Foundations of Emergency Medicine
Foundations III: Guided Small Group Experience

Personal Development

Session 9: Financial Wellness I

(Savings and Budgeting, Investing Basics and Real Estate)

- **Agenda and Learning Objectives**
  - Case Part I – Savings and Budgeting (10 min)
    - Review the importance of saving
    - Develop an approach to saving
    - Develop an approach to budgeting and practice
  - Case Part II – Investing Basics (15 min)
    - Review basic retirement accounts
    - Develop an approach to prioritizing your savings toward debt versus investing
  - Case Part III – Real Estate (5 min)
    - Review the pros and cons of renting versus buying
    - Review physician loans
  - Small Group Activity – Budgeting Exercise (10 min)
    - Review sample budget of Dr. Homans
    - Practice an approach to prioritizing savings
  - Case Conclusion and Teaching Points (10 min)

- **Note to Facilitators**

  This is a session covering savings and budgeting, investing basics and an approach to real estate. It is the first part of a two-part series on physician finances, the other session will cover insurance and loans. It is primarily a question guided large group discussion though there is also an included budgeting exercise which will take 5-10 minutes. It is offered near the end of the case and the instructors are at the end of this Instructors Guide. To include this activity, you will need to print off several copies of the resident portion of the worksheet to hand out during the session. A white board (or blackboard) may also be useful for writing up calculations, tables or the answers to the small group activity.

  For preparation, we ask that you review the background facilitator reading at the end of this instructor guide and consider reading the pre-reading suggested to the residents on the Foundations website. Remember in preparing for this session that these topics are not naturally in our wheelhouse, compared with a topic like working up undifferentiated shock, so plan accordingly.

- **Case Part I –** Savings and Budgeting (10 min)

  Today we are working with a senior resident, John Homans, who is taking a job next year with a local community hospital. He currently has $250,000 in medical school debt from the federal government and has signed a contract to make $250,000/year. John is excited about getting his

first attending paycheck but wants to make sure he has a financial plan before he starts his new job.

- **Discussion Questions with Teaching Points**
  - **What are savings concerns specific to an early career physician?**
    - A physician just starting their career is very behind their peers who started work right out of college.
    - Let's imagine John has a twin brother who went into engineering and got a job right out of college. For the last 7 years his twin has been filling his 401(k) to $18,000 annually. Let's assume the returns on his retirement account have been 7%. His twin will have accrued $147,000 in his retirement account.
    - In this scenario, John has a net worth of negative $250,000 and his twin has a net worth of positive $147,000 for a net difference of $397,000. This is how far behind John is in savings relative to his brother.
    - It will take some planning for John to close this gap in net-worth.

  - **What is working for and against John in his quest to catch up with his brother?**
    - Working for John
      - His income
        - He will likely earn more annually than his peers in income. The trick is to save enough of that income to build assets and pay down debt.
      - His lifestyle
        - He's been living as a resident for the last several years. If he can live conservatively a little while after finishing residency, then he can use that high income to catch up.
    - Working against John
      - Interest on debt
        - Over time interest will continue to increase the size of John's debt, while interest on his twin's retirement accounts will grow them, causing an ongoing widening of the financial gap, adding urgency to the need to catch up.
      - Being 7 years behind on savings
        - John is relatively behind on saving. The earlier you invest, the more return you get on that investment. Take this example:
          - Person A invests $10,000 in an account with a 7% rate of return at the age of 25. At 55 he'll roughly have $76,000.
          - Person B wants the same end result of $76,000 at age 55, but he doesn't invest his money until age 30. He'll have to invest 40% more money, or roughly $14,000, for his account to grow to $76,000. If he doesn't invest his money until 35, then that number grows to $2,000, which is 100% more.
      - Running on the financial hedonic treadmill
        - Your hedonic set point is your general baseline level of happiness over your life, which you generally will trend to despite temporary positive or negative changes in your life.

- According to the financial hedonic treadmill model, as a person makes more money, expectations and desires rise in tandem, which results in no permanent gain in happiness.
- The takeaway is to take time to deliberately think about how you spend your money, and what your expectations are in return.
- Getting a huge bump in income
    - This is where the hedonic treadmill principle becomes important for a new attending. You have to balance enjoying your new income with your long term financial needs. There's often the impulse to spend a lot of that new income since most residents have been looking forward to it for so long.

- **What can John do to catch up?**
    - John can catch up by growing into his income slowly and maintaining a strong savings rate. We'll propose a plan of attack here

    - Have a strong savings rate
        - Plan to save 20-25% of your gross income.
        - John is behind in savings. Remember it takes more money invested to hit retirement goals the later you actually invest it.
        - Of note, you can more formally calculate your savings goals based on your desired age of retirement and desired retirement lifestyle. There are resources online that can help guide this calculation.

    - Grow your lifestyle methodically
        - We suggest holding off on increasing your standard of living or making large item purchases right of residency.
        - Make and meet your savings goals for at least six months before setting your post-savings leftover money to any fixed expenses. This means car loans, mortgage payments, etc.
        - After six months, you'll know if your budget is holding true to form. You'll also know how much you really have left over consistently month to month after meeting your savings goals → this will allow you to apply this money to other wants without impacting your ability to save.
        - Remember you'll be able to afford most things, but you can't afford everything.

- **How do you create a budget?**
  Note to Facilitators: We will practice budgeting at the end with a sample budget. For now, keep this as a general discussion about the resources available for residents to create a budget.
    - You can use example budgets online and fill them out.
    - For your fixed expenses, look back at your last 3 months of living to help fill them out. For variable utilities, check your bills over the last 12 months for a rolling average.

- **Case Part II** – Investing (15 min)

John now has a savings budget and he wants to know what to do with his monthly 20% of gross income savings. He needs to know where to put it.

[Of note, we will not be talking about what kind of investments to select within an investment account. This information is beyond the scope of this session]

- **What are some different types of investment accounts commonly available to John? Can you describe them?**
  - 401(k) and 403(b) plans
    - In these accounts, your money goes into them untaxed where your money grows until you take it out in retirement. Your money is taxed when it is taken out.
    - Many employer's offer what's called a "match" where they will put money into the account as well. Most of the time this requires some minimum contribution from the employee.
  - 457 plans
    - These are deferred compensation retirement plans offered by some employers. You can set aside money in them pre-tax, much like a 401 (k). Your money is taxed when it is taken out.
    - There are two types of these plans: governmental and non-governmental. In non-governmental 457 plans, the money in your plan is still technically your employer's until you take your money out in retirement. Because it is technically your employer's, the money is potentially subject to your employer's creditors. This risk is small, but good to know if you use one of these plans. Check with your HR for details.
  - Health Savings Accounts (HSA)
    - There are savings accounts tied to certain health insurance plans. Your money is invested in them pre-tax. You can withdraw from them for any medical expenses tax-free. If you still have money in them at age 65, you can withdraw from them for non-medical expenses as well but will be taxed on those like a 401(k).
  - 529 Plans
    - These are state administered savings plans for education expenses. Many states offer some sort of tax deduction for contributing to them. This is state specific. They can be withdrawn from tax free when used for eligible education expenses.
  - Taxable Investing Accounts
    - These are accounts where you can invest in stocks, bonds, mutual funds, etc through a brokerage firm, like Vanguard or Fidelity. They are referred to as taxable accounts because your investments are not protected from taxes like the retirement accounts above. It's just an investment account.
  - IRA's and Roth IRA's
    - These accounts are either unavailable to you or not advantageous for you to use once you are making a full physician's salary. One caveat is that you can indirectly put money in what's referred to as a "Backdoor Roth IRA" at

higher incomes. The workings of this strategy are beyond the scope of this session.

- **How does John start to invest with his savings? How do you prioritize where to put your money?**
    - The following is listed in order from higher to lower priorities for applying your savings. You can consider changing the order for items that are relatively close together depending on your financial goals.
    - **Priority List**
        - Fill up an Emergency Fund
            - Save 3-6 months of living expenses in the event you become unemployed.
            - This may be closer to 6 months if you have no support, or closer to 3 months if you have a working spouse, assets you can access, or family help.
        - Fill your Employer Provided Retirement Plan enough to maximize your employer's match (401(k), 403(b), etc.)
            - Fund your employer-provided retirement plan to receive the employer's matching contributions.
        - High-interest Debt
            - Pay off high interest debt with a greater than 8% interest rate.
        - Tax-deferred Retirement Plans
            - Maximize these plans available to you, like your employer's 401(k), 403(b), 457.
            - If you already contributed enough to get the match with your employer, fill it the rest of the way up.
        - Health Savings Account
            - If the health insurance you use has a HSA, fill that up.
        - Moderate interest debt
            - Pay down debt with interest rates from 5% to 8%.
        - 529 College Savings Plan
            - Save some money in these for the kids.
            - These often qualify for state tax deductions, depending on your state.
        - Save for a house down payment (more on this later)
            - If you're not using a physician loan, save for a down payment of 20% of your home purchase.
            - This should go in a low risk account, like a savings account, certificate of deposit, or money market.
        - Taxable investing accounts
            - Invest in these after using up all your accounts with tax advantages.
        - Low-interest debt
            - Pay down debt with low interest rates 3% and less.

- **Does John invest his money or pay down debt?**

- Remember if your employer is matching your contributions, you do not want to leave this on the table.
- After getting your match, it depends. There is both math and psychology involved in answering this question.
  - The Math
    - If you compare paying down your loan to paying into an investment, compare their interest rates.
    - Let's say John has a loan with a 5% fixed interest rate. In order to compare to an investment, flip to thinking of this loan as an investment itself, with a 5% rate of return. If the investment has a higher rate of return, invest in it, if it's lower, pay down debt.
  - The Psychology
    - Some may choose to pay down debt even if the interest rate is lower than the rate of return on an investment. It does have advantages.
    - First, if you eliminate a debt, you also eliminate your monthly payment and therefore a fixed financial commitment.
    - Second, there is also peace of mind in doing this. How much this is worth depends on you.

❖ **Case Part III** – Real Estate (5 min)

John has created a budget and a savings plan for what to do with his monthly savings. He now wants to look into where he's going to live next year.

- **What are good reasons to consider renting?**
  - This is a good option if several of the following fit you:
    - You don't know the area well yet. Where you want to live may change as you grow to know a city.
    - You anticipate there's any reason you would need to move within the next 5 years.
      - It generally takes at least 3 years, but more realistically 5 years, for any potential increase in value of your home to cover you for the costs of buying and selling it.
      - Reasons for needing to move include:
        - Job changes – even in town
        - Moving to a new city
        - Moving to a better school system for your kids
        - Having more kids and outgrowing your home
    - You don't want to deal with home maintenance.
- **What are good reasons to consider buying?**
  - It's your home and you can do what you want with it.
  - You may be able to deduct the interest on your mortgage and deduct your property taxes, although this is less likely than it used to be after the 2017 Tax Law. It depends on what state you live in. See the two caveats below:

- The standard deduction on your taxes is now double what it was in the past. To get the mortgage interest deduction, you have to itemize your deductions instead of taking the standard deduction. If your itemized deductions do not exceed the standard deduction, then effectively you cannot take the mortgage interest deduction. The new law makes it more difficult to exceed the standard deduction with itemizing.
- There is now a $10,000 limit on the deductions you can claim for the combination of state income tax, local tax, property tax, and mortgage interest. As a physician, particularly in states with a state income tax, you'll likely hit this $10,000 limit before getting into your property tax or mortgage interest.

- You get the appreciation in value of your home, although, sometimes the value can drop. Generally real estate values increase over time, but sometimes they can go down, so there is some risk you could lose value.

- **How do I budget buying a home?**
  - You will have to get a mortgage unless you are buying it outright
  - Start by deciding how much you can budget monthly to your home payments without impacting either your savings or other quality of life (travel, eating out, etc.)
  - Then pick a mortgage that is fiscally responsible. The gold standard here is a fixed rate 15-year mortgage with you making a 20% down payment. You can do mortgages with longer repayment terms and/or less down payment, but the more you do this the more the borrowing costs. See the following example:

- **Case Part III Continues**

Dr. Homans wants to look at buying a home. He thinks he can budget $2,000/month to his house payment. He went online and got some rough mortgage projections. He's looking at buying a $350,000 home.

- ***Questions and Teaching Points***
  - **How does not having a down payment and using a longer mortgage term affect his overall borrowing costs over the life of the loan?**
    Note to facilitators: It may be useful to write this chart on the board to help residents see the difference in mortgage terms and how it affects rates.

Mortgage	Interest Rate	Monthly Payment	Total Interest
15 year 20% down	3.82%	$2,626	$88,273
30 year 20% down	4.46%	$1,992	$228,168
15 year 0% down	3.93%	$3,156	$113,702
30 year 0% down	4.64%	$2,383	$299,099

- You can get mortgages with 0% down through something called a physician loan, but your interest rates with these will be higher compared with the same loan with a down payment. Your borrowing costs, or total interest paid over the life of the loan, go up too because you are borrowing more money.

- Notice above how lengthening the repayment term of the loan and changing the down payment affects the total interest costs.

- **Small Group Activity (Budgeting Exercise)**

Dr. Homans had budgeted being able to spend about $2,000/month on a home. After running calculations, he saw that he would benefit from saving for a down payment and put off the immediate purchase of a home.

- **Questions and Teaching Points**
  - **How does John create a budget? Let's practice.**
    Note to Facilitators: The last 4 pages of this document are practice budgets for our case. You can spend 5-10 minutes of the session practicing creating a budget if you have time.
    - See the last pages of this instructor guide for an example budget for our fictional John Homans.
    - We have constructed a theoretical budget that Dr. Homans put together to guide his spending when he starts as an attending.
    - For a review, we are turning this into an exercise. On the worksheet at the end of these materials will be the budget he created for his first 6 months out of residency. He plans to save 20% of his gross income.
    - Again, we are advocating holding off on any big-ticket purchases or lifestyle increases until living in your budget for six months. This to verify the accuracy of the budget.
    - There will be extra money every month that you can then slowly use to increase your lifestyle without sacrificing savings. In the sample budget, there is still $5,606 left over after meeting expenses and saving.
    - Finally, we are asking that the residents fill out the worksheet, prioritizing Dr. Homans's savings based off our recommended priority list in the lesson.

- **Case Conclusion**

Dr. Homans is able to find a beautiful apartment to rent. He sticks to his budget for 2 years and is able to save up enough for a down payment on his dream house.

- **Session Teaching Points Summary**
  - **Savings and Budgeting**
    - A graduating resident has a lot of catching up to do in regard to growing wealth relative to many of their non-healthcare peers. Most have been forced to delay significant savings and many are also looking at having to repay significant student loan debt.
    - A young attending can jump start their long-term financial health by creating a budget and growing into the habit of regular saving. It is best practice to get in the habit of regular saving before growing into the rest of your income.
    - A 20-25% savings rate of gross income used to invest and pay down extra debt should suffice to put a young attending on a path toward strong financial health.

- **Investing**
  - Establish a hierarchy for where to invest your savings and pay down your debt. For example: fill your 401(k) to the match, then fill an emergency savings fund, then pay down high interest debt, then fill the rest of your 401(k), and so on, until you've used up your savings budget.

- **Real Estate**
  - As with all financial matters, take caution when hearing things like "renting is throwing your money away" from professionals with a financial interest in your decisions.
  - For many renting may be a better choice, especially for an initial residence out of residency.
  - If you do choose to buy, then first work out what you can afford monthly in your budget without affecting your savings or your liquidity toward other lifestyle desires (eating out, travel, etc.).
  - Use your monthly housing budget to work backward on mortgages with good terms to figure out the total amount of house you can buy. If your monthly budget is forcing you into bad mortgages to afford the house you want, then you need to buy less house or rent.

❖ **Facilitator Background Information**

Physicians coming out of residency are in a position where they are financially behind many of their non-medical peers and are often in significant education debt. Many have not had enough disposable income to get into the complexities of what to do with extra savings and how to budget for long-term financial health. Financial stressors to physicians can affect their wellness and impact their flexibility to take on fellowships and academic positions. As part of an initiative to address physician wellness, we are putting together these two financial sessions to help address some of the immediate financial concerns a physician may have coming out of residency.

Compared with a person who takes a job after college and immediately starts saving, a physician has delayed having income for at least four years of medical school before having one in residency. In this time, they not only have missed opportunities to save for retirement, but they have often incurred education debt that continues to grow over time due to interest. This often creates a large gap in net wealth between a physician graduating residency and their non-medical peers who worked right out of college.

Physicians also have a large increase in salary very suddenly when they take their first jobs out of training. Having a basic approach for how to handle this income increase can have long lasting implications for their financial wellness. What we would like to encourage is to avoid the trap of growing directly into your income by buying expensive houses and cars right out of training, but to delay gratification for long enough to grow into one's income responsibly. We are advocating continuing to live like a resident for the first several months out of residency while applying 20% of one's gross income toward savings. The money left over after this is what we advocate using to increase your lifestyle after training, but only after having lived in your budget for six months.

We are also hoping to give a primer on different types of investment accounts available to physicians where they can apply these savings. In this session we are admittedly focusing on retirement accounts provided by employers rather than people with an independent contractor status. We elected to do this due to the complexity of discussing all of this in a relatively short session. We are also proposing a basic approach to prioritizing where to put one's savings. Specifically, which accounts do you fill first? When do you start deciding to pay down debt versus invest? We are not going into specific types of investments, like stocks, bonds, and mutual funds. We feel this is too cumbersome to fit into this session.

Finally, we are addressing renting versus buying a residence. We are mainly addressing the pros and cons of renting versus buying property. Our hope is that after this session, the learner is not primed to think they have to buy property right out of residency. We do not think buying is a bad idea, but it might not be best for everyone. We briefly review mortgages and suggest an approach to figuring out how much home you can buy. We also review the implications on the borrowing costs you incur with a mortgage when you lengthen their terms and decrease the down payments you apply to them.

- **References**
  - **Author:** Dr. Sean Dyer
  - **Secondary Author:** Dr. George Leach
  - **Editor:** Dr. Natasha Wheaton
  - **Expert Editor:** Dr. Jim Dahle (Editor in Chief of The White Coat Investor)
  - **References:**

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Facilitator Handout for Budgeting Exercise

Monthly Budget for John Homans

Assumptions:

$250,000 annual salary

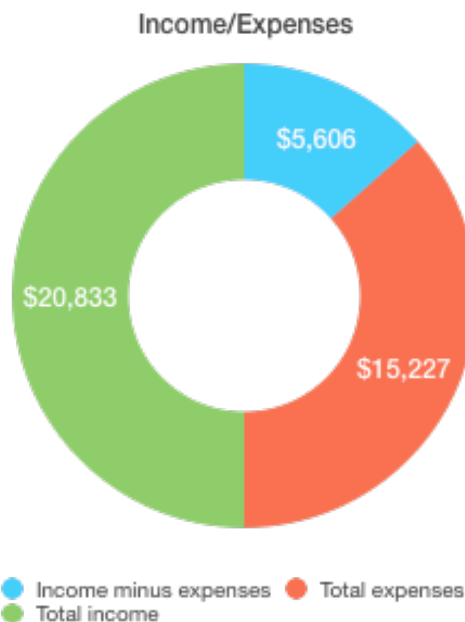
20% Savings Rate

25% in taxes

MONEY IN	
Monthly Paycheck	$20,833
Additional income	$0
TOTAL INCOME	$20,833

MONEY LEFT OVER	
Income minus expenses	$5,606

MONEY OUT	
Savings	$4,167
Taxes	$5,208
Housing (Rent, mortgage, taxes, insurance)	$1,500
Phone	$150
Car payment	$200
Education Loans	$1,500
Personal Loans	$0
Health Insurance	$234
Dental Insurance	$98
Disability Insurance	$220
Life Insurance	$90
Car Insurance	$85
Transportation - Gas, Maintenance, Transit	$300
Utilities (Gas, Electric, Water, TV)	$350
Groceries	$500
Dining, travel, entertainment	$500
Miscellaneous	$125
TOTAL EXPENSES	$15,227



Parameters for this exercise:

- Dr. Homans will save 20% of his income annually, or $50,000/year.
- Dr. Homans has $17,500 in pre-existing savings. He does not have a working spouse or family help for emergencies. Remember to exclude the savings and tax allocations to calculate monthly expenses for an emergency fund. You can round to the nearest multiple of $1000.
- He has $9,000 in credit card debt.
- He has $80,000 in private student loans at 6% interest. His other loans are in the public service loan forgiveness program and not loans he'll be overpaying.
- He has access to a 401(k) (max contribution of $18,500) that will match the first $15,000 he puts into it.
- He has access to a 457 plan (max contribution of $18,500) and a HSA plan (max contribution $6,900 for a family) at work.
- The following is the priority list for savings from earlier in the session. Remember that the exact order can be changed according to personal preferences and values.
    1. Fill up an Emergency Fund
    2. Fill your Employer Provided Retirement Plan enough to maximize your employer's match (401(k), 403(b), etc.)
    3. High-interest Debt
    4. Fill remainder of tax-deferred Retirement Plans
    5. Health Savings Account
    6. Moderate interest debt
    7. 529 College Savings Plan
    8. Save for a house down payment
    9. Taxable investing accounts
    10. Low-interest debt

Dr. Homans Year 1

Account	Amount Applied	Money Remaining ($50,000)

Dr. Homans Year 2

Account	Amount Applied	Money Remaining ($50,000)

Facilitator Answers for Budgeting Exercise

Note to facilitators: Some of the answers below will legitimately be different based on the person. Use any differences as a point of discussion with the group. Below are our suggested answers.

Dr. Homans Year 1

Account	Amount Applied	Money Remaining ($50,000)
Emergency Savings	$17,500	$32,500
401(k) to the match	$15,000	$17,500
Credit Card debt	$9,000	$8,500
Rest of 401(k)	$3,500	$5,000
HSA	$5,000	$0

Dr. Homans Year 2

Account	Amount Applied	Money Remaining ($50,000)
401(k) to the match	$15,000	$35,000
Rest of 401(k)	$3,500	$31,500
HSA	$6,900	$24,600
457	$18,500	$6,100
Extra student loan payments	$6,100	$0

Resident Handout for Budgeting Exercise

Review the following budget and use this to prioritize savings for Dr. Homans's first two years out of residency. After filling out the worksheet, share your answers with the group and discuss.

Monthly Budget for John Homans

Assumptions:

$250,000 annual salary

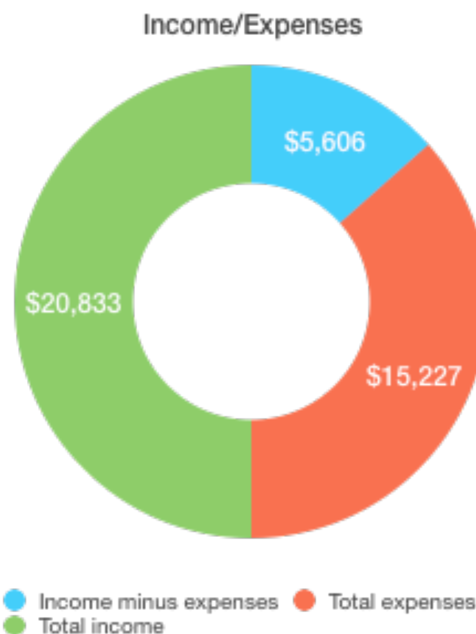
20% Savings Rate

25% in taxes

MONEY IN	
Monthly Paycheck	$20,833
Additional income	$0
TOTAL INCOME	**$20,833**

MONEY LEFT OVER	
Income minus expenses	$5,606

MONEY OUT	
Savings	$4,167
Taxes	$5,208
Housing (Rent, mortgage, taxes, insurance)	$1,500
Phone	$150
Car payment	$200
Education Loans	$1,500
Personal Loans	$0
Health Insurance	$234
Dental Insurance	$98
Disability Insurance	$220
Life Insurance	$90
Car Insurance	$85
Transportation - Gas, Maintenance, Transit	$300
Utilities (Gas, Electric, Water, TV)	$350
Groceries	$500
Dining, travel, entertainment	$500
Miscellaneous	$125
TOTAL EXPENSES	**$15,227**



Parameters for this exercise:

- Dr. Homans will save 20% of his income annually, or $50,000/year.
- Dr. Homans has $17,500 in pre-existing savings. He does not have a working spouse or family help for emergencies. Remember to exclude the savings and tax allocations to calculate monthly expenses for an emergency fund. You can round to the nearest multiple of $1000.
- He has $9,000 in credit card debt.
- He has $80,000 in private student loans at 6% interest.
- He has access to a 401(k) (max contribution of $18,500) that will match the first $15,000 he puts into it.
- He has access to a 457 plan (max contribution of $18,500) and a HSA plan (max contribution $6,900 for a family) at work.
- The following is the priority list for savings from earlier in the session. Remember that the exact order can be changed according to personal preferences and values.
    1. Fill up an Emergency Fund
    2. Fill your Employer Provided Retirement Plan enough to maximize your employer's match (401(k), 403(b), etc.)
    3. High-interest Debt
    4. Fill remainder of tax-deferred Retirement Plans
    5. Health Savings Account
    6. Moderate interest debt
    7. 529 College Savings Plan
    8. Save for a house down payment
    9. Taxable investing accounts
    10. Low-interest debt

Dr. Homans Year 1

Account	Amount Applied	Money Remaining ($50,000)

Dr. Homans Year 2

Account	Amount Applied	Money Remaining ($50,000)