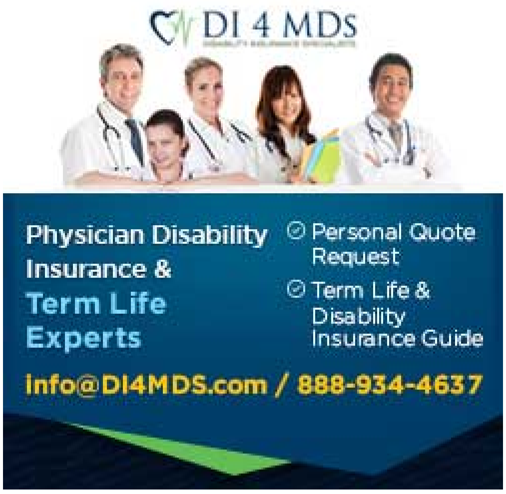
Helping Family When They are Bad With Money – Podcast #129

Podcast #129 Show Notes: Helping Family When They are Bad With Money

Setting financial boundaries with your parents is challenging. These are the people that took care of you for the first 18 years of your life. But that doesn't mean that you are indebted to them for the rest of their lives, to provide for them regardless of their financial choices. A listener asks about helping her parents financially who have already declared bankruptcy once and are in debt again. Most people that have debt problems don't actually change their behavior. They didn't get into debt because they can't do math. It's not a math problem, it's a behavioral problem. They can't live within their means. They don't know how to manage money and that is why they are back in debt. I can understand why you would want to help them, but what you need to keep in mind is how you help them because you can certainly make things worse.

In this episode, we talk about how to help people financially in a way that helps them be successful and keeps your finances safe. It is possible to do with set rules and clear boundaries. We also answer other listener questions in this episode including how long you should hold a bond fund, what an admirable nest egg for 5 years out of residency is, whether you should diversify out of fear for the devaluing US Dollar, and putting together a contingency document for your spouse in case of your sudden death.

Sponsor



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888-934-4637.

Quote of the Day

Our quote of the day today comes from Dave Ramsey who said,

> *"You can wander into debt, but you can't wander out."*

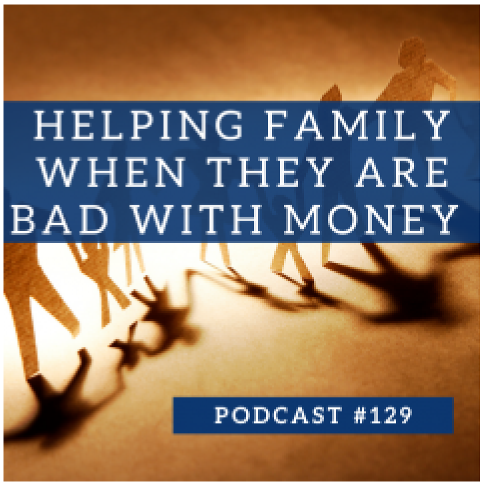
Helping Family When They are Bad With Money

A listener says,

> *"My question is in regards to my parents' financial troubles. My dad is a blue collar worker making about $40,000 per year, and my mom doesn't work. They had to file a Chapter 13 Bankruptcy about seven years ago, but are back in debt. He owes about $16,000 in credit card and medical bills, and is upside down on a mortgage of $60,000 for a home that is worth $30,000. Currently, they are staying afloat as we have provided an old car and paid for cell phones and emergency repairs.*
>
> *We intend to help financially support them when he can no longer work, but would like to limit that debt when the time comes. We thought about paying the $16,000 to help clean the slate but worry the debts will re-accumulate. We don't want nor do they want us to manage their finances. Is it feasible to just let him continue as he's doing and file for bankruptcy when he can't work anymore? We can then help with housing and filling in gaps. Just trying to ensure our financial futures while anticipating what help they will need."*

Your parents filed Chapter 13, but they're back in debt. This is the usual story, actually. Most people that get into debt problems don't actually change their behavior. They didn't get into debt because they can't do math. It's not a math problem, it's a behavioral problem. They can't control their spending. They can't live within their means. They don't know how to manage money, and that's why they're back in debt. When you're upside down on your mortgage and you have credit card debt, things are not going well, obviously. I can understand why you would want to help them, but what you need to keep in mind is how you help them because you can certainly make things worse.

I have no doubt in my mind that they can not only spend their entire income, but they can also spend your entire income. You need to be setting boundaries of what you're going to do. Yes, they don't want to let you into their finances. You can understand that. Would you want someone into your finances? Of course not. But if they want to be getting help from you, they have to follow your rules. The goal here is for you to set rules that are actually going to help them. If they're going to manage money like a teenager, then they have to be treated like a teenager. If I'm going to be giving somebody money, regularly supporting them, you better believe I'm going to have my nose in their finances.



I'm not going to be giving them money so they can go, and I'm not saying your parents are doing this, so they can go spend it on cocaine or a gambling addiction or whatever else. And you're not going to, either. Likewise, you're not going to give your money to them so they can just blow it by not managing money properly. So it is completely understandable for you to put some rules in place, some conditions on the help that you provide to them. The good news is, it sounds like you can afford to help. But you want to be helping, more than just writing endless checks and writing with no accountability whatsoever because that is not going help them do any better.

Now, there’s an old saying that says, “you can’t teach an old dog new tricks.” Maybe you can’t get your parents’ spending under control. Maybe they are going to spend everything they have and be completely dependent on you and social security. That’s entirely possible. But it’s up to you to set the boundaries and to be appropriate with the help you give. Of course, don’t give more than you can afford to give. That’s probably a substantial amount for a typical two-physician couple. But at the same time, you also need to make sure you’re taking care of business, that you’re taking care of your own retirement, taking care of your own necessary insurance, taking care of your kids’ college savings, and reaching your own financial goals. The money you’re using to help is coming from elsewhere in the budget, perhaps you vacation less so you can help your parents more. But make sure you are on track to meet your financial goals even with helping them.

Reader and Listener Q&A

How Long Should You Hold a Bond Fund?

> *“I often hear the timeframe of five years thrown around for investing in the stock market. In other words, don’t invest if you need the money within five years. I’ve heard it argued that this amount of time is probably enough to recover after a downturn. So with that in mind, what is an appropriate timeframe for something like a municipal bond fund in a taxable account? About the same as an index fund of five years, less than that, or would it be better to simply utilize something like a high-yield savings account?”*

There is not actually any given number of years since there’s no guarantee that stocks will outperform bonds over any time period. But the general rule with bonds is that you want to be planning to hold the bond fund longer than the duration of the bond fund. So, duration is this term with bonds that tells you how sensitive they are to interest rate changes. For example, if interest rates go up 1%, the value of your bond fund is going to go down.

How much will it go down? Well, it depends on the duration. If the duration of the fund is one year, then the value of your bond fund goes down 1% if interest rates go up 1%. If the duration is five years, the value of that investment goes down 5%. If the duration is 30 years, the value of that bond fund goes down 30%. Now, most bond funds that people are holding, the durations tend to be 4, 5, 6% or four or five, six years. And so in the event that interest rates went up suddenly 1%, you would lose 4, 5, 6% of the value of your investment. However, over the next four, five, six years, etc, you would gain that back in the form of higher interest payments, a higher yield, if you will. And so at that point, you're actually better off with higher interest rates.

The general rule is if you can only invest for a couple of years, then you would want to hold a bond fund that's relatively short term, that has a duration of just a couple of years. But the truth is, if you can handle a likely loss, which maybe it's 5%, maybe it's 10% if interest rates go up 2% over the next few years, if you can handle that, then you can certainly take more interest rate risk. It's the same with stocks, really. If it's okay if a significant chunk of your money disappears in the next few years, then you can take stock market risk. But if you need an exact amount of money four years from now to the day, that money probably doesn't belong in stocks and it certainly doesn't belong in a long-term bond fund either.

Wouldn't you just use a high-yield savings account? Pretty much any other time. So just use a high yield savings account or use the money market fund for money you need to pay your taxes next April or for money you're saving up to buy a house next year. If you're going to be buying a car soon that sort of money doesn't belong in stocks or bonds; that belongs in cash.

Paying off Student Loans Quickly

> *"I'll be graduating from fellowship next year with a horrendous, horrendous amount of student debt. It's about $600K. Fortunately, I'm accepting a position that pays at the upper end of medicine. And, for full transparency, it's about $330K a year before taxes. My plan is to throw most of that salary to my loans. And some rough estimations show if I do that, I could possibly pay this sum off in three to five years. So my first question is, one, do you think that is realistic? And two, do you have any other specific recommendations in how I could attack this monster? I don't think the repayment programs are for me, but I'm happy to be corrected if that's the case."*

Is it realistic to pay off that debt in three to five years? Absolutely, it's realistic. Why can't you pay off $600,000 in three to five years while making over half of that? You totally can. You live like a resident, on $50,000 or $60,000 a year, you pay a whole bunch of money in taxes. Maybe this doc is going to pay $100,000 in taxes, but that still leaves $180,000 a year to throw at that debt. Now, if you throw $180,000 a year at a $600,000 debt, how many years is that going to take? Well, maybe three and a half. Totally doable. There's no reason this doc can't pay off that debt relatively quickly. Even with a little bit more generous lifestyle, a significant raise from how you were living in training, you could still have that paid off in less than five years.

You could even put some money toward retirement and still have that debt paid off within five years. That's less than 2X. I generally recommend you keep your student loans to no more than 1X your future gross income, but 2X is certainly still doable by someone that is willing to live like a resident for three to five years after residency. Now, when you start to get into 3X and 4X kind of ratios, you're going to have to take on some more extreme things. Maybe you have to go for public service loan forgiveness. Maybe you have to live like a resident for longer than five years. Maybe you need to marry somebody else with a high income, but you're going to have to do some more extreme measures when you get your debt up to those levels.

But this doc's $600,000 in debt, $330,000 income, this is doable. There's no reason you can't knock that debt out. I have readers and listeners all the time who knock off debts like that in three to five years.

How Much to Put in a Solo 401(k)

> *"I have a question for you regarding individual 401(k) investing. I have both W2 and 1099 income. I contribute the full $19,000 to my 401k from my W2 income, and I have an individual 401(k) through Vanguard that I use to make pretax employer contributions. My goal every year is to put the maximum of 25% of my 1099 profits into my individual 401(k). It's hard to know, however, exactly how much profit I will have after deductions and expenses every year given that, from year to year, my 1099 income varies substantially. Do you recommend making monthly individual 401(k) contributions but lowballing the amount and making up the difference with a larger payment at the end of the year once I file my taxes? Or would you recommend just putting all future contributions into a high-yield savings account throughout the year and making one lump contribution at the time of tax filing? What would happen if I were to contribute more than 25% of my profits throughout the year? Would there be a way to correct this at the time of tax filing? Would there be penalties*

incurred?"

The truth of the matter is you just do it all at the end of the year. It's very easy. Yes, you could do a little bit as you go along, but you want to make sure you're not putting in too much. So if you're halfway through the year and it's obvious you're going to make at least this much, then you can make a contribution for that much, maybe a little bit more. You could even kind of front load it, get it in the first quarter of the year if you're absolutely positive you're going to make that income during the year.

But then you top it off at the end of the year when you know exactly what you've made with your 1099 income because you don't want to over contribute. The problem if you over contribute is there is a 6% excise tax on those excess contributions for employee contributions. When you look at the employer contributions, which is what this is going to be for this doctor because he's already maxed out his employee contributions at his regular W2 job, there is actually a 10% excise tax on the excess contributions. If you go to the IRS website, it says this,

> *"What are the consequences to employees if I make excess contributions? Excess contributions are included in the employee's gross income. Employees who withdraw the excess contribution plus earnings before the due date for their federal return, including extensions, will avoid the 6% excise tax imposed on excess contributions. Excess contributions left in the account after that time will be subject to the 6% tax on the employee, and the employer may be subject to a 10% excise tax on the excess non-deductible contributions."*

If you contributed too much, you have a couple of options. The first one is that you can just distribute it to the employee, yourself, as taxable income or you can retain it and pay a 10%

fee on it, either way. But I would just distribute it as taxable income and say, "Oops, that was a mistake. That's not really a 401(k) contribution, that's really taxable income. Pay the taxes on it."

What is an Admirable Nest Egg for 5 Years out of Residency?

> *"I have been a long time follower of your blog, and I greatly appreciate all that you have done to improve the financial literacy of physicians and other professionals. Your enduring words to live by have always been something to the effect of a worthy goal is that within five years of residency graduation, student loans will be paid off and your retirement nest egg will have caught up to those of your nonmedical peers. You will be living in your dream house, and you will be debt-free except for a low interest rate 15-year fixed mortgage. I feel the most difficult of these to knowingly attain is catching up to your nonmedical peers' retirement nest egg. Given most nonmedical peers aren't going to tell me what they have saved for retirement, what would you say is an admirable retirement nest egg to obtain five years out of residency?"*

I love his term, the admirable nest egg. What's an admirable nest egg to have five years out of residency? Well, it's interesting. I say catch up to your college roommates, and it really depends on what your college roommates ended up doing with their lives. If your college roommate is a dropout donating plasma, it's not going to be very hard to catch up to them. If your college roommate is now managing a hedge fund, it's probably a different situation. But if you look at the average 401(k) balances for somebody in their mid-30s in the US, it is $32,000. That doesn't take much to catch up to. That's a year or two's contribution. Even for a 45-year-old, the average 401(k) balance is only $81,000. So it really doesn't take much to catch up.

But here's what I think you ought to have. What's an admirable nest egg? Well, I think it's 20% of your gross income times five years or one times your gross income. So if you're making $250,000, I think five years out of residency, if you have paid off your student loans and you have $250,000 saved up for retirement and you have all the necessary insurance in place that you should have, I think you did great. I think that's admirable. And I certainly wouldn't feel like you're behind anybody if you have managed to accomplish that.

Diversify out of Fear for the Devaluing US Dollar

> *"My wife and I have 200,000 euros in a Slovakian bank account, and I'm thinking of diversifying our investments between euros and dollars out of fears that the US dollar will continue to devalue as the national debt goes up and up and no end to that in sight. So I'm curious to get your thoughts. I don't hear a lot of discussion on that in the F.I.R.E community over what could happen with the US dollar in the next 40 to 50 years or in our kids' lifetimes. So I'm thinking about, again, investing in euros. And I would be curious to hear your thoughts."*

This is a great question about currency risk. There’s a certain amount of currency risk in the world. Particularly for someone who is earning or spending any different currency. For example, if your goal is to retire to Slovakia, well you have some serious currency risk by earning and saving and keeping your assets in dollars because eventually, you’re going to need to spend euros. Likewise, if you’re working overseas and earning in another currency and planning to come back and retire in the US, you have some serious currency risks that I think is worth hedging. But if you’re like me, you work, you save, you invest in the US in dollars and you spend in dollars, I think that currency risk is not nearly as high or nearly as much of something to worry about. Now, if you want to put some of your money in yen or you want to put some of your money in euros, or you want to put some tiny slice of your money into a cryptocurrency like Bitcoin, I think that’s okay.

If you just want to try to hedge your bets a little bit, that’s not crazy. You put all your money in euros, I think that’s a problem. This listener gave me a little bit more information further in a followup email that this amount of money, a couple of hundred thousand dollars is not a huge part of his financial life and probably won’t become a huge part of his financial life. And so I think it’s perfectly fine to keep some money over there in euros if you feel like you need to diversify that currency risk. But I would put that as totally optional. That’s not something that everybody needs to be doing. Yes, everyone’s got this fear that the US dollar is going to devalue, but guess what, the Euro could devalue too, so could the yen, so could anything else. And to know how those currencies are going to fluctuate over the next 10, 20, 30 years really requires working with a crystal ball.

I don’t have one, and you don’t have one. It’s entirely possible that the dollar will strengthen over the next 30 years in comparison to some of these other currencies. It’s entirely possible, despite the debts that the US government has. So I would not necessarily go running for a plan like this. Of course, it's important to understand the tax implications when you're earning money in another country. A lot of times, after you pay the taxes, you're not really coming out at all that far ahead. You will pay US taxes if you're a US citizen earning money overseas. So it's not a free lunch there. And bear in mind, if that currency is devaluing against the dollar and you're paying taxes on it, this really may not end up being a great investment for you. So don't go crazy. Learn the tax consequences of it and just realize that you're making a bet and you might come out on the wrong side of it.

Contingency Document for your Spouse in Case of Your Sudden Death

A long-time reader of the blog that has done all the financial moves that I and others have recommended, buying all the right insurances and maxing out all his accounts, is worried about his wife in case of his sudden death. She knows he has these accounts and policies but she has not been involved in the obtaining or maintaining of them, as he has always run the household finances.

> *"I asked her the other day if she would know what to do if I were to suddenly die or become severely disabled, and she said that she wouldn't have any idea where to start or whom to contact. This was very concerning to me. My question for you is, do you know of any sort of contingency document template that I can fill out with all the most important pieces of information that she would need in case of my sudden death or catastrophic disability? I'm sure I could come up with something reasonable on my own, but I'm also sure that there are a number of important points and nuances*

> *that I would likely not think of."*

This is not an uncommon need, and I think a lot of couples work this way, although I think it's really important that you get your spouse involved in the finances as much as you can, even if it is nothing more than sitting down for an annual meeting and saying here is where all the money is. But there is a blogger who has put together a great resource for you, which is not expensive at all. Physician on FIRE has an affiliate relationship with this blogger, you can go through his link and help support his site and the White Coat Investor network, while picking up this fantastic product at no additional cost to you. You can find that legacy binder at physicianonfire.com/legacy-binder. This binder is all that stuff you're looking for, to put everything in one place so that if you keel over, your spouse can open up the binder and go through it and know where everything is. Obviously, you have to keep it up to date. But if you're looking for the forms, this is well worth the savings on your time to buy this binder. It's not particularly expensive, and it will help you be organized.

Investing in a Start-Up

> *"I am a second year attending and I work for a radiology startup company. We recently just finished a new round of funding with an approximate valuation of $5 billion. We have the opportunity to co-invest in the company alongside the VC firm. I am seriously considering making $100,000 investment and wanted to get your input. I live in a high cost of living area in Southern California, have a gross salary of $650,000 and maxed out all my retirement accounts. I have $160,000 of student loans at 2.5% fixed for a three-year pay off. My current retirement portfolio is around $200,000. I have not started a taxable account yet. I have around $100,000 in savings, which I would be using for this investment. I know that it's not usually recommended to invest in the company*

> *you work at, but this would not be a large percentage of my portfolio in the long run. Plus, I believe this could be a fruitful investment if the company continues to expand and eventually IPO. But of course, that’s not guaranteed. I appreciate your thoughts on this.”*

He’s got the opportunity to invest in the startup. This isn’t unusual for those of you who live in the Bay Area. It seems like everybody there has a startup. The question, though, is should you co-invest with this venture capital firm? I mean, the doc is doing well, he’s making $650,000, maxing on retirement accounts. But he’s also still got loans and really doesn’t have that big of a nest egg. He is talking about investing $100,000 into what is, in reality, a very risky investment with some significant uncompensated risk, because it’s not going to be diversified at all.

Here’s the way I’d look at it. I like ownership. I’m not afraid to take risks when it comes to owning investments. Some of my riskiest investments have been some of my best investments, especially if I have some sort of inside knowledge or control over the company.

So I think it’s okay to do this sort of thing, but you have to make sure all the other ducks are in a row. If you can still max out all your retirement accounts and still pay off your student loans in less than five years out of training, then I think it’s okay to take a flyer on something like this, where you’re going to have some control over the company. But do your due diligence. Every deal is unique, every company is unique and they’re not all good deals. Remember that lots of these companies become worthless and you lose your entire investment. So do your due diligence and make sure that you’re not putting a huge percentage of your eventual net worth into companies like this.

Family Tax Arbitrage

> *“Thank you in advance for your advice on this potential strategy for a family tax arbitrage. I am in my early 40s, and I max out all the retirement accounts available to me each month. I have considerable cash left each month that I invest in taxable funds, and I’m single. My parents are relatively financially secure and healthy and retired. Our family advisor has suggested that, instead of me using my cash for taxable investing under my name, I help my parents with their daily living expenses and healthcare costs so that they don’t spend down their retirement accounts. Then we use their disposable cash to open taxable funds under their names with the idea being that, at the time of their passing, all of those taxable and retirement accounts that are in their name get passed on to me with a new step up in tax basis so that we as a family gain a tax arbitrage with a step up in tax basis. An alternative that I had considered was that, instead, I use my disposable cash to help them do Roth conversions on their retirement funds and help them with their daily living expenses so that those funds stay as a Roth inherited account for me and getting a tax arbitrage that way. Other than the usual family risks and dynamics, I wondered about your thoughts about the strategy.”*

This is a fascinating topic because it is entirely possible to work together with other generations, with your parents, your grandparents, your children and really save a lot of tax money and really come out ahead if you can get the generations working together. The problem is the generations must work together. This works. That’s the first thing we ought to point out about it.

If everybody plays along, everything works out as expected, there is some arbitrage to be made here between one generation’s tax rates and another generation’s tax rates. However, there are a lot of caveats before I can fully recommend this strategy. Number one, it is their money. They do not have to leave it with you. They can spend it on whatever they like, and they may be forced to spend it on something besides your inheritance. And so you have to be comfortable with that. You have to realize that, if your parent develops a gambling addiction or develops dementia and spends all the money or gives it away to somebody else before you can get them declared incompetent, you can lose it. They can also simply just decide not to leave it to you. They're not happy with your life choices for whatever reason, and they no longer are leaving you an inheritance.

Or you provide all this support so they can live, in hopes of getting a higher inheritance, and then they split it with your two siblings, and you're actually losing two-thirds of what you put in. Also realize that while that money is no longer exposed to your creditors, it is exposed to their creditors. So if they're sued for something, you could really end up losing that money that you were expecting to inherit. And, of course, if you leave them all this money and all these assets, they're not going to be able to spend down to Medicaid levels and get a nursing home paid for. So be aware of that. You may want them to have more liability insurance than they would otherwise have if you are going to work out this plan. You might want them to have longterm care insurance if you are going to work this plan. So I think you really have to look at it from all angles and decide whether the risks outweigh the benefits or vice versa because there is some significant risk there that you'll be taking.

Ending

We put a lot of effort into producing these podcasts each week. I know some people want us to produce a podcast more frequently than that but it is just too much work. But podcasts can reach listeners that won't read blog posts. If you know someone like that, share this podcast with them, and help them along the path to financial literacy.

Full Transcription

Intro: This is The White Coat Investor Podcast where we help those who wear the white coat get a fair shake on Wall Street. We've been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here's your host, Dr. Jim Dahle.

Dr. Jim Dahle: Welcome to White Coat Investor Podcast number 129, Setting Boundaries. Well, we're over here in our new recording studio. And when I say recording studio, I mean the corner of my bedroom. We have embarked on a massive renovation of our home. And we no longer have the white coat investor studio, also known as the guest room that we had in my house. We're now renting a house in the same neighborhood just down the street so the kids can stay in the same neighborhood and in the same church and schools and carpools, etc. But we are out of our house while it's being renovated for the next six to seven months. So we're going to be recording here. We think we've got the sound quality good, and we hope that this turns into a good experience for all involved and doesn't affect the podcast at all. But if you notice some changes, perhaps that is why. At least those of you who watch this on YouTube will notice a new background if nothing else. But we've got some great podcasts coming up, and we're excited about them. Let's get into this one.

Dr. Jim Dahle: Our sponsors today are DI4MDS, Disability Insurance for MDs. The principals at DI4MDS have collectively been advising physicians, business executives and other professionals for over 40 years utilizing knowledge and resources to take care of their life and disability insurance needs. Experience and relationships enable them to secure specialty specific disability and practice overhead insurance policies for residents, fellows, and practicing physicians, the special discounts, and favorable underwriting. They've established numerous guaranteed approve disability plans for residents and fellows and hiring specialists with disability benefits up to $250,000 per month. Their expertise extends to military physicians, and they're honored to assist those who serve our country. They've guided physicians through the claims process, enabling them to collect over $1 million in benefits in 2019. They can be reached at info@di4mds.com 888-934-4637 or at www.di4mds.com.

Dr. Jim Dahle: Thanks for what you do, doctoring isn't easy. It's interesting, I was just reading an article by Pamela Wible http://www.pamelawible.com/who has taken up a crusade the last few years to kind of prevent and help doctors who are depressed and/or suicidal and/or burned out the last few years. And she actually referred to the working conditions of physicians as a human rights violation. Now, I think that's probably a little bit hyperbolic, but the truth is that there are definitely some problems with the system that need to be changed. And it's not always an easy thing to do or an easy profession to work in, particularly through the training pipeline that often lasts a decade or more for docs. So thank you for going through that. Make sure you're signed up for the White Coat Investor emails. You can find those at whitecoatinvestor.com/free-monthly-newsletter. We have all kinds of great options. We have a new email system now, and it is helping us to get the emails that you want into your inbox and keep all the other ones out. And you can customize it exactly how you like.

Dr. Jim Dahle: If you just want to digest each week of the posts that have been published, you can get that. If you just want the monthly newsletter, you can get that, which by the way is fantastic if you've never taken it before, please sign up for that. Take a look at it, see what you like. You can cancel anytime. When you do sign up, you also get the totally free email course Financial Bootcamp. You get 12 emails once a week that tells you exactly what you need to do to get up to speed with the other White Coat Investors. So you could sign up for that at whitecoatinvestor.com/free-monthly-newsletter. And you can even get all the blog posts and these podcasts notes in your email box if you would like. If you want to get your questions on to the White Coat Investor Podcast, leave them on the SpeakPipe.

Dr. Jim Dahle: What this is is something you call in, you record a question. And I can listen to it later and we can put it right into the podcast. It enables us to have your voices on the podcast, which I think makes it a lot better without us having to have live hours where you have to call in while the show is on. And so I think it's a great opportunity there, whitecoatinvestor.com/speakpipe. You put them on there, we'll put them on the show and we'll answer your questions. We're still getting lots of great feedback on the episodes with Michael Kitces and with Phil Demuth. Glad you guys enjoyed those, they're wonderful people to talk to. Occasionally, can be a little bit wordy, but that's okay because they usually have a lot of great stuff to say. So I'm glad you enjoyed those. I'm actually still getting hate mail from the episode with Robert Farrington, the college investor.

Dr. Jim Dahle: There is a comment about pediatricians that I told him he was going to get a lot of hate mail for. It has apparently filled both his email box as well as my own. In case it is not clear, I highly value the contributions of pediatricians and do not think they are simply treating runny noses as I said in that podcast. It was interesting, the most recent criticism on this podcast that run months ago came from someone who said, “I simply didn’t defend pediatricians quickly enough.” It makes you wonder if I should’ve just cut that segment from the podcast entirely. All right, let’s get into some questions today. Our first one comes from Bill M. let’s take a listen.

Bill M.: I often hear the timeframe of five years thrown around for investing in the stock market. In other words, don’t invest if you need the money within five years. I’ve heard it argued that this amount of time is probably enough to recover after a downturn. So with that in mind, what is an appropriate timeframe for something like a municipal bond fund in a taxable account? About the same as an index fund of five years, less than that, or would it be better to simply utilize something like a high-yield savings account?

Dr. Jim Dahle: So as you can see, he’s asking how long should you hold a bond fund? I mean, these are general rules that you should hold stock funds or stocks long enough that you don’t end up having to sell them in a downturn, that you’re more to be up and down by the time you sell them. And some people quote five years, some people quote 10 years, whatever. There’s not actually any given numbers since there’s no guarantee that stocks will outperform bonds over any time period. But the general rule with bonds is that you want to be planning to hold the bond fund longer than the duration of the bond fund. So duration is this term with bonds that tells you how sensitive they are to interest rate changes. For example, if interest rates go up 1%, the value of your bond fund is going to go down.

Dr. Jim Dahle: How much will it go down? Well, it depends on the duration. If the duration of the fund is one year, then the value of your bond fund goes down 1% if interest rates go up 1%. If the duration is five years, the value of that investment goes down 5%. If the duration is 30 years, the value of that bond fund goes down 30%. Now, most bond funds that people are holding, the durations tend to be 4, 5, 6% or four or five, six years. And so in the event that interest rates went up suddenly 1%, you would lose 4, 5, 6% of the value of your investment. However, over the next four, five, six years, etc, you would gain that back in the form of higher interest payments, a higher yield, if you will. And so at that point, you’re actually better off with higher interest rates.

Dr. Jim Dahle: And so the general rule is if you can only invest for a couple of years, then you would want to hold a bond fund that’s relatively short term that has a duration of just a couple of years. But the truth is if you can handle a likely loss, which maybe it’s 5%, maybe it’s 10% if interest rates go up 2% over the next few years. If you can handle that, then you can certainly take more interest rate risk. It’s the same with stocks really. If it’s okay, if a significant chunk of your money disappears in the next few years, then you can take stock market risk. But if you need an exact amount of money four years from now to the day, that money probably doesn’t belong in stocks and it certainly doesn’t belong in a long-term bond fund either.

Dr. Jim Dahle: Wouldn’t you just use a high-yield savings account? Pretty much any other time. So just use a high yield savings account or use the money market fund for money you need to pay your taxes next April, for money you’re saving up to buy a house next year. If you’re going to be buying a car soon or whatever, that sort of stuff doesn’t belong in stocks or bonds, that belongs in cash. Our quote of the day today comes from Dave Ramsey who says you can wander into debt, but you can’t wander out. Our next question comes from Sarah, let’s take a listen.

Sarah: Thanks Dr. Dahle for all the help you have given us via the podcast and White Coat Investor. My husband and I are two and five years out of training respectively and just completed paying off our student loans. We make about $500,000 annually and have about $250,000 in 401(k) and also completed our first doctor Roth. We have about $40,000 in an emergency fund, and our only debt is $400,000 on a $600,000 home. The question is in regards to my parents' financial troubles, my dad is a blue-collar worker making about $40,000 per year, and my mom doesn't work. They had to file a Chapter 13 Bankruptcy about seven years ago, but are back in debt. He owes about $16,000 in credit card and medical bills, and an upside-down on a mortgage of $60,000 for a home that is worth $30,000. Currently, they are staying a float as we have provided an old car and paid for cell phones and emergency repairs.

Sarah: We intend to help financially support them when he can no longer work, but would like to limit that debt when the time comes. We thought about paying for the $16,000 to help clean the slate but worry the debts will re-accumulate. We don't want nor do they want us to manage their finances. Is it feasible to just let him continue as he's doing and file for bankruptcy when he can't work anymore? We can then help with housing and filling in gaps. Just trying to ensure our financial futures while anticipating what help they will need.

Dr. Jim Dahle: Okay. Well, this is a complex one. This is the one that I named the podcast after, drawing boundaries, setting boundaries. Sarah, your parents filed Chapter 13, but they're back in debt. This is the usual story actually. Most people that get into debt problem don't actually change their behavior. They didn't get into debt because they can't do math. It's not a math problem, it's a behavioral problem. They can't control their spending, they can't live within their means, etc. They don't know how to manage money, and that's why they're back in debt. When you're upside down in your mortgage and you have credit card debt, et cetera, things are not going well obviously. And I can understand why you would want to help them, but what you need to keep in mind is how you help them because you can certainly make things worse.

Dr. Jim Dahle: I have no doubt in my mind that they can not only spend their entire income, but they can also spend your entire income. And so you need to be setting boundaries of what you're going to do. Yes, they don't want to let you into their finances. You can understand that, right? Would you want someone into your finances? Of course not. But if they want to be getting help from you, they have to follow your rules. And the goal here is for you to set rules that are actually going to help them. If they're going to manage money like a teenager, then they have to be treated like a teenager. If I'm going to be giving somebody money, regularly supporting them, you better believe I'm going to have my nose in their finances.

Dr. Jim Dahle: I'm not going to be giving them money so they can go, and I'm not saying your parents are doing this, so they can go spend it on cocaine or a gambling addiction or whatever else, right? And you're not going to either. Likewise, you're not going to give your money to them so they can just blow it by not managing money properly. And so it's completely understandable for you to put some rules in place, some conditions on the help that you provide to them. The good news is, it sounds like you can afford to help. But you want to be helping more than just writing endless checks and writing with no accountability whatsoever because that is not going help them do any better. Now, there's an old saying, says, you can't teach an old dog new tricks, right?

Dr. Jim Dahle: And maybe you can't get your parents' spending under control, maybe they are going to spend everything they have and be completely dependent on you and social security. That's entirely possible. But it's up to you to set the boundaries and to be appropriate with the help you give. And of course, don't give more than you can afford to give. That's probably a substantial amount for a typical position couple. But at the same time, you also need to make sure you're taking care of business, that you're taking care of your own retirement, that you’re taking care of your own necessary insurance, that you’re taking care of your kids’ college savings and reaching your own financial goals. And that the money you’re using to help is coming from elsewhere in the budget, perhaps you vacation less so you can help your parents more. All right, our next question comes from Dr. get out of debt now. That’s what he called himself. Let’s take a listen.

Dr. G.: Hi Dr. Dahle. I’ll be graduating from fellowship next year with a horrendous, horrendous amount of student debt. It’s about $600K. Fortunately, I’m accepting a position that pays at the upper end of medicine. And for full transparency, it’s about $330k a year before taxes. My plan is to throw most of that salary to my loans. And some rough estimations show if I do that, I could possibly pay this sum off in three to five years. So my first question is, one, do you think that is realistic? And two, do you have any other specific recommendations in how I could attack this monster? I don’t think the repayment programs are for me, but I’m happy to be corrected if that’s the case. Thank you so much. Take care.

Dr. Jim Dahle: Okay, so this doc owes $600,000, but the good news, that’s a big hole, he’s also got a big shovel, $330,000. Is it realistic to pay off that debt in three to five years? Absolutely. Absolutely, it’s realistic. Why can’t you pay off $600,000 in three to five years while making over half of that? You totally can. You live like a resident, you live on 50 or $60,000 a year, you pay a whole bunch of money in taxes. Maybe this doc is going to pay $100,000 in taxes, but that still leaves $180,000 a year to throw at that debt. Now, if you throw $180,000 a year at a $600,000 debt, how many years is that going to take? Well, maybe three and a half. Totally doable. There’s no reason this doc can’t pay off that debt relatively quickly. Even with a little bit more generous lifestyle, a significant raise from how you were living in training, you could still have that paid off in less than five years.

Dr. Jim Dahle: You could even put some money toward retirement and still have that debt paid off within five years. That's less than 2X. I generally recommend you keep your student loans to no more than 1X your future gross income, but 2X is certainly still doable by somebody that's willing to live like a resident for three to five years after residency. Now, when you start to get into 3X and 4X kind of ratios, you're going to have to take on some more extreme things. Maybe you have to go for public service loan forgiveness. Maybe you have to live a resident for longer than five years. Maybe you need to marry somebody else with a high income, but you're going to have to do some more extreme measures when you get your debt up to those levels.

Dr. Jim Dahle: But this doc's $600,000 in debt, $330,000 income, this is doable. There's no reason you can't knock that debt out. I have readers and listeners all the time who knock off debts like that in three to five years. All right, our next question comes from Greg. This is a great question, let's spend some time on it.

Greg: Hey Jim, I have a question for you regarding individual 401(k) investing. I have both W2 and 1099 income. I contribute the full $19,000 to my 401k from my W2 income, and I have an individual 401(k) through Vanguard that I use to make pretax employer contributions. My goal is every year to put the maximum of 25% of my 1099 profits into my individual 401(k). It's hard to know however exactly how much profit I will have after deductions and expenses every year given that from year to year, my 1099 income varies substantially. Do you recommend making monthly individual 401(k) contributions but low balling the amount and making up the difference with a larger payment at the end of the year once I file my taxes? Or would you recommend just putting all future contributions into a high-yield savings account throughout the year and making one lump contribution at the time of tax filing? What would happen if I were to contribute more than 25% of my profits throughout the year? Would there be a way to correct this at the time of tax filing? Would there be penalties incurred? Thank you so much for your help.

Dr. Jim Dahle: Okay. So Greg has W2 and 1099 income. He’s got a Vanguard individual 401(k), which I’ve had before, it’s perfectly good, plus his employer’s 401(k). But he wants to know how do you know how much to put into the 401(k), the individual 401k because that 1099 income varies so much. And the truth of the matter is you just do it all at the end of the year. It’s very easy. Yes, you could do a little bit as you go along, but you want to make sure you’re not putting in too much. So if you’re halfway through the year and it’s obvious you’re going to make at least this much, then you can make a contribution for that much, maybe a little bit more. You could even kind of front load it, get it in the first quarter of the year if you’re absolutely positive you’re going to make that income during the year.

Dr. Jim Dahle: But then you top it off at the end of the year when you know exactly what you’ve made in with your 1099 income because you don’t want to over contribute. The problem if you over contribute is there is a 6% excise tax on those excess contributions. And that’s for employee contributions when you look at the employer contributions, which is what this is going to be for this doc because he’s already maxed out his employee contributions at his regular W2 job. But when you look at the employer contributions, there is actually a 10% excise tax on the excess contributions. If you go to the IRS website, it says this, what are the consequences to employees if I make excess contributions? And it says excess contributions are included in the employee’s gross income. Employees who withdraw the excess contribution plus earnings before the due date for their federal return including extensions will avoid the 6% excise tax imposed on excess contributions.

Dr. Jim Dahle: Excess contributions left in the account after that time will be subject to the 6% tax on the employee, and the employer may be subject to a 10% excise tax on the excess non-deductible contributions. So if you contributed too much, you've got a couple of options. The first one is that you can just distribute it to the employee, yourself as taxable income or you can retain it and pay a 10% fee on it, either way. But I would just distribute it as taxable income and say, "Oops, that was a mistake. That's not really a 401(k) contribution, that's really taxable income. Pay the taxes on it."

Dr. Jim Dahle: All right. For those of you who need advice on your student loans, you're not sure if you should go for public service loan forgiveness, you're not sure what repayment plan you should be in, you're not sure how you should file your taxes, you're not sure what retirement plan you should use during residency, you're a dual income couple with different student loan plans. You are the kind of person that would benefit from getting student loan advice. And I have a list of people who provide this at a very fair price.

Dr. Jim Dahle: You can find that list at the White Coat Investor website under the recommended tab where it says student loan advice. The direct URL is whitecoatinvestor.com/student-loan-advice. And there you will find people who specialize in student loans. You need to help qualifying for public service loan forgiveness, understanding your options, pay a few hundred dollars. This may be worth tens of thousands of dollars to you if you're going for public service loan forgiveness. If you're not sure if you should refinance or what you should do, that's a great place to get some assistance with that. So check that out if you're in that category. All right, our next question comes from Eric. Let's take a listen.

Eric: Dr, Dahle, I have been a long time follower of your blog, and I greatly appreciate all that you have done to improve the financial literacy of physicians and other professionals. Your enduring words to live by have always been something to the effect of a worthy goal is that within five years of residency graduation, student loans will be paid off. Your retirement nest egg will have caught up to those of your nonmedical peers. You will be living in your dream house, and you will be debt-free except for a low interest rate 15-year fixed mortgage. I feel the most difficult of these to knowingly attain is catching up to your nonmedical peers retirement nest egg. Given most nonmedical peers aren't going to tell me what they have saved for retirement, what would you say is an admirable retirement nest egg to obtain five years out of residency? Thank you again.

Dr. Jim Dahle: I love his term, the admirable nest egg. What's an admirable nest egg to have five years out of residency? Well, it's interesting. I say catch up to your college roommates, and it really depends on what your college roommates ended up doing with their lives. If your college roommate is a dropout donating plasma, it's not going to be very hard to catch up to them. If your college roommate is now managing a hedge fund, it's probably a different situation. But it's interesting. If you look at the average 401(k) balances for somebody in their mid 30s in the US is 32,000. That doesn't take much to catch up to. That's a year or two's contribution. Even for a 45-year-old, the average 401(k) balance is only 81,000. So it really doesn't take much to catch up.

Dr. Jim Dahle: But here's what I think you ought to have. What's an admirable nest egg? Well, I think it's 20% of your gross income times five years or one times your gross income. So if you're making $250,000, I think five years out of residency if you have paid off your student loans and you have $250,000 saved up for retirement and you have all the necessary insurance in place that you should have, I think you did great. I think that's admirable. And I certainly wouldn't feel like you're behind anybody if you have managed to accomplish that. All right, the next question is not from a

doc, this one comes from Dave, an oil and gas consultants. Let’s take a listen.
Dave: Hi Jim. My name is Dave, I’m a consultant in the oil and gas industry, 43 years old. I’ll start off with what I thought was a funny story. I was having lunch on the last day of work before my four-month sabbatical that started a couple of weeks ago. Got us talking about the F.I.R.E movement. And one of my colleagues said, “Yeah, I have a friend from the air force who’s a really good friend, he used to be a doctor in the air force and he now has a small podcast and blog on that.” I said, “His name wouldn’t happen to be Jim Dahle, is it?” I’m sure you all know who I’m talking about. It’s pretty funny that I found myself in a position to catching him up on what you and your daughter did in Central America and some other things going on in your family.

Dave: So getting to my actual question. My wife and I have 200,000 euros in a Slovakian bank account, and I’m thinking of diversifying our investments between euros and dollars out of fears that the US dollar will continue to devalue as the national debt goes up and up and no end to that in sight. So I’m curious to get your thoughts. I don’t hear a lot of discussion on that in the F.I.R.E community over what could happen with the US dollar in the next 40 to 50 years or in our kids’ lifetimes. So I’m thinking about, again, investing in euros. And I would be curious to hear your thoughts. Love your podcast. Thanks for everything you do, Jim. Bye.

Dr. Jim Dahle: Okay. So this is a great question about currency risk. Now, there’s a certain amount of currency risk in the world, right? Particularly for somebody who is earning or spending any different currency. For example, if your goal is to retire to Slovakia, well you have some serious currency risk by earning and saving and keeping your assets in dollars because eventually, you’re going to need to spend euros. Likewise, if you’re working overseas and earning in another currency and planning to come back and retire in the US, you’ve got some serious currency risks that I think is worth hedging. But if you’re like me, you work, you save, you invest in the US in dollars and you spend in dollars, I think that currency risk is not nearly as high or nearly as much of something to worry about. Now, if you want to put some of your money in yen or you want to put some of your money in euros, or you want to put some tiny slice of your money into a cryptocurrency like Bitcoin, I think that’s okay.

Dr. Jim Dahle: If you just want to try to hedge your bets a little bit, that’s not crazy. You put all your money in euros I think that’s a problem. And Dave gave me a little bit more information further in a followup email that this amount of money, a couple of hundred thousand dollars is not a huge part of his financial life and probably won’t become a huge part of his financial life. And so I think it’s perfectly fine to keep some money over there in euros if you feel like you need to diversify that currency risk. But I would put that as totally optional. That’s not something that everybody needs to be doing. Yes, everyone’s got this fear that the US dollar is going to devalue, but guess what, the Euro could devalue too, so could the yen, so could anything else. And to know how those currencies are going to fluctuate over the next 10, 20, 30 years really requires working with a crystal ball.

Dr. Jim Dahle: I don’t have one, and you don’t have one. It’s entirely possible that the dollar will strengthen over the next 30 years in comparison to some of these other currencies. It’s entirely possible despite the debts that the US government has, et cetera. And so I would not necessarily go running for a plan like this. Of course, it’s important to understand the tax implications when you’re earning money in another country. A lot of times after you pay the taxes, you’re not really coming out at all that far ahead. And so you will pay US taxes if you’re a US citizen earning money overseas, you will pay US taxes on that. So it’s not a free lunch there. And bear in mind, if that currency is devaluing against the dollar and you’re paying taxes on it, this really may not end up being a great investment for you.

Dr. Jim Dahle: So don't go crazy. Learn the tax consequences of it and just realize that you're making a bet and you might come out on the wrong side of it. We recently wrapped up the White Coat Investor scholarship competition. We gave away over $90,000 in cash and prizes. What a wonderful year, what a wonderful event. It's been fun to have so many of you involved in it. I wanted to thank our platinum sponsors for that competition. These include Larry Keller at Physician Financial Services who is a disability and life insurance agent and well known to longterm readers of the blog. He's published many guest posts on the blog before. Bob Bhayani at doctordisabilityquotes.com who also does disability and life insurance well known to those of you in the Facebook group. He's sponsored that a number of times. Splash Financial, which does student loan refinancing, and does a lot of great work there helping people lower their interest rates.

Dr. Jim Dahle: Ben Utley with Physician Family Financial Advisors, he's one of our financial advisor partners. If you're looking for good advice, he's a great person to seek out. And finally, Alex Gallati at Cerebral Tax Advisors, used to be Gallati Professional Services, but she changed the name recently. If you're looking for tax planning, she can help you with that. So thank you to each of those five people who are platinum sponsors. That means they gave $6,000 or more to the scholarship competition. I'm grateful for them, and please support those who support what we do here at the White Coat Investor. I also want to thank the 651 applicants for the scholarship and the 79 judges who helped read all of those essays and selected the winners. Nobody at the White Coat Investor is a judge. We entirely turn this over to our readers and listeners to do the work of judging this scholarship competition.

Dr. Jim Dahle: You get to choose who we give our money away to. And so we appreciate those 79 people who did that. It seems looking at the winners this year that the judges were most impressed by medical students as all 10 of the finalists were medical students, and people from a diverse background who overcame significant hardship. Which is kind of funny because I've been accused in the past of only giving money away to white married guys who had trouble having children in the past and wrote about their fertility issues. But the top five prize winners this year were Iman Khan, an MS4 at Rosalind Franklin University of Medicine and Science. Oluwatomisin Bello, an MS4 at Boston University School of Medicine. And I apologize, I've been working on pronouncing that name all day and still haven't figured it out to do it well. So I apologize for that.

Dr. Jim Dahle: Third place went to Evan Mercer. He's an MS2 at Vanderbilt University School of Medicine. Second place went to Momina Mazhar, an MS4 at George Washington University School of Medicine. And our grand prize this winter went to Allison Neeson, an MS1 at Tufts University School of Medicine. I want to share an excerpt from Allison's winning essay on the podcast. She wrote, "Throughout my life, I've been many things, daughter, actors, student, friend. As my roles evolved and titles shifted, one thing has always been true, I'm short. Growing up the shortest in my class, I became all too familiar with the front row of photographs, my local seamstress and the expectation of being overlooked in crowds and elevators. I've had every short adjective upended to my name, small, tiny, mini, little Allie. Being short is a part of my identity and is a descriptor that extends past my height."

Dr. Jim Dahle: "I am short, and I'm also short a parent instead of the nuclear family normalized by TV shows and my friends and families, I have one mom with multiple jobs and not a lot of time or energy. A newly minted 20-year-old armed only with a high school diploma, my mom was hardly ready to embrace motherhood by the time she had me. Still without the support she deserved, years of experience she could have used and the financial security for which she had hoped, she took on parenting. But she didn't do it alone, moved into my grandmother's house, and there I spent my childhood. Though short a parent, I found myself surrounded by other family members. I'm proud to have been raised by the collaborative efforts of two generations of women, a combination of mother, grandmother, and aunt. They were working class, head of household, independent women who taught me the power of hard work. All of them offering varying of how to contribute to and handle the world."

Dr. Jim Dahle: "As genetics would have it, each of them is short, we are short women. As I quickly discovered in childhood, we were short of cash. For as long as I can remember, I've worried about money. By the time I was eight, I was having difficult conversations about debt, bad credit, and the high cost of fruit. In middle school, I got off the bus to find my mother who should have been at work waiting for me. I felt this worry twist my stomach into a knot. In a reversal liberals who would occur many times over, I comforted my mom newly laid off. I devised a plan to get us through the ensuing weeks despite my limited sixth-grader budgeting skills." I can't read this without choking up, this happens every time I read this essay. "I willed myself to sound sure ignoring that not of worry which had tightened its way up the back of my throat and come to rest in the forefront of my mind, there the worry stayed."

Dr. Jim Dahle: "It was constant, albeit sometimes dull. It was a jolt of fear in the middle of the night in line at the supermarket, out to dinner with friends. There was persistent uncertainty. As I grew up and my roles and titles changed, the worry changed too though it never left. As an undergraduate, I worried about being unable to get a credit card and establish credit with my student incoming without the luxury of a parent who could co-sign. As a medical student, I worry about my small amount of savings and the not small amount of loans I will take out to pay for school. I don’t know when this worry will finally uproot itself from this firmly planted place in my mind. I can’t yet see the light at the end of the tunnel. But I’m short, and I know about being unable to see things.”

Dr. Jim Dahle: It was a fantastic story and a masterful piece of writing. I’m not surprised that the 79 judges agreed that that was the winner. If you’d like to read the rest of that essay, you can find it on the website. If you would like to contribute to the white coat investor scholarship, we’ll have another one next year and I look forward to reading those essays at that time. All right, let’s take on our next question. This one comes from David in New York.
David: Hey Jim. I’m a PGY8 fellow at the end of my sub-specialty training. I also have a wife and four children. I’ve been reading your blog for over five years now. And during my training, I’ve made all of the financial moves that you and others have recommended. I have a $3 million term life policy, a portable owner disability policy with future benefit increase. Maxed out all my tax protected accounts for years, including a Roth IRA, 401(k) and solo 401(k). Although my wife knows that I have these accounts and policies, she has not been involved in my obtaining or maintaining them as I’ve always run our household finances.

David: I asked her the other day if she would know what to do if I were to suddenly die or become severely disabled, and she said that she wouldn’t have any idea where to start or whom to contact. This was very concerning to me. My question for you is, do you know of any sort of contingency document template that I can fill out with all the most important pieces of information that she would need in case of my sudden death or catastrophic disability? I’m sure I could come up with something reasonable on my own, but I’m also sure that there are a number of important points and nuances that I would likely not think of. Thanks so much for your thoughts and for all that you do.

Dr. Jim Dahle: Okay, so this is a great question. This is not an uncommon need, and I think a lot of couples work this way although I think it's really important that you get your spouse involved in the finance as much as you can even. If it's nothing more than sitting down for an annual meeting and saying here's where all the money is. But there is a blogger who has put together a great resource for you, which is not expensive at all. And in fact, one of my White Coat Investor network partners, the Physician on FIRE has an affiliate relationship with this blogger such that you can go through his link and help support his site and the White Coat Investor network while picking up this fantastic product at no additional cost to you.

Dr. Jim Dahle: You can find that legacy binder at physicianonfire.com/legacy-binder. And what this binder is is all that stuff you're looking for to put everything in one place so that if you keel over, your spouse can open up the binder and go through it and know where everything is. Obviously, you have to keep it up to date. But if you're looking for the forms, this is well worth the savings on your time to buy this binder. It's not particularly expensive, and it will help you be organized. Alright, our next question comes from Jay.
Jay: Hi, Dr. Dahle. First of all, thank you for all the information you provide. I have been following you since med school, and I'm grateful to have found your resources early on in my career. I am a second year attending and I work for a radiology startup company. We recently just finished a new round of funding with an approximate valuation of $5 billion. We have the opportunity to co-invest in the company alongside the VC firm. I am seriously considering making $100,000 investment and wanted to get your input. I live in a high cost of living area in Southern California, have a gross salary of $650,000 and maxed out all my retirement accounts. I have $160,000 of student loans at 2.5% fixed for a three-year pay off.

Jay: My current retirement portfolio is around $200,000. I have not started a taxable account yet. I have around $100,000 in savings, which I would be using for this investment. I know that it's not usually recommended to invest in the company you work at, but this would not be a large percentage of my portfolio in the long run. Plus I believe this could be a fruitful investment if the company continues to expand and eventually IPO. But of course, that's not guaranteed. I appreciate your thoughts on this. Thank you.

Dr. Jim Dahle: Okay, so this is exciting. He's got the opportunity to invest in the startup, this isn't unusual for those of you who live in the Bay Area. It seems like everybody's got to start up, everybody down the street has got something. So the question though is should you co-invest with this venture capital firm? I mean, the doc is doing well, he's making $650,000, maxing on retirement accounts. But he's also still got loans and really doesn't have that big of a nest egg. Really only 2 or $300,000. And talking about investing $100,000 into what is in reality, a very risky investment with some significant uncompensated risk because it's not going to be diversified at all. Here's the way I'd look at it. I like ownership. I'm not afraid to take risks when it comes to owning investments. Some of my riskiest investments have been some of my best investments, especially if I have some sort of inside knowledge or control over the company.

Dr. Jim Dahle: And so I think it's okay to do this sort of thing, but you got to make sure all the other ducks are in a row. If you can still max out all your retirement accounts, you can still pay off your student loans in less than five years out of training, then I think it's okay to take a flyer on something like this where you're going to have some control over the company. But do your due diligence. Every deal is unique, every company is unique and they're not all good deals. And so remember that lots of these companies become worthless and you lose your entire investment. So do your due diligence and make sure that you're not putting a huge percentage of your eventual net worth in the companies like this. But it's okay to, and you have your ducks in a row to invest in some things like this. All right, our next question comes from Ricky. Let's take a listen.

Ricky: Hello. Thank you enough in advance for your advice on this potential strategy for a family tax arbitrage. I am in my early 40s, and I maxed out all the retirement accounts available to me each month. And I have considerable cash left each month that I invest in taxable funds, and I'm single. My parents are relatively financially secure and healthy and retired, and our family advisor has suggested that instead of me using my cash for taxable investing under my name, I help my parents with their daily living expenses and healthcare costs and so that they not spend down their retirement accounts and use their disposable cash to open taxable funds under their name with the idea being that at the time of their passing, all of those taxable and retirement accounts that are in their name get passed onto me with a new step up tax basis so that we as a family gain a tax arbitrage with a step up in tax bases.

Ricky: An alternative that I had considered was that instead, I use my disposable cash to help them do Roth conversions on their retirement funds and help them with their daily living expenses so that those funds stay as a Roth inherited account for me and getting a tax arbitrage that way. Other than the usual family risks and dynamics, I wondered about your thoughts about the strategy.

Dr. Jim Dahle: Okay. So this is a fascinating topic because it is entirely possible to work together with other generations, with your parents, your grandparents, your children and really save a lot of tax money and really come out ahead if you can get the generations working together. The problem is the generations must work together. So Ricky is single, investing in a taxable account, has secure parents, so that's wonderful.

And wants to know, should I invest in taxable or should I pay for my parents' expenses so that I theoretically inherit more of their IRAs and can basically stretch their IRAs out and end up with some tax protection on that money as it grows, or alternatively allow them to use their money to do Roth conversions or even give them money to do Roth conversions with the presumption that they will then leave the Roth IRA to Ricky. So yes, this works. That's the first thing we ought to point out about it.

Dr. Jim Dahle: If everybody plays along, everything works out as expected, there is some arbitrage to be made here between one generation's tax rates and another generation's tax rates. However, there are a lot of caveats before I can fully recommend this strategy. Number one, it is their money. They do not have to leave it with you. They can spend it on whatever they like, and they may be forced to spend it on something besides your inheritance. And so you've gotta be comfortable with that. You've got to realize that if your parent develops a gambling addiction or develops dementia and spends all the money or gives it away to somebody else before you can get them declared incompetent, you can lose it. They can also simply just decide not to leave it to you. They're not happy with your life choices for whatever reason, and they no longer are leaving you an inheritance.

Dr. Jim Dahle: Or you provide all this support so they can live in hopes of getting a higher inheritance and then they split it with your two siblings, and so you're actually losing two-thirds of what you put into there. Also realize that while that money is no longer exposed to your creditors, it is exposed to their creditors. So if they're sued for something, you could really end up losing that money that you were expecting to inherit. And of course, if you leave them all this money and all these assets, they're not going to be able to spend down to Medicaid levels and get a nursing home paid for. So be aware of that. You may want them to have more liability insurance than they would otherwise have if you are going to work out this plan. You might want them to have longterm care insurance if you are going to work this plan. So I think you really have to look at it from all angles and decide whether the risks outweigh the benefits or vice versa because there is some significant risk there that you'll be taking.

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