

A composite image for the top half of the slide. The left side shows a stack of white papers with a blue tint. The right side shows a clock face with a purple tint. A black-bordered white box is overlaid across the center.

Personal Finances 101

A composite image for the bottom half of the slide. The left side shows a stack of white papers with a green tint. The right side shows a clock face with a yellow tint. A black-bordered white box is overlaid across the center.

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My disclaimers

- I am not a financial expert, nor do I have any official financial training
- My advice is a mix of:
 - School of Hard Knocks
 - Lots of Reading
- You will get very little specific investment advice from me
 - No stock picks or get rich quick ideas



Why I think you should listen..

- In contrast to almost all of the financial advice you will receive in your life:
 - I have nothing to sell you
 - I have no interest in how well (or poorly) you do financially
- To prove I am not a hypocrite:
 - I have never carried credit card debt
 - I contribute the max toward retirement that is allowed
 - We have an emergency fund of 6+ months
 - We have paid the last student loan off!



An inventory

- First Job with real salary?
- How many of you have a budget?
- How many have a savings or any sort?
- Retirement account?
- How many pay their credit cards off in full every month?

Why is this important?

- The problem is that the vast majority of us never learn anything about personal finance in school or at home
- This means that we either do nothing for a long time or make lots of mistakes and then dig out from the damage



You will have to swim upstream..

- In the U.S., we are truly the consumer nation of the world
 - Advertising for goods is ubiquitous
 - We celebrate all our national holidays by shopping at the “big” sales online or at department stores
 - Amazon Prime day is not a holiday....
 - We can't wait for the next iPhone/Galaxy/etc release....
 - The supply chain issue is a problem of our own making
 - Often the message is consumer spending drives the growth of our economy





Signs that things may not be so good...

- The poor savings I mentioned before means people have no security net
- Personal Debt is a major burden
 - 36% of college students already have \$1000 of credit card debt
 - Many Millennials still receive meaningful financial support from their parents
 - 2/3 of Millennials are living paycheck to paycheck (Schwab 2019 wealth survey)
 - 85% have not invested in the stock market
 - Many are burdened with huge student loans

The reality...

- Doctors are notorious for being lousy money managers
- Because we as a profession are recognized as being “high earners” and extravagant spenders, there will be a host of individuals and groups that will target us for their products and services
 - Hands trying to get in our pockets
- It is up to us to know what to do..





The Millionaire Next Door

Habits of Millionaires

- Over 20 years ago, Stanley and Danko undertook a study of those Americans with a net worth of \$1 million to see what characteristics they had in common
- What they expected differed from what they actually found



Habits of Millionaires

- Millionaires in general did NOT have the top tier gross salaries that they expected
- Most were small business owners, self employed
- They ALL lived below their means
- They ALL saved as much as they could afford to



Habits of Millionaires

- It should be noted that in their analysis, they found Doctors were notoriously bad at building their net worth and not a large proportion of their group of Millionaires
 - Too much conspicuous consumption despite their high gross incomes



How does this apply to a Pediatric House Officer?

- It's not what you make, it's what you spend (and SAVE)...
- You need to live within your means
- You need to have a very good sense of where your money goes (all your money)
- All of this takes sacrifice, which is something that is not in the American vocabulary these days





What money?

- Many of you will be saying to yourself:
 - I don't have any extra money to save right now!
 - Where will this money come from?

Understanding the Latte Effect

- Let's say you drink a fancy coffee drink in the morning
 - A latte or equivalent for \$4.50
- That is \$135 over a month and \$1620 over a year
- If instead you could save that money for retirement in a Roth IRA starting from age 30 at 8%/year yield
 - Over \$301,458 at age 65
 - Just from coffee!!



The same applies to large leisure expenses

- \$2000 that you spend on a vacation or fancy new gadget is something you may enjoy briefly, but that money is lost forever
- \$2000 you put in a Roth IRA at age 30 is almost \$30,000 at age 65



The moral.....

- I am not advocating that you stop drinking coffee or stop taking vacations
- I am saying that expenses you incur now have significant and far-reaching consequences for your future



My argument...

- I am going to try to convince you that it is worth your while to skim small portions of your salary now to build your retirement savings for the future



Uncertainty?

- What about all the negative talk about inflation and the Fed increasing interest rates?
- Stay the course!!!
- You are investing for the long term:
 - Ask yourself if any setback is going to last 30 years...
 - Hint: even the great depression only lasted for 10-15 years!
- The US economy will transform into something new, and many companies will figure out how to do well so the key is to stay diversified, be consistent and ride out the storm
 - Besides, if you invested in the S&P500 in March 2020, your investment would be up 70% in value!





The basics.

- 2022-23 PL-1 salary at McGaw before taxes: \$67,105.00
- Monthly breakdown: \$5,592.08
- Taxes are subtracted:
 - Federal Withholding \$627.59
 - Social Security \$346.71
 - Medicare \$81.09
 - Illinois \$276.01
- Your working income: \$4259.88

Assuming 0 dependents and no other pre-tax deductions



Retirement Facts

- Until the last decade or two, many Americans could rely on outside agencies to fund their retirement
 - Company pensions
 - Social Security
- Things have changed significantly in the past few years
 - Companies cut costs
 - Social Security will have to change dramatically to account for all the baby boomers retiring!



Retirement Facts

- What does this mean for you?
 - YOU ARE ON YOUR OWN!!!
- No one will take care of you when you retire so you need to plan **WAY** ahead of time
 - You will work longer than past generations
 - You will live longer as well
 - Conservatively plan for 30 years of income after you stop working

Why start now?

- It may be tempting to try to take the long view and say “I will save later when I have extra money”
- If you take this approach, you will miss a huge opportunity because time is on your side if you take advantage...Why?
 - Compound Interest



Compound Interest Example

- You are 25 years old:
 - You start taking \$200 out pre-tax from your paycheck
 - You do this for the duration of your career without increasing (40 yrs)
- At age 65, you would have 304,415.43
 - \$96,000 of contributions
 - The rest is appreciation (assuming a conservative 5% annual return)

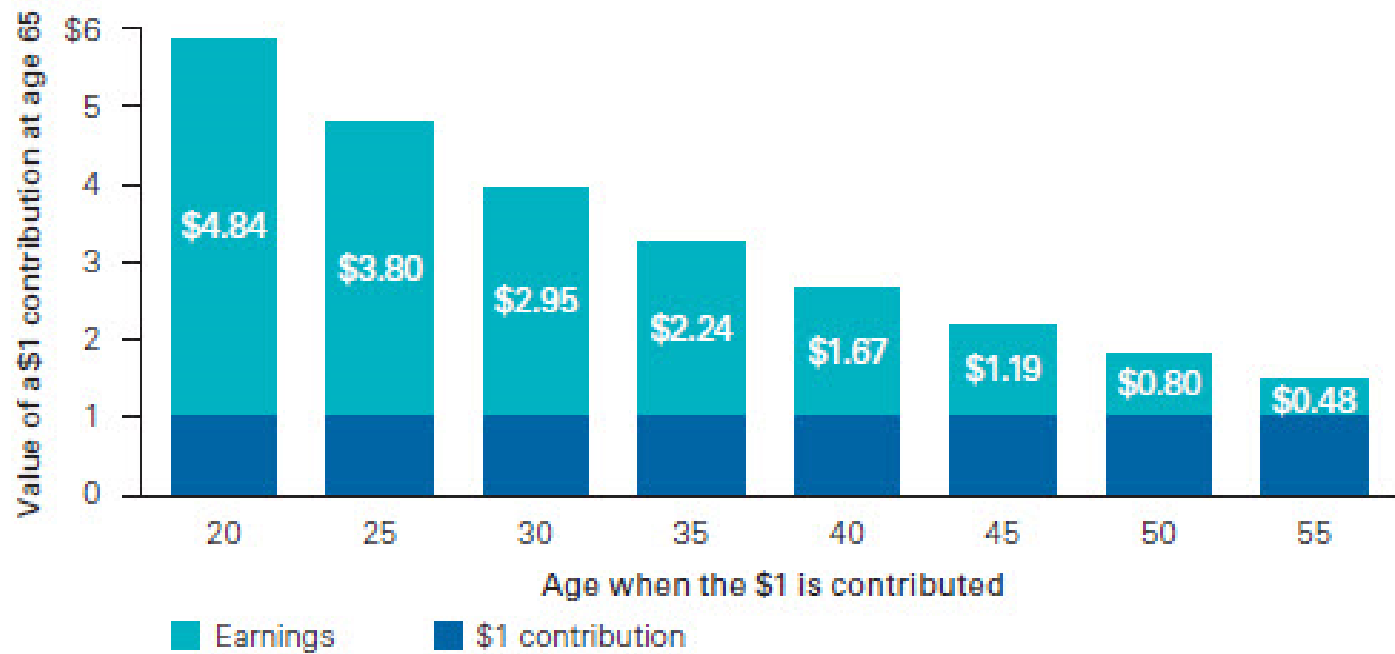




Compound Interest Example

- If you wait to 35 years old:
 - You start taking \$300 out pre-tax from your paycheck
 - You do this for the duration of your career without increasing (30 yrs)
- At age 65, you would have \$251,138.84
 - \$108,000 of contributions
 - \$53k less appreciation

Compound interest graph



<https://personal.vanguard.com/us/insights/article/yil-balancing-financial-demands-072014>



Another Principle that helps..

- If you consistently save each month, you will take advantage of the ups and downs of the market
- This is Dollar-Cost averaging..
- Let me give you an example...



Lump sum investment

Period	Investment	Unit price	Units purchased
1	\$1,000.00	\$10.00	100.00
Total units purchased			100.00



Dollar cost averaging

Period	Investment	Unit price	Units purchased
1	\$200.00	\$10.00	20.00
2	\$200.00	\$8.00	25.00
3	\$200.00	\$5.00	40.00
4	\$200.00	\$8.00	25.00
5	\$200.00	\$10.00	20.00



Total units purchased **130.00**

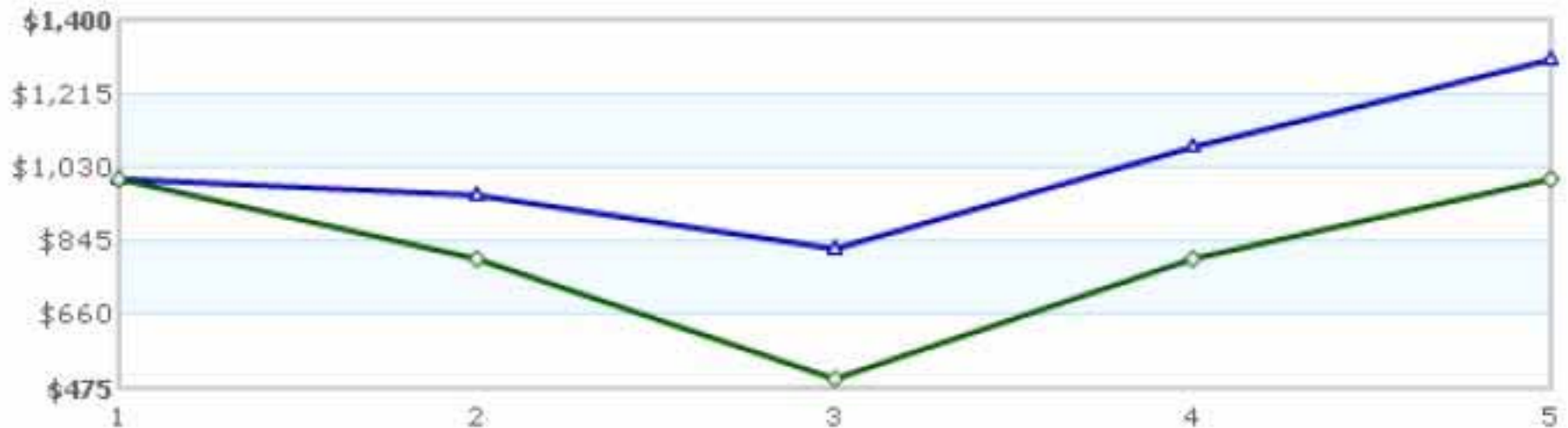


Period 4 description Unit prices have increased following an upward trend in the market. This allows you to purchase 25.00 units for \$200.00.

Dollar Cost Averaging (DCA) investment

Lump sum investment

Period	Share value	Cash value	Total DCA value	Lump sum value
1	\$200.00	\$800.00	\$1,000.00	\$1,000.00
2	\$360.00	\$600.00	\$960.00	\$800.00
3	\$425.00	\$400.00	\$825.00	\$500.00
4	\$880.00	\$200.00	\$1,080.00	\$800.00
5	\$1,300.00	\$0.00	\$1,300.00	\$1,000.00



N.B.-Dollar cost averaging only works to your advantage when you are not paying fees with each transaction, for example with your retirement contributions.

Why else is it important to start now?

- Good financial habits are difficult to start but last a lifetime when established
- If you start saving money early, you will always continue to do so with each and every job
- Also, you will not spend the money if it doesn't pass through your hands!!!



What are your options?

- Individual plans
 - Annual IRA Limit is \$6,000
 - Roth IRA plan-after-tax money
 - Traditional IRA-pre-tax money
- Employer-sponsored plans
 - Annual limit is \$19,500
 - Roth 401k-after-tax money
 - 401k plans-using pre-tax money
- Do nothing
 - I already told you this is wasting an opportunity





But wait, there's more!!.....

- Unlike most other GME programs, McGraw offers a matching component for you
- If you contribute 2%, they will match the 2%
- **THIS IS FREE MONEY TO YOU**, or the equivalent of a 2% raise with a few clicks on your computer!



Action item

- If you are all already doing this, great.
- If you are not, sign up right away
- For now, the Roth 401k option is best so you can take advantage of tax-free accrual while still eligible
- If you can increase your share, go for it...



The best current “outside of work” option

- Roth IRA is different from a regular IRA or 403b plan
 - After-tax money
- Advantages
 - *You are still eligible! (see income issues below)*
 - After-tax money now means NO TAX LATER!!! (this may not last-more reason to act now!)
 - Flexible to use as a loan to yourself
 - Only your contributions can be withdrawn
 - this is not a sound financial strategy
- Disadvantages
 - Not automatic unless you make it so
 - Some income limitations (up to \$129k FS or \$204k MFJ is max, >\$144/\$214k is zero)

A vertical stack of four images on the left side of the slide. From top to bottom: a clock with a purple face and black hands on a blue background; a clock with a yellow face and black hands on a red background; a stack of money on a green background; and a stack of money on a purple background.

A another possible first step..

- Pre-tax deductions from your paycheck now into one of the McGaw-sponsored, Fidelity administered plans
- Advantages
 - You don't get a chance to spend the money!
 - It happens every month
 - You will still get 2% match
- Disadvantages
 - You will pay tax when you retire
 - Hopefully in a lower tax bracket



Another (excellent) option if you have little or no debt

- You could do a little of both since there are no limits on one from the other:
 - Take out some money pre-tax for the 401k plans
 - Take out some money after-tax for a personal Roth IRA
 - However, you will be limited on the tax deduction you can make...



IRA comparisons

Annual Contribution:\$2,400

Contribution Years:40

Assumed Rate of Return:5%

Current Federal Income Tax Rate:15%

Future Federal Income Tax Rate:25%

Retirement Age:65

Comparison at Retirement

IRA Type	Total After Tax Distribution
Roth IRA:	\$304,415
Traditional IRA	\$266,150
(Includes Taxable Fund of \$37,839)	



Something else to think about

■ Emergency funds

- Experts recommend 6 months of your total expenses in case of disability or other major disaster
- ## ■ This money should be readily accessible with no financial penalties associated
- Conventional savings or better yet, Money Market with higher yield interest
 - Not a CD that is tied up for the term



Something else to think about

- The reality is it will be hard for many of you to put away 6 months
 - My advice is to try for 3 months, which is when your disability would kick in
 - Remember disability only covers 60%
- Emergency funds savings should be a high priority so it will take sacrifice
 - Put as much as you can toward the annual max for a Roth IRA
 - Put something toward Emergency fund
 - Put some money away pre-tax
 - 403b or Regular IRA
 - If you have money after that, we can talk!



My advice to you-Roth option

- 2022-23 PL-1 salary at McGaw before taxes: \$67,105.00
- Monthly breakdown: \$5,592.08
- Taxes are subtracted:
 - Federal Withholding \$627.59
 - Social Security \$346.71
 - Medicare \$81.09
 - Illinois \$276.01
 - Roth 401k deposit \$200.00
- Your working income: \$ 4059.88
 - Does not include \$74 extra monthly into your Roth 401k account!



My advice to you-401k option

- 2022-23 PL-1 salary at McGaw before taxes: \$67,105.00
- Monthly breakdown: \$5,592.08
- Taxes are subtracted:
 - Federal Withholding \$583.59
 - Social Security \$346.71
 - Medicare \$81.09
 - Illinois \$266.91
 - Retirement \$200.00
- Your working income: \$4113.78
 - You see that even though you took \$200 out, your take home pay went down only \$146!
 - Does not include \$74 match into your 401k!



Other words of advice on Retirement Money

- You can start with saving some money to get comfortable and then change (increase) at a later time
- You can change the amount you are taking out pre-tax at any time
- Re-evaluate your lifestyle and where you spend money (we will talk more about this later)
- When you get a raise next year, don't change your lifestyle and funnel it all into savings, retirement or otherwise
 - Do the same the year after that....and so on



Other words of advice on Retirement Money

- These accounts should be considered sacred
 - Retirement money is only for retirement
- NEVER cash out the money when you change jobs!!
 - You will squander what you have saved and pay the penalty for early withdrawal
 - Roll the money over into a new employer's account, personal IRA or just leave it there
 - Know the rules for when you are vested
 - Applies to the matching part of retirement (no match for residents)

How should I invest the money?

- An easy step is a “Target date” retirement fund:
 - Many companies ask that you estimate what year you plan to retire based on age and it will choose a recommended portfolio accordingly
- You also could start by choosing Index funds that track some of the major Financial benchmarks
 - S&P 500
 - Russell 2000
 - Total Stock Market Index
 - International Market Indexes



What do I need to know next?

- Remember a few key principles:
 - Diversification is extremely important to the long term success of your investment overall
 - The right mix of stocks, bonds and cash help smooth out the cyclical changes over the years
 - Remember that diversification is across ALL of your accounts, not necessarily within each one
 - In general, the % bonds/cash in your portfolio should be roughly equal to your age
 - The rest is stocks





The MAIN message:

■ To Review:

- All of you should set up an employer Roth or regular 401k with automatic deductions from your paycheck
 - contact McGaw Payroll and Benefits at mcgawpayroll@ey.com
 - Contact Fidelity at 800-343-0860
- Some of you may choose to contribute to an Individual Roth IRA account

The MAIN message:

- Get in the game as soon as you can and any way that you can, because the only way to lose is not to play!



Good References for Personal Finance Information

- “Get a Financial Life” by Beth Kobliner
- “The Money Book for the Young, Fabulous & Broke” by Suze Orman
- Marketplace.org (NPR/PRI)
- Yahoo Finance archives





Recent articles with links

- 10 habits for getting rich:
 - <http://finance.yahoo.com/news/10-habits-to-get-rich-161444413.html>
- (keep in mind, the last habit is self serving)
- 50/20/30 rule for budgeting:
 - <http://www.learnvest.com/knowledge-center/your-ultimate-budget-guideline-the-502030-rule/>

Fixed costs, financial goals, flexible spending



Questions?