



Financial Planning for Young Physicians

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 **PIAM**
FINANCIAL SERVICES

Today's Agenda

- Financial Planning Basics
- Money Management Ideas
- Retirement Planning
- Risk Management
- Wrap-up/Questions

Financial Planning Basics

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

Why People Fail to Become Financially Independent

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

Taxes

	Single	Married filing jointly
10%	Up to \$7,825	Up to \$15,650
15%	\$7,825 - \$31,850	\$15,650 - \$63,700
25%	\$31,850 - \$77,100	\$63,700 - \$128,500
28%	\$77,100 - \$160,850	\$128,500 - \$195,850
33%	\$160,850 - \$349,700	\$195,850 - \$349,700
35%	\$349,700 or more	\$349,700 or more

Money Management

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

Money Management – Student Loan Example

Scenario 1

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

Scenario 2

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

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

Money Management – Case Study

Jack

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

Jill

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

Who had more money at age 60 ?

Money Management – Case Study

Jack

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

Jill

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

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

The Advantage of Time and Compounding Interest

Investing \$100/month at age:	At age 65 will result in:
25	\$351,428
35	\$150,030
45	\$59,295
55	\$18,471

Retirement Planning Basics

- Qualified Accounts (IRA, 401k)
- Tax deductible contributions
- Tax deferred growth
- Can't touch until age 59½
- 10% penalty on early withdraws
- Withdrawals taxed at ordinary income rate
- Minimum required distributions at age 70½

Roth IRA

- Qualified account
- Contributions **NOT** tax deductible
- Tax deferred growth
- Can't touch until age 59½
- 10% penalty on early withdrawals
- **TAX FREE** withdrawals
- No minimum required distributions
- Income limitations
 - Single ~ \$95K - \$100K
 - Married ~ \$150K - \$160K

Retirement Planning Basics

➤ Contribution limits for IRA and Roth IRA

2004 \$3,000

2005-2007 \$4,000

2008 \$5,000

➤ Contribution limits for 401(k) and 403(b)

2004 \$13,000

2005 \$14,000

2006 \$15,000

2007-2008 \$15,500

Maximizing Your Tax Deduction

Utilizing the right type of Qualified Plan

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

ROTH IRA Alternatives

- Universal Life Insurance
- Money contributed w/ after tax dollars (no contribution limits)
- Tax deferred growth on investment dollars
- Tax free withdrawal's of policy cash value
- No income Limitations
- No 59½ IRS limitation

Term vs. Universal Life Insurance

32 year old male – Preferred Plus

Term Life Insurance

\$1 million face value

- Annual Premium \$1,000
- Years 30
- Total premium cost - \$30,000
- After 30 year term:
 - No insurance
 - **No Cash**

Universal Life Insurance

\$1 million face value

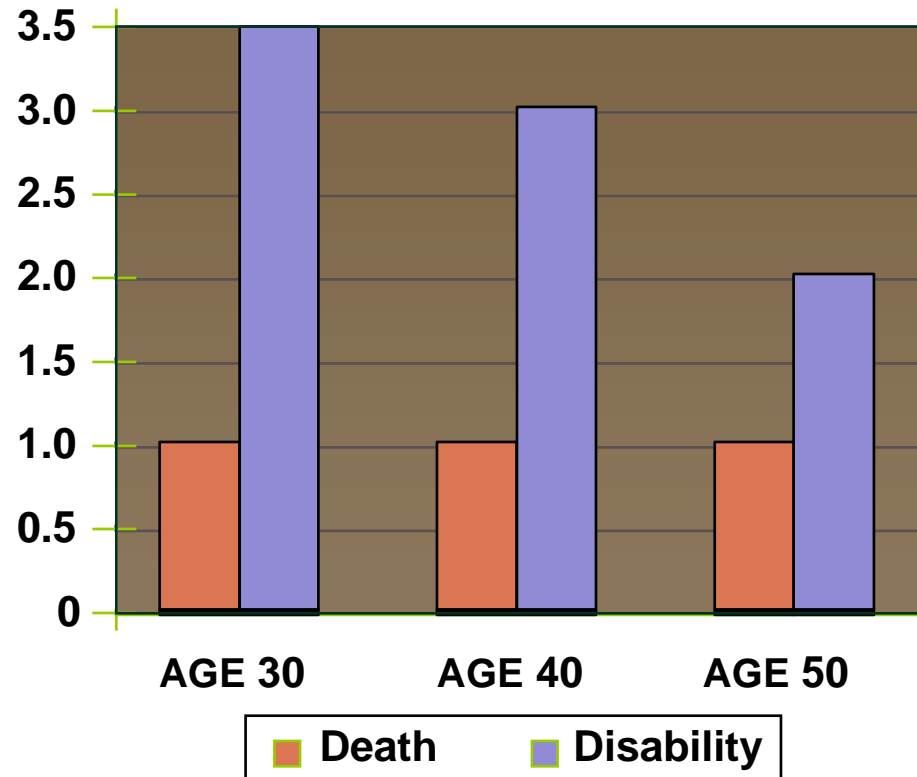
- Annual Premium \$10,000
- Years 30
- Total premium cost - \$300,000
- After 30 year term:
 - Still have \$1 million of insurance
 - Cash value of policy is \$ **575,850**

Why Disability Insurance?

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

The Risk of Disability

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



The Risk of Disability

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



Definition of Disability

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

Own Occupation Protection

Total disability...

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

Young Professional Program

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

Life Insurance

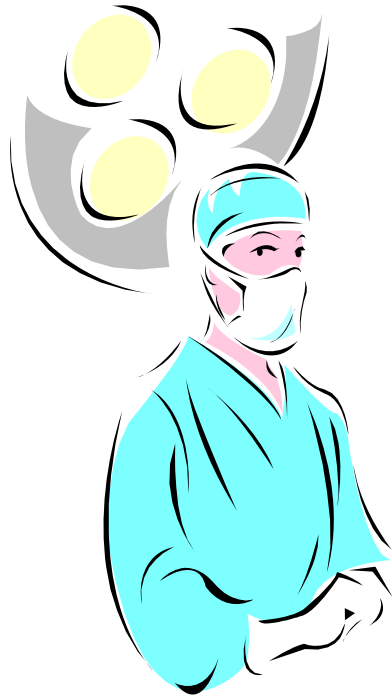
- Lock in Health and Age
- Term vs. Whole Life/UL
- Benefits of Life Insurance to High Net Worth Individuals

Wrap-up...planning issues

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

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

QUESTIONS?



THANK YOU!!!