best running back in the NFL that year, Marshawn Lynch. They had three more downs to run the ball into the end zone, and it didn't appear the Patriots could hold them to fewer than four yards per play, much less one. But instead of running the ball into the end zone, a play was called that involved throwing the ball into a congested area of the end zone right behind the defensive line. Football fans know what happened next—the pass was intercepted, the game was over, the Patriots were Super Bowl champs, and that play has been derided on YouTube and ESPN ever since as the “Worst Play Call Ever.”

In your financial life as a doctor, you have the ball on the one-yard line, you have the best running back in the league, and you have three downs to get the ball over the line. Do not call the wrong play.

Given your income, becoming wealthy is as easy as running the ball over the goal line a yard away. The rest of this book will serve as the equivalent of calling the right play and will walk you through the other three components of becoming wealthy (and in fact even includes Chapter Five, Boosting Income, that will help with the first component).

Chapters Three (A Spending Plan), Four (Student Loan Management), and Five (Housing Plan) will help you with the second component—not spending a lot of money. Controlling your spending is key to saving money, no matter what your income. You cannot invest what you do not save. Many young doctors are facing immense student loan burdens that cause feelings of desperation and entrapment as well as impede the accumulation of wealth. Managing them appropriately involves having them forgiven in return for specific service or paying them off rapidly. Indeed, crushing your student loans early in your career is the best training exercise I know for becoming financially independent by mid-to-late career. The largest purchase for most people involves a home. Choosing wisely when to purchase a home and how much home to purchase is one of the most critical financial choices we make in life and will have significant effects on everything else. While it is acceptable and even preferable to purchase a home once your professional and personal life are stable, over-consuming here is a natural but devastating consequence of a lack of intentionality in your financial life.

Chapters Seven (Retirement Accounts), Eight (Asset Allocation), Nine (Correcting Past Mistakes), and Ten (Saving for College) will help you with the third component—learning to invest wisely. The use of retirement accounts speeds your way to investing success by lowering taxes, boosting returns, facilitating estate planning, and protecting your assets from loss. The mix of investments you select will have more effect than anything else on your investment returns. Setting appropriate goals, designing a written investment plan appropriate for the goal, implementing the plan with low-cost, broadly-diversified investments, and following the plan for decades despite market fluctuation will lead an investor to financial security. Most of us, including me, have already made serious mistakes in our finances. Hopefully, they were made early in your career with small amounts of money, but either way, they will need to be corrected as soon as possible. Retirement is not the only financial goal most investors have. Another common goal for high-income professionals is to save up some money to help your children avoid the same debt-related stress you faced at the onset of your career.

Chapters One (Disability Insurance), Two (Life Insurance), Eleven (Estate Planning), and Twelve (Asset Protection) will help you with the fourth component—avoiding the loss of what you have worked so hard to gain. Disability is both common and devastating to physicians. Your most valuable asset is your ability to turn your hard-won knowledge and skills into money over the next few decades. That ability must be protected in order to do well while doing good. If someone else depends on your income, term life insurance and lots of it is likely to be appropriate. Just as life insurance protects your loved ones no matter what happens to you, proper estate planning ensures they are taken care of in the way you intend should the worst happen. Another major worry for doctors is protection from liability, especially professional liability. While this fear is often much larger than the actual risk, a few steps to reduce the likelihood of loss are appropriate. The best asset protection plans are inexpensive, simple, and effective.

At the end of the book, you will find some helpful checklists, guidelines, a glossary, and information about continuing your journey toward financial literacy. This includes a list of recommended books and information about joining communities of financially savvy doctors.

The idea behind the Financial Boot Camp email series was to provide a deliberately ordered system to get your finances on track and allow the reader to catch up to the rest of The White Coat Investor community in 12 short weeks. You now hold all 12 steps in your hand and can implement them even faster. Each chapter of the book contains information that you need to know but were never taught in school or residency. If you find it too basic, or simply wish to learn more about a given topic, you will find a list of additional easily-accessed resources at the end of each chapter. In an effort to make the book as high yield as possible, each chapter begins with a "Can I Skip This Chapter?" section that will help you determine whether you actually need to read it or not.

Most importantly, at the end of each chapter is a list of simple missions. The completion of these missions is critical to bringing your finances up to speed. If you will faithfully complete them, your finances will be in dramatically better shape a few weeks from now. I know you may feel a bit overwhelmed by the current state of your financial affairs. But I can promise you this—tens of thousands of others just like you have done this, and you can too. You really can do this. If you need help, the entire WCI community will be with you every step of the way. It is now time for you to find the financial success you deserve.

Step One
Disability Insurance

Disability insurance is something that anyone who is working but has not yet achieved financial independence needs. You might love what you do, but you are working because you need to generate an income. You need to protect that income, and the only effective way to do that is disability insurance. – Lawrence B. Keller, CFP, CHFC, CLU

Can I Skip This Chapter?
Ask yourself a question: Do you have to work at some point during the rest of your life for financial reasons? If the answer to that question is yes, then you need disability insurance. If the answer is no, you can skip to Step Two.

Insurance is the practice of sharing risk. The classic example is fire insurance. Everybody in town pays a little so that the one person whose house burns down receives a sum of money to replace it. There is always a cost to insurance. Since an insurance company has expenses, including profit, the amount an insurance company pays out in benefits can never equal, much less exceed, the sum of the premiums an insurance company collects.

Thus, insurance is a losing proposition. On average, you will lose money buying insurance. However, in some aspects of your financial life having a bad event occur, even a rare one, is so terrible that it is worth paying a price to avoid it. For a typical doctor or other high-income professional, the financial catastrophes worth insuring against include disability, personal and professional lawsuits, death of a breadwinner, illness and injury, and loss of expensive property. These are insured against using disability, liability, term life, health, and homeowner's insurance.

In Step One, we'll consider the most expensive risk you face—losing the ability to turn the knowledge and skills you spent a decade learning into a huge pile of money by working in your profession for decades. We are primarily talking about long-term disability and long-term disability insurance here. Long-term is typically defined as a period longer than 90 days. While short-term disability does occur and can be insured against, it should not be a financial catastrophe for most doctors and so its purchase can safely be skipped once you have an emergency fund of three months of living expenses in place.

Disability insurance gives you an income to live on if you become so disabled that you can no longer work. Nearly every high-income professional in their first decade or two out of school should own a policy. There is a reason this chapter is step one in our twelve-step program. For the one out of seven doctors who will actually use their disability insurance, buying it is the most important financial step they will ever take. I know this is not the place where most financial books discuss disability insurance. It is usually a tiny paragraph buried in a chapter on insurance late in the book. Those books are not written for doctors by doctors. Disability insurance is a bit of a dry topic; it is not sexy like investing or asset protection. Some of the early reviewers of this book suggested I move this chapter later in the book and put the "interesting stuff" in chapter one. Unfortunately, disability insurance is just too important to do that. If you get nothing else out of this book other than motivation to buy a policy, it was worth the price of admission. Your most valuable asset is your ability to work. So if you do not own a disability insurance policy, you need to go get one, now. Well, I do not mean RIGHT NOW. You can finish this chapter first. But then you should put the book down and go get one. Here is how you do it.

First you need to gather up a few things. You need to know your income (check your last W-2, 1099, or tax return), you need to know about how much you spend (if you are like most, it is a very similar number to what is on that W-2), you need to know if your employer offers any disability policies (check with Human Resources), and you need to get a copy of the group policy offered through your specialty society or other local or national medical societies to which you may belong. Those policies are usually available online or with a quick call or email, and if not, a good agent may already have a copy anyway.

Take these items with you to see (or call) an independent disability insurance agent who specializes in disability insurance for physicians and other high-income professionals. By independent, I mean this agent can sell you a policy from dozens of different companies, not just one. If it were just one, the agent would be "captive" and you want an "independent" agent. Northwestern Mutual, for instance, is a company that uses captive agents. You cannot get a Northwestern Mutual disability policy from an independent agent, and you are unlikely to get a policy from another company from a Northwestern Mutual agent. No big deal, their policies are not so hot anyway, so you can afford to just ignore them if you like. It beats having to deal with two different agents, does it not? It is not like shopping for disability insurance is fun. If you need help locating an experienced, ethical independent agent see the list at the link found in the Other Resources section at the end of this chapter. Yes, those folks are paid advertisers on my website, but they will treat you well. If they do not, let me know and I will take them off the site.

Now, when you go to the independent agent, you will need to provide a little bit of information, like your age, gender, health status, specialty, and state of residence. The agent can then discuss with you the various policies available from the various companies. She can also help you compare them to your employer's group policy, your specialty association group policy, and the AMA group policy. If you buy a policy from the independent agent, she will be making thousands of dollars off of you in commission, so now is the time to get your money's worth. Ask every question that comes to mind and really educate yourself on the pluses and minuses of each policy. Then you can decide which of the "bells and whistles" you are willing to pay for. Take the time to do this right, and hopefully you will not have to do it again for the rest of your life. Once you select the policy you like, you will need to fill out an application, have a paramedic physical (usually just vitals, blood, and urine), and then in a month or so, you will have a policy.

There is quite a bit more to learn about disability insurance, which I will discuss below, but a good independent agent can teach you most of this. Just keep in mind the agent is incentivized to sell you an individual (instead of a group) policy, to sell you the largest policy for which you qualify, and to sell you as many of the bells and whistles as possible. The rest of this chapter will give you an unbiased opinion on those questions. Take my opinion, combine it with your agent's recommendations, spend some time thinking, and you will get to the right place. In the end, any disability insurance is better than no disability insurance, and if you go through this process, you will almost surely end up with a "good enough" policy.

Be sure to read every word in the policy and have your agent explain to you what is meant. Take notes, right in the policy, to remind you later what you were told. Be sure to ask for a discount. If you buy from an agent who has worked with hundreds of doctors, she should be able to offer you a "preferred producer multi-life" discount because she has already sold several policies to doctors working for your employer.

Three stories about doctors and disability insurance
1) An orthopedic surgery resident met with me in February before finishing his residency. We discussed the policies and at the time he was really busy and wanted to wait until he graduated to purchase the policy. He contacted me again in June and said he had a change in health; he was diagnosed with a brain tumor. He wanted to know if this would impact his ability to purchase a policy. Unfortunately, at that moment it was too late for him to purchase the policy. Fortunately, he eventually recovered and chose to work at a university hospital where he could at least have group coverage through the employer.
2) A neurosurgeon purchased a policy and had the policy for several years. He was diagnosed with an eye disorder and became blind in one eye. As a result, he could no longer practice neurosurgery. He filed a claim and received full benefits. He subsequently went back to complete a psychiatry residency. He now has a private practice in psychiatry, continuing to receive his full disability benefit along with his practice income.
3) A surgeon purchased his policy just as he was finishing his residency. I received a call from his wife the day after it was placed in force. The client was in a horrific car accident on his first day as an attending. He was flown to his university hospital where he was treated by

his colleagues, including burns over 70 percent of his body. It took him two years to make a full recovery. While he was recovering, he received full benefits from the disability policy and gradually decreased his benefits as he started to resume work. Unsurprisingly, he has since increased his policy at every opportunity.

Contributed by Jamie K. Fleischner, CLU, ChFC

Although Jamie's three examples all happen to be about surgeons, physicians and high-income professionals of all types become disabled all the time. Disabilities related to complications of childbirth are common. An attorney family member of mine developed severe bipolar disease in his 30s that kept him from practicing law for over a decade. The family's only income over those years was the disability insurance payouts. More recently, a young urologist I frequently worked with who has ten children broke his neck in a surfing accident and became quadriplegic. As you can see, there is a real need for disability insurance. One of the early reviewers of this book said, "Don't think you're immune to it. You'd never buy a home without homeowner's insurance. Yet many physicians spend more money and time on their training than a home and walk around uninsured. I had the hardest time convincing my husband to get disability insurance because, in his words, 'I am not going to get disabled because I don't need special skills like a surgeon. I just walk around the hospital and write charts.'" There is a reason disability insurance is the first step in our 12-Step Financial Boot Camp. I am generally a big fan of saving money, but this is not the place to skimp.

Individual versus Group Policies

You might think you are already covered by disability insurance from your employer. However, there are a number of benefits of an individual policy. The main one is that you are in control of all the details. You get to choose how much insurance you want to pay for. You get to choose which of the bells and whistles you are going to pay for. The policy is also "portable" meaning you still have it if you change employers (or if your employer just decides to change the policy). As a general rule, the policy is also “stronger,” meaning it is more likely to actually pay you if you get disabled. As I will discuss below, disability is not always black and white.

There are two main benefits to a group policy. The first is that they are usually dramatically cheaper than an individual policy. A typical individual disability insurance policy will cost you two to six percent of the amount of income you are protecting. That is to say, if you want a benefit that pays you $10,000 a month if you become disabled, your premiums will likely be $200 to $600 per month, or $2,400 to $7,200 per year. That is a significant budget item for most high-income professionals, and looking at options to decrease the cost is wise. A group policy might be one-fourth of that price, and if it is good enough for your needs, then it is good enough.

The other benefit of a group policy is that it is easier to qualify for. They do not ask as many pesky questions about your health or risky hobbies. They may not require an examination at all. So a group policy from your employer or association is a great option if you are having trouble qualifying for an individual policy. Almost every doctor will qualify for some group policy. Check with your employer or specialty association for details.

Personally, I bought one of each type of policy. I bought the individual policy years ago as a resident, but it excludes any disability caused by rock climbing (one of my many bad habits). So I also purchased the policy offered by my partnership, which did not exclude rock climbing injuries (which is good, since many of the partners climb)! The group policy is much cheaper but does not have as strong of a definition of disability. It also has the irritating habit of going up in price each year and occasionally changing the terms of the policy.

The Definition of Disability

The most important part of any disability insurance policy, and which you must go over word for word with your agent, is where it defines what a disability is and what it is not. Life insurance is much easier in this regard. Life and death are pretty much black and white. Now, I am an emergency doc, so I get to see all the shades of gray between life and death, but I can assure you that within an hour or two, it is all going to be sorted out. Not so with disability. Getting disability payouts is an entire niche within the law, and it all comes down to how the contract reads. The strongest definition is one that states if you cannot work in your chosen occupation (defined as your specialty) that the policy will pay out its full amount. Specialty-specific, own occupation. Those are the words you're looking for.

Own occupation means that if you can no longer do your chosen occupation, the policy will pay even if you can find employment in another occupation. So if you are a surgeon and can no longer operate but decide to go to law school and become an attorney, you will be able to make as much as you want practicing law while collecting your full disability benefit. Weaker definitions include "modified own occupation" and "any occupation." The Social Security disability program carries an "any occupation" definition. If you can still work at any job, it will not pay you a dime. It is possible, for the right price, that you should purchase a policy with a weaker definition. The need for a true own occupation policy may be lower for a psychiatrist than a hand surgeon. Just realize that the weaker the definition, the more circumstances there are where you could become disabled but not receive payments from the insurance company. Policies that are not true own-occupation policies also often reduce their benefits based on other disability benefits you may be receiving, such as from Social Security, Worker's Compensation, or group disability insurance policies. Be sure you understand how your policy will mesh with entitlement programs and any other disability policies you are considering.

Some States Are Better than Others

Insurance policies, agents, and companies are regulated by each state. Populations and risks also vary by state. This results in a similar policy being sold for a very different price across state lines. California, for example, is notorious for being an expensive place to buy disability insurance. So if there is a move in your new future (to another state for residency, fellowship, or to start your practice,) inquire with the agent as to whether it would be cheaper to buy the policy now or in a few weeks in the new state.

How Much Insurance do you Need?

As a general rule, insurance companies will allow you to buy enough insurance to replace 60 percent of your gross income, up to about $20,000 a month. Since most high-income professionals are paying 15 to 35 percent of their income toward taxes, that is usually MORE than enough income on which to live. Remember that disability insurance benefits, unless the premiums were paid for by your employer, are completely tax-free to you. If you already have a nest egg that by age 65 will be sufficient to provide your desired retirement, then you may need even less. As a general rule, decide how much to buy based on your actual expenses, not some percentage of your income. If you are spending $8,000 per month and need to put $3,000 per month toward retirement and $1,000 per month toward college, then you need a disability benefit of $12,000 per month whether you are earning $20,000 per month or $40,000 per month.

If you are a very high earning doc and wish to buy more than $20,000 per month in benefit, there are some options. These include combining policies from two companies, buying an “excess disability” policy from a company like Chubb or Lloyd’s of London, or getting the retirement benefit rider discussed in the next section. Personally, I would just keep my spending below $20,000 a month, crush my student loan and mortgage debt, and save like a crazy fool for a few years to rapidly reach financial independence. At that point, you would not need disability insurance at all. You could then increase your spending in proportion to the growth of your nest egg and thus be assured that you could maintain your current lifestyle in the event of disability.

Riders

Most disability insurance also includes “riders” or additions to the policy usually accompanied by an additional premium. These riders have different names at different companies, but the gist is the same and the devil is always in the details, so pay attention to them. Each rider comes with a cost that varies by policy, so check with your independent agent to obtain individualized pricing for you that can be used to compare one policy to another.

Partial/Residual Disability Rider

Most good policies include a provision for a partial disability and/or a residual disability. A partial disability rider pays if you can still work part of the time or you can still earn some money. This benefit is usually triggered by a drop in income secondary to an illness or accident. A residual disability rider covers you as you gradually recover from a disability. It allows you to get some financial assistance to make up for the lost income. I see little reason to buy a policy without these protections. I consider this rider mandatory. Be aware that the rider with each company is slightly different. Some are better than others and the better ones usually cost more. You will generally get what you pay for in this regard.

Cost of Living Rider

All individual policies, and some group policies, will offer a Cost of Living or Inflation rider of some type. This ensures that your payments will go up with inflation as the years go by. Be aware that this rider does not increase the initial disability payment you receive. If the policy you buy in 2016 says it will pay you $10,000 a month if you get disabled, it will only pay you $10,000 that first month you get disabled whether that is in 2026 or 2046. But once it starts paying, it will gradually adjust upward with inflation, typically up to a cap of three to six percent per year. For this reason, I think this rider is mandatory in the first half of your career. However, since most policies only pay until age 65 or 67, I do not see much reason for someone in their 50s or 60s to be paying for it.

Future Purchase Option Rider

This rider allows you to buy more insurance later when your income goes up without having to prove you are still insurable (i.e., no questions or exam). It does not lock in the low price you received when you first bought the policy; it just guarantees that you can buy the policy at the current price for your age at the time you exercise the rider. I think this is a smart rider to purchase when the company does not allow you to buy as much insurance as you need. For example, most residents and fellows are limited (by insurance company policy and by their inability to afford it) to buying less benefit than they really want to live on for the rest of their life. So for a resident or someone working part-time due to family responsibilities, it makes sense to buy a future purchase option rider. But if you are an attending working full-time in your peak earnings years? Just buy the amount you need and save money on the rider. Obviously, circumstances can change, and some who bought the rider and due to changed circumstances actually exercised it might disagree with that recommendation. Like many things in personal finance, there is some controversy here.

Catastrophic Disability Rider

Many companies now offer a catastrophic disability rider. This basically says if you are really, really disabled (i.e., cannot do at least two activities of daily living such as dressing or bathing), it will pay you extra. Sometimes this rider is just a part of the policy (meaning you don't have the choice to reject it and save some money). But as a general rule, I think you are better off using the money the rider would cost to just buy a larger benefit to start with. Some advisors disagree, arguing that a catastrophic disability rider is relatively inexpensive since an expense of perhaps $1,000 per year could add an extra $8-10,000 in monthly benefit. As you decide what to do, just know that there is some controversy about this rider. Obviously, the agent gets paid more to sell you a policy with as many bells and whistles as possible, so she cannot provide a completely unbiased opinion on questions like this. You will just have to decide.

Retirement Riders

Some companies allow you to buy a rider that, if you become disabled, not only pays you a monthly benefit to live on, but also puts some additional money into a separate account for your retirement. Since the investment options the company is likely to use are generally poor compared to what is available on the open market, I recommend you skip this rider. Of course, you need to make sure the benefit you have purchased is sufficiently large that you can not only live on it, but also save for retirement on it, since the policy will only pay until you are in your mid-60s. If you wish you could buy more disability coverage than they will sell you, this is one area where you can get a little bit more.

Guaranteed Renewal versus Non-Cancelable

There are a few weird terms used in the insurance world of which you should be aware. A policy is one of three things--conditionally renewable, guaranteed renewable, or non-cancelable. Under the first (which is very rare to find), the insurance company can cancel the policy whenever it likes. Under the second, the insurance company can raise your rates, as long as it raises the rates of everyone else that is like you with regards to age, state, or specialty, but it cannot cancel the policy if you pay the premiums. Finally, with a non-cancelable policy, the insurance company cannot raise rates at all and must renew the policy so long as you pay the premiums. Obviously, the non-cancelable policy is the best option, but it is pretty rare for a company to raise rates, so if you are offered a substantial discount for a policy that is only guaranteed renewable, consider taking it and put the money toward another good cause.

Choosing a Waiting Period

Policies will usually give you a choice of 30, 90, or 180-day waiting period. I recommend choosing the 90-day period. A waiting period is the time between the date you are disabled and the date when the policy starts making payments to you. With a three-month emergency fund, you can easily self-insure those first ninety days, avoiding the need for a short-term disability policy. Policies with 30-day waiting periods are too expensive and a policy with a 180-day waiting period does not provide much of a discount over one with a 90-day period.

Military Considerations

While the military does provide some disability benefits to its members, compared to a good individual disability insurance policy, most physicians would view what the military offers as grossly inadequate. It can be very difficult to get an individual policy while on active duty, although if you have a policy in place prior to going active, it can usually be maintained during active duty. Two companies that offer policies to military members at the time of publication of this book are Mass Mutual and Lloyd's of London. Bear in mind that rarely will a policy pay benefits as a result of an act of war, but if you are disabled due to medical issues or a non-war related accident, it should still pay out.

Gender Considerations

Disability insurance generally costs more for women than for men. This is simply due to the fact that women are much more likely to make a claim than men are, partly due to the unique risks of pregnancy. As a result, men should generally buy a "gender-specific" policy and women should generally buy a "unisex" policy whenever possible. It is also best to buy a policy prior to becoming pregnant.

When to Buy a Policy

My general recommendation is to buy your coverage as soon as you get out of school (i.e., your first month or two of residency), although it is possible to buy a very small policy even as a medical student. Then upgrade your policy (either by purchasing an additional policy or exercising a future purchase option rider) upon completing your training. The younger you are, the less expensive and the more valuable the policy is. Waiting until your last year of residency, until you graduate, or until "you can afford it" leaves you uninsured and may cost you more money in the long run anyway. The insurance companies price them by age and medical problems—the younger and healthier, the better.

Yet since the policy will generally pay to age 65 or so, it is potentially much more valuable to a 25 year old than to a 55 year old who becomes permanently disabled. If you develop a medical condition prior to buying a policy, particularly mental health or back issues (frequent causes of disability), your insurance may end up costing more or those conditions may even be excluded from coverage! Another important reason to buy during residency is because residents are likely to qualify for one or more discounts related to your institution, specialty, or state of residence. If you need a little more motivation to actually call up an agent during residency because you are busy, consider that your procrastination may cost you thousands of dollars over the course of your life.

When to Drop your Policy

There are two times to consider cancelling your policy. The first is when you no longer need it. If you become financially independent, such that you no longer need to work for money, ever, then cancel your policy. The second is when it is no longer a good deal. When you are 30, if you become disabled your policy will pay for the next 35 years. If you are 60, it will only pay for five more years. But the premiums are the same. At a certain point, you are paying a lot of money for not much benefit. If you are in that situation, consider dropping your policy and putting the money toward retirement to hopefully help you become financially independent even faster. If you anticipate early financial independence, allowing you to cancel your disability policy by your early 50s, ask your agent about a graded premium policy. With graded premiums, you pay less now and more later for the same benefit rather than one flat rate over the years. But if you are able to cancel the policy at a relatively young age, you never have to pay the higher premiums. Graded premiums are also very helpful in those early cash-flow-constrained years.

The main disability insurance-related issue for doctors is that they do not have it at all, often because they do not feel its purchase is urgent or even likely to be used. Disability insurance is Step One in Financial Boot Camp because it is that important. At the risk of harping too much on this subject, I thought I would share one more real-life anecdote when the coverage was used.

A disabled ophthalmologist

In 1990, I founded a solo ophthalmology practice in Flagstaff, Ariz. After eight years the practice was so successful that I recruited another ophthalmologist to help me. One year later, I developed a sudden, painless decrease of vision in my right eye. My vision deteriorated from 20/15 to CF (count fingers) because of macular edema associated with a

venous occlusion. As a microsurgeon, you most fear loss of your vision and/or damage to your hands. Fortunately, I sold my practice to my younger associate as I decided to segue into teaching and the nonsurgical areas of ophthalmology (neuro-ophthalmology and pediatric ophthalmology). I was fortunate that I had purchased a good disability policy when I started the practice given the substantial decrease in income from losing the ability to operate.
Contributed by Tomas Tredici, MD

In summary, unless you are already financially independent, or can live off of your spouse's income in the event of your disability, you need to buy disability insurance. Policies vary, both in features and in price. Shop carefully the first time, put your premiums on auto pay, and move on to other financial matters.

Your Missions

1. If you do not already have disability insurance, gather up your tax returns, your spending, and the group policies available to you and make an appointment to meet with a good independent disability insurance agent. Do it today.
2. If you do have disability insurance already, go get your policy out of your filing cabinet. Does the benefit amount still make sense? Do you have enough? Do you have too much? Are there riders you would like to drop to save some money? If it all still looks okay to you, put it away and move on to the next chapter. If it doesn't, schedule an appointment with a good independent disability insurance agent and bring your concerns to the discussion.

Other Resources

List of good independent agents

An overview of disability insurance

The original series on disability insurance on the blog

A personal story of a doctor living off the proceeds of his disability insurance policy

Information on disability insurance for military doctors

Great calculator for estimating your personal chance of being disabled

Details of the American Medical Association group policy

Details of the American Academy of Family Practice group policy

Details of the American College of Physicians group policy

Details of the American Academy of Pediatrics group policy

Details of the American College of Surgeons group policy

Details of the American College of Emergency Physicians group policy

Step Two

Life Insurance

Life insurance is like needing a parachute. If it isn´t there the first time, chances are you won´t be needing it again. –Unknown

Can I Skip This Chapter?
Is there anybody who depends on your income besides you, such as a spouse, children, or parents? If so, you need life insurance and should read this chapter, even if you already own some life insurance. If nobody else is depending on your income, and you have enough assets to pay for your burial, then go ahead and skip to Step Three.

More Income Insurance

Just like disability insurance does not reverse your disability, life insurance does not bring you back from the dead. Its purpose is to eliminate the financial consequences of your death. It will do nothing for the other consequences. In order to figure out how much insurance you should buy, you will need to determine what the financial plan will be if you died tomorrow. Then, buy enough insurance so that, financially speaking, the consequences are the same whether you live or die.

For example, our financial plan is for my wife not to ever have to go back to working for money. That means my life insurance serves as an "instant retirement nest egg." When we first started earning money, I needed enough life insurance that if I died, she would have a nest egg that, managed in a reasonable manner, would last the rest of her life. We also needed enough to pay off the mortgage and enough to cover a big chunk of our children's education expenses. Now, over the years our retirement nest egg has grown, our mortgage has been paid off, and the college funds have grown. Thus, our need for insurance has become less and less over the years. At a certain point, we will have no need for life insurance as the mortgage will be paid off, the college funds will be adequately large (or spent), and we will be financially independent from paid work.

Typically, the insured breadwinner is the owner of the policy and the beneficiary (the person the death benefit is paid to) is the spouse first and the children secondarily. However, you can name any person, trust, or other entity you like as the beneficiary. Do not forget to change your beneficiary if your life circumstances change (such as death, divorce, or estrangement).

Do Not Buy Whole Life Insurance

As you can see, there is only a limited period of our life where we will need life insurance. So the least expensive way to pay for that need is to buy what is called "term" insurance, that is, insurance that will only pay out if one dies during a specific term. There are other types of insurance, collectively called "permanent" or "cash value" insurance, that will pay out whenever the insured dies, whether that is at age 30 or age 90. Obviously, permanent insurance costs a lot more than term insurance because it guarantees that if you keep paying the premiums, your heirs will get the death benefit eventually. How much more does it cost? Well, it depends on what type of term insurance and what type of permanent insurance, but it would not be unusual to cost ten times as much to get that permanent death benefit.

To make matters worse, permanent insurance has an almost endless number of variations and a veritable army of salespeople working their tails off to sell as much of it to you as you will buy, using dozens of well-honed sales techniques. For the vast majority of doctors and similar high-income professionals, buying any permanent insurance policy is optional at best and probably a financial error. The reasons why are a bit beyond the scope of this book, but suffice to say that if you are reading this book, it is highly likely what you need is term insurance and a lot of it. If you wish to add on a permanent life insurance policy at some point down the road, be sure you understand exactly what you are buying and that you are committed to holding it until death. In general, permanent life insurance does not replace term life insurance, so it is not an "either/or" question. It is a question of term or term plus permanent. Either way, you need some term insurance.

Permanent insurance includes whole life insurance, variable life insurance, and numerous variations of universal life insurance. These insurance policies are generally products designed to be sold, not bought and provide hefty commissions to those who sell them. They are appropriate only for a tiny percentage of doctors, and when I poll physicians who have actually purchased a policy, approximately 75 percent of them regret the purchase. Remember that whole life insurance, like marriage, is a life-long commitment and its purchase should be accompanied by a similar amount of due diligence. Just like marriage, it's either until death do you part or it is likely to cost you a lot of money to get out. One of the biggest errors physicians make is buying (being sold) so much whole life insurance that they do not actually have enough total insurance coverage. A classic example is a doctor with $250,000 in term life and $250,000 in whole life but an insurance need of $3 million. If the premium dollars being spent on the whole life policy had been spent on more term coverage, the death benefit (the reason you actually bought the insurance) would be $3 million instead of $500,000.

Most insurance agents you go to see for term life insurance will attempt, at least briefly, to sell you a permanent life insurance policy. It is best to be politely persistent, using a phrase such as, "I am here today to buy term life insurance only. If you treat me well today, I may be back at a later date to purchase permanent life insurance from you. But that date is not today." If you would like to avoid that upsell, I suggest you use one of my approved agents that can be found at **this site**.

A Doctor Falls in to a Trap
I believe physicians, especially resident physicians, are targeted by insurance agents masquerading as financial advisors to buy cash value life insurance, at the most vulnerable phase of our careers. I am sure there are many physicians like me who fall into their trap. My wife and I were sold cash value life insurance policies with a $1 million face value. Four years into the policies (paying annual premiums of $30,000), we became financially literate and realized our mistake. Better late than never. I sincerely wish nobody gets this rotten advice and I hope somehow every resident physician in the country is at least knowledgeable about

cash value life insurance before taking the plunge. The opportunity cost was huge, as that money could have been invested in equities during a bull market. I really regret not having done sufficient research before diving in. I hope you learn from my mistake.
Contributed by R.S.R.

How Much Life Insurance do you Need?

Deciding how much life insurance to buy requires you to do some rudimentary math. However, if you are like most doctors, the number you end up with will be between $1 million and $5 million. This book's early reviewers said I should take all the math out of the book, that you would not like it. They are probably right, but I think there is some value in learning how to do financial calculations on your own. If you do not want to do so, skip on down to "How to Buy Life Insurance" and just go buy a $3 million, 30-year level-premium term life insurance policy.

Still reading? Okay, the calculation works like this. Determine how much income your loved ones would need going forward if you died today. That is, take your monthly expenses and multiply them by 12 (for 12 months). Now multiply that figure by 25. That will provide a nest egg for them to live off of for the rest of their lives because retirement withdrawal studies show you can withdraw about four percent of your nest egg each year in retirement and expect the nest egg to last for decades. 4% = 1/25th.

Now, look at your latest mortgage statement. Add on the amount you still owe. If you are currently renting, take a look at what the house you would like your loved ones to live in would cost to buy with cash. Use that amount instead.

Next, consider how much you would like to have for the education of your children. If you plan to pay for the entire experience, plan on $50-200,000 per child. I know that's a wide range, but as you will learn in Step Ten, the cost of a college education is highly variable. You can look at the annual cost of attendance of your local state school (or whatever other college you think your child is likely to attend) and multiply by four if you want a better estimate.

Now, consider any other large ticket items there may be, such as your spouse's student loans, the mortgage on a vacation home, or any other debts. Remember that your federal student loans are forgiven if you die. Check any private student loans you may have as they may not be forgiven at death so you will need to add in their totals to your calculation. This is especially true if anyone else co-signed for your student loans.

Add it all together. Subtract your current nest egg and college savings from it. Now, round up to the nearest $1 million. That's how much term life insurance you should buy.

Your Life Insurance Need

Add up:

Monthly expenses x 12 months x 25
Remaining mortgage amount
Estimated college costs
Large ticket items
Non-forgiven private student loans

Subtract out:

Current nest egg
Current college savings
Then round up to nearest million

Is the number between $1 million and $5 million? Good. Don't worry about buying a little too much. This stuff is cheap, and it is better to have a little too much (especially when future inflation comes into play) than too little. Remember that life insurance proceeds are tax-free, so don't worry about having to buy enough to cover a tax bill too.

How Long of a Term?

Remember the idea behind buying term life insurance is that you need to save and invest enough money every year to eventually become financially independent. At that point, your nest egg should be large enough to care for your spouse or other loved ones for the rest of their lives with or without you. Of course, if you are single with kids who will eventually be independent of you, you need only carry life insurance until they are independent. At that point, your need for life insurance goes away. However, if you have a partner dependent on you, it is a good idea to know about when you will become financially independent because that is how long you will need to carry term life insurance.

This will require another financial calculation. If you don't have the ability or desire to make this calculation, just buy a 30-year level term policy. That gives you 30 years to learn how to do this calculation, and hopefully you will learn it a lot sooner than that. It might cost you a little extra, but since you cannot easily buy a term longer than 30 years, at least you will not come up short. If you would like to learn how to do this calculation, it is not that hard. If you do not, skip down to "How to Buy Life Insurance."

Still here? Great. Open a spreadsheet, such as Microsoft Excel, and input a calculation called "NPER." You will need to input a few variables. Here's how to do it:

NPER is the "number of periods," i.e., number of years, until you reach your financial goal. This is the solution of the equation.

RATE is the first variable and is the annualized rate of return on your investments. Adjusted for inflation, I think 5% is a reasonably conservative number and is what I would recommend using in this calculation.

PMT is the second variable and is the payment, or amount of money you intend to save for retirement each year. When you enter it into this calculation it is a negative number, so put a minus sign in front of it.

PV is the present value, i.e., the current size of your nest egg. It is also a negative number.

FV is the future value, i.e., the amount of money in today's dollars you need to retire. In order to get this, estimate how much income you will need per year in retirement and multiply it by 25. This is a positive number in the equation.

Type is either a 1 or a 0, depending on whether you will be adding the payment at the beginning of the period (1) or at the end (0). It does not matter all that much for the purposes of this equation.

So let us say you want $100,000 per year to live on in retirement and are saving $40,000 per year toward retirement. How long will it take you to get there? Here is what you would put into the spreadsheet:

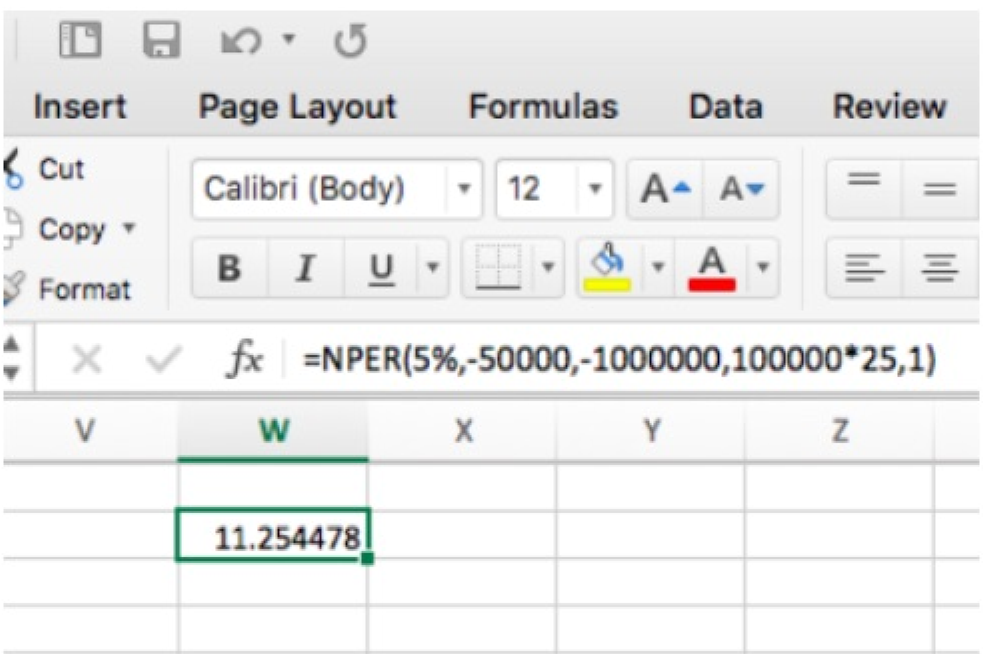
=NPER(5%,-40000,0,100000*25,0)

The solution is 29 years. So if that is you, buy a 30-year term policy. What if you are a bit more frugal and you already have $100,000 saved for retirement? You plan to save $60,000 per year and can live on $80,000 per year in retirement. What would your equation look like?

=NPER(5%,-60000,-100000,80000*25,0)

The solution here is 22 years. A 25-year term policy ought to be adequate. What if someone is already well into her career but still needs life insurance? Imagine someone who has $1 million already, is saving $50,000 per year but wants $100,000 in retirement income. How long should her life insurance term be?

=NPER(5%,-50000,-1000000,100000*25,0)



The solution here is 11 years, so a 10 or 15-year term is probably adequate. As you can see, these equations do not require a precise calculation. If you are not sure about a variable, just guess and round up. These are not irrevocable decisions.

How to Buy Life Insurance

Term life insurance is essentially a commodity, like gasoline. Sure, there are a few purists who like to argue about the merits of Chevron gas over Texaco gas, just like some agents want to argue about the strength of Minnesota Life over Metlife. But in the end, it is just gas and it is just insurance. It all works fine. For the most part, it is a simple product. You pay a premium once a year, and if you die during that year, you get the face value of the insurance policy from the insurance company. If you do not die, you do not get anything. Any reasonably financially secure insurance company is going to be able to pay out if you die such that you should not spend a great deal of time, effort, and especially money trying to get a policy from a “better” company. You want the cheapest policy for the money.

So your goal when you go to buy term life insurance is to buy the cheapest policy you can get. If you are very healthy, this is a simple process. You simply go to an online site using software such as “Compulife” (see resources below) which will provide you quotes from dozens of insurance companies without requiring any personal information. You then print out the list of quotes, go to an independent agent (i.e., one who can sell you a policy from any company), and ask the agent to sell you the least expensive policy for the face amount and term you have already determined. It is that simple.

If you are not healthy, or engage in dangerous hobbies such as flying, skydiving, SCUBA diving, or climbing, it gets a little more complicated. Here is where the independent insurance agent really earns her commission. She will have to informally “shop you around” to the various companies, to see which one will give you the best price. Some companies are more lenient on some conditions than others. It will take you longer to get insurance and it will cost more, if you can get it at all.

Military members may find policies from military-associated companies such as USAA or the Navy Mutual Aid Society to have fewer restrictions on death benefits if the death results from an act of war.

Gender Considerations

Just like with disability insurance, life insurance should be purchased before becoming pregnant even though technically there is not yet a child relying on your income. Pregnancy is a relatively high risk period for developing new medical conditions and premiums can go up dramatically for things that happen frequently during pregnancy or immediately afterward. This concern is illustrated well by the following anecdote.

Update Insurance Before Pregnancy
My second life insurance policy was approved right before I became pregnant. I developed gestational diabetes and had two post partum hemorrhages. Before that I was considered the preferred plus class (healthiest). If I had waited, underwriting would have lowered me by two health classes due to those complications and my agent told me my premiums would have doubled or even quadrupled. Even a caesarean section or undergoing in-vitro fertilization can ding you. Women really need to get insurance policies in place before attempting their first pregnancy.
Contributed by Bonnie Koo, MD

After the birth of a child, you may find yourself inundated with advertisements attempting to get you to buy life insurance on the child. Since nobody relies on the income of the child, there is no reason to buy these policies. If you want to put something away for your child, start a 529 college savings plan for them as discussed in Chapter Ten. It should stand to reason that if you are buying life insurance and baby food from the same company, you are probably doing something wrong.

Annually Renewable and Laddered Policies

Although term life insurance is very inexpensive compared to disability insurance, there are a couple of ways in which you can save even more money on your premiums.

When you purchase a 20-year level term policy, your premium remains exactly the same for 20 years. In year 21, should you decide to hold on to the policy, the premium will dramatically increase and will continue to increase each year. But for the length of the term, the premium is level. If you expect to become financially independent relatively early in life (before 50), you may wish to consider an annually renewable policy. In the first few years, an annually renewable policy is less expensive than a level term policy. This can be very helpful both because your early career years tend to be more lean than later years and because it will allow you to invest more of your income for the future, speeding your way to financial independence. If you find you are not accumulating wealth as quickly as you expected, you can just keep paying the premiums and keep that life insurance in force as long as it is needed.

Another option to consider is to ladder your policies. Instead of buying one 30-year level term policy, you can buy a 20-year level term policy and a 30-year level term policy, each for half the amount of insurance needed. The 20-year policy will cost much less, and after 20 years, you should have less need for insurance and can make do with just the 30-year policy. If you find yourself reaching your financial goals sooner than expected, you can reduce the face amount or term accordingly or even surrender the policy completely in order to save money. Allowing a policy to lapse instead of simply surrendering it in effect gives you a month of free insurance at the end as you will be in a payment grace period, but the policy will still be in effect should your heirs need to pay that last premium and claim the benefit! This tactic can also be used with disability insurance.

Another unique use of a laddered policy is for a single person with children relying on them. While the children are at home, they need a fairly large amount of coverage to get them to age 18, but as they approach 18, that expense becomes smaller and smaller until they are left with only college expenses. So with two young children in that situation, it might make sense to have a 10-year $500,000 policy, a 15-year $500,000 policy, and a 20-year $500,000 policy. If you die while they are young, there will be $1.5 million for them. If you die while they are in their teenage years, there will be $1 million for them. If you die while they are in college, there will be $500,000 there to finish paying for their education.

Life insurance is much less complicated to purchase than disability insurance but can be just as important to prevent financial catastrophe.

Your Missions

1. If you do not already have life insurance, but need it, get started today. First, calculate how much you need. Then calculate how long you need it for. Then go to a site such as **Term4sale.com** or **Insuringincome.com** and get a list of quotes. Now make an appointment, in person or by phone, with an independent life insurance agent to purchase a policy.
2. If you already have life insurance, run the two calculations in this chapter to ensure you have enough and that it will last long enough. You may find you need to buy some more, or you might also find out you no longer need your policy and can cancel it.

Other Resources

Step-by-step guide to buying life insurance

List of vetted independent insurance agents
Term4Sale—Access to Compulife database--free instant quotes
Insuring Income—Access to Compulife database--free instant quotes

List of techniques used by insurance agents to sell whole life insurance inappropriately
Still think whole life might be for you? Read through these questions first

Regretting buying a whole life policy? This post is for you

Step Three
Spending Plan

Smart women figure out what, exactly, makes them happiest. They spend generously on those things but cut out the rest. – Laura Vanderkam

Your current middle-class life is an Exploding Volcano of Wastefulness, and by learning to see the truth in this statement, you will easily be able to cut your expenses in half – leaving you saving half of your income. Or two-thirds, or more. – Mr. Money Mustache

Can I Skip This Chapter?
Do you have any consumer debt (credit card, auto loans etc.)? Do you have a written spending plan (i.e., a budget) in place that you compare your spending to at least once a month? If you have no debt and have already aligned your spending with your values—Congratulations and well done! You may move on to the next step.

Spending has Consequences

Personal finance books and blogs are notorious for trying to get you to spend less money. I really do not care if you spend less money. I want you to spend money more deliberately. A natural consequence of that is usually to spend less money, but that is not my primary goal. Spending deliberately means weighing every purchase for the amount of happiness it is likely to bring you and the consequences of spending it. Some people are car people and really get a lot of value out of having a nice car. Others enjoy living in a home where they can entertain or having nice furnishings or clothing. Still others like to travel or engage in expensive hobbies like boating or flying. As a typical high-income professional, you can afford anything you want but not everything you want. A spending plan is simply a prior decision to spend consciously.

Even conscious spending has consequences. Money spent on travel cannot be used to purchase a vehicle. Cash given to charity cannot be left to your heirs. Dollars spent paying interest and property taxes on a large house cannot fund an early retirement. In addition, some purchases are inevitably linked to other purchases. If you buy a large house, you will likely spend a lot of money on furniture and window coverings. Everything you buy will need to be stored, maintained, and insured.

For this reason, many people prefer to purchase experiences over stuff. In fact, the happiness literature has long demonstrated that the best way to buy happiness is to use your money to fund shared experiences with people you care about. Even here, however, there are consequences. Even if your resources are seemingly unlimited relative to your wants, that does not mean that the planet also has unlimited resources. Our landfills, oceans, and air are filled with the consequences of over-consumption. Consider what would happen if everyone on the planet made spending decisions like yours. In many ways, frugality is also environmentalism. Henry David Thoreau said, “The cost of a thing is the amount of what I call life which is required to be exchanged for it, immediately or in the long run.” I would apply that principle not just to your life but to the lives of the other inhabitants on this sphere.

Credit Cards Are Not For Credit

As Americans, we have a serious problem. We spend money we do not have on stuff we do not want to impress people we do not like. The problem has become so bad that “getting ahead” for many simply means getting back to being broke. The average U.S. household owes $15,000 in credit card debt, $27,000 in automobile debt, $48,000 in student loans, and $166,000 in mortgage debt. Unfortunately, physicians and other high-income earners aren’t exempt from this phenomenon and in many cases, despite their high income, their debt totals are even higher. In short, being in debt has become “normal.” Surveys show that one out of four physicians admits to living beyond their means and carrying credit card balances from month to month.

Part of the issue for physicians is that many of them have to borrow astronomical sums to pay for medical school tuition and living expenses.

This experience habituates them to being in debt. So when they get out of school, they continue the habit right through residency and into the rest of their lives. Most physicians I have interacted with are entirely too comfortable with debt. While there may be some times in life when it cannot be avoided, debt, and the spending habits that tend to accompany it, has a serious drag on the accumulation of wealth and financial independence. Do yourself a favor and become uncomfortable with it.

Credit cards are not for credit; they are for convenience and possibly rewards. In fact, some personal finance nerds love to “travel-hack” using their credit cards in creative ways to maximize freebies like airline miles. A word of warning, however. Studies are quite clear that you spend more when you use a credit card for your purchases. If you are saving plenty of money, that is probably no big deal—enjoy your airline miles. But if you are not, a great way to decrease your spending is to use a debit card, a check book, or even better, cash. But whether you use cards or cash, if you are carrying a balance on a credit card you have proven you cannot handle it. Cut up your cards, treat paying off the balance as an emergency, and never use them again.

Using an auto loan to purchase a car is also silly for an attending physician. A reasonably reliable car that will last years can be purchased for $5,000 to $10,000. A typical physician making $200,000 per year gets paid that much every two weeks. Surely that amount of money can be saved up without difficulty within two to three months. If you wish to drive something nicer, that is fine, but purchasing it on credit, by definition, means you cannot afford it. Wait until you have the money and then buy the car. If you are currently making car payments, it is reasonable to keep the car if you can have it paid off within one year. Then keep making the payments to your bank account so you can pay cash for your next one. If you cannot pay your car off in a year, sell it and purchase a $5,000 car. You can upgrade it in a year or two when you have the money. The same perspective can be taken with most items in your life. Vacations should be paid for in advance. In fact, studies have shown that vacations paid for in advance provide more enjoyment. Boats, ATVs, snowmobiles, and other toys are a lot of fun, but they are even more fun when you know they are paid for. Plus, if you decide they are no longer much fun, you know you will never be underwater on the payments. You can sell at any time and walk away.

Using cash to buy expensive things is such a foreign experience that early reviewers of this book asked me to include a description of how to actually do that. It is surprisingly simple. In your monthly spending plan, you include a line item such as “Next Car” or “Fiji Vacation.” Then, every month you take money out of your checking account and place it into an account dedicated for that particular goal. A bank will generally let you open a dozen different savings accounts, one for each of your goals.

Alternatively, you can use one large savings account and keep track of how much is saved for each goal on a spreadsheet. If you wish to earn a bit more on your money than your local bank offers, you can use an FDIC-insured online high-yield savings account, such as those available from institutions such as Ally Bank, HSBC, Barclays, or Capital One. You can also use a money market fund from a mutual fund company such as Vanguard or Fidelity. Many high-income professionals prefer to use a “municipal bond” money market fund, where the yield is tax-free. Due to their high tax bracket, the after-tax return on their money is a little bit higher than in a savings account or taxable money market fund.

When the account has enough money in it to purchase your desired item, you then transfer the money to your checking account and write a check for your desired item. If you have to save up for years for a purchase, you may consider an investment such as a bank certificate of deposit (CD) or a short-term bond fund to earn a little higher return. However, money you plan to spend in the next five years has no business being in volatile investments like stocks or real estate.

The 1/3 — 1/3 — 1/3 Plan

After completing residency, living like a resident isn't as difficult as it may be for a mid-career physician. When starting in my new practice, I realized that my base salary was about four times what I made as a resident. My wife and I decided that we could easily live on a third of my new income while investing a third and paying taxes with a third. This allowed us a modest lifestyle creep with nicer housing and the *replacement of our aging cars while still achieving a good savings rate. Using travel hacking and living in a low cost of living area definitely made a difference in allowing us to meet these goals. Having this plan at the start gave us confidence to max out our 403(b), Backdoor Roth IRAs, 457, 529s and HSA while still paying our bills.*

Shared by Michael Kalkhoff, MD

If you, like many doctors, have a long list of debts, you might consider using a technique affectionately referred to as "The Debt Snowball." In this technique, you list your debts from smallest to largest. Each month, you pay the minimum on all of the debts except the smallest one and direct every available penny you can squeeze out of your budget at that debt until it is gone. You then attack the next smallest debt in turn. By knocking out the small debts quickly, you get a few quick wins, you build a sense of momentum, and you free up the cash flow that was going toward paying the minimums on those debts, allowing you to knock the largest debts out in less time than you expected. Critics of this technique point out that, all else being equal, paying off the highest interest debts first will result in you getting out of debt sooner. The math cannot be argued, but people generally do not get into debt because they do not understand math. They get into debt because of bad financial behavior. The Debt Snowball technique is a behavioral solution to a behavioral problem.

Establishing an Emergency Fund

An emergency fund is a pool of money invested very safely that can be accessed quickly in the event of an emergency. The purpose is to prevent you from having to go into debt or sell long-term investments in the event of a major financial event such as illness, job loss, car wreck, or appliance malfunction. The usual recommended amount is three to six months of your typical monthly expenses. Some of this can be kept in cash at the house, some in your checking account, and the rest should be invested in a high-yield savings account, money market fund, CDs, I Bonds, or a short-term bond fund. An emergency fund allows you to avoid debt, worry less about your investments, and raise the deductibles on your insurance.

The point of living like a resident is not to live like a resident forever. As Jonathan Clements noted in the foreword, doctors are actually very good at delaying gratification. But there must be moderation and balance in all things. Just like with dieting, an occasional splurge may help you stay on the diet long enough to be successful. It is just as possible to over-save as to overspend, even if it is relatively rare. Many successful physicians have found an approach of hitting your finances hard early in your career and then loosening up later provides an excellent balance. This allows debt to be retired quickly, minimizing its costs. Longer hours are easier to work when you are younger, more excited about your new career, and your kids, if any, are still very young. Spending less is easier when you have never spent more. It is far easier to grow slowly into your income over years than to find, at mid-career or even retirement age, that you need to pare back your lifestyle. A good balance is to "live like a resident" for two to five years out of residency, and then loosen the purse strings a bit. That should be enough time to pay off your student loans, save up a down payment on your dream house, and get a very good start on a retirement nest egg.

Sometimes residents can get into trouble before they even leave residency. Despite a typical resident salary being equal to the average American household income, some residents borrow additional money to cover their living expenses during residency, essentially spending their attending income before they ever start receiving it. Other residents begin moonlighting, doubling or tripling their income. If their lifestyle increases accordingly, they may find that living as an attending like they lived as a resident does not actually provide adequate savings to "take care of business" like crushing student loans and catching up on savings.

Live Like a Resident
You know that feeling you get in the pit of your stomach when you realize you've made a huge financial mistake—there was a smarter choice, but you didn't make it? That is the feeling I got when I read the White Coat Investor: A Doctor's Guide to Personal Finance and

Investing. I was spending my entire maternity leave holed up in a room alone, sewing a cover to a couch because I was too stressed out about money. I didn't want to spend the cash on a new couch for the basement. This beautiful room was supposed to be a fabulous place for my boys to play and grow. But, it was just taking me away from the precious little time I had with my baby boy. I was a new attending, and my husband was a stay-at-home dad. Having to take time off for the baby with no income and with big bills like student loans coming in was stressful, to say the least.

"Live like a resident," said Dr. Dahle. That's where I had gone wrong. I had inflated the lifestyle of my family too fast after becoming a new attending. Now, I was stuck with large bills, a large life, and no flexibility. So, we decided to make a huge change. We downsized our lifestyle to a resident's and became seriously frugal. Suddenly, the weight of the never-ending student loan was lifted. The student loans would be paid off in a year and a half. Finally, the light at the end of the tunnel was glimmering with promises of freedom and quality family time. Now, we finally have a significant savings rate and are moving toward a sound financial position, thanks to Dr. Dahle.

Contributed by Disha Spath, MD

Another issue doctors run into is they pay too much attention to small expenses and not enough attention to large expenses. It does not matter if you are incredibly frugal with your day-to-day purchases if you blow through all that savings and more when it comes time to buy a house, a car, or private school tuition for your children. You can buy a lot of lattes with the difference between a ten-year-old Nissan Sentra and a brand new Lexus SUV or the difference between a modest home and a McMansion in the ritzy neighborhood. This is a bit like the Pareto Principle—the 80/20 rule. Eighty percent of the results come from 20 percent of the effort. You do not have an unlimited amount of "anti-spend willpower." Use your limited willpower on the big items like housing, cars, and school for your children.

Some Budgeting Tips

There are dozens of different ways to budget and plenty of technology to help you, ranging from pencil and paper to a spreadsheet to software like Mint, You Need A Budget, Honeydue, or Every Dollar. Use whatever works well for you and, if applicable, your partner. Successful couples realize that unless they are both working together they are unlikely to be successful.

My general recommendation for an attending physician is to save 20 percent of your gross income for retirement. That is for a retirement at normal retirement age. If you want to retire early, you will likely want to save more, perhaps 25, 30, 40 percent or even more depending on how early you wish to retire. Other financial goals--like paying off student loans, saving up a down payment, paying off a mortgage, or saving for college--are in addition to that 20 percent. Having a guideline like that can be scary if you are already spending more than 80 percent of your attending income. But it can also be liberating. If you have already saved 20 percent for retirement and enough to meet your other financial goals, you can go ahead and blow the rest on whatever makes you happy, guilt-free.

Given most doctor incomes, that will still be a substantial sum that will allow you to live very well compared to most Americans. I wish every doctor would read a frugality or early retirement blog written by a non-physician to realize the sacrifices an average earner has to make to become financially independent. Doing so on a doctor income over a 30-year career should be child’s play by comparison, despite the late start, high student loan and tax burdens, and societal spending expectations.

In most couples, one person is more of a spender than the other. That is usually a good thing. The spender helps the saver be less of a cheapskate, and the saver ensures the spender does not have to eat dog food in retirement. The following anecdote illustrates how careful budgeting combined with a physician income can result in complete financial freedom by mid career.

Getting What you Want out of your Money

"Budgeting" has a bad reputation for making people miserable. I prefer to think of a budget as a spending plan. The key to budgeting is to "give every dollar a name" before the month begins. All of your money is allocated to various categories at the beginning of the month--so much for food, so much for utilities, so much for entertainment, and so forth. When you run out of money in a given category, you quit spending until the next month. Sure, it requires some discipline to be successful, but if you have the discipline to successfully pass USMLE Step 1, you have the discipline to live on a reasonable budget. The good news for most high-income professionals is that they don't even have to be frugal to live on a reasonable budget, they only have to be relatively frugal--that is, frugal relative to their income. They can probably still spend two or three times what an average American household makes and still be just fine.

When I finished residency, I worked exclusively as a locum tenens anesthesiologist. My wife traveled with me and I generally took long-term assignments. In those first two years, the hospitals paid for my housing, provided transportation, and in some cases, offered a per diem for meals. Our expenses were very, very low. I was living like a resident but earning nearly ten times as much as a resident made in those days.

When we did settle down in one place, we had become accustomed to saving and investing most of the money I earned and saw no reason for that to change. With a savings rate of 50 percent or more of our take home pay, we reached financial independence in about 10 years without even trying. I just didn't like wasting money and enjoyed investing it and watching it grow.

I'm now embarking on an early retirement in my mid-forties and looking forward to a rich life full of family adventures while our kids are still relatively young. We never followed a strict budget but spent with intention. Live on half your take home pay and you'll likely reach financial independence within two decades of finishing your training.

Try to minimize your fixed expenses so the majority of your budget consists of variable expenses that can be decreased as needed or, preferably, truly discretionary expenses that can be eliminated completely if necessary. That way when an unexpected expense comes up, or income drops for some reason, you do not even have to touch your emergency fund but can simply shift spending from other categories to cover it. Some couples find that having a small “allowance” that they can spend without having to account to their partner for it helps them to stick with the plan.

If you are not sure where to start with your budget, start by going back to the last one to three months and just write down whatever you spent your money on. Most people who do this realize they are spending a lot of money on stuff they do not care about that is not making them any happier. Cut back on that stuff so you can spend money on what really matters to you. In the end, a spending plan just helps you align your spending with what you actually value. Whatever it takes for your plan to work, put it in place, write it out, and follow it. You will not have anything to invest if you spend your entire income.

Once you have written down what you spent last month and categorized every piece of income and expense, you can make adjustments for next month. Repeat that process for a few months and you will find it becomes easier and easier and you feel more and more in control of your own life. Most budget creators will fail. Yup. You will blow it. It will probably take you two or three months to get it right. That is okay. In fact, it is normal. Keep at it.

Start with an income section. Take every source of income you have. Your salary, your partner’s salary, and income from side gigs. I would even include any taxable income you might have from your investments. You can ignore income in your retirement accounts, but include any dividends, capital gains distributions, rent payments, and interest paid in non-qualified accounts.

Next, move into your fixed expenses category. In this category will be things like a rent or mortgage payment, taxes, insurance policies, child care, private school tuition, and utilities. These are expenses you have every month, with little change.

Finally, you get to your variable expenses. I'm not just asking you to differentiate between wants and needs here. Needs can be fixed or variable, just like wants can. Variable expenses simply change significantly from month to month. This includes staples like groceries and gasoline, but also includes splurges like eating out, vacation, and gifts. Expenses like retirement saving and charitable giving could fit into either category, depending on how you view them, but most would put them in the variable category.

The following anecdote illustrates how one couple found a compromise that allowed them to do what they wanted early in life while still finding long-term financial success.

Get on the Same Page

I learned early on in our marriage that my spouse's definition of "budgeting" significantly differed from mine. Our first serious financial discussion arose over the concept of "Spending less than you make." I never thought to discuss any financial issues before we married. And while I'm not sure that doing so would have precluded the occasionally heated "discussions" we later had, I quickly realized that it couldn't have hurt. Never was there a bigger saving vs. spending "discussion" in our marriage than the one that centered on borrowing money to buy Christmas gifts for our two sons. Their cousins usually received lavish Christmas gifts, and my spouse naturally wanted to follow suit. But that would have required borrowing. Fortunately, we were able to reach a compromise - the old fashioned "Christmas Club" account at our local savings and loan association. Ten dollars went into the account every week, and 12 months later she had about $530 that was available for Christmas gifts. That amount was the limit for gift purchases – period.

Naturally, as our incomes and net worth grew, we were able to raise the $530 cap. But it was our early discipline that enabled us to do so. After 47 years of marriage we have two sons, two daughters-in-law, five grandkids, and a net worth well into eight figures. We still maintain a *relatively modest lifestyle with some luxuries sprinkled in, and our investing strategies now are aimed at managing and growing assets for the benefit of our grandchildren. I don't recall any finance course in college that ever mentioned the value of an understanding spouse. I'm not saying it should be Chapter One, but I would suggest that for many young investors this may be more important than expense ratios and asset allocations.*

Contributed by M.E.G.

If you are like most people designing a budget from scratch, you will find that you have more things you would like to do with money than you have income. That is why you need a spending plan. The plan outlines your priorities. While the income lasts, you work your way down your list of priorities. When you run out of money, you stop. Hopefully, that is somewhere below the list of needs and well into the list of wants!

Some successful physicians have discovered that they do not even need to really budget by category if they just take their savings off the top as soon as they are paid. Even better, one can set up automatic transfers to your savings and investing accounts so this all happens without requiring any work or willpower. One can then spend the rest guilt-free and still be very successful. In some ways, a budget is simply "training wheels" until you can train yourself to get your spending down to a level where you're saving enough to reach your goals.

An Alternative to Budgeting

As a first-year resident with a wife and two kids, time is valuable and money is scarce. My wife and I tracked our budget meticulously on a spreadsheet for two years, having monthly meetings discussing areas in which we could improve. These meetings were usually stressful and accompanied by audible sighs. However, we no longer have lengthy budget meetings, no longer spend hours inputting expenses into a spreadsheet and no longer have goals about how we want to spend $20 less eating out next month. The solution was surprisingly simple—we now put 25 percent of my net income immediately into our Roth accounts. We *have an emergency fund in place already, and so the rest of the money we earn is placed in a checking account. We pay down the fixed expenses immediately, and then we watch the remaining balance for our variable expenses. If we don't have the money, we don't make the purchase. Life is simple now. We are now able to save more money than we ever could with our meticulous budget.*

Contributed by Todd Sorensen, PGY1

What about Giving?

Physician attitudes about giving are all over the map. Some doctors do not give to charity at all as they feel charities misuse money or that their taxes or charity care at their practice should be considered their charitable giving. Or perhaps they only want to give money they are sure they will not need during their life and will leave it to charity in their will. Others give a 10 percent tithe starting long before medical school and ramp it up from there as they become more successful. My wife and I fall much more on the right side of that spectrum and, for the two years prior to publication of this book, actually gave away more money each year than we spent. Your attitude toward charity will impact whether charitable giving is a fixed expense, a variable expense, or a non-expense in your budget. If you do choose to give, you will find that the IRS will provide substantial incentives for you. These are beyond the scope of this book but include the use of a donor-advised fund, donating appreciated shares to avoid capital gains taxes, the charitable donation itemized deduction, qualified charitable deductions from an IRA, various foundations, and charitable annuities. Remember the general principle, however. Giving away a dollar in order to get a 40-cent deduction is not going to leave you with more money, but it does allow you to give more to charity than you would otherwise be able to do.

A Few Financial Considerations for Women Physicians

As professions go, medicine is far more egalitarian than many career fields. This should be no surprise given that beginning in 2018-19 there are now more women in medical school than men. Nevertheless, the pace of change feels all too slow to many progressives and an important part of financial planning for both genders involves balancing career and family responsibilities. While maternity leave is generally now available, it is often shorter than many families would prefer and frequently it is unpaid. In addition, paternity leave is almost non-existent, which has the effect of actually increasing the early child-rearing burden on the mother. Even after leave is over, breastfeeding (especially pumping at work while trying to maintain productivity) continues to add additional stress. Even becoming pregnant can be challenging, stressful, and expensive as women physicians tend to marry and start families later in life than their non-physician peers.

Another financial difficulty women run into are lower incomes than men. There are many jobs where pay is precisely the same between the genders—such as the standardized pay scales of residencies, fellowships, and organizations like the military. In private practice sole proprietorships and “eat what you kill” style partnerships, the pay is also egalitarian since the payers themselves do not discriminate based on the gender of the treating physician. However, in many jobs, particularly the employee jobs that many physicians now favor, men are still paid more than women. Some percentage of this is due to discrimination, but there are other factors at play including that women are statistically more likely to work fewer hours, take on fewer leadership/administrative duties, and take more time off due to family responsibilities. None of these gender-specific challenges are unique to medicine, but there are financial planning steps that can be taken to address them.

The first strategy is to ensure you are being paid fairly. While Chapter Five will discuss boosting income and contract negotiation, I recommend women favor either employee jobs where the pay scale is standardized or become an owner of their business. Should neither of those be possible, do not be afraid to negotiate a great salary and benefits package. Studies repeatedly show that women negotiate less or not at all. If you are afraid of coming off looking bad for negotiating, blame it on your partner or, better yet, your contract review attorney. Or perhaps have the attorney negotiate for you. But do not accept a less than fair package.

The time to negotiate the benefits package you really want is before you take the job, not afterward. If flexible time off, paid maternity leave, financial assistance with fertility treatments, and perhaps even a few months of part-time work (with time to pump) after maternity leave are important to you, then get them in your contract. Some women physicians recommend that you interview for new jobs before becoming pregnant or at least before you are showing and avoid discussing family plans in the interview. It is illegal for the interviewer to ask questions about your marital, family, or pregnancy status, but there is nothing illegal about them listening to anything you freely offer up. Some women have also noticed that their patient panel tends to have a higher percentage of “needy” or “difficult” patients who have requested them specifically. The work to revenue ratio of taking care of a large number of these patients is much higher compared to an average patient panel and can reduce income if income is tied directly to RVU or income generation.

The second strategy occurs when approaching childbirth. Even if you have some paid maternity leave and especially if you do not, you will want to save up some extra money beforehand to carry you through. Add this savings item (and either cut expenses or reduce debt repayment or retirement savings) to your budget as soon as you find out you are pregnant. This money should be kept in a safe, liquid investment like a money market fund or high yield savings account. While childbirth and baby items are expensive, that cost usually pales in comparison to the opportunity cost of not working as a physician.

Another difficult question that women physicians and their families must deal with is whether or not to borrow to pay for fertility treatments. By this point in the chapter, I am sure you are aware that I am not a huge fan of borrowing money for anything besides a modest home and a reasonable amount for a graduate education in a high-paying field. The problem with saving up to pay cash for fertility treatments (especially while simultaneously trying to pay off student loans) is that the longer you wait the less likely the treatments are to work and the more likely you will have to pay for them more than once. Strike a careful balance here and recognize the best answer to balancing all of these competing financial needs usually involves living even more frugally than you otherwise would.

Having a written spending plan is frequently cited as the difference between success and failure in reaching financial goals. Develop a low tolerance for debt and spend intentionally to maximize your happiness.

Your Missions

1. Establish an emergency fund.
2. Pay off credit cards like your life depends on it.
3. Pay off auto loans within one year or sell the car(s).
4. Develop a written spending plan.
5. Going forward, commit to paying cash for everything in your life except your home.

Other Resources

How to guide to budgeting
Budgets as training wheels
Emergency funds and avoiding debt
Quit buying cars on credit
Spending in ways that increase your happiness
Useful checklist for pregnant physicians

Step Four
Student Loan Plan

There's a reason that there are oodles of young Aussies, Germans, Japanese, even Chinese backpackers traipsing around the world. They are unencumbered by debilitating student loans. No such luck for the American Theater Arts major with $120,000 in loans.

– J. Maarten Roost

Can I Skip This Chapter?
Do you have student loans? Do you have a written plan to be rid of them within five years of completing your training? If you have no loans or already have a written plan, you may skip this chapter.

Student loans are a fact of life for three out of four medical school graduates. Managing them well can speed your path to wealth. In many ways, rapidly crushing your student loans is the trial run for becoming financially independent. The "financial muscles" you use to pay them off quickly are the same exact ones you will use to build up a nest egg sufficient to support you for the rest of your life.

Paying off student loans used to be fairly straightforward. Then the government became more involved with student loans. Now the task has become so tricky for some people that they have to hire an advisor that specializes just in giving advice about how to best manage student loans! That job did not even exist a decade ago. While the majority of graduates will still pay back every dime of the principal and interest they borrowed to pay for school, there are some other alternatives worth knowing about. The most significant of these is the Public Service Loan Forgiveness (PSLF) program.

Public Service Loan Forgiveness

Although there are several forgiveness programs available for government loans, the only one that is usually attractive to physicians is the PSLF program. Under this program, if a borrower makes 120 on-time, qualifying payments while directly employed full-time by a non-profit 501(c)3, the remainder of the student loans are completely forgiven, tax-free. Qualifying payments must be made through some combination of the standard 10-year repayment plan or one of the Income Driven Repayment (IDR) plans such as Income Contingent Repayment (ICR), Income Based Repayment (IBR), Pay As You Earn (PAYE), or Revised Pay As You Earn (REPAYE). Bear in mind that some residents who are married with children may find their IDR payments to be as low as $0. Even these $0 "payments" count toward the 120 monthly payment total. The lower your payments, the more that will be left to forgive after 10 years, so you want your payments to be as low as possible.

Most residents and fellows are 501(c)3 employees, and so if they have been making payments throughout their training, they likely only have three to seven more years of payments to make after training. Those working at academic centers, at Veterans Administration hospitals in the military, and for other non-profits should take advantage.

There is a risk that this program may change in the future, but most experts feel those currently in the program will be grandfathered in. Initial news reports that only one percent of those who applied received forgiveness need to be understood in the context that the vast majority of those who applied did not actually qualify to receive forgiveness. They did not have eligible loans, were not in an eligible payment program, had not made enough payments, or did not fill out the paperwork correctly. Another big contributor to that low rate was terrible customer service from the loan servicing companies. When I say customer service, I am talking about tasks as simple as counting the number of qualifying payments correctly.

If you decide to go for PSLF, you really need to understand the requirements, meet them, and keep records of every payment you make and certification form you fill out. In addition, you should save up an amount equal to the loans in a side investing account at the same rate as someone planning to pay off their loans quickly after residency. If the program changes and you are not grandfathered in, or if you simply decide to change jobs, you can liquidate those investments and pay off the loans. If you receive forgiveness, that side fund will be a great head start on a retirement nest egg. The more you worry about actually needing to use that side fund to pay off loans instead of retirement, the less aggressively it should be invested. If you are very worried, keep the money in a high-yield savings account or money market fund. If you are not worried at all, invest it in index stock mutual funds.

There are other loan repayment programs out there that may be worth looking into depending on your specialty and geographic requirements. These are administered by the National Health Service Corps, Indian Health Service, and various states.

Your Student Loans are Not a Beloved Family Pet

My experience with student loans deservedly belongs in the student loan MISmanagement category. I was fortunate enough that my college education was paid for in full courtesy of the inheritance I received from my father. Rather than take advantage of this financial head start, I proceeded to dig myself into a deep financial pit by taking out the maximum loans possible for each year of medical school. Worse yet, I treated the money I received as if it was a salary I earned. I spent it without much thought of the interest that was accruing. I went into student loans so blindly, to this day I don't remember the interest rates I had, but believe they were at least seven to nine percent. I foolishly thought that I would be making so much money as an attending that this amount of money I financed was trivial. "Future me will take care of this," I told myself.

I graduated with $160,000 in student loans. Rather than starting to repay these loans in residency when I first started earning money, I chose to place them into deferment, or if that option wasn't available, I chose the even worse option of forbearance (where the interest continued to accrue).

Eventually, kicking the can down the road had to stop and, let me tell you, when future me became present me, I was none too happy. I finally paid off the last of my student loans exactly 17 years from the day I graduated medical school and almost 22 years from the day I first signed *and became indentured to Sally Mae. I estimate that I have paid over $600,000 for this financial faux pas.*

Contributed by the blogger known as XRAYVSN

Loan Refinancing

It is critical to understand the difference between consolidating and refinancing. With consolidation of your federal student loans, you are turning many loans into one loan with one payment, but the loan remains a federal loan eligible for federal Income IDR plans and PSLF. However, the interest rate is not decreased. The new interest rate is the weighted average of the interest rates of the individual loans, rounded up to the nearest one-eighth of a percentage point. So you actually pay a little more in interest when you consolidate. Refinancing with a private lender usually includes consolidating many loans into one loan, but its primary feature is a lowering of the interest rate in exchange for losing some of the features of the federal student loan program.

If you are not going to work for the government or a 501(c)3 after residency, you will generally want to refinance your loans at residency completion. Many doctors have lowered their interest rates by two to five percent. That means that tens of thousands of dollars that would have gone toward interest can now go toward principal, allowing you to pay off your loans in significantly less time.

It is important to be 100 percent sure you do not want to go for PSLF before refinancing since there is no going back. It is also important to be sure you will not need the safety net of the government IDR programs. Although this would be quite rare for a physician, it would not be uncommon for many other high-income professionals with high debt burdens such as dentists, veterinarians, or attorneys. In fact, if your student loan debt to gross income ratio is greater than 2X, you may wish to run the numbers on the IDR forgiveness programs. Although these programs require 20-25 years of payments before bestowing forgiveness, and the forgiven amount is fully taxable, it is possible to come out ahead at extreme debt to income ratios like 3-4X. Physicians with relatively average income and debt levels who run the numbers are likely to discover that they will have paid off their loans in less than 20-25 years, leaving nothing left to forgive.

Even if you are going for PSLF, remember that you can only get federal loans forgiven. So any private loans should be refinanced as soon as possible. Refinancing student loans sounds difficult but is actually very easy. In fact, most of those who refinance discover that private lenders provide much better customer service than they found with federal loan servicing companies. These people actually want your business and will bend over backward to get it. Applications are entirely online and can even be done using your phone. You can get a pretty accurate estimated interest rate in just a couple of minutes. Once you have gathered up the necessary paperwork to refinance with one company, it is very easy to apply with several others, allowing you to simply choose the best rate offered for the loan product that interests you.

In addition, I have partnered with all of the best refinancing companies (SoFi, CommonBond, Earnest, Laurel Road, Lend Key, Credible, Splash, ELFI, and First Republic Bank) to get you a special deal—not only do you get a lower interest rate and better customer service, but you also get cash back, anywhere from $200 to $1,000. In fact, there is no reason you cannot refinance multiple times. Many white coat investors have discovered that as their income and credit score increase and their debt and debt-to-income ratio decreases, they qualify for even lower interest rates (and another cash bonus). If refinancing is right for you, do it early and often. You can learn about all the latest cash bonuses at my **student loan refinancing page.**

Yes, each time you refinance there will be a minor effect on your credit score, but that effect goes away within a few months. If you are about to apply for a mortgage, perhaps wait until you close on the home to refinance your student loans. Hopefully, your credit score will become a less and less important part of your financial life as you move forward simply because your need to borrow is reduced. Paying too much attention to your credit score instead of more important measures of financial success like income, savings rate, and net worth is likely to retard progress toward your financial goals.

Some new attendings wonder what type of loan they should apply for. These loans are offered in terms from 5-20 years and at either a variable rate or a fixed rate. Obviously, a five-year variable rate loan is going to offer a much lower interest rate than a twenty-year fixed rate loan. While you do need to consider other competing uses for your new-found cash flow as an attending, by living frugally you can pay off your student loans in less than five years, allowing you to take advantage of the very lowest interest rates available. While you are running the interest rate risk yourself with a variable rate loan, the truth is that interest rates have to rise early and dramatically in order to make choosing the fixed rate loan the right move. If you have a frugal written spending plan and actually run the numbers on the differences between a variable and a fixed rate 5-year loan, you will likely feel much more comfortable with a 5-year variable loan. If you really lean in on that loan, you will probably even clear it up in less than five years.

Figuring out what to do with your loans during residency can be complicated, but it became easier with the institution of the Revised Pay As You Earn (REPAYE) program in December 2015. This is the fourth iteration of the income-driven repayment programs for federal loans. The first program, Income Contingent Repayment (ICR), is rarely used anymore, but there are plenty of doctors still in the second (Income Based Repayment-IBR) and third (Pay As You Earn-PAYE) iterations. Each of these programs has its advantages, but the general rule is a gradual movement from less beneficial programs to more beneficial programs. For example, the ICR program required payments of 20 percent of your “Discretionary Income” (Your income minus 150 percent of the poverty line), but that was decreased to 15 percent for IBR and 10 percent for the two newest programs.

Being in Debt just Seemed Natural

When I completed my dental surgical residency in December of 2014, I had $453,000 in student loan debt, all of which was from dental school and residency (i.e., no undergrad loans). I had no payments for six months during the "grace period.” In hindsight, this "grace period" was just a time of accumulating interest. In June of 2015, when payments started, I looked into refinancing. I contacted two companies - SoFi and

DRB (now Laurel Road) to get quotes. SoFi was the first company I contacted and was very easy to work with but quoted me 6.25 percent for the aforementioned terms. After I received this offer, I contacted DRB and told them I had an offer from SoFi and asked them to give me their lowest and best. DRB quickly came back with 4.25 percent for the same terms. Interestingly, when I told SoFi about this offer, they immediately matched the offer.

While I was fortunate to have a high income, I had multiple loans—practice, commercial building, conservative house, and student loans. I was conflicted as to what to pay off first as I accumulated money. Like most doctors, I unhappily discovered that my student loan interest was not deductible, so I decided to focus my efforts there. While my increasing income helped to make it possible, I paid off the entire amount in October of 2017— just over two years after I began payments. When things were going well those first two years, I considered buying or building an expensive home and using the cash as a down payment. I am very thankful that I followed WCI principles and stayed focused on paying off student loans. Had I purchased a home, I would likely have fallen into the trap of being a slave to monthly payments that limited my ability to save and to pay down debt, not to mention increase the stress to perform at work in order to make payments and perpetuate the indebted lifestyle.

The decision to pay off loans is, like many things in life, simple but not easy. It has totally changed my perspective on debt, as I was so used to being in debt that it just seemed natural. Seeing this loan and payment disappear was such a great feeling that it has reenergized me to pay off even more. I no longer feel like I am "delaying gratification" to pay off debt because I have found that paying off debt comes with more gratification than any material item could ever provide.

Contributed by Dr. M. McClain Woolsey

One issue with all of these programs is that the payments are based only on your income and family size, not the size of the loan or the interest rate. For most residents, the payments do not even cover the interest on the loan. That means the loan burden increases significantly between medical school graduation to residency or fellowship completion. The interest on a

$200,000, six-percent loan is $1,000 per month, but your monthly payment might be only $100 to $400 per month, depending on location, the number of people in your family, and your income. It is not as bad as with forbearance where no payments are made, but it would not be unusual for someone who graduated from medical school with $200,000 in loans to finish a long training program with $300,000.

The largest advantage of the REPAYE program is that the government effectively subsidizes the interest rate during your training period. It will waive half of the difference between your payments and the accruing monthly interest. So if your payment is $200 a month, and the interest is $1,000 per month, only $400 a month will be added to the total loan burden, and the government will waive the other $400. Because of this subsidy, this is the preferred program for most residents to enroll in upon entering residency. Certainly, this is the correct default plan for single residents and those married to a non-earner or a low earner.

It Feels Awesome to Pay Them Off
When I finished residency at the end of June in 2015, my student loan burden totaled $310,000. In September of 2015, I refinanced my medical school loans to a 10-year variable loan at three percent. I owed $240,000 at the end of 2016. By the end of 2017, I had $175,000 left. The variable rate had increased to five percent by the spring of 2018, so I re-financed again with the same company to a five-year variable rate loan at 2.65 percent. Then I became even more aggressive with loan payments and was able to pay the rest of it off by December 2018. In total, I paid off $310,000 in 3.5 years and was still able to buy a house with a conventional mortgage and a 20 percent down payment! It feels amazing to be done paying off my student loans! I hope my story can help/inspire others.
Contributed by Colin Meyer, MD

You can even refinance your loans in residency, although rates are generally higher than what an attending can get. Bear in mind, your effective interest rate under REPAYE can be as low as three to four percent, so be sure to calculate your effective interest rate after the subsidy when deciding whether to refinance or not. Still, it almost always makes sense to refinance high interest rate private loans even if it does not make sense to refinance direct federal loans until residency completion, thanks to the REPAYE subsidy. Two companies, SoFi and Laurel Road, have special resident programs that limit payments to just $100 a month, similar to the IDR programs.

Get Started Early
Upon graduating from med school and starting residency in 2013, my top financial priority became managing my student loans. The loans were at the standard federal rates ranging from 6.8 - 7.8 percent, substantially higher than the going rates offered by private lenders at the time. I found that most of the specialty groups in my area were private and knew I would be ineligible for any loan forgiveness programs and thus on the hook for the balance in full.
After a little bit of research and some help from the WCI website, I decided to refinance my loans to a 7-year fixed rate of 4.5 percent. This saved nearly $800 per month in interest alone. A little over four years later after I signed an attending contract during the fall of my fellowship year, I refinanced again. This time, since I was comfortable making aggressive payments with the increased income, I decided on a five-year variable loan with a rate of 2.6 percent. As a first-year attending my loans are not paid off yet, but refinancing has already saved me $45,000 in interest and counting.
Contributed by Adam Powell, DO

Beware Docitis
It was June 2016, and my wife and I had $502,500 in student loan debt. She graduated from emergency medicine residency in 2012, and I graduated from family practice residency in 2013. We also had a one-month old daughter, and my wife was going back to work part-time starting in August 2016. We were making minimal monthly payments because that was "traditional financial wisdom." We were constantly

told to hold the loans for 30 years because our "interest rates were so low."

We had been suffering from a case of "docitis." We both drove German luxury cars we didn't need and had just closed on a $750,000 house. We vacationed in the Caribbean and joined the local country club. We were seemingly "living the dream." It was, in fact, a nightmare. The student loan debt was eating at us and driving us mad. After a long discussion on our back patio, we decided to attack the loans. We were already maxing out our retirement accounts but added a five-year plan to pay off the student loan debt by decreasing spending.

After running the numbers, we surprisingly found that we didn't need to take any drastic measures; we just needed to be a little smarter about our decisions. We still drove nice cars - a Jeep and a Volvo. I even kept the membership at the country club for golf, and we still took nice but not elaborate vacations. We did not have to go Dave Ramsey-style "rice and beans;" we just needed to use common sense. We did both work a little harder and I had a few physician "side hustles," but we did nothing particularly extreme.

We finished off my wife's student loans by October 2017, and mine by April 2018. We were disappointed to not receive congratulatory letters from the lenders but seeing a balance of $0 on the screen was all the congratulations we needed. We achieved our five-year goal in under two years.

Contributed by Jason Delcollo, DO and Jessica Delcollo, MD

Live Like a Resident (Part II)

Finally, it is important to remember that enrolling in a program or refinancing your loans doesn't actually get rid of your loans. The only way to eliminate your loans (outside of forgiveness) is to throw massive sums of money at them each month. The big issue is not the $1,000 to $2,000 in interest each month, it is the $200,000 to $400,000 loan principal. The best way to get rid of your student loans is to use your greatest asset, your high earned income, to pay off your debt right at the beginning of your career before you get used to it. You can do this by simply continuing to live like you did as a resident.

If you are earning $250,000 as an attending and living on $50,000 per year, even with the increased tax burden, you should be able to clear all of your student loans very quickly. Even if you give yourself a 50 percent raise (huge in any other profession) from your residency standard of living, you should still be able to throw a six-figure amount at the loans every year. But you cannot buy the fancy doctor house, drive the fancy doctor car, go on the fancy doctor vacation, AND pay off those loans. The point of “living like a resident” is not to do it for your entire career, but if you will do it for just a short period of time, two to five years at the beginning of your career, it will do wonders for your future financial freedom.

Paying off student loans quickly is like a dress rehearsal for building wealth. Many doctors just like you have eliminated their student loan payment from their financial life. You can do it too.

Your Missions

1. If in training, enroll in REPAYE (or if you think you might be an exception to this general rule, see a student loan advice professional).
2. If in training, refinance any private loans you may have.
3. If you are going for PSLF, be sure to certify each year.
4. If you are post-training and not going for PSLF, refinance your loans and make a written plan to have them paid off within 2-5 years of graduation.
5. Live like a resident until student loans are gone.

Other Resources

List of companies that will refinance your student loans
List of advisors who specialize in student loan-related advice
Guide to managing student loans
Information about refinancing during residency
Public Service Loan Forgiveness

Income Based Repayment
Switching to REPAYE
How and why to live like a resident

Income Driven Repayment Programs

Public Service Loan Forgiveness annual certification form
Discussion of challenges PSLF seekers have run into
How to mitigate PSLF legislative risk

Step Five
Boosting Income

Wake up, you need to make money! – Twenty One Pilots

Can I Skip This Chapter?
Are you looking for a job, a new job, additional income from the job you have, or additional income on the side? If the answer to all of these is no, then you can skip the rest to Step Six.

As discussed in the introduction, becoming rich (substitute wealthy, comfortable, financially independent, or financially free if you don't like that term) is not particularly complicated. The formula looks something like this:

1. Make a lot of money.
2. Save a big chunk of it.
3. Invest it wisely.
4. Protect it from loss.

But the contribution that each of those factors makes to becoming wealthy varies quite a bit. A high income is certainly a major factor. Doctors and other high-income professionals generally command a fairly high earned income which is sufficient to build wealth. But sometimes, even for a high-income professional, it is easier to make more money than to save more of what you are currently earning. This chapter will discuss ways to increase your income.

Have Contracts Reviewed

Employment and partnership contracts should be reviewed by a qualified person. You need to understand every clause in the contract and what it means. You may not even know what questions to ask about your contract, so be sure to hire a contract review service or a health care contract attorney in the same state as the job to review it before signing on the bottom line. You can find these using Google ("health care contract attorney in Texas" for instance) or use the recommended list I keep on The White Coat Investor website. Expect to pay between $200 and $800.

A huge percentage of doctors change jobs within one to three years of leaving training, and there are far too many horror stories out there about physicians who signed a contract without knowing what it really said. The contract is just the verbal agreements set down on paper. You need to know how everything works--the compensation structure, benefits, call, non-competes, what happens if you leave, and what happens if you are fired. A really good service will also have salary data (such as from the MGMA) for your specialty and area so you will know if the offer is competitive. You can hire somebody to negotiate for you which is not a bad idea if you are uncomfortable doing so. But the principles of negotiation are not complicated. Understand what is in the negotiator's power to grant and what is not, and always try to negotiate from a position of strength—ideally using another job offer you view as acceptable. This is your Best Alternative To Negotiated Agreement (BATNA), a term used by professional negotiators. The person in the negotiation with the best BATNA usually comes out ahead.

Remember that you are not just negotiating salary. Some employers may not be willing or able to budge there. But they may be able to give you more vacation, more CME funds, a scribe, administrative time, family leave, or an improved clinical schedule. Being creative and open-minded often produces substantial benefits. Consider reading a book on negotiation such as "Getting to Yes," "Never Split the Difference," or "The Final Hurdle."

Know What You Are Worth
Disregard the outdated social notion that it is impolite to discuss wages. Keeping your peers in the dark only serves to benefit employers. Your rate will not go down if others come in at the same amount although if someone naïvely accepts a lower salary that can result in a reduction in your perceived value. Don't be afraid to present your required rate at the

onset of contract negotiations rather than waiting for them to make you an insultingly low offer. As both a female and a nurse practitioner, the resistance encountered during wage negotiations can be significant. Remember, it isn't personal. Know your value and hold firm with the rate you know others have received.
Contributed by J.B., Psychiatric Nurse Practitioner

Do You Hate Your Job?

You may already have a job as an attending physician but dislike some aspects of it. Life is too short to stay in a job you hate for long. See what changes you can make to your current job. That might mean a better mix of shifts, fewer patients per hour, or less call. Maybe it is more support staff or a different mix of patients or procedures. But if you are an employee, it is also time to be looking around. Sometimes the grass really is greener on the other side of the fence, especially if you can get a job that pays more in a lower cost of living area that you will like just as much as your current location.

Extra Income

While continually trying to run faster on the treadmill is a certain recipe for burnout, if done in moderation or for limited periods of time, working more is a great way to boost your income. That might mean more call or more shifts or it might just mean creating efficiencies in your practice that allow you to see more patients and do more procedures. While physicians are often acutely aware of INTER-specialty salary differences, they are frequently ignorant of the range of INTRA-specialty income variations. I know emergency physicians making $100,000 and $600,000. I know orthodontists making $225,000 and $1.25 million. Even family practitioner incomes can range from the low six figures to seven figures. Changing your payer mix, renegotiating contracts, hiring advance practice clinicians or physician employees (or dental assistants or paralegals), and learning new procedures can all boost income. Some primary care physicians have found cash-only or concierge practices to be more lucrative and enjoyable. You may be able to add ancillary services to your practice such as vaccines, medications, x-rays, ultrasound, or labs. Leaving academic medicine is also likely to increase your income, although it may lower your job satisfaction and the value of your benefits package.

In some cases, boosting income means a second job. This might be a locum tenens job in another city or even state, or perhaps a second career or other side gig. You can often create a synergy between your job in medicine and a job outside of medicine. Common medicine-related side gigs used by physicians include administration, consulting, medico-legal evaluations or testimony, or reviews for health, life, or disability insurance companies. There are entire blogs, podcasts, Facebook groups, and CME conferences dedicated to helping physicians master these non-clinical careers. One great benefit of being self-employed, at least for part of your income, is it allows for many additional tax write-offs, including perhaps the ultimate one—an individual 401(k) plan in addition to your employer's. More valuable than that, however, is the sense of security and control that is provided by self-employment. You are not going to fire yourself against your will.

The extra household income does not even have to come from you. Your spouse or partner may take a job or start a side hustle. This often provides additional retirement accounts, reduced health insurance costs, and tax savings all while increasing and diversifying the household income.

Moonlighting is a Great Way to Boost Income

While in residency/fellowship, we don't have a tremendous amount of extra time to spend boosting our income. Like many people in medicine, I did not necessarily come in with many talents outside of being a doctor which could earn enough money that I felt it would be "worth it" to spend my precious free time doing. So, the obvious choice for my side gig was moonlighting. In my particular city/institution, there are numerous moonlighting gigs between the academic hospital, VA, and community hospitals.

Most of these jobs pay well relative to what you make as a trainee. I found the going rates were $100+/hr for general medicine to as much as $175-$200/hr for ICU/ER coverage. Working two to three shifts/month, one can generally double the money you would otherwise make as a resident. I've done this throughout training and basically live off of my *trainee salary and save the moonlighting money. When interviewing, be sure to ask current house staff about moonlighting availability and get a sense for how supportive the administration will be. Start the licensing process early and, of course, don't practice outside of your ability.*

Contributed by Christian McNeely, cardiology fellow

Many residents and fellows moonlight in order to increase income. So long as it does not affect the quality of your training or provide substandard care to patients, I think this is great. A little moonlighting income does not affect your eligibility for PSLF because you are still employed full-time at a 501(c)3, but it could potentially increase your IDR payments and thus reduce the amount left to be forgiven in the end.

Multiple Streams of Income

Most physicians are not the entrepreneurial type, at least at the start of their long careers. However, once they see the benefits, they often develop an entrepreneurial mindset. An entrepreneur sees businesses everywhere. Every unmet need is a business in embryo. Decades ago, a typical American worker worked for one company for his whole career. Now, not only does the typical worker switch jobs every few years, but many people live on income from dozens of different sources. Some of these sources are more active than others, but they may include interest, dividends, real estate rents, franchises and other small businesses, websites, speaking fees, book royalties, or affiliate marketing/advertising on a blog or podcast. Keeping your eyes open to these possibilities is likely to increase your income eventually and will probably increase your enjoyment and appreciation of your medical career and income.

Your Missions

1. If you are looking at a new job, have the contract reviewed by a contract review service or qualified health care contract attorney in that state.

2. Consider ways to increase your active income through a raise, a better job, making your practice more efficient, taking on a second job, or exploring non-medical “side hustles.”
3. Consider exercising your entrepreneurial spirit and developing more passive income streams from franchises, websites, books, real estate, and other small businesses.

Other Resources

Contract review services
The importance of contract negotiation
Financial Advice for Low Earning Physicians

Earning tips from real-life physicians
Developing passive income streams
The rules for having more than one 401(k)
A list of suggestions to increase your income
A WCI Network blog devoted to developing passive income

Step Six
Housing Plan

If you care about the price of the house that you bought,
you bought too much house.
– Anonymous Boglehead

Can I Skip This Chapter?
Do you already own your dream home? If you have a mortgage, is it at market rate or better? If the answer to both of those questions is yes, you can skip to Step Seven.

Temper the Fire

The most expensive lifetime purchase for most physicians is a home, although with rapidly rising tuition a medical or dental education may soon supersede it. Spending too much money on housing is a recipe for financial catastrophe. Large, fancy homes are expensive to rent, buy, maintain, furnish, upgrade, insure, and sell. Your biggest enemies when it comes to controlling this critical expense is the industry, society at large, and those people in your family picture.

Two of the largest industries in the country are the realtor industry and the lending industry. They want you to buy houses early and often. In fact, those industries are so powerful that over the last few decades the American Dream in our national consciousness has somehow been morphed from upward social mobility to homeownership. In addition, society views physicians as wealthy, despite the negative net worth of most young physicians, and expects them to live in expensive houses. That society includes your patients, staff, friends, colleagues, in-laws, partner, children, and even yourself. As strange as it may sound, there is an intense burning desire among medical students, residents, and especially their partners to buy a house to show that they have made it and to “stop throwing away money on rent." You will have to combat all of that in order to make a sensible housing decision.

It Is Okay to Rent
The buy-vs-rent decision was always tough for me. As the child of a small-time landlord, I assumed that I would try to live in a home that I owned. But my career took me in unexpected directions. My wife and I moved 17 times in the first 27 years of our marriage—moves that ranged from down the block to overseas. I've owned two homes: a loft in a converted warehouse in Minneapolis and a Victorian-era home in suburban Boston. In both cases, I had to move after living there for less than five years, which made the transaction expenses a significant issue. That last home straddled the credit crunch of 2009; I could not have timed things any worse if I had tried.
Right now, we're still renters. We're living in a wonderful condominium owned by an elderly relative who's charging us below-market rent in the Bay Area. But I've always owned real estate. Instead of living in what I own, I've put retirement money into Real Estate Investment Trust (REIT) mutual funds and similar investments that give me exposure to that portion of the market. Using tax-deferred and Roth accounts lets me avoid the accounting hassles of those instruments, along with much greater liquidity than direct property ownership. The flexibility of renting has allowed me to live a very interesting and rewarding life.
Contributed by Lawrence Kutner, PhD

Rent Needs to Cost More than a Mortgage

There is a huge misconception out there that if your mortgage payment is less than a rent payment, then you should buy a home. What most people don't realize, at least if they have not bought and sold a home or two, is that your mortgage payment should be much less than the equivalent rent payment. To understand why, put yourself in the shoes of a landlord. She is running a business and wants to make a profit. The sum total of all her business expenses must be significantly less than the sum total of her business revenue. What is her business revenue? The rent you are paying. That is it. So the rent must cover the mortgage, insurance, property taxes, maintenance, upgrades, vacancies, acquisition costs, and, eventually, selling costs. That landlord also wants to make a profit above and beyond those costs. So of course, the mortgage payment has to be much less than rent! Many landlords use “The 45% Rule” where 45 percent of the rent should cover everything besides the mortgage and profit. So if an investor is looking at buying a house with a mortgage of $1,100 per month, she wants to see that it will rent for something like $2,000 per month. Real estate investing will be discussed in more depth in Step Eight, but the point of this example here is for you to see that the rent-versus-buy decision is far more complex than simply comparing rent to a mortgage payment.

Renting is Not Throwing Money Away

Do not mistake paying rent as “throwing money away.” Paying rent gives you the right to live in a place for that month. You are exchanging money for something you value (housing), not throwing it away. Besides, let me assure you, mortgage interest, insurance, property taxes, maintenance, and realtor fees all feel just as much like throwing money away as paying rent. The bottom line is it is okay to rent. There are times in life when it makes sense to buy and other times when it makes sense to rent. While the real estate market is obviously hard to predict, your course through life is much easier to predict and should be the main guide you use when making rent-versus-buy decisions. The main factor in deciding whether to buy or rent is simply the amount of time you will be in the home. Appreciation has to overcome the substantial transaction costs inherent in buying and selling. A decent rule of thumb is that you have a one-third chance of coming out ahead buying if you stay three years, and half of a chance of coming out ahead if you stay for five years.

Residents Should Rent

The main issue with buying is that the transaction costs are so steep. A reasonable estimate is about five percent to buy and 10 percent to sell, or 15 percent round trip. Because of that cost, it will generally require your home to appreciate in value 15 percent between buying and selling just to break even. Real estate appreciation is hardly linear, but if you're expecting to see 15 percent appreciation in less than five years, you are really taking a gamble. It might pay off, but probably not. Since most residencies are five years or less, it follows that most residents should rent a home. There are other reasons renting is usually appropriate for residents. Residents won't see much benefit from the tax advantages of owning, especially with the new higher standard deduction. Mortgage interest and property taxes are deductible, but only to those who itemize, and even for those few residents who will still itemize, only the portion above and beyond the standard deduction is really deductible. In addition, residents have limited time and money, both of which are required to maintain a home in much greater portions than most first-time homebuyers appreciate before the purchase.

New Attendings Should Rent

In addition to residents, new attendings should also rent for six months to a year after graduation. A large percentage of doctors change jobs in their first two to three years of practice, and that job change often means an expensive relocation. Do not buy a house until both your job and your social situation are stable. While you might lose some potential appreciation, you are far more likely to know what you really want (and what you really want to spend) after a few months on an attending income. You will be in a better negotiating position and likely qualify for better terms on a mortgage. Spending a day or two moving again is a small price to pay for all those benefits.

Doctor Mortgages

Physicians and similar high-income professionals should never pay Private Mortgage Insurance (PMI), which is insurance you pay in order to protect the lender from you defaulting on the loan. PMI can be avoided in two ways. The first is to make a 20 percent or more down payment and get a conventional mortgage. A down payment is a wonderful thing. It helps you avoid PMI, provides you more options for lenders, and gives you better interest rates and terms. Saving up the down payment also teaches you discipline and that 20 percent cushion protects you in the event of a market downturn or a surprise need to sell shortly after buying.

The second way to avoid PMI is to use a "doctor mortgage loan." There are several lenders in every state who will loan doctors money without requiring PMI. You can find a list and contact information on **my physician mortgage page**. Rates and fees are generally slightly higher than you would see with a conventional 20 percent down mortgage, but usually only a down payment of 0-10 percent will be required. This allows the physician to put her limited cash to better uses than a down payment. That might be paying off student loans, maxing out retirement accounts, or even buying into a practice. Whichever route you go, do not pay PMI when you get a mortgage.

The less you put down, the higher your required mortgage payment will be. This cash flow cannot be used elsewhere, so be very careful not to let the low down payment requirement cause you to over consume. Also be sure you have adequate disability and, if necessary, term life insurance (see Steps One and Two) in place first so that the mortgage payments can be made even if something terrible happens to you.

Refinance

Interest rates change from time to time, and when they go down significantly, you should refinance your mortgage. Simple procrastination causes millions of people to pay too much interest on their mortgage every year. Be careful refinancing, of course. There are fees involved and they are often hidden (usually by rolling them into the new mortgage). In addition, refinancing resets the term on your mortgage. So even if you have paid on a 30-year mortgage for ten years already, refinancing gives you a new 30-year mortgage, and you will not be out of debt for 40 total years if you do not increase your payments to compensate.

Consider Using Just One Income
The best counsel I ever received was from my younger brother, a finance major and entrepreneur. I was fresh out of training with a young family looking to buy a house worthy of a doctor! My brother advised me

to calculate our monthly mortgage budget considering only my salary, excluding my wife's salary. At first thought, this did not make sense to me because it meant a smaller house than I felt I deserved. He felt that once the baby arrived, my wife would likely choose to stay at home and may not go back to work for a while. He was right and we fortunately heeded his advice, although the payment was still 31 percent of my net paycheck at the time.

We stayed in that house for the first five years out of residency. Due to our decision to not buy "the doctor house" like my colleagues were buying, we were able to completely pay off more than $100k of combined student loans, purchase a minivan, and fully fund a 401(k) and IRAs each year. Except for a small balance left on our current mortgage, which will be paid off in the coming twelve months, we are debt-free with a freshman at a private university and a sophomore in high school. We are on track to pay cash for two undergraduate degrees and have well-funded 529s set aside for their graduate or professional school tuitions. You are 100 percent correct when you advise young doctors and new attendings to "live like a resident." I am proof of it.

Contributed by E.D., MD

How Much Home?

My general rule for how much housing you can afford as a high-income professional is to keep your mortgage to less than two times your gross income. So if you make $200,000 a year and want to live in a $500,000 home, you had better have $100,000 to put down. You will notice that this is much less than what a lender is willing to loan you. But they do not care if you ever build wealth. They only care that you can make the payments. However, if your payments are too large, you will never build real wealth. Even if you eventually pay the house off, you will still be "house poor."

Like any rule of thumb, there are always exceptions. If you are located in a high-cost of living area, you might have to stretch that rule a bit. But when I say stretch, I am talking about three to four times, not eight to 20 times. A family doctor cannot afford a $1.5 million home even if all the homes within 20 miles of her office cost that much. Even limited stretching has consequences. It will mean working more, driving crummier cars, taking less expensive vacations, retiring later, and sending kids to less expensive schools. You can have anything you want, but not everything. If you are like most physicians, the amount of joy you get from having a more expensive house will only last a few months, and you will have exchanged years of ongoing happiness for it. When I meet physicians in their 60s with a relatively small net worth, the overconsumption of housing seems to be a universal practice.

A Written Plan

If you are currently renting, or if you own a home that is not the one you imagine yourself in for a large part of your life, write down a plan for how and when you plan to acquire that home. The plan should include how much you will put down, how you will save up a down payment, how much you will spend, what you are looking for, and what kind of a mortgage you will get. It need not be long or complicated. Here are a couple of examples:

1. We will buy a $600,000 home two years out of residency in Oak Hills School District with a conventional 15-year fixed mortgage. We will put 20 percent ($120,000) down and will save that up in an Ally Bank High-Yield Savings Account.

2. We will buy a $400,000 home six months out of residency on the east side of Indianapolis with a 30-year doctor mortgage. We will use the home equity from our current home to make a 5 percent down payment, keeping it in our money market account in the mean time.

Paying off Debt Provided us Options

My wife and I do most everything the 'right' way: living below our means, maxing out our tax-advantaged accounts, insuring against catastrophes, and investing in index funds. We refinanced our mortgage loan to 5.25 percent in June 2005. I tried to convince my wife to pay only the regular monthly payment and, rather than make additional mortgage payments, invest that amount each month. She maintained that she would sleep better if we paid down the mortgage instead. Against what I thought to be my best judgment, I relented and threw an extra $500 to $1,000 on the mortgage each month and even used money from our investment account to pay it down. Our home value took a 40 percent hit in the housing crisis, but because we had been aggressively paying down the mortgage, we refinanced again in September 2011 at a rock-bottom rate. If we had not paid down the mortgage over the prior years, we would not have had enough home equity to get the best rate. Sometimes behavior and emotion trump math, especially when the assumptions turn out to be faulty.

Contributed by Jason Lynch, CPA, CMA

Benefits of Paying Off the Mortgage

It is also wise to have a plan to get rid of the mortgage eventually. While some make a mathematical argument to always carry low interest rate debt in order to invest, I think it is generally a bad idea to carry mortgage debt into retirement. In fact, almost every wealthy physician I have ever met has paid off his or her mortgage long before retirement. It seems the same financial muscles used to save up a large nest egg also drive people to pay off their debts early. Becoming mortgage-free by mid-career can be done by starting with a mortgage no longer than 15 years and paying extra toward it after retirement accounts have been maxed out.

Some people prefer to make regular, scheduled extra principal payments on their mortgages to eliminate them early. Others simply direct a lump sum at the mortgage from time to time, usually from an unexpected raise or other windfall. Either way, paying off the mortgage early provides a guaranteed return investment along with the financial security and improved cash flow resulting from the elimination of this major expense from the monthly budget. Do not be tempted to use your home equity as an ATM. By doing so, you may cause your mortgage to last even longer than the original term. It is a real shame to see people 35 years into a 30-year mortgage who still only have it half paid off!

Have a plan when it comes to your housing decisions. Don't over consume. Be wise about how you finance it. Give serious consideration to paying your house off early.

Your Missions

1. **If you already own your dream home but have an above market rate mortgage, refinance.**
2. **If you do not own your dream home, write down a plan for how and when you intend to acquire and pay for it.**

Other Resources

How to get a doctor mortgage loan
Rent vs buy as a resident
Dealing with housing in a high cost of living area
How to refinance a mortgage

Step Seven
Retirement Accounts

All things being equal, following the adage, "Don't pay taxes now -- pay taxes later" [by using retirement accounts] can be worth almost $2 million over your lifetime. – James Lange, CPA, JD

Can I Skip This Chapter?
Have you read the plan summary document for your employer-provided retirement accounts? If you have self-employment income, have you opened an individual 401(k)? Do you do a personal and spousal Backdoor Roth IRA each year? If you are eligible, do you max out a Health Savings Account each year? Do you know the difference between a marginal tax rate and an effective tax rate? Do you know what your marginal and effective tax rates were last year? If the answer to all of these questions is yes, you can skip to Step Eight.

Marginal vs Effective Tax Rates

It is important to understand that your marginal tax rate is not the same as your effective tax rate. Your marginal tax rate is probably best thought of as your tax bracket, but given the myriad of phase-outs in our tax code, even that is not entirely accurate. Your marginal tax rate is the rate at which you would pay taxes on the next dollar you earn. The easiest way to calculate this is to use the same tax software you (or your accountant) use to prepare your taxes. Simply add another $100 of earned income and observe the amount by which the tax bill goes up. If it goes up by $45, you have a 45 percent marginal tax rate.

Your effective tax rate is even easier to calculate. You simply take the amount of taxes you paid last year and divide it by last year’s gross income. It would not be unusual for someone with a marginal tax rate of 45 percent to have an effective tax rate of only 25 percent. While the marginal rate is useful in making decisions about what to do with your money, your effective tax rate gives you a better idea of your actual tax burden.

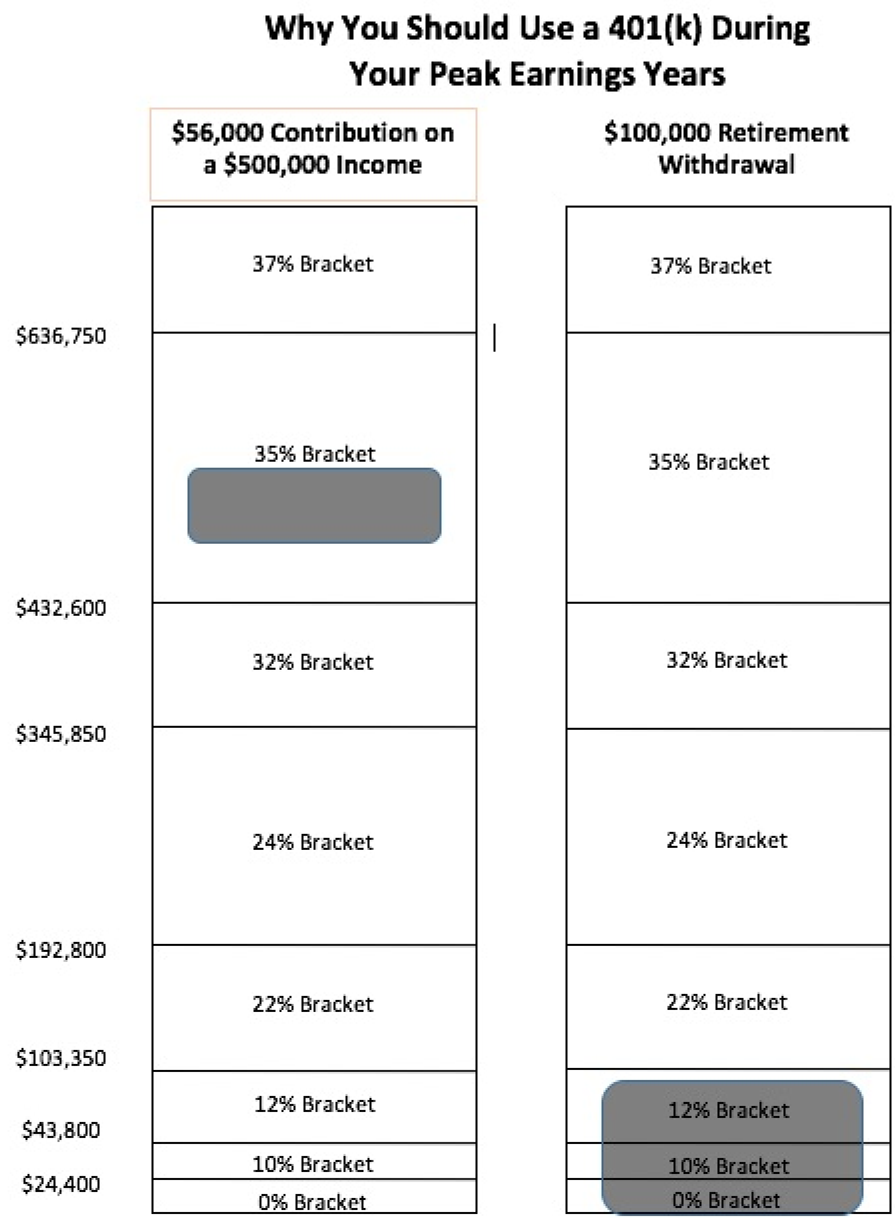
2019 Tax Brackets		
Tax Rate	**Taxable Income (Single)**	**Taxable Income (Married)**
10%	$0-9,700	$0-19,400
12%	$9,701-39,475	$19,401-78,950
22%	$39,476-84,200	$78,951-168,400
24%	$84,201-160,725	$168,401-321,450
32%	$160,726-204,100	$321,451-408,200
35%	$204,101-$510,300	$408,201-612,350
37%	>$510,300	>$612,350

An important concept to understand is that when you bump up into the next tax bracket, only the money in that bracket is taxed at that rate. Occasionally, I run into someone who is afraid that if they make a few more dollars they will owe thousands more in taxes. It just does not work like that except in some unusual circumstances within narrow ranges of the tax code, such as losing your PPACA health insurance subsidy.

Retirement Accounts are your Best Tax Break

If you are like most physicians and other high-income professionals, the best tax break available to you is to save and invest money inside of retirement accounts. If your marginal tax rate is 40 percent, and you contribute $50,000 to a tax-deferred retirement account, you just decreased your tax bill for this year by $20,000 because $50,000 * 40% = $20,000. It would take a very expensive house/mortgage or massive charitable donations to provide you an equivalent deduction. The best part of contributing to retirement accounts is that not only did you get the deduction, but you still have the money, unlike when you spend it on tax-deductible interest or give it away. In addition in most states, retirement accounts receive significant asset protection from your potential creditors.

There are two main types of retirement accounts. Tax-deferred accounts, such as a 401(k) or traditional Individual Retirement Arrangement (IRA), give you an up-front tax deduction and allow your money to grow in a tax-protected manner. When you pull the money out decades later, you then pay the taxes on it, usually at a much lower rate



than when you contributed the money. The reason for this is that you can use the withdrawals to “fill the brackets.” For example, if you are married taking the standard deduction in 2019 and have no other taxable income other than withdrawals from a tax-deferred account, your first $24,400 (standard deduction) withdrawn comes out completely tax-free. The next $19,400 comes out at a cost of only 10 percent in taxes. The next $59,550 comes out at a cost of only 12 percent in taxes. So you can withdraw over $100,000 a year from tax-deferred accounts at an effective rate of only 8.8 percent. Getting a 35-37 percent deduction at contribution and only paying nine percent at withdrawal is a winning combination!

This is demonstrated well in the illustration on the previous page. When a married doctor making $500,000 makes a $56,000 401(k) contribution, it all comes out of the 35 percent tax bracket, saving $19,600 ($56,000 * 35%) in federal income taxes. In retirement, perhaps that $56,000 has grown to $100,000. When it is withdrawn, assuming no other taxable income to fill the lower brackets, the withdrawal fills up the 0 percent bracket (standard deduction), the 10 percent bracket, and most of the 12 percent bracket.

The other type of retirement account is a tax-free or Roth account. With these accounts, you do not get a deduction up-front for the contribution, but it grows in a tax-protected manner and when you pull the money out of the account in a few decades, it comes out completely tax-free. Both types of accounts have their advantages and are far superior to investing in a regular taxable, non-qualified brokerage account where you have to pay taxes each year on distributions and pay capital gains taxes when you sell.

As a general rule, tax-deferred contributions should be used during your peak earnings years to take advantage of the arbitrage in tax rates between your marginal tax rate at contribution and your effective tax rate in withdrawals. In other years, including residency, fellowship, the year you leave training, sabbaticals, extended unpaid maternity/paternity leave, and part-time work, tax-free (Roth) contributions are more appropriate. Yes, I know even a small tax deduction seems to help when you are just trying to scrape by in those early years, but the math does not lie. You will end up with more in the end contributing to tax-free accounts during your non peak-earning years.

Plan Document

Your largest retirement account is likely to be provided by your employer or partnership. Each plan is slightly different with different contribution amounts and investments available. Your employer is required by law to provide you a summary plan document if you ask for it. You should obtain this document, read it, and log in to your online account to determine what you are actually investing your money in. Look up each mutual fund in the plan at Morningstar.com and learn what types of assets it invests in and what fees it charges.

If you are self-employed (i.e., an independent contractor or paid on a 1099), you are responsible for setting up your own retirement account. The best type of retirement plan for self-employed high-income professionals without employees is usually an individual 401(k) rather than a SEP-IRA. You can max out a 401(k) on less income than a SEP-IRA, and you can avoid the Backdoor Roth IRA pro-rata rule (discussed later in this chapter) as well. In 2019, you can contribute as much as $56,000 to an individual 401(k), assuming sufficient income. Your contribution, assuming you have not used your "employee contribution" in another 401(k) that year, can be up to $19,000 (if under 50) as an employee contribution plus 20 percent of your net business income up to a total of $56,000. If you have already used up your employee contribution in another 401(k), you can still contribute 20 percent of net self-employment income into the 401(k) as an "employer contribution." All 401(k)s have an extra $6,000 "catch-up" contribution as part of the employee contribution for those who are 50 or older. Be aware that all of these numbers tend to go up each year or two with inflation, so if you are reading this book after 2019, be sure to look up the contribution limits for the current year. They will be easily found with a quick internet search. If you have employees, you will need professional advice to determine the best plan for your business.

There are other--more complex--retirement accounts out there besides a run of the mill 401(k) or 403(b) from an employer or an individual 401(k). These include 457 plans, which are technically owned by your employer because they are a form of deferred compensation. The governmental plans are usually worth using, but a non-governmental 457 may only make sense if the company is very stable and the distribution and investment options are particularly good. Defined Benefit/Cash Balance plans are a great tax-deferred plan that can be stacked on top of a 401(k). These are essentially an extra-large IRA masquerading as a pension. They come with additional costs, but particularly for high-earning doctors in the last half of their careers, can allow for massive tax-deferred contributions ($50,000 to $200,000 per year). You may also be offered a non-qualified retirement plan by your employer. Tread carefully here, as these are often cash value life insurance policies in disguise. While it may still be worth using if your employer picks up all or most of the cost, in my opinion these are dramatically oversold. The insurance agent makes out like a bandit from the commissions on these plans, and the employee would often have just preferred the employer used those dollars to pay a higher salary instead.

Max Out Accounts to Build Wealth
Luckily, we were gifted "The White Coat Investor" book early enough in our careers that our past mistakes will be immaterial in the bigger picture. My husband was still in medical school, but I had a decent sum in my company's 401(k) and a Roth IRA held with [a well-known brokerage firm] that I was not even coming close to maxing out each year. After reading the book, we realized it was time to review our current assets. Parting ways with my "advisor" was much easier since I was armed with enough knowledge to know better than to stick around any longer paying unnecessary fees. I transferred my account to Vanguard, opened a Roth IRA for my husband, and haven't looked back. We now max out our Roth IRAs in January each year, I shifted assets in my 401(k) to funds with lower expense ratios that better align with our overall written investment plan, and we started investing in Nick's Federal Thrift Savings Plan as soon as the Armed Forces started doing a match. We'd already taken care of our student loans (mine) with money we received at our wedding—romantic, I know—and loosely tracked our spending. Financial Boot Camp gave us the confidence to tackle a few of the other topics in order to lay a solid foundation for our financial future.

Shared by Katy and Nick Derfler, DO

Backdoor Roth IRAs

Prior to 2010, high-income professionals with a retirement plan at work could not deduct traditional IRA contributions, could not convert a traditional IRA to a Roth IRA, and could not contribute directly to a Roth IRA. In 2010, Congress removed the income limits on Roth IRA conversions. This opened the “Back Door,” which despite its informal name is a completely legal--even if indirect way--for high-income professionals to still receive the benefits of a Roth IRA. The ability to contribute to a Roth IRA directly phases out in 2019 over a modified adjusted gross income of $122,000-137,000 ($193,000-203,000 married). If your income is below that like many dentists, primary care physicians, part-time physicians, and military physicians, you do not have to bother with the Backdoor Roth IRA process; you can just contribute directly.

In 2019, if under 50, you can contribute $6,000 to a personal traditional IRA, and $6,000 to a spousal traditional IRA each year. If over 50, that increases to $7,000 each. Then, you can move that money, for which you received no tax deduction, into a Roth IRA at no tax cost. The end result is equivalent to contributing directly to a Roth IRA.

The only real caveat is that it can make tax preparation a little more complicated. Form 8606 is where this transaction is reported to the IRS and because of the way that form calculates the tax cost on Roth conversions, you will need to ensure you have no money in a SEP-IRA, SIMPLE IRA, Rollover IRA, or traditional IRA on December 31 of the year you do the conversion. If you do not do this, your conversion will be subject to the pro rata rule, and the tax benefits will be substantially reduced. This is one reason why an individual 401(k) is usually a better retirement account for a doctor to use than a SEP-IRA. The usual methods of dealing with an outstanding tax-deferred IRA are

1. Pay the taxes and convert the whole thing (best option for a small IRA where the tax consequences would not have a significant

effect on your financial life), or

2. Transfer the money into a 401(k), 403(b), or individual 401(k) (best with a large IRA).

What is a large IRA and what is a small IRA? It depends on the person and the amount of cash on hand, but a $10,000 IRA conversion should be easily paid for by most doctors, and the tax consequences of converting a $200,000 IRA would dwarf any benefits you would see from doing Backdoor Roth IRAs.

The Stealth IRA

Another retirement account that many people overlook is your Health Savings Account (HSA) which can function as a Stealth IRA due to the unique rules associated with it. If you are using a High Deductible Health Plan (HDHP), you are eligible to contribute to an HSA. An HSA is perhaps the best retirement account available to you since it is "triple tax-free." There are three significant tax breaks associated with an HSA:

1. Upfront deduction similar to a tax-deferred account like a 401(k)
2. Tax-protected growth similar to a 401(k) or Roth IRA
3. Tax-free withdrawals similar to a Roth IRA if you spend the money on health care

Note that HSA contributions are not deductible on New Jersey and California state income taxes but are in all other states at the time of publication. If you use a High Deductible Health Insurance Plan, you (alone or together with your employer) can contribute $3,500 single ($7,000 family) to an HSA in 2019, and whatever you do not use can be left in the account for the next year. In fact, that money need not sit in cash, it can be invested in mutual funds just like any other retirement account. Some people worry about what will happen if they do not need that much money for health care needs. However, after age 65, you can withdraw money from the account without penalty, pay the taxes on it, and spend it on whatever you like. Essentially, at its worst, it will be just as good as your 401(k).

Retirement isn’t about Shuffleboard and Golf
I don’t know what retirement will look like. The images I grew up with as a child in the 1950s and ‘60s, which involved golf and shuffleboard—neither of which I enjoy—make no sense. Neither does an abrupt shift from working.
Rather, I see it, if you’ll pardon the highly mixed metaphor, as a kind of peristaltic glide slope. A few years ago, I worked 40 to 60 hours per week as the executive director of a large foundation after a career in academic medicine and journalism. Then I took some time off for a break. I did a bit of consulting. Then I took some courses unrelated to my professional training in areas that I’d always wanted to study. I got my U.S. Coast Guard captain’s license. I took a community college course in machining. Now I’m back in the consulting world, working on projects related to behavioral health and public health. I’m planning on taking a break in a few months to study something else. Or perhaps write another book.
Having this much flexibility requires a financial cushion, of course. It also helps to have a supportive and working spouse who shares my perspective on work. What will I be doing in another 10 years? I don’t know. And that’s the fun part.
Contributed by Lawrence Kutner, PhD

In addition, under current law you do not have to withdraw HSA money in the same year you consume the health care. You can save the receipts and pull that amount of money out tax and penalty-free in a year or in 30 years as you desire. This loophole could be closed at any time, but you should have enough warning to cash in the receipts you already have before any changes take effect. In short, there is little reason to not max out an HSA if you are eligible for one.

Retirement Accounts		
Account	**2019 Contribution**	**Tax Treatment**

	Limit	
Traditional IRA	$6K ($7K for 50+)	Pre-tax contributions
Roth IRA	$6K ($7K for 50+)	Tax-free withdrawals
401(k) & 403(b) employee contribution	$19K ($25K for 50+)	Pre-tax contributions
Roth 401(k) and 403(b) employee contribution	$19K ($25K for 50+)	Tax-free withdrawals
Total 401(k) and 403(b) contribution	$56K	Pre-tax contributions (Tax-free withdrawals for Roth)
457(b)	$19K ($25-38K for 50+)	Pre-tax contributions
Health Savings Account	$3.5K Single, $7K family ($4k/$8K for 55+)	Pre-tax contributions and tax-free withdrawals for health care
SEP-IRA	$56K	Pre-tax contributions
SIMPLE IRA	$13K ($16K for 50+)	Pre-tax contributions

Remember that you should first make your health insurance decision. If you use a lot of health care, you are likely better off with a low deductible plan. If your employer subsidizes a low deductible plan, use that and skip the HSA. Christian health sharing ministries, an exception to the individual mandate under the original Affordable Care Act, do not qualify as the HDHP required to use an HSA. If the best health plan for you is an HDHP, then use an HSA. If it is not, do not worry about it and invest elsewhere.

The lowest cost HSAs for investing at the time of publication can be found at Fidelity and Lively. The self-employed can just open their accounts directly at those institutions. If you have an employer-provided HSA, you can do a transfer to one of those institutions once per year.

Investing in retirement accounts lowers your tax burden, boosts investment returns, facilitates estate planning, and provides asset protection. Know and use the ones available to you.

Your Missions

1. **Obtain and read the plan document for your employer-provided retirement accounts.**
2. **Physically log in to your retirement account and see what it is invested in.**
3. **If self-employed, open an individual 401(k).**
4. **If a HDHP is right for you, open and start funding an HSA and a personal and spousal Backdoor Roth IRA.**
5. **Calculate your marginal and effective tax rate for last year.**

Other Resources

Morningstar.com—The best online database of mutual funds

A discussion of marginal and effective tax rates

A discussion of the relative size of various tax breaks, including retirement accounts

Why an individual 401(k) beats a SEP-IRA 99% of the time

How to do a backdoor Roth IRA, including how to fill out the tax form

Using a Health Savings Account as an extra retirement account

How to use more than one 401(k) at a time

A list of the best HSAs to invest in

A discussion of why even those who wish to retire early should still maximize their retirement accounts

A list of exceptions to the Age 59 ½ rule

Step Eight
Investing

When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds. – Warren Buffett

Can I Skip This Chapter?
Do you have a written investment policy statement? Do you know how and how much you are paying your financial advisor? Are you confident that you are not overpaying? If you can answer yes to all of these questions, you can skip to the next step.

The Importance of a Written Investing Plan

The most common question an investing novice will ask a financial advisor or experienced investor is "What should I invest in?" While it seems a simple question, it is an attempt at shortcutting an involved process. Following the process leads to a good outcome. Shortcutting it is likely to lead to investing disaster. The process is as follows:

1. Set financial goals.
2. Determine the amount to save toward each of those goals.
3. Determine what types of accounts will be used for each goal.
4. Determine an appropriate asset allocation for each goal.
5. Select investments according to the asset allocation.

Perhaps you might be thinking, "That all sounds boring and hard! Can't you just tell me what to invest in?"

"Okay, put all your money into the Vanguard Life Strategy Moderate Growth Fund."

Seriously, if you want to shortcut this process, that is about the best I can do for you. You will probably come out okay, and light years ahead of millions of investors. But I would not recommend you take that shortcut.

Following the process, commonly known as Financial Planning, takes some introspection, some time, and some education. It might cost you a few thousand dollars if you decide to hire even a low-cost, competent financial advisor to assist you. But it is worth it. We will look at each of these five steps carefully, then we will spend a few minutes on the subject of financial advisors.

Setting Goals

Your financial goals, like other good goals, should be SMART:

- Specific
- Measurable
- Achievable
- Relevant
- Time-based

An example of a bad goal is:

Retire someday

An example of a good goal is:

Have a $3 million portfolio by July 1, 2025, such that I can withdraw 4 percent of it a year to support a retirement income of $120,000 per year.

It does not matter if your goals change as you go along. That is life. Set them anyway. Without a goal, the rest of the process makes little sense. You might be surprised how little your goals change over the years.

Determining Savings Rate

The most important factor determining whether or not you will reach your financial goals is how much money you put toward them each year. This "savings rate" is critical and should be calculated and monitored. Most financial goals can be boiled down to a "future value" calculation, which has only four inputs:

- How long you have to save
- Your investment return
- How much you save each year
- How much you already have

Going forward, you typically have more control over the savings rate than anything else. It does not take long playing with a spreadsheet or financial calculator before you realize that saving too little requires unachievable future rates of return. For instance, if you have $200,000 now and want to retire in 20 years with $3 million in today's dollars, saving $15,000 per year will require you to achieve an exceedingly optimistic 12 percent average return (after-inflation, fees, and taxes). Saving $75,000 per year permits a much more realistic 5 percent return.

My general recommendation is that an attending physician should save 20 percent of gross income for retirement. College savings, debt repayment, or short-term savings for a car, boat, or vacation is in addition to that. This is enough to ensure a comfortable traditional retirement. Five percent is not. If you wish to retire early, you might want to consider bumping that up to the 25 to 30 percent range. A very early retirement, such as in your mid-40s, is also possible but will require a savings rate of more than 40 percent of your gross income. The following table illustrates this well.

Years to Reach $3 Million on $250,000 Gross Income				
Savings Rate	2% Return	4% Return	6% Return	8% Return
5%	89	60	47	39

10%	62	45	36	31
15%	48	37	30	26
20%	40	31	26	23
25%	34	27	23	20
30%	30	24	21	19
35%	26	22	19	17
40%	24	20	18	16
45%	22	19	16	15
50%	20	17	15	14

As you can see, at reasonable rates of return such as 4-6 percent, a savings rate of 15-25 percent will get you to $3 million after a typical physician career of 23 to 37 years. You do not get a pass on math. The less you save the longer you will have to work, all else being equal. Saving more, of course, also has the nice effect of conditioning you to spend less. Not only does your nest egg grow faster, but the balance required to replace your pre-retirement spending becomes smaller. Some people who would prefer to spend their 40s and 50s doing something besides working for money have taken advantage of this fact by saving huge percentages of their income and retiring after a career of just 7 to 15 years. If a 20 percent savings rate seems unimaginably high to you, you might be tempted to try to achieve a higher investment return in order to make up for your low savings rate. I would caution you against this approach. Achieving an after-inflation, after-expense, and after-tax return of much more than six percent over your entire investing career will require taking on significant risk of loss, and that risk may not pay off for you.

Selecting Accounts

The next step is to decide which accounts to invest in. General guidelines include always obtain any employer-provided match, favor tax-deferred over tax-free accounts during your peak earnings years, and favor any tax-protected account over a non-tax-protected account. In the case of somebody who wanted to save $15,000 per year for retirement, she could likely do all of that in just a 401(k). A physician wanting to save $75,000 per year might need to use a 401(k) along with a personal and spousal Backdoor Roth IRA, with any remaining retirement savings going into a taxable account. Some accounts are obviously better for some purposes than others. A 529 is ideal for a college saving goal but not so useful for retirement. Likewise, a Roth IRA can be used to save for a home down payment, but you would usually be better off using it for retirement and using a taxable account to save up for the home.

Advanced readers may wonder about which assets should go into which accounts. Proper tax location can have a small effect on overall returns of the portfolio. The rule of thumb is that tax-inefficient, high-expected-return assets go preferentially into tax-protected accounts. If that seems complicated, do not worry about it. The effect is not large.

Asset Allocation

The vast majority of the return from your portfolio will come from your selected asset allocation, that is, the percentage of the portfolio that goes into the various types of investments (asset classes) such as large stocks, small stocks, value stocks, growth stocks, international stocks, real estate, bonds, precious metals, or commodities. The ratio of stocks to bonds in the portfolio will matter a lot more than which stocks or bonds you select. In fact, since the data suggests you are better off investing in low-cost, passively-managed, broadly-diversified mutual funds than individual securities, you should spend most of your time thinking about asset allocation rather than security selection.

The truth about asset allocation is that the "correct" asset allocation can only be known in retrospect. Your asset allocation needs to take on enough risk, that if adequately funded, it will allow you to reach your goals, but not so much risk that you will not be able to stick with it when the inevitable market downturns occur. An appreciation of financial history is critical. For instance, many investors panic and sell stocks when the stock market drops 10 to 30 percent. Buying high and selling low like this can be a financial catastrophe, especially if done within a few years of retirement. A cursory knowledge of stock market history would show a beginning investor that a drop of 10 percent or more (called a "correction") occurs on average about once a year and a drop of 20 percent or more (called a “bear market”) occurs about every three and a half years. If your investing career is 60 years long (30 years before retirement and 30 after), you should plan to pass through about 60 corrections and about 17 bear markets. That is to say, it should not be surprising when your investments in stocks lose 10 to 30 percent of their value. That is what you expect them to do. It is certainly no reason to sell them. As Morgan Housel has said, “About once a year people forget that the market falls 10 percent about once a year.”

Your goal is to choose a reasonable asset allocation. There are dozens, perhaps even hundreds of “reasonable” asset allocations. None of them are perfect, but your goal is to avoid an unreasonable one. Here are some guidelines that may help:

1) Choose a stock to bond ratio between 75/25 and 25/75.
2) Invest somewhere between 20% and 50% of your stocks in international stocks.
3) Aim for three to seven total asset classes with no more than 40% nor less than 5% in any one asset class.

Here are some examples of reasonable portfolios, with increasing levels of complexity. All of these have been adjusted to have a stock to bond ratio of about 60/40. You can adjust as needed.

1) 30% US Stocks, 30% International Stocks, 40% US Bonds
2) 30% US Stocks, 25% International Stocks, 5% Real Estate Investment Trusts (REITs), 40% US Bonds
3) 30% US Stocks, 25% International Stocks, 5% Real Estate Investment Trusts (REITs), 30% US Bonds, 10% Inflation-Protected Bonds (TIPS)
4) 25% US Stocks, 20% International Stocks, 10% Small Value Stocks, 5% Real Estate Investment Trusts (REITs), 30% US Bonds, 10% Inflation-Protected Bonds (TIPS)
5) 25% US Stocks, 15% International Stocks, 10% Small Value Stocks, 5% Real Estate Investment Trusts (REITs), 5% Precious Metal Equities, 30% US Bonds, 10% Inflation-Protected Bonds

There are a few dozen more asset classes that can be used, but these are the ones that generally predominate in most mutual fund portfolios. Certainly a portfolio as simple as these, when combined with adequate discipline and a good savings rate, is perfectly fine. Good investing need not be complicated and is supposed to be boring.

Choosing Investments

Once you have an asset allocation, selecting mutual funds to fit it can be very easy. In fact, it is possible to have a sophisticated three to five asset class portfolio with a single fund thanks to mutual funds like the Vanguard Target Retirement or Life Strategy funds. However, the general strategy is to choose one mutual fund for each asset class in your asset allocation. So if your asset allocation were number two above, you might pick an S&P 500 index fund in your 401(k) for your U.S. stock allocation, a bond index fund in your 401(k), the Vanguard Total International Stock Index fund in your taxable account, and the Vanguard Real Estate Investment Trust Index Fund in your Roth IRA.

There are a few nuances to portfolio construction, but they can be addressed as you learn more about investing. These include such things as which account to place which asset class into (asset location), when and how to rebalance your portfolio back to the original percentages, and how to make do with a crummy 401(k). See the Other Resources section for more detail on all of these topics. Alternatively, you can hire an experienced advisor charging a fair hourly fee to help you write up and implement your investing plan, even if you do not wish to have the advisor do the ongoing investment management.

When selecting mutual funds, you should generally favor “index” or “passive” mutual funds instead of “actively managed” mutual funds. While you might expect to be able to find a talented active manager who can assemble a portfolio of individual stocks (or bonds or REITS) that will outperform the market average, it turns out this is a very difficult task to do over the long run after paying the cost required to do so, especially after-tax. In fact, this “game” of trying to beat the market is so difficult, the winning response to it is simply not to play. Those who do not play this game and just buy all the stocks (or bonds) and accept the market return will end up outperforming 80 to 90 percent or more of active managers over 20 or 30 years.

There are two reasons that passive investing works so much better. The first is a cost issue. It is very cheap to get the market return but quite expensive to try to do all the analysis required to beat the market. It is not that active management cannot work; it is that it does not work well enough to overcome the costs of doing so.

The second is a talent issue. Decades ago it was easier to outperform the market. Ninety percent of trades were made by individual "mom-and-pop" investors. Now, 90 percent of trades are made by professional investors with far more talent, knowledge, and computer power than you can hope to possess. It is not that there are no talented managers, it is that there are too many talented managers. The end result of all of that talent analyzing stock prices is that the market itself becomes more and more accurate and efficient at pricing stocks. At a certain point, it becomes wiser to simply keep your costs low and just buy them all. That is what an index fund does. There are index funds for every asset class and low cost, well-managed index funds are available from several providers including Vanguard, the federal Thrift Savings Plan, iShares, Fidelity, and Charles Schwab. You should have a very good reason to use anything other than an index fund in your portfolio.

When I say "low-cost," I am referring to mutual fund expenses like loads (commissions), expense ratios, and fees. It is critical in investing to be mindful of fees, since every fee paid--no matter how indirectly--is ultimately subtracted from your return. The expense ratio is simply the cost of running the fund divided by the assets in the fund. The average mutual fund expense ratio is about 1 percent per year, but that is far too high given that the best index funds out there generally charge less than 0.20 percent per year and often as little as 0 to 0.05 percent per year. Some mutual funds are "loaded," meaning you pay a commission when you buy them. That load may be a front-load (which is paid when you bought the fund), a back-load (which is paid when you sell the fund), or an ongoing load which is paid each year in the form of a higher expense ratio. Sometimes these loaded funds are described as "A Shares," "B Shares," and "C Shares," respectively. These loads are how commissioned mutual fund salespeople--masquerading as financial advisors--are paid. What they often never mention to their clients is that many mutual funds are “no load.” Why pay a load if you do not have to, especially when the best mutual funds are usually no-load anyway? Sometimes a mutual fund charges a marketing fee called a “12b-1 fee.” Do yourself a favor and avoid any fund that thinks you are stupid enough to pay this completely optional fee.

Costs matter a lot in investing, and they compound just like investing returns. Consider two investors, one who is paying 2 percent total in investment and advisory fees and another who is paying 0.2 percent. If they both earn 8 percent before fees and save $50,000 per year, the high-fee investor will end up with 28 percent less money ($4 million versus $5.5 million) after 30 years!

Each of the asset classes in the portfolios listed above (as well as dozens of others that can be found in the “150 Portfolios Better Than Yours” blog post listed in the Other Resources section of this chapter) can be invested in using a low-cost, broadly diversified index fund. Once you understand how powerful index investing is, you can literally ignore all the other investments out there. You do not even have to consider the individual securities (stocks and bonds) themselves, much less the thousands of actively managed mutual and hedge funds. This dramatically simplifies investment selection.

You may have to choose a brokerage firm or mutual fund company at which to invest. Your employer has likely already done this for your retirement accounts if you are an employee. However, you will need to choose the location of your IRAs and taxable accounts and, if you are self-employed, your individual 401(k). There are a handful of good places to do this including mutual fund companies such as Vanguard or Fidelity or brokerage firms such as eTrade, TD Ameritrade, or Charles Schwab. The boundaries between these types of organizations can be blurry—both Vanguard and Fidelity also offer brokerage services and Charles Schwab has its own mutual funds for instance. My usual default option is Vanguard, but these other firms all offer their own unique blends of strengths and weaknesses and, in some aspects, can be superior to Vanguard. Vanguard, however, is unique in its ownership structure which has allowed it to grow from small beginnings to the largest mutual fund company in the world. Some companies are privately owned, such as Fidelity. Others, such as eTrade, are publicly owned—you can buy shares of the company itself on the stock market. Vanguard, however, is mutually owned. That is to say it is owned by its clients—you and me. This allows Vanguard to eliminate the conflict of interest that is inherent in the relationship between investors and owners since they are one and the same. This generally results in lower costs which are in turn passed on to you in the form of higher returns.

Real Estate

One of my favorite asset classes is real estate. Many people, including physicians, have become wealthy over the years investing in nothing but real estate. Just like a stock, a real estate property is a business with income and expenses and hopefully profits. As the owner of that business, you get to keep those profits. When added to a portfolio of stocks and bonds, real estate can provide both high returns and low correlation with stocks and bonds.

Real estate equity investing (where you own the property, in whole or in part) provides for two unique tax benefits. The first is the ability to depreciate the property and shield income from the property with those depreciation losses. This depreciation is not recaptured until the property is sold, perhaps years or even decades later, and even then, is recaptured at no more than 25 percent, a lower rate than the marginal tax rate of most high-income professionals. A typical residential property is depreciated over 27.5 years. Each year you get to offset a certain amount of the income from the property with depreciation losses. For example, if the value of the dwelling (only the structure is depreciated, not the land) at the time of purchase was $100,000, each year you get to take a deduction of $100,000/27.5 = $3,636. In the first few years, if there is a mortgage of any significant size, it is likely that the depreciation deduction will be larger than the actual income from the property. In effect, this provides tax-free income. Technically, it is tax-deferred until the property is sold which brings us to the second benefit.

The second benefit is the ability to exchange the property for another, rather than sell it. If you exchange the property for another, that depreciation is not recaptured at the time of sale, but the “basis” (what you paid for the property minus the depreciation) is moved into the new property. Done properly (i.e., repeatedly on larger and larger properties until your death when the step-up in basis that occurs with all investments occurs), that depreciation is never recaptured.

Real estate investing has a serious downside compared to a simple portfolio of stock and bond index funds. It can be a lot of work. When real estate investors brag about their returns, they often conveniently fail to factor in the time they spent finding, buying, selling, upgrading, and maintaining the property, not to mention keeping the tenant happy. For a busy high-income professional, that time has serious opportunity cost. Fortunately, there are methods of decreasing the amount of time, hassle, and expertise required to invest in real estate. Of course, as your hassle factor decreases, the fees you pay increase and the control you exert over the investment decreases. It is a bit of a spectrum with a Real Estate Investment Trust (REIT) Index Fund on the “least hassle” end of the spectrum and owning and managing a single-family home in another state on the “most hassle” end of the spectrum. As you move from left to right, you will encounter private real estate funds, syndicated properties, turnkey properties, and using a manager for your own individually-owned properties. You can decide where you fit on that spectrum as an investor.

Bear in mind that real estate is a far less efficient market than the stock market. That means your skill, knowledge, and hard work (or lack thereof) will have a much greater effect on your investment return. You certainly do not have to invest in real estate at all to successfully reach reasonable financial goals, but given the relative benefits of stocks and real estate, I suggest most investors find a way to incorporate both into their portfolio. Becoming dogmatic about one or the other is counter-productive to your real aim—reaching your financial goals while taking as little risk as possible.

What to Expect

Many investors, radio hosts, and bloggers have unreasonable expectations of their investments. The term “12 percent” is trotted out frequently. “If you would just invest $5,000 a year for 30 years at 12 percent, you would be a millionaire!” they say. While this statement is mathematically correct, it is incredibly misleading. The problem is that those who believe it do not save enough money. The only return that matters is the annualized return, which is technically different from the average annual return. Imagine you had a $100,000 portfolio and earn 100 percent in one year, doubling the portfolio to $200,000. The next year the portfolio loses 50 percent of its value, returning to a value of $100,000. The average of those two returns is 25 percent. But your annualized return is 0 percent. Which one seems more accurate to you? Exactly. The more volatile the investment, the larger the difference between average returns and annualized returns.

In addition, the return you care about is the return after inflation, investment expenses, and taxes. Let's say you do manage to pull off a 10 percent annualized return. But if you paid 1 percent in investment expenses and another 2 percent in taxes, that leaves you with just 7 percent. If inflation is 3 percent that year, your real return is only 4 percent. The rule of 72 is a rule of thumb that helps you understand how long it takes to double your money. Divide 72 by your investment return and that will tell you how many years it takes for your money to double. At 10 percent, your money doubles every seven years or so (72/10). At 4 percent, it takes 18 years for your money to double.

Consider an investor who invests $50,000 a year for 30 years at the following rates of return:

10%: $8.2M
7%: $4.7M
4%: $2.8M

Yes, $2.8 million is a lot of money, but it is very different from $8.2 million.

Yet another factor that reduces returns is the fact that most investors cannot emotionally tolerate a portfolio that is 100 percent risky assets like stocks and real estate during an extended market downturn. Bonds, cash, and other low returning investments in the portfolio will likely lower your expected investment returns. Sure, you might expect annualized, after-inflation, after-tax, after-fee returns of 3 to 6 percent on your stocks and real estate, but that same return on cash or even bonds might be only 0 to 1 percent or even negative! If you have a portfolio composed of one-third real estate, one-third stocks, and one-third bonds, you may expect the following returns from each of them:

Real Estate 5%
Stocks 4%
Bonds 0%

Added together, your overall expected return would be just 3 percent. At 3 percent, your money only doubles once during a typical career. There are four important lessons to learn from all this math:

1. A large portion of your nest egg will come from “brute force” savings.
2. You must take a significant amount of risk with your portfolio.
3. The less you pay in fees, the faster your money grows.
4. The less you pay in taxes, the faster your money grows.

Reducing Risk

While asset allocation is not a “one size fits all” experience, the risk an investor on the verge of retirement is most concerned about is called “Sequence of Returns” risk. That means that the returns of your portfolio matter more at certain times in your investing life than at other times. The most critical time is the ten-year period surrounding your retirement date. On the accumulation side of the retirement date, the portfolio has typically grown so large that losses cannot be easily made up with new contributions. On the distribution side, the combination of withdrawals and investment losses can rapidly deplete a portfolio.

The approach a typical investor takes is to reduce portfolio risk during that time period. The mortgages for real estate investments are paid off to deleverage and increase income. The stock-to-bond ratio is also typically reduced. There are many asset allocation rules of thumb out there, such as “hold your age in bonds” or “age minus 20 in bonds” (suggesting that a 60 year old hold a portfolio with 40 to 60 percent bonds), but whatever approach you choose to follow, give serious consideration to reducing your sequence of returns risk as you approach retirement.

Dollar Cost Average or Lump Sum?

Some investors feel uncomfortable putting a large lump sum into the market all at once. They fear that they are investing at a market peak and are about to lose 10 to 20 percent or more of their recent investment. They sometimes use a psychological crutch known as dollar cost averaging to reduce the psychological worry of regret. In dollar cost averaging, a lump sum investment is spread out over three, six, or even twelve months. If the market drops during the dollar cost averaging period, the investor gets to buy shares “on sale” and receives a lower average cost per share than if she had purchased all of the shares up front.

However, since the market goes up about twice as often as it goes down, this psychological crutch usually costs you money. If you do not feel comfortable investing all of your long-term money into your chosen asset allocation tomorrow, I would submit your asset allocation is too aggressive and should be dialed back until your fear of missing out on gains is equal to your fear of loss. Dollar cost averaging is just a temporary psychological tricky anyway. Whether you spread it out over three days or three months, the money will eventually all be invested and subject to market volatility. What difference does it make if that day when you are “fully exposed” is tomorrow or in 90 days? Most investors considering dollar cost averaging are relatively new investors anyway who still have most of their investment contributions ahead of them in life. By investing your money as you receive it throughout your life (monthly for most of us) you will receive the advantages of both lump-sum investing (higher long-term returns) and dollar cost averaging (a lower average cost per share.)

Getting Advice

Many investors, including a sizeable majority of doctors, do not have the interest, knowledge, or discipline to successfully design their own investing plan or manage their own investments. While a person intelligent enough to get into medical school can develop the ability to successfully manage their own investments, they still need to develop enough interest in doing so in order to be successful. Like with medicine, a commitment to at least a low level of life-long learning is required. In addition, you will need to do some upfront learning that consists of reading, at a minimum, a handful of good investing books. In addition to some relatively easily acquired knowledge, you will also need to develop the discipline to stay the course with your plan, particularly in bear markets. Throughout his life the late Jack Bogle, founder of mutual fund giant Vanguard, called “stay the course” the most important investment wisdom he could pass on. Selling low during market downturns, especially if done repeatedly or in the critical few years before or after retirement, can be a financial catastrophe just as serious as a divorce or an early career disability.

If you are concerned you lack the required knowledge, the interest in obtaining it, and/or the discipline to properly manage a portfolio over decades, you would be wise to hire the services of an advisor who offers good advice at a fair price.

The most important thing is to make sure you are getting good advice. There is no price low enough for bad advice. That means you need to have an advisor with as few conflicts of interest as possible in giving you good advice. Many people who call themselves “financial advisors” are really just commissioned salesmen in disguise. They may specialize in selling insurance products like whole life insurance or annuities or perhaps investment products such as private REITs or loaded mutual funds. That is not the advisor you are looking for. You want a “fee-only” advisor. Bear in mind that “fee-based” is not “fee-only.” If they are fee-based, they also earn commissions and their investment advice becomes less trustworthy.

You will also want to get an advisor with one of the harder to obtain credentials, such as a Certified Financial Planner (CFP), Certified Public Accountant with the Personal Financial Specialist designation (CPA/PFS), or a Chartered Financial Analyst (CFA). There is an alphabet soup of credentials out there, but most of them do not mean a lot in terms of education. The time required to obtain even the top-level designations pales in comparison to a degree like an MD or DDS, but at least they show the advisor is committed to the profession. In addition to education, you want someone with some experience. Do they advise a lot of clients with financial lives similar to yours? Do they have any gray hair? Have they helped clients through a bear market or two?

Bear in mind, of course, that even a fair price is very expensive and will have a significant drag on your returns over the years when compared to a competent do-it-yourself investor. If your pre-fee long-term portfolio returns are 8 percent, and you are paying an advisor 1 percent of your assets under management per year, that is exactly equivalent to earning 7 percent a year. If you are saving $50,000 a year for 30 years, the difference between 7 percent returns and 8 percent returns is almost a million dollars (about 17 percent of the end portfolio value). And the fee does not stop at retirement age. If the advisor is managing your portfolio in retirement, she will continue to get that 1 percent every year throughout your retirement. For the $4 million to $6 million portfolio we are discussing, that adds up to $40,000 to $60,000 per year in fees.

Financial advisors charge fees using various models. Some are paid via commission, such as life insurance commissions, annuity commissions, or mutual fund loads. If you are not sure how you are paying your advisor, or if you think your advisor is advising you for free, this is likely how you are paying her. Unfortunately, this is the worst possible way since the worst investments have to offer the best commissions to be sold. Thus a commissioned salesperson, even the most ethical one in the world, faces a nearly insurmountable financial conflict of interest preventing her from providing you the advice you really need. Even good people cannot resist that conflict for long. To make matters worse, most of their training is not in portfolio design or investment analysis, it is in sales. Do you really want to take investment advice from an expert in selling you crummy financial products?

The other models are considered “fee-only” (remember that the phrase “fee-based” means commissioned and is not the same thing as “fee-only”). The most common is to charge a percentage of assets under management (AUM) each year. So if the advisor is managing $1 million and charges 1 percent of AUM each year, that is the equivalent of $10,000 per year. While 1 percent is often considered the industry standard, there are plenty of advisors out there willing to manage assets for less, particularly as your portfolio grows larger than $1 million. Some “roboadvisors” even charge as little as 0.25 percent per year for asset management.

Other asset managers will work for a flat annual fee. These are often in the range of $1,000 to $10,000 per year. Obviously, the larger your portfolio, the better it usually is to pay a flat fee instead of an AUM fee.

Finally, some advisors work for an hourly rate. These rates are typically in the $200 to $500 per hour range. While that seems expensive, it is often the cheapest way to get financial planning advice.

No matter how you are paying your fee-only advisor, be sure to add up the total annual fee you are paying and then determine whether you feel you are getting that much value out of the relationship. Since high-quality financial advice and investment management services can be obtained for a four-figure amount per year, if you find you are paying $10,000 or more, I highly recommend you negotiate a lower fee with the advisor, switch advisors, or learn how to manage your own investments. Also be aware that even fee-only advisors can have biases and conflicts of interest. For example, if the advisor is only paid a percentage of assets under management, they may recommend an IRA rollover that is ill-advised (which would increase assets under management), recommend against paying off student loans or mortgages (which would decrease assets under management), or recommend against investments that they would not manage such as real estate.

Methods of Paying a Financial Advisor

Commissions: Bad
Asset Under Management (AUM) Fee: Better
Flat Annual Retainer or Hourly Rate: Best

Insurance Agents are not Financial Advisors
When I was in my second year of family medicine training, I knew it would be a good idea to start saving for retirement and paying off medical school loans. I was connected with a financial adviser from [a large, well-known insurance company], bought a disability policy through them, and was ready to commit a large sum of money toward his selection of loaded, high expense ratio mutual funds. He was also actively trying to sell me whole life insurance instead of encouraging me to save money in tax advantaged retirement accounts or paying off high interest debt.
A close friend of mine directed me to the White Coat Investor website, and through the education I received there, it quickly became apparent

that the advisor did not have my best interests in mind. I quickly broke off that financial relationship and opened Vanguard IRAs for my wife and me. We save as much as we can in tax advantaged retirement accounts (401K, Backdoor Roth IRAs, HSA) and invest in low expense ratio index funds. We have also been able to pay off my entire medical school debt and half of our mortgage by age 32 by "living like a resident" and increasing our savings rate. I also was able to get a better "own occupation" disability policy and high-quality term life insurance policy through a different company.

Contributed by Kyle Myers, MD

Which Team are you on?

After reading all this, you will likely find yourself on one of three "teams" and should act accordingly.

Team One is the vast majority of docs who want and need a financial advisor who offers good advice at a fair price. While it is still important that Team One members become financially literate and understand what their advisors are doing, the biggest service I can offer these doctors is to connect them with an advisor on the recommended advisor list on my website. These doctors are not very interested in learning about personal finance and investing and thus are unlikely to ever develop the knowledge and discipline required to do it well themselves. They neither know the answers to their questions nor where to find them. They probably do not even know the questions they should be asking. They are much better off paying someone else to help them do this than to not do it at all.

While I would estimate the percentage of doctors on Team One at about 80 percent, most of those 80 percent will never read a book like this one. The main downside of being on Team One is that you will spend a significant portion of the money you work for on financial advice. Compared to a competent do-it-yourself investor, an investor with an advisor charging average prices will need to work an additional six years to have the same standard of living in retirement. I am not here to judge. Many doctors love their daily work and detest financial stuff. If you would rather work an extra six years rather than spend time and effort learning to do any of this yourself, I think that is perfectly reasonable. I just want you to know the facts upfront so you can make a rational decision.

Team Two is composed of those doctors who love this stuff. They find investing and similar financial chores interesting and maybe even pleasurable. They are hobbyists. They are the ones answering the questions on the good internet investing forums like The White Coat Investor Forum. They actually enjoy reading investing books and find this one rather basic. I fall in this category along with perhaps five percent of my peers. We are not going to hire a financial advisor because then we would have to find a new hobby. A financial advisor would fire us anyway because we would drive her nuts with all our nitpicky questions and armchair quarterbacking.

Team Three is the target audience for this book. This is the remaining 15 percent of doctors who do not really want to do all this financial stuff but have run the numbers and realized that financial advice is really expensive especially when paid for with the typical AUM fees. They are willing to put in some time and effort in order to save the majority of those fees. These are the doctors asking the questions on good internet investing forums. These docs are likely to use an advisor in some way at some point in their career. Perhaps the advisor draws up their initial financial plan. Perhaps they check in with an advisor every couple of years and pay for a few hours of advice but implement it all themselves. They will read a few financial books, but they are not going to read dozens.

The sooner you figure out what team you are on, the more successful you are likely to be. If you are a Team One kind of person, I just want you to do the math on what you are paying for financial advice and make sure you feel like it is a fair value proposition. If you are a Team Two person, I want to enlist your help to reach your peers with this critical message of financial literacy. If you are a Team Three member, I want you to not be afraid to use competent, fairly-priced professionals. There are ways to reduce the cost of advice enough that it will have an overall positive effect on your financial success. There are ways to reduce the ongoing hassle, so you do not have to do all the little optimizing things the hobbyists are doing to try to eke out every last bit of return from their portfolios. There will be an ongoing need to learn and do some work throughout your life, but it will be worth it.

Advisors Need Not Be Local
I was unfortunate/fortunate enough to have had a negative experience with my first Roth IRA contribution back in 2000 during my college days with [a well-known brokerage company that uses commissioned "advisors"]. The issue was identified by an astute CPA helping my mother with her taxes through a careful examination of her investments from my father's life insurance payout. The CPA implied that the problems in the allocations used in her account were so significant she should consider legal action, so we all removed our money from [the brokerage firm]. My mom eventually enlisted the help of a fee only financial advisor who wrote up a personalized index fund centered investing plan for her, which she has been following for the past 15 years with great results.
While listening to The White Coat Investor Podcast, I realized there was no reason to limit myself to finding a local advisor given the advancement of technology. As I paid off our student loans and began focusing more on retirement investing, I decided it was a good time to try out my own "fee only" advisor. I used one of the WCI recommended advisors to help us draw up a financial plan and the experience was excellent. A flat fee session and a formalized financial plan was just what our family needed to put our minds at ease. If it wasn't for the podcast, I would probably still be sitting here feeling good about my previous approach.
Contributed by Jeffrey Moller, MD

Developing a written financial plan is an essential task for anyone interested in being financially successful. This will require you to determine your goals, measure your savings rate, assess the tax-advantaged accounts available to you, select investments, and minimize your investing costs. If you choose to use an advisor to assist you in this task, choose carefully and ensure you are getting good advice at a fair price.

Your Missions

1. **Write down an investing plan including your desired asset allocation.**
2. **If using an advisor, determine how you are paying for financial advice.**
3. **If using an advisor, calculate how much you are paying for financial advice.**

Other Resources

150 examples of a reasonable asset allocation
A framework to help you differentiate one mutual fund from another in simple, easy to understand terms
A brief description of how to be your own financial advisor

How to use future value to determine how much you need to save and for how long to reach your goals
An explanation of why you should invest in index funds
Describes the benefits, but also the difficulty, of using proper asset location to boost returns
How and why to rebalance your portfolio

How to build your portfolio if your 401(k) doesn’t offer low cost index funds
A discussion of the relative merits of stock and real estate investing
How to make sure you’re getting good advice at a fair price

An explanation of why Vanguard should be the default option for most of your investing
More information about real estate investment trusts
Why real estate investing provides solid returns

Step Nine
Correcting Past Mistakes

As we seek the [financial advisory] help we unquestionably need, these helpers, like 18th century doctors, are just as likely to harm us. The simile is apt, because the prescribed treatment inevitably will entail the application of leeches… If you are looking for an investment advisor, make sure you find them – don't let them find you.
The people who find you will be the wrong people.
– Phil Demuth

Can I Skip This Chapter?
Do you own a whole life policy? Do you own an annuity? Have you mistaken a commissioned salesman for a financial advisor? Are you paying more than $10,000 per year for investment advice? Do you own any investments that you would not buy again? Have you failed to max out available retirement accounts in the last couple of years? If the answer to all of those questions is "no," then you can skip to the next step.

In this chapter, we are going to discuss nine common mistakes that doctors make and how to correct them. You would be a very rare (although probably quite wealthy) doctor if you never made any of these mistakes. You do not need to beat yourself up if you have made one or even most of these mistakes. I have made a couple of them myself. Some are more frequently made or cost more than others, but they are listed in no particular order. We will discuss each in turn.

Nine Common Mistakes Doctors Make

1. Buying Whole Life Insurance
2. Being Debt Numb
3. Investing in Annuities

4. Mistaking a Financial Product Salesman for a Financial Advisor
5. Buying a “Doctor Car” or “Doctor House” before you can Afford It
6. Collecting Investments
7. Failing to Max Out Retirement Accounts
8. Ignoring the Financial Cost of Additional Training
9. Divorce

What You Need to Know About Whole Life Insurance

There are some people in this world who believe whole life insurance is the solution to all or most of the financial problems faced by individuals. Most of them sell whole life insurance. And most of those agents seem to prefer to sell their wares to physicians more than to anyone else. In fact, it is rare to find a physician who has not received a pitch to buy whole life insurance at some point, and a large number of them bought a policy, including me. A few years later, most physicians notice that this “investment” does not seem to be nearly as good as the pitch they were given just a few years earlier. In fact, surveys I have conducted show that 75 percent of physicians who purchase whole life insurance regret their decision. That should not be surprising given that Society of Actuaries statistics show that more than 80 percent of these policies designed to be held for your entire life are surrendered prior to death.

Agents sell these products for several reasons. Perhaps the most significant, however, is that they want to put food on the table for their kids and they want to be financially successful. The commissions on a whole life policy are very high, typically in the range of 50-110 percent of the first year’s premiums. So if you bought a policy that costs $3,000 a month, the commission was somewhere between $18,000 and $40,000. Now you know why the agent was trying to sell it so hard and why she was so willing to give you “free” advice on other matters. In fact, it is often the same agent who sold you a product you actually needed, such as disability insurance. There are a few agents out there who are simply unscrupulous and sold you this policy simply to transfer money from your pocket to theirs. But most of them simply do not know what they do not know. All of their financial training came from their insurance company and consisted primarily of sales techniques, not investing information. As a result of that training and years of practice, they are exceedingly skilled in selling whole life insurance to even the most skeptical.

Whole life insurance is a combination of a life-long death benefit and a slow-growing investment side account that you can borrow against, typically called the "cash value." If you surrender the policy, you walk away with the cash value, owing ordinary income taxes on the gains in the unlikely event that you have any. But even if you have the more typical loss, you cannot deduct that on your taxes.

A typical whole life insurance policy is a terrible investment. It generally does not "break even" (where the cash value is equal to the premiums paid) for ten to fifteen years, and even if held for more than 50 years, the guaranteed return for a policy bought today is only about 2 percent, with a projected return somewhere in the four to six percent range. If you hold it your entire life, expect your returns to fall somewhere in between the guaranteed scale and the projected scale. It is critical to understand that the "dividend rate" is NOT your expected return on the policy. The dividend rate is only applied to the existing cash value, not the entire premium paid. So the dividend rate is ALWAYS higher than the actual return, and often MUCH higher, especially in the early years.

Buying a whole life policy, particularly when done early in your career and especially when you still have student loans or a mortgage or when you are not maxing out your available retirement accounts including Backdoor Roth IRAs and Health Savings Accounts, is generally a mistake. Unfortunately, just because it was a mistake to buy it, does not mean that holding on to it at this point is also a mistake. The poor returns of whole life insurance, mostly due to the large commissions and fees, are heavily front-loaded. If you have already had a policy for a decade or more, chances are good the return going forward is not too bad and that is the only return that matters to this decision. This is an important financial concept to understand—the sunk cost fallacy. Rather than beating yourself up about past decisions, realize those are "water under the bridge." The costs of bad decisions in the past are already "sunk" and should not impact your decisions moving forward.

I owned my own whole life policy for about seven years. At that point, my overall cumulative return was still a negative 33 percent. Luckily for me, it was a tiny policy and I was able to learn this common lesson on the cheap. For many physicians, this mistake costs them tens or even hundreds of thousands of dollars in actual losses and opportunity cost. In this case, the opportunity cost is the earnings you would have gained if you had invested in a better long-term investment than whole life insurance such as stocks or real estate.

You can hire an unbiased professional to help you evaluate whether to drop your policy or you can do it yourself. The key is to get a copy of an "in-force illustration" from the insurance company. Then you use the guaranteed and projected scales to calculate your return going forward. If that return is acceptable to you, keep the policy. If it is not, prepare to drop the policy. There are two considerations to dropping the policy. The first is that you may need to buy additional term life insurance first assuming you can still get it at a reasonable price. The second is the tax considerations. If there is a gain on the policy (cash value is greater than the total of premiums paid), you will owe taxes at your ordinary income tax rate on the gains.

That is an unusual scenario, however. If you have already held the policy long enough to have gains, then you have probably held it long enough that it makes sense to keep it. The typical scenario is a large loss. Unfortunately, the loss is not tax-deductible. You used to be able to exchange it to a variable annuity, where the loss was deductible, but now even that loss is no longer deductible. However, you can still make the exchange, and it can still be beneficial to preserve a large loss. The best technique for dealing with a large loss on whole life insurance is to exchange the cash value into a very low-cost variable annuity (not a fixed or indexed annuity) such as those at Vanguard. The proceeds are then invested in an investment you would invest in anyway (such as the equivalent of a mutual fund inside the annuity), and when the value of the annuity grows back to the basis (i.e., the sum of the premiums), surrender it with no taxes due.

For example, consider a situation where you paid a total of $50,000 in premiums on a policy that now has a surrender value of $30,000. By exchanging that $30,000 into a low-cost variable annuity, your first $20,000 in gains will be tax-free. When the value of the annuity is once more equal to $50,000, you can surrender it and move the money out of the higher cost variable annuity shell and invest it in low-cost, tax-efficient mutual funds in your non-qualified (taxable) account.

More information on evaluating and getting rid of your whole life insurance policy can be found in the Other Resources section.

Being Debt-Numb

A common "mistake" cited by white coat investors is simply mismanaging debt. The usual problem is taking on too much and paying it off too slowly. As doctors become financially literate, those errors are prime targets for correction. Although specific steps to take to manage your debt are discussed in Chapters Four (Student Loan Plan) and Six (Housing Plan), this particular anecdote fits well here because it focuses on correcting errors already made.

What You Need to Know about Annuities

If you have mistaken an insurance agent for a financial advisor and bought a whole life insurance policy, chances are good you may have bought an annuity as well. The vast majority of annuities are products designed to be sold not bought. The commissions are also quite high and the tax benefits are heavily oversold. They sometimes offer guarantees of one type or another, but these guarantees are usually offered at too high of a price.

Debt and Peace are Inversely Related
Let's just say I did pretty much the opposite of what WCI recommends when I came out of training. I bought my "dream home" with 100 percent borrowed money, 90 percent from the bank and 10 percent from family. I had student loan debt for both my husband and me that I was paying off as he was now a stay-at-home dad to raise our kids. Add the two new cars and we owed 900K the first year out. My mind at the time told me, "I worked hard, I deserve this stuff," but the truth was, I was living my entire life with borrowed money.

I started having such unease in my life and realized I had made mistakes that I was afraid I could not make right. I found WCI and baby-stepped my way back to a 3.5 percent mortgage on a reasonable home, a small amount of very low interest student loan debt and a 700K net worth. I did this by focusing on spending less (and only on stuff that really matters) and paying off our debts one by one. The confidence and peace I have in knowing that my life is in my control is priceless. Thank you, WCI, you saved us!

Contributed by A.M., MD

There is one type of annuity, a Single Premium Immediate Annuity (SPIA), that is often used by retirees to help them spend their nest egg more efficiently, but there is little reason for someone still in the accumulation phase of his or her life to own one of these expensive combination insurance/investment products. It is even worse when these products have been sold "for their tax benefits" or "asset protection benefits" to someone who owns them inside a retirement account that already has tax and asset protection!

Surrendering these annuities and investing the proceeds into low-cost index mutual funds is usually the right move, particularly if the value is close to the basis. Like with a whole life policy, if you have a very low value-to-basis ratio, you may wish to exchange to a low-cost variable annuity and let the investment grow back to its basis before surrendering. If you have a very high value to basis ratio, you may consider just holding the policy for a few more years and then annuitizing it or exchanging it for a SPIA at some point in your 60s.

The Doctor Car

Another frequent mistake doctors make is buying the fancy house or car before they can really afford it. Given the transaction costs, it occasionally makes sense to keep these but often selling them and starting over is a painful but necessary step in your financial progression. The anecdote on the next page illustrates the classic example of buying a "doctor car" as a reward for completing residency.

Firing Your Financial Advisor

There are two good reasons to fire a financial advisor. First, if you have mistaken a commissioned salesperson for an advisor, you need to fire them and move on. No sense in getting bad advice, much less paying for it. Second, if you are paying more than the going rate for financial advice, you need to fire the advisor and move on, or at least negotiate a much lower fee. The going rate for financial advice is a four-figure amount per year, somewhere between $1,000 and $10,000. If you are paying more than $10,000 per year, even for good advice, you are overpaying no matter the value they are providing. That is because you can get high quality financial planning and high-quality investment management of any amount of money for less than $10,000 per year.

You have two options, and they are not mutually exclusive. The least expensive option is to learn to be your own financial planner and investment manager. This does require some up-front learning, some ongoing learning, some attention to detail, some discipline, and a little bit of work. But many doctors have realized that by the time they know enough to recognize a good financial advisor, they know enough to do it themselves. You can make a lot of mistakes for what it costs you to pay for financial advice and still come out ahead. The second option is to find a lower cost financial advisor. There is a third option, of course. You can negotiate with your current advisor, as long as they are giving good advice, for a much lower rate. You might be amazed how little they are willing to work for if the alternative is to lose your business completely.

However, there is nothing wrong with using a financial advisor, as long as you are getting good advice at a fair price. You also do not have to use an advisor forever. You can use one for a while, then take over yourself when you know enough to do so. You can also use an advisor a la carte, helping you design your plan up front and then checking in every year or two to make sure you are still on track. The key is to only pay for the services you really need and want.

Just Another Hunk of Metal

July 14, 2013, one month to the day since I graduated from fellowship. I was now two weeks into my exciting career as an emergency physician. Today I would make one of worst decisions of my life, but would only realize years later that it was actually one of the best decisions I've ever made. I didn't miss a STEMI or have a failed airway; it actually had nothing to do with patient care. Today was not just any other day, it was PAYDAY as an attending physician. So I did what I thought all doctors do when they finally become an attending, I did what I thought I deserved after years of sacrifice—I went to the nearest Mercedes-Benz dealership and leased the most expensive model I could. Yup, a 2013 CLA 45 AMG, a $60,000 ego-boosting, hunk of precision German craftsmanship that went from zero to sixty in 2.7 seconds. I had finally arrived! Or had I? I had $120,000 in student loans, lived in NYC paying NYC rent, and had no real idea of how a 401(k) worked. Did any of that matter? Nope! I could finally pull into the attending parking lot and be proud. My friends thought I was big time, random strangers would pull up next to me and gawk, and I felt like I was on top of the world.

So why do I consider it to be one of the best decisions I've ever made? Simply because of what I learned from it. Just one year later, the glitz and glamour began to wear off and the car had become just another piece of metal that took me from Point A to Point B. No more gawkers and no more compliments from friends. It was then that it dawned on me that I was paying $1,100 a month to sit in a luxury German car going 15 mph in traffic just to make myself feel better. Just to boost that ego. Just for that instant gratification. Just to fit that mold of what a doctor "should" look like. Just to keep up with those dreaded Joneses. It was around this time that I began my journey toward financial literacy and sought answers as to why I did what I did. It was then that I came across The White Coat Investor Forum. Finally, a place where I could read stories of those who had come before me and made poor choices of their own. I was not alone. I learned a great deal from those forum posts. Perhaps most of all I learned that while she may not be German-built, will not get as much *attention, and definitely will not take you from zero to sixty in 2.7 seconds, an investing account is just as attractive as that CLA 45 AMG.*

Shared by G.P., MD

If you are going to become a do-it-yourself investor, first make sure you have a written financial plan and know what you are going to do with your money once you move it away from the advisor. If you find you do not yet feel comfortable designing your own written financial plan, there are really three ways to do so with varying levels of time and expense required.

The first is the way I did it—reading financial books and blogs and asking lots of questions on good internet forums. This requires significant time but very little money.

The second is a shortcut I put together in between the time the original Financial Boot Camp emails were written and the publication of this book, an online course entitled Fire Your Financial Advisor. This eight-hour online course sells for a few hundred dollars and comes with a seven day, no questions asked, money-back guarantee. Its purpose is to help you write your own financial plan, step by step.

The third method is to use a good, fee-only financial advisor to help you write up your initial financial plan. This will likely cost you a few thousand dollars but has the benefit of a licensed professional looking things over for you so you can do as little or as much yourself as you like.

Once you have a written plan in place, contact the institution that will be holding the money going forward and arrange for them to "pull" the money from wherever the old advisor had it held. You do not even have to tell the old advisor unless your contract with her says otherwise. She will figure it out when she receives the rollover paperwork from Vanguard. It might be your first time sending this paperwork, but it is not her first time receiving it.

If you are going to use a new advisor, she can take care of all this for you. But make sure you do a better job choosing this time. Focus on the following when selecting a new advisor:

1. How they get paid (fee-only)
2. How much they get paid (the less, the better)
3. What services they offer (the more, the better)

4. What designations they hold (CFA, CFP, CPA/PFS are meaningful, others may have little value)
5. Their experience level (Any gray hair? Were they managing money in the 2000 and 2008 bear markets?)
6. Their investment philosophy (Portfolios should be composed mostly of index funds.)
7. Past behavior (Check their ADV2 government disclosure form for any “disclosure events.”)

If you need some help, or just a place to start, consider the list of recommended financial advisors on The White Coat Investor website. While none of these advisors are perfect, they have received some preliminary vetting from me and ongoing vetting from The White Coat Investor Community.

An Advisor that Needed to be Fired
We were pitched some investment advice from an advisor introduced to my wife through other doctors, and we eventually agreed to sign up. This included Index Universal Life Policies, and later some annuities. A couple years later, I started to look at our finances a bit closer as we were living on one income. This was a painful moment. We realized we were nowhere near where we should be, and we were putting a lot of money toward what we thought was retirement. Through information found on WCI and other sites, my wife and I sat down and started to get on the same page related to investing. This started the end of making poor financial decisions and stopped our payment into the “stupid tax.” As soon as I was pitched a Whole Life Policy, I should have taken our investments somewhere else.
Contributed by Kevin Michael Lamb and Shea Ryan Holt, MD

Financial Advisor Red Flags

1. Paid on commissions.
2. Recommends individual stock picking.

3. Recommends actively managed mutual funds.
4. Recommends market-timing.
5. Mentions whole life insurance or annuities on first visit.
6. Cold called you or knocked on your door.
7. Has any complaints/disclosure events on the ADV2 Form (ask for it).
8. Charges more than $10,000 per year (do the math).
9. No fee structure on website (if it is not there, it is too high).

While none of these are absolutes, they are each concerning and multiple red flags should prompt a search for another advisor.

Investment Collections

Some investors, particularly do-it-yourselfers, are prone to become investment collectors. Instead of first designing a coherent, simple, straightforward, intelligent portfolio, they buy a little of this and a little of that. They may have dozens of individual stocks and bonds and a bunch of overlapping mutual funds, often with high expense ratios. Cleaning up these collections is an important part of getting your financial house in order.

The first thing to do with an investment collection, at least once you figure out what you wish you had invested in instead, is to determine where the investment is held. If it is inside a tax-protected account such as a 401(k) or a Roth IRA, great! You can sell it without any tax consequence and then move the money into your designated investments.

However, if the investment is held in a taxable account (i.e., a non-retirement, non-qualified or brokerage account that receives no tax protection like a 401(k) or Roth IRA), you need to determine what its basis is. Remember, basis is what you paid for the investment. You can usually locate the basis of your investments easily by clicking on the “cost basis” tab of your brokerage or mutual fund account. It will show you which of your investments have unrealized short- and long-term gains or losses. If the value is less than the basis, great! Just sell it and buy what you wish you owned. You can also use those losses to reduce your tax bill. They are conveniently compiled along with capital gains on Schedule D of the 1040, often automatically downloaded from your brokerage or mutual fund company directly into your tax software. Losses can be used to offset all of your capital gains and up to $3,000 of your ordinary income each year with any unused losses carried over to the next year. If the value of the assets sold is similar to the basis, you can sell it with minimal tax consequences. However, if your value is much higher than your basis, you ought to pause and consider your options.

A great option, if you frequently give to charity or would like to start, is to simply donate the shares to charity. Most churches and other large charities are set up to receive a transfer of stocks or mutual funds as a "donation-in-kind." If they are not, you can give via a Donor Advised Fund.

Another great option if you are already elderly is to simply hold the shares until your death. Obviously a 95 year old is elderly, but also a 65 year old in poor health may be. Upon inheriting your assets, your heirs will receive a step-up in basis to the value on the date of your death. They can then sell the investments without any tax consequences.

However, if neither of those scenarios applies, there will be more work involved. You will need to figure out just how much it will cost you in taxes to sell each investment and then look at each of them individually and determine if it is worth it. Sometimes, an investment is not ideal but is good enough to keep in the portfolio for tax reasons. For example, a mutual fund composed mostly of U.S. stocks can be retained and you simply hold less of your favored U.S. stock index fund than you otherwise would. You can even build around a few individual stocks if they do not make up too much of your portfolio. Perhaps if the tax cost is not too high, you should just sell it anyway and chalk up the extra taxes as your "tuition in the school of hard knocks" or the "price of your investing education." Balancing the payment of unnecessary taxes with the diversification and low costs of an ideal portfolio can be tricky. A good financial planner can assist you with these difficult decisions even if you plan to become a do-it-yourself investor eventually.

Retirement Accounts

Are you maxing out your retirement accounts? A surprising number of high-income investors do not even know about all the retirement accounts available to them. Preferentially investing in these tax-protected (and in most states asset protected) accounts can save you thousands of dollars over the course of your lifetime. Unless you are already financially independent, make a commitment now to learn about all of the accounts available to you and max them out every year.

Even if you are not saving enough to max out all those accounts, if you have a lot of investments in a taxable account, you can move that money into your retirement accounts. You can simply live off the taxable investments while directing more of your income into retirement accounts. In addition, doing Roth conversions (moving tax-deferred assets into tax-free accounts and pre-paying the tax bill) of retirement accounts accomplishes a similar function on an after-tax basis. In essence, you are exchanging tax-deferred plus taxable money (the tax bill) for tax-free money.

Beware the "$400,000 Mistake"

I am often asked about the financial ramifications of additional training. The most important financial aspect of any career is your career longevity. While there is an upfront opportunity cost to any fellowship, if it allows you to be happier, follow your dream, and work longer, it will likely be worth it. However, it is probably worth running the numbers to know exactly what the opportunity cost will be. For example, in Emergency Medicine there are three-year and four-year residency training programs, with most docs in the field advocating for the system of the residency program they actually attended. Choosing a four-year program is often derided by the "three-year docs" as a "$400,000 mistake." The anecdote on the next page is from a doc who realized the opportunity cost of her fellowship was higher than she was willing to pay.

Quitting a Fellowship
Proceeding from undergraduate to medical school and on to residency, I always assumed I would continue in academics where I had become so accustomed to the culture and work flow. It wasn't a question of whether I would do fellowship but rather which one. I ultimately chose

a fellowship that wouldn't provide a significantly increased salary and was geared toward remaining in academia where salaries are usually much lower in OB/GYN. Shortly into fellowship, I began reading The White Coat Investor and Mr. Money Mustache blogs. I consumed both sites and truly embraced the "live like a resident" philosophy in conjunction with the goal of financial independence well before age 65.

It became apparent that though I was passionate about my fellowship, to me it wasn't worth the opportunity cost of two more years of lost income and a stunted lifelong earning potential. I ended up leaving my fellowship which was the most difficult decision I have ever made. Now two years after joining a private practice group, I know it was absolutely the right decision. I have learned and grown so much as a doctor in the community. I am saving a significant percentage of my take-home pay and am on track for financial independence. My marriage is stronger than ever, and my husband has been able to pursue new career opportunities for himself. I absolutely see myself returning to academia in the future where I will be a more confident and adaptable teacher. I also look forward to international volunteering once I am working "just for fun." Just because you can do more training doesn't mean you have to.

Shared by K.W., MD

Divorce is Financially Catastrophic

When asked about major financial mistakes, one that is frequently cited by doctors is divorce. Others include frequent house and job changes. Each of these has very high transaction costs, particularly divorce, and should be weighed very carefully. This is the origin of the frequently given advice of "One House, One Spouse." While divorce law varies by state, a typical doctor who divorces will lose half her assets and pay thousands in alimony and possibly child support for many years afterward. A pre-nuptial agreement (prenup) is mandatory for anyone bringing children or substantial assets into a marriage, or perhaps even with significant earning potential. It is even reasonable for first marriages between two equal earners without assets or children. There is controversy in this area mostly because bringing up a prenup signals you may not be as committed to the marriage as all would like. Mandatory prenups would take away that signal and, like mandatory premarital counseling, might even reduce the risk of divorce, especially if the prenup includes a provision that reduces the valid reasons for divorce from the list allowed by the state.

While it might not be very romantic to think about, consider that every marriage already has a pre-nuptial agreement whether the participants know it or not. Would you prefer to write it together with your intended or have your state legislators write it for you? All good business partnership agreements include a section about what happens if things do not work out. A marriage is also a financial partnership, and the more you work out in advance, the less conflict there is likely to be in the marriage and the better the marriage is likely to be. While the thought of going through a lengthy, expensive legal battle without a prenup might be incentive to stay married through tough times, staying married just for that reason seems a shame. Consider also the fact that every divorced doctor I have ever met wishes they had a prenup. The following two anecdotes from divorced physicians, one from a man and one from a woman, illustrate the importance of this advice.

One House, One Spouse

"One house, one spouse." How I wish I had heard and adhered to this advice many years ago! Serial home ownership crippled my ability to save, derailed my ability to borrow less, and eliminated the possibility of

living off of less during my education years. Therefore, I accumulated more debt in the form of loans while also supplementing my income with full-time employment (during all four undergraduate and the first two years of medical school) just to make ends meet.

I also made the mistake of choosing a spouse who wanted the lavish "doctor" lifestyle before such a thing was possible. Not quick to learn from my first mistake, my second wife was even more of a spender than the first! Outrageous education, personal, automobile, and credit card debt hung like a noose around my neck! Compared to the cost of living a caviar lifestyle on a tuna fish budget, divorce was a bargain (despite being personally and financially devastating).

However, correcting these past mistakes and learning from them has put me on the road to personal financial resuscitation! I am now happily married to a wonderful thrifty woman who shares my personal and financial goals and who exceeds all my needs for happiness and love! We have one house, a tight budget, and well-defined financial goals. We are open and honest with each other about everything budget-related, we've paid off our non-mortgage debt, and we make our financial decisions in a calculated and unified manner. "One house, one spouse" is good advice, but early errors can still often be overcome. Correct the mistake(s) sooner rather than later and get back on the path to affluence!

Shared by Kyle E. Johnson, MD

The Costs of Divorce

A solid piece of financial advice is to stick with the same spouse. Sounds great in theory, but sometimes staying married just isn't an option. Your second-best bet? Get a prenup. And if that's not possible, get out of a bad marriage as early as possible. This is especially important for women physicians, who are at a higher risk for divorce than male physicians, *with our rate of divorce increasing with the number of hours that we work. In other words, the harder you work at your job and the more money you earn as a woman physician, the higher the chance that you are going to end up divorced, and worse, writing an alimony check to your ex. And believe me, that one burns. The longer you stay married, the bigger that check is going to be and you could even be writing it for the rest of your life.*

When my husband of nearly ten years decided he wanted out, it should have been so simple – a 50:50 split of marital property. You go your way, and I'll go mine. After all, we were both young, healthy, working professionals with no kids. Instead, seeing an MD behind my name, his attorney petitioned for the entire house, alimony payments, and attorney's fees, in addition to half of the bank account balance and retirement funds.

He didn't get everything he wanted, but it was still costly to move on with my life. Since I was still in my prime working years, I recovered financially from the divorce in record time. I also found that my household expenses plummeted living on my own, allowing me to increase my savings and recover much of my lost retirement investments.

There is a happy ending. I ultimately remarried someone with similar ideals and values to mine and having a true partnership has helped us to financially prosper. And yes, we got a prenup.

Shared by Rebekah Bernard, MD

One of the most difficult parts of Financial Boot Camp is often undoing what you have done. It involves admitting you made a mistake and probably wasted a lot of money—what radio talk show host Dave Ramsey calls "Stupid Tax." It may involve some painful conversations with previously trusted advisors and even the payment of some additional fees and commissions to extricate yourself from your errors. In the end, it will be worth it, and you will feel empowered by your ability to right your floundering financial ship and place it firmly back on course toward your financial goals.

Your Missions

1. **Determine if you should drop your whole life insurance policy. If you should, consider doing so by exchanging the value into a low-cost variable annuity.**
2. **Stop investing inside annuities.**
3. **If you are getting conflicted advice or paying too much for advice, find and hire a reputable, reasonably-priced financial advisor. Alternatively, if you are ready to start managing your money yourself, contact the new custodian and have them move your money away from the old advisor.**
4. **Evaluate your portfolio for investments you wish you had not bought. Sell those inside a retirement account, those with a loss, and those with a minimal gain. Develop a plan for dealing with any others.**
5. **Commit now to max out your retirement accounts going forward.**

Other Resources

Need an unbiased education about whole life insurance? Here you go

How to determine whether or not to keep your whole life insurance policy

How to get rid of the policy once you have evaluated it

A broad overview of annuities and why they make for lousy investments

Lots of great annuity tips in this review of the best book about annuities

An extensive overview of how to fire your financial advisor

A brief description of how to be your own financial advisor

How to make sure you’re getting good advice at a fair price

Recommended financial advisors

How to determine whether you need an advisor or not

How to stop being an investment collector

An explanation of why retirement accounts are so valuable

A discussion of prenuptial agreements

Step Ten
Saving for College

Opportunity is missed by most people because it is dressed in overalls and looks like work.
– Thomas Edison

Can I Skip This Chapter?
Do you have children? Have you started saving for the college educations of your children? Are you confident that your plan will enable you to reach your college goals? If no kids or you have a solid plan in place, you can skip to Step Eleven.

The Four Pillars of Paying for College

When it comes to paying for college, I recommend you build your plan on four pillars. These pillars are:

1. School selection
2. College savings
3. The child's contributions
4. Your cash flow

There are two things that you should notice about those four pillars. First, as a physician or other high-income professional, you need to realize that it is unlikely that your child will qualify for any need-based financial aid. The Free Application for Federal Student Aid (FAFSA) formula dictates that your Expected Financial Contribution (EFC) is composed of about 30 percent of your annual income and 6 percent of your non-retirement assets. Since your EFC is generally higher than the Cost of Attendance (COA) of most colleges in the country, they will not qualify for grants, need-based scholarships, or even loans. So you are on your own.

Second, there is no pillar marked “debt.” There is no reason that you or your child needs to borrow for an undergraduate education. While one family might lean more on one of the pillars than another, there is no excuse for a high-income professional family to actually need to borrow for college.

The First Pillar: School Selection

The most important of the pillars and the one that, if done properly, allows for a debt-free education is proper school selection. Most seventeen-year-olds need significant parental input in choosing a college. They simply make dumb decisions like choosing a school because they like the buildings or trees on campus or want to go to the same school as a high school friend. A teenager does not understand the difference between $10,000 and $100,000. It is all Monopoly money to them.

Value matters, and the more expensive the purchase, the more it matters. I always find it amazing to scan down the annual college ranking lists and find two schools right next to each other on the list but see that one school costs four to eight times as much as the other. Choose a school that you and your child can afford to pay for without debt. There will be plenty of opportunity to rack up massive student loans if they decide to go on to professional school.

Remember that the sticker price is not always the price you will pay. You need to look at the price after all scholarships and grants have been applied. Of course, most doctor families are not going to receive much if anything in need-based aid. Private schools that offer a lot of need-based scholarships frequently front load their offers too. It feels like a bait and switch when the freshman year looks really cheap but by senior year you are paying full freight, usually with borrowed money.

Some parents try to save up the entire cost of a college education in advance. In fact, some well-to-do parents start saving even before the child is born or front-load the savings shortly after birth. It is entirely possible to be done saving for college long before the child enrolls. Most of us have too many other competing uses for our dollars to do that, but we still need to save something for college. Despite the fact that college enrollment generally arrives before retirement, you should still prioritize retirement savings over college savings. It is much easier to go to a cheaper college than to go to a cheaper retirement. There are no student loans or scholarships for retirement. You can best help your children from a position of strength. You must take care of yourself first and then you will be better able to assist them. Paying for their college is a wonderful gift, but an even more valuable one is ensuring you will not be financially reliant on them in your golden years.

State Schools Often Offer Best Value
I realized early in my career that I did not know where most of the people I respected (peer physicians, lawyers, etc.) even went to college. I figured that it only mattered for some limited select occupations like those wanting to work in finance on Wall Street. So I told my three children that they would finish their post high school education debt free under two conditions. First, that they study something that would probably lead to a job (no "studies" degrees), and second that they attend a state school. I told them if they wanted an out-of-state school or a private college, that they would fund the difference between state school tuition and their choice themselves through work or debt. All three went to state schools (one to graduate school).
Contributed by Steven Podnos, MD, CFP

The Second Pillar: College Savings

If you are going to save for college, you might as well do so in a way that reduces your tax burden. You can save for a child in their own investing account, typically called a Uniform Gift for Minors Act account (UGMA), but that requires you to give up control once they turn 18 (or 21, depending on the state) allowing them to spend the money on anything they like. A better choice is to use a college-specific savings account. A Coverdell Education Savings Account is one option, but it is hampered by a low annual contribution limit (just $2,000 under current law, and potentially going away completely).

The best option for most is a 529 account. These state specific accounts have much higher contribution limits ($15,000 per year per parent in 2019) and can even be front-loaded with a five-year contribution ($75,000 single, $150,000 married). In addition, they often come with a state tax deduction or credit. Both ESAs and 529s allow the money invested to grow in a tax-free manner and, as long as the money is spent on legitimate education expenses, to come out completely tax-free. In addition, the parent remains in control of the ESA or 529. The child cannot take the money out to buy a Camaro, a summer in Europe, or drugs. If one child decides not to go to college at all, the money can be transferred tax-free to another child's account. If you decide not to spend the money on college, you will owe a 20 percent penalty plus taxes at your ordinary income tax rates on the gains. So do not overfund it without a plan to change the beneficiary of any leftover money to your other children or grandchildren. There are provisions that allow you to take money out penalty-free (but not tax-free) in the amount of any scholarship your child may receive.

Later in this chapter, I will explain how to choose a 529 plan and how much to save in it.

The Third Pillar: The Child's Contribution

Another important contribution to the cost of education should come from the student herself. If she has to sacrifice and work for her education, she will appreciate it that much more. This category consists of merit-based scholarships, the child's own savings (which may go into the 529 as well), summer work, and a part-time job during the school year. Some parents fear that having their children work will cause their academic performance to suffer, yet when I survey groups of physicians, the majority of them worked during their undergraduate years. So it seems unlikely to have a dramatically negative effect, and the effect may even be positive. Some work experience makes them more attractive to future employers and certainly gives them valuable experience managing money and understanding the value of a dollar. If that means they miss a few keg parties, it is probably not a bad thing.

The Fourth Pillar: Cash Flow

Most high-income professionals are still working, at least part-time, while their children are in college. They can assist using their current cash flow. A doctor grossing $200,000 a year can certainly afford to pay for some of the college expenses as she goes along.

In summary, if the annual total cost of attendance is $25,000, and the child has a scholarship worth $5,000, earns $5,000 during the summer, earns $5,000 during the school year, and you contribute $5,000 a year, their college savings account need only total $20,000 to allow the student to get through undergraduate without debt. If you manage to save up more than that, they can attend a more expensive school or the remaining amount can be put toward their graduate or professional school.

Which 529 To Use?

Now that we have discussed the four pillars of paying for college, let us hone back in for a minute on the second one and discuss how to save for the college expenses of your children.

The 529 system is one of the best programs the government has ever put in place. It forces states to compete with one another for investor dollars, and that competition has caused prices to fall, investment options to improve, and tax benefits to increase over the years. There are now many states with excellent programs.

Start with the program of your own state. If your state offers a tax deduction or credit, use that plan, at least up to the amount where the deduction or credit is maximized. If your state does not offer a state income tax benefit or if you already received the maximum benefit, consider using another state's plan. The Utah, Nevada, Ohio, California, and New York 529 plans are usually found at or near the top of any rank list for best 529s.

The actual logistics of doing this are incredibly easy and can be done entirely online in just a few minutes. You provide the personal information including names, social security numbers, and contact information for the account owner and beneficiary, choose the investments (there is usually a simple age-based balanced option), and fund the account with a transfer from your bank account.

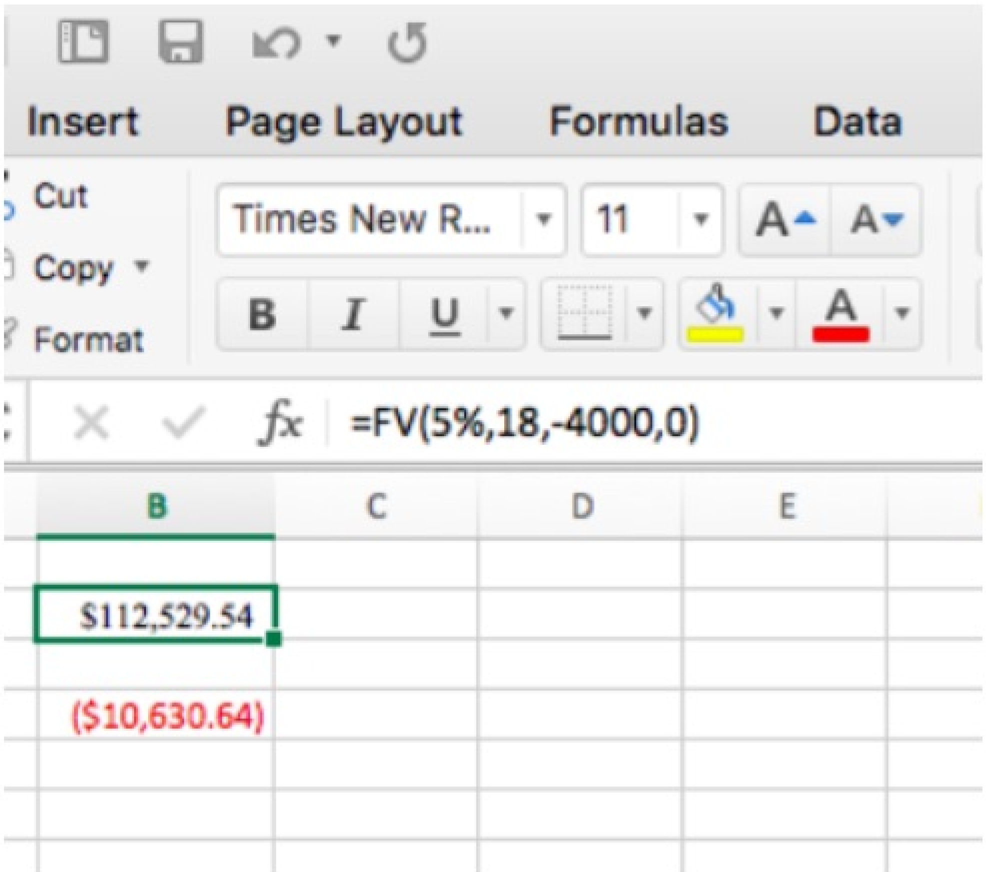
How Much to Save?

As you can see from the above information, how much to save for college can be a very personal question. It really comes down to how expensive of a college you are willing to pay for, how much you can put away for college, and how much can be covered by the student and your cash flow. However, it is a good idea to have a goal and work toward it. That goal can be a “defined contribution” goal, or it can be a “defined benefit” goal. With a defined contribution, you contribute a set amount each year such as the amount that maximizes the available state income tax deduction. With a defined benefit goal, you decide how much you want available in the account when your child reaches college age. Either way, you can use a financial calculator or a simple spreadsheet to make projections. We are going to do a little math again, so if you do not want to do that, go ahead and skip on down to the “How Aggressively to Invest?” section. Keep in mind that an important skill worth learning if you are going to manage your own finances is to be able to do financial calculations, so even if you skip this section this time, I hope you will come back later and learn to do these. They are really not that hard.

Consider a family who plans to save $4,000 a year from birth to age 18 because that is the amount that maxes out their state income tax benefit. How much can they expect to have in the account at age 18? The answer to this is reached with a Future Value Calculation. You already know three of the four variables in the equation, so you just need to make an assumption about what the return of the account will be. I typically use 5 percent real (after-inflation) for calculations like these. Plug this formula into Excel or a similar spreadsheet:

=FV(5%,18,-4000,0) = $112,529

An amount of $112,000 should allow you to withdraw close to $30,000 a year for college expenses. In the formula, the 5 % is the assumed rate of return, the 18 is the period or number of years of contributions, the 4000 is the annual contribution (note it is always a negative number), and the 0 is the amount of money you have saved for college already (also a negative number).



If you've decided to use a defined benefit goal, you use a related but similar formula, Payment (PMT) whose output is the amount you need to save each year. In this case, we will assume you only have 10 years left to save, you already have $10,000 saved, you expect a 5% return, and you want to have $150,000 in the account on the day the child enrolls. How much do you need to save each year?

=PMT(5%,10,-10000,150000) = - $10,631 per year

In this case, the 5% is the rate of return, the 10 is the period or years left to save, the -10000 is the amount you now have saved (always negative), the 150000 is how much money you want at the end (always positive), and the -$10,631 is the amount you need to save each year (always negative). Bear in mind that if you are subscribing to the defined benefit method and your expected returns do not materialize, you may need to contribute more to the account in order to reach your goal.

How Aggressively to Invest?

There are two schools of thought when it comes to investing your 529. The first school of thought, to which I belong, suggests you invest aggressively. In fact, my 529 accounts are invested much more aggressively than my retirement accounts because the consequences of shortfall are so much less dramatic. If market risk shows up, I simply make up the difference with the other three pillars. In fact, there is no rule that says you have to use your college savings evenly over all four years. If there is a big bear market the year your kid enrolls, you can cash flow more of it while you let the 529 recover for their junior and senior years. On the other hand, if your aggressive investments pay off, you can either cash flow less, they can go to a more expensive school, or you can save more of the 529 for graduate or professional school.

The other school of thought is that you should not take more risk than you need to. Investors who subscribe to this school gradually make their investments less aggressive as they approach enrollment. In fact, many 529s offer an option to do this automatically. This may be a good approach for an investor who plans to pay for all or most of the education using money saved in advance or who plans to be retired and unable to help much from current cash flow.

Whichever school of thought to which you subscribe, 529 investments will likely make up a major pillar of your college plan. Occasionally, you will run into someone who advocates an alternative method of paying for college such as using whole life insurance or real estate investments. Those advocating the life insurance are generally selling the product and can be readily dismissed. Real estate investments can be a viable option but do require significant expertise (and often additional risk) compared to simply investing in index funds inside a 529 account.

Be Flexible with 529s

Think carefully about your 529 contributions. Sure, we all want to take care of our kids and the 529s are a great way to do it, but have you thought through what will happen if you don't need it? We aggressively funded both our kids with equal amounts (have to be fair you know) and then as our oldest neared college, the post-9/11 GI bill came out, which is essentially four years of fully paid schooling which can be shared across the family as we see fit. So we sent our oldest to Baylor for free. Since we didn't use the 529 for her, when our youngest entered college we cash flowed her expenses rather than use the 529 (since we didn't use her sister's account, we had to keep it fair).
Our oldest ended up using her 529 to pay for four years of medical school, but the youngest got a job out of undergrad and didn't need the 529. Sure, we (she) now has a very large sum of money to use for any future grad school, for her future husband, or for her future kids, etc., but we could have also expensed her school out of the 529 and banked an equivalent amount in our retirement, in her "startup retirement fund" (if we wanted to keep it all fair) or even used it to cover our older daughter's living expenses (she still had to borrow some money since her 529 covered the tuition only). Each family will have to decide what is fair, but think carefully before you aggressively fund a 529 and think carefully when deciding how to best use it. Since we are all so dedicated to taking care of our children, it is easy to get blinders on when making 529 decisions.
Contributed by Jeffrey Scott Calder

College can be a major expense for the families of many high-income professionals. Careful planning and use of all four pillars will reduce stress for parents and students and enable the student to begin their adult life with much less debt than the previous generation.

Your Missions

1. **Open a 529 for each of your children. First read up on your own state plan (Google your state name combined with the words "529 plan") and determine if your state offers an income tax benefit and how much it is. If there is no benefit, open accounts with the Utah 529, found at My529.org.**
2. **Determine your goal for college savings. This should either be a defined contribution amount (how much you will contribute each year) or a defined benefit amount (how much you will have in the account when the child graduates from high school).**
3. **Share your plans with your teenage children. Emphasize the importance of their contributions.**

Other Resources

More discussion of the four pillars of college savings
A ranking of 529 plans for both residents and non-residents

Discussion of how to choose a 529 plan
The Utah 529
The New York 529
The Nevada (aka Vanguard) 529 plan
Discussion of how much risk to take with a 529
How real estate can function as a college savings plan
A good discussion of why saving for college using whole life insurance is a bad idea

Step Eleven
Estate Planning

There are those who think the goal of investing is to beat the market and amass as much wealth as possible, that street smarts and hard work ensure investment success, and that the road to happiness is paved with more of everything. And then there are those who get it.

– Jonathan Clements

Can I Skip This Chapter?
Do you have a will? Do you have a revocable trust? Have you met with an attorney who specializes in estate planning within the last five years? Are you sure you have the right beneficiaries listed on all of your insurance policies and investment accounts? If the answer to all of these is yes, then you may skip to Step Twelve.

The Three Purposes of Estate Planning

Estate planning evokes an image of a rich, old dude trying to control his heirs from the grave, and may seem superfluous to young, healthy, poor people like most early-career physicians. However, there are critical aspects of estate planning that should be taken care of now. In addition, you need to be aware of the basic purposes of estate planning, so you know when to get more help with it.

There are three reasons why people engage in estate planning. The first is to control where their minor children and their assets go when they pass. The second is to minimize the amount of assets that go through the probate process. Finally, estate planning may also potentially reduce both estate taxes and income taxes.

The Purpose of a Will

A will is a basic legal document that dictates who will take care of your minor children, who will manage your assets on their behalf, and where your assets will go when you die. If you have minor children, you must have a will. Check with trusted family and friends to see if they would be willing to function as the guardian of your children in the event of your untimely passing. You will also need someone to manage the assets you leave for the care of your children. This can be the guardian, a different friend or family member, or even an attorney or other professional. It can make a lot of sense to install some checks and balances by having the money managed by someone other than the guardian and if your family is like most, the best parents aren't also the best at money management tasks!

About half of states allow a "holographic will," a handwritten will done entirely by you. The cheapest way to get a "real will" is with an online service like LegalZoom, RocketLawyer, or LawDepot. Expect to pay $60-150. The traditional and perhaps best way to get a will is to see an estate planning attorney in your state. Expect to pay $300 to $1,200.

Probate

When you die, your will is adjudicated by a judge in the process known as probate. This process has three major downsides. It is public, so anyone can find out what you owned. It is time-consuming, requiring up to a year before your heirs get what is coming to them. It is also expensive, often costing upwards of $20,000. In fact, it may cost 3 to 7 percent of the value of a large estate. So a major goal of estate planning is to minimize the amount of your assets that must go through the probate process. This is primarily done with two techniques.

The first is to designate beneficiaries. Most of your accounts can have a primary and secondary beneficiary. This includes retirement accounts, insurance policies, annuities, bank accounts, and investment accounts. You may also be able to use a similar "pay on death" or a "transfer on death" designation for bank accounts, investment accounts, automobiles, or even real estate. Laws vary by state.

Some families simply add the heirs' names to the accounts. A similar technique can be used with real estate by adding the heirs to the title. However, you need to use extreme caution with this technique. Not only can the heir clean you out before you die, but the heir may end up with some undesirable tax consequences. For example, with real estate or an investment account the heir will lose the step-up in basis at death that they would have received if the deceased were the only owner.

The second major method of avoiding probate is the use of a revocable or living trust. Revocable means you can take assets out of the account at any time. A revocable trust has little asset protection benefit, so its main use is to pass assets to heirs without having to go through probate. A trust allows you privacy (no one else gets to know about what you owned), allows heirs to get their inheritances immediately, and may even be cheaper than having a will go through probate.

When should you get a revocable trust? Well, before you die. There is some expense and hassle involved, and chances are good it will have to be adjusted a number of times during your life, so it doesn't need to be a priority in the early years of your career. But by mid-career you will want to sit down with an estate planning attorney in your state to get it done. Perhaps earlier if you are a single parent since it would only take the death of one person (you) before the trust was needed. You may even want to do it before closing on your home so the home can be placed in the trust as well.

Estate Tax Reduction

The final reason to do estate planning is to minimize estate and inheritance taxes. The typical high-income professional can eliminate these completely. It is also important to avoid making mistakes that increase the income tax burden of your heirs unnecessarily.

Most high-income professionals will never have to pay federal estate tax. That's because there is an exemption equal to $11.4 million ($22.8 million married). If your net worth at death is less than that, you can leave it all to heirs without paying any estate taxes. Under current law, the exemption limit is indexed to inflation. The numbers cited are the limits for 2019 and will likely increase as the years go on.

However, there is another concern with estate and inheritance taxes. Many states, typically states in the Northeast but others as well, assess their own estate and/or inheritance taxes and often with far lower exemption amounts, sometimes less than $1 million. So even if you will not owe federal estate taxes, it may be worth taking a few steps in order to reduce your state estate or inheritance tax burden.

If you are coming up against the estate tax exemption limits, the primary technique used to reduce that tax burden is to give assets away before death. You can give any amount to charity (and get significant income tax benefits for doing so), and you can give up to $15,000 per year to anyone you like without using up any of the estate tax exemption. Your spouse can also give up to $15,000 per year. This strategic gifting technique can really add up. For example, if you are married, have three children that are all married, and they each have three children that are all married, you could give away $720,000 per year to your descendants without using up any of your exemption.

If you want to give that money away but with limits on how it can be used, you can put it into an irrevocable trust. This removes it from your estate and protects it from your creditors. If you have an asset that you expect to appreciate in value, gifting it into an irrevocable trust removes that future appreciation from your estate, lowering or even eliminating the amount of estate taxes paid versus if you simply waited until death to give those assets away. An irrevocable trust is, well, irrevocable. So you cannot take the money out of the trust and use it on yourself, although several states have put in place a trust structure where you can be the beneficiary of an irrevocable trust. These “asset protection trusts” are beyond the scope of this book and still somewhat untested in the courts. Since trusts are taxed at relatively high rates, many who use an irrevocable trust to reduce estate taxes place very tax-efficient assets into the trust such as stock index funds, municipal bonds, or even cash value life insurance.

Don’t Leave Your Kids a Mess to Clean-up

Dealing with money is easy – mixing it with emotion turns it into a whole different beast. As we know, medicine often takes us to parts unknown and cities far away from our families. After being in practice one year, I moved from my home country of Canada to the USA to marry my husband who is also a physician. That left my aging, widowed mom *living 1,500 miles away in the frozen tundra. While she wasn't about to take any of my other advice, she did agree to get an accountant to help her with estate planning and yearly taxes. I gave her mine. In the 12 years that followed, he would send her a package every January. Inside was nice coffee, some shortbread (her favorite), and a stack of forms to update. On those forms, she was to list every account, savings bond, stock, bullion, credit card, bank card, life insurance, house, car, and valuable that she had – including where it was and the approximate value. It listed the attorney she used, location of her will and power of attorney, and where she kept the keys to her safe deposit box. They worked to consolidate investments into a few main locations and lower her tax burden. When she died, her estate was in a tidy package.*

My mother was a product of WWII. A thrifty, petite, fiery red-headed school teacher who was the only woman I knew growing up that had her own checking account. Saving wasn't her problem. Her apartment had Tupperware from the '70s, baking pans from her mother, and even a bottle of 1978 Dom Perignon. Every year, this same accountant would give her a spending goal to use some of that hard earned money on herself. She took at least two nice vacation trips a year and at the age of 78, bought her first NEW car – a candy apple red Toyota Corolla with automatic everything. It gave me great relief to have this accountant making her life better, and my life easier when I was so far away.

Contributed by Pat Pilkinton

Miscellaneous Items

Estate planning attorneys also frequently advocate that you get a general power of attorney, a durable power of attorney, and a living will in place. These are generally fairly inexpensive, although their utility may be somewhat limited for many people. For example, if you're married and comfortable with your partner making these decisions for you, a discussion about what you would like done if you are incapacitated is likely dramatically more beneficial than the actual paperwork. But if you are single or have an unmarried partner, you would likely benefit from having these documents.

While it may provoke an existential crisis to ponder what you wish to happen after you die, smart estate planning allows you to continue to do good after you are gone.

Your Missions

1. **Get a will.**
2. **Check the beneficiaries of all of your insurance, investing, retirement, and bank accounts.**
3. **If you are a single parent, over 50, or have a net worth of $1 million or more, make an appointment with an estate planning attorney.**
4. **Look up your state's estate and inheritance tax laws.**

Other Resources

A broad overview of estate planning
Information on revocable trusts and their uses
List of states and their estate tax exemption limits
Information on irrevocable trusts and their uses
Discussion of what to put in your irrevocable trust
A review of a great book about revocable trusts and why you should have one
A discussion of charitable trusts

Step Twelve
Asset Protection

***Marriage (noun): betting someone half your stuff that you'll love them forever.* – Julie Johnson**

Can I Skip This Chapter?
Do you have your house titled properly? Are you maxing out retirement accounts? Do you know your state's asset protection laws? If so, you can skip to the conclusion and appendices.

Fight Paranoia with Facts

Doctors who manage to accumulate some wealth often become paranoid about protecting it from potential creditors. Unfortunately, that occasionally leads them to do dumb things. A better understanding of your true risks with regard to your creditors is useful to eliminate the paranoia and allow you to make more rational decisions.

For example, the biggest liability for most high-income professionals, particularly physicians, is professional malpractice. This fear of being sued not only drives the expensive and harmful practice of defensive medicine but also leads to expensive, complex, and sometimes ineffective asset protection plans. Consider the facts:

In any given year, the risk of a physician being sued is 7.4 percent, although it ranges from 19 percent for neurosurgeons to less than 3 percent for psychiatrists. The risk of there being a payout from that suit is 1.6 percent. These numbers are from a 2011 article in the New England Journal of Medicine, and they have fallen (along with malpractice insurance rates) in the years since publication.

Of that 1.6 percent where there is a payout, the vast majority are settled prior to trial for an amount less than policy limits. Of those that go to trial, the doctor typically wins, but even when she loses, the payout is generally less than policy limits. And if it is above policy limits, it is usually reduced to policy limits on appeal.

In reality, it is extremely rare for a physician to ever lose any amount of personal assets due to malpractice, and even when it occurs, it is usually for a relatively small amount of money. Despite knowing hundreds of doctors, I will bet you cannot think of a single one who lost personal assets. I calculate the risk in my specialty of Emergency Medicine to be about 1/10,000 per year. Emergency Medicine is a mid-range specialty as far as malpractice risk. Some specialties (OB/GYN, Neurosurgery, General Surgery) will have higher risk. In others (Pediatrics, Psychiatry, Internal Medicine) this risk will be lower. However, in every specialty the risk is low enough that it does not make much sense to spend a lot of money and hassle to protect against it.

Your Biggest Risk

In fact, you are far more likely to lose a significant portion of your assets to your spouse than you are to the thousands of patients you will see in your career. Contrary to popular belief, physician couples actually divorce less than non-physician couples, about 24of the time. Two-physician couples have even lower risk. The timeless advice of "One House, One Spouse" and the somewhat more sexist advice of "It's Cheaper to Keep Her" or "Finances Are Grim If You Don't Keep Him" apply in spades. Weekly date night is probably a more useful asset protection technique than a complicated system of family limited partnerships, limited liability companies, and overseas trusts.

On that same note, if you are marrying later in life (after accumulating some assets), remarrying, or blending families it is essential to get a pre-nuptial agreement as discussed in Step Nine. You should also be careful using the classic technique of putting assets in the name of the non-physician spouse. In divorce, assuming no pre-nuptial agreement dictating otherwise, joint assets are obviously likely to be split. Your retirement accounts will also likely be split, even though they are in your name only. Qualified retirement plans like 401(k)s are split using a Qualified Domestic

Relations Order (QDRO) and IRAs are split using a Transfer Incident to Divorce, but the effect is really the same.

A Reasonable Asset Protection Plan

Thus, the best asset protection plans are simple and relatively inexpensive. Your first line of defense is liability insurance. This includes professional malpractice insurance (going bare is usually a mistake) as well as the dramatically cheaper personal liability insurance. Your auto, homeowner's, and renter's insurance policies generally contain liability insurance that will cover all kinds of non-professional liabilities.

Umbrella Insurance

Unfortunately, too many people, including high-income professionals, are carrying liability limits that are way too low. Your state may only require you to carry $50,000 in auto liability insurance, but that's not even enough to replace the Tesla you could hit, much less the cost of medical treatment and disability for the occupants. Raise those limits into the hundreds of thousands and then stack an "umbrella" policy (excess personal liability) on top of them. A total liability limit of $1 million to $5 million is appropriate. The good news is that an umbrella policy costs less than 5 percent as much as a comparable malpractice policy. For example, my $1 million malpractice policy runs something like $16,000 a year. But my $2 million umbrella policy only costs about $300 a year.

Asset Protection Law Varies by State

After insurance, the key is to realize that asset protection law is very state specific. Techniques that work in one state may not work in others. You need to understand what assets are protected in your state and to what level. For example, some states protect all of your home equity and others protect none. Some states offer the same protection to your "ERISA" retirement accounts like 401(k)s as your IRAs, while others offer less protection to IRAs. Some states protect life insurance cash value and annuities and others do not. LLCs provide stronger protection in some states than others. So before doing anything else, review your state laws using the resources at the end of this chapter.

Retirement Accounts

As a general rule, retirement accounts receive a great deal of protection in nearly every state. Thus, maxing out your retirement accounts is not only a great move from a tax, investment, and estate planning perspective, but also from an asset protection perspective. However, if your state offers significantly less protection to IRAs when compared to 401(k)s, you may wish NOT to rollover a 401(k), even if you could get slightly lower fees and slightly better investments. Note that a Roth conversion can be an effective asset protection technique since on an after-tax basis it moves unprotected assets (the money used to pay the tax bill) into an asset-protected account.

Homestead Laws

Homestead laws are also highly variable. A homestead law protects your property, typically your house and the land it sits on, in the event you have to declare bankruptcy due to an above policy limits judgment. In states like Texas and Florida, with very strong homestead laws, it can make sense to preferentially pay down a mortgage instead of investing in a taxable account. In a state like my home state of Utah, which only offers $40,000 of home equity protection for married couples, that move may make less sense from an asset protection standpoint. In fact, there are some situations where it could even make sense to take out a home equity loan and put the proceeds into a protected vehicle such as a retirement account or cash value life insurance. This advanced asset protection technique is called “equity-stripping.”

Life Insurance and Annuities

In previous chapters, we discussed the problems with investing in life insurance products like whole life insurance and annuities. However, in some states these vehicles offer significant asset protection. If asset protection is a bigger concern to you than your investment return, you may wish to place a portion of your money into these vehicles, but be sure to consider all of your options and the real risk you are facing before doing so. Buying whole life insurance in particular is a decision that should not be taken lightly. Like marriage, it is either "until death do you part" or it will cost you a lot of money to get out.

Separate Toxic Assets

Another important principle of estate planning is to separate toxic assets from non-toxic assets. A toxic asset is one that could potentially produce significant liability, like a rental property or a boat. If that asset can be justified as part of a business, a common technique is to place it into its own limited liability company (LLC) or corporation. Renting out property is obviously a business, and if the boat is rented out with the property or on its own, it can also be owned by the business. In many states, and particularly if there are multiple members or shareholders in the corporation, this technique reduces both internal and external liability. Internal liability is liability resulting from the asset itself, such as someone slipping and falling on the walk at an apartment building you own as an income property. Even if this liability exceeds the insurance limits, your losses are limited to the contents of the LLC. External liability refers to a creditor from something else in your life (such as your professional practice) being able to seize the contents of the LLC. In many states, a creditor of a multi-member LLC is limited to a charging order. That means they cannot get the assets unless the LLC chooses to distribute them. But since an LLC is usually a pass-thru entity tax-wise, you can actually send the creditor a tax bill without giving them any assets! This sort of protection will often induce a creditor to settle for policy limits rather than pursue a charging order.

There are hassles and expenses associated with forming and maintaining LLCs and corporations, and these must be weighed against the protections available. But the strongest protection comes from having each toxic asset in its own separate entity. Some states offer "serial LLCs" that offer the same protection for a lower price. Some real estate investors also compromise by placing two to four properties into a single LLC.

Tenants by the Entirety

If you are married and your state allows it, title your home (and even investment accounts and other personal property) as “tenants by the entirety.” This phrasing means that you, personally, own your entire house AND your spouse, personally, owns your entire house. So if there is a lawsuit judgment against just one of you, they cannot take your house away because your spouse owns the whole thing. It often makes sense to place your home in a revocable trust for estate planning purposes. Be aware that you lose the asset protection benefits of “tenants by the entirety” titling when you do so. If you are married and in a “tenants by the entirety” state, consider waiting until one spouse dies to move the house into a revocable trust.

Giving Money Away

Another great method of asset protection is to simply not own anything. The less you own, the less a creditor can get. There can be a lot of creativity in this department, but the bottom line is that if you have a great deal of liability in your life and a family member does not, and you were going to give them money or an asset anyway, then you might as well do it now. If you want to delay the gift, use an irrevocable trust (not the revocable trust used to avoid probate), a custodial 529, or a Uniform Transfer to Minors (UTMA) account. At that point, it is no longer your asset and cannot be taken by your creditor.

Beware Fraudulent Transfers

A key principle of asset protection is that it cannot be done retroactively. That is, you cannot wait until you have harmed someone and THEN transfer your assets into a protected vehicle or give them away. Fraudulent transfer laws may even go back one to two years before the injury or claim occurred when evaluating whether a transfer was fraudulent or not.

No Magic Bullet

Many novice investors want to maximize asset protection, estate planning, investment returns, privacy, and convenience while minimizing taxes. Unfortunately, there is no magic bullet that does all of these things, although retirement accounts seem to come closer than anything else. As you gain more asset protection, you are often giving up something else such as investment returns or convenience.

Complex Asset Protection Plans

There are firms and attorneys that specialize in complicated asset protection plans that involve family limited partnerships, multiple LLCs, and even overseas trusts. These firms often present at medical meetings. There is a great deal of controversy in this area with regards to what works and what does not, and of course, it will vary by state. A good general rule is that if you cannot stand in front of a judge and give her a good reason for why you have this set-up other than asset protection, it is probably not going to hold up. The key is to have a business or estate planning reason that also happens to improve your asset protection. Obviously, there is little reason to even consult with an attorney about this topic until you have significant assets that are not protected in some other way.

Asset Protection Trusts

Another encouraging trend in asset protection is the existence of asset protection trusts. These are irrevocable trusts, so they provide asset protection because you no longer own the assets, the trust does. Since you cannot revoke the trust, your creditors cannot access its contents. However, unlike the classic irrevocable trust, an asset protection trust permits you to be not only one of the trustees but also the beneficiary of the trust. So you control the assets and you can use the assets for your own needs, but you do not actually own the assets. As of 2018, the following states allowed some form of an asset protection trust: AK, DE, HI, MI, MO, NV, NH, OH, OK, RI, SD, TN, UT, VA, WV, and WY.

Preventing Liability

Finally, a few words ought to be said in favor of simply reducing your liability. Practice good medicine and be nice to patients and their family members. Consider relocating away from malpractice hotspots like Dade County, Fla. and Cook County, Ill. Working part-time or eliminating risky patients or procedures from your practice can also reduce risk. Do not engage in criminal behavior. Perform careful maintenance of rental properties or do not own them at all. Avoid toys like boats, motorcycles, ATVs, snowmobiles, trampolines, pools, dangerous breeds of dogs, second homes, and race cars. Lock up firearms and ammunition. Treat your neighbors kindly. Drive the speed limit, use a designated driver, and practice defensive driving. Take your name off the title of cars (i.e., give the car away) primarily driven by your adult children and perhaps even your spouse. Obviously, a balance needs to be struck in some of these categories (dogs, toys), but it is so easy with some of these categories (call a cab when drinking, lock up firearms) to completely eliminate the risk that you should just do it.

Even Family can be a Risk

Unfortunately, sometimes assets must be protected from family members as well, particularly among the elderly. Elder abuse is often financial, and it makes sense to designate a trusted family member or financial professional to keep an eye on things as you age. As the "wealthy relative," you are likely to be asked for money more frequently. As a general rule, give money rather than loan it. Not only are you likely to give (and thus lose) a smaller amount than you would loan, but just giving it away up front will eliminate the damaged relationships that often occur when loans are not repaid. Co-signing loans is also a bad habit to get into. There is usually a good reason a bank will not loan someone money without a co-signer. A co-signer is on the hook for the loan just as much as the borrower. The following anecdote shared by a reader illustrates these principles well.

A Tale of Three Grandmothers
Recently, I had to put three different grandmothers on antidepressant

medication because their granddaughters took advantage of their kindness. Two of the granddaughters did not pay back the money their grandmothers loaned them for college, and one granddaughter did not repay the college loan that her grandmother cosigned. All three grandmothers became depressed over the lost money but more importantly over the "loss" of their granddaughters who now would not see or speak to them. To prevent causing a lifetime of family stress, never cosign loans or loan money to family/friends. Make an outright gift instead.
Contributed by Dr. K.W.N.

Asset protection is an interesting, even if infrequently used, part of your financial life. An ounce of prevention may be worth a pound of cure, but be careful with expensive, complicated asset protection plans. A few simple steps, such as purchasing appropriate insurance, maxing out retirement accounts, and titling property correctly, go a long way.

Your Missions

1. **Get an umbrella policy.**
2. **Review your malpractice policy and keep a copy on file.**
3. **Make sure your home and joint investment accounts are titled "tenants by the entirety" if you are married and your state allows it.**
4. **Look up the asset protection laws in your state.**
5. **Max out your retirement accounts before investing in taxable accounts.**

Other Resources

Malpractice risk by specialty
A basic guide to asset protection
Information on irrevocable trusts and their uses
A discussion of controversial portable offshore asset protection trusts

A discussion of asset protection by MD/JD Doug Segan
Asset protection laws by state
A list of states that offer tenancy by the entirety

Information on revocable trusts and their uses

Discussion of what to put in your irrevocable trust

List of Missions

Step 1 Disability Insurance

- ☐ 1. Purchase disability insurance or review existing coverage

Step 2 Life Insurance

- ☐ 2. Determine how much term life insurance you need.
- ☐ 3. Determine how long you will need term life insurance.
- ☐ 4. Buy additional term life insurance as needed.

Step 3 Spending Plan

- ☐ 5. Establish an emergency fund.
- ☐ 6. Pay off credit cards.
- ☐ 7. Pay off auto loans within one year or sell the car(s).
- ☐ 8. Develop a written spending plan.
- ☐ 9. Commit to pay cash for everything in your life except your home.

Step 4 Student Loan Plan

- ☐ 10. If in training, enroll in REPAYE or seek out student loan advice from a specialist.
- ☐ 11. Refinance any private student loans you may have to a lower rate.
- ☐ 12. Certify for PSLF each year until you are sure you are not going for it.

- ☐ 13. If you are post-training and not going for PSLF, refinance your federal loans and make a written plan to have them paid off within two to five years of graduation.
- ☐ 14. Live like a resident until student loans are gone.

Step 5 Boosting Income

- ☐ 15. Have employment and partnership contracts reviewed prior to signing.
- ☐ 16. Consider methods of increasing your active income.
- ☐ 17. Consider developing more passive income streams from franchises, websites, books, real estate, and other small businesses.

Step 6 Housing Plan

- ☐ 18. Refinance to a lower rate if available.
- ☐ 19. Make a written home purchasing plan – include how you will pay and when.

Step 7 Retirement Plan

- ☐ 20. Obtain and read your 401(k) plan document.
- ☐ 21. Log-in to your retirement accounts and list your investments.
- ☐ 22. If self-employed, open an individual 401(k).
- ☐ 23. Open and fund a Health Savings Account if eligible.
- ☐ 24. Open and fund a personal and spousal Backdoor Roth IRA.
- ☐ 25. Calculate your marginal and effective tax rate for last year.

Step 8 Investing Plan

- ☐ 26. Write down an investing plan including your desired asset allocation.
- ☐ 27. Determine how you are paying for financial advice.
- ☐ 28. Calculate how much you are paying for financial advice.

Step 9 Correct Past Mistakes

- ☐ 29. Consider dropping your whole life policy.
- ☐ 30. Stop investing inside annuities.
- ☐ 31. Fire financial advisors giving bad or overpriced advice.
- ☐ 32. Consider functioning as your own advisor or hire a reputable, reasonably priced one.
- ☐ 33. Contact a new custodian and transfer assets as needed.
- ☐ 34. Evaluate legacy investments for exchange or incorporation into current plan.
- ☐ 35. Commit now to maxing out your retirement accounts.

Step 10 Saving for College

- ☐ 36. Check your state 529 plan for tax benefits.
- ☐ 37. Open a 529 plan for each of your children (either your state or Utah).
- ☐ 38. Determine your goal for college savings.
- ☐ 39. Share your college funding plans with your teenage children.

Step 11 Estate Planning

- ☐ 40. Get a will.
- ☐ 41. Check the beneficiaries of insurance, investing, retirement, and bank accounts.

☐ 42. Look up the estate and inheritance tax laws for your state.

☐ 43. Meet with an estate planning attorney (if a single parent, age 50+ or net worth > $1M).

Step 12 Asset Protection

☐ 44. Get an umbrella policy.

☐ 45. Review your malpractice policy and keep a copy on file.

☐ 46. Make sure your home is titled “tenants by the entirety” if you are married and your state allows it.

☐ 47. Look up the asset protection laws in your state.

☐ 48. Max out your retirement accounts before investing in non-qualified accounts

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Conclusion

If you have completed all of the missions listed in this book, you are now ready to graduate from The White Coat Investor’s Financial Boot Camp. Congratulations! I doubt any of this was particularly fun, but now that you have cleaned the mud out of your teeth, your eardrums have healed from the drill sergeant’s shouting, and your muscles have recovered from the obstacle course, I am confident your finances are in a much better place than they were at the beginning of this book. Boot camp, of course, is always just a beginning, not the entire journey. There will be more to learn and more to do, but you have now been admitted into a depressingly exclusive club of financially literate doctors.

Income is not wealth. If you get nothing else out of this book, remember that statement. A doctor, by virtue of her hard work, lengthy education, high liability, and rare skill generally earns a high income. Society, the media, and even the IRS have a long history of mistaking “being rich” for having a high income. However, the measurement of wealth is not income; it is net worth—everything you own minus everything you owe. Your greatest financial task as a physician is to convert your high income into a high net worth. By doing so, the nest egg you build will support you when you no longer can or desire to work for money. Other common but less overwhelming goals including paying off your student loans, saving up a certain amount for the education of your children, paying off a mortgage, purchasing a lake home or ski condo, and maybe even acquiring an expensive toy like a boat or an airplane.

These tasks are simple, but not easy. As discussed in the introduction and throughout the book, you must first earn a high income. Most doctors, barring massive educational debts, already have enough income to build plenty of wealth. That said, increasing your income through aggressive negotiation, smart practice management, hard work, and perhaps even a side hustle can aid you in reaching financial independence even earlier.

Perhaps the most difficult part of the equation is to avoid spending that entire income. The natural thing for most graduating resident physicians is to grow into their newfound attending income just as soon as they receive it, if not earlier. Years of deferred gratification, significant social pressure, and frankly, greed, will all be pressuring you to do so. You must fight against this natural desire as hard as you can. This is easiest to do in the beginning when you should be accustomed to living on a resident or fellow salary. If you will live like a resident for two to five years out of residency, that will likely be enough to overcome just about every other financial mistake you make during your life. Hard work and frugality in those early years will allow you to quickly eliminate your student loans, catch up to your college roommates with regards to retirement savings, and save up a down payment on your dream home.

At that point, you can loosen the purse strings a bit and slowly grow into 80 percent of your income, always carving out 20 percent of your gross income for retirement savings. Applying the miracle of compound interest over two or three decades to your early start and 20 percent of the rest of your lifetime earnings will give you more than enough money to live a comfortable retirement. It is not like your financial life prior to retirement is going to be crummy either. Eighty percent of a physician income, especially with your only debt being a mortgage and maybe not even that by mid-career, provides an awfully nice life. You will be free of financial stress, be able to help others, purchase a few luxuries along the way, and retire at a time of your choosing. There will still be enough money left to completely ruin your kids' lives if you're not careful! In some ways, the wealthy worry about money just as much, they just have different worries. In the words of Beatrice Kaufman and Woody Allen, "I've been rich and I've been poor. Rich is better, if only for financial reasons."

The most important factor in keeping your spending under control is where you will live. Not only is a home an expensive consumption item, but expensive homes tend to be located in expensive neighborhoods where keeping up with the Joneses takes on a whole new meaning.

Investing that money well will also be important, but the truth is that if you are a good earner and a good saver, you need only be an adequate investor. If you are saving 20 percent of a physician income, you will not need to hit any home runs in order to reach your reasonable financial goals. Nevertheless, it would behoove you to understand the merits of investing in retirement and other tax advantaged accounts. The less that goes to the taxman, the more there will be to grow and provide for you later. You need to watch your investment fees like a hawk and ensure that you achieve market returns for the asset classes you choose. You will need to take on sufficient risk to reach your goals but avoid exceeding your risk tolerance, selling low, and enduring a financial catastrophe as you watch the market rebound after an episode of buying high and selling low. You may require assistance. It can be found on reputable internet forums, in high quality books, in online courses such as The White Coat Investor's Fire Your Financial Advisor, and from financial advisors that offer good advice at a fair price.

Finally, you need to make sure that you do not lose what you have worked so hard to achieve. Early in your career, this means insuring well against financial catastrophe such as your disability, your untimely death, illness, injury, fire, and especially liability. Estate planning is also a lifelong endeavor that increases in importance throughout your life. Early on, a will determines where your children and assets go should you die. As you move through life, avoiding probate, estate taxes, and inheritance taxes becomes increasingly important. You should review beneficiary designations periodically and perhaps even implement trusts. Throughout your career you will want to take a few simple precautions to protect assets from liability. These include learning your state asset protection laws, buying professional and personal liability insurance, maxing out retirement accounts, and titling property properly.

Financial planning, like budgeting, sounds boring. But its potential to improve the quality of your life, the parts you really care about, is almost limitless. I have a firm conviction that getting your financial ducks in a row will increase happiness, prevent divorce, decrease suicide, reduce burnout, and improve your ability to care for your patients. You do not have to learn everything about personal finance and investing to be successful. Like with anything in life, the Pareto Principle (80/20 rule) applies. You get 80 percent of the benefit from 20 percent of the effort. Simply following the directions in each chapter of this book will show you exactly where to apply your limited time, energy, and resources to get the biggest bang for your buck.

Thank you for what you have chosen to do with your life. It is a difficult, time-consuming, stressful, and often thankless task. I hope the principles in this book will help you to do well while doing good.

Learn More

The White Coat Investor's Financial Boot Camp is my second book aimed at helping doctors and other high-income professionals find the financial success they deserve. The first book, titled The White Coat Investor: A Doctor's Guide to Personal Finance and Investing is most easily purchased from Amazon in paperback, eBook, or audiobook format. At the end of that book, I gave out my email address. I did not really know what would happen from that simple act, but over the last eight years it has provided me the opportunity to interact with and assist thousands of readers. So I'm going to give it out again; **mailto:editor@whitecoatinvestor.com**. I do not know that I will always be able to answer every single email I receive, but so far so good.

I have also designed an eight-hour online course, provocatively entitled Fire Your Financial Advisor that is designed to assist you in developing your own written financial plan. Even if you choose not to become a do-it-yourself investor after completing it, it will assist you in recognizing when you are getting good advice at a fair price. It can be found at **this address**.

The White Coat Investor website contains many resources to assist you in reaching your financial goals. Aside from the blog itself (with over 1,500 posts and counting), you will find nearly a dozen lists of recommended financial professionals including student loan refinancing companies, physician mortgage lenders, financial advisors, insurance agents, realtors, contract negotiators, and tax strategists. You will also find a prominent link to a list of recommended books written by others.

I have given you my email address. If you will trust me with yours, I will send you a free monthly newsletter with a market report, a monthly tip, and links to the best stuff on the web for high-income professionals. I will not spam you, you can unsubscribe at any time, and it is totally free. **Sign up here.**

If you prefer to get your financial information in another format, consider listening to **The White Coat Investor podcast** or subscribing to the **The White Coat Investor YouTube Channel**.

There are three great communities where you can get your questions answered (and help answer those of others). **The White Coat Investor Forum** can be found on the website. There is a **private Facebook group**, called White Coat Investors, you can apply to join. For Redditors, there is **a r/whitecoatinvestor subreddit**.

We also occasionally have live conferences, eligible for continuing medical and dental education credit, where you can meet other white coat investors, learn more about personal finance and investing, and be inspired. **Subscribe to the newsletter** to know when tickets go on sale as they sell out very quickly. The video versions can be purchased as an online course.

If you are still in professional school, consider applying for **The White Coat Investor** Scholarship each summer. In 2018, we gave away over $60,000 in cash and prizes to the winners.

Finally, I would really appreciate it if you would leave a five-star review for this book on Amazon. Believe it or not, even a quick review of the book helps spread this critical message of financial literacy to your colleagues.

Good luck investing!

Jim

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It would be impossible to acknowledge the thousands of people who have assisted me over the years in fulfilling the mission of The White Coat Investor—to help those who wear the white coat get a fair shake on Wall Street. Nevertheless, it seems appropriate to point out a few special efforts.

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Appendix A

Recommended Books

A solid initial financial education for a doctor includes reading a book or two from each of the following four categories:

- Personal Finance
- Investing
- Behavioral Finance
- Doctor-specific Finance

This book clearly falls into the fourth category. However, if you are looking for additional good books, consider the following list. Each category is listed in order of easiest to hardest book to get through.

Personal Finance

"Living Rich by Spending Smart" by Gregory Karp
"The Only Investment Guide You'll Ever Need" by Andrew Tobias
"Personal Finance for Dummies" by Eric Tyson
"The Next Millionaire Next Door" by Thomas J. and Sarah Stanley

Investing

"If You Can" by William Bernstein, MD
"The Bogleheads Guide to Investing" by Taylor Larimore et al.
"The Affluent Investor" by Phil Demuth
"What Every Real Estate Investor Needs to Know About Cash Flow" by Frank Gallinelli

Behavioral Finance

"How to Think About Money" by Jonathan Clements

“Why Smart People Make Big Money Mistakes” by Gary Belsky and Thomas Gilovich
“Your Money and Your Brain” by Jason Zweig
“Predictably Irrational” by Dan Ariely

Doctor-specific Finance

“The Physician’s Guide to Personal Finance” by Jeff Steiner, DO
“The Doctor’s Guide to Eliminating Debt” by Cory Fawcett, MD
“The White Coat Investor” by James M. Dahle, MD
“The Physician’s Guide to Investing” by Robert Doroghazi, MD

Appendix B

Financial Priority List for Attending Physicians

This list was first included in The White Coat Investor: A Doctor's Guide to Personal Finance and Investing. The reviewers of this book found it so helpful they asked for it to be included in this book.

1. **Get the match**. Employer-provided retirement plan matching funds are really part of your salary. Do not leave the match on the table by not contributing.
2. Pay off any **high-interest debt** (>8%) such as credit cards, car loans, expensive private student loans, etc. This is a fantastic guaranteed investment return.
3. Maximize your **tax-deferred retirement plan** contributions, including 401(k)s, profit-sharing plans, 403(b)s, 457s, and defined benefit/cash balance plans.
4. Fund a **Health Savings Account** (HSA) if eligible (more on these "Stealth IRAs" in chapter 8).

The following four items can be reordered according to your financial priorities.

5. Fund a personal and spousal **Backdoor Roth IRA**.
6. Fund a **college savings plan** (529) for each child up to the amount that your state subsidizes with tax breaks.
7. Pay off **moderate-interest debt** (4%–8%) such as student loans (unless you anticipate forgiveness).
8. Save for a **house down payment** (if not using a physician loan).

The next four items can be reordered according to your financial priorities and comfort level with debt.

9. If you used a physician mortgage, pay it down to **enable refinancing** into a lower rate conventional mortgage.
10. Add additional funding if desired to **college savings** (529) accounts.
11. Invest in a **taxable account in risky investments** (stock index funds, real estate, etc.).
12. Pay off **low-interest (1%–3%) debt** (unless you anticipate forgiveness).

The final three items can also be reordered according to your priorities.

13. Make e**xtra payments** on your mortgage.
14. Invest in a **taxable account in low-risk** investments (municipal bond funds, etc.).
15. **Spend your money** on what makes you happy.

Appendix C

An Example of a Written Financial Plan

While it sounds smart to make a written financial plan, it turns out the task is much easier once you have seen an example. In this appendix, I present a generic example of a written investing plan. This one was originally seen in the Fire Your Financial Advisor Online Course.

This is a plan for Jose (35) and Maria (34) Gonzalez, who live in Texas. Jose is a successful and hard-working hospitalist making $225,000 a year. Maria is a hard-working stay-at-home mother for their two young children, Oliver (4) and Silvia (2) who plans to return to her nursing career when Silvia gets into first grade. They currently live in what they consider their starter home.

Goals

1. Our investments will provide an income of $100,000/year (2019 dollars) while still growing at the inflation rate providing us financial independence by July 1, 2040.
2. We will reach a net worth of $1 million by July 1, 2028.
3. We will have $80,000 in a 529 for Oliver by September 1, 2032.
4. We will have $80,000 in a 529 for Silvia by September 1, 2034.
5. We will buy our “doctor home” by June 1, 2021.
6. We will pay off our home by July 1, 2036.
7. We will have our student loans paid off by July 1, 2022.

Savings Goals

1. Save at least 20% of our income every year beginning in 2018.
2. We will max out Jose’s 401(k) and our Backdoor Roth IRAs each year.

Insurance Plan

1. We will maintain property insurance on our home for replacement value of the home and its contents.
2. We will maintain full coverage on our vehicles until they are worth less than $10,000, at which point we will carry liability-only coverage.
3. The total of our homeowner's/auto liability plus umbrella liability coverage will total $2 million.
4. Jose will maintain $1 million/$3 million malpractice coverage including tail for as long as he practices.
5. We will purchase and continue an individual disability insurance policy with a benefit of $12,500 until we reach financial independence.
6. We will carry $2 million of term life insurance on Jose and $500,000 of term life insurance on Maria.
7. We will maintain health insurance coverage until we qualify for Medicare at 65.
8. We will maintain an emergency fund in our savings account of three months' worth of expenses.

Housing Plan

1. Our current home is worth $200,000, but after selling costs, we currently only have $20,000 in equity. We would like to buy a $600,000 home in three years. In order to keep the the mortgage to two times our income, we will need a down payment of $150,000. Between debt pay down and appreciation, we expect to have $50,000 toward that down payment in current home equity. We will need another $100,000, so we will save $30,000 per year toward that down payment. We will simply pay it toward the current mortgage with $2,500/month extra principle payments above and beyond the required payments.

2. We will take out a 15-year conventional fixed mortgage for the remaining $450,000.

Student Loan Plan

1. We still owe $85,000 in student loans and want to have it paid off in 2.5 more years.
2. We will refinance the debt on a 5-year variable loan at 3%. This will require payments of $2,937 per month. (=PMT(3%/12,30,-85000,0,1) = $2,937)

Spending Plan

1. We will track our spending using You Need a Budget software and meet once a month to track our spending.
2. We will give ourselves personal allowances of $200 a month.
3. We will not use credit to purchase automobiles, appliances, or vacations.
4. We will use credit only for convenience (credit cards paid off each month) and mortgages.

Investment Policies

1. We will strive to minimize the effects of taxes and expenses on our investment returns.
2. Our primary investment vehicles will be stock mutual funds and bond mutual funds, preferably within tax-sheltered accounts.
3. We will also consider the use of real estate investments to meet our goals if careful analysis indicates a reasonable opportunity for profit.
4. In general, we will favor passively managed investments over actively managed investments.
5. We will calculate our savings rate and our total return each year.

6. We will strive to achieve a real return of at least 5% per year, averaged over our investment lifetime.
7. We will not panic and sell securities due to market corrections.
8. No asset class will represent more than 30% or less than 5% of our portfolio.
9. We will rebalance once a year on July 1.

Investing Plan By Goal

<u>Retirement</u>

Goal is $100,000 in income in today's dollars within 22 years. Using the 4% rule, that requires a portfolio of $2.5 million. We have just $120,000 now in retirement accounts. This will require savings of $53,000 per year (=PMT(5%,22,-120000,2500000,1) = -$53,152.20) or $4,400 per month.

Accounts used will be Jose's 401(k) ($19,000 + the $10,000 match) and Backdoor Roth IRAs ($12,000), with the remaining $12,000 invested in a taxable account. After Maria starts working again, we will invest preferentially into her 401(k).

Asset allocation will be:

30% U.S. Total Stock Market
20% Total International Stock Market
10% U.S. Small Value Stocks
5% Momentum
5% Real Estate
20% Total Bond Market
10% TIPS

<u>Millionaire</u>

With the student loans paid off and perhaps $250,000 in home equity by 2028, our current portfolio will only require a return of 2.5% to reach this goal which should be easily achievable with our retirement portfolio.

Oliver’s College

Goal: We will not start saving for college until 2020 when our student loans are paid off. We will then redirect some of that $3,000/month toward college savings. That will leave 12 years to save for Oliver’s college. That will require $3,900/year, or $325/month. (=PMT(8%,12,0,-80000,1)= -3903)

Account: We will use the Nevada (Vanguard) 529.

Asset Allocation will be:

U.S. Total Stock Market 25%
Total International Stock Market 25%
U.S. Small Stocks 25%
Value Stocks 25%

With three years to go, we will adjust the allocation to:

U.S. Total Stock Market 30%
Total International Stock Market 20%
Total Bond Market 50%

Silvia’s College

We will have 14 years to save for Silvia’s college. That will require $255 per month.

Account: We will use the Nevada (Vanguard) 529.

Asset Allocation will be:

U.S. Total Stock Market 25%
Total International Stock Market 25%
U.S. Small Stocks 25%
Value Stocks 25%

With three years to go, we will adjust the allocation to:

U.S. Total Stock Market 30%
Total International Stock Market 20%
Total Bond Market 50%

Estate Plan

1. We will have a will in place by July 1, 2019.
2. Tina Jimenez will be the children's guardian if something happens to us.
3. Jack Jones will be the trustee of the kids' money.
4. We will meet with an estate planning attorney for a revocable trust as soon as we become millionaires.
5. The beneficiaries and secondary beneficiaries are set on all of our accounts.

Asset Protection Plan

1. We will max out retirement accounts each year.
2. We will pay down the mortgage with discretionary income as our home equity is 100% protected in Texas.
3. We will maintain our umbrella and malpractice policies.

Changes

Any significant changes to this investment plan require a three-month waiting period for reconsideration.

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Jose Gonzalez Maria Gonzalez

Last Updated: 1 March 2019

Appendix D
Glossary

2X Rule—A rule of thumb for buying a house. Your mortgage should be less than 2X your gross income. A similar rule suggests keeping housing costs (rent, mortgage, property tax, utilities, insurance) to less than 20% of gross income.

4% Rule—Developed from research papers on safe withdrawal rates, this rule of thumb says that you can spend approximately 4% of your initial retirement portfolio each year, adjusted upward with inflation each year, and expect your money to last through a 30-year retirement.

401(k)—The most common employer-provided retirement account. Usually includes employee contributions and employer contributions such as matching funds and profit-sharing contributions.

403(b)—Similar to a 401(k), 403(b) accounts are employer-provided retirement accounts most commonly provided by non-profit and university employers.

45% Rule—A rule of thumb used by real estate investors to estimate the percentage of rent that will go toward non-mortgage expenses such as taxes, vacancies, repairs, management, and insurance.

457(b) Plan—An employer provided retirement account that is a type of deferred compensation. Unlike a 401(k), money in a 457(b) technically belongs to the employer. Distribution and investment options are highly variable and must be carefully analyzed prior to using the account.

529 Plan—A tax-protected educational account that can be used for K-12 or college education. If used for education, earnings are tax-free. Some states also offer a tax deduction or credit for contributions.

Accredited investor—An investor who the government judges to be sophisticated enough and wealthy enough that she does not need the protection of the government to help her avoid bad investments. Some investments are only available to accredited investors. These investors have an income of more than $200,000 per year ($300,000 married) or an investable net worth of more than $1 million.

ADV2—A form that licensed investment advisors must file with the SEC. It explains their investment philosophy, fee schedule, and any mandatory disclosure events including criminal activity.

Annuity—An insurance-based investing product generally known for high fees and difficult to understand terms. Variations are endless, but the key feature is the ability to turn assets into a stream of income in retirement.

Any occupation—A type of definition of disability. An any occupation disability policy only pays if you are sufficiently disabled to not be able to do any type of work.

ARM—Adjustable Rate Mortgage. The mortgage interest rate changes periodically with interest rate fluctuations, although it may be fixed for the first few years. With a 5/1 ARM, the interest rate is fixed for the first five years and then adjusts every year to the prevailing interest rate.

Asset allocation—The ratio of investment types in your portfolio. "My asset allocation is 50% stocks, 30% real estate, and 20% bonds."

Asset class—Broad categories of investments. Some assets classes are subdivisions of others. Major asset classes include stocks, bonds, cash, real estate, and commodities. Examples of subclasses include international stocks, treasury bonds, and multi-family real estate.

Asset location—The process of determining which asset classes and individual investments will go into which type of account.

Asset protection trust—A type of irrevocable trust available in some states where the grantor can function as the trustee and the beneficiary, enabling the protection of assets while still being able to use them.

Backdoor Roth IRA—Also known as an indirect Roth IRA, this is a method that allows high earners to contribute to a Roth IRA by first contributing to a traditional IRA and then performing a Roth conversion.

Basis—The amount of an investment that is not taxable when the investment is sold. Can apply both in a taxable and a retirement account.

BATNA—Best Alternative To Negotiated Agreement. A negotiating term that reflects the other options for each party in the negotiation.

Beneficiary—The person who benefits from an investing account, an insurance policy, or a trust, particularly after the death of the owner of the account, the insured, or the grantor.

Bond—A type of investment that involves a loan and usually a fixed rate of return. The loan is usually to a government entity, a business, or a homebuyer.

Budget—A written spending plan that enables you to ensure your limited income is being used most efficiently to purchase what you value most.

C Corp—A typical corporation separate from its owners which has its own tax brackets. Dividends distributed to owners may qualify for a lower qualified dividend tax rate.

Cash Balance Plan—A type of a defined benefit plan that functions essentially as an extra 401(k) or IRA masquerading as a pension. The main benefit is large contribution limits, particularly in late career. The plan is typically closed every five to 10 years and the balance is rolled over into an IRA or 401(k).

Catastrophic disability rider—An addition to a disability policy where, for an extra premium, a disabled person who cannot perform two or more Activities of Daily Living may qualify for an additional benefit.

CD—Certificate of Deposit. A safe but low-yielding investment typically issued by a bank. It is usually issued with a term, and if you withdraw the money prior to the term, you will lose some of the interest as a penalty.

CFA—Chartered Financial Analyst. A high level designation among financial advisors that requires the passage of three difficult tests, approximately 750 hours of studying, and three years of relevant experience. The focus is on investment management.

CFP—Certified Financial Planner. A high level designation among financial advisors that requires the passage of a test, approximately 200 hours of studying, and three years of relevant experience.

Charging order—In some states, the only remedy available to the creditor of a member of an LLC against the assets of that LLC. This enables the creditor to receive the member's share of any assets distributed from the LLC, but also obligates the creditor to the payment of taxes due on their share of LLC earnings, whether distributed or not.

CHFC—Chartered Financial Consultant. This high level financial designation has similar coursework to the CFP course, with two additional courses but no required test. Three years of experience is required. This designation is typically acquired by an insurance agent who wishes to also do some financial planning work.

CLU—Chartered Life Underwriter. A high level designation among insurance agents indicating expertise and commitment to the profession.

CMA—Certified Management Accountant. Requires approximately 200 hours of study, the passage of two difficult tests, and two years of experience.

COA—Cost of Attendance. Includes tuition, fees, room, and board. Supplied by the college and usually includes a generous amount for living expenses. Amount of financial need eligible for need-based financial aid is the COA minus the EFC.

Consolidation—The process of turning many loans, usually student loans, into one loan to facilitate one easy payment. With federal student loans, this process does not lower your interest rate.

Corporation—A legal entity separate from its owners which allows a business to take risks that its owners individually could not afford to take. In large measure, this structure is responsible for a great deal of the economic progress in Western civilization over the last five centuries.

Cost basis—The amount paid for an investment originally. In a taxable account, no taxes are due on the cost basis when the investment is sold.

Cost of Living Rider—An addition to a disability insurance policy which provides for benefit payments, once begun, to rise with inflation over the years.

CPA/PFS—Certified Public Accountant/Personal Financial Specialist —A high level designation among financial advisors typically acquired by accountants who wish to also do some financial planning work. Think of PFS as a CFP for accountants.

Defined Benefit Plan—A broad category of retirement plans that differs from defined contribution plans like a 401(k) in that the risk of poor investment performance is borne by the employer rather than the employee. Includes cash balance plans and pensions.

Deflation—A period of time when money becomes more valuable relative to the products and services it can buy. Unfortunately, these periods of falling prices are also usually during periods of poor economic performance and hardship such as The Great Depression.

Docitis—An affliction where doctors spend frivolously and ignore their debts. Particularly prevalent in early career.

Donor Advised Fund—DAF. An account used to donate to charity. You may receive a tax deduction for donating to the fund, then you can advise the fund manager where you would like the proceeds donated.

Effective tax rate—The percentage of gross income that is used to pay income and payroll taxes. Taxes paid divided by gross income.

Estate tax—Sometimes called the death tax, this is a tax levied against the assets left behind by the deceased. The federal government and a few states have an estate tax although a significant amount of assets are generally exempt from the tax.

EFC—Expected Family Contribution. The amount the federal government expects you to pay toward the cost of education of your children. Calculated on the FAFSA.

ESA—Coverdell Education Savings Account. A tax-advantaged way to save for college, but hampered by a low annual contribution limit ($2,000 in 2019).

Expense Ratio—The percentage of the assets of a mutual fund that are spent managing the fund in a given year. Ranges from 0.02% to 2%+.

FAFSA—Free Application for Federal Student Aid. A standardized application that requires divulging the assets and income of the student and her parents in order to apply for need-based and sometimes merit-based financial aid.

FDIC—Federal Deposit Insurance Corporation. A government entity that insures bank deposits up to a certain amount in order to generate trust in the banking system.

Fee-based—A description of a financial advisor that charges both fees and commissions.

Fee only—A description of a financial advisor that charges only fees, whether an asset under management fee, a flat annual retainer, or an hourly rate.

Fiduciary—A professional with an obligation to do the right thing for your finances even if it is not what generates the most amount of income for themselves. Think of a fiduciary responsibility as being similar to the Hippocratic Oath.

FLP—Family Limited Partnership. An estate planning technique with some asset protection benefits where all members of a partnership are also members of a family. The older generation usually functions as the general partners with the younger generation as the limited partners.

FPO Rider—Future Purchase Option. This disability insurance rider gives the insured the ability but not the obligation to purchase additional disability insurance benefits without having to prove insurability or go back through underwriting.

Fraudulent transfer—Moving money from an unprotected asset to a protected asset after an injury has occurred that is likely to result in liability in order to avoid payment.

General partner—In a partnership, the general partner controls the assets. For example, in a real estate syndication partnership, this is the person who buys, manages, and sells the property.

Guaranteed renewable—An insurance term that guarantees the policy owner the right to extend the contract but allows the insurance provider to change the price so long as they change it for all members of the insured class. Considered a weaker protection than Non-cancelable.

HDHP—High Deductible Health Plan. A health insurance plan that meets federal requirements to provide the insured the right to use a health savings account.

Health sharing ministry—An alternative to insurance where members share health care expenses with each other. While often much cheaper than traditional insurance, there are significant differences between the two that should be understood carefully.

Holographic will—A handwritten will done without any legal assistance. Valid in many states.

Homestead rule—Asset protection provided to homeowners in some states. Usually a certain amount of home equity or property is protected from creditors in the event of bankruptcy. The amount of protection is highly variable from one state to another.

HSA—Health Savings Account. A triple tax-free investing account designed to pay for health care expenses that provides a deduction for contributions and tax-free growth and withdrawals. This account is available to those who are covered only by a high deductible health plan.

I Bonds—A type of savings bond issued by the US government that has inflation-indexed returns similar to TIPS.

IBR—Income Based Repayment. A federal student loan income driven repayment program that requires payments of just 15% of discretionary income no matter how much is owed or the interest rate.

ICR—Income Contingent Repayment. An older federal student loan income driven repayment program that requires payments of just 20% of discretionary income no matter how much is owed or the interest rate.

IDR—Income Driven Repayment. A category of federal student loan repayment programs where payments are dictated only by family size and income rather than interest rate or amount owed. Includes ICR, IBR, PAYE, and REPAYE.

Index fund—A passively managed mutual fund that attempts to replicate the return of a market. Index funds exist for many kinds of stocks, bonds, and REITs. The best funds offer liquidity and broad diversification at very low cost.

Individual 401(k)—A self-employed retirement account ideal for most doctors without employees. Off-the-shelf plans are available at no cost (aside from the expense ratios of mutual funds in the plan) from major mutual fund companies and brokerages.

Inflation—Rising prices. Even with low levels of inflation, money loses buying power each year. Economists believe inflation of approximately 2% per year is ideal for a healthy economy.

Inheritance tax—Similar to an estate tax except the tax is levied against the person receiving the inheritance rather than the estate of the person giving the inheritance. Only present in a few states.

IRA—Individual Retirement Arrangement. A type of tax-protected retirement account anyone with earned income may use, usually contains tax-deferred money.

Irrevocable trust—A trust designed to assist with estate planning and particularly asset protection. Assets placed into an irrevocable trust no longer belong to the grantor of the trust.

Kiddie tax—The first $1,000 per year of unearned income a minor makes is tax-free, the next $1,000 is taxed at 10%. After that, it is taxed at the parents' tax rate. Key concept to understand when using an UTMA account.

Limited partner—In a partnership, a limited partner provides the assets but does not control them. This limits the partner's liability. A typical limited partner is a passive investor in the partnership.

LLC—Limited Liability Company. Similar to a corporation, this entity, regulated by the states, limits the liability of the members, allowing them to take on business risk they may not be comfortable taking on personally. May be taxed as a sole proprietorship, a partnership, or a corporation.

Load—A commission paid to the seller of a mutual fund in exchange for his advice. Loaded mutual funds generally have higher costs and thus lower long term returns than no-load mutual funds.

Marginal tax rate—The rate at which the next dollar earned is taxed. If earning another $100 increases your tax bill by $45, your marginal tax rate is 45%. Although generally considered the same as a tax bracket, the presence of various phase outs can cause your marginal tax rate to be different from your tax bracket.

MGMA—Medical Group Management Association. A private company best known for its extensive database of the salaries paid to physicians of various types. The database is used by both employers and prospective employees to determine fair contracts.

Mortgage—A loan used to purchase a home.

Mutual fund—A investment where multiple investors pool their money together and hire a professional manager to invest it. Provides economies of scale, daily liquidity, diversification, and professional management. Also eliminates uncompensated risk.

NCUA—National Credit Union Administration. Functions similarly to the FDIC to insure the deposits made to a credit union.

Non-cancellable—An insurance term describing a contract which guarantees the owner the right but not the obligation to extend the contract at the same price each year. Considered a stronger (and usually more expensive) type of contract than a guaranteed renewable policy.

Non-qualified account—Generally a fully taxable or brokerage investing account as opposed to a retirement account that “qualifies” for special tax treatment with the IRS. The term is also occasionally used with some types of deferred compensation schemes offered by employers.

Overseas trust—A trust established in another country, sometimes with the aim of hiding assets from tax authorities or potential creditors.

Own occupation—A term describing a strong definition of disability in a disability insurance contract. If the insured cannot perform the duties of his or her selected occupation, the policy will pay out the benefit even if the insured is working in another occupation. Most good insurance policies sold to physicians define their occupation as their specialty.

Partial disability rider—An addition to a disability insurance policy which provides benefits for the policy owner who loses only some of their earnings due to disability. Without this rider, the insured must be totally disabled to be paid.

PAYE—Pay As You Earn. A federal student loan income-driven repayment program that requires payments of just 10% of discretionary income no matter how much is owed or the interest rate.

Pension—A type of defined benefit retirement plan where the employer generally agrees to pay the retiree a benefit every month until death. Although provided by much of corporate America in the past, pensions are now mostly only available from government and other non-profit employers. Like all defined benefit plans, the risk of poor investment performance is borne by the employer but the retiree is exposed to the risk of employer or pension failure.

Plan Document—A document describing the retirement plan provided by an employer. An employer is required to provide this document to all employees who ask for it.

PMI—Private Mortgage Insurance. If you put less than 20% down, many lenders will require you to purchase PMI to protect them from you defaulting on the loan. Doctor mortgages are used to avoid paying for PMI.

PPACA—Patient Protection and Affordable Care Act. Obamacare. A major and complex health insurance law signed by President Obama in 2010. It provides patient protections such as pre-existing condition denial and dependent coverage up to age 26 but also dramatically increased the cost of health insurance. Many high earners are subject to additional taxes as a result of this act.

Prenuptial agreement—A legally binding document dictating the terms of a potential divorce. Frequently used for marriages with pre-existing children or marriages where the two spouses had dramatically different levels of assets coming in to the marriage.

Probate—A public process whereby a will is adjudicated by a judge. May require up to a year and thousands of dollars in expenses. A significant portion of estate planning is dedicated to minimizing the amount of assets that will go through probate.

Pro rata rule—The rule that requires an investor who wishes to do a Backdoor Roth IRA to eliminate all traditional, SEP-IRA, and SIMPLE IRA balances prior to December 31. See line 6 of IRS Form 8606 for details.

PSLF—Public Service Loan Forgiveness. A federal student loan forgiveness program that provides for the tax-free forgiveness of remaining debt after 120 on-time qualifying monthly payments have been made while directly employed by a non-profit or government institution.

Recharacterization—The process of changing an IRA contribution from a Roth IRA to a traditional IRA. If done within an appropriate time frame, it is treated by tax authorities as if it was originally contributed to a traditional IRA.

Refinance—The process of renegotiating the terms of a loan, usually done to lower the interest rate or change the term of the loan. When interest rates drop or your financial position strengthens, refinancing mortgages or student loans can save a lot of interest. Note that refinancing is not the same as consolidating.

REIT—Real Estate Investing Trust. Similar to a mutual fund, this is a privately- or publicly-traded entity where multiple investors have pooled assets and hired a professional manager to invest in real estate. Unlike other entities, a REIT is required to pay out at least 90% of its earnings to its shareholders each year.

REPAYE—Revised Pay As You Earn. A federal student loan income driven repayment program that requires payments of just 10% of discretionary income no matter how much is owed or the interest rate. REPAYE may also provide an interest rate subsidy to some borrowers.

Residual disability rider—An addition to a disability insurance policy which provides benefits for the policy owner as he or she recovers from a total disability. Usually combined with a partial disability rider.

Retirement Account—A tax-advantaged and often asset-protected investing account used to save for retirement. There are often penalties for withdrawing money prior to age 59 ½ in exchange for the benefits. Examples include 401(k)s and Roth IRAs.

Retirement rider— An addition to a disability insurance policy which, in exchange for an additional premium, provides a retirement savings benefit (often a contribution to a high-priced annuity managed by the insurance company) during the period of disability.

Revocable trust—Often called a living trust, this entity is separate from its owners and is primarily used to avoid the public, expensive, and time-consuming process of probate when the owners die.

Rider—An addition to a disability insurance policy which in exchange for an additional premium provides an additional benefit of some kind. Frequently purchased riders include partial disability, future purchase option, and cost of living adjustment riders.

Rollover—The transfer of money from one tax-protected account to another. A common example is an IRA rollover where money is moved from an employer's 401(k) into an IRA.

Roth conversion—The process of moving assets from a pre-tax traditional IRA or 401(k) into a tax-free Roth IRA or 401(k), paying any taxes due in the year of the conversion.

Roth IRA—A retirement account owned and managed by an individual that provides for tax-free growth and withdrawals. Unlike a traditional IRA, there is no tax deduction given for contributions.

RMD—Required Minimum Distribution. Starting in the year you turn age 70 ½ (or the year you inherit an IRA from anyone other than your spouse) you must begin taking out RMDs based on your age. At age 70, the RMD is 3.6% of the balance of the account on January 1. The percentage increases each year with age.

Rule of 72—A commonly used rule of thumb in personal finance that describes how quickly your money will double. Divide 72 by the rate of return to see how many years it will take your money to double. At 7.2% per year, your money doubles in 10 years. At 10% per year, your money doubles in 7.2 years.

S Corp—A corporation may make an "S Declaration" which eliminates the separate corporate tax but instead turns the corporation into a pass-thru entity to its shareholders. Often used by high earners to reduce the amount of Medicare tax they pay.

SWR—Safe Withdrawal Rate. The maximum amount of money that can be withdrawn from a retirement nest egg each year without having to worry about running out of money. This number can only be known retrospectively, but review of historical data suggests it is in the range of 4% per year.

Savings rate—The amount of money saved divided by the gross income. A rule of thumb is that an attending physician should save about 20% of his or her gross income for retirement each year.

Sequence of returns risk—The risk that, despite having adequate average returns to support a given withdrawal rate, the retiree runs out of money because the poor returns occurred early in retirement. This the reason why a safe withdrawal rate must be lower than the average expected return of the portfolio over the retirement period.

SEP-IRA—A self-employed retirement account. Generally considered inferior to an individual 401(k) as it requires more income to make the maximum contribution and prevents the use of a Backdoor Roth IRA due to the pro rata rule.

SIMPLE IRA—A self-employed retirement account. Generally considered inferior to both an individual 401(k) and a SEP-IRA for independent contractors without employees but occasionally appropriate for a small medical or dental practice with employees.

SMART Goal—A goal that is Specific, Measureable, Achievable, Relevant, and Time-based. In short, a good goal.

Solo 401(k)—Another name for an individual 401(k), the self-employed retirement account of choice for independent contractors.

SPIA—Single Premium Immediate Annuity. Essentially a pension purchased from an insurance company to protect against longevity risk. One of the few annuities with a liquid and transparent market. If used, it is generally purchased at ages 65-75.

Spousal IRA—An IRA for a non-earning spouse made based on the earnings of the earning spouse. Contribution limits are the same as for the earning spouse.

Stealth IRA—Another name for a health savings account that reflects the fact that after age 65 withdrawals from the account for non-health care purchases are penalty-free (although not tax-free).

Stock—A type of investment that involves equity in a business, significant risk of loss, and a variable rate of return. When you buy a share of a publicly traded stock, you are literally an owner of a tiny portion of that business and have a claim on a tiny portion of its profits.

Stretch IRA—An inherited IRA, usually left to a relatively young family member who takes out only the required minimum distribution each year, thus stretching the tax benefits of an IRA over the rest of his or her life.

Syndication—When multiple investors pool their money in order to buy a business or a real estate property. These are usually private transactions structured as partnerships where the investors are limited partners and the syndicator is a general partner.

Taxable account—Also known as a brokerage or non-qualified account, this is just a regular old account opened at a mutual fund company like Vanguard or a brokerage like eTrade. Earnings are fully taxable but usually benefit from the lower long term capital gains or dividend tax rates. Additional tax reducing tricks like tax loss harvesting and using appreciated shares for charitable donations are also possible.

Tenants by the entirety—An asset protection technique available to married persons in some states for homes and possibly even investing accounts where both spouses own the entire house or account. That way, if only one spouse is sued the creditors cannot seize the asset because it is completely owned by the other spouse.

Term life insurance—Pure life insurance, which is much cheaper than permanent or cash value life insurance. If the insured dies while the insurance is in force, the death benefit is paid to the beneficiary. Typically, these policies are surrendered prior to life expectancy age and protect only against premature death. They are designed to protect loved ones from the loss of the insured's earnings during his or her career. Typical terms range from 5 to 30 years.

TIPS—Treasury Inflation Protected Securities. A type of bond issued by the U.S. government where the return is indexed to inflation. They are a particularly good investment in times of unexpectedly high inflation.

Toxic asset—An asset that carries liability such as a boat, recreational vehicle, or a rental property. Whenever possible, it is best to separate these assets from non-toxic assets using LLCs, corporations, or other entities.

Traditional IRA—A personal retirement account. Contributions are tax-deductible and the principal and earnings are not taxed until withdrawn from the account in retirement.

Transitional occupation—A disability insurance term that provides a moderately strong definition of disability. It is stronger than "any occupation" but weaker than "own occupation." Typically, a transitional occupation definition is the same as "own occupation" for a short period of time, such as five years, at which point it transitions to "any occupation."

UGMA—Uniform Gift to Minors Account. Sometimes called an UTMA—Uniform Transfer to Minors Account. This is a custodial taxable investing account that becomes the child's at age 18-21. It can help reduce taxes, but if it has too much income, it will trigger the kiddie tax.

Umbrella insurance—Excess personal liability insurance that stacks on top of your auto liability and homeowners or renters liability policies.

Uncompensated risk—Risk for which the investor is not provided a higher expected return. Any risk that can be diversified away is uncompensated risk. The classic example is individual stock risk, which can be easily diversified away using a mutual fund.

Universal Life Insurance—A type of permanent or cash value life insurance known for flexible terms. It provides fewer guarantees than whole life insurance but often comes with more bells and whistles. Just like whole life insurance, it usually has high commissions, high fees, and low returns.

VUL—Variable Universal Life insurance or Variable Life Insurance. A type of permanent or cash value life insurance where the cash value is invested in mutual fund-like subaccounts. When the market does well, a VUL outperforms whole life insurance. When the market does poorly, it underperforms. Just like whole life insurance, commissions and fees tend to be high. As a type of universal life insurance, it provides fewer guarantees than whole life insurance.

Whole life insurance—The classic example of a permanent or cash value life insurance. Whole life insurance is a life-long insurance policy combined with a low-returning investment that you can borrow against. It is frequently sold inappropriately due to high commissions and fees.

Will—An estate planning document that dictates where your minor children and assets go after you die.