



Physician Personal Finance

Knowledge to Avoid Mistakes

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Valeo Financial Advisors, LLC
9450 N. Meridian Street, Suite 300
Indianapolis, IN 46260
P: 317.218.6000
www.valeofinancial.com

Daniel T. Houchens, CFP®
317-431-0067
dthouchens@valeofinancial.com

James K. Brashaber
765-561-6883
jnbrashaber@valeofinancial.com

This presentation available with active internet links @ www.vfa.cc/iudos



Daniel Houchens

EDUCATION

Indiana University
B.S. Finance

INDUSTRY EXPERIENCE

Since 2008

HOMETOWN

Zionsville, IN

CHARITABLE INTERESTS

St. Alphonsus Liguori
The O'Connor House

CERTIFICATIONS

Certified Financial Planner™

VALEO EXPERIENCE

Since 2012

RESIDES

Zionsville, IN

Our Mission

Valeo's **mission** is to improve how clients consume and advisors deliver financial advice. Our service is a continuous process of thoughtfully identifying and implementing **solutions** to ensure all aspects (insurance, cash flow/taxes, investments and estate) of your financial life are integrated with one another, to lower costs (interest paid, taxes and fees), to achieve better risk-adjusted investment results, to become better organized and repeating this process so you have peace of mind to know it is going to stay that way.

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Access our blog on relevant investment and financial planning topics at www.valeofinancial.com/blog



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We regularly post articles on current financial, economic, and investment news. Follow us at www.twitter.com/valeofinancial



Week in Review

Our weekly e-mail summarizes the key weekly news from the industry. Sign up at www.valeofinancial.com/blog

Comprehensive Expertise

True financial planning is more than just investment advice. Advice related to taxes, insurance and estate planning strategies can deliver significant value.

Advice not Products

Advice from someone being compensated for the product they are recommending is simply not objective. We NEVER receive any compensation from anyone other than directly from our clients.

Accessibility

We believe the most common reason a client-advisor relationship fails is a lack of proactive communication. We embrace this industry flaw by limiting the number of clients each advisor is allowed to work with to ensure this does not happen.

Reasonable Fees

Transparent and easily found on our client agreements, invoices, website and other forms of company communications. Reasonable for the work we do and not simply what the market will bear.

Growing with Our Clients and Advisors

While the majority of our clients' situations merit regular, recurring meetings, we can provide substantial value for clients who are in the early phases of growing their net worth.

Giving Back and Paying Forward

We are fortunate to earn a living doing what we love and must give back to the communities that allow us to do so.

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Agenda

- Typical post-training financial concerns
- Developing a plan
- Investing & tax planning
- General financial planning

Typical post-training financial concerns

- Payoff/ refinance student loans
- Life/ Disability/ Property & Casualty Insurance
- Home purchase

Student Loan Refinance

- Consider refinancing your loans
- What is Income Based Repayment (IBR)/ Public Service Loan Forgiveness (PSLF)?
 - Not designed to benefit highly trained surgeons
 - PSLF can work if repayment starts early
- Private loan refinance
 - Not eligible for IBR; keeps forgiveness for death or disability
 - Cannot deduct interest, though likely disallowed due to income
 - Residency/ fellowship options to delay repayment:
 - www.sofi.com/valeofinancial
 - www.laurelroad.com

Student refinance considerations

- Fixed vs. Variable (interest rate floats) loans
- Amortization Schedule
 - \$200,000 balance at 4.25% for 10 years: \$2,048 monthly payment. \$45,850 cumulative interest paid.
 - \$200,000 balance at 5.50% for 20 years: \$1,375 monthly payment; \$130,186 cumulative interest paid
- Rate discount
 - Autopay: 0.25%
 - Relationship (SoFi): 0.125%

Refinance application process

- Required documents:
 - Front and back of drivers license
 - Copy of medical school degree
 - Signed contract
 - Payoff statement
- Loan cost

Life Insurance

Key Points:

- Determine appropriate amount of coverage (applicable to long-term disability & life insurance)
- Keep in mind your:
 - Group life insurance coverage
 - Dependent needs
- Term insurance (no cash value; protection only) most appropriate
- Whole life (has cash value) insurance for permanent need - not an investment

Action Items:

Visit vfa.cc/iudos for a link to term life insurance quotes.

If whole life, why?

Disability Insurance

Key Points:

- Group disability forms base
 - Inexpensive
 - No portability (can't take it with you)
- Supplement with Individual disability policy
 - Follows you
 - Expensive
 - Level premiums
- Definition is key (own occupation)
- After-tax premiums = tax-free benefits

Action Item:

Email your HR contact to request group disability coverage summary + ask if you have the option to pay premiums with after-tax dollars.

Property & Casualty Insurance

Key Points:

- Gaps in home owners coverage by captive carriers (State Farm, AllState, etc.)
- Benefits of independent agent
- Umbrella Liability Insurance:
 - Coverage if sued (not medically related)
 - Report pool, golf cart, trampolines

Action Item:

If you live in, or will purchase a \$500,000 +/- home and your insurance company sponsors your favorite sporting event, you have a high likelihood of a gap in coverage!

Find an independent insurance agent.

First time home purchase

Key Points:

- Shop your mortgage, regional banks offer more favorable terms
- 100% LTV (no down payment) available for first homes
- Some cash requires for reserves and prepaid property tax & homeowners insurance
- 5/1 Adjustable Rate Mortgage (ARM) vs. 15 year ARM
 - Current rates: 4.375% 5/1 ARM; 4.65% 15/1 ARM
 - \$1,375 more interest on 15/1 ARM on \$500,000 mortgage
 - How long do you envision being in house?

Developing a financial plan

- Plan for first 24 months:
 - Build liquidity (do not adjust lifestyle to increased income)
 - Debt repayment
 - Home purchase
- Retirement plans

Priorities for first 24 months after training

Balanced approach to target goals:

- Establish cash reserves (emergency funds out-of-sight and out-of-mind)
- Take advantage of employer matching in retirement accounts, i.e. contribute 6% of income, employer matches 6%
- Indirect Roth IRA contributions
- Maximize retirement contributions to 401(k)/403(b) plans and 457(b) plans, if applicable

Action Item:

Make a plan to optimize free cash flow to grow balance sheet.

First 24 month priorities, continued

- Systematic (monthly or quarterly) contributions to after-tax investment account
- Execute on plan to repay loans
- Determine amount to spend on housing without sacrificing debt pay down and savings
- Depending on market conditions, alter focus on savings or debt repayment

Roth IRAs

Key Points:

- After-tax contributions, tax-free growth, tax-free distributions after 59.5
- Direct contributions limited by income
- Indirect contributions: nondeductible IRA contribution + Roth conversion
 - Reported on tax return, but no additional tax payment
- \$5,500 (\$6,500 if age 50+) /person/year
- Available for non-income spouse

Action Item:

Don't have a Roth IRA.....get one!

SEP (Simplified Employee Pension) IRA vs. Solo 401(k) Plan

Key Points:

- Contribute 20% of self-employment income to pre-tax account (consulting, moonlighting, IP royalties)
- Cannot indirectly contribute to Roth IRA with SEP-IRA balance
- Ability to rollover SEP IRA to Solo 401(k)

Action Item:

Establish a Solo 401(k) plan and rollover your SEP IRA.

Defined Benefit Pension Plans

Key Points:

- Ability to save up to 100% of self-employment income on a pre-tax basis
- Consider if sufficient liquidity established and planning on multiple years of 1099 (i.e. moonlighting/ call) income
- Example = physician making \$200,000 of 1099 / self-employment income moonlighting deferred 100% of income to the plan for the past 5 years

Investing and tax planning

- Determine appropriate asset allocation
- Minimize expenses & tax ramifications
- Alternative investments
- Basic tax planning

Investments - Risk

Key Points:

- Market does not go up in straight path
- Portion of portfolio may be appropriate in bonds to reduce volatility
- Successful investment strategy:
 - Own appropriate balance of risky and non-risky assets
 - Avoid permanently impairing capital
 - Stay diversified
 - Have patience

Investments - Index Funds

Key Points:

- iShares S&P 500 Index ETF (IVV):
 - 0.04% annual expense ratio
 - \$400 per \$1,000,000
 - Tax-efficient
- Average Large Cap mutual fund:
 - 1.09% average annual expense ratio
 - \$10,900 per \$1,000,000
 - Tax-inefficient – capital gains
- 90% of mutual fund managers failed to beat their benchmark over the last 15 years

Action Item:

Compare your actively managed mutual funds to the Index.

Investments - Alternatives / Real Estate

Key Points:

- Likely not appropriate first 24 months out of training, must have income history
- Sufficient liquidity should exist before adding illiquid asset
- Invest with the people (sponsor), not the asset
- Consider how investment can go wrong before how it will work

Tax planning

Key Points:

- Engage competent CPA and integrate with financial planner
- Review past three years returns
- Consider extending return; allows for more thorough review

Action Item:

Hire a CPA.

Financial planner keeps CPA in loop on year's activities.

Venture Capital Investment Tax Credit

Key Points:

- Venture Capital = Highly Speculative/ start-up's
- Utilize State specific tax credits and flow through losses to reduce potential losses
- Generally credits must be approved BEFORE investing
- Indiana (20%), Ohio (25%), Kentucky (50%), Louisiana (25%), South Carolina (25%), other states

Action Item:

Always ask if venture capital / private equity investments qualify for Indiana Venture Capital Tax Credit.

Visit vfa.cc/iudos/ for full details and links

Surgery Center Related Items

Key Points:

- Active vs. Passive income
- If income is treated as passive, additional 3.8% on net investment income
- Understand your buy-in and buy-out
- Financing options

Action Item:

Confirm your CPA is appropriately allocating surgery center income.

529 Plan Tax Credit

Key Points:

- Tax-free growth on college savings
- Many states offer tax incentives
- www.savingforcollege.com
- Make sure your CPA knows about 529 plan contributions

Action Items:

Visit savingforcollege.com

Make sure CPA includes your 529 contributions on your tax return.

General Financial Planning

- Types of advisors
- Cash management
- Identity Theft
- Estate Planning

Types of financial advice

Difference structure for financial services:

- Wire house: Merrill Lynch/ Morgan Stanley
 - Fees based on assets under management or commission
 - Direct clients towards other areas of bank for personal finance solutions
- Insurance companies: Northwestern Mutual
 - Sell products issued by company
 - Insurance is solution to many financial goals
- Registered Investment Advisor
 - Fiduciary responsibility
 - Fee only, no products sold
 - Comprehensive

Action Item:

Figure out if your advisor is a fiduciary and their compensation structure

Cash Management

Key Points:

- Average bank savings account pays 0.15% annual percentage yield (APY)
- Top online banks pay 1.65%+ APY
- \$250,000 balance for 1 year earns:
 - \$375 at 0.15% APY
 - \$4,125 at 1.65% APY
- Consider:
 - Ally (1.65%)
 - Goldman Sachs (1.70%)
 - Special Rate (2.25%)
- Electronic link to primary checking with easy 1 day push/pull for deposits/withdrawals

Action Item:

Minimize amount of idle cash held in checking

Enough to cover one month's purchases in checking; giving up earnings if more

Prevent Identity Theft

Key Points:

- Freezing Your Credit = Best offense identity theft
 - Free for Indiana residents
 - Keep your PIN numbers
 - Simple & quick to lift freeze
- Freeze at three agencies: [Equifax](#), [Experian](#), and [TransUnion](#)
- Two-factor authentication on email and financial accounts

Action Items:

Review your Credit Report

Freeze your credit

Two factor authentication

Estate Planning

Key Points:

- Missing/incorrect beneficiary designations:
 - 401(k) Plans, IRAs & Pensions
 - Life insurance
 - Annuities
- Guardianship documents
- Do not just use any attorney - use an estate planning attorney

Action Item:

Visit vfa.cc/iudos for a link to find a local estate planning attorney.

In Closing

Key Points:

- Less than 10% of presentation was related to investments.
- How much of the other 90% is your plan missing?
- Do you have a plan?
- Questions?

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